

"A monthly survey of supply chain managers"

Welcome to our November report covering results from Creighton's October economic survey. Creighton's monthly survey of supply managers and procurement experts in nine Mid-America states indicate that the economic growth was negative for manufacturing with weakening economic conditions and job losses. Follow my comments at: www.twitter.com/erniegoss

Cubs Win World Series, Trump Triumphs, What's Next? Tax Cuts, Faster Growth, and More U.S. Investment

For the first time in 108 years, the Cubs won the World Series and U.S. voters elected its first president to have never held political office, nor served in the military. What's next, "Browns Win Super Bowl?"

While much is unknown regarding the Trump presidency, several changes are very, very likely. One change that I place the likelihood at 99.9% is a significant tax cut on corporate earnings of U.S. firms held overseas. Currently these earnings are not taxed by the IRS until they are brought home or repatriated. According to the Congressional Joint Committee on Taxation, the total untaxed earnings of U.S. corporations held abroad is approximately \$2.6 trillion with Apple alone stowing \$181 billion in foreign financial vaults.

It is likely that these earnings would flow back to the U.S. with firms increasing investment in plant and equipment or rewarding investors with cash dividends or stock buybacks. Regardless of the usage, the taxes, investment, or dividends would be a significant stimulus to the U.S. economy potentially exceeding the impact of the Obama 2009 Stimulus Package. Goldman Sachs estimated that reducing the rate to 14% from the current 35% levy would add \$240 billion to the federal coffers over and above the gains for state tax collections.

However for my agriculture colleagues and friends, this action, as it did in 2005, tend to push up the value of the U.S. dollar and lead to lower farm commodity prices. Even so, it should be done; it will be done. Ernie Goss.

Link to video: <https://www.youtube.com/watch?v=tvRasgkmb-c>

LAST MONTH'S SURVEY RESULTS

Mid-America Business Conditions Weaken Again: October Manufacturing Job Losses

SURVEY RESULTS AT A GLANCE:

- For a fourth straight month, the overall index was below growth neutral 50.0.
- Employment index remained below growth neutral for a fifth consecutive month.
- Government data show that over the past 12 months regional manufacturing employment declined by 1.3 percent, but regional nonmanufacturing employment expanded by 0.9 percent.
- More than one-third, or 34.9 percent, of supply managers reported selling abroad was an important contributor to their companies' sales revenues.
- Approximately 36.5 percent of supply managers

indicated purchasing from abroad was an important contributing factor to their companies' profitability.

The Creighton University Mid-America Business Conditions Index, a leading economic indicator for a nine-state region stretching from Arkansas to North Dakota, declined for October.

Overall index: The Business Conditions Index, which ranges between 0 and 100, fell in October to 43.8 from September's 45.5. This is the fourth straight month the index has moved below growth neutral 50.0. Like the national survey of supply managers, our regional survey is indicating the manufacturing sector continues to experience negative growth.

Even with oil prices hovering around \$50 per barrel for the month, weakness among manufacturers linked to agriculture and energy continue to weigh on regional economic conditions. Due to the heavy dependence of the region on these two sectors, I expect the regional economy to continue to underperform the national economy. Despite the decline in manufacturing, the nonmanufacturing sector of the regional economy is expanding, albeit at a slow pace..

Employment: The regional employment gauge indicates the nine-state manufacturing sector continues to lose jobs, as the index fell below growth neutral for the fifth straight month. The job gauge for October declined to 44.4 from September's 46.8. The growth gap between regional manufacturing and nonmanufacturing remains wide. Over the last 12 months, U.S. Bureau of Labor Statistics data indicate that the region's manufacturing sector lost almost 19,000 jobs, a 1.4 percent decline, while regional nonmanufacturing added almost 104,000 jobs, an increase of 1.0 percent.

Wholesale Prices: The wholesale inflation gauge remained in a range indicating modest inflationary pressures at the wholesale level, though the prices-paid index declined to 57.4 from September's 59.7.

One supply manager said, "We notice costs moving upwards, but the most serious concern is the increased cost of insurance benefits. That is the biggest impact we have had this year."

Even though wholesale price inflation remains in a range indicating only modest upward price pressures, I expect the Federal Reserve to raise interest rates at the December meeting of their rate setting committee. The year-over-year core consumer price index, which excludes food and energy, has risen above 2 percent for 11 straight months.

Confidence: Looking ahead six months, economic optimism, as captured by the October business confidence index, slumped to a frail 39.7 from 48.5 in September. Global economic uncertainty and weakness in the region's agricultural and energy sector are weighing on the business economic outlook of supply managers.

Inventories: The October inventory index, which tracks the change in the level of raw materials and supplies, plummeted to 38.5 from September's 40.1. A less than optimistic economic outlook has pushed supply managers to cut their companies' inventory of raw materials and supplies.

