Welcome to our August report covering Creighton's August survey results. Creighton's monthly survey of supply managers and procurement experts in nine Mid-America states indicate that the economy is growing at a positive with slightly higher inflation. Follow my comments at: www.twitter.com/erniegoss

Raising the Minimum Wage: Impact Depends on Its Effect on Hours Worked

The current popular rant among many non-economists is that opposition to raising the minimum wage is equivalent to opposition to worker rights. Those who are more intellectually curious will find that there is no theoretical basis for this conclusion and empirical studies have come down on both sides of the argument--i.e. increasing the minimum wage is beneficial to workers, or boosting the minimum wage is harmful to workers. Total wages in a state are the product of the number of hours worked and the hourly wage rate. Raising the minimum wage may result in reducing the number hours worked to the point that total state wages shrink instead of expanding. There are currently 24 U.S. states and DC that have a minimum wage above the federal level, and 27 states with a minimum wage that is at or below the federal minimum hourly wage of $7.25. Since the beginning of the economic recovery in 2009 through 2013, the states with minimum wages above the federal level, compared to states with minimum wages at or below the federal minimum, experienced, on average: 3.1% lower gross domestic product growth (GDP), 0.3% lower job growth, and 0.2% higher welfare payments. On the other hand, these same high minimum wage states experienced a 0.4% lower increase in the median poverty rate than states with minimum wages at or below $7.25. . Furthermore, Washington, the state with the highest minimum wage in the nation at $9.32, underperformed the 27 low minimum wage states in GDP and job growth during the recovery period, but did experience a slower growth in its poverty rate. This analysis is certainly not definitive and does not control for other important factors influencing a state's economy. But it does at least question the popular notion, or "accepted science" that raising the minimum wage is necessarily a winner for the state economy. Ernie Goss.

Link to video:
http://youtu.be/iWoC05O1b1o

LAST MONTH'S SURVEY RESULTS

Export Orders Push Mid-America Leading Indicator Higher:
Job Losses Recorded for the Month

SURVEY RESULTS AT A GLANCE:

- Leading economic indicator rose to a healthy reading for the month.
- Four in 10 businesses reported job openings exceeded job applicants.
- New export orders continued expanding at a healthy pace.
- Inflationary pressures declined.
- Shipping bottlenecks surfaced across the region.

The Mid-America Business Conditions Index for August, a leading economic indicator for a nine-state region stretching from North Dakota to Arkansas, rose slightly from July's healthy reading. Indices over the past several months are pointing to solid, but not spectacular, economic gains over the next three to six months for the region.

Overall index: The Business Conditions Index, which ranges between 0 and 100, improved to 57.2 from July's 57.0. "After rising to its highest level in more than three years in June, the overall reading has hovered in a range pointing to positive growth for the overall economy and the job market over the next three to six months."

Anecdotally, supply managers are reporting more and more supply shipment delays as the overall economy improves. One supply manager complained that rail shipping had become particularly problematic as shipments of energy products and housing inputs have begun to take up shipping space.

Employment: The employment index fell below growth neutral for the first time in 2014. The employment gauge slumped to 48.7 from July's 53.8 and 61.4 in June, which was a two-year high. Businesses linked to agriculture lost jobs for the month. Furthermore, job growth in the region has lagged that of the nation for 2014. However, this growth has varied significantly across the region with North Dakota, Missouri and South Dakota above the national average and the remaining states below the U.S average.

Approximately 40 percent of supply managers indicated that in terms of hiring new workers at their firms, there were more job openings than job applicants. More than one in five, or 22 percent, reported that the number of applicants and the number of openings were about equal. The remaining 38 percent of respondents indicated that they had more job applicants than job openings.

Wholesale Prices: The prices-paid index, which tracks the cost of raw materials and supplies, declined for the month. The wholesale inflation index sank to 66.7 from July's 67.6 and June's much higher 73.5. Inflationary pressures at the wholesale level have recently cooled a bit.

This month we asked supply managers how much they expected the prices of products they purchased to rise in the next six months. On average, supply managers anticipate a gain of approximately 2.2 percent. This estimate is below the 2.4 percent reported by supply managers in April of this year when we asked this same question. Thus, after a period of advancing inflationary pressures, we are now seeing those pressures diminishing.

