"A monthly survey of supply chain managers"

Welcome to our June report covering results from Creighton's May economic survey of supply managers and procurement experts in nine Mid-America states. Results from last month indicate that the economic growth was slightly positive for manufacturing with stabilizing economic conditions and job gains. Follow my comments at: www.twitter.com/erniegoss

Trans Pacific Partnership (TPP) A Winner for U.S.: Politicians, Left and Right, Are Wrong

When politics and economics collide, economics comes up roadkill. Take the case of the Trans Pacific Partnership (TPP). More than 99 percent of economists support this trade pact, yet 100 percent of individuals still in the race for the U.S. presidency are opposed to opening up Asian markets to U.S. manufacturers, businesses and farmers via TPP.

In October 2015 in Atlanta, the Obama Administration reached agreement with Japan, Vietnam and nine Pacific Rim nations to reduce trade barriers to produce the largest trade pact in the nation's history. Due to reductions in trade restrictions, the USDA estimates that implementation of TPP will expand U.S. sales abroad by $130 billion annually. According to my calculations, if agriculture accounts for its historic share of U.S. exports, TPP would boost agricultural sales by $8.4 billion, and U.S. net farm income by approximately $1.0 billion in one year alone.

However, the deal requires Congressional approval and both Democrats and Republicans have finally found something they agree on----rejection of TPP, economic jingoism, or what I will call "economic tomfoolery." In 2015, the U.S. was the second largest exporting nation, behind only China. And in that same year, the U.S. worker was the most productive on the face of the earth. Slinking into protectionism by rejecting fair and free trade agreements only subsidizes the less productive, and slows overall economic prosperity. Ernie Goss.

Link to video:
https://youtu.be/CH2N_0mWtqw

LAST MONTH'S SURVEY RESULTS

Mid-America Business Conditions Index Moves Higher: Labor Shortages Remain an Issue

SURVEY RESULTS AT A GLANCE:

- For a fourth straight month, the overall index remained above growth neutral.
- For the first time since August 2015, the employment gauge climbed above growth neutral 50.0.
- For the first time since August 2015, the employment gauge climbed above growth neutral 50.0.
- More than one-fourth of businesses reported finding and hiring qualified workers as the greatest challenge to business prospects for the rest of 2016.
- More than one-fifth of businesses expect a negative impact from a June Federal Reserve rate hike.

The Creighton University Mid-America Business Conditions Index for August, a leading economic indicator for a nine-state region stretching from Arkansas to North Dakota, slumped for the month. Indices over the past several months have pointed to slow or no economic growth over the next three to six months for the region. However, five of the nine states had overall indices above growth neutral for August.

Overall index: The May Business Conditions Index, which ranges between 0 and 100, rose to 52.1, up from April's 50.1 and March's 50.6. This is the fourth consecutive month the reading has moved above growth neutral.

Over the past several months the regional index, much like the national reading, has indicated the manufacturing sector is experiencing anemic, but stabilizing and improving business conditions.

The region's manufacturing sector is expanding but at a slow pace as gains for nondurable goods producers more than offset continuing losses for regional durable goods manufacturers.

One of the keys to the level of economic growth in the months ahead will be the interest rate position of the Federal Reserve. If the Federal Reserve telegraphs more aggressive rate hikes in the months ahead at its June meetings, the U.S. dollar is very likely to strengthen thus slowing regional manufacturing.

Employment: For the first time since August 2015, the regional employment gauge advanced above growth neutral. The index climbed to 51.4 from April's 45.0. Job gains for nondurable goods producers more than offset losses for durable goods manufacturers for the month.

This month, supply managers were asked to identify the greatest challenge to 2016 business prospects for their company. More than one-fourth, or 26.0 percent, named difficulty in finding and hiring qualified workers as the biggest threat to business operations for the remainder of 2016. Almost one-third, or 32.9 percent, expect U.S. economic weakness to pose the biggest challenge for business operations for the rest of 2016.

Wholesale Prices: The wholesale inflation index for May was unchanged from 62.4 in April. Prices for raw materials and supplies, as reported by regional supply managers, are rising at a pace, if matched in future months, that will push the Federal Reserve to move short-term interest rates up at a pace higher than current market expectations.

