

"A monthly survey of supply chain managers"

Welcome to our October report covering results from Creighton's September 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

Is Trump's Tax Reform for the Rich? Top 1% Pay Seven Times the Rate of Bottom 50%

In September, President Trump unveiled his tax reform plan to a chorus of boos from the big government tax and spend devotees. For example, New York Democrat Senator Schumer, Grand Poobah of the big spenders, tweeted, "GOP #TaxReform plan & what @SpeakerRyan says about it are 2 diff things. Says plan is for middle class but 80% is for wealthy- Get real Paul."

According to the Tax Foundation, the latest income tax data show that the top 50% of income earners paid 97.3% of income taxes, with the bottom half of income earners paying only 2.7%. Furthermore, the top 1% of income earners paid an individual income tax rate of 27.1%, which was more than seven times higher than that of the bottom 50% who paid an income tax rate of only 3.5%. Thus, a tax reform package that differentially supports low and middle income taxpayers would further distort a tax system that already punishes educational achievement, innovation, and entrepreneurship, all of which lead to income growth.

On top of this, the element of the President's tax reform package garnering the most criticism from supposed defenders of low and middle income taxpayers is the elimination of the deduction for state and local income taxes. Currently the benefits of this deduction go largely to high income earners, and it encourages state and local taxing units to raise taxes. Eliminating this deduction would cost taxpayers with incomes over \$200,000 an average of \$7,000, but an average of only \$100 for taxpayers making less than \$200,000. To bolster passage of his plan, Trump might channel Nobel prize winning economist Milton Friedman who said, "I am in favor of cutting taxes under any circumstances and for any excuse, for any reason, whenever it's possible." Ernie Goss.

Link to video: <https://youtu.be/aCNT537QhSQ>

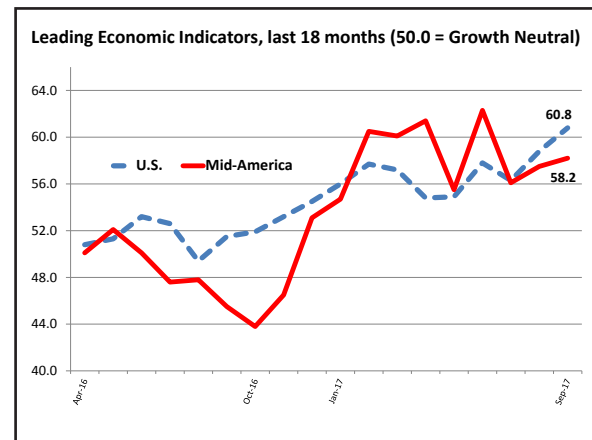
LAST MONTH'S SURVEY RESULTS

Mid-America Business Conditions Index Rises to Healthy Level: Inflation Gauge Soars to Highest Level in More than Six Years

SURVEY RESULTS AT A GLANCE:

- Overall index moved above growth neutral for a tenth straight month, pointing to solid growth ahead.
- Inflation gauge soared to its highest level since April 2011.
- Supply managers expect the prices of raw materials and supplies purchased by their firm to increase by 3.5 percent over the next six months.
- Approximately 16 percent expect another 2017 rate hike to negatively impact their company's business activity.
- Employment gauge remained in a healthy range.

The October Creighton University Mid-America Business Conditions Index, a leading economic indicator for the nine-state region stretching from Arkansas to North Dakota, climbed to a healthy reading according to the latest monthly survey results.



Overall index: The Business Conditions Index, which ranges between 0 and 100, rose to 58.2 from August's 57.5. This is the tenth straight month the index has remained above growth neutral, continuing to point to positive growth for the region over the next three to six months.

The overall index over the past several months indicates a healthy regional manufacturing economy, and points to solid growth for both manufacturing and nonmanufacturing for the rest of 2017.

Employment: The September employment index remained above growth neutral with a reading of 52.0, and down from August's much stronger 59.2. The durable, nondurable and nonmanufacturing sectors are adding jobs at a solid pace. Energy firms and manufacturers tied to energy are expanding at a strong pace across the region. With the recent boost in employment growth, total regional employment growth (year over year) is now 1.3 percent, and slightly below the nation's 1.4 percent gain over the same time period.

Wholesale Prices: After falling for two straight months, the regional wholesale inflation gauge rose to a level indicating rising inflationary pressures. The wholesale price index jumped to 79.6, its highest level since April 2011, and up from 65.5 in August.

Given advancing inflationary reading from our surveys and government surveys over the past several months, I expect the Federal Reserve to raise short term interest rates one more time before the end of 2017. Only 16 percent of the businesses in our survey expect such a rate hike to negatively impact affect their company's business activity.

However, as reported by one supply manager, "At some point the feds are going to have to stop manipulating the market and let the chips fall where they may. If that means increasing rates, then so be it."

Supply managers were asked to project their expected change in prices for inputs that they purchase. On average, supply managers estimated that prices would expand by 3.5 percent over the six months, and well above the 2.1 percent recorded in September 2016 when the same question was asked.

