

## "A monthly survey of supply chain managers"

Welcome to our June 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 solid economic growth ahead with rising inflationary pressures. Follow my comments at: [www.twitter.com/erniegoss](http://www.twitter.com/erniegoss)

### Student Debt and Defaults Soar as Colleges and Students Saddle the Taxpayer

Over the last 10 years, U.S. student debt has ballooned by 164 percent, or almost five times the growth of the overall economy. These "loans," which now amount to \$1.4 trillion, or \$33,000 for each of the 44 million student borrowers, have enabled colleges to raise tuition at a rate almost three times that of overall consumer prices over the same 10-year period. But shed no tears for the student borrower for ultimately there are three avenues for the student to foist these loans on to U.S. taxpayer's shoulders.

First, students are increasingly defaulting on these loans. Over the past 10 years, the number of student loan defaults has skyrocketed 400% to 4.7 million and the number of loans more than 90 days delinquent has soared by 250%. Furthermore, nearly one in three borrowers who exited defaults through rehabilitation defaulted for a second time within 24 months, and more than 40% of borrowers defaulted again within three years.

Second, programs of loan forgiveness and income-driven payment plans have proliferated. In 2007, President Bush signed a bill that subsidized student loan borrowers who took jobs in the public or non-profit sectors upon graduation. Student loan debt left over after 10 years of payments would be forgiven. Beginning in 2014, President Obama capped borrowers' monthly payments at 10% of their income, extended the repayment period from 10 to as long as 25 years, and offered to forgive any remaining balances when that time is up. The Government Accountability Office calculated that the government will lose \$21 for every \$100 in student loans issued to someone who takes advantage of an income-driven repayment plan.

Third, a federal student loan can be discharged in the event that the federal loan was used toward the cost of enrollment at an institution that closed due to loss of accreditation, loss of a majority of academic programs, or because the school violated state or federal law. With U.S. worker wages growing less than 3% annually, workers can ill-afford the \$10,000 per worker burden of student debt which has underpinned college overspending and student profligacy. Ernie Goss.

Link to video: <https://youtu.be/sgFXR-YeeUQ>

### LAST MONTH'S SURVEY RESULTS

Mid-America Firms Post Healthy May Activity:  
Data Security Issues Raised

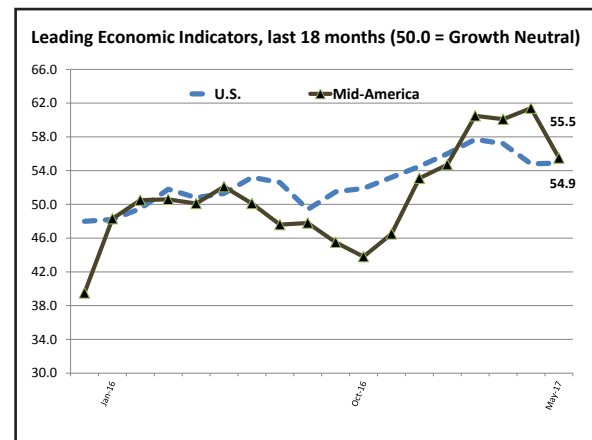
#### SURVEY RESULTS AT A GLANCE:

- Overall index moves above growth neutral for a sixth straight month.
- Employment gauge remains in a very healthy range.
- Almost one-half of businesses indicate finding and hiring qualified workers is the greatest challenge to

their business growth in 2017.

- Inflation gauge indicates rising wholesale inflationary pressures.
- In terms of choosing a supplier, more than one of five businesses indicate data security is either the most important, or a very important factor, in choosing a supplier.
- Solid new export orders and imports for the month.

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 a still solid 55.5 from April's 61.4. This is the sixth straight month the index has remained above growth neutral.

The overall index over the past several months indicates a healthy regional manufacturing economy, and points to healthy growth for both manufacturing and nonmanufacturing through the third quarter of this year.

**Employment:** The May employment index remained above growth neutral, but slipped to a very healthy 62.3 from 62.9 in April. Nondurable goods manufacturers, including food processors and ethanol producers, are adding jobs while durable goods producers in the region are shedding employment. As a result, the nonmanufacturing sector of the regional economy continues to outperform the manufacturing sector, but that gap is closing. Even with the recent boost in employment growth, total regional employment growth (year over year) is now only 1.0 percent, and well below the nation's 1.6 percent gain over the same time period.

This month supply managers were asked to identify the greatest economic challenge facing their company for 2017. Almost half, or 47.3 percent, reported finding and hiring qualified workers was the greatest economic obstacle to business expansion for the year.

**Wholesale Prices:** The wholesale inflation gauge remained in a range indicating rising inflationary pressures at the wholesale level as the prices-paid index climbed to 73.1 from April's 71.4.

The interest-rate setting committee of the Federal Reserve, the FOMC, has increased rates twice since last December. Inflationary pressures at the wholesale and retail level are rising. I expect the Fed to raise interest rates at the June 14 meeting to cool any budding inflationary

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pressures as measured in Creighton's monthly surveys.

