

## "A monthly survey of supply chain managers"

Welcome to our July report covering results from Creighton's monthly survey of supply managers and procurement experts in nine Mid-America states. This survey indicates that the economic growth has moved into a range indicating healthy economic growth ahead with rising inflationary pressures. Follow my comments at: [www.twitter.com/erniegoss](http://www.twitter.com/erniegoss)

### Marijuana Legalization's Impact on the Mile High State: Munchie Industry Soars, Others Not So Much

Since 2013, when marijuana was legalized in the state, Coloradans have toked up, tuned in, and chowed down. Between 2013 and 2017, Colorado has increased employment by 9.2%, well above the nation's 6.4%. On the other hand, since 2013 Colorado wages expanded at approximately three percentage points less than that of the U.S.

Two factors contribute to Colorado's stronger job growth, but weaker wage growth. First, Colorado added jobs in lower wage industries, and second Coloradans cut their average work week. For the two years following legalization, per capita spending in the low wage food and beverage industry expanded by 3.4% for the U.S., but almost double that for Colorado at 6.7%. Additionally between 2013 and 2017, the average hourly work week fell by 3.9% for Colorado, but climbed by 1.5% for the U.S.

To support greater spending on food and beverages with fewer work hours, and lower wage growth, per capita welfare benefits in Colorado climbed by almost ten percent versus 7.8% for the U.S. following the state's marijuana legalization.

But Colorado's growth in tax revenues from the pot trade from \$52.6 million the year after legalization, to \$85.3 million in 2015, to \$120 million in 2016 is likely to encourage even more states, beyond the current eight, to make recreational use of cannabis lawful even with potentially mixed economic impacts. Ernie Goss.

Link to video: <https://youtu.be/6VANb5UpAH4>

### LAST MONTH'S SURVEY RESULTS

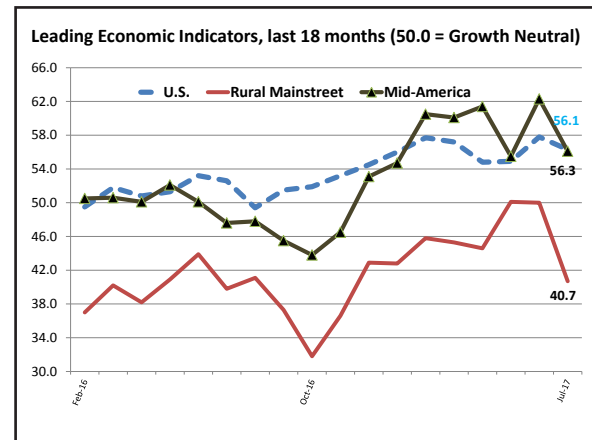
#### Mid-America Business Conditions Index Falls to Healthy Level: One of Five Firms Expects Price Declines for Rest of 2017

##### SURVEY RESULTS AT A GLANCE:

- Overall index moved above growth neutral for an eighth straight month and sits at highest level since February 2011.
- Employment gauge remained in a healthy range.
- Wholesale inflation cooled once again.
- One of five supply managers expect the prices charged for their companies' products will decline in the second half of 2017.
- Japan's recent decision to raise the tariff on frozen beef imports will have a significant and negative impact on the Kansas and Nebraska.

The Creighton University Mid-America Business Conditions Index, a leading economic indicator

for a nine-state region stretching from Arkansas to North Dakota, expanded to a very healthy level for April, according the latest monthly survey results.



**Overall index:** The Business Conditions Index, which ranges between 0 and 100, fell to 56.1 from June's 62.3. This is the eighth straight month the index remained above growth neutral pointing to solid growth for the region over the next three to six months.

The overall index over the past several months indicates a healthy regional manufacturing economy, and points to solid growth for both manufacturing and nonmanufacturing for the second half of 2017.

**Employment:** The July employment index remained above growth neutral, though slipping to a still solid 56.5, from 60.7 in June. Except for manufacturing tied to agriculture, durable and non-durable goods producers added jobs for the month. As a result, the job picture for regional manufacturing and nonmanufacturing continues to improve. With the recent boost in employment growth, total regional employment growth (year over year) is now 1.4 percent, and slightly below the nation's 1.6 percent gain over the same time period.

**Wholesale Prices:** The regional wholesale inflation gauge declined for a second straight month falling to a level indicating modest inflationary pressures. The wholesale price index sank to 62.0 from June's 69.4 and May's 73.1.

Almost one in five, or 19.2 percent, of supply managers expect their firm's prices to drop in the second half of 2017. Clearly, inflationary pressures at the regional and national levels have diminished over the last several months. I expect reduced inflationary pressures over the last several months at the regional and national level to push the Federal Reserve to delay any interest rate hike to the fourth quarter of this year, at the earliest.

**Confidence:** Looking ahead six months, economic optimism, as captured by the July business confidence index, dropped to a still strong 60.2 from 67.5 in June. Strong profit growth, still low interest rates, and international sales boosted the economic outlook among supply managers in the nine-state region.

