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

Kansas City, a Laboratory for Kansas Tax Cuts: Data Suggest That Tax Reductions Stimulated Growth

The Kansas City Metropolitan area is divided into two portions, Kansas and Missouri. This makes the area a good laboratory to gauge the effectiveness of economic policy changes made on one side, but not the other. For example, what do metro growth numbers have to say about the wisdom of the 2012 and 2013 Kansas tax reductions? Post Tax-Cut Earnings: From March 2012 to March 2015, the Kansas fraction of the metro grew its average weekly wages for private workers by 6.7% which was higher than the Missouri side's growth of 5.6%. Post Tax-Cut Job Performance: During this same time period, the Kansas side of the metro experienced private job growth of 7.5% compared to a much lower 4.4% for the Missouri segment of the metropolitan area. Both sides of the metro area reduced the number of government workers, but the Kansas side lost 4.8% of its government jobs, while the Missouri portion lost 1.0% of its public jobs. Not surprisingly, Kansas public workers are raising a ruckus, claiming an economic calamity. But even after the tax cut, 2014 state taxes as a percent of personal income for the Sunflower state, when compared to its neighbors, were more than one percentage point higher than Colorado and Missouri, but still slightly above Nebraska and Oklahoma. Furthermore, 2012 to 2014 personal income growth for Kansas surpassed that of Missouri and Nebraska, but trailed Colorado and Oklahoma. Post tax cut data from Kansas City, the state of Kansas, and its neighbors support the hypothesis that the tax cuts improved the state's economic growth. However critics of the reduction correctly argue that this data, as presented here, shows correlation, but does not prove causation. Ernie Goss.

Link to video:
https://www.youtube.com/watch?v=1R_veMvGzk4&feature=youtu.be

LAST MONTH'S SURVEY RESULTS

Slowing Growth Ahead for Mid-America:
Job Losses for May

SURVEY RESULTS AT A GLANCE:

- Leading economic indicator drops to a weak reading.
- Hiring gauge remains below growth neutral.
- Inflation reading jumps to its highest level in the past 12 months.
- Over the next year, supply managers expect prices of goods and services purchased by their firm to expand by a strong 3.8 percent.

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, fell from April's reading. Indices over the past several months are pointing 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, slumped to 50.4 from April's tepid 52.7. The regional index, much like the national reading, is pointing to positive but slow growth through the third quarter of 2015.

Firms linked to energy and agriculture are experiencing pullbacks in economic activity. Job growth in Oklahoma and North Dakota, two energy-producing states, has moved into negative territory. Other states dependent on agriculture are also experiencing slower economic growth. That growth is likely to move even lower in the months ahead as the strong U.S. dollar slows economic activity even more.

Employment: The regional employment gauge remained in a range indicating slightly negative to stagnant job growth for manufacturing and value-added services firms in the region. The job gauge fell to 48.3 from 49.2 in April. These negative job numbers will spill over into the broader job market in the months ahead.

This month, supply managers were asked about the hiring situation at their firms. Ten percent of supply managers reported an upturn in the number of applicants for each available job. On the other hand, approximately 9 percent of supply managers indicated the shortage of qualified workers increased from last month. The remaining 81 percent indicated no change in the number of applicants to open positions. One supply manager reported, "(We) have dozens of applicants for every opening. Salaries have not changed in years."

Wholesale Prices: The wholesale inflation index for May climbed to 69.1 from 55.5 in April. Despite a strong U.S. dollar and significantly lower fuel prices, the wholesale inflationary gauge indicates that inflationary pressures are rising, but still remain in a range indicating only moderate inflationary pressures.

Over the next year, survey participants expect the prices of products and services purchased by their company to advance by 3.8 percent. On the other hand, they expect prices for the products and services their companies sell to expand by a much smaller 1.6 percent over the next year.

