

"A monthly survey of supply chain managers"

Welcome to our October Newsletter covering September survey results. Creighton's monthly survey of supply managers and procurement experts in nine Mid-America states indicates that economic growth remains in a very healthy, robust range, but, as in previous months, with elevated inflationary pressures. Follow my comments at: www.twitter.com/erniegoss

Retiring Baby Boomers and Rising Interest Rates-Exploding the Federal Debt

There is at least one thing that Democrats and Republicans agree on—higher federal spending. Since President Trump took office in the first quarter of 2017, federal spending has expanded by a compound annual growth rate (CAGR) of 3.9%, while tax collections have advanced by a more modest 0.9% CAGR. As a result, the federal debt exploded by a CAGR of 4.6% to an estimated \$21.6 trillion in the third quarter of 2018, representing 104.8% of the nation's annual output, and the highest since the last quarter of the Obama Administrations.

Both Democrats and Republicans signed on to this spending growth with Democrats resisting tax cuts, but embracing spending increases. And it will only get worse. With more than 10,000 baby boomers retiring each day, social security payments are soaring at a CAGR of 4.6%, and Medicare benefits are exploding at a CAGR of 5.0%.

Furthermore, ultra-low interest rates allowed the federal government to borrow needed funds at historically low rates prior to 2016. Since December 2016 to the present, the yield (interest rate) on U.S. Treasury bonds has risen by three-quarters of one percentage point. As a result of rising interest rates and a larger federal debt, interest payments have climbed by a CAGR of 5.0%. Should rates on U.S. Treasury debt rise to the 1990-2007 average, annual federal interest payments would grow by \$160 billion to \$200 billion, annually.

Without spending restraints, Gen-Xer and Millennials will face higher taxes, elevated interest rates, rising inflation, or all three of these "evils." Former Colorado governor Richard Lamm summed it up quite well saying, "Deficits are when adults tell the government what they want, and the kids pay for it." Ernie Goss.

Link to video: <https://tinyurl.com/y8n3htp2>

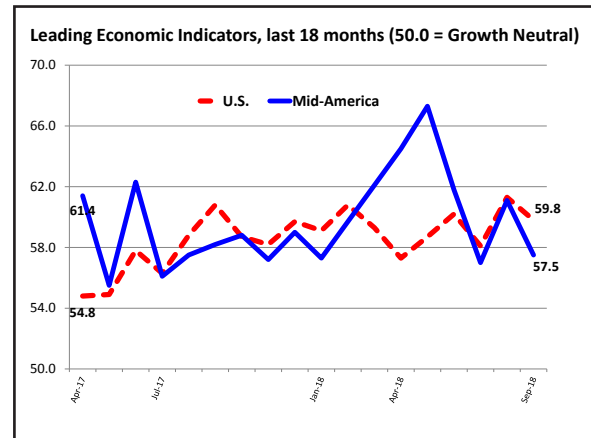
LAST MONTH'S SURVEY RESULTS

Mid-America Economic Index Sinks for September: One-Fourth Support Reducing or Eliminating Tariffs

SURVEY RESULTS AT A GLANCE:

- The Business Conditions Index remained above growth neutral for the 22nd straight month, but declined for the month.
- Business Confidence surged for the month.
- Wholesale inflation index points to another Federal Reserve rate hike Dec. 19.
- More than one-half of supply managers indicated negative impacts from tariffs.
- Almost one-fourth of supply managers supported reducing or eliminating recently enacted tariffs.

The September Creighton University Mid-America Business Conditions Index, a leading economic indicator for the nine-state region stretching from Minnesota to Arkansas, sank for the month, but remained above growth neutral, and continues to point to positive economic growth for the next three to six months.



Overall index: The Business Conditions Index, which ranges between 0 and 100, fell to 57.5 from August's strong 61.1. This is the 22nd straight month the index has remained above growth neutral 50.0.

The regional economy continues to expand at a healthy pace. However, shortages of skilled workers remain an impediment to even stronger growth. Furthermore, supply managers are reporting mounting negative impacts from tariffs and trade skirmishes. I expect expanding tariffs, trade restrictions, and rising short-term interest rates from a more aggressive Federal Reserve, to slow regional growth to a more modest, but still positive pace in the months ahead.

In September, 54.0 percent of supply managers reported negative impacts from tariffs and trade skirmishes. Approximately 40.8 percent of the supply (purchasing) managers indicated that rising tariffs had made it more difficult or expensive to purchase from abroad.

Despite the negative fallout from tariffs, 29.4 percent of supply managers supported putting greater trade pressure on China, via expanding tariffs. On the other hand, 24.6 percent supported reducing or eliminating recently enacted tariffs.

