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

Americans Vote with Their Feet: Low Tax States Are Preferred (Except by ConAgra)

Each year based on a questionable set of criteria, scores of publications rank the top places to live in the U.S. Instead, it is argued here that states should be ranked according to the actual votes of U.S. residents---where are they moving to, and where are they moving from? This method is not subject to the arbitrary selection of factors by the analyst, but is instead based on domestic migration rates from the 50 U.S. states, in this case from 2010 to 2014. According to American's moving patterns, the five states with the highest net exit rates were New York, Illinois, New Jersey, Connecticut, and Alaska. Among these five states, only Alaska was ranked in the bottom half of states in terms of tax burdens. Among states with the highest net entrance rates were North Dakota, Colorado, South Carolina, Florida and Texas. Two of these states have no individual income tax, Florida and Texas, and the five states collectively had median tax rates that were significantly lower than the bottom five.

As American individuals, families and businesses have become more geographically mobile, migration voting patterns show that Americans are repelled by states with high tax burdens and attracted to states with lower tax loads. But corporations do not always act so rationally, ala ConAgra from high tax Omaha to ultra-high tax Chicago and Illinois. In this case, it appears that ConAgra was drawn to Chicago by either a "boat load" of Chicago tax incentives, and/or by the attractiveness of ConAgra headquarters moved to within a short limousine ride of the CEO's Chicago home. ConAgra shareholders and employees may ultimately pay for this move that maximizes CEO utility, rather than shareholder value. Ernie Goss.

Link to video:
https://youtu.be/C4_EpgAomg0

LAST MONTH'S SURVEY RESULTS

Mid-America Business Conditions Weaken Again: Manufacturing Job Losses Mount as Prices Decline

SURVEY RESULTS AT A GLANCE:

- For a second straight month, the region's overall index moved below growth neutral 50.0.
- Employment index plummets below growth neutral for the month.
- Wholesale inflation gauge drops to its lowest level since the May 2009.
- Strong U.S. dollar and global economic weakness push new export orders into negative territory.
- The nine-state region has lost almost 15,000 manufacturing jobs since this time last year.

The Creighton University Mid-America Business Conditions Index for September, 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 indicated contraction in manufacturing and pointed to slow to no economic growth over the next three to six months for the overall regional economy.

Overall index: The September Business Conditions Index, which ranges between 0 and 100, declined to 47.7 from August's 49.6. The regional index, much like the national reading, is pointing to weak, and potentially negative growth through the fourth quarter of 2015 for the overall economy.

The strong U.S. dollar and global economic weakness are having a negative impact on manufacturers and businesses linked to manufacturing in the region. Additionally, weak crop prices and energy prices have negatively affected the regional economy.

Employment: The regional employment gauge slumped for September, and indicates job losses for the manufacturing and value added services sector. The job gauge plummeted to 42.6 from August's much stronger 52.0. Industries and areas dependent on agriculture and energy are experiencing cuts. For example, metal producers and agricultural equipment manufacturers continue to report job losses.

Since this time last year, the region's manufacturing sector has lost almost 15,000 jobs, or approximately one percent of the region's manufacturing jobs. Since our survey oversamples manufacturing firms, it is not surprising that our overall index has weakened significantly for states with a large agriculture and energy presence.

Wholesale Prices: The wholesale inflation index for September fell to 46.8, its lowest level since May 2009, and down from August's 47.6. As regional growth has slowed so have inflationary pressures at the wholesale level. Agriculture and energy commodity price declines are shrinking inflationary pressures. Weaker wholesale inflation will likely push the consumer prices well below the Federal Reserve's target in the months ahead. This is the lowest inflation reading for the region since the recession in May 2009.

Confidence: Looking ahead six months, economic optimism, as captured by the September business confidence index, slumped to 43.4 from 47.7 in August. Falling agriculture and energy commodity prices, along with global economic uncertainty, pushed supply managers' expectations of future economic conditions lower for the month.

Inventories: The September inventory index, which tracks the change in the level of raw materials and supplies, rose to a weak 44.2 from 41.7 in August.

Trade: The new export orders index descended to 42.4 from 50.0 in August. The import index for September increased to 48.9 from August's 47.9. The strong U.S. dollar, making U.S. goods less competitively priced abroad, and a weaker global economy hammered new export orders for the month. On the other hand, weaker regional growth and lower oil prices again pushed the import index below growth neutral for the month.

Other components: Other components of the September Business Conditions Index were new orders at 45.8, down from 53.0 in August; production or sales moved higher to

48.3 from August's 47.4; and delivery speed of raw materials and supplies climbed to 57.4 from last month's 54.0.

