

"A monthly survey of supply chain managers"

Welcome to our January report covering results from Creighton's December economic survey. Creighton's monthly survey of supply managers and procurement experts in nine Mid-America states indicate that the economic growth was positive for manufacturing with improving economic conditions and job losses. Follow my comments at: www.twitter.com/erniegoss

Trump Carried 85 Percent of U.S. Counties: Single Mothers, College Graduates, and Foreign Born Supported Clinton

The 2016 U.S. presidential elections shamed pollsters and pundits and once again validated the split in the American electorate. Clinton won the popular vote taking 48% of ballots compared to Trump's 46.0%. However, Trump won a landslide of counties taking 85 percent of the nation's 3,142 counties. Digging beneath the surface, voting behavior provides a distinct profile of the two camps.

For example, single mothers with children, college graduates, welfare recipients, and foreign born were more likely to support Clinton. On the other the hand, married voters, high school graduates, and those living in a different state in 2015 were more likely to vote for Trump. The most important factor explaining Clinton vote totals was the share of the county with a bachelor's degree or above. The most significant characteristic explaining Trump county wins was the percentage of the county that was married.

Holmes County, Ohio with \$392 per capita welfare benefits, 70% married, 4% unmarried mothers, 1% foreign born and 7.8% college graduates was the county with the population profile least likely to support Clinton. New York County, New York with \$1,300 per capita welfare benefits, 26% married, 12% unmarried Mothers, 29% foreign born, and 60% college graduates was the county with the population profile least likely to vote for Trump. American writer, Gore Vidal once said, "Half of the American people have never read a newspaper. Half never voted for President. One hopes it is the same half? Ernie Goss.

Link to video: <https://youtu.be/t1AzFB0o730>

LAST MONTH'S SURVEY RESULTS

December Mid-America Business Conditions Soars:
First Manufacturing Job Gains Since May 2016

SURVEY RESULTS AT A GLANCE:

- Overall index jumps to its highest level since February 2015.
- After six straight months of job losses, the region adds manufacturing jobs.
- Wholesale inflation gauge climbs to its highest level in 2 1/2 years.
- Region is expected to add 70,000 jobs in the first half of 2017 for an annualized employment expansion of 1 percentage point.
- Top of region's 2017 economic wish list: 15 percent increase in grain and livestock prices; Chief 2017 economic risk: Stronger U.S. dollar, U.S. trade restrictions and trade conflicts.

The Creighton University Mid-America Business Conditions Index, a leading economic indicator for a nine-state region stretching from Arkansas to North Dakota, rose for December, according the December survey results.

Overall index: The Business Conditions Index, which ranges between 0 and 100, rose in December to its highest level since February 2015. After five straight months of readings below growth neutral, the overall index rocketed to 53.1 from November's much weaker 46.5.

This is the second straight increase in the overall index and points to an improving regional manufacturing economy. I expect this to generate even healthier growth for both manufacturing and nonmanufacturing for the first half of 2017.

Employment: After six consecutive months of below growth neutral readings, the regional employment gauge for December rose to its highest level since May 2016. The job gauge for December climbed to 50.9 from November's 41.9. The growth gap between regional manufacturing and nonmanufacturing appears to be closing. The key for regional manufacturing will be any changes in sales abroad driven by the value of the U.S. dollar and global economic improvements.

Wholesale Prices: The wholesale inflation gauge remained in a range indicating modest inflationary pressures at the wholesale level, as the prices-paid index jumped to 70.4 from November's 57.5.

This is the highest wholesale inflation gauge that we have recorded in 29 months. As oil prices have risen, so has our inflation gauge. The interest-rate setting committee of the Federal Reserve, the FOMC, expects to raise interest rates three times in 2017.

The Bureau of Labor Statistics' releases its consumer price index on January 18. If the overall reading moves above annualized inflation above 2 percent, the FOMC could increase short-term interest rates as early as at its January 27 meeting.

