

"A monthly survey of supply chain managers"

Welcome to our February 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 range but with elevated inflationary pressures. Follow my comments at: www.twitter.com/erniegoss

The Urban-Rural Economic Divide Urban Expanding, Rural Contracting

Just as the farmer with one hand in the fireplace and the other in the refrigerator is on average doing well, the agriculturally and energy dependent states have been, on average, doing (performing) well. However, the state average blends healthy growth in urban areas in each state with the economic fatigue in the rural areas of the same states. Between 2009 and 2013, the Rural Mainstreet survey typically indicated very healthy growth in rural areas dependent on agriculture and energy. During this time period, driven by Federal Reserve (Fed) easy money policies that stimulated agriculture and energy exports, our surveys and government data tracked rural areas growing at brisk paces. During the Fed's expansion policies from 2009 to 2013, average yearly growth in agriculture, food and oil products exports soared by 12.6 percent.

In 2014, the Fed ended one of its major stimulus programs, entitled Quantitative Easing, which lowered long-term interest rates, and in 2015 began raising short-term interest rates. The end of the Fed interest rate stimulation programs, or easy money policies, raised the value of the U.S. dollar and restrained exports, particularly of agriculture and energy commodities.

But for urban areas of the region, more dependent on manufacturing and housing, continued to expand while rural areas relying on agriculture and energy moved into negative territory. During the Fed's less accommodative money policies, 2014-17, the average yearly export sales of agriculture, food, and oil products plummeted by 6.3 percent. As a result, employment in urban areas of the region over the past three years expanded by 4.1 percent, while employment in rural areas of the same states contracted by 0.3 percent.

What do Rural Mainstreet areas need to improve growth prospects? Two things: 1) Trade policies that focus on opening up, rather than closing, foreign markets. 2) Federal Reserve interest rate policies that produce a stable but weaker U.S. dollar. This will make U.S. goods selling abroad more competitively priced. Ernie Goss.

Link to video: <https://youtu.be/WLDdxOOB1o>

LAST MONTH'S SURVEY RESULTS

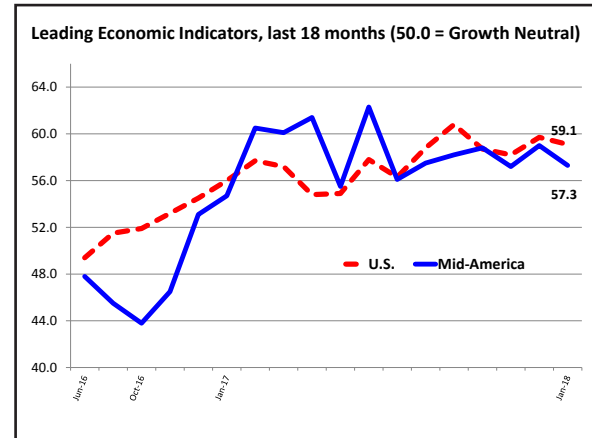
Mid-America Economy Begins 2018 on Healthy Note:
Biggest Challenge for 2018-Labor Shortages

SURVEY RESULTS AT A GLANCE:

- The Business Conditions Index moved above growth neutral for the 14th straight month, pointing to healthy growth for the next three to six months.
- More than one-half of supply managers named the difficulty in finding and hiring qualified workers as the greatest 2018 business challenge.
- Healthy profit growth and passage of the 2017 tax reform bill pushed the confidence to a record high level.

- Inflation at wholesale level continues to push input prices higher.

The January Creighton University Mid-America Business Conditions Index, a leading economic indicator for the nine-state region stretching from Arkansas to North Dakota, sank to a solid reading for the month, pointing to healthy growth for the next three to six months.



Overall index: The Business Conditions Index, which ranges between 0 and 100, slipped to a healthy 57.3 from December's robust 59.0. This is the 14th straight month that the index has remained above growth neutral, continuing to point to positive growth for the region over the next three to six months.

The durable, nondurable and nonmanufacturing sectors in the region are adding jobs at a solid pace. Both the national and our regional indices indicate the manufacturing sector is advancing at a very healthy pace and will continue to spill over into the broader national and regional economies in the next three to six months.

Employment: The January employment index remained above growth neutral with a reading of 52.3, but down from 57.7 in December. Over the past 12 months, on the other hand, regional employment has expanded by 1.1 percent, well below U.S. non-farm employment growth of 1.4 percent over the same period of time. Regional job growth continues to be restrained by the availability of qualified workers. More than one-half of the supply managers, or 53.3 percent, named the difficulty in finding and hiring qualified workers as the greatest 2018 challenge to their business growth.

Wholesale Prices: The wholesale inflation gauge continues to point to elevated inflationary pressures at the wholesale level. The regional inflation gauge climbed to a high 74.5 from December's strong 71.3.

Both our regional wholesale inflation index and the U.S. inflation gauge are elevated. I expect this growth to begin to show up at the consumer level. As a result, I expect the Federal Reserve's interest rate setting committee to raise short-term interest rates by one-quarter of one percentage point (25 basis points) at their next meeting on March 15.

