

"A monthly survey of supply chain managers"

Welcome to our March 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

Property Taxes Expand as Farm Income Plummets

The U.S. Department of Agriculture estimates that 2017 net farm income will fall 8.7% from 2016 levels, thus marking the fourth straight year of sinking agriculture income. As a result, states that depend heavily on farming have experienced significant shortfalls in tax collections producing economic stress, particularly for rural areas of agriculturally dependent states.

Even with sharply lower agriculture income, local taxing bodies have continued to raise property taxes on farmland. For example, between 2013 and 2014, assessed values of farmland for the 10-state Rural Mainstreet region actually expanded by an incredible 11.4% as farm earnings fell by 18.0%. Over that same period, local governments across the 10-state region increased elementary-secondary school spending per student by a median 3.3%. Not surprisingly, the percent change in property taxes for 2013-14 for the ten states were: NE 7.3%, SD 6.7%, CO 3.1%, KS 2.6%, IA 2.0%, ND 0.9%, IL 0.7%, MO -0.1%, WY -3.6% and MN at -5.6%.

While more recent data are not available, anecdotal evidence indicates this same pattern has continued with lower farm income, higher K-12 education spending, and ballooning property tax burdens on farmland with significantly lower, and even negative net farm income.

In order to avoid strangling the economic viability of farmers in the region, several solutions should be advanced, evaluated and potentially adopted:

1. Slow the growth in K-12 education spending;
2. Base property taxes on the income of the farmer rather than estimated or historical farmland values;
3. Change the state aid to education formulas to be more transparent and less detrimental to rural residents; and
4. Allow counties to collect local option sales taxes to support local spending.

Shifting the property tax burden to state sales and income taxes via state aid to local units has not and will not work. Historical evidence shows that cutting property taxes lasts for only two or three years and that it is followed by excessive property tax growth plus higher income and/or state sales taxes. Ernie Goss.

Link to video: <https://youtu.be/w3yHpJs-Cd4>

LAST MONTH'S SURVEY RESULTS

February Mid-America Index Jumps to Highest Level in Almost 3 Years: Inflation and Confidence Numbers Move Higher

SURVEY RESULTS AT A GLANCE:

- Overall index climbs for a fourth straight month to its highest level since April 2014.

- The region adds manufacturing jobs at a solid pace.
- Wholesale inflation gauge climbs to its highest level since April 2014.
- Business confidence index soars to highest level in six years.
- To enable a corporate tax rate cut, more than one-third of businesses support tax on imports.
- More than one-half of businesses think that a corporate income tax rate cut would have positive impacts on their business prospects for 2017.

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 February, according to the latest survey results.

Overall index: The Business Conditions Index, which ranges between 0 and 100, climbed in February to its highest level since April 2014 to a strong 60.5 from January's 54.7. This is the third straight month that the index has advanced above growth neutral.

This is the fourth consecutive month 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 through the third quarter of this year.

Employment: The February employment index remained above growth neutral. Even so, the new job or employment gauge slipped to 55.6 from January's 57.0. The growth gap between regional manufacturing and nonmanufacturing is closing. However, rural job growth in the nine-state region continues to significantly lag that of urban areas in the region.

Wholesale Prices: The wholesale inflation gauge remained in a range indicating rising inflationary pressures at the wholesale level as the prices-paid index increased to 75.0, its highest level since April 2014, and up from 74.2 in January.

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, will announce its current interest rate stance on March 15. While I do not expect a rate hike at that time, I do expect the FOMC to reinforce its outlook of three rate increases in 2017.

However, a significant upturn in wage rates released by the U.S. Bureau of Labor Statistics on March 10 and the consumer price index (CPI) on March 15 would push the FOMC to raise rates at its meeting this month.

Confidence: Looking ahead six months, economic optimism, as captured by the February business confidence index, rose to 71.3 from 69.5 in January. This is the highest confidence reading that we have recorded in six years.

Inventories: The February inventory index, which tracks the change in the level of raw materials and supplies, climbed to 58.0 from January's much softer 50.0.

Trade: The regional new export orders index rose to a healthy 63.6 from 48.7 in January, and the import index climbed to 54.1 from January's 46.7. An expanding regional economy pushed buying from abroad higher for the month. Recent declines in the value of the U.S. dollar may have stimulated new export orders for the month. However, I do not expect

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export order growth to remain this robust in the months ahead.