Confidence: Looking ahead six months, economic optimism, as captured by the December business confidence index, rose to 63.3 from 61.6 in November.

Inventories: In another show of growing confidence, supply managers added to inventories for December. The December inventory index, which tracks the change in the level of raw materials and supplies, advanced to 52.8 from November's 42.8.

Trade: The much stronger U.S. dollar failed to restrain new export orders index as the index expanded to 54.0 from 45.7 in November, and the import index increased to 53.7 from November's 46.4. Both selling and buying from abroad remain important to firms that we survey. Almost one-third, or 30 percent, indicated that buying raw materials and supplies from abroad was either essential or very important. Trade restraints, if implemented, would slow regional growth.

Other components: Components of the December Business Conditions Index were new orders at 53.6, up from 46.4 in November; production or sales index was 50.0, up from November's 48.2; and delivery speed of raw materials and supplies rose to 58.4 from last month's 53.6.

The Creighton Economic Forecasting Group has conducted the monthly survey of supply managers in nine states since 1994 to produce leading economic

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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 December rose to 53.7 from November's 47.7. Components of the index from the monthly survey of supply managers were new orders at 53.0, production or sales at 49.4, delivery lead time at 58.7, inventories at 56.1, and employment at 51.5. The Arkansas economy will continue to expand for the first half of 2017. However, that growth will be below the regional and national averages. Economic slowdowns among the state's major trading partners and a strong U.S. dollar have restrained Arkansas food exports since 2012. Since peaking of \$828 million in 2012, Arkansas food exports have fallen to less than \$600 million for 2016. Top of state's economic wish list: steady mortgage rates and continuing expansion in housing; Chief 2017 economic risk: U.S. trade restrictions and trade conflicts.

IOWA

The December Business Conditions Index for Iowa climbed to 51.7 from November's 48.3. Components of the overall index from the monthly survey of supply managers were new orders at 52.5, production or sales at 48.9, delivery lead time at 55.9, employment at 50.0, and inventories at 51.0. Iowa's economy will continue to expand for 2017 with overall job gains of 5,000 for the first half of the year for a 0.6 percent annualized increase, or slightly less than the long term average. Top of state's 2017 economic wish list: 15 percent increase in grain prices; Chief 2017 economic risk: Stronger U.S. dollar, and U.S. trade restrictions and trade conflicts.

KANSAS

The Kansas Business Conditions Index for December increased to 51.1 from 44.4 in November. Components of the leading economic indicator from the monthly survey of supply managers were new orders at 52.3, production or sales at 48.8, delivery lead time at 55.2, employment at 49.6, and inventories at 49.6. Importantly, Kansas international sales declined by more than \$2 billion since reaching its peak in 2012. This, along with weak farm income, generated overall job losses by the end of 2016. Based on our survey results, I expect positive, but muted economic growth, for 2017 with job gains of less than 3,000 for the first half of the year, or annualized job growth of less than 0.2 percent. Top of state's 2017 economic wish list: Weaker U.S. dollar against the Chinese Yuan, Mexican Peso and Canadian Dollar; Chief 2017 economic risk: U.S. trade restrictions and trade conflicts.

MINNESOTA

The December Business Conditions Index for Minnesota jumped to 52.3 from November's 46.5. Components of the overall December index from the monthly survey of supply managers were new orders at 52.6, production or sales at 49.0, delivery lead time at 57.0, inventories at 52.5, and employment at 50.5. Minnesota ended 2016 with a growth spurt. Based on our survey results, I expect the state to add another 15,000

jobs for the first half of 2017 for an annualized job growth of 1 percent, approximately equal to the state's long-term average. Top of state's 2017 economic wish list: Flat mortgage rates or an increase of less than a quarter of one percentage point; Chief 2017 economic risk: Stronger U.S. dollar and a boost in mortgage rates by more than 1 percentage point.