Confidence: Looking ahead six months, economic optimism, as captured by the January Business Confidence climbed to 80.5 from December's strong 73.2. Healthy profit growth, still low interest rates, and the recently passed tax reform package pushed business confidence to its highest level ever.

Inventories: The January inventory index indicated that

"A monthly survey of supply chain managers"

businesses expanded supplies of raw materials and supplies, and at a faster pace than in December. The regional inventory index for January rose to 55.6 from December's 54.0.

Trade: The regional index for new export orders declined to a still healthy 58.1, from 63.9 in December, and the import index was unchanged from December's solid 53.9. Expanding regional growth supported purchases of inputs from abroad, while growth among important trading partners and a weak U.S. dollar underpinned new export orders at a healthy level.

This month supply managers were asked about the importance of purchasing from abroad to their firm's business success. Almost one-third, or 29.8 percent, reported that purchasing in international markets was either essential or very important.

Other components: Components of the January Business Conditions Index were new orders at 67.4, down from 68.0 in December; the production or sales index rocketed to 68.2 from December's 61.6; and delivery speed of raw materials and supplies plummeted to 43.5 from last month's 53.7.

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 January overall, or Business Conditions Index, for Arkansas fell to 50.0 from December's 56.8. Components of the index from the monthly survey of supply managers were new orders at 58.5, production or sales at 60.1, delivery lead time at 35.9, inventories at 47.7, and employment at 47.8. Non-durable manufacturing in the state is growing at very strong pace while Arkansas durable goods producers are treading water," said Goss.

IOWA

The January Business Conditions Index for Iowa climbed to a healthy 58.0 from 54.3 in December. Components of the overall index from the monthly survey of supply managers were new orders at 67.4, production or sales at 67.8, delivery lead time at 42.2, employment at 51.3, and inventories at 61.1. Both durable and non-durable goods manufacturing are experiencing growth well above that of the region and the nation. I expect this growth advantage to continue for the next 3 to 6 months.

KANSAS

The Kansas Business Conditions Index for January sank to 59.6 from regional high, 62.0. Components of the leading economic indicator from the monthly survey of supply managers were new orders at 70.9, production or sales at 70.9, delivery lead time at 44.7, employment at 54.0, and inventories at 57.8. "In 2016, businesses and farms in the state exported \$3.6 billion in

goods to Canada and Mexico, supporting almost 22,000 jobs in the state. In the nine-state region, Kansas is the fourth most dependent on NAFTA sales at approximately 2.4 percent of GDP.

MINNESOTA

The January Business Conditions Index for Minnesota slipped to a healthy 55.8 from December's 56.8. Components of the overall January index from the monthly survey of supply managers were new orders at 62.5, production or sales at 63.9, delivery lead time at 38.8, inventories at 56.3, and employment at 57.8. Growth was balanced and healthy for durable and non-durable goods producers in the state. While the state's manufacturing growth has been below that of the region, it has been less volatile than that of the region.

MISSOURI

The January Business Conditions Index for Missouri fell to 53.6 from 55.3 in December. Components of the overall index from the survey of supply managers were new orders at 60.6, production or sales at 61.9, delivery lead time at 49.9, inventories at 49.4, and employment at 46.1. While non-durable goods producers in the state are experiencing healthy growth, durable or heavy manufacturers are expanding at a much stronger pace gaining jobs, and sales, both domestic and international.

NEBRASKA

The January Business Conditions Index for Nebraska dipped to 53.7 from 57.6 in December. Components of the index from the monthly survey of supply managers were new orders at 63.7, production or sales at 64.6, delivery lead time at 39.6, inventories at 51.9, and employment at 48.5. "Sizable gains in business activity and jobs for non-durable goods producers in the state more than offset losses in business activity and jobs for durable goods manufacturers in the state.

NORTH DAKOTA

The Business Conditions Index for North Dakota fell below growth neutral for January. The overall index from a survey of supply managers for January slumped to 49.6 from 55.1 in December. Components of the overall index were new orders at 59.2, production or sales at 55.1, delivery lead time at 31.8, employment at 58.8, and inventories at 43.0. As oil prices have risen, so has North Dakota's energy sector. This gain has offset softer growth among both durable and non-durable goods producers in the state.

OKLAHOMA

Boosted by higher oil prices above, Oklahoma's Business Conditions Index has remained above the 50.0 threshold for the last six months. The overall index from a monthly survey of supply managers slipped to a healthy 57.8 from December's 59.3. Components of the overall January index were new orders at 68.6, production or sales at 68.9, delivery lead time at 43.1, inventories at 56.0, and employment at 52.3. Recent expansions for durable goods manufacturers more than offset weakness among non-durable goods producers in the state.