**Inventories:** The July inventory index, which tracks the change in the level of raw materials and supplies, slumped to 50.0 from June's 56.6.

**Trade:** The regional new export orders index slipped to a solid 54.3 from 56.6 in June, and the import index weakened to 50.0 from June's 56.7. A weaker U.S. dollar, making imported purchases more expensive and U.S. sales cheaper abroad,

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undermined imports and cut the growth in new export orders.

Japan's recent decision to raise the tariff on frozen beef imports will have a significant and negative impact on Kansas and Nebraska. Among U.S. states, Nebraska ranked number one while Kansas was number four in terms of the export of frozen beef to Japan.

**Other components:** Components of the July Business Conditions Index were new orders at 60.8, down from 68.5 in June; production or sales index was 57.7, down from 70.3 in June; and delivery speed of raw materials and supplies dipped slightly to 55.5 from last month's 55.6.

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 July overall index for Arkansas dropped to 61.2 from June's 66.1. Components of the index from the monthly survey of supply managers were new orders at 66.8, production or sales at 63.1, delivery lead time at 60.5, inventories at 53.9, and employment at 61.7. Growth among Arkansas nondurable goods manufacturers is outpacing that of the other eight states in the region. On the other hand, durable goods producers are experiencing slow to no growth. Combined, positive manufacturing growth is now spilling over into the broader state economy.

IOWA

The July Business Conditions Index for Iowa sank to 54.9 from 61.4 in June. Components of the overall index from the monthly survey of supply managers were new orders at 60.0, production or sales at 56.7, delivery lead time at 54.3, employment at 55.4, and inventories at 48.4. Benefiting from growth among nondurable goods producers, the state's manufacturing sector continues to expand. However as in past months, slowdowns among durable goods manufacturers, especially agriculture-equipment manufacturers and metal producers, pulled the overall index lower for July.

KANSAS

The Kansas Business Conditions Index for July slumped to a regional low of 45.9 from June's 56.3. Components of the leading economic indicator from the monthly survey of supply managers were new orders at 50.1, production or sales at 47.4, delivery lead time at 45.4, employment at 46.3, and inventories at 40.4. Kansas's nondurable goods and durable goods manufacturing are shedding jobs, but at a slow pace. Japan's recent decision to raise the tariff on frozen beef imports will have a significant and negative impact on the Kansas economy. Among U.S. states, Kansas ranks number four, behind only Nebraska, Texas, and California in terms of exports of frozen beef to Japan.

MINNESOTA

The July Business Conditions Index for Minnesota declined to a very healthy 63.2 from June's regional high 68.0. Components of the overall July index from the monthly survey of supply managers were new orders at 69.0, production or sales at 65.2, delivery lead time at 62.5, inventories at 55.6, and employment at 63.7. Technology linked manufacturers in the state, including computer and electronic product manufacturers, and medical equipment producers, expanded growth for the month more than offsetting slight weakness among metal producers in Minnesota.

MISSOURI

The July Business Conditions Index for Missouri sank to 52.3 from 53.8 in June. Components of the overall July index from the survey of supply managers were new orders at 57.1, production or sales at 54.0, delivery lead time at 51.7, inventories at 46.1, and employment at 52.7. Growth for both nondurable and durable goods manufacturers has been strong for the last several months. Food producers, transportation equipment manufacturers, and metal manufacturers experienced very healthy growth over the past several months.

NEBRASKA

The July Business Conditions Index for Nebraska fell to 58.0 from 61.3 in June. Components of the index from the monthly survey of supply managers were new orders at 63.4, production or sales at 59.8, delivery lead time at 57.3, inventories at 51.1, and employment at 58.5. Nebraska's nondurable goods sector, including food processing firms, is expanding at a brisk pace offsetting pullbacks among durable goods producers, including agricultural equipment manufacturers and metal producers. However, Japan's recent decision to raise the tariff on frozen beef imports will have a significant and negative impact on Nebraska's economy if implemented. Japan's action could potentially shave one-half of one percentage point from the state's GDP growth, unless offset with expanding beef exports to China.

NORTH DAKOTA

North Dakota's overall, or Business Conditions Index, advanced above growth neutral for the month. The index for July from a survey of supply managers declined to a regional high 66.7 from June's 67.2. Components of the overall index were new orders at 72.8, production or sales at 68.8, delivery lead time at 65.9, employment at 67.2, and inventories at 58.7. Growth among manufacturers and construction firms linked to energy more than compensated for pullbacks among firms tied to agriculture. Oil prices above \$45 per barrel are supportive of growth for the state. Based on surveys over the past several months, the state will continue to add jobs and economic activity through the fourth quarter of this year.

OKLAHOMA

After advancing above growth neutral for six straight months, Oklahoma's Business Conditions Index fell below the 50.0 threshold for July joining only Kansas with an overall index below growth neutral. The overall index dropped to 49.4 from 57.7 in June. Components of the overall July index from a survey of supply managers in the state were new orders at 54.0, production or sales at 51.0, delivery lead time at 48.9, inventories at 43.5, and employment at 49.8. Firms linked to energy are once again expanding output and jobs. Oil prices above \$45 per barrel are supportive of growth. On the other hand, metal manufacturers and nondurable goods manufacturers experienced no to negative growth for the month, thus pulling the overall index below growth neutral.