Our data, along with other government data, signal that inflationary pressures have risen over the last several months. I expect rising inflationary pressures to push the Federal Reserve to begin raising interest rates, even in the face of weak economic growth.

Confidence: Looking ahead six months, economic optimism, as captured by the May business confidence index, declined to 58.3 from April's 61.5. Weak regional and national growth has pushed supply managers to lower their expectations about future economic conditions.

Inventories: The inventory index, which tracks the change in the level of raw materials and supplies, fell to 48.2 from 48.5 in April.

Trade: The new export orders index slid to 50.0 from 53.5 in April. The import index for May increased to a weak 48.8 from April's 46.8. 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, the new export orders index stood at growth neutral for the month and imports declined. I expect the export orders index to move even lower in the months ahead and the slow growth U.S. economy to continue to limit imports.

Other components: Other components of the May Business Conditions Index were new orders at 51.0, down from 55.5 in April; production or sales deteriorated to 52.8 from April's 57.3; and delivery speed of raw materials and supplies decreased to 51.8 from last month's 53.2.

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 May overall index, or leading economic indicator for Arkansas, slipped to 49.8 from 53.6 in April. Components of the index from the monthly survey of supply managers were new orders at 50.3, production or sales at 52.1, delivery lead time at 51.1, inventories at 47.6, and employment at 47.6. Business activity slowed for both durable and nondurable goods manufacturers in the state.

IOWA
Iowa's Business Conditions Index fell to 50.4 from 53.3 in April. Components of the index from the monthly survey of supply managers were new orders at 51.0, production or sales at 52.9, delivery lead time at 51.8, employment at 48.3, and inventories at 48.2. Durable goods manufacturers continue to experience pullbacks in economic activity. Producers tied to agriculture, such as agricultural equipment manufacturers and metal producers, are reporting downturns in economic activity. On the other hand, nondurable producers in the state report positive but weak growth for the month.

KANSAS
The Kansas Business Conditions Index for May slumped to 49.7 from April's 51.2. Components of the leading economic indicator from the monthly survey of supply managers were new orders at 50.3, production or sales at 52.1, delivery lead time at 51.1, employment at 47.6, and inventories at 47.5. Durable goods manufacturers in the state, including agricultural machinery producers and aircraft parts manufacturers, are reporting downturns in economic activity. Nondurable manufacturing, such as food processors, also signaled slower growth in the months ahead.

MINNESOTA
The Minnesota Business Conditions Index dipped slightly for the month. The overall index slipped to 51.1 from 51.3 in April. Components of the index from the May survey of supply managers were new orders at 51.7, production or sales at 53.5, delivery lead time at 52.5, inventories at 48.8, and employment at 48.9. Minnesota's economy has expanded in 2015, but at a slower pace than for the same time period in 2014. Our surveys over the past several months point to even slower, but positive, growth in the months ahead for the state. Despite the strong dollar making Minnesota goods less competitively priced abroad, durable goods manufacturers, including metal producers, expanded for May and for 2015. Growth for the heavy manufacturing, or durable goods, will slow in the months ahead, spilling over into the broader state economy.

MISSOURI
The May Business Conditions Index for Missouri sank to 50.7 from 54.4 in April. Components of the index from the survey of supply managers were new orders at 48.7, production or sales at 53.2, delivery lead time at 52.1, inventories at 48.5, and employment at 51.0. Missouri's economy has expanded in 2015, but at a slower pace than for the same time period in 2014. Our surveys over the past several months point to even slower, but positive, growth in the months ahead for the state. Despite the strong dollar making Missouri goods less competitively priced abroad, durable goods manufacturers expanded for May and for 2015. Growth for heavy manufacturing, or durable goods, will slow in the months ahead, spilling over into the broader state economy. Food processors will continue to experience pullbacks in economic activity.

