THE PURCHASING ECONOMY SURVEY REPORT

September 2015

"A monthly survey of supply chain managers"

Welcome to our September report covering results from Creighton's August surveys. Creighton's monthly survey of supply managers and procurement experts in nine Mid-America states indicate that the economic growth is anemic with no new manufacturing hiring. Follow my comments at: www.twitter.com/erniegoss

End the Morphine Drip of Federal Reserve's Ultra-low Interest Rates

Shaken recently by stock markets across the globe, the Federal Reserve once again delayed moving the economy away from its emergency monetary policies begun in 2008. In the 102 years of the U.S. Federal Reserve's existence, this organization has never so vigorously attempted to stimulate the U.S. economy with what many economists consider crisis measures. Since 2008 the Fed has purchased $4.5 trillion in U.S. Treasury bonds and mortgage backed securities intended to lower long term interest rates, and boost U.S. investment and consumption. Additionally, the Fed's interest rate setting committee, the FOMC, has kept short-term interest rates at close to zero for almost seven years.

Partially as a result of these measures, U.S. stock prices collectively have climbed at a pace six times that of the U.S. inflation adjusted economy since 2011 (3.5 times the non-inflation adjusted economy). And just last month, even the threat of a rate hike of ¼% slammed U.S. stock prices. However, raising interest rates at the FOMC's September 17 meeting will have several significant positive impacts. First, savers will see a "light at the end of the tunnel" in terms of interest earnings. Second, rising interest rates will encourage businesses and home buyers to invest today in new capital equipment and homes while in advance of rising interest rates. Third, it will help restore confidence in the U.S. economy that has been curbed by emergency interest rates. Fourth, and most importantly, it will begin the journey back to normal and sustainable interest rates.

Higher interest rates may well dampen stock prices, but the mandate of the Federal Reserve is to stimulate employment growth and promote stable prices. It is not to enrich stock market participants with price bubbles that must ultimately deflate, slowly or rapidly. Ernie Goss.

Link to video:
https://youtu.be/xWDR31WJZWY

LAST MONTH'S SURVEY RESULTS

Mid-America Business Conditions Weaken Again:
Kansas, Nebraska, North Dakota and Oklahoma Sink Index

SURVEY RESULTS AT A GLANCE:

- Weakness in Kansas, Nebraska, North Dakota and Oklahoma pushed the regional index below growth neutral for August.
- Wholesale inflation gauge drops to its lowest level since the recession of May 2009.
- Approximately 75 percent expect a September Federal Reserve rate hike to have either a positive, or no impact, on their businesses.
- New hiring remains weak with job gains for Arkansas, Iowa, Minnesota, Missouri and South Dakota offset by job losses for Kansas, Nebraska, North Dakota, and Oklahoma.
- The nine-state region has lost almost 9,000 manufacturing jobs since January of this year.

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 August Business Conditions Index, which ranges between 0 and 100, declined to 49.6 from July's 50.6. The regional index, much like the national reading, is pointing to weak, and potentially negative growth through the fourth quarter of 2015.

Growth for nondurable goods manufacturers offset weaker business conditions for durable goods producers including metal manufacturers, agricultural equipment producers and energy equipment manufacturers. Firms in Arkansas, Iowa, Minnesota, Missouri and South Dakota reported positive growth for the month while businesses in Kansas, Nebraska, North Dakota and Oklahoma detailed cuts in economic activity.

Employment: The regional employment gauge improved for August, but remains at a level pointing to slow new hiring for the overall region in the months ahead. The job gauge advanced to a weak 52.0 from July's 50.0. 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 January of this year, the nine-state region has added more than 57,000 nonfarm jobs according to U.S. Bureau of Labor Statistics data. On the other hand, the region lost almost 9,000 manufacturing jobs during this same period of time. 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.

This month, supply managers were asked how a September 2015 Federal Reserve rate hike would affect their firm. One-fourth, or 25 percent, expect negative impacts from a rate increase, 5 percent anticipate a positive impact, while the remaining 70 percent expect little or no effect from an interest rate hike in September. August's results differed little from July when the same question was asked.

