THE PURCHASING ECONOMY SURVEY REPORT July 2015

"A monthly survey of supply chain managers"

Welcome to our July report covering results from Creighton's June survey. Creighton's monthly survey of supply managers and procurement experts in nine Mid-America states indicate that the economic growth is anemic with rising inflationary pressures. Follow my comments at: www.twitter.com/erniegoss

Even with Billions of Taxpayer Support, Elon Musk Is No Thomas Edison

Without an emoticon for bizarre or laughable, CNBC favorably compared Elon Musk, founder of Tesla Motors, to Thomas Edison. If nothing else, Musk should receive the chutzpah award for naming his company after Nikola Tesla, creator of modern alternating current (AC) electricity systems. But after 12 years of operations and $4.9 billion of taxpayer subsidies, as calculated by the Los Angeles Times, Tesla Motors will produce only 45,000 vehicles for all of 2015 compared to Ford and GM which will sell 225,000 and 246,000 vehicles, respectively, for July 2015 alone.

Matching Tesla's underachievement in sales, investors in Tesla stock will earn $1 every $80 of investor cash in 2015. Alternatively, investors can purchase $1 of earnings from Ford and GM for less than $8. In other words, the rate-of-return for Ford and GM investors is approximately 15 times that of Tesla stockholders. Furthermore, the only reason Tesla is earning a rate-of-return less than 1% is taxpayer subsidies of almost $5 billion. Think of what Thomas Edison could have done with billions of dollars of taxpayer subsidies. He would not produce fewer than 50,000 vehicles per year that have a range of less than 270 miles. Only Hollywood celebrities can afford a $125,000 vehicle that cannot transport them beyond their award ceremonies in Las Vegas. I did not know Thomas Edison- he grew up in New Jersey and I in Georgia - but I think I can confidently say that, "Elon Musk, you are no Thomas Edison." Ernie Goss.

Link to video:
https://youtu.be/1hKN1BQSLGs

LAST MONTH'S SURVEY RESULTS

Business Conditions Improve for June:
New Hiring Remains Weak

SURVEY RESULTS AT A GLANCE:

- Leading economic indicator strengthens for the month.
- Hiring gauge remains below growth neutral, but four of 10 firms expect to add workers in the second half of 2015.
- Inflation reading falls. Firms expect their prices to grow by 1.7 percent in next year.
- Oklahoma and North Dakota weaken again as energy sector sheds jobs.

The Creighton University Mid-America Business Conditions Index for May, a leading economic indicator for a nine-state region stretching from North Dakota to Arkansas, climbed for June. Indices over the past several months have pointed to positive, but slow economic growth over the next three to six months for the region. **Overall index:** The Business Conditions Index, which ranges between 0 and 100, rose to 53.0 from 50.4 in May. The regional index, much like the national reading, is pointing to slow growth through the third quarter of 2015.

Much weaker business conditions for firms tied to energy are restraining the overall reading. Weaker conditions were particularly evident in Oklahoma and North Dakota, two energy-producing states. This weakness is spilling over into metal manufacturers throughout the region.

Employment: The regional employment gauge remains in a range indicating slightly negative to stagnant job growth for manufacturing and value-added services firms in the region. The job gauge advanced to a weak 49.1 from May's 48.3. Areas dependent on agriculture are experiencing cuts among metal producers and agricultural equipment manufacturers while communities tied to energy are facing job losses in machinery manufacturing serving oil producers.

This month, supply managers were asked about the hiring situation at their firms. The same question was asked in June 2014. There was very little change from last year. Approximately four of 10 firms in both surveys expected to hire additional workers in the second half of the year. From the June 2015 survey, only 7.1 percent anticipate layoffs in the year ahead which is down from 10.4 percent in June 2014.

One supply manager reported, "Employment changes are due to heavy retirements. In the last five years, 60 percent of our workforce were eligible for retirement or have retired."

Wholesale Prices: The wholesale inflation index for June sank to 64.9 from May's 69.1. We asked supply managers to provide estimated changes in the price of their company's major products or services for the next year. On average, a 1.7 percent increase is expected. This is down significantly from the June 2014 expected increase of 2.6 percent. The strong U.S. dollar and global economic weakness are keeping wholesale inflationary pressures at modest levels.

Confidence: Looking ahead six months, economic optimism, as captured by the June business confidence index, expanded to 59.9 from May's 58.3. Improvements at the national level in housing, retail sales and hiring pushed supply managers to raise their expectations about future economic conditions.

Inventories: The inventory index, which tracks the change in the level of raw materials and supplies, jumped to 54.3 from 48.2 in May.

Trade: The new export orders index increased to 51.3 from 50.0 in May. The import index for June climbed to 54.8 from May's 48.8. Over the last year, the value of the U.S. dollar has risen by more than 16 percent against the currencies of our chief trading partners. This movement has made U.S. goods less competitively priced abroad, and foreign goods more cheaply priced in the U.S. Despite this dollar strength, the new export orders index moved above growth neutral for the month.