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 September overall index, or leading economic indicator for Arkansas, slipped to 50.8 from August's 52.1. Components of the index from the monthly survey of supply managers were new orders at 48.8, production or sales at 51.5, delivery lead time at 61.2, inventories at 47.1, and employment at 45.4. Both durable and non-durable goods manufacturing are losing jobs as a result of productivity growth. Even so, I expect slight economic and job gains for the remainder of 2015.

IOWA
Iowa's September Business Conditions Index declined to 50.2 from 51.6 in August. Components of the index from the monthly survey of supply managers were new orders at 48.2, production or sales at 50.8, delivery lead time at 60.4, employment at 44.8, and inventories at 46.5. Job losses for heavy manufacturers in the state were more than offset by gains for non-durable goods producers, including food processors. Economic activity surrounding the upcoming Iowa caucuses has certainly been, and will continue to be, a boost to the state economy. Advertisers to tourist connected industries have big beneficiaries.

KANSAS
TThe Kansas Business Conditions Index for September slipped to 47.1 from 48.2 for August. Components of the leading economic indicator from the monthly survey of supply managers were new orders at 45.3, production or sales at 47.8, delivery lead time at 56.8, employment at 42.1, and inventories at 43.7. Both durable and non-durable goods producers in the state continue to report downturns in economic activity with transportation equipment manufacturing experiencing significant pullbacks.

MINNESOTA
The September Minnesota Business Conditions Index climbed to a regional high of 53.0 from 51.9 in August. Components of the index from the monthly survey of supply managers were new orders at 54.8, production or sales at 49.8, delivery lead time at 59.7, inventories at 45.9, and employment at 54.9. Durable goods producers including metal manufacturers and computer and electronic equipment producers are experiencing upturns in economic activity. Healthy growth among heavy manufacturers in the state more than offset weaker economic conditions in the state. Surveys results over the past several months point to solid, but not spectacular economic growth for the rest of 2015.

MISSOURI
The September Business Conditions Index for Missouri slid to a weak 50.5 from August's 50.9. Components of the index from the survey of supply managers were new orders at 46.1, production or sales at 51.2, delivery lead time at 60.8, inventories at 46.8, and employment at 47.4. Weakness in the state's non-durable goods sector was offset by solid improvements for durable goods manufacturers in the state. Growth continues to be strong for motor vehicle manufacturers and their suppliers in Missouri.

NEBRASKA
After advancing above growth neutral for 19 straight months, Nebraska's Business Conditions Index fell below 50.0 for the third straight month. The index, a leading economic indicator from a monthly survey of supply managers in the state slumped to 45.4 from 45.9 in August. Components of the index were new orders at 43.6, production or sales at 46.0, delivery lead time at 54.7, inventories at 42.1, and employment at 40.6. Both durable and non-durable goods producers in the state are experiencing downturns in economic activity. Economic activity for producers tied to agriculture has been especially weak. I expect this to begin negatively affecting the broader economy in the final quarter of this year and into 2016.

NORTH DAKOTA
North Dakota's leading economic indicator for September remained below growth neutral 50.0. The Business Conditions Index increased to a still regional low of 41.7 from August's 41.3, also a regional low. Components of the overall index from the monthly survey of supply managers were new orders at 40.1, production or sales at 42.3, delivery lead time at 50.3, employment at 37.3, and inventories at 38.7. Low oil prices are now negatively influencing economic activity outside of energy. Durable and non-durable goods manufacturers are detailing slowdowns in economic activity. I expect the state's overall economy to lose another 5,000 jobs in the final quarter of this year.

OKLAHOMA
The September Business Conditions Index for Oklahoma slumped below growth neutral for a fifth straight month. The index from a monthly survey of supply managers in the state, dipped to a weak 46.2 from 48.1 in August. Components of the September survey of supply managers were new orders at 45.5, production or sales at 48.0, delivery lead time at 51.2, inventories at 43.9, and employment at 42.4. Low oil prices are now negatively influencing economic activity outside of energy. Durable and non-durable goods manufacturers are detailing slowdowns in economic activity. I expect the state's overall economy to lose another 4,000 jobs in the final quarter of this year.

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, declined to 50.9 from 54.3 in August. Components of the overall index for September were new orders at 48.9, production or sales at 51.6, delivery lead time at 61.3, inventories at 43.9, and employment at 45.5. Manufacturers in the state, both durable and non-durable, continue to expand at a positive pace in the state. I expect the state to add more than 2,000 jobs in the final quarter of 2015.

THE PURCHASING ECONOMY SURVEY REPORT October 2015

"A monthly survey of supply chain managers"

THE BULLISH NEWS

- Home prices for July were up 5.1% from the year earlier according to the Case-Shiller monthly survey.
- Oil prices appear to be stabilizing at $40 - $50 per barrel.