NEBRASKA
For the 18th straight month, Nebraska's Business Conditions Index remained above growth neutral 50.0, though it sank to 51.1 from April's 54.6. Components of the index were new orders at 51.7, production or sales at 53.6, delivery lead time at 52.5, inventories at 48.9, and employment at 49.0. Nebraska manufacturing has weakened and will continue to weaken as a result of weaker farm income and a higher value of the U.S. dollar. Agricultural equipment producers have experienced pullbacks in economic activity. Unless the U.S. dollar weakens dramatically in the months ahead, the Nebraska economy is slated for slow growth through the third quarter of 2015.

NORTH DAKOTA
North Dakota's leading economic indicator for May fell below growth neutral. The Business Conditions Index declined to 46.8, a regional low, from April's 51.6. Components of the overall index from the monthly survey of supply managers were new orders at 47.3, production or sales at 49.0, delivery lead time at 48.1, employment at 44.8, and inventories at 44.7. Our survey is now picking up weakness linked to the energy sector for North Dakota. Durable goods producers connected to energy, such as energy support firms, are detailing declining economic conditions. Even though this weakness has yet to hit the broader North Dakota economy, our surveys indicate that it will spill over into the broader state economy in the months ahead.

OKLAHOMA
The Business Conditions Index for Oklahoma slumped below growth neutral for May, falling to 47.0 from 50.8 in April. Components of the May survey of supply managers were new orders at 47.5, production or sales at 49.2, delivery lead time at 48.2, inventories at 44.9, and employment at 45.0. Energy firms and manufacturing firms linked to energy have begun to pullback. According to our surveys, this will spill over into the broader Oklahoma economy in the months ahead.

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 the monthly survey of supply managers, dipped slightly to a regional high of 54.1 from 54.2 in April.

THE PURCHASING ECONOMY SURVEY REPORT June 2015
"A monthly survey of supply chain managers"

Components of the overall index for May were new orders at 54.7, production or sales at 56.7, delivery lead time at 55.6, inventories at 51.7, and employment at 51.8. Manufacturing firms in the state are expanding at a solid pace. This has spilled over to other industries in the state such as wholesale trade.

THE BULLISH NEWS

- So far in 2015 the U.S. has gained an average of 217,000 jobs a month, helped by the 280,000 t gain for May. Yet that's 33% less than the 324,000 average for the fourth quarter of last year and smaller than the 260,000 monthly average for all of 2014.
- For May 2015, there were 563,000 discouraged workers (gave up looking for a job and went home). That is down by 165,000 from a year earlier.
- The all items consumer price index (CPI) for April was -0.2% lower than one year earlier. The core CPI, which excludes food and energy was up from April 2014 by 1.8%.
- U.S. March home prices rose 0.95% from February and were 5.0% higher than March 2014.

THE BEARISH NEWS

- The U.S. unemployment rate rose by 0.1% in May.
- The number of U.S. workers employed part-time for economic reasons was 6.7 million.
- April retail sales were essentially unchanged from March readings. The consumer is just not opening up his/her wallet.

WHAT TO WATCH

- **Retail sales**: On June 11 and July 14, retail sales for May and June are released. If annualized growth continues below 3%, do not expect U.S. economic growth to return to healthy levels
- **Wage growth:** On Thursday July 3, the U.S. Bureau of Labor Statistics (BLS) will release hourly wage growth numbers. Year over year (YOY) growth is now running at 2.3%. The number to watch for is 3% YOY. Another healthy monthly gain, above 0.2%, will "seal the deal" for a Federal Reserve rate hike as early as July 28-29 but not later than September 16-17 when their rate setting committee meets.
- **PMIs:** On July 1, Creighton and the National Institute for Supply Management will release regional and national PMIs for June. Readings below 50.0 will be very bearish economic signals. Another increase in the national number along with an increase in the inflation gauge will be bearish from bond prices with yields going higher.