Other components: Components of the February Business Conditions Index were new orders at 67.3, up from 56.8 in January; production or sales index was 69.7, up from January's 56.9; and delivery speed of raw materials and supplies fell to 51.9 from last month's 53.1.

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 February rose to 58.9 from January's 55.3. Components of the index from the monthly survey of supply managers were new orders at 66.0, production or sales at 68.3, delivery lead time at 50.9, inventories at 54.7, and employment at 54.3. Recent surveys point to solid state growth for the next six months, with job additions of approximately 4,000. Leading industries: Trucking and health services. Lagging industries: Retail trade, durable manufacturing.

IOWA

The February Business Conditions Index for Iowa climbed to 62.6 from 51.8 in January. Components of the overall index from the monthly survey of supply managers were new orders at 67.4, production or sales at 69.7, delivery lead time at 52.0, employment at 57.7, and inventories at 66.4. Recent surveys point to solid growth for the next six months with job additions of approximately 4,500. Leading industries: food processing and ethanol production. Lagging industries: metal manufacturers and agriculture equipment producers.

KANSAS

The Kansas Business Conditions Index for February increased to 61.5 from January's 53.2. Components of the leading economic indicator from the monthly survey of supply managers were new orders at 66.9, production or sales at 69.3, delivery lead time at 51.7, employment at 56.7, and inventories at 62.9. Recent surveys point to solid growth for the next six months with job additions of approximately 2,500. Leading industries: aircraft and aircraft parts manufacturers and food processing. Lagging industries: metal manufacturers and agriculture equipment producers.

MINNESOTA

The February Business Conditions Index for Minnesota dipped to 54.3 from 54.7 in January. Components of the overall February index from the monthly survey of supply managers were new orders at 55.4, production or sales at 67.4, delivery lead time at 50.1, inventories at 46.5, and employment at 52.0. Recent surveys point to positive but slow growth for the next six months with job additions of approximately 11,000. Leading industries: ethanol and

medical equipment manufacturers. Lagging industries: vehicle parts manufacturers and agriculture equipment producers.

MISSOURI

The February Business Conditions Index for Missouri expanded to 66.8 from January's 53.7. Components of the overall February index from the survey of supply managers were new orders at 73.7, production or sales at 76.3, delivery lead time at 57.2, inventories at 53.4, and employment at 73.5. Recent surveys point to healthy growth for the next six months with job additions of approximately 16,000. Leading industries: banking and finance, and trucking. Lagging industries: motor vehicle and vehicle parts manufacturers, and metal manufacturers.

NEBRASKA

The February Business Conditions Index for Nebraska slipped to 55.4 from 56.9 in January. 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. Recent surveys point to positive but slow growth for the next six months with job additions of approximately 2,200. Leading industries: ethanol and trucking. Lagging industries: metal manufacturers and agriculture equipment producers.

NORTH DAKOTA

North Dakota's overall, or Business Conditions Index, advanced above growth neutral for two of the last three months. The index for February from a survey of supply managers rocketed to 66.8 from 49.7 in January and 51.0 in December. Components of the overall index were new orders at 54.7, production or sales at 71.5, delivery lead time at 53.4, employment at 62.0, and inventories at 81.2. Recent surveys point to soft, but positive state growth for the next six months with job additions of approximately 2,800. Leading industries: oil exploration and health services. Lagging industries: durable goods manufacturing.

OKLAHOMA

Oklahoma's Business Conditions Index moved above the growth neutral threshold for a second straight month. The February index increased to 59.0 from 52.3 in January. Components of the overall February index from a survey of supply managers in the state were new orders at 66.0, production or sales at 68.4, delivery lead time at 50.9, inventories at 55.1, and employment at 54.5. Recent surveys point to solid growth for the next six months with job additions of approximately 14,000. Leading industries: mining support firms and food processing. Lagging industries: machinery manufacturing.