Wholesale Prices: The wholesale inflation index for August fell to 47.6 from July's 57.6 and from June's 64.9 and May's 69.1. As regional growth has slowed so have inflationary pressures at the wholesale level. Agriculture and energy commodity price declines are diminishing inflationary pressures well below the Federal Reserve's target. 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 August business confidence index, plummeted to 47.7 from 52.4 in July. Sinking agriculture and energy commodity prices, along with global economic uncertainty, pushed supply managers' expectations of future economic conditions lower for the month.

Inventories: The August inventory index, which tracks the change in the level of raw materials and supplies, fell to 41.7 from 55.1 in July.

Trade: The new export orders index rose to 50.0 from 47.4 in July. The import index for August sank to 47.9 from July's 54.7. Despite slowing global economic growth and a strong U.S. dollar, export orders rose to growth neutral for the month. On the other hand, weaker regional growth and lower oil prices pushed the import index below growth neutral for the month.

Other components: Other components of the August Business Conditions Index were new orders at 53.0, up from 48.3 in July; production or sales was unchanged from July's 47.4; and delivery speed of raw materials and supplies climbed to 54.0 from last month's 52.4.

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 August overall index, or leading economic indicator for Arkansas, slipped to 52.1 from July's 52.4. Components of the index from the monthly survey of supply managers were new orders at 55.7, production or sales at 49.8, delivery lead time at 56.2, inventories at 43.7, and employment at 54.6. According to U.S. Bureau of Labor Statistics, Arkansas has lost 2,000, or 1.3 percent, of its manufacturing job base since January 2015. The strong dollar, which has restrained sales abroad, weighted on the state's durable goods sector in terms of jobs. The nondurable goods sector experienced slim job gains. Our survey results over the past several months, point to positive but weak gains for the overall state economy for the rest of 2015.

IOWA
Iowa's August Business Conditions Index declined to 51.6 from 51.8 in July. Components of the index from the monthly survey of supply managers were new orders at 55.1, production or sales at 49.3, delivery lead time at 56.2, employment at 54.1, and inventories at 43.3. According to U.S. Bureau of Labor Statistics, Iowa increased manufacturing employment by approximately 1,000, or 0.5 percent. The strong dollar, which has restrained sales abroad, weighted on the state's durable goods sector in terms of jobs. During the same time period, job gains for the nondurable goods sector more than offset durable goods losses. Our survey results over the past several months, point to positive, but weak gains for Iowa's overall economy for the rest of 2015.

KANSAS
The Kansas Business Conditions Index slipped below July's growth neutral reading of 50.0 to 48.2 for August. Components of the leading economic indicator from the monthly survey of supply managers were new orders at 51.5, production or sales at 46.1, delivery lead time at 52.5, employment at 50.5, and inventories at 40.5. According to U.S. Bureau of Labor Statistics, Kansas increased manufacturing employment by approximately 2,000, or 1.3 percent, jobs since January 2015. Despite a strong dollar, which restrains sales abroad, Kansas added durable goods jobs. These gains more than offset slight losses for the state's nondurable goods sector. Creighton survey results over the past several months, point to positive, but weak gains for the overall state economy for the rest of 2015.

MINNESOTA
The August Minnesota Business Conditions Index fell to 51.9 from 54.8 in July. Components of the index from the monthly survey of supply managers were new orders at 54.8, production or sales at 49.3, delivery lead time at 56.2, inventories at 49.8, and employment at 54.9. According to U.S. Bureau of Labor Statistics, Minnesota's level of manufacturing employment is virtually unchanged since January 2015. Minnesota job growth in durable goods, especially metal manufacturing, offset job losses among nondurable goods producers. Our survey results over the past several months, point to positive economic gains for the overall state economy for the rest of 2015 despite weakness among manufacturers.

