

## "A monthly survey of supply chain managers"

Welcome to our February report covering results from Creighton's January survey of supply managers and procurement experts in nine Mid-America states indicate that the economic growth has turned negative (recessionary) for manufacturing, but is stabilizing. Follow my comments at: [www.twitter.com/erniegoss](http://www.twitter.com/erniegoss)

### Economists Whisper the "R" Word: Watch Yield Curve for Clues of Recession

Seven years of the weakest economic growth since 1937 and 2015 ending with economic growth close to zero have pushed some economists to issue 2016 recession alerts for the U.S. However, economic signals are truly mixed.

Recession harbingers: the national and Creighton regional ISM readings for manufacturing have been below growth neutral for three straight months; the U.S. stock market as measured by the S&P 500 index is down by 10.3% over the past six months signaling weak corporate profits; Fourth quarter 2015, U.S. worker productivity fell by 3%, GDP expanded by an anemic 0.7% and exports declined by \$0.5 billion; the percentage of the U.S. population in the labor market is at its lowest level since 1978.

Growth signs: U.S. economy added 1,137,000 jobs over the past six months and the unemployment rate declined to its lowest level in 8 years; Average weekly earnings expanded by 2.5% over the past year (not great, but not bad); consumer spending rose by 2.2% in Q4, 2015.

However, the most telling statistic is the yield curve—the difference between the yield on the 10-year U.S. Treasury bond and the 2-year U.S. Treasury bond. When the short term bond yield rises significantly due Federal Reserve rate hikes and the long term bond yield declines due to investor's pessimistic outlook, the economy is likely to slow. Six months before the beginning of the last 3 recessions, the difference between these two bond yields sank into negative territory. While the difference in yields has been trending lower, it currently stands at 1.0%. Thus at this point in time, this important indicator is not signaling a 2016 recession, but keep an eye on it. Ernie Goss.

#### Link to video:

<https://youtu.be/xlkUsvBUm0I>

### LAST MONTH'S SURVEY RESULTS

Mid-America Business Conditions Index Improves:  
Export Orders Plummet for January

#### SURVEY RESULTS AT A GLANCE:

- For a sixth straight month, the region's overall index moved below growth neutral.
- Weakness for Missouri, North Dakota, and Oklahoma, more than offset readings above growth neutral for the remaining six states.
- The strong U.S. dollar sank export orders, but boosted imports for the month.
- Employment index improved, but remained below growth neutral for a fifth consecutive month. Over

the past year, the region lost almost 20,000 durable manufacturing jobs but gained approximately 3,000 non-durable jobs.

The Creighton University Mid-America Business Conditions Index for January, a leading economic indicator for a nine-state region stretching from Arkansas to North Dakota, expanded for the first time since June of last year, but remained below growth neutral.

**Overall index:** The January Business Conditions Index, which ranges between 0 and 100, improved to a still weak 48.3 from December's 39.5. The regional index, much like the national reading, is now in negative territory indicating manufacturing losses linked to the strong U.S. dollar and to economic weakness among global trading partners.

The U.S. dollar strengthened by almost 9 percent since June of last year and on Friday, the dollar posted its largest gain against the Japanese yen since the fourth quarter of 2014. This, along with economic weakness among the nation's chief trading partners, has squeezed, and will continue to squeeze, U.S. and regional manufacturers.

**Employment:** The regional employment gauge increased for January but remained below growth neutral at 49.3, up from December's 37.1. Over the past year, the region has lost approximately 20,000 durable manufacturing jobs, or 2.4 percent of heavy manufacturing jobs. During this same period, the rest of the nation gained 7,000, or 0.2 percent, in durable goods manufacturing jobs.

Areas and industries heavily dependent on durable goods manufacturing, especially those linked to exports, agriculture and energy, are experiencing the largest losses

This month businesses were asked to describe their hiring situation in January. Approximately 46.3 percent of the businesses reported that the number of applicants exceeded the number of available jobs at their firm. On the other hand, 18.5 percent of businesses reported shortages of workers for company job openings.

**Wholesale Prices:** The wholesale inflation index for January rose to 52.4 from December's 48.2. Prices for raw materials and supplies, as reported by regional supply managers, are rising at a pace that will undercut the Federal Reserve's goal of 2 percent growth in consumer prices. Confidence: Looking ahead six months, economic optimism, as captured by the January business confidence index, fell to 42.2 from December's 49.1. Falling agriculture and energy commodity prices, along with global economic uncertainty, continues to restrain supply managers' expectations of future economic conditions.

**Inventories:** In another sign of a sinking economic outlook, supply managers reduced their inventory levels for the month, though at a slower pace. The January inventory index, which tracks the change in the level of raw materials and supplies, increased to 49.3 from 43.6 in December.