**Confidence:** Looking ahead six months, economic optimism, as captured by the May business confidence index, declined slightly to a strong 61.4 from 69.5 in April. Strong profit growth and still low interest rates boosted the economic outlook among supply managers in the nine-state region.

**Inventories:** The May inventory index, which tracks the change in the level of raw materials and supplies, sank to 54.7 from April's 63.1.

This month supply managers were asked about their data security concerns. In terms of choosing a supplier, more than one of five businesses, or 21.9 percent, indicated data security was either the most important, or a very important factor in choosing a supplier. Only 18.2 percent reported data security was only a minor concern.

As reported by one supply manager, "The data security issue is quickly becoming a larger issue as we continue to do more overseas business."

**Trade:** The regional new export orders index fell to a still positive 54.0 from 60.5 in April, and the import index dropped to 52.4 from April's 60.7. An expanding regional economy supported buying from abroad for the month. Recent declines in the value of the U.S. dollar and expanding global economic conditions have supported a new export orders index above growth neutral for the month.

**Other components:** Components of the May Business Conditions Index were new orders at 54.8, down from 61.8 in May; production or sales index was 56.7, down from 63.8 in April; and delivery speed of raw materials and supplies slumped to 49.1 from last month's 55.5.

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 May fell to 58.4 from April's 61.1. Components of the index from the monthly survey of supply managers were new orders at 57.6, production or sales at 59.8, delivery lead time at 51.0, inventories at 57.5, and employment at 66.3. Arkansas is adding nondurable goods manufacturing jobs at a healthy pace. These gains are more than offsetting losses for durable goods producers. I expect the state to add jobs and economic activity above the regional and national average for the rest of 2017.

#### IOWA

The May Business Conditions Index for Iowa dropped to 57.5 from 64.7 in April. Components of the overall index from the monthly survey of supply managers were new orders at 57.1, production or sales at 59.3, delivery lead time at 50.6, employment at 65.7, and inventories at 57.0. Durable goods manufacturers in the state, including transportation equipment manufacturers and metal producers, reduced employment. On the other hand, expansions, both in sales and jobs, for nondurable manufacturers more than offset pullbacks for heavy manufacturers.

#### KANSAS

The Kansas Business Conditions Index for May declined to 53.9 from April's 56.4. Components of the leading economic indicator from the monthly survey of supply managers were new orders at 53.1, production or sales at 55.1, delivery lead time at 47.0, employment at 61.1, and inventories at 53.0. Transportation equipment producers and farm equipment manufacturers continue to experience slow to negative growth in the state. On the other hand, nondurable goods producers, including food processors, are expanding economic activity and more than offsetting losses for durable goods producers.

#### MINNESOTA

The May Business Conditions Index for Minnesota slipped to a still strong 58.4 from April's 61.2. Components of the overall May index from the monthly survey of supply managers were new orders at 57.6, production or sales at 59.8, delivery lead time at 51.0, inventories at 57.5, and employment at 66.3. Slight job gains for both durable and nondurable goods producers in the state supported May's solid overall reading. Medical equipment manufacturers continue to expand at a solid pace as transportation equipment producers reduced jobs and economic activity.

#### MISSOURI

The May Business Conditions Index for Missouri slumped to 51.0 from 62.4 in April. Components of the overall May index from the survey of supply managers were new orders at 50.3, production or sales at 52.2, delivery lead time at 44.6, inventories at 50.2, and employment at 57.9. Nondurable and durable goods manufacturers experienced positive, but slowing growth for the month. Metal manufacturers, computer and electronic equipment producers, and vehicle manufacturers experienced upturns in economic activity.

#### NEBRASKA

The May Business Conditions Index for Nebraska fell to a solid 55.2 from 61.0 in April. Components of the index from the monthly survey of supply managers were new orders at 54.4, production or sales at 56.5, delivery lead time at 48.2, inventories at 54.3, and employment at 62.6. While metal manufacturers and machinery producers experienced slow to negative growth for the month, nondurable goods manufacturers, including food processors, detailed solid upturns in economic activity.

#### NORTH DAKOTA

North Dakota's overall, or Business Conditions Index, advanced above growth neutral for the month. The index for May from a survey of supply managers sank to 53.9 from 57.3 in April. Components of the overall index were new orders at 53.1, production or sales at 55.1, delivery lead time at 47.0, employment at 61.1, and inventories at 53.0. Energy and machinery equipment manufacturers continue to shed jobs. However, gains for nondurable goods producers in the state more than offset durable goods losses.

