

## "A monthly survey of supply chain managers"

Welcome to our February 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 positive territory with rising inflationary pressures. Follow my comments at: [www.twitter.com/erniegoss](http://www.twitter.com/erniegoss)

### Paying for Trump's Federal Income Tax Cut: Eliminate State & Local Income Tax Deductibility

Newly elected President Trump has called for collapsing the current federal income tax brackets from seven to three; 12%, 25% and 33%. According to the Tax Foundation, this change would cost the U.S. Treasury \$1.1 trillion to \$2.5 trillion in tax collections over 10 years. Congressional representatives argue that adding this to the current federal debt of almost \$20 trillion is irresponsible and instead must be "paid for" by eliminating deductions. One of those deductions is state and local income taxes.

According to my calculations, jettisoning this deduction would add almost \$60 billion to U.S. Treasury coffers yearly. Of course, high income tax states would bear the brunt of the cost. Taxpayers suffering the biggest burden of the change would be Californian's paying \$14.1 billion, New Yorkers losing \$9.8 billion, and New Jersey residents forking over an additional \$3.2 billion-- all three states' electoral votes captured by Clinton. In fact, the median individual income tax rate for states won by Clinton was almost 20% higher than that for states secured by Trump. In terms of shifting individual tax burdens, this change would cost taxpayers with incomes over \$200,000 an average of approximately \$7,000, but an average of only \$100 for taxpayers making less than \$200,000.

From the Trump standpoint, abolishing this deduction would produce greater tax transparency, reduce the incentives for state and local governments to raise taxes, tend to benefit states that Trump carried in the election and cost states that Clinton captured. Ernie Goss.

Link to video: [https://youtu.be/u5\\_nf4agfhU](https://youtu.be/u5_nf4agfhU)

### LAST MONTH'S SURVEY RESULTS

January Mid-America Manufacturing Begins on Strong Note:  
[Inflation and Employment Soar](#)

#### SURVEY RESULTS AT A GLANCE:

- Overall index climbs for a third straight month to its highest level since February 2015.
- The region adds manufacturing jobs at its swiftest pace since August 2014.
- Wholesale inflation gauge climbs to its highest level since April 2014.
- Almost one-third report finding and hiring workers as the biggest 2017 challenge to their company's operations.
- Business confidence index jumps to its highest level in six years.

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 January, according the latest survey results.

**Overall index:** The Business Conditions Index, which ranges between 0 and 100, rose in January to its highest level since February 2015. This is the second straight month that the index has climbed above growth neutral rising to a solid 54.7 from December's 53.1 and November's much weaker 46.5.

This is the third consecutive month that the index has increased 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:** The January employment index soared to its highest level since August 2014. The new job or employment gauge climbed to 57.0 from December's 50.9. The growth gap between regional manufacturing and nonmanufacturing is closing. The key to regional job growth in the first half of 2017 will be improvements in agriculture and energy commodity prices.

When asked to name the biggest challenge to their company's 2017 economic success, almost one-third, or 29.7 percent, reported that finding and hiring qualified workers was the biggest obstacle for 2017.

Even with the shortage of workers, average hourly wages for most states have expanded at a slow pace. According to U.S. Bureau of Labor Statistics, average hourly wage rates for the final quarter of 2016 compared to the same quarter in 2015 are: Up 0.2 percent for Arkansas, up 0.5 percent for Iowa, down 0.6 percent for Kansas, up 7.2 percent for Minnesota, up 7.6 percent for Missouri, up 0.6 percent for Nebraska, up 6.4 percent for North Dakota, down 0.5 percent for Oklahoma, and up 0.2 percent for South Dakota.

**Wholesale Prices:** The wholesale inflation gauge remained in a range indicating rising inflationary pressures at the wholesale level as the prices-paid index jumped to 74.2 from 70.4 in December.

This is the highest wholesale inflation gauge that we have recorded since April 2014. 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 February 15. If the overall reading continues to move higher, I expect the FOMC to increase short-term interest rates in the first quarter of this year.

Almost one-fifth of businesses, or 19.7 percent, reported that a first quarter rate hike would have a negative impact on their company's business outlook and profitability.

**Confidence:** Looking ahead six months, economic optimism, as captured by the January business confidence index, rose to 69.5 from 63.3 in December. This is the highest confidence reading that we have recorded in six years.

