

"A monthly survey of supply chain managers"

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

"Crazy Affordable Care Act": Higher Costs and More Part-time Jobs

In 2010, Congress and the Obama Administration passed the Affordable Care Act (ACA). At the time, its chief supporter, President Obama, argued that the ACA would incentivize hospitals and primary physicians to deliver better health outcomes at lower costs to a greater share of the U.S. population. As implemented, the ACA demands that companies with more than 49 workers either provide health insurance to all employees working 30 hours or more weekly, or pay a stiff penalty.

Thus, businesses are incentivized to reduce worker weekly hours below 30. Not surprisingly, since passage of the ACA, the share of all U.S. workers that are working part-time, but wish to work full-time, has more than doubled. Regarding cost, the evidence is even more discouraging. At a compound annual rate, individual and family health insurance expenditures grew by 6.1 percent yearly six years before ACA, but by a much higher 8.9 percent annually for the six years after ACA.

But the worst is yet to come. According to a Barclays' analysis of rates, the average national health insurance premium will soar by 24.2 percent for 2017 with Arizona leading the way with an increase of 68.1% with other states not far behind such as Illinois at 43.9%, Iowa at 31%, Florida at 17.7%, Colorado at 20.2%, North Carolina at 20.4% and Pennsylvania at 23.6%. And the percentage of counties being served by two or fewer insurers in the federal exchanges will rise to 39% from only 14% this year. Due to diminished competition among insurance companies, Americans can expect to suffer from even higher growth rates in prices in the years ahead. It may be bitter pill, but President Clinton recent statement that the ACA is "the craziest thing in the world" appears to be closer to truth than fiction. Ernie Goss.

Link to video: <https://youtu.be/1WOYkhkS2p4>

LAST MONTH'S SURVEY RESULTS

[Mid-America Business Conditions Weaken Again: One-Fourth of Firms See Negative Impact from a 2016 Fed Rate Hike](#)

SURVEY RESULTS AT A GLANCE:

- For a third straight month, the overall index was below growth neutral 50.0.
- Employment index remained below growth neutral for a fourth consecutive month.
- Government data shows over the past 12 months regional manufacturing employment declined by 1.4

percent, but regional nonmanufacturing employment expanded by 1.1 percent.

- Approximately 23 percent of supply managers expect a Federal Reserve rate hike in the next few months to have a negative impact on their firms' operations.
- The Hanjin Shipping bankruptcy had negative impacts on inventory replenishments.

The Creighton University Mid-America Business Conditions Index, a leading economic indicator for a nine-state region stretching from Arkansas to North Dakota, slumped for September.

Overall index: The September Business Conditions Index, which ranges between 0 and 100, fell to 45.5 from August's 47.8 and July's 47.6. This is the third straight month the index has moved below growth neutral 50.0. Like the national survey of supply managers, our regional survey is indicating that the manufacturing sector is experiencing negative growth.

Weakness among manufacturers linked to agriculture and energy continue to weigh on regional economic conditions. Due to the heavy dependence of the region on these two sectors, I will expect to see the regional economy to continue to underperform the national economy. Over the past 12 months, for example, the region has experienced nonfarm job growth of 1.1 percent compared to 1.7 percent for the U.S. This gap is likely to continue for the remainder of 2016.

Employment: The regional employment gauge indicates the manufacturing sector in the nine-state region continues to lose jobs as the index, which rose slightly, remained below growth neutral for the fourth straight month. The job gauge rose to a weak 46.8 from 44.0 in August.

The growth gap between regional manufacturing and nonmanufacturing continues to expand. Over the last 12 months, U.S. Bureau of Labor Statistics data indicate the region's manufacturing sector lost almost 20,000 jobs while regional nonmanufacturing added almost 109,000 jobs. That is, over the past 12 months, regional manufacturing employment declined by 1.4 percent, but regional nonmanufacturing employment expanded by 1.1 percent.

Wholesale Prices: The wholesale inflation gauge remained in a range indicating modest inflationary pressures at the wholesale level, though the prices-paid index expanded to 59.7 from August's 56.5. On average, supply managers expect the prices for supplies and raw materials they purchase to expand by 2.1 percent over the next six months.

Even though wholesale price inflation remains in a range indicating only modest upward price pressures, I expect the Federal Reserve to raise rates at least once before the end of the year. The core consumer price index, which excludes food and energy, has risen above 2 percent for 10 straight months.

The Creighton September survey asked how supply managers expected a Federal Reserve rate hike to impact their firm's profitability. More than one in five, or 23.0 percent, expect such a rate increase to have a negative effect on their firm's revenue and profitability. On the other hand, five percent reported such an interest rate change would have a positive impact, with the remaining 72.0 percent expecting little or no impact.