MISSOURI
The August Business Conditions Index for Missouri grew to a weak 50.9 from July's 49.4. Components of the index from the survey of supply managers were new orders at 51.7, production or sales at 48.7, delivery lead time at 55.5, inventories at 42.8, and employment at 56.1. According to U.S. Bureau of Labor Statistics, Missouri has lost approximately 1,200, or 0.5 percent, of its manufacturing job base since January 2015. Job losses for nondurable goods producers, including food manufacturers, more than offset gains for durable goods manufacturers, including vehicle manufacturers. Our survey results over the past several months, point to weak gains for Missouri's overall economy for the rest of 2015.

NEBRASKA
After advancing above growth neutral for 19 straight months, Nebraska's Business Conditions Index fell below 50.0 for the second straight month. The index, a leading economic indicator from a monthly survey of supply managers in the state slumped to 45.9 from 48.6 in July. Components of the index were new orders at 49.0, production or sales at 43.8, delivery lead time at 49.9, inventories at 38.5, and employment at 48.1. According to U.S. Bureau of Labor Statistics, Nebraska has lost approximately 1,200, or 2.5 percent, of its manufacturing jobs since January 2015. The strong dollar, which has restrained sales abroad, weighted on the state's durable and nondurable goods sectors. Our survey results over the past several months, point to slight economic losses for the overall state economy for the rest of 2015.

NORTH DAKOTA
North Dakota's leading economic indicator for August remained below growth neutral 50.0. The Business Conditions Index fell to a regional low of 41.3 from July's 43.9, also a regional low. Components of the overall index from the monthly survey of supply managers were new orders at 44.1, production or sales at 39.5, delivery lead time at 45.0, employment at 43.3, and inventories at 34.7. According to U.S. Bureau of Labor Statistics, North Dakota has lost approximately 1,000, or 3.8 percent, of its manufacturing jobs since January 2015. The strong dollar, which

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has restrained sales abroad, weighed primarily on the state's nondurable goods sector. Only Wyoming is more dependent on the two U.S. industries experiencing pullbacks in economic activity – agriculture and energy. Creighton's survey results over the past several months have pointed to economic losses for the overall state economy for the rest of 2015.

OKLAHOMA
The August Business Conditions Index for Oklahoma slumped below growth neutral for a fourth straight month. The index from a monthly survey of supply managers in the state, dipped to a weak 48.1 from 48.3 in July. Components of the August survey of supply managers were new orders at 51.4, production or sales at 46.0, delivery lead time at 52.4, inventories at 40.4, and employment at 50.4. According to U.S. Bureau of Labor Statistics, Oklahoma has lost approximately 5,000, or 3.6 percent, of its manufacturing jobs since January 2015. The strong dollar and weakness in the state's energy sector weighed primarily on Oklahoma's manufacturing sector, particularly metal producers. Only Wyoming and North Dakota are more dependent on the two U.S. industries experiencing significant pullbacks in economic activity – agriculture and energy. Creighton's survey results over the past several months have pointed to economic losses for the overall state economy for the rest of 2015.

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 a regional high of 54.3 from July's 55.8, also a regional high. Components of the overall index for August were new orders at 58.0, production or sales at 51.9, delivery lead time at 59.1, inventories at 45.6, and employment at 56.9. According to U.S. Bureau of Labor Statistics, South Dakota has increased manufacturing employment by 800, or 1.8 percent since January 2015. The strong dollar, which has restrained sales abroad, did not dent the state's manufacturing sector in terms of jobs. Our survey results over the past several months, point to positive gains for South Dakota's overall economy for the rest of 2015.

THE BULLISH NEWS

- Many economists argued that the August employment report sent mixed messages. I think not. The nation added 173,000 new jobs, the unemployment rate declined to 5.1% and wages expanded by 2.2% from August 2014. It was a solid report.
- The Case-Shiller home price index for June 2015 was 4.5% above that for June 2014.
- The July U.S. trade deficit declined to $41.9 billion, its lowest level in five months.

THE BEARISH NEWS

- The U.S. participation rate, the percent of individuals 16 years and older in the labor force, for August stood at a 38-year low 62.6% with 94,031,000 Americans out of the workforce.