MISSOURI

The December Business Conditions Index for Missouri rose to 57.1, a regional high, from November's 55.1, also a regional high. Components of the overall December index from the survey of supply managers were new orders at 56.6, production or sales at 52.7, delivery lead time at 61.2, inventories at 53.4, and employment at 61.8. The Missouri economy ended 2016 on a very strong upward trend. Even with slightly softer growth for the first half of 2017, I expect the state to add another 22,000 jobs through June of this year for an annualized job growth of 1.5 percent, well above the state's long-term average. Top of state's 2017 economic wish list: Flat mortgage rates or an increase of less than a quarter of one percentage point; Chief 2017 economic risk: Downturn in the state's transportation equipment manufacturers.

NEBRASKA

The December Business Conditions Index for Nebraska expanded to 55.3 from 45.0 in November. Components of the index from the monthly survey of supply managers were new orders at 53.4, production or sales at 49.8, delivery lead time at 60.4, inventories at 60.0, and employment at 52.7. Nebraska ended 2016 with positive, but slow growth. I expect the state to add 5,000 jobs in the first half of 2017 for an annualized job growth of 1 percent, slightly above the state's long-term average. Top of state's 2017 economic wish list: 15 percent increase in grain and livestock prices; Chief 2017 economic risk: Stronger U.S. dollar and/or U.S. trade restrictions, and trade conflicts.

NORTH DAKOTA

For the first time since April 2015, North Dakota's overall, or Business Conditions Index, climbed above growth neutral to 51.0 from 47.6 in November. Components of the overall index were new orders at 52.3, production or sales at 48.7, delivery lead time at 55.3, employment at 49.5, and inventories at 49.2. Higher oil prices bolstered economic growth for North Dakota in the fourth quarter of 2016. Another 10 percent increase in oil prices would put the state back on a positive growth path for 2017. Top of state's 2017 economic wish list: 10 percent increase in global oil prices; Chief 2017 economic risk: Breakdown in OPEC oil supply reduction agreement.

OKLAHOMA

After moving above growth neutral for May, Oklahoma's Business Conditions Index has been below growth neutral 50.0 for seven consecutive months. The December index increased to a still regional low of 48.8 from 43.3 in November, also a regional low. Components of the overall December index from a survey of supply managers in the state were new orders at 51.8, production or sales at 51.4, delivery lead time at 48.9, inventories at 43.9, and employment at 48.0. Oklahoma has yet to benefit from 2016 fourth quarter oil price gains. In fact the state shed 16,000 jobs in 2016. I expect recent increases in oil prices to underpin positive, but slow growth for the first half of 2017. Top of state's 2017 economic wish list: 10 percent increase in global oil prices; Chief 2017 economic risk: Breakdown in OPEC oil supply reduction agreement.

SOUTH DAKOTA

The Business Conditions Index for South Dakota improved to 56.5 from November's 50.2. Components of the overall index for the December survey of supply managers in the state were new

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Goss Eggs (Recent Dumb Economic Moves)

- In order to keep the lights on, Venezuela's government just issued \$5 billion in new bonds carrying a 6.5% interest rate. They pledged 50% stake in Citgo (which they don't really own). Who has the courage, or stupidity to buy these bonds? As Venezuela's President Maduro might say, "I don't have a credit problem. The people I owe money to have a credit problem!" In reality they sold to themselves. Sound familiar??

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

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For historical data and forecasts visit our website at: <http://www2.creighton.edu/business/economicoutlook/>

orders at 53.7, production or sales at 50.0, delivery lead time at 62.1, inventories at 63.0, and employment at 53.5. Second only to Missouri, South Dakota ended 2016 on a very solid footing with job and economic growth exceeding both the region and nation. Recent financial services and banking gains have been a significant boost to the state economy. Based on our recent survey results, I expect South Dakota to add 6,000 jobs in the first half of 2017 for an annualized job growth of 2.7 percent, well above the U.S. and regional average. Top of state's 2017 economic wish list: U.S. banking reform legislation that is more industry friendly; Chief 2017 economic risk: Congressional gridlock on banking reform combined with lower long-term interest rates.