Confidence: Looking ahead six months, economic optimism, as

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captured by the September business confidence index, increased to a frail 48.5 from August's 45.4. Global economic uncertainty and weakness in the region's agricultural and energy sector are weighing on the business economic outlook of supply managers.

Inventories: The September inventory index, which tracks the change in the level of raw materials and supplies, plummeted to 40.1 from August's 52.3. The bankruptcy of Hanjin Shipping was reported by supply managers as a factor restraining imports and inventory replenishment.

Trade: The new export orders index plunged to 33.8 from 50.1 in August while the import index fell to 43.4 from 45.8 in August. Supply managers reported the Hanjin Shipping bankruptcy reduced both exports and imports for the month. Global economic weakness added to September trade difficulties.

Other components: Components of the September Business Conditions Index were new orders at 41.9, down from 44.4 in August; production or sales index was 45.7, up slightly from 45.2 in August; and delivery speed of raw materials and supplies rose to 53.1 from last month's 52.9.

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 since 1931, by the Institute for Supply Management, formerly the National Association of Purchasing Management.

MID-AMERICA STATES

ARKANSAS

The September Business Conditions Index for Arkansas declined to 45.7 from 47.5 in August. Components of the index from the monthly survey of supply managers were new orders at 41.2, production or sales at 45.1, delivery lead time at 42.6, inventories at 52.3, and employment at 47.4. As in previous months, job losses for durable goods producers more than offset gains for nondurable goods manufacturers for September.

IOWA

The September Business Conditions Index for Iowa dipped to a frail 48.0 from August's 48.3. Components of the overall index from the monthly survey of supply managers were new orders at 41.6, production or sales at 45.6, delivery lead time at 52.3, employment at 49.0, and inventories at 52.3. Significant declines in exports of machinery manufacturing, an important Iowa export, has had a negative impact on Iowa's manufacturing sector including metal producers. Despite the downturn in the export of processed food, Iowa's food processing industry continues to expand at a solid pace.

KANSAS

The Kansas Business Conditions Index for September slumped to a very weak 43.9 from 47.6 in August. Components of the leading economic indicator from the monthly survey

of supply managers were new orders at 40.7, production or sales at 44.6, delivery lead time at 52.1, employment at 45.9, and inventories at 36.1. The state's machinery manufacturing industry continues to shed jobs and economic activity. On the positive side, food processors and aircraft and related manufacturers experienced positive growth for the month.

MINNESOTA

The September Business Conditions Index for Minnesota declined to 48.4 from 49.4 in August. Components of the overall index from the monthly survey of supply managers were new orders at 41.7, production or sales at 45.7, delivery lead time at 48.0, inventories at 54.1, and employment at 52.6. The state's food processing industry continues to expand at a solid pace. The industry has increased employment by almost 5 percent over the past 12 months. Offsetting this growth were downturns among metal manufacturers and machinery producers.

MISSOURI

The September Business Conditions Index for Missouri slumped to 47.3 from August's 48.5. Components of the overall index from the survey of supply managers were new orders at 41.5, production or sales at 45.4, delivery lead time at 48.1, inventories at 52.9, and employment at 48.5. Fabricated metal producers and machinery manufacturers in the state continue to experience pullbacks in economic activity, especially for those firms linked to international markets.

NEBRASKA

The September Business Conditions Index for Nebraska fell to 44.6 from 47.3 in August. Components of the index from the monthly survey of supply managers for September were new orders at 40.9, production or sales at 44.7, delivery lead time at 48.8, inventories at 42.3, and employment at 46.4. Despite weakness among machinery manufacturers in the state, metal manufacturers are experiencing improving economic conditions. However, manufacturers linked to international markets continue to experience pullbacks in economic activity.

NORTH DAKOTA

North Dakota's leading economic indicator for September remained below growth neutral 50.0, though the Business Conditions Index expanded for a second straight month to 48.2 from August's 40.9. Components of the overall index from the monthly survey of supply managers were new orders at 48.8, production or sales at 45.6, delivery lead time at 48.9, employment at 49.2, and inventories at 48.3. The negatives among North Dakota firms are getting much less negative. As per barrel oil prices stabilize over \$50, as anticipated by many oil analysts, North Dakota manufacturers should begin to add jobs in the months ahead. If on the other hand, oil prices once again move to \$40 and below per barrel, the state will continue to lose manufacturing and related jobs.

OKLAHOMA

After moving above growth neutral for May, Oklahoma's Business Conditions Index has been below 50.0 for four consecutive months. The September index sank to a regional low of 40.3 from 44.0 in August, also a regional low. Components of the overall September index from a survey of supply managers in the state were new orders at 40.5, production or sales at 44.3, delivery lead time at 35.9, inventories at 35.8, and employment at 45.1. Both durable goods producers and nondurable goods manufacturers in the state continue to lose jobs. If OPEC is successful in pushing per barrel oil prices in the range of \$55 to \$60, Oklahoma manufacturers will see improving economic conditions.

