Welcome to our January report covering results from Creighton's December survey of supply managers and procurement experts in nine Mid-America states indicate that the economic growth has turned negative (recessionary) for manufacturing and points to negative for the overall regional economy. Follow my comments at: www.twitter.com/erniegoss

Taxing Rich More Heavily: A Vote Getter, But Ineffective in Reducing Inequality

Even the down home atmosphere of Omaha's Sokol Auditorium could not hide the irony of mega rich Hillary Clinton and Warren Buffet speaking on behalf of the non-rich and calling for an increase in income tax rates on high income earners. One of the goals of their proposals is to cut income inequality.

However, 17 years of income data should smack some reality into their misguided proposal. In 2013, the top 10% of U.S. income earners paid approximately 75% of income taxes while the bottom half of income earners received more back from the IRS in cash via programs such as the Earned Income Tax Credit than they paid in income taxes (a negative burden). But 17 years earlier, the top 10% of earners paid roughly 60% of income taxes while the bottom half paid 9% of the income taxes.

Thus between 1996 and 2013, the share of federal income taxes paid by the "rich" increased while that of the bottom half of taxpayers declined. What happened to income inequality during this period of time? The top 10 percenters' share of income rose from 50% to 64% and that of the bottom half declined from 12% to 8%. Furthermore the Gini coefficient, which measures income inequality, indicated that between 1996 and 2013, the income distribution tilted more in favor of the rich. Moreover in 2013, the 9 states with no income tax had lower Gini coefficients, (i.e. less income inequality) than the remaining states.

Thus, federal and state income tax data provide absolutely no evidence that taxing the income of the rich more heavily reduces income inequality. Hammering the rich with higher income taxes is a "vote getter" but only making sense to politicians, and those closer to the end of their income earning career than the beginning. Ernie Goss.

Link to video:
https://youtu.be/KPDeWjz0DNA

LAST MONTH'S SURVEY RESULTS

Mid-America Business Conditions Weaken Again:
Modest Wage Gains Expected in 2016

SURVEY RESULTS AT A GLANCE:

- For a fifth straight month, the region's overall index moved below growth neutral.
- Employment index plummets below growth neutral for a fourth consecutive month. More than 18,000 manufacturing jobs lost in 2015.
- 2015 leader: Vehicle & parts manufacturing. 2015 laggard: Agriculture equipment manufacturing.
- 2016 wish list: Weaker U.S. dollar; Passage of Trans-Pacific Partnership Agreement.
- 2016 biggest risks: Stronger U.S. dollar; global economy weakens further.

The Creighton University Mid-America Business Conditions Index for December, a leading economic indicator for a nine-state region stretching from Arkansas to North Dakota, slumped for the month.

Overall index: The December Business Conditions Index, which ranges between 0 and 100, sank to 39.5 from November's 40.7. The regional index, much like the national reading, is now in negative territory indicating manufacturing losses linked to the strong U.S. dollar and to economic weakness among global trading partners.

The U.S. dollar strengthened by almost 10 percent in 2015. This along with economic weakness among the nation's chief trading partners has squeezed, and will continue to squeeze U.S. and regional manufacturers. I expect the national reading to also come in below growth neutral when it is released later this morning. While this weakness has yet to any large degree spill over into the broader economy in most states in the region, I expect to see this in the first quarter of 2016.

Employment: The regional employment gauge plummeted for December, and indicates job losses for the manufacturing and value added services sectors including warehousing. The job gauge declined to 37.1 from 41.7 in November. Over the past year, the region has lost approximately 18,000, or 1.3 percent of its manufacturing jobs. This represents about half of all U.S. manufacturing job losses over the year. Areas and industries heavily dependent on manufacturing, especially those linked to exports, agriculture and energy, are experiencing the largest losses.

This month supply managers were asked to forecast 2016 wage gains for their businesses. On average, wages and salaries are expected to expand by 2.2 percent, or slightly above anticipated inflation.

Wholesale Prices: The wholesale inflation index for December rose to 48.2 from November's 42.6. Even though our survey indicates recent deflation at the wholesale level, supply managers expect prices of goods and services that they purchase to rise at an annual pace of 3.5 for the first half of 2016.

Confidence: Looking ahead six months, economic optimism, as captured by the December business confidence index, advanced to a tepid 49.1 from 41.2 in November. Falling agriculture and energy commodity prices, along with global economic uncertainty, continues to restrain supply managers' expectations of future economic conditions.