This month, supply managers were asked to assess the impact of a June Federal Reserve rate hike on their company's economic prospects. Approximately one in five, or 20.8 percent, expect a June rate increase to have a negative effect on company economic activity. More than half, or 52.8 percent, anticipate little, or no impact, while 4.2 percent expect a positive impact from a Fed rate increase. The remaining 22.2 were unsure of the economic fallout from an interest rate increase.

Confidence: Looking ahead six months, economic optimism, as captured by the May business confidence index, slipped to 47.7 from April's 51.3. Global economic uncertainty combined with expected higher interest rates pushed the confidence reading lower for the month.

Inventories: The May inventory index, which tracks the change in the level of raw materials and supplies, increased to 52.9 from April's growth neutral 50.0.

Trade: The new export orders fell to 52.1 from April's strong 57.6. The import index for May tumbled to 50.1 from 58.0 in April. Recent economic improvements among the region's key trading partners assisted exports for the month. At the same time, growth in regional manufacturing pushed supply managers to maintain buying from abroad.

Export weakness has been a significant factor restraining regional and U.S. growth since 2014. However, the negative impact has been much greater for the region. Over the past two years, regional exports declined by 8.1 percent compared to a smaller 4.7 percent loss for the U.S. economy.

Other components: Components of the May Business Conditions Index were new orders at 50.7, down from 51.3; production or sales improved to 52.9 from April's 50.7; and delivery speed of raw materials and supplies dipped to 52.1 from last month's 53.7.

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 since 1931, by the Institute for Supply Management, formerly the National Association of Purchasing Management.

MID-AMERICA STATES

ARKANSAS

Arkansas' overall index for May, or leading economic indicator, expanded to 52.7 from April's 49.5. Components of the index from the monthly survey of supply managers were new orders at 50.1, production or sales at 52.3, delivery lead time at 53.0, inventories at 56.3, and employment at 52.0. In 2015, Arkansas ranked eighth in the nine-state region with exports per manufacturing worker of $38,000. Additionally, a 19 percent decline in exports over the past two years contributed to the state's recent slower economic growth.

IOWA

The May Business Conditions Index for Iowa advanced to 53.2 from April's 50.1. Components of the index from the monthly survey of supply managers were new orders at 50.0, production or sales at 52.2, delivery lead time at 52.3, employment at 51.7, and inventories at 51.7. In 2015, Iowa ranked fifth in the nine-state region with exports per manufacturing worker of $61,000. Additionally, a 6.2 percent decline in exports over the past two years contributed to the state's recent slower economic growth.

KANSAS

The Kansas Business Conditions Index for May increased to a weak 49.7 from 48.9 in April. Components of the leading economic indicator from the monthly survey of supply managers were new orders at 49.4, production or sales at 51.5, delivery lead time at 49.4, employment at 49.8, and inventories at 48.6. In 2015, Kansas ranked third in the nine-state region with exports per manufacturing worker of $66,000. Additionally, a 14.6 percent decline in exports over the past two years contributed to the state's recent slower economic growth.

MINNESOTA

The May Minnesota Business Conditions Index climbed to a solid 54.3 from 49.8 in April. Components of the index from the monthly survey of supply managers were new orders at 50.5, production or sales at 52.7, delivery lead time at 54.8, inventories at 60.2, and employment at 53.2. In 2015, Minnesota ranked fourth in the nine-state region with exports per manufacturing worker of $63,000. Additionally, a 6.6 percent decline in exports over the past two years contributed to the state's recent slower economic growth.

MISSOURI

The May Business Conditions Index for Missouri rose to a regional high of 57.0 from April's 50.1. Components of the index from the survey of supply managers were new orders at 51.1, production or sales at 53.4, delivery lead time at 58.1, inventories at 67.1, and employment at 55.2. In 2015, Missouri ranked sixth in the nine-state region with exports per manufacturing worker of $52,000. However contrary to the rest of the region and nation, Missouri experienced a 1.9 percent increase in exports over the past two years.