**Inventories:** The January inventory index, which tracks the change in the level of raw materials and supplies, slide to 50.0 from December's 52.8.

**Trade:** The much stronger U.S. dollar restrained new export orders index as the index fell to 48.7 from 54.0 in December, and the import index sank to 46.7 from December's 53.7.

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**Other components:** Components of the January Business Conditions Index were new orders at 56.8, up from 53.6 in December; production or sales index was 56.9, up from December's 50.0; and delivery speed of raw materials and supplies fell to 53.1 from last month's 58.4.

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

MID-AMERICA STATES

ARKANSAS

Arkansas' overall index for January rose to 55.3 from December's 53.7. Components of the index from the monthly survey of supply managers were new orders at 56.2, production or sales at 56.2, delivery lead time at 53.0, inventories at 53.3, and employment at 57.8. Expansions among non-durable goods producers more than offset continuing weak conditions reported by durable goods manufacturers in the state.

IOWA

The January Business Conditions Index for Iowa climbed to 51.8 from 51.7 in December. Components of the overall index from the monthly survey of supply managers were new orders at 55.1, production or sales at 55.1, delivery lead time at 51.8, employment at 54.2, and inventories at 42.8. Iowa durable goods manufacturers, including metal producers and agriculture equipment manufacturers, continue to shed jobs. On the other hand, non-durable goods producers are adding jobs but at a slow pace.

KANSAS

The Kansas Business Conditions Index for January increased to 53.2 from 51.1 in December. Components of the leading economic indicator from the monthly survey of supply managers were new orders at 55.5, production or sales at 55.9, delivery lead time at 52.3, employment at 55.7, and inventories at 47.0. Durable goods manufacturers in the state, including machinery producers, are experiencing pullbacks in the economic activity. On the other hand, non-durable goods producers, including food processors, are expanding business activity.

MINNESOTA

The January Business Conditions Index for Minnesota jumped to 54.7 from December's 52.3. Components of the overall January index from the monthly survey of supply managers were new orders at 55.4, production or sales at 57.1, delivery lead time at 52.8, inventories at 51.5, and employment at 57.2. Minnesota durable goods manufacturers, including metal producers and agriculture equipment manufacturers, continue to shed jobs. On the other hand, non-durable goods producers including food processors, are adding jobs but at a solid pace.

MISSOURI

The January Business Conditions Index for Missouri declined to 53.7 from December's 57.1. Components of the overall January index from the survey of supply managers were new orders at 54.9, production or sales at 55.2, delivery lead time at 51.6, inventories at 53.4, and employment at 53.8. Missouri's durable goods manufacturers, including machinery producers, are experiencing pullbacks in the economic activity. On the other hand, non-durable goods producers, including food processors, are expanding business activity.

NEBRASKA

The January Business Conditions Index for Nebraska expanded to 56.9 from 55.3 in December. Components of the index from the monthly survey of supply managers were new orders at 56.5, production or sales at 57.1, delivery lead time at 53.6, inventories at 58.1, and employment at 53.6. Both durable and non-durable goods manufacturers expanded business activity in the state but at a slow pace for the month. Nebraska food processors, on the other hand, advanced at a healthy pace.

NORTH DAKOTA

After moving above growth neutral for December, North Dakota's overall, or Business Conditions Index, slipped below the threshold for January. The index fell to 49.7 from 51.0 in December. Components of the overall index were new orders at 54.7, production or sales at 54.1, delivery lead time at 51.1, employment at 52.1, and inventories at 36.7. North Dakota's durable goods manufacturers, including machinery producers, are experiencing pullbacks in the economic activity. On the other hand, non-durable goods producers, including food processors, are expanding business activity but at a slow pace.

OKLAHOMA

After moving above growth neutral for seven straight months Oklahoma's Business Conditions Index moved above the threshold for the month. The January index increased to 52.3 from 48.8 in December. Components of the overall January index from a survey of supply managers in the state were new orders at 55.5, production or sales at 51.4, delivery lead time at 52.2, inventories at 46.7, and employment at 55.6. Oklahoma's durable goods manufacturers, especially metal producers, are shedding jobs and business activity. On the other hand, non-durable goods manufacturers, including food processors, continue to expand business activity.