Inventories: In another sign of a sinking economic outlook, supply managers reduced their inventory levels for the month, though at a slower pace. The December inventory index, which tracks the change in the level of raw materials and supplies, increased to 43.6 from 39.2 in November.

Trade: The new export orders dropped for the month to a feeble 33.8 from 39.5 in November. The import index for December stood at 40.0, up from November's 37.0. The strong U.S. dollar, making U.S. goods less competitively priced abroad, and a weaker global economy, slammed new export orders for the month. On the other hand, negative regional manufacturing growth pushed the import index below growth neutral for the month.

Other components: Components of the December Business Conditions Index were new orders at 34.6, down from 34.2 in November; production or sales moved slightly lower to 35.4 from November's 36.2; and delivery speed of raw materials and supplies sank to 47.3 from last month's 52.4.

The Creighton Economic Forecasting Group has conducted the monthly survey of supply managers in nine states since 1994 to produce leading economic indicators of the Mid-America economy. States included in the survey are Arkansas, Iowa, Kansas, Minnesota, Missouri, Nebraska, North Dakota, Oklahoma and South Dakota.

The forecasting group's overall index, referred to as the Business Conditions Index, ranges between 0 and 100. An index greater than 50 indicates an expansionary economy over the course of the next three to six months. The Business Conditions Index is a mathematical average of indices for new orders, production or sales, employment, inventories and delivery lead time. This is the same methodology used by the National Institute for Supply Management, formerly the Purchasing Management Association, since 1931.

MID-AMERICA STATES

ARKANSAS
The state's December overall index, or leading economic indicator, sank to 40.1 from November's 42.1. Components of the index from the monthly survey of supply managers were new orders at 35.1, production or sales at 35.8, delivery lead time at 47.9, inventories at 44.1, and employment at 37.6.

IOWA
The December Business Conditions Index for Iowa declined to 41.2 from 42.3 in November. Components of the index from the monthly survey of supply managers were new orders at 36.0, production or sales at 36.8, delivery lead time at 45.4, employment at 38.6, and inventories at 49.2.

KANSAS
The Kansas Business Conditions Index for December slipped to 41.7 from November's 42.6. Components of the leading economic indicator from the monthly survey of supply managers were new orders at 36.5, production or sales at 37.3, delivery lead time at 49.8, employment at 39.1, and inventories at 45.9. 2015 leader: Construction of highways & bridges.

MINNESOTA
The December Minnesota Business Conditions Index slumped to 39.4 from November's 41.1. Components of the index from the monthly survey of supply managers were new orders at 34.5, production or sales at 35.2, delivery lead time at 47.1, inventories at 37.0, and employment at 43.4.

MISSOURI
The December Business Conditions Index for Missouri slumped to 38.9 from November's 41.9. Components of the index from the survey of supply managers were new orders at 45.6, production or sales at 39.5, delivery lead time at 41.4, inventories at 43.2, and employment at 39.8.

NEBRASKA
December's Business Conditions Index for the state fell below growth neutral 50.0 for the sixth straight month. The index, a leading economic indicator from a monthly survey of supply managers, dipped to 43.5 from 43.6 in November. Components of the index were new orders at 35.0, production or sales at 38.5, delivery lead time at 49.0, inventories at 40.9, and employment at 42.1.

NORTH DAKOTA
North Dakota's leading economic indicator for December remained below growth neutral 50.0. The Business Conditions Index declined to a regional low 35.5 from November's 36.9, also a regional low. Components of the overall index from the monthly survey of supply managers were new orders at 31.0, production or sales at 31.7, delivery lead time at 42.3, employment at 33.2, and inventories at 39.0.

OKLAHOMA
The December Business Conditions Index for Oklahoma slumped below growth neutral for an eighth straight month. The index from a monthly survey of supply managers in the state fell to 35.5 from 37.5 in November. Components of the December survey of supply managers were new orders at 35.4, production or sales at 36.2, delivery lead time at 48.3, inventories at 44.6, and employment at 38.0.

SOUTH DAKOTA
For a third consecutive month, South Dakota's leading economic indicator remained below growth neutral 50.0. The Business Conditions Index for December, from a monthly survey of supply managers, increased slightly to a weak 40.2 from 39.6 in November. Components of the overall index for December were new orders at 35.2, production or sales at 35.9, delivery lead time at 48.0, inventories at 44.3, and employment at 37.7.