NEBRASKA

The May Business Conditions Index for Nebraska rose to 52.4 from April's 50.2. Components of the index from the monthly survey of supply managers were new orders at 50.0, production or sales at 52.2, delivery lead time at 52.3, inventories at 55.4, and employment at 51.8. In 2015, Nebraska ranked second in the nine-state region with exports per manufacturing worker of $67,000. Additionally, a 12 percent decline in exports over the past two years contributed to the state's recent slower economic growth.

NORTH DAKOTA

North Dakota's leading economic indicator for May remained below growth neutral 50.0. The Business Conditions Index for the month fell to 40.9, a regional low, from 47.2, also a regional low. Components of the overall index from the monthly survey of supply managers were new orders at 47.2, production or sales at 49.3, delivery lead time at 41.2, employment at 40.1, and inventories at 26.1. In 2015, North Dakota ranked first in the nine-state region with exports per manufacturing worker of $151,000. Additionally, a 12.6 percent decline in exports over the past two years contributed to the state's recent economic pullback.

OKLAHOMA

After 12 straight months with an overall index below growth neutral, Oklahoma's Business Conditions Index rebounded for May to 51.4. The index from a monthly survey of supply managers climbed to 51.4 from 49.4 in April. Components of the May survey of supply managers were new orders at 49.8, production or sales at 52.0, delivery lead time at 51.3, inventories at 52.9, and employment at 51.1. In 2015, Oklahoma ranked seventh in the nine-state region with exports per manufacturing worker of $38,000. Additionally, a 24.0 percent decline in exports over the past two years contributed to the state's recent slower economic growth.

SOUTH DAKOTA

The Business Conditions Index for South Dakota advanced to 53.8 from 51.6 in April. The index has moved above growth neutral for five straight months. Components of the overall index for May were new orders at 50.3, production or sales at 52.6, delivery lead time at 54.4, inventories at 59.0, and employment at 52.8. In 2015, South Dakota ranked ninth in the nine-state region with exports per manufacturing worker of $33,000. Additionally, a 13.4 percent decline in exports over the past two years contributed to the state's recent slower economic growth.

THE PURCHASING ECONOMY SURVEY REPORT June 2016

"A monthly survey of supply chain managers"

THE BULLISH NEWS

- Year over year U.S. wage growth hit a stable 2.5% in May.
- The Case-Shiller home price index expanded by 5.4% from March 2015 to March 2016.
- U.S. consumer prices rose 0.4% in April (good news if you are looking for a bit of upward price pressure).

THE BEARISH NEWS

- The 38,000 jobs created in May fell well short of consensus expectations of around 160,000. In addition, the Bureau of Labor Statistics revised its estimates for prior months downwards by 59,000.
- The unemployment rate declined to 4.7% but primarily due to discouraged unemployed workers leaving the workforce.
- Involuntary part-time workers rose by 468,000 to 6.4 million.
- The U.S. trade deficit increased to $37.4 billion in April.

WHAT TO WATCH

- **Gold prices**: It has been a long time since I paid much attention to gold prices, but I will in the next several months as investors attempt to hedge against rising risk (Brexit) and higher consumer inflation (CPI).
- **Brexit:** On June 23, British citizens will vote to exit or remain in the European Union. A majority vote to exit will result in a spiking of global financial volatility. This will push global investors into "safe haven" investments including U.S. Treasury bonds. This move will drive U.S. interest rates lower, the value of the dollar higher and agriculture commodity prices lower.
- **The Jobs Report:** On July 8, the Bureau of Labor Statistics will release the June jobs report. Another very weak report (i.e. less than 100,000 jobs) will push the Federal Reserve to forego raising raise rates at their July 26-27 meetings.

Goss Eggs (Recent Dumb Economic Moves)

- The Consumer Financial Protection Bureau (CFPA) unleashed 1,300 pages of rules for 20,000 U.S. payday lenders. Just as regulatory zealotry is killing the coal mining industry, add payday lenders to the list of casualties from the "we know what is good for you" crowd. Payday lenders are the only source of borrowing for some of these borrowers, most of whom are low income and do not have access to traditional bank loans.

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

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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