SOUTH DAKOTA

The Business Conditions Index for South Dakota sank to a solid 56.8 from 58.2 in December. Components of the overall index from the January survey of supply managers in the state were new orders at 65.1, production or sales at 65.9, delivery lead time at 46.6, inventories at 53.1, and employment at 53.4. Strong growth for durable goods producers in state combined with solid expansions for non-durable goods manufacturers to push the overall index higher.

"A monthly survey of supply chain managers"



THE BULLISH NEWS

- Average wages expanded by 2.9% for the 12 months ending in January. This is good news for wage earners, but is a harbinger of higher interest rates.
- The U.S. labor market added 200,000 jobs for January (even with an unemployment rate of 4.1%, a 17-year low).
- U.S. home prices rose 6.2% in November from one year earlier.



THE BEARISH NEWS

- The U.S. trade deficit rose to nearly a 6-year high in November driven by imports. (note: a larger trade deficit is a by-product of an expanding U.S. economy).
- Great Britain's Brexit negotiations could have significant impacts on the value of the U.S. dollar. Major disruptions would boost the value of the U.S. dollar.
- Due to fears of inflation and higher interest rates, the S&P 500 index by almost 4% in the week ending Feb. 2.

WHAT TO WATCH

- **Inflation, Inflation, Inflation:** The Bureau of Labor Statistics will release the inflation gauge for February on March 13. An annualized increase above 2.5% will be bullish for stock prices and bearish for bond prices (rising yields, falling prices).
- **Wage Growth:** On March 9, the U.S. Bureau of Economic Analysis releases its February jobs report. Focus on the wage growth number. Year-over-year growth over 2.8% will be viewed as a signal of budding inflation with higher interest rates to follow.
- **Home Price:** On the last Tuesday of the month, February 27, S&P Corelogic will release its Case-Shiller home price index for December. Home prices have been rising by over 5.0% (annualized) since November 2015. Air will continue to inflate this bubble with too little housing supply.

Goss Eggs (Recent Dumb Economic Moves)

- California municipalities are lying to either jurors or investors. For example, the Oakland city government contended in its recent lawsuit against U.S. oil companies that the city will be experiencing a 100-year flood every week" soon due to climate change. However, in its prospectus for Oakland general obligation bond investors, the city states that it cannot predict when and if the city will be threatened by floods, or other natural disasters. Sounds like Presidential candidate Kerry's doubletalk "I voted for this bill before I voted against it.

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

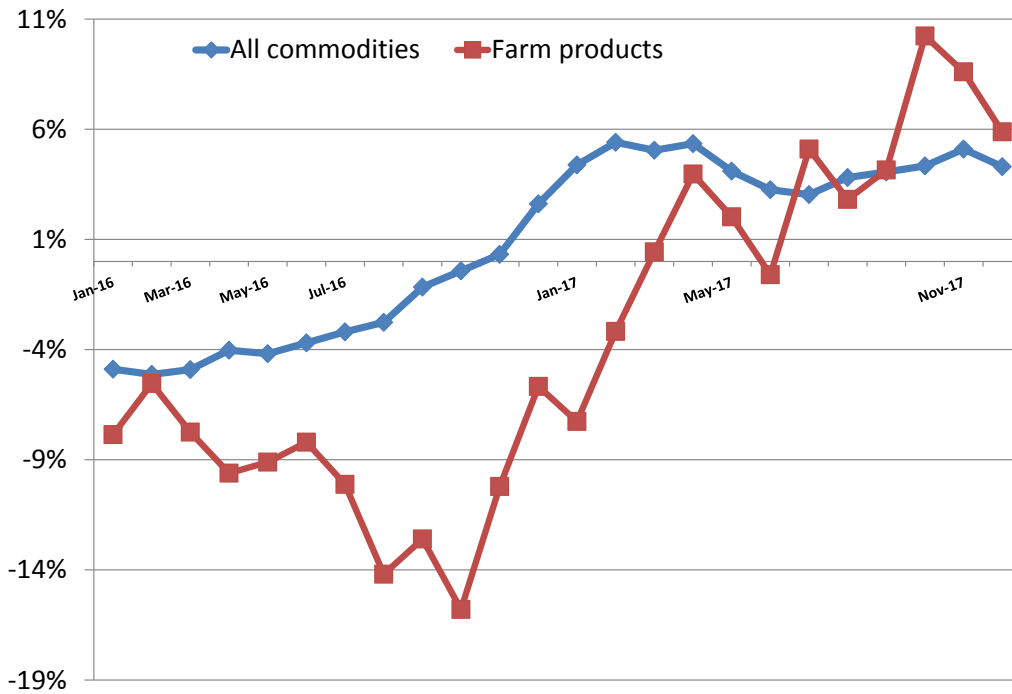
Follow Goss on twitter at <http://twitter.com/erniegoss>
For historical data and forecasts visit our website at:
<http://www2.creighton.edu/business/economicoutlook/>

"A monthly survey of supply chain managers"

PRICE DATA

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

Year over year price change, commodities and farm product, 2016-18



Year over year price change, fuels and metal products, 2016-17