On the other hand price increases were not uniformly higher. One supply manager reported that, "We see (only) a slight uptick in average prices we pay for steel in 2018, over prices paid in 2017."

"A monthly survey of supply chain managers"

Confidence: Looking ahead six months, economic optimism, as captured by the September business confidence index, jumped to a strong 63.6 from 62.5 in August. Strong profit growth, still low interest rates, and international sales boosted the economic outlook among supply managers in the nine-state region.

Inventories: The September inventory index, which tracks the change in the level of raw materials and supplies fell to 53.0 from August's 56.5.

Trade: The regional new export orders index climbed to 54.3 from 52.8 in August, and the import index advanced to 53.8 from August's 50.0. Expanding regional growth spurred purchases of inputs from abroad, while growth among important trading partners pushed export orders higher for the month.

Other components: Components of the September Business Conditions Index were new orders at 62.5 from 53.8 in August; production or sales index was 67.4, up from August's 62.5; and delivery speed of raw materials and supplies expanded slightly to 56.0 from last month's 55.7.

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 September overall index for Arkansas advanced to 67.3 from August's 65.9. Components of the index from the monthly survey of supply managers were new orders at 72.9, production or sales at 76.7, delivery lead time at 66.6, inventories at 60.9, and employment at 59.6. Over the past 12 months, Arkansas increased manufacturing employment by 2.1 percent or approximately 3,300 manufacturing jobs. Losses for durable goods producers were more than offset by gains for non-durable goods manufacturers.

IOWA

The September Business Conditions Index for Iowa expanded to 60.7 from 57.7 in August. Components of the overall index from the monthly survey of supply managers were new orders at 63.2, production or sales at 70.6, delivery lead time at 60.0, employment at 54.3, and inventories at 55.4. Over the past 12 months, Iowa increased manufacturing employment by only 0.7 percent, or approximately 1,400 manufacturing jobs. Gains were experienced almost equally by durable goods producers and non-durable goods manufacturers.

KANSAS

The Kansas Business Conditions Index for September increased to 43.6, a regional low, from 42.8 in August. Components of the leading economic indicator from the monthly survey

of supply managers were new orders at 47.1, production or sales at 52.7, delivery lead time at 40.5, employment at 38.5, and inventories at 39.3. Over the past 12 months, Kansas experienced a decline in manufacturing employment of 2.1, or approximately 3,300 manufacturing jobs. Almost all of the loss was recorded by the state's durable goods manufacturing sector.

MINNESOTA

The September Business Conditions Index for Minnesota declined to a still healthy 59.4 from August's 61.8. Components of the overall September index from the monthly survey of supply managers were new orders at 64.3, production or sales at 68.6, delivery lead time at 57.9, inventories at 53.7, and employment at 52.5. Over the past 12 months, Minnesota increased manufacturing employment by 1.0 percent, or approximately 3,100 manufacturing jobs. Most of the gains were recorded by non-durable goods producers.

MISSOURI

The September Business Conditions Index for Missouri climbed to 63.9 from 61.1 in August. Components of the overall September index from the survey of supply managers were new orders at 69.3, production or sales at 69.2, delivery lead time at 66.2, inventories at 60.5, and employment at 54.3. Over the past 12 months, Missouri increased manufacturing employment by 3.1 percent or approximately 8,100 manufacturing jobs. Gains were recorded by both durable and non-durable goods producers.

NEBRASKA

The September Business Conditions Index for Nebraska rose to 59.3 from 57.9 in August. Components of the index from the monthly survey of supply managers were new orders at 65.4, production or sales at 64.2, delivery lead time at 59.0, inventories at 54.6, and employment at 53.4. Over the past 12 months, Nebraska increased manufacturing employment by only 0.8 percent, or approximately 800 jobs manufacturing jobs. Losses for durable goods producers were more than offset by gains for non-durable goods manufacturers.

NORTH DAKOTA

North Dakota's overall, or Business Conditions Index, jumped above growth neutral for the month. The index for September from a survey of supply managers climbed to 63.9 from August's 69.1. Components of the overall index were new orders at 70.4, production or sales at 74.3, delivery lead time at 58.5, employment at 57.5, and inventories at 58.8. Over the past 12 months, North Dakota experienced a 2.8 percent decline in manufacturing employment, or approximately 700 manufacturing jobs. However, additions by the state's large energy sector more than offset manufacturing losses.

OKLAHOMA

After falling below growth neutral for July, Oklahoma's Business Conditions Index rose above the 50.0 threshold for August and September. The overall index from a monthly survey of supply managers climbed to a healthy 62.7 from 56.2 in August. Components of the overall September index from a survey of supply managers in the state were new orders at 67.8, production or sales at 71.9, delivery lead time at 61.5, inventories at 56.6, and employment at 55.4. Over the past 12 months, Oklahoma increased manufacturing employment by 2.8 percent, or approximately 3,600 manufacturing jobs. Contrary to the other eight states, Oklahoma's gains were driven by the state's durable goods manufacturers.