Other components: Other components of the June Business Conditions Index were new orders at 54.4, up from 51.0 in May; production or sales rose to 54.5 from May's 52.8; and delivery speed of raw materials and supplies increased to 52.6 from last month's 51.8.

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 June overall index, or leading economic indicator for Arkansas, climbed to 50.4 from May's 49.8. Components of the index from the monthly survey of supply managers were new orders at 51.6, production or sales at 51.9, delivery lead time at 50.0, inventories at 51.6, and employment at 48.2. Durable and nondurable producers in the state report soft but positive growth in business activity for the month.

IOWA
Iowa's Business Conditions Index jumped to 52.5 from 50.4 in May. Components of the index were new orders at 53.9, production or sales at 53.9, delivery lead time at 52.1, employment at 50.1, and inventories at 53.8. Growth among nondurable manufacturers in the state, including food processors, more than offset weaker conditions among durable manufacturers. Metal producers and agricultural equipment manufacturers in the state continue to suffer pullbacks in business activity.

KANSAS
The Kansas Business Conditions Index for June expanded to 50.1 from May's 49.7. Components of the leading economic indicator from the monthly survey of supply managers were new orders at 51.4, production or sales at 51.6, delivery lead time at 49.8, employment at 47.9, and inventories at 51.4. Both durable and nondurable goods manufacturers in the state are facing weak but slightly positive economic prospects. Transportation equipment manufacturers and food processors are growing but at a snail's pace.

MINNESOTA
The Minnesota Business Conditions Index rose to 54.3 from 51.1 in May. Components of the index from the June survey of supply managers were new orders at 55.9, production or sales at 55.7, delivery lead time at 54.0, inventories at 55.7, and employment at 51.8. Growth was reported across a broad range of Minnesota firms for the month. Durable goods manufacturers, including electronic component producers and metal manufacturers, joined nondurable goods producers, such as food processors, in reporting solid upturns in business activity for the month. This means economic growth for Minnesota will be higher than the rest of the region and the nation into the fourth quarter of this year.

MISSOURI
The June Business Conditions Index for Missouri sank to 50.1 from 50.7 in May. Components of the index from the survey of supply managers were new orders at 48.9, production or sales at 51.5, delivery lead time at 49.8, inventories at 51.4, and employment at 50.3. Durable goods manufacturers, including vehicle producers and machinery manufacturers, reported much stronger growth for the month. However, much of this growth was offset by weaker business conditions among nondurable goods manufacturers, such as food processors in the state. Even so, growth will be slow but positive into the fourth quarter of this year.

NEBRASKA
For the 19th straight month, Nebraska's Business Conditions Index remained above growth neutral at 51.3, up from May's 51.1. Components of the index were new orders at 52.7, production or sales at 52.8, delivery lead time at 51.0, inventories at 52.6, and employment at 49.1. The state's durable goods producers, including agricultural equipment manufacturers, experienced pullbacks in economic activity for the month. This pullback was offset by more positive growth for nondurable manufacturers. However, food processors in the state detailed weaker business conditions for the month.

NORTH DAKOTA
North Dakota's leading economic indicator for June remained below growth neutral 50.0. The Business Conditions Index fell to a regional low of 44.0 from May's 46.8, also a regional low. Components of the overall index from the monthly survey of supply managers were new orders at 45.2, production or sales at 45.3, delivery lead time at 43.7, employment at 42.3, and inventories at 45.1. With the state's two most significant industries, energy and agriculture, experiencing pullbacks in economic activity, it is surprising that we are just now seeing North Dakota's readings below growth neutral. I expect the overall state economic growth to be negative for the third quarter of this year with job losses especially for firms tied to agriculture and energy.

OKLAHOMA
The Business Conditions Index for Oklahoma slumped below growth neutral for a second straight month, falling to 46.9 from 47.0 in May. Components of the June survey of supply managers were new orders at 48.2, production or sales at 48.3, delivery lead time at 46.6, inventories at 48.1, and employment at 45.0. The state is now experiencing the expected negative fallout from weaker economic conditions in the energy sector. Metal producers and firms in the state linked to energy are also experiencing job losses and pullbacks in economic activity. Nondurable goods producers, such as food producers, are also detailing negative numbers for the last several months.

SOUTH DAKOTA
After moving below growth neutral in November of 2012, South Dakota's leading economic indicator has been above growth neutral 50.0 each month since. The Business Conditions Index, from a monthly survey of supply managers, climbed to a regional high of 56.2 from May's 54.1. Components of the overall index for June were new orders at 57.8, production or sales at 57.8, delivery lead time at 55.9, inventories at 57.7, and employment at 53.6. Both durable and nondurable goods producers and service providers are expanding at a solid pace. Our surveys indicate that healthy growth in the state will continue into the fourth quarter of this year.

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THE BULLISH NEWS

- U.S. payroll employment expanded by 223,000 in June.
- Investors are being replaced by family buyers of homes. Approximately 24.6% of single family home buyers were all-cash purchases in May down from 30.4% a year earlier.
- U.S. home prices rose 4.2% in April from one year earlier according to the Case-Shiller home price index.