THE BULLISH NEWS

- In December 2016, average hourly earnings increased by 2.9% from 12 months earlier. This is the fastest pace since December 2009.
- Both Creighton's and the ISM's manufacturing index (PMI) rose sharply for December.
- US home prices are now back above where they were pre-crash with October 2016 prices up by 5.6% over October 2015.



THE BEARISH NEWS

- The U.S. economy added a less than stellar 156,000 jobs in December and the unemployment rate ticked up to 4.7% from 4.6%.
- The November U.S. trade deficit rose to \$45.2 billion, its highest level in 9 months.
- The U.S. dollar rose to its highest level since 2002 making it more difficult for exporters to sell their products abroad.

WHAT TO WATCH

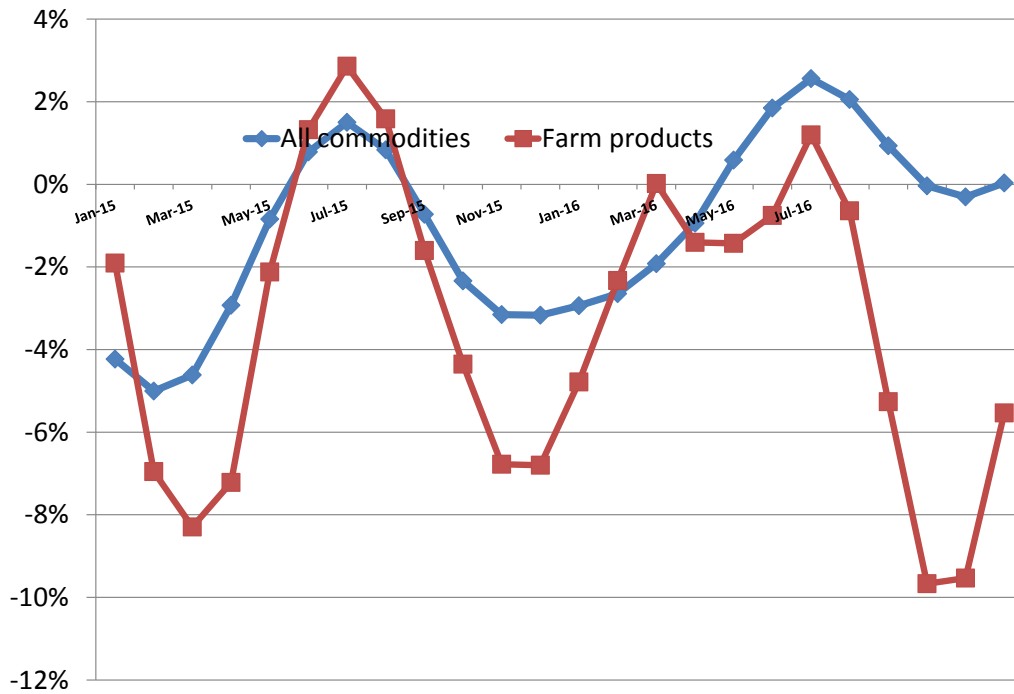
- 4th Quarter GDP Estimate:** On Jan. 29, the Bureau of Economic Analysis will release this important indicator. The market is expecting an annualized increase of 1.9%. Any significant deviation from this, particularly on the upside, will move bond markets.
- CPI:** On Jan. 18, the Bureau of Labor Statistics will release the consumer price indices for December. The inflation rate has been trending upward. A large advance (e.g. +0.4% for Dec.) could scare bondholders into dumping bonds with the result of a large increase in interest rates.
- 10-Year U.S. Treasury yield:** Since the Presidential election, the yield on the 10-year U.S. Treasury bond has risen by 0.54% (54 basis points). If inflationary expectations continue to expand, so will the 10-year bond yield and mortgage rates.

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PRICE DATA

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

Year over year price change, commodities and farm product, 2015-16



Year over year price change, fuels and metal products, 2015-16

