Welcome to our May report covering Creighton's April survey results. The survey of supply managers in nine Mid-America states indicate that the economy is currently growing at a healthy pace with positive projections. Follow my comments at: www.twitter.com/erniegoss

Taxpayer Bailouts Ahead for Insurance Companies, College Students (and Universities)

After Solendra, AIG, Fannie Mae, Freddie Mac, and General Motors picked the pockets of the U.S. taxpayer, two other groups are waddling over to feed at the public trough. Section 1342 of the Affordable Care Act forces taxpayers to make insurers whole from losses they incur selling policies below costs on the ObamaCare exchanges through 2016. The government payouts are designed to hide the 2014 premium increases that would be required to support insurance companies that have enrolled too few young healthier citizens, and too many older, less healthy folks. Without the taxpayer bailouts which will require higher taxes or federal debt, insurance companies would have to raise more visible premiums to avoid large losses and/or bankruptcy. The second looming and ominous rescue "victim" is the American college student whose debt has doubled to $1.1 trillion since 2007. By the end of 2013, enrollment in the plans—which allow students to rack up big debts and jettison the unpaid balance regardless of amount after a set time period— has surged to more than 40 million debtors. President Obama's 2011 revised plan required student borrowers to pay only 10 percent a year of their discretionary income in monthly installments. Under the plan, the unpaid balances for those working in the public sector (e.g. IRS) or for nonprofits (e.g. NORML) are forgiven after 10 years. As a result of federal government over feeding, universities have increased tuition at a rate twice that of medical care, and three times that of all consumer prices over the past decade. Next, watch for Pfizer, maker of Viagra, to be soliciting a bailout to straighten out its financing. Ernie Goss.

Link to video:
https://www.youtube.com/watch?v=cUXFw65LDZQ

LAST MONTH'S SURVEY RESULTS

<u>Mid-America Economy Begins Second Quarter Briskly: Export Orders Boost Growth</u>

<u>SURVEY RESULTS AT A GLANCE:</u>

- Leading economic indicator rises to highest level in three years.
- Inflation gauge jumps to highest level since March 2012.
- Strong new export orders for the month.
- Almost two-thirds expect Affordable Care Act to have little or no impact on company.

The Mid-America Business Conditions Index for April, a leading economic indicator for a nine-state region stretching from North Dakota to Arkansas, points to positive and improving growth in the next three to six months. **Overall index:** The Business Conditions Index, which ranges between 0 and 100, climbed to 60.4 from 58.2 in March. Much like the national economy, the Mid-America region continues to expand with growth prospects improving monthly. This is the highest overall reading that we have recorded since March 2011.

Employment: After declining below growth neutral for December, the employment gauge has remained above the threshold for the fourth straight month. The employment index dipped slightly to a still solid 54.2 from 54.4 in March. Durable goods manufacturers, including vehicle producers, and nondurable goods producers, such as food processors, are adding jobs at a healthy pace. There are more workers employed in the nine-state region than ever. I expect current growth to continue in the months ahead.

Wholesale Prices: The prices-paid index, which tracks the cost of raw materials and supplies, increased to its highest level since March 2012. The wholesale inflation gauge rose to 75.9 from March's 72.8. Inflationary pressures at the wholesale level are elevated from the same time last year.

This month supply managers in the region were asked how much they expect the price of their company's products to increase in 2014. On average, supply managers anticipate a 2.4 percent growth for the year. While this is hardly rapid, it is well above the 2 percent reported last year at this time. Reports like this by supply managers will encourage the Federal Reserve to continue to reduce its monetary stimulus termed quantitative easing (QE3). As a result, I expect long term interest rates to continue to advance in the months ahead.

Confidence: Looking six months ahead, economic optimism, as captured by the April business confidence index, expanded to a strong 64.2 from March's 59.0. Improvements in the job market supported supply managers' business outlook for the month. Furthermore, some of the uncertainty surrounding the number of signups for the Affordable Care Act has been reduced, thus boosting confidence.

This month supply managers were asked to gauge the impact of the implementation of the Affordable Care Act (ACA) on their company. Only 3.6 percent indicated significant negative impacts while 29.8 percent voiced negative impacts. Almost two-thirds or 65.5 percent reported little or no impact from the ACA. The remaining 1.2 percent indicated positive impacts from the ACA.

Inventories: The inventory index, which tracks the level of raw materials and supplies, dipped to a solid 56.6 from March's 57.6. While the rate of inventory expansion slowed, April's inventory index is yet another signal that supply managers are more upbeat about the economy as they increased inventories in anticipation of expanding sales for their companies in the months ahead.

Trade: The new export orders index advanced to a healthy 60.8 from 54.1 in March. The import index for April rose to 55.6 from March's 54.2. It is a very encouraging signal to track a sixth straight month of healthy new export orders. At the same time, firms in the region continued purchasing from abroad in expectations of upturns in company sales in the weeks and months ahead.