Trade: The new export orders index advanced to a still weak 47.3 from 33.8 in September, and the import index increased slightly to 44.6 from September's 43.4. Supply managers reported the slowing global economic conditions

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were restraining export growth while the domestic economy slowdown was curtailing buying from abroad.

In the Creighton October survey supply managers were asked to gauge the importance of international markets to their company. More than one-third, or 34.9 percent, of supply managers reported that selling abroad was an important contributing factor to their companies' revenues and profitability. Approximately 36.5 percent of supply managers indicated purchasing from abroad was an important contributing factor for their companies' profitability.

Other components: Components of the October Business Conditions Index were new orders at 41.4, down slightly from 41.9 in September; production or sales index was 39.1, down from 45.7 in September; and delivery speed of raw materials and supplies rose to 55.6 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 October sank to 41.5 from 45.7 in September. Components of the index from the monthly survey of supply managers were new orders at 35.0, production or sales at 37.8, delivery lead time at 56.7, inventories at 35.0, and employment at 42.9. Gains for nondurable goods manufacturers in the state were more than offset my losses for the larger durable goods sector. Percent of job changes over 12 months; Manufacturing, -0.5%; All nonfarm,+1.6%.

IOWA

The October Business Conditions Index for Iowa rose slightly to a frail 48.9 from September's 48.0. Components of the overall index from the monthly survey of supply managers were new orders at 39.4, production or sales at 47.8, delivery lead time at 55.8, employment at 51.2, and inventories at 50.2. Metal producers and machinery manufacturers experienced downturns in economic activity. Additionally, food processors recorded cutbacks in business activity. Percent of job changes over 12 months; Manufacturing, -1.9%; All nonfarm, +1.9%.

KANSAS

The Kansas Business Conditions Index for October slumped slightly to 43.7 from 43.9 in September. Components of the leading economic indicator from the monthly survey of supply managers were new orders at 47.8, production or sales at 37.9, delivery lead time at 36.5, employment at 48.9, and inventories at 47.3. Durable goods producers, including machinery manufacturers, experienced downturns in economic activity. This more than offset slight gains for nondurable goods

producers, such as food processors. Percent of job changes over 12 months; Manufacturing, -0.4%; All nonfarm, -0.4%.

MINNESOTA

The October Business Conditions Index for Minnesota increased to 48.7 from September's 48.4. Components of the overall October index from the monthly survey of supply managers were new orders at 40.4, production or sales at 38.1, delivery lead time at 62.3, inventories at 44.8, and employment at 57.8. Durable goods manufacturers in the state, such as metal producers and machinery manufacturers, recorded losses for the month. This activity more than offset gains for nondurable goods producers such as food processors. Percent of job changes over 12 months; Manufacturing, -0.2%; All nonfarm, +1.6%.

MISSOURI

The October Business Conditions Index for Missouri slumped to 41.6 from September's 47.3. Components of the overall October index from the survey of supply managers were new orders at 40.1, production or sales at 40.1, delivery lead time at 51.7, inventories at 35.2, and employment at 43.0. Fabricated metal producers and machinery manufacturers in the state continue to experience pullbacks in economic activity, especially for those firms linked to international markets and agriculture. Percent of job changes over 12 months; Manufacturing, -0.9%; All nonfarm,+1.1%.

NEBRASKA

The October Business Conditions Index for Nebraska fell to 43.3 from 44.6 in September. Components of the index from the monthly survey of supply managers were new orders at 40.5, production or sales at 38.2, delivery lead time at 54.7, inventories at 39.0, and employment at 44.3. Manufacturers with ties to agriculture and energy continue to experience downturns in economic activities. On the other hand, food processors in the state are detailing improving economic conditions. Percent of job changes over 12 months; Manufacturing, -0.1%; All nonfarm, +1.0%.

NORTH DAKOTA

North Dakota's leading economic indicator for October once again sank below growth neutral 50.0. The Business Conditions Index for the month fell to 40.5 from 48.2 in September. Components of the overall index from the monthly survey of supply managers were new orders at 37.2, production or sales at 47.8, delivery lead time at 51.1, employment at 37.7, and inventories at 28.7. Both durable and nondurable goods firms in the state, especially those linked to farming and energy, experienced pullbacks in economic activity for the month. Percent of job changes over 12 months; Manufacturing, -2.3%; All nonfarm, -1.3%.

OKLAHOMA

After moving above growth neutral for May, Oklahoma's Business Conditions Index has been below growth neutral 50.0 for five consecutive months. The October index sank to a regional low of 38.8 from 40.3 in September, also a regional low. Components of the overall October index from a survey of supply managers in the state were new orders at 47.7, production or sales at 35.2, delivery lead time at 57.8, inventories at 19.2, and employment at 33.9. Both durables goods producers and nondurable goods manufacturers linked to energy continue to lose jobs. Percent of job changes over 12 months; Manufacturing, -6.9%; All nonfarm, -0.7%.