As reported by a supply manager, "The tariffs have created a retaliatory climate which has made our products less competitive in the Canadian market (our primary market). Canadian pro-trade deals with China are also severely hurting our position. I am fundamentally anti-tariff, but it is time to try a different negotiating strategy. Repeating the same thing over and over expecting different results is insanity."

Employment: The September employment index slipped to a still solid 56.2 from August's 58.5.

"Overall manufacturing employment growth in the region over the past 12 months has been very healthy at 2.6 percent, compared to a much less robust 2.0 percent for the U.S.," Goss reported.

Wholesale Prices: The wholesale inflation gauge continues to indicate elevated inflationary pressures with an index of 76.1, but down from 80.5 in August.

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Both Creighton's regional wholesale inflation index and the U.S. inflation gauge are elevated. Tariffs and expanding growth, for example, have boosted steel prices by 19.0 percent this calendar year alone. At the consumer level, the consumer price index advanced by 2.7 percent over the past 12 months.

I expect rising tariffs, trade restrictions, and higher oil prices to continue to boost wholesale and consumer inflation growth above the Federal Reserve's target. The Fed raised short-term interest rates by one-quarter of one percentage point last week. I expect an identical rate hike (one-quarter percent) in December.

Confidence: Looking ahead six months, economic optimism, as captured by the September Business Confidence Index, soared to 68.0 from August's already strong 60.8. In terms of business confidence, rising trade tensions and tariffs, were more than offset by healthy profit growth, relatively low interest rates, and reduced tax rates.

Inventories: Companies expanded their inventories of raw materials and supplies, but at a slightly slower pace than in August. The September inventory index slipped to 56.3 from August's 58.8.

Trade: The regional new export orders index expanded to 53.1 from 51.8 in August, and the import index slipped to 57.2 from August's 58.1. Continuing positive export orders and imports are likely the result of firms in the U.S., and among trading partners, advancing purchasing in anticipation of expanding tariffs and trade restrictions in the months ahead.

Other components: Components of the September Business Conditions Index were new orders at 59.4, down from 65.5 in August; the production or sales index at 58.4, down from August's 61.9; and speed of deliveries of raw materials and supplies index at 57.0, down from last month's 60.7.

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 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 sank to a still solid 52.5 from August's 58.7. Components of the index from the monthly survey of supply managers were new orders at 56.2, production or sales at 53.7, delivery lead time at 52.2, inventories at 52.6, and employment at 52.9. Over the past 12 months, according to U.S. Bureau of Labor Statistics data, Arkansas employers increased the hourly work week by 1.0 percent, well above the regional median, and average hourly pay by 1.8 percent, well below the regional median.

IOWA

The September Business Conditions Index for Iowa advanced slightly to a healthy 59.4 from 59.2 in August. Components of the overall index from the monthly survey of supply managers were new orders at 67.2, production or sales at 58.3, delivery lead time at 54.9, employment at 59.9, and inventories at 56.8. Over the past 12 months, according to U.S. Bureau of Labor Statistics data, Iowa employers increased the hourly work week by 0.4 percent, equal to the regional median, and average hourly pay by 3.6 percent, well above the regional median.

KANSAS

The Kansas Business Conditions Index for September fell to 56.9 from August's 60.2. Components of the leading economic indicator from the monthly survey of supply managers were new orders at 59.7, production or sales at 57.5, delivery lead time at 55.9, employment at 55.3, and inventories at 56.3. Over the past 12 months, according to U.S. Bureau of Labor Statistics data, Kansas employers increased the hourly work week by 0.8 percent, well above the regional median, and average hourly pay by 4.3 percent, also well above the regional median.

MINNESOTA

The September Business Conditions Index for Minnesota declined to a healthy 60.0 from August's 61.9. Components of the overall September index from the monthly survey of supply managers were new orders at 61.8, production or sales at 60.5, delivery lead time at 58.8, inventories at 60.2, and employment at 58.8. Over the past 12 months, according to U.S. Bureau of Labor Statistics data, Minnesota employers increased the hourly work week by 0.1 percent, well below the regional median, and average hourly pay by 2.5 percent, slightly below the regional median.

MISSOURI

The September Business Conditions Index for Missouri decreased to 54.8 from 56.5 in August. Components of the overall index from the survey of supply managers were new orders at 57.2, production or sales at 53.8, delivery lead time at 57.2, inventories at 52.6, and employment at 53.0. "Over the past 12 months, according to U.S. Bureau of Labor Statistics data, Missouri employers increased the hourly work week by 0.6 percent, slightly above the regional median, and average hourly pay by 3.0 percent, equal to the regional median," said Goss.

NEBRASKA

The September Business Conditions Index for Nebraska sank to a solid 55.1 from August's 61.9. Components of the index from the monthly survey of supply managers were new orders at 58.2, production or sales at 55.3, delivery lead time at 53.7, inventories at 54.1, and employment at 54.2. Over the past 12 months, according to U.S. Bureau of Labor Statistics data, Nebraska employers decreased the hourly work week by 1.2 percent, well below the regional median, but increased average hourly pay by 2.7 percent, slightly below the regional median.