THE BULLISH NEWS

- The U.S. added a spectacular 292,000 jobs in December and the unemployment rate was unchanged at a low 5.0%. It pushed the likelihood of a Fed rate hike at its March 2016 meetings to 40%.

- The Case-Shiller home price index for October 2015 was 5.2% above that for October 2014. We are tracking more and more housing price bubbles across the U.S.

THE BEARISH NEWS

- Over the past 12 months, the U.S. oil & gas extraction industry has lost 17,000 jobs (-8.3%).

- Retail sales for November were weak expanding by only 1.7% from November 2014. When the holiday buying numbers come in later this month, I expect them to be ho-hum

WHAT TO WATCH

- **CPI**: On Jan. 20, the Bureau of Labor Statistics will announce the consumer price index for December. Note: the core CPI excludes food and energy. The latest release indicated 2.0% year over year growth. A YOY growth number over 2.0% will be a concern for the Fed and will likely push them to raise rates in March 2016.

THE PURCHASING ECONOMY SURVEY REPORT January 2016
"A monthly survey of supply chain managers"

- **PMIs:** On Feb. 1, the first business day of February, Creighton and the National Institute for Supply Management will release regional and national PMIs for January. Both PMIs are moving lower. Very weak readings for both, which I expect, will be bearish for stocks.

- **GDP:** On Jan. 29, the U.S. Bureau of Economic Analysis will release preliminary GDP growth numbers for Q4, 2015. Annualized growth below 1% (I expect 2%), would be a very negative signal for the 2016 economy.

Goss Eggs
(Recent Dumb Economic Moves)

- Chinese financial regulators once again demonstrated how government overreach in markets creates more problems than it solves. Beginning in 2016, regulators were required to shut down markets when stock prices rose or fell by 5% or more. They dropped the rule after only 4 days in operation as the rule whipsawed financial markets.

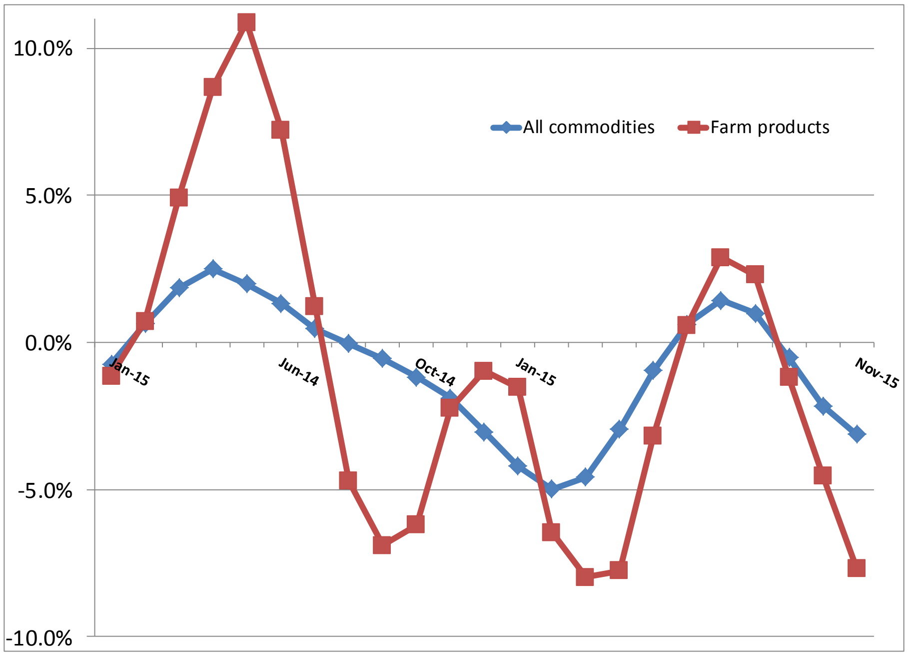
Survey results for October will be released on the first business day of next month, Feb. 1.

Follow Goss on twitter at http://twitter.com/erniegoss
For historical data and forecasts visit our website at:
http://www2.creighton.edu/business/economicoutlook/

PRICE DATA

ALL COMMODITIES/FARM PRODUCTS 2007-2014
FUELS & RELATED/METALS & METAL PRODUCTS

Price changes, 3 month moving average, Jan. 2014- Nov. 2015



Price changes, 3 month moving average, Jan. 2014 – Nov. 2015