THE BEARISH NEWS

- In June, the U.S. unemployment rate declined to 5.3% but it fell due to 432,000 discouraged unemployed workers abandoning their job search efforts and leaving the workforce.
- U.S. job gains for April and May of this year were revised downward by 60,000.
- The consumer price index climbed 0.4% last month, the largest such increase since February 2013. It is looking more and more like a Federal Reserve rate hike in September of this year.

WHAT TO WATCH

- **GDP**: On July 30, the U.S. BEA will release the preliminary reading for quarter two growth. Any annualized inflation adjusted reading below 2% will be a big disappointment and will be bullish for bond prices (pushing interest rates lower and bond prices higher).
- **PMIs:** On August 3, the first business day of August, Creighton and the National Institute for Supply Management will release regional and national PMIs for July. After expanding for June, declines would be bearish for U.S. stocks.
- **Consumer price index:** On July 22, the U.S. Bureau of Labor Statistics (BLS) will release the CPI for June. Another healthy expansion (e.g. above 0.3%) will "seal the deal" for a Federal Reserve rate hike at their September meetings.

FROM GOSS:

- I expect Greece to leave the 19-nation Eurozone by the end of the year. Three years ago, I predicted that Greece would leave the Eurozone. Was I early or wrong? You be the judge.
- I expect a bit higher inflation readings will push the Federal Reserve to raise its short term interest rates in September of this year.
- I expect Short term interest rates will begin to rise even as long-term interest rates remain low.

OTHER REPORTS:

- "Is Your Supply Chain Exposed to Currency Exchange Volatility," Architects of global supply chains, traditionally, have focused on strategies that were hypothesized on economies of scale and availability of low cost labor in countries like Brazil, Russia, India and China. But, lately, the surge in demand for improved service, the aggressive competition and the recognition of global uncertainty – uncertainty stimulated by changing labor conditions, extremely volatile oil prices, natural disasters and a spate of other geo-political factors – have made everyone rethink their manufacturing and distribution strategies. Leading global supply chains are being redesigned for not only scalability, but also for flexibility, as we described in leveraging your supply chain as a hedge against uncertainty. A very important part of this redesign process is sensitivity analysis, i.e., testing your network for robustness against controllable as well as uncontrollable factors.

Goss Eggs (Recent Dumb Economic Moves)

- This month's prize goes to Greek Prime Minister Alexis Tsipras for recommending that Greek voters reject a referendum that called for cuts to Greek pension plans and higher value-added taxes to avoid debt default. Greek elected officials, much like their U.S. counterparts, continue to believe that they can spend more, tax less and someone else will pay the bills. If you are a gambler, bet on the austere Merkel and against the gaggle of Hollande, Krugman, and Stiglitz.

Survey results for July will be released on the first business day of next month, Aug. 3.

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For historical data and forecasts visit our website at:
http://www2.creighton.edu/business/economicoutlook/
www.ernestgoss.com

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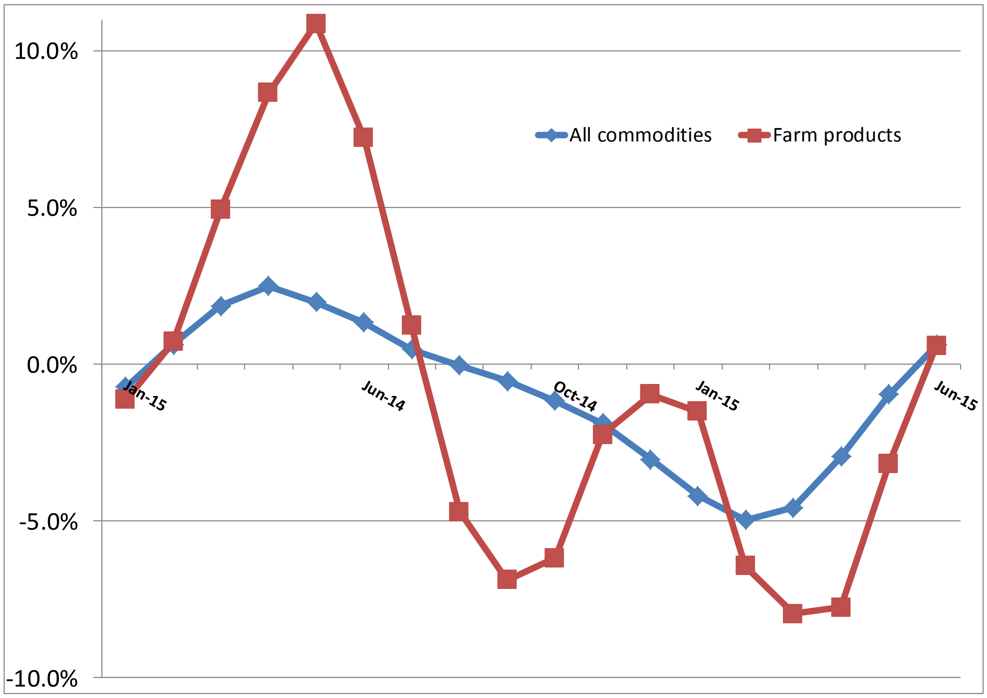
PRICE DATA

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

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



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