NORTH DAKOTA

The Business Conditions Index for North Dakota fell to a very healthy 69.0 from 76.0 for August. Components of the overall index were new orders at 68.8, production or sales at 70.7, delivery lead time at 68.7, employment at 67.7, and inventories at 69.1. Over the past 12 months, according to U.S. Bureau of Labor Statistics data, North Dakota employers increased the hourly work week by 1.3 percent, well above the regional median, and average hourly pay by 1.8 percent, also well below the regional median.

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OKLAHOMA

Oklahoma's Business Conditions Index has now remained above the 50.0 threshold for the last 14 months. The overall index from a monthly survey of supply managers sank to a solid 57.6 from August's 60.4. Components of the overall September index were new orders at 60.1, production or sales at 58.0, delivery lead time at 56.4, inventories at 56.7, and employment at 56.6. Over the past 12 months, according to U.S. Bureau of Labor Statistics data, Oklahoma employers decreased the hourly work week by 0.2 percent, well below the regional median, but increased average hourly pay by 3.4 percent, which was above the regional median.

SOUTH DAKOTA

The September Business Conditions Index for South Dakota sank to 50.4 from 55.6 for September. Components of the overall index from the September survey of supply managers in the state were new orders at 54.6, production or sales at 50.1, delivery lead time at 48.7, inventories at 49.0, and employment at 49.7. Over the past 12 months, according to U.S. Bureau of Labor Statistics data, South Dakota employers increased the hourly work week by 0.4 percent, equal to the regional median, and average hourly pay by 4.1 percent, which was well above the regional median.

of Atlanta. "Half of survey respondents have moderately increased their inflation forecasts as a result of trade policy changes. Over half of the survey respondents indicate that they had reduced their GDP growth forecasts for 2018 and nearly 80% did so for 2019. Nonetheless, the percentage of panelists expecting a recession in 2019 fell relative to that in the June survey. One-third of respondents expects that we will not see a recession until 2021 or later."

From Goss: I expect **the Federal Reserve to raise rates on December 19 (0.25% or 25 basis points); **GDP growth to slow in the second half of 2018, but remain above 3.3% annualized. ***annualized growth in the consumer price index (CPI) to exceed 2.6% in Q4, 2018.

WHAT TO WATCH

- **GDP growth for Q3, 2018:** The Bureau of Economic Analysis will release 3rd Quarter 2018 on October 26. Annualized and inflation adjusted growth below 3% will be bearish for stocks and bullish for bonds.
- **Wage Data:** On November, the U.S. Bureau of Labor Statistics will release wage data for October. Year-over-year growth above 3.0% will be a strong inflation signal and push the Fed to raise short-term interest rates at their December 19 meeting.
- **Inverted Yield:** Every recession since 1980 has been preceded by 2-year rates exceeding, or approximating, 10-year rates (termed an inverted yield). Currently 34 basis points (0.34%), but up from 24 basis points last month.



THE BULLISH NEWS

- The nation added 134,000 jobs in September and the unemployment rate fell to 3.7%, its lowest level in almost 50 years.
- U.S. consumer prices rose by 0.2%, less than expected in August. Increases in gas prices and rents were offset by declines in health care and apparel costs.



THE BEARISH NEWS

- Home prices rose by 6% annually in July, down from 6.2% in June as the rate of gains continues to slow, as potential homebuyers hit an affordability wall and sellers ratchet down their demands.
- The nation's budget deficit widened by 31.4% between Q2, 2017 and Q2, 2018.
- The U.S. trade deficit widened in August by \$53.24 billion as Americans stepped up their purchases of foreign automobiles.

THE OUTLOOK

NABE Business Conditions Survey (October 2018). Highlights: "Despite concerns over trade policy, NABE Outlook panelists are slightly more optimistic about the U.S. economy in 2018 than they were three months ago, especially regarding prospects for the industrial sector of the economy," said NABE Vice President Kevin Swift, CBE, chief economist, American Chemistry Council. "Other indicators of real economic activity show light vehicle sales remaining elevated and housing continuing to improve. Trade issues are clearly influencing panelists' views," added Survey Chair David Altig, executive vice president and director of research, Federal Reserve Bank

Goss Eggs

(Recent Dumb Economic Moves)

- The Arizona education-industrial complex drafted an initiative for the November election to nearly double the top income tax rate of 4.54% to pay for higher teacher pay. A new 8% tax bracket would begin at \$250,000 and a 9% rate for incomes over \$500,000. If passed, Arizona would surpass New York and New Jersey in digging into the pockets of taxpayers. Florida, with no income tax, is salivating for passage. Fortunately, Arizona's Supreme Court tossed the initiative due to sloppy writing by the teachers.