THE BEARISH NEWS

- The October jobs report for September was not good. Where do I begin? The number of jobs added was 142,000 below the expected 200,000 and July and August job additions were revised downward; The unemployment rate was unchanged at 5.1%; The labor force participation rate declined to 62.4%; wages declined by a penny an hour.
- The U.S. trade deficit for August rose to $48.3 billion as exports sagged.
- It's looking like health insurance premiums are going to rise by an average of 10% for 2016.
- Both the U.S. and Creighton survey of supply managers indicate that the economy is slowing down with little inflationary pressures at the wholesale level.

WHAT TO WATCH

- **Federal Reserve:** On Oct. 28, the Fed will announce any change in short term interest rates. Right now there is only a 10% likelihood of a rate hike in October. Keep an eye on short term interest rates leading up to their Oct. 27-28 meeting. If yields begin to rise in the weeks leading up to the Fed meetings, failure to raise rates could produce stock market gyrations.
- **PMIs:** On Nov. 2, the first business day of November, Creighton and the National Institute for Supply Management will release regional and national PMIs for October. Both PMIs are moving down. A national PMI below growth neutral will be bearish for stocks but bullish for bond prices. Also note the inflation gauges from the reports/
- **GDP:** Third quarter GDP will be released on Oct. 29. This is going to be a weak number (negative is even possible). Annualized growth less than zero will be very bearish for stocks. Annualized growth between 1% and 2.5% will be a "non-event." Growth greater than 2.5% will be very bearish for bond prices with higher interest rates moving higher.

FROM GOSS:

- Well I was wrong again. The Federal Reserve failed to raise rates (they should in my judgement). I now expect the Fed to push a rate hike into 2016. They are just too concerned about any negative releases such as the employment report or international markets. I expect U.S. manufacturing data to remain weak as exports languish.

Goss Eggs (Recent Dumb Economic Moves)

- The Federal Reserve's interest rate setting committee failed to raise interest rates in September. Furthermore they are sending out mixed messages about their 2015 moves. They say they are data dependent; let's hope that they are always data dependent. Which data? They are paying too much attention to financial markets and headline inflation data. Slightly higher rates would not hurt, but would assist the U.S. economy.

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

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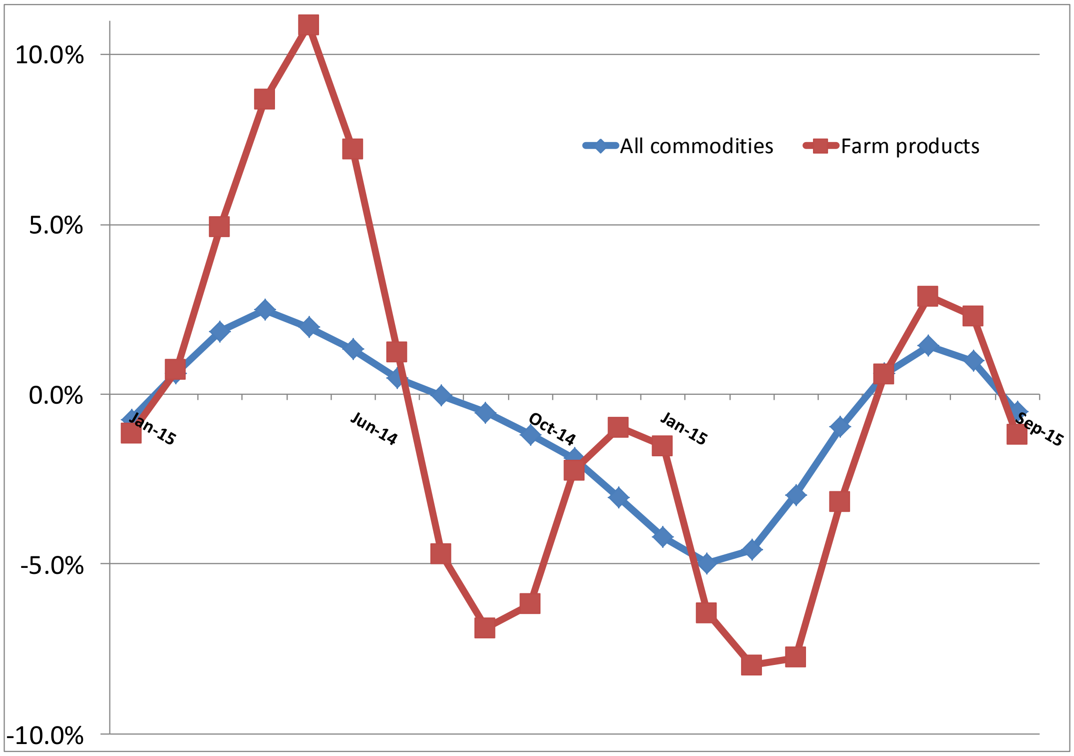
For historical data and forecasts visit our website at:
http://www2.creighton.edu/business/economicoutlook/
www.ernestgoss.com

PRICE DATA

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

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



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