SOUTH DAKOTA

The Business Conditions Index for South Dakota fell to 46.8 from September's regional high of 51.1. This is the first time the index has moved below growth neutral after nine straight months above the 50.0 threshold. Components of the overall index for the

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further damage the international banking sector and reduce business lending at a time when it should be growing.

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

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

October survey of supply managers in the state were new orders at 47.8, production or sales at 37.5, delivery lead time at 57.8, inventories at 45.6, and employment at 42.1. Manufacturers in the state linked to agriculture, energy and international markets, detailed downturns in economic activity. Percent of job changes over 12 months; Manufacturing, -2.2%; All nonfarm, +2.5%.



THE BULLISH NEWS

- The U.S. economy expanded at an annual rate of 2.9% in the third quarter of 2016, marking the strongest quarter of growth in two years.
- In October 2016, the U.S. added 161,000 jobs with an unemployment rate of 4.9% which was down from 5% in September. Most importantly, wages expanded by 0.4% for the month, the best growth since before the recession.
- The S&P/Case-Shiller home price index for August was up 5.3% above the index for August 2015.



THE BEARISH NEWS

- The Creighton PMI fell below growth neutral for October and the U.S. PMI stood at a weak 51.5 for the month.
- The U.S. labor participation rate, the share of the population (age 16 and above) in the labor force, ticked down to 62.8% as 435,000 Americans left the labor force (often termed discouraged workers).

WHAT TO WATCH

- **Federal Reserve (Fed) Meetings:** On Dec. 14, the interest rate setting committee of the Fed meets to consider changing short-term interest rates. While they will very likely raise short term rates by ¼%, they may also signal another rate hike in the first quarter of 2017. This would bearish news for stocks.
- **The Jobs Report:** On Dec. 2, the Bureau of Labor Statistics will release the November jobs report. Another very strong report (i.e. more than 200,000 jobs) will push the Federal Reserve to raise rates in December, and again in the first quarter of 2017.
- **PMIs for U.S. and Mid-America:** On Dec. 1, Creighton and the Institute for Supply Management will release their readings on manufacturing in Mid-America and U.S. Another set of readings below growth neutral 50.0 will be bearish for U.S. stocks and bullish for bond prices.

Goss Eggs
(Recent Dumb Economic Moves)

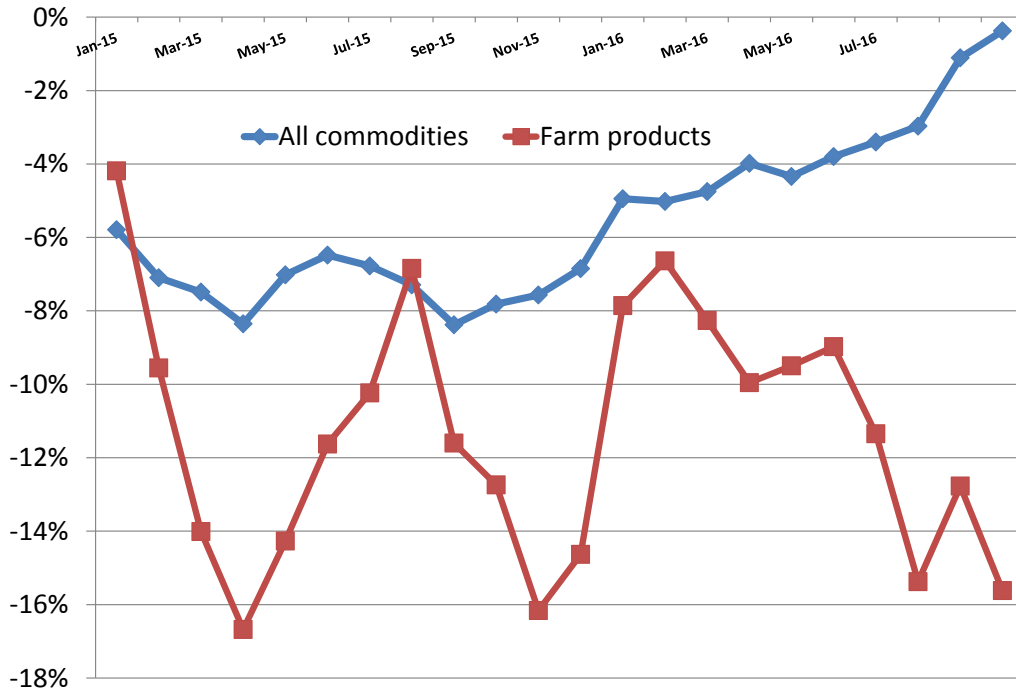
- The U.S. Justice Department recently proposed that Deutsche Bank pay \$14 billion for its role in a mortgage securities scandal that contributed to the 2008-2009 financial meltdown. This fine or "shakedown" represents two-thirds of the market value of the bank and will

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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, 2015-16



Year over year price change, fuels and metal products, 2015-16