FROM GOSS:

- I expect inflation to begin ticking up in the months ahead. Watch the monthly CPI report from BLS.
- I expect a bit higher inflation readings will push the Federal Reserve to raise its short term interest rates in September of this year.
- The revelation that many U.S. businesses have been exaggerating profits and rising (slightly) interest rates will be a drag of U.S. stocks for most of 2015.

OTHER REPORTS:

- National Association of Business Economics (NABE) SUMMARY: "NABE's June Outlook Survey panelists look for the U.S. economy to expand at a slower rate in 2015 compared to their expectations in March," according to NABE President John Silvia, chief economist of Wells Fargo. "Their views on economic growth have been tempered by sluggish conditions during the first three months of the year that have persisted into the second quarter. The panel's median forecast calls for real GDP growth to accelerate to approximately 3% at an annualized rate in the third and fourth quarters of 2015, slightly stronger than in the previous survey. But the annual average growth rate for the year is expected to reach only 2.4%, in line with the pace recorded in 2014. Real GDP is forecasted to grow at a stronger 2.9% clip in 2016, unchanged from the March survey."

Goss Eggs (Recent Dumb Economic Moves)

- Christine LeGarde, head of the International Monetary Fund, advised the U.S. Congress to ignore the federal deficit and spend more on infrastructure. She also chided the U.S. Federal Reserve to hold off on raising interest rates until 2016. The U.S. is not suffering from too high interest rates and too little federal spending. This type of counsel is what got Europe/Greece into economic trouble.

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

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http://www2.creighton.edu/business/economicoutlook/
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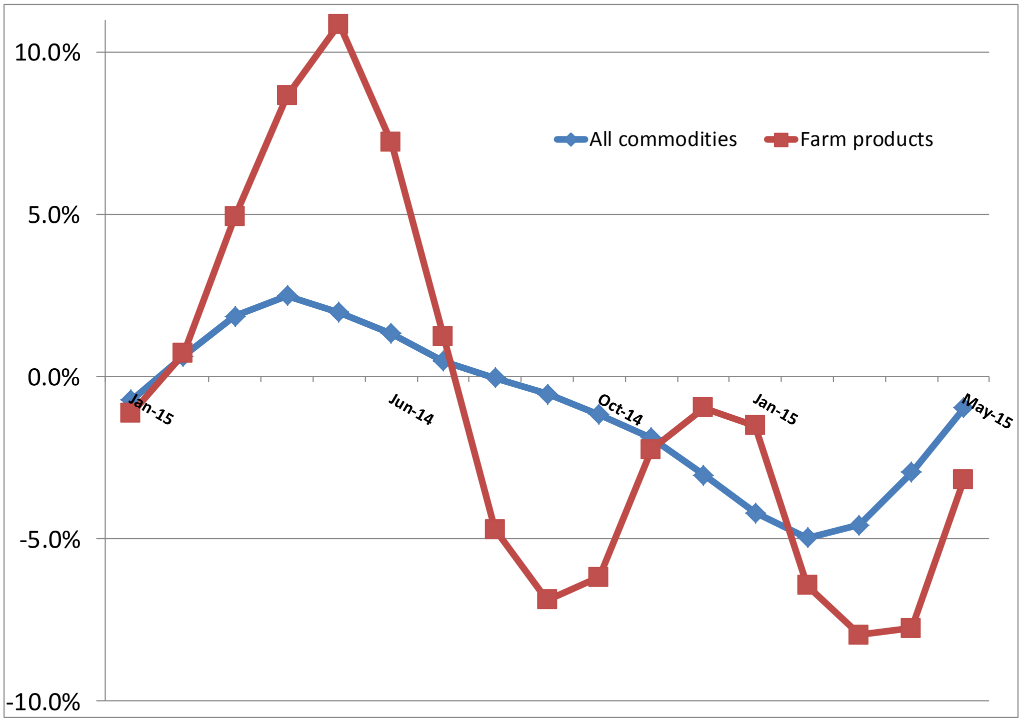
PRICE DATA

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

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



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