SOUTH DAKOTA

The Business Conditions Index for South Dakota plummeted to improved slightly to a weak 46.6 from August's 45.5. Components

"A monthly survey of supply chain managers"

of the overall index from the September survey of supply managers in the state were new orders at 50.4, production or sales at 55.7, delivery lead time at 43.8, inventories at 42.1, and employment at 41.2. Over the past 12 months, South Dakota experienced a decline in manufacturing employment of 1.0, or approximately 400 manufacturing jobs. Almost all of the loss was recorded by the state's durable goods manufacturing sector.

86% after the announcement. Remember 1999 when firms magically expanded by including ".com" in their names?.

Survey results for September will be released on the first business day of next month, October 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/>



THE BULLISH NEWS

- The U.S. average hourly wage for September rose 2.9% from September 2016.
- Last week the U.S. House passed a budget resolution. This is the first step in getting a budget passed for the fiscal year.
- The Case-Shiller home price index for July climbed 5.9% from one year earlier.
- The U.S. trade deficit shrank for August by \$1.2 billion due to an upturn in exports.



THE BEARISH NEWS

- U.S. beef consumption declined by 15% between 2005 and 2015.
- The yield on the 10-year U.S. Treasury bond rose to its highest level since July signaling rising expected inflation.

WHAT TO WATCH

- **Jobs Report on November 3:** The Bureau of Labor Statistics will release its employment report for September. Another strong reading on wages will "seal the deal" on a December 2017 Federal Reserve rate hike.
- **Consumer Price Index on November 15:** The Bureau of Labor Statistics will release the inflation gauge for October. An annualized increase above 2.5% will be bullish for stocks prices and bearish for bond prices (rising yields).
- **Third Quarter GDP on October 27:** The U.S. Bureau of Economic Analysis will release Q3 GDP. Due to hurricanes Irma and Harvey, a weak number is expected. An annualized growth reading above 2.5% will be very bullish for the economy, but bearish for U.S. Treasury bond prices.

Goss Eggs (Recent Dumb Economic Moves)

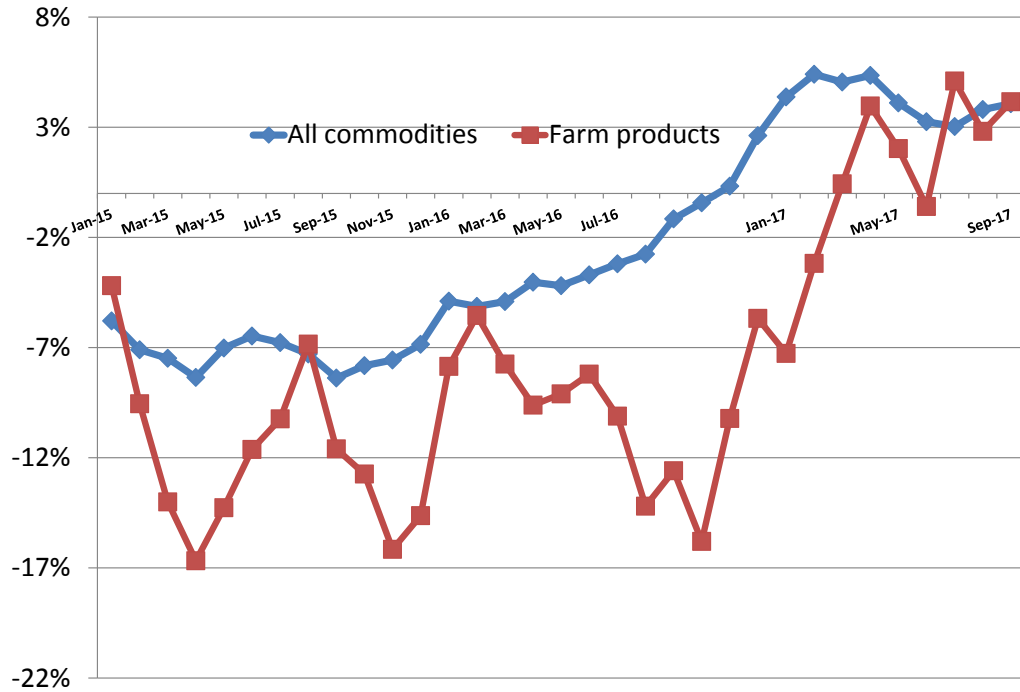
- **Bubble Anyone?** Last week Bioptix (BIOP), a firm that previously had been licensing fertility hormones for cows, horses and pigs, announced that it was getting into the **cryptocurrency** business and changed its name to Riot Blockchain. Despite having a return-on-equity of -45.0% (yes that's a minus), the stock price exploded by

"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, 2015-17



Year over year price change, fuels and metal products, 2015-17