SOUTH DAKOTA

The Business Conditions Index for South Dakota improved to 62.4 from January's 57.2. Components of the overall index for the February survey of supply managers in the state were new orders at 67.3, production or sales at 69.7, delivery lead time at 51.9, inventories at 65.7, and employment at 57.5. Recent surveys point to healthy state growth for the next six months with job additions of approximately 4,200. Leading industries: banking and finance and nondurable goods manufacturing. Lagging industries: durable goods producers.



THE BULLISH NEWS

- The Dow-Jones Industrial average broke 21,000 in March for the first time ever. In my judgment, U.S. stocks are priced for perfection—low interest rates, higher earnings, less regulatory burdens, and lower corporate taxes.

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- Both Creighton's and the ISM's manufacturing index (PMI) rose sharply for February.

- The Mexican Peso has soared by 6% since January 1. This is good news for companies and farmers that export to Mexico since it makes U.S. products more price competitive.



THE BEARISH NEWS

- The U.S. trade deficit climbed to a five-year high in January to a \$48.5 billion gap between exports and imports.
- Total foreign reserves held by the 30 largest emerging market countries rose to \$3.9 trillion. This likely signals concerns among these nations regarding international financial turmoil.
- European economic growth is finally improving. This will be a slight but positive stimulus for the U.S. economy.

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 April 14, BLS releases CPI for March. YOY growth (core) above the Fed target of 2.0% for the past 15 months. Annualized growth above 2.5% is getting "too hot" for the Fed and would push for another rate increase at the Fed's FOMC next meeting on May 3.
- Jobs:** On April 7, BLS releases its March jobs report. A strong year-over-year wage growth number (>3.0%) could push the Federal Reserve to raise interest rates at their next meeting on May 3.

Goss Eggs (Recent Dumb Economic Moves)

- Las Vegas taxpayers approved \$750 million in public funding via hotel tax to support the Oakland Raiders move to the gambling mecca. This a lousy bet that enriches NFL owners at the expense of the taxpayer.

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

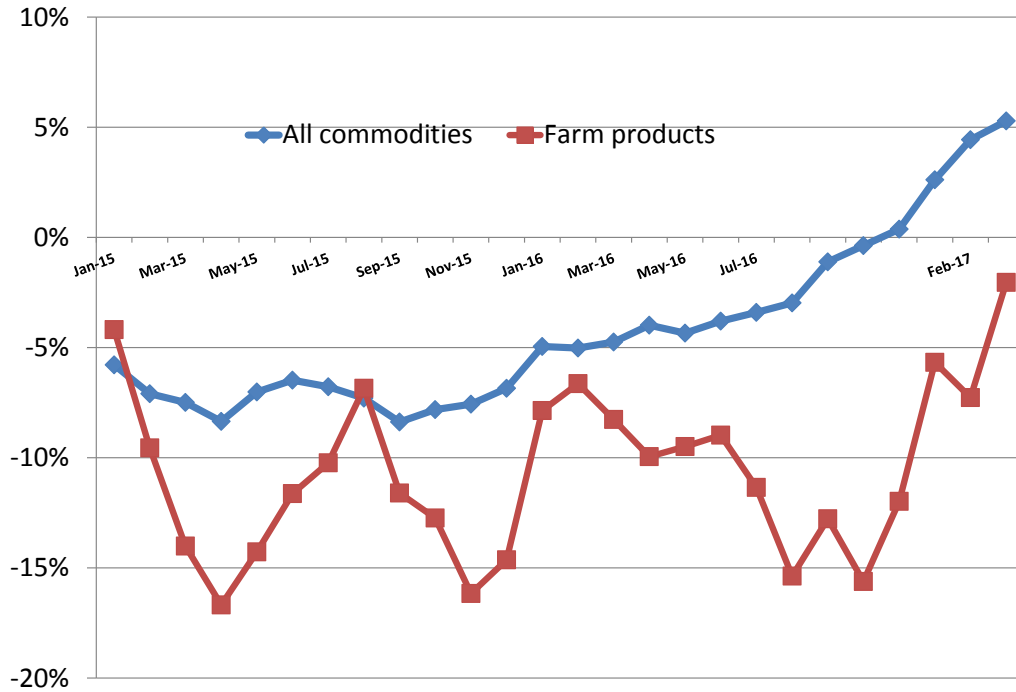
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For historical data and forecasts visit our website at:
<http://www2.creighton.edu/business/economicoutlook/>

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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