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## SOUTH DAKOTA

The Business Conditions Index for South Dakota plummeted to 53.3 from June's 67.4. Components of the overall index for the July survey of supply managers in the state were new orders at 58.2, production or sales at 55.0, delivery lead time at 52.7, inventories at 46.9, and employment at 53.7. Expansions among nondurable goods manufacturers in the state more than compensated for slight losses for durable goods producers linked to agriculture. Manufacturing output in the state is growing at a healthy pace even as producers add jobs at a sub-par rate. Growth in the months ahead will be positive but slow for the state.



## THE BULLISH NEWS

- The nation added 209,000 jobs for July and the unemployment rate sank to 4.3%.
- The Case-Shiller home price index for the U.S. rose 5.6% in May from one year earlier, but is still 3.7% below its 2006 high.
- The U.S. trade deficit fell sharply in June as exports increased to their highest level in 2½ years, a positive development for the economy. The trade gap decreased 5.9% to \$43.6 billion, the lowest level since October 2016.



## THE BEARISH NEWS

- Worker wages rose only 2.4 % in July from one year earlier. This is not significantly above the inflation rate.
- The U.S. economy expanded at an annualized 2.1% rate in the second quarter of 2017. This is at least one percentage point below expectations for a healthy economy.

## WHAT TO WATCH

- **Jobs Report on September 1:** The Bureau of Labor Statistics will release its employment report for August. Another reading above 200,000 added for the month will likely push the Federal Reserve to raise rates by another 25 basis points (¼%) in 2017 and as early as Sept. 20.
- **Consumer Price Index on September 14:** Stability is desired by all (1.5% - 2.0% Year-over-year) will be a positive signal.
- **Federal Reserve Meetings on September 20:** The interest rate setting committee of the Federal Reserve meets on Sept. 19-20. There is a 40% likelihood of a short term rate hike but watch for their announcement regarding the sale of their \$4.5 trillion bond portfolio. This sale will tend to raise long-term bond yields (rates).

## Goss Eggs (Recent Dumb Economic Moves)

- Elon Musk, CEO of Tesla Motors, after riding government subsidies to greater personal wealth now warns that artificial intelligence is a 'fundamental existential risk for human civilization.' And "We need to get the regulations

out well ahead of the problems appearing." Of course Musk is the new luddite with this baseless sermonizing on technology's job killing power and government's ability to remedy the problem.

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

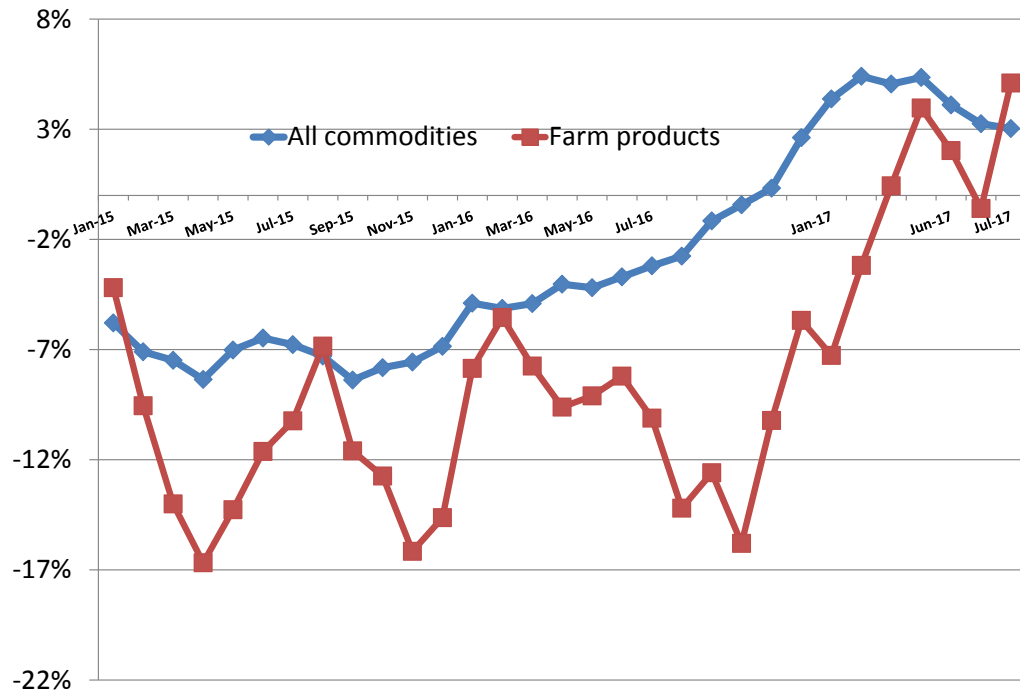
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For historical data and forecasts visit our website at:  
<http://www2.creighton.edu/business/economicoutlook/>

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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, 2015-17



Year over year price change, fuels and metal products, 2015-17

