

"A monthly survey of supply chain managers"

Welcome to our March report covering results from Creighton's February economic survey of supply managers and procurement experts in nine Mid-America states. Results from last month indicate that the economic growth was slightly positive for manufacturing with stabilizing economic conditions. Follow my comments at: www.twitter.com/erniegoss

NAFTA Exports Do Boost U.S. Economy: Presidential Candidates Spout Trade Hyperbole

Economic truths are usually the first casualty of any presidential election season and 2016 is no exception. For example, several candidates are using trade agreements such as the North American Free Trade Agreement (NAFTA) as a foil for their economic tunnel vision which argues that NAFTA signatories, Canada and Mexico, are stealing U.S. manufacturing jobs.

Since NAFTA was passed in 1993, the U.S. has lost 26.6% of its manufacturing jobs, but manufacturing production soared by 142.3%. In other words, the enemy of U.S. manufacturing jobs has been rising and coveted productivity growth, not trade with Mexico or Canada. In fact over the past 15 years, exports to Canada and Mexico, have grown by 108.3% as imports from the same nations expanded by a smaller 94.4%.

For 2015, NAFTA exports supported 2.2 million U.S. jobs with the top job gains for Texas with 517,000, California with 189,000, Michigan with 149,000, Ohio with 115,000 and Illinois with 114,000. By industry, the biggest beneficiaries of NAFTA exports for 2015, in terms of jobs supported, were electrical and non-electrical machinery at 54,886 jobs, vehicles at 16,200 jobs, fossil fuels at 9,300 jobs, plastics at 6,700 jobs and surgical instruments at 3,500 jobs. Thus, data show that the beneficiaries of exports to Canada and Mexico are broadly disbursed across U.S. states and industries. Those running for the U.S. presidency should appeal to the economic logic of the American voter not misguided economic chauvinism. Ernie Goss.

Link to video:

<https://youtu.be/qBL5KNed43E>

LAST MONTH'S SURVEY RESULTS

Mid-America Business Conditions Index Highest Since July 2015:

Shortage of Qualified Workers Remains

SURVEY RESULTS AT A GLANCE:

- For the first time since July of last year, the region's overall index moved above growth neutral.
- Weak job market and export declined recorded for the month.
- More than one-fourth of bankers say a March Federal Reserve rate hike would negatively impact their business.
- Approximately 39.7 percent indicated the biggest 2016 threat to their business was U.S. economic weakness.

- Approximately 17.5 reported that finding and hiring qualified workers is the greatest economic threat to their business.

The Creighton University Mid-America Business Conditions Index for February, a leading economic indicator for a nine-state region stretching from Arkansas to North Dakota, expanded for a second straight month.

Overall index: The February Business Conditions Index, which ranges between 0 and 100, improved to a still soft 50.5 from January's 48.3. Over the past several months, the regional index, much like the national reading, has indicated that the manufacturing sector is experiencing anemic, but stabilizing, economic conditions.

A strong U.S. dollar and weakness among the nation's chief trading partners remains a restraint on regional growth. For example against the currency of region's primary trading partner, Canada, the U.S. dollar has strengthened by 30 percent since July 2014. This upturn has made U.S. goods much less competitively priced in Canada.

Employment: The regional employment gauge sank for February to 44.4 from January's 49.3. Employment is a lagging economic indicator. Therefore, I expect the solid improvement in new orders and production for the month to spill over into the job market in the months ahead with modest gains for the overall regional labor market. However, I expect for job losses to continue for the two energy dependent states, North Dakota and Oklahoma.

This month, businesses were asked to name the greatest economic threat facing their firm for 2016. Approximately 17.5 percent indicated finding and hiring qualified workers would be the biggest challenge or threat to business success in the coming year. Approximately 39.7 percent of businesses reported U.S. economic weakness represented the greatest economic threat for 2016. The remaining responses were spread across many other issues according to the supply managers.

Wholesale Prices: The wholesale inflation index for February rose slightly to 52.5 from January's 52.4. Prices for raw materials and supplies, as reported by regional supply managers, are rising at a pace that gives the Federal Reserve flexibility in terms of the need for rate changes at their March meetings---neither too much inflation nor deflation.

In February, supply managers were asked about the impact of an implementation of a March Federal Reserve rate increase. Approximately 25.4 percent said a rate hike would have a negative impact on their business while 3.9 percent said that they anticipate positive impacts from any rate increase. The remaining 70.7 percent expect no impact from a March Federal Reserve rate hike.

Confidence: Looking ahead six months, economic optimism, as captured by the February business confidence index, climbed to 46.8 from January's 42.2. Falling and/or weak agriculture and energy commodity prices, along with global economic uncertainty, continue 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 at a somewhat faster pace. The February inventory index, which tracks the change in the level of raw

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materials and supplies, dropped to 48.