#### OKLAHOMA

Oklahoma's May Business Conditions Index remained above

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the growth neutral threshold for a fifth straight month, though the index declined to a still solid 54.2 from 61.2 in April. Components of the overall May index from a survey of supply managers in the state were new orders at 53.5, production or sales at 55.5, delivery lead time at 47.3, inventories at 53.4, and employment at 61.5. Durable goods, except for metal producers and machinery manufacturers are expanding at a slow, but positive pace. Nondurable goods manufacturers, including food processors, are experiencing healthy growth.

### SOUTH DAKOTA

The Business Conditions Index for South Dakota stood at a regional high 61.7, but down from April's 68.8, also a regional high. Components of the overall index for the May survey of supply managers in the state were new orders at 60.8, production or sales at 63.1, delivery lead time at 53.8, inventories at 60.7, and employment at 69.9. Expansions among nondurable goods manufacturers in the state more than compensated for slight losses for durable goods producers.



### THE BULLISH NEWS

- The nation's unemployment fell to 4.3% for May, the lowest jobless rate in 16 years.
- The Case-Shiller home price index for the U.S. rose 5.8%, a 33-month high in March. A shortage of housing and low mortgage rates are expanding price bubbles across the nation.
- The core CPI, which excludes food and energy, rose 1.9% between May 2016 and May 2017. Inflation appears to be moderating.



### THE BEARISH NEWS

- U.S. employers added 138,000 jobs in May, well below expectations of 180,000.
- The share of the population age 16 and above in the labor force dropped to 62.7%.
- Average weekly wages for May rose to \$901.97 which was 2.5% above May 2016. Even with a tight labor market, we are seeing sub-par wage growth.
- The U.S. trade deficit for April climbed 5.2% to \$47.6 billion.

### WHAT TO WATCH

- **Employment Report on July 7:** Another weak employment report, (e.g. less than 120,000 jobs added for June), will likely push the Federal Reserve to moderate interest rate increases for the remainder of 2017.
- **Consumer Price Index on July 14:** The Bureau of Labor Statistics will release the inflation gauge for June. Year-over-year growth in the core CPI below 2.0% will be bullish for bond prices.
- **Yield on 10-Year US Treasury bond:** This yield will decline as inflation cools. Current yield is 2.1% and still

well below the historical average.

### Goss Eggs (Recent Dumb Economic Moves)

- Connecticut is joining Illinois in a Puerto Rican debt spiral. With a \$5.1 billion state budget deficit and three recent credit downgrades, the state's treasurer has recommended issuing "credit bonds" securitized by income tax revenues. The idiocy of this recommendation will only be exceeded by that of investors who buy these crippled bonds.

Survey results for June will be released on the first business day of next month, July 3.

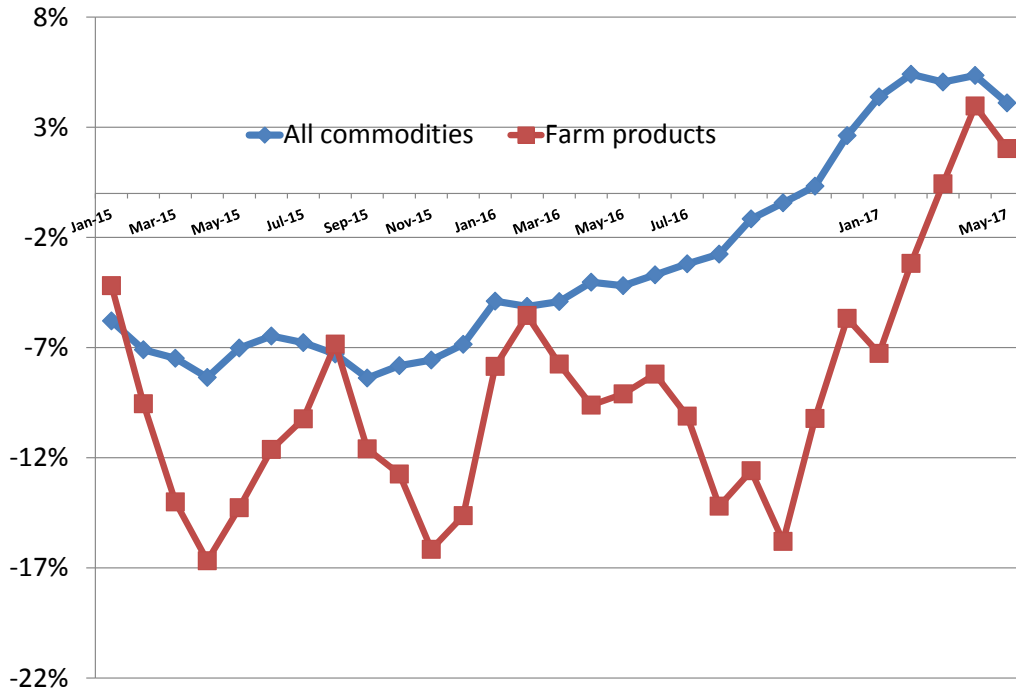
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For historical data and forecasts visit our website at:  
<http://www2.creighton.edu/business/economicoutlook/>

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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