**Trade:** The new export orders stood at a weak 40.0, up from 33.8 in December. The import index for January expanded to 53.1 from December's 40.0. The strong U.S. dollar, making U.S. goods less competitively priced abroad, and a weaker global economy, hammered new export orders for the month. On the other hand, the

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strong dollar, making foreign goods more competitively prices boosted imports above growth neutral for the month.

Since October of 2015, the value of the U.S. dollar has expanded by more than 8 percent against the Canadian dollar. The number one export market for each state in the Mid-America region is Canada, and this will put downward pressure on regional exports.

**Other components:** Components of the January Business Conditions Index were new orders at 43.7, up from 34.6 in December; production or sales moved higher to 45.3 from December's 35.4; and delivery speed of raw materials and supplies rose to 53.9 from last month's 47.3.

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 by the National Institute for Supply Management, formerly the Purchasing Management Association, since 1931.

MID-AMERICA STATES

ARKANSAS

The state's January overall index, or leading economic indicator, climbed to 50.1 from December's 40.1. Components of the index from the monthly survey of supply managers were new orders at 45.3, production or sales at 47.0, delivery lead time at 55.9, inventories at 51.2, and employment at 51.0. According to the latest U.S. government data, exports represent approximately 5.7 percent of the state's overall economy. This puts Arkansas in 37th place among the 50 states. Since Canada is Arkansas's number one export market, state exports will remain under pressure since the value of the U.S. dollar to the Canadian dollar has climbed by more than 8 percent since October 2015.

IOWA

The January Business Conditions Index for Iowa soared to a tepid, but positive, 50.3 from 41.2 in December. Components of the index from the monthly survey of supply managers were new orders at 45.5, production or sales at 47.2, delivery lead time at 56.1, employment at 51.4, and inventories at 51.2. According to the latest U.S. government data, exports represent approximately 8.9 percent of the state's overall economy. This places Iowa in 18th place among the 50 states. Since Canada is Iowa's number one export market, exports will remain under pressure since the value of the U.S. dollar to the Canadian dollar has climbed by more than 8 percent since October 2015.

KANSAS

The Kansas Business Conditions Index for January rose to 50.7 from December's 41.7. Components of the leading economic indicator from the monthly survey of supply managers were new orders at 45.8, production or sales at 47.5, delivery lead time at 56.5, employment at 51.9, and inventories at 51.5. According to the latest U.S. government data, exports represent

approximately 8.3 percent of the state's overall economy. This places Kansas in 20th place among the 50 states. Since Canada is Kansas's number one export market, exports will remain under pressure since the value of the U.S. dollar to the Canadian dollar has climbed by more than 8 percent since October 2015.

MINNESOTA

The January Minnesota Business Conditions Index jumped to 50.1 from December's 39.4. Components of the index from the monthly survey of supply managers were new orders at 44.8, production or sales at 46.5, delivery lead time at 55.3, inventories at 49.7, and employment at 53.9. According to the latest U.S. government data, exports represent approximately 6.8 percent of the state's overall economy. This places Minnesota in 29th place among the 50 states. Since Canada is Minnesota's number one export market, exports will remain under pressure since the value of the U.S. dollar to the Canadian dollar has climbed by more than 8 percent since October 2015.

MISSOURI

The January Business Conditions Index for Missouri increased to 47.7 from December's 38.9. Components of the index from the survey of supply managers were new orders at 43.2, production or sales at 44.8, delivery lead time at 53.2, inventories at 49.0, and employment at 48.4. According to the latest U.S. government data, exports represent approximately 5.1 percent of the state's overall economy. This places Missouri in 39th place among the 50 states. Since Canada is Missouri's number one export market, state exports will remain under pressure since the value of the U.S. dollar to the Canadian dollar has climbed by more than 8 percent since October 2015.

NEBRASKA

January's Business Conditions Index for the state climbed to a regional high of 54.3 from 43.5 in December. After six straight months of falling below growth neutral, the index, a leading economic indicator from a monthly survey of supply managers bounced to its highest level since April of last year. Components of the index were new orders at 49.1, production or sales at 51.0, delivery lead time at 60.6, inventories at 55.7, and employment at 55.1. According to the latest U.S. government data, exports represent approximately 7.1 percent of the state's overall economy. This places Nebraska in 27th place among the 50 states. Since Canada is Nebraska's number one export market, exports will remain under pressure since the value of the U.S. dollar to the Canadian dollar has climbed by more than 8 percent since October 2015.

NORTH DAKOTA

North Dakota's leading economic indicator for January remained below growth neutral 50.0. The Business Conditions Index was a regional low 41.3, up from December's 35.5, also a regional low. Components of the overall index from the monthly survey of supply managers were new orders at 37.3, production or sales at 38.7, delivery lead time at 46.0, employment at 42.1, and inventories at 42.1. According to the latest U.S. government data, exports represent approximately 9.8 percent of the state's overall economy. This places North Dakota in 13th place among the 50 states. Since Canada is North Dakota's number one export market, exports will remain under pressure since the value of the U.S. dollar to the Canadian dollar has climbed by more than 8 percent since October 2015.