SOUTH DAKOTA

The Business Conditions Index for South Dakota fell to a regional

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income of people who will live with them but aren't going to be on the mortgage to qualify. As Yogi Berra might say its déjà vu all over again. Did these folks sleep through the 2007-09 housing crisis?

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

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

high 51.1 from 53.2 in August, also a regional high. Contrary to the rest of the region, the index has been above growth neutral for nine straight months. Components of the overall index for the September survey of supply managers in the state were new orders at 42.4, production or sales at 46.4, delivery lead time at 65.7, inventories at 49.9, and employment at 51.4. Manufacturers in South Dakota linked to agriculture, energy and international markets are experiencing slower, but positive growth.



THE BULLISH NEWS

- U.S. non-farm payrolls rose by 156,000 in September and the unemployment rate ticked up to 5%.
- The U.S. Case-Shiller home price index fell by a seasonally adjusted 0.1% for July and is 5.0% above the reading for July 2015.



THE BEARISH NEWS

- The Creighton PMI fell below growth neutral for September. Surveys indicate that the Mid-America region manufacturing sector is losing jobs and economic activity.
- Average hourly earnings rose 0.2% as employers struggle to find qualified workers.
- The U.S. trade deficit for August rose more than expected to \$40.7 billion as the trade deficit with China widened to \$33.9 billion.

WHAT TO WATCH

- **Federal Reserve (Fed) Meetings:** On Nov. 2, the interest rate setting committee of the Fed meets to consider changing short-term interest rates. While they may not raise rates at this meeting, they are likely to set the stage for a Dec. rate increase in their post-meeting statements.
- **The Jobs Report:** On Nov. 4, the Bureau of Labor Statistics will release the September jobs report. Another very strong report (i.e. more than 200,000 jobs) will push the Federal Reserve to raise rates at their December 2016 meeting.
- **PMIs for U.S. and Mid-America:** On Nov. 1, Creighton and the Institute for Supply Management will release their readings on manufacturing in Mid-America and U.S. Another set of readings below growth neutral 50.0 will be bearish for U.S. stocks and potentially thwart a Fed November rate hike.

Goss Eggs (Recent Dumb Economic Moves)

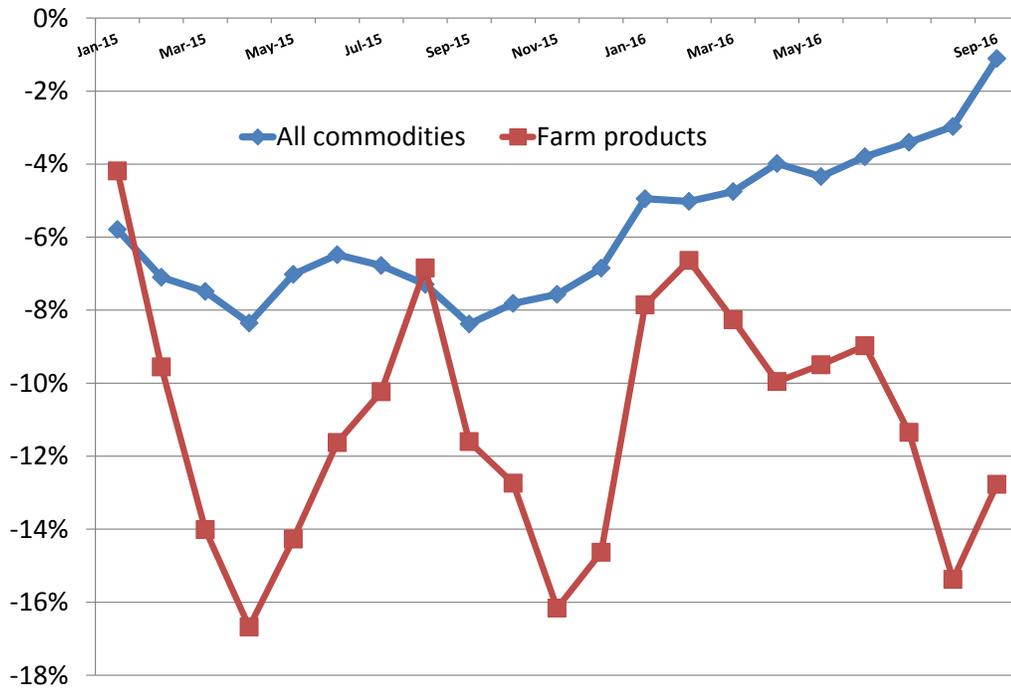
- Government supported mortgage-finance giant Freddie Mac is loosening income and documentation requirements for first-time mortgage applicants. Under the Freddie program, applicants will be able use the

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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