Confidence: Looking ahead six months, economic optimism, as captured by the August business confidence index, climbed slightly to 60.4 from 60.0 in July. Despite growing global tensions, and weaker numbers out of agriculture, improvements in the national and regional job market supported supply managers' business outlook.

Inventories: The inventory index, which tracks the level of raw materials and supplies, jumped to 57.9 from July's 51.3. This is yet another signal that supply managers remain reasonably upbeat about the economy, as they also increased inventories in anticipation of expanding sales for their companies in the months ahead.

Trade: The new export orders index expanded to 59.8 from 57.5 in July. The import index for August fell to 51.8 from July's 57.7. It is an encouraging signal to track very healthy export readings as new export orders grew for a ninth straight month. Exports remain an important source of growth for the region. At the same time, firms in the region continued to purchase from abroad in expectations of upturns in company sales in the weeks and months ahead.

Delivery speed: The delivery lead time index popped to 60.6, its highest level in more than three years, and well up from July's 53.7. As a result of rapidly expanding shipments in the region, supply managers are having increasing difficulty in obtaining timely delivery of raw materials and supplies.

Other components: Other components of the August Business Conditions Index were new orders at 58.1, down from 61.5 in July; production or sales at 60.7, down from July's 65.0; and delivery lead time popped to 60.6 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 by the National Institute for Supply Management, formerly the Purchasing Management Association, since 1931.

MID-AMERICA STATES

ARKANSAS
The August overall index, or leading economic indicator, for Arkansas sank to 45.6 from July's 53.1. Components of the index from the monthly survey of supply managers were new orders at 41.4, production or sales at 41.4, delivery lead time at 60.1, inventories at 40.5, and employment at 44.6. Economic growth will slow for the second half of 2014 for the state based on our surveys. Since the national recovery began in July 2009, the manufacturing sector in Arkansas has lost another 6,000 manufacturing jobs for an additional 3.7 percent job loss. However for 2014, the state has begun to recover a share of the durable goods manufacturing jobs that were lost.

IOWA
Iowa's Business Conditions Index, or leading economic indicator, for August fell to a still solid 58.3 from 63.0 in July. Components of the index from the monthly survey of supply managers were new orders at 57.8, production or sales at 56.9, delivery lead time at 62.2, employment at 60.0, and inventories at 54.5. Economic growth will remain healthy for the second half of 2014 for Iowa based on our surveys over the last several months. Since the national recovery began in July 2009, the manufacturing sector in Iowa added almost 18,000 manufacturing jobs for a 9 percent job gain. However for 2014, the state's manufacturing sector has added jobs at a somewhat slower pace.

KANSAS
The Kansas Business Conditions Index for August expanded to a healthy 63.8 from 57.2 in July. Components of the leading economic indicator from the monthly survey of supply managers were new orders at 77.0, production or sales at 76.3, delivery lead time at 52.8, employment at 53.6, and inventories at 58.5. Economic growth will remain positive for the second half of 2014 for Kansas based on our surveys over the last several months. Since the national recovery began in July 2009, the manufacturing sector in Kansas lost an additional 2,200 manufacturing jobs for a 1.4 percent loss. For 2014, the state's durable goods manufacturers have continued to shed jobs even as nondurable goods producers have expanded jobs.

MINNESOTA
August survey results mark the 21st straight month Minnesota's Business Conditions Index has remained above growth neutral. The index climbed to a regional high of 66.9 from July's 66.4, which was also a regional high. Components of the index from the August survey of supply managers in the state were new orders at 72.1, production or sales at 72.3, delivery lead time at 61.1, inventories at 69.2, and employment at 59.8. Economic growth will remain healthy for the second half of 2014 for Minnesota based on our surveys over the last several months. Since the national recovery began in July 2009, the manufacturing sector in Minnesota added approximately 22,000 manufacturing jobs for a 7.4 percent job gain. For 2014, both durable and nondurable goods manufacturers have continued to add jobs at a healthy pace.