WHAT TO WATCH

- **Federal Reserve**: On Sept. 17, the Fed will announce any change in short term interest rates. A 25 basis point (¼%) will be baked into markets by then. Pay special attention to Yellen's language in the press release.
- **PMIs:** On Oct. 1, the first business day of October, Creighton and the National Institute for Supply Management will release regional and national PMIs for September. 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
- **Consumer Price Index (CPI):** On September 16, the Bureau of Labor Statistics will report August's CPI. A strong reading (annualized growth of more than 3%) will "seal the deal" for a rate hike from the Federal Reserve the next day.

FROM GOSS:

- I expect a 25 basis point (¼%) increase in short term interest rates from the Federal Reserve before the end of the year (90% likelihood).
- I expect lower U.S. fuel prices will to begin boosting consumer spending in the fourth quarter of this year.
- Business conditions for U.S. and Mid-America manufacturers to remain weak, especially firms linked to agriculture and energy.

Goss Eggs
(Recent Dumb Economic Moves)

- The recent stock market manipulation by the Peoples Bank of China (PBoC) shows why markets make better decisions than individuals. The more the PBoC tries to intervene with such ill-conceived actions as buying stocks, the more ominous the situation becomes. Take note, U.S. Congress, markets allocate resources more effectively than politicians and economists.

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

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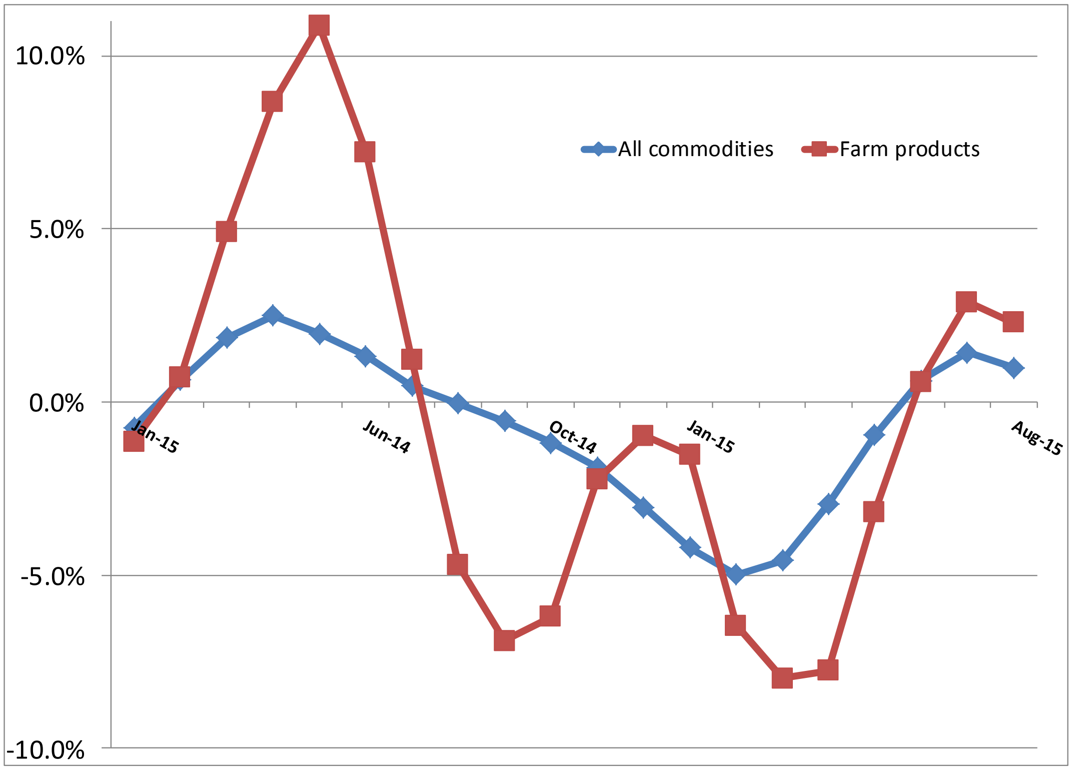
For historical data and forecasts visit our website at:
http://www2.creighton.edu/business/economicoutlook/
www.ernestgoss.com

PRICE DATA

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

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



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