OKLAHOMA

The January Business Conditions Index for Oklahoma slumped below growth neutral for a ninth straight month. The index from a monthly survey of supply managers climbed to a weak 48.3 from 35.5 in December. Components of the January survey

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Goss Eggs  
(Recent Dumb Economic Moves)

- The Environmental Protection Agency is proposing to make it illegal to modify your roadgoing car for racing, and could even prohibit the sale of aftermarket parts that mess with emission control devices. To paraphrase Charlton Heston, "I'll give you my carburetor when you pry it from my cold, dead hands."

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

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

of supply managers were new orders at 43.7, production or sales at 45.3, delivery lead time at 53.9, inventories at 49.7, and employment at 48.9. According to the latest U.S. government data, exports represent approximately 3.4 percent of the state's overall economy. This places Oklahoma in 48th place among the 50 states. Since Canada is Oklahoma's number one export market, exports will remain under pressure since the value of the U.S. dollar to the Canadian dollar has climbed by more than 8 percent since October 2015.

SOUTH DAKOTA

After falling below growth neutral for three straight months, South Dakota's leading economic indicator rose above the 50.0 threshold to 51.3 from 40.2 in December. Components of the overall index for January were new orders at 46.4, production or sales at 48.2, delivery lead time at 57.3, inventories at 52.4, and employment at 52.5. According to the latest U.S. government data, exports represent approximately 3.5 percent of the state's overall economy. This places South Dakota in 47th place among the 50 states. Since Canada is South Dakota's number one export market, exports will remain under pressure since the value of the U.S. dollar to the Canadian dollar has climbed by more than 8 percent since October 2015.



THE BULLISH NEWS

- The U.S. added 151,000 jobs for January and the unemployment rate fell to its lowest level in 8 years.
- According to the latest Case-Shiller index, U.S. home prices advanced by 0.9% in November.



THE BEARISH NEWS

- U.S. gross domestic product (GDP) expanded at an annualized 0.7% rate in the final quarter of 2015. Nation's economy should be growing at 5-6 times this pace.
- Both the U.S. and Creighton survey of supply managers indicate that the economy is slowing down with little inflationary pressures at the wholesale level.
- The U.S. trade deficit widened in December as a strong dollar and weak global demand continued to weigh on exports.

WHAT TO WATCH

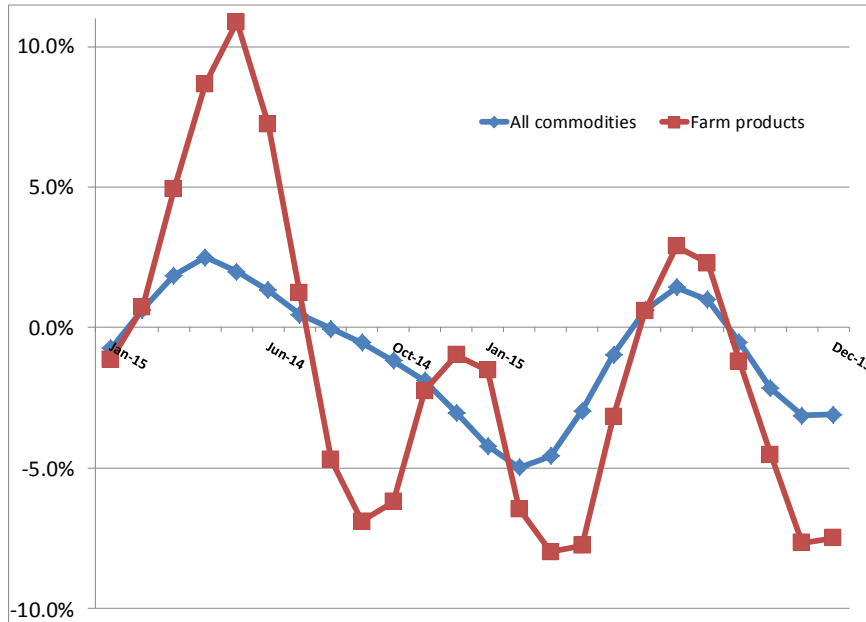
- CPI:** On Feb. 9 and March 16, the BLS will release the consumer price indices for January and February, respectively. The core CPI, which excludes food and energy, increased 2.1% between December 2014 and 2014. This is getting uncomfortably higher for the Fed.
- Federal Reserve:** The Fed's interest rate meeting is March 15-16. The likelihood of a rate hike is at 12% right now. That is much, much too low. Even if there is no hike, listen for any hawkish language.
- The Jobs Report:** On March 4 the Bureau of Labor Statistics will report February jobs report. A very strong report (200,000 jobs and unemployment rate of 4.8%) will push the Federal Reserve to raise rates late in the month.

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## PRICE DATA

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

Price changes, 3 month moving average, Jan. 2014- Dec. 2015



Price changes, 3 month moving average, Jan. 2014 – Dec. 2015