MISSOURI
The August Business Conditions Index for Missouri expanded slightly to a healthy 59.2 from July's 59.0. Components of the index, or leading economic indicator, from the survey of supply managers for August were new orders at 60.9, production or sales at 65.0, delivery lead time at 58.9, inventories at 55.9, and employment at 55.4. Economic growth will remain healthy for the second half of 2014 for the state based on our surveys over the last several months. Since the national recovery began in July 2009, the manufacturing sector in Missouri added almost 6,000 manufacturing jobs for a 2.2 percent job gain. In 2014, the state's manufacturing sector has added jobs at a much faster pace.

NEBRASKA
For the eighth straight month, Nebraska's overall, or Business Conditions Index, remained above growth neutral 50.0. The August index, a leading economic indicator from a survey of supply managers in the state, declined to 54.8 from July's 55.5. Components of the index for August were new orders at 59.2, production or sales at 61.1, delivery lead time at 54.2, inventories at 53.6, and employment at 46.2. Economic growth will remain positive for the second half of 2014 for the state based on our surveys over the last several months. Since the national recovery began in July 2009, the manufacturing sector in Nebraska added approximately 5,400 manufacturing jobs for a 5.9 percent job gain. However for 2014, the state's durable goods manufacturing firms have added no jobs.

NORTH DAKOTA
North Dakota's leading economic indicator, or Business Conditions Index, climbed to a level pointing to healthy growth in the next three to six months. The August reading of 60.7 was up from 57.3 in July. Components of the overall index from the monthly survey of supply managers for August were new orders at 60.3, production or sales at 58.9, delivery lead time at 66.1, employment at 59.4, and inventories at 59.1. Economic growth in North Dakota will remain healthy for the second half of 2014 based on our surveys over the last several months. Since the national recovery began in July 2009, the manufacturing sector in North Dakota added approximately 2,000 manufacturing jobs for an 8.5 percent job gain. However for 2014, manufacturing job growth has been nil in the state.

OKLAHOMA
Oklahoma's leading economic indicator, or Business Condition Index, continues to point to expanding economic conditions in the months ahead. The index for August fell to a solid 54.0 from July's 54.9. Components of the August survey of supply managers in the state were new orders at 55.3, production or sales at 56.4, delivery lead time at 47.0, inventories at 65.8, and employment at 45.5. Economic growth will remain positive for the second half of 2014 for the state based on our surveys over the last several months. Since the national recovery began in July 2009, the manufacturing sector in Oklahoma added almost 16,000 manufacturing jobs for a 12.6 percent job gain. Until August, the manufacturing sector had added jobs at a healthy pace for 2014.

THE PURCHASING ECONOMY SURVEY REPORT September 2014

"A monthly survey of supply chain managers"

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 fell to 58.5 from July's 61.0. Components of the overall index for August were new orders at 57.9, production or sales at 75.2, delivery lead time at 58.0, inventories at 54.5, and employment at 47.0. Economic growth will remain healthy for the second half of 2014 for the state based on our surveys over the last several months. Since the national recovery began in July 2009, the manufacturing sector in South Dakota added approximately 6,100 manufacturing jobs for a 16.7 percent job gain. However, until August, the state's manufacturing sector had added jobs at a healthy pace.

THE BULLISH NEWS

- The consumer price index (CPI) for July was 2.0% higher than the reading for July 2013. This is a "goldilocks" reading (not too cold, not too hot).
- The U.S. wage rate increased at an annualized pace of 3.5% in August 2014 and was up by 2.1% from August 2013.
- In the 12 months ending in June 2014, the Case-Shiller index indicated that average U.S. home prices rose by 6.2% (a sweet spot).

THE BEARISH NEWS

- Total nonfarm payroll employment increased by only 142,000 in August and the unemployment rate declined to 6.1%. However, unemployed workers leaving the work force, termed discouraged workers, was the prime factor pushing the jobless reading lower.
- The number of workers employed part-time for economic reasons for August was unchanged from July at 7.3 million.
- Creighton's Mid-American job index moved below growth neutral for August indicating job losses among the 9 states for manufacturing and value-added services firms.