STATISTIC OF THE MONTH

19.3%. Black teenage employment declined to 19.3% in September, the lowest reading on record.

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Supply Manager Careers

Senior Contract Specialist. Transamerica, Cedar Rapids, Iowa. Job Profile. This position is responsible for drafting and creating Procurement, Outsourcing and Vendor Management contracts and service agreements between the company and third parties. Job Description Responsibilities.*Apply procurement, outsourcing and vendor management contract formation concepts and processes and articulates key contract formation. *Articulate the main types of contracts and service agreements used in procurement, outsourcing and vendor management and their implications; develop and manage contract templates and determine their appropriate.*Understand and apply contract provisions in contract development and contract management activities.* Demonstrate understanding of how contract law for procurement, outsourcing and vendor management can be applied to identify and avoid liabilities and define opportunities to improve processes and service.*Administer both simple and complex.

Minimum Requirements. Bachelor's degree in a business related field or equivalent work.*Five years of experience in procurement, outsourcing and vendor management contract law and contract.*In-depth knowledge of the procurement and vendor management contracting.*Written/verbal communication and listening skills to interact with internal and external stakeholders.

Apply at: <https://tinyurl.com/yb5wu2hq>

Supply Manager Reading Room

Report: "Supply Chain Disruption and Customer Viability Top Finance Leaders' Risk Management Worries." Finance departments are struggling to manage risk, a recent report from Dun & Bradstreet finds, and many finance leaders "believe their own efforts to manage, monitor and predict risk pose a moderate to high risk to their businesses. In order to find out how today's finance leaders are managing risk and what their future risk management plans look like, earlier this year Dun & Bradstreet commissioned a study of approximately 1,100 finance professionals, the vast majority of whom were based in the U.S. A key finding from this study is that many finance professionals have a poor grasp of digital tools such as automation and analytics. Their risk management approaches reflect this, with more than 60% of the surveyed professionals collecting data in silos, as opposed to sharing it across the company.. Read more at: <https://spendmatters.com/2018/09/19/supply-chain-disruption-and-customer-viability-top-finance-leaders-risk-management-worries/>

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

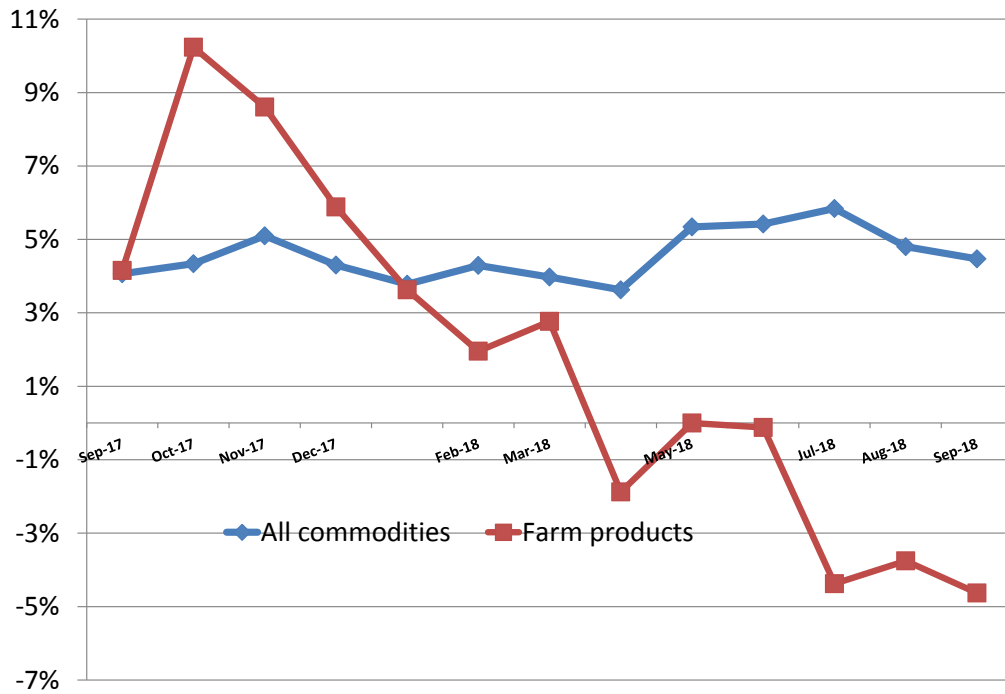
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For historical data and forecasts visit our website at:
<http://business.creighton.edu/organizations-programs/economic-outlook>

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PRICE DATA

ALL COMMODITIES/FARM PRODUCTS 2007-2018
FUELS & RELATED/METALS & METAL PRODUCTS

Year over year price change, commodities and farm product, 2017-18



Year over year price change, fuels and metal products, 2017-18