SOUTH DAKOTA

The Business Conditions Index for South Dakota improved to 57.2 from December's 56.5. Components of the overall index for the January survey of supply managers in the state were new orders at 56.9, production or sales at 57.0, delivery lead time at 53.6, inventories at 58.8, and employment at 59.7. The state's manufacturing sector, especially non-durable goods producers, are expanding at a solid pace as durable or heavy manufacturers reduce hiring in the state.



THE BULLISH NEWS

- Federal Reserve Chair Janet Yellen saw her shadow at the rate setting committee meeting in February and announced no rate hike. This was a mistake in my judgment.
- Both Creighton's and the ISM's manufacturing index (PMI) rose sharply for January.

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- The nation added 227,000 jobs in January, well above expectations.



THE BEARISH NEWS

- January U.S. wages grew by only 2.5% from a year earlier, and below the 2.7% expected.
- The nation's unemployment rate for January ticked up to 4.8% from 4.7% in December.
- For the 41st straight year, 1976-2016, the U.S. ran a trade deficit.

WHAT TO WATCH

- **Repatriation:** Signals from Congress to reduce corporate tax rates on foreign earnings for U.S. corporations brought home. It will increase the value of the U.S. dollar.
- **CPI:** On March 15, BLS releases CPI for February. YOY growth (core) above the Fed target of 2.0% for the past 17 months.
- **Jobs:** On March 10, BLS releases its February jobs report. A strong year-over-year wage growth number (>3.0%) could push the Federal Reserve to raise interest rates later in the month.

Goss Eggs  
(Recent Dumb Economic Moves)

- Congressional Representative Robert Goodlatte (R-VA) via H.R. 29 has proposed repealing the U.S. income tax and replace it with "something to be thought up by 2021." I am all for cutting income taxes but this proposal makes no sense.

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

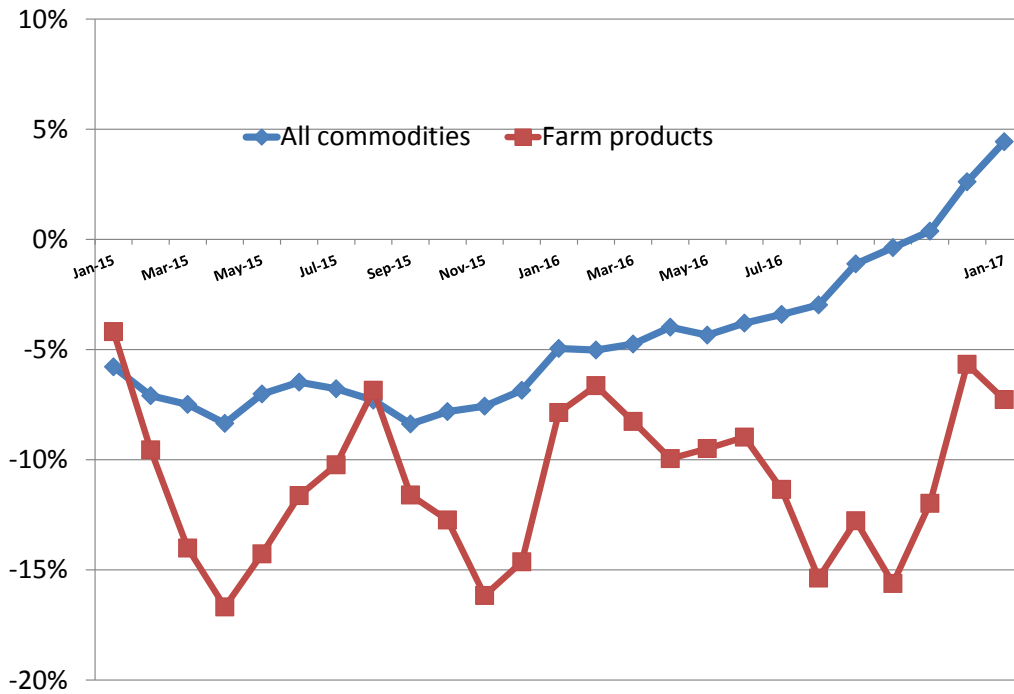
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For historical data and forecasts visit our website at: <http://www2.creighton.edu/business/economicoutlook/>

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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