WHAT TO WATCH

- CPIs: On Sept. 17 and Oct. 22, the Bureau of Labor Statistics releases consumer price indices for August and September, respectively. A monthly increase of more than 0.2% or less will encourage the Fed to hold off on rate hikes thus keeping both short and long terms rates low.
- GDP: On Oct. 30, the U.S. BEA releases preliminary estimate of Q3 GDP. Annualized growth of less than 2% will be very disappointing and give bond prices a boost and push interest rates lower.
- Jobs: On Friday Oct. 4, the U.S. Bureau of Labor Statistics (BLS) will release employment report for September. Another a relatively weak report (job additions below 120,000) and wage rate growth below 2% will result in long term and short term interest rates remaining low.

FROM GOSS:

- I expect Quarter 2 annualized and seasonally adjusted GDP growth to come in at a tepid 2%. Since the economic recovery began in July 2009, U.S. economic growth has actually trended downward. You will be able to tell your grandkids about this one. My grandparents were always telling me how "rough" the Great Depression was (for those that think I was there—I was not).
- I still expect a significant (and short) retrenchment in the stock prices before the end of 2014.

OTHER REPORTS:

- National Association of Business Economics (NABE) (September 2014): NABE's August 2014 Outlook Survey. "While there is no clear consensus on current fiscal policy, the share expressing approval has increased markedly to 42 percent compared to just 31 percent one year ago," said NABE President Jack Kleinhenz, chief economist at the National Retail Federation. Most panelists do not see inflation being a major concern in the coming years. *The majority of NABE panelists believe that inflation will be at or near 2% in 5 years. *A majority of respondents (53%) indicated they believe monetary policy is on the right track, but 39% felt that monetary policy was too stimulative. *Nearly a third (30%) of panelists believe the Federal Reserve should stop reinvesting Treasury debt and agency-backed securities by the end of 2014, but only 7% expect the Fed to do so by then.

Goss Eggs (Recent Dumb Economic Moves)

- The Financial Stability Oversight Council (FSOC) is undermining the U.S. economy by designating MetLife as "systematically important" or "too big to fail." MetLife neither requested nor received taxpayer support during the economic downturn. This designation will force MetLife, and potentially other insurers to maintain excessive low yielding cash balances.

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

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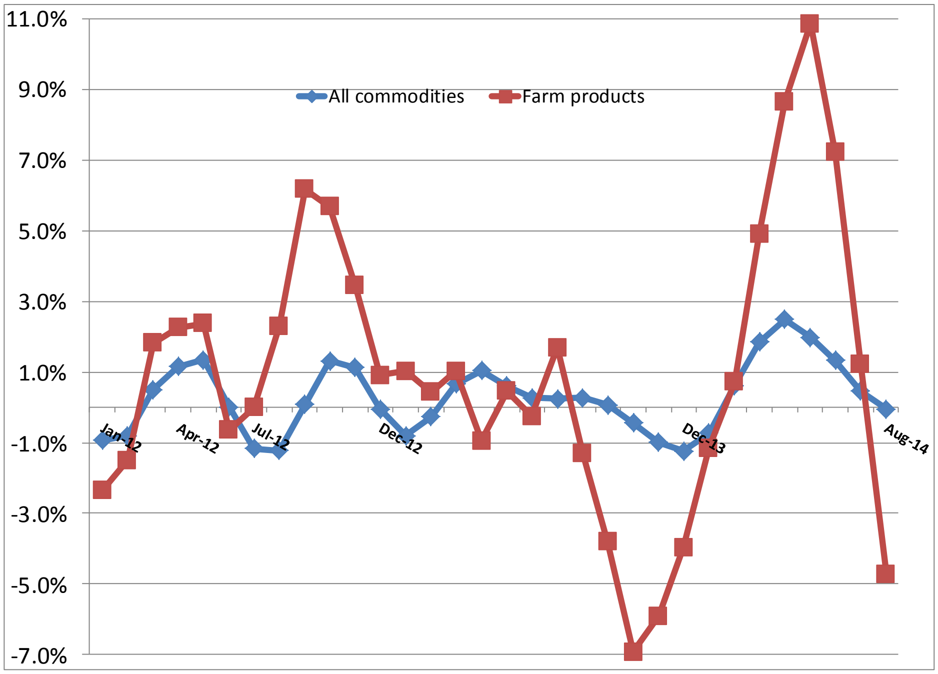
PRICE DATA

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

Price changes, 3 month moving average, 2012- August 2014



Price changes, 3 month moving average, 2012 - August 2014