Other components: Other components of the April Business Conditions Index were new orders at 66.3 from 58.5 in March; production or sales at 68.3, up from March's 61.1; and delivery lead time dropped to 56.6 from March's 59.4.

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 April overall index, or leading economic indicator, for Arkansas expanded to 62.9 from 62.6 in March. Components of the index from the monthly survey of supply managers were new orders at 70.9, production or sales at 58.2, delivery lead time at 62.5, inventories at 64.3, and employment at 58.8. Growth among business services and durable goods manufacturing firms more than offset pullbacks for nondurable goods manufacturers. Despite impressive gains among durable goods manufacturers in Arkansas over the past year, the state's manufacturing sector has approximately 18 percent fewer manufacturing workers today than shortly before the national recession began.

IOWA
Iowa's Business Conditions Index was unchanged from March's very healthy 67.2. Components of the index from the monthly survey of supply managers were new orders at 72.2, production or sales at 72.9, delivery lead time at 60.6, employment at 64.3, and inventories at 66.1. Durable goods manufacturers and ethanol producers more than offset weaker conditions for food processors in Iowa. Despite impressive gains among durable goods manufacturers in the state over the past year, Iowa's manufacturing sector has almost 10 percent fewer manufacturing workers today than shortly before the national recession began.

KANSAS
The Kansas Business Conditions Index for April expanded to a healthy 61.0 from 54.6 in March. Components of the leading economic indicator from the monthly survey of supply managers were new orders at 64.4, production or sales at 71.0, delivery lead time at 43.7, employment at 56.8, and inventories at 69.3. Durable goods producers continue to experience weaker economic conditions but expansions among nondurable goods producers more than offset this weaker activity. Despite impressive gains among nondurable goods manufacturers in Kansas over the past year, the state's manufacturing sector has approximately 15 percent fewer manufacturing workers today than shortly before the national recession began.

MINNESOTA
For 17 straight months, Minnesota's Business Conditions Index has remained above growth neutral. The index dipped to a healthy64.9 from March's 66.1. Components of the index from the April survey of supply managers in the state were new orders at 70.0, production or sales at 73.3, delivery lead time at 64.1, inventories at 64.6, and employment at 52.4. Despite impressive gains among durable goods and nondurable goods manufacturers in the state over the past year, Minnesota's manufacturing sector has almost 10 percent fewer manufacturing workers today than shortly before the national recession began.

MISSOURI
The April Business Conditions Index for Missouri grew to 54.8 from 53.8 in March. Components of the survey of supply managers in the state for April were new orders at 55.2, production or sales at 56.3, delivery lead time at 57.5, inventories at 53.1, and employment at 52.1. The state's durable goods manufacturing sector, especially that tied to vehicle production, continues to expand at a healthy pace. Despite impressive gains among durable goods manufacturers over the past year, Missouri's manufacturing sector has approximately 15 percent fewer manufacturing workers today than shortly before the national recession began.

NEBRASKA
The April Business Conditions Index for Missouri grew to 54.8 from 53.8 in March. Components of the survey of supply managers in the state for April were new orders at 55.2, production or sales at 56.3, delivery lead time at 57.5, inventories at 53.1, and employment at 52.1. The state's durable goods manufacturing sector, especially that tied to vehicle production, continues to expand at a healthy pace. Despite impressive gains among durable goods manufacturers over the past year, Missouri's manufacturing sector has approximately 15 percent fewer manufacturing workers today than shortly before the national recession began.

NORTH DAKOTA
North Dakota's leading economic indicator slipped to a healthy 60.2 from March's 60.3. Components of the overall index from the monthly survey of supply managers for April were new orders at 55.0, production or sales at 52.8, delivery lead time at 51.2, employment at 82.2, and inventories at 52.98. Durable and nondurable goods manufacturing firms are expanding at a solid pace adding to the significant boost from energy linked firms. Despite positive gains among manufacturers in the state over the past year, North Dakota's manufacturing sector has approximately 3.4 percent fewer manufacturing workers today than shortly before the national recession began.

OKLAHOMA
The state's leading economic indicator continues to point to healthy gains for the next three to six months. Oklahoma's Business Conditions Index declined to a still respectable 54.8 from last month's 59.5. Components of the April survey of supply managers in the state were new orders at 59.8, production or sales at 54.7, delivery lead time at 51.2, inventories at 53.2, and employment at 55.0. Except for food processors in the state, nondurable goods manufacturers reported solid gains for the month. Despite gains among manufacturers in the state over the past year, Oklahoma's manufacturing sector has approximately 10 percent fewer manufacturing workers today than shortly before the national recession began.

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 overall index from the monthly survey of supply managers expanded to a regional high of 68.1 and up from March's 63.8. Components of the overall index for April were new orders at 69.0, production or sales at 87.7, delivery lead time at 43.9, inventories at 63.4, and employment at 76.7. Durable and nondurable goods manufacturers in the state continue to add jobs and increase the hours worked for current employees. Despite impressive gains among manufacturers in the state over the past year, South Dakota's manufacturing sector has approximately two percent fewer manufacturing workers today than shortly before the national recession began.

THE BULLISH NEWS

- For April, Creighton University's survey of supply managers and the national survey of supply managers point to improving growth for through the second quarter of 2014.

THE PURCHASING ECONOMY SURVEY REPORT May 2014
"A monthly survey of supply chain managers"

- U.S. employers added 288,0000 jobs in April and the unemployment rate declined to 6.3%, its lowest level since 2008.
- Exports rose by 2.3% in March to their highest level since November thus narrowing the nation's trade deficit.

THE BEARISH NEWS

- In April 733,000 Americans gave up on job search and left the labor market. The number of long-term unemployed still stands at 3.5 million.
- New residential housing construction remains weak. As a result, house prices are growing at unsustainable paces for much of the U.S. Watch for bubbles.
- April's consumer price index rose by 0.3%. This is too high for comfort.

WHAT TO WATCH

- CPIs: On June 17, the Bureau of Labor Statistics releases consumer price indices for April and May, respectively. Monthly increases of more than 0.2% will encourage the Fed to maintain and potentially reduce its monthly bond buying program. It will point to higher long-term interest rates and could even encourage the Fed to raise short-term interest rates before the end of 2014. This is a very, very important release.
- Retail Sales: On June 12, the U.S. Census Bureau will release retail sales numbers for May. An increase of more than 1% from May's retail sales will be bullish for the economy but bearish for bonds as the threat of inflation rises.
- Jobs: On Friday June 6, the U.S. Bureau of Labor Statistics (BLS) will release employment report for May. Another strong report (job additions above 200,000) will result in long term interest rates rising more quickly.

THE OUTLOOK

FROM GOSS:

- Wage gains to escalate the second half of 2014 for specific occupations (e.g. welders, software developers, accountants) due to shortages.
- Monthly rents to begin increasing more swiftly as more and more Americans seek housing.
- Inflation to pick up in the second half of 2014.

OTHER REPORTS:

- Conference Board (May 2014) "Widespread Labor Shortages Ahead for the U.S." American workers have endured six years of depleted wealth, stagnant wages, and general insecurity. But their fortunes are about to change, according to a surprising new study from The Conference Board. From a Buyer's Market to a Seller's Market predicts unemployment in the United States — currently 6.3 percent and falling rapidly — will reach its "natural rate" of 5.5 percent by late-2015. The decline will continue well past this benchmark; over the next 15 to 20 years, U.S. unemployment may even dip below 3.8 percent, the lowest rate recorded since the 1960s."

Goss Eggs (Recent Dumb Economic Moves)

- The anti-science, Luddites are at it again. Vermont Governor Peter Shumlin signed a law requiring food producers to label foods that contain genetically modified farm products. This will force the price of food up dramatically making it unaffordable for many families to live in this state. Even when advisable, food labeling laws cannot be set at the state level.

Survey results for May will be released on the first business day of next month, June 2.

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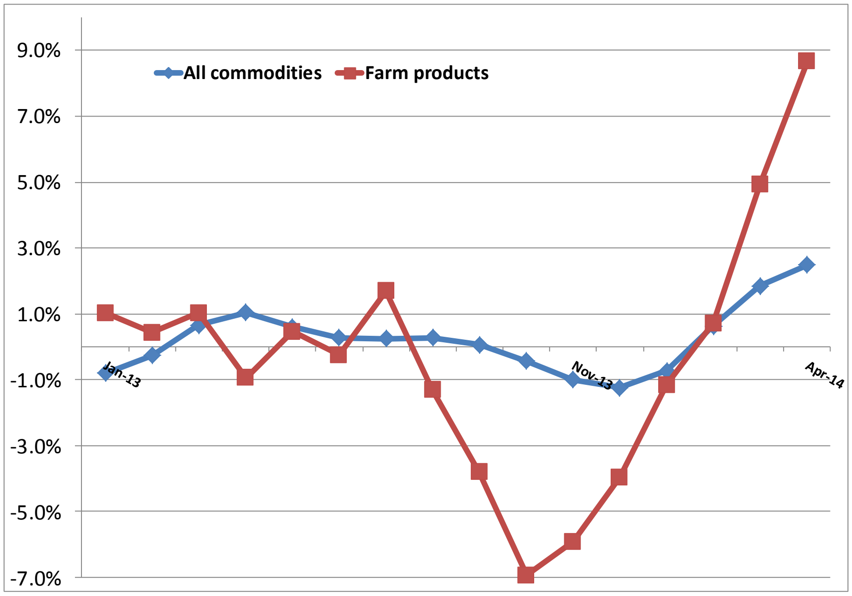
PRICE DATA

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

Price changes, 3 month moving average, Jan. 2013 - April 2014



Price changes, 3 month moving average, Jan. 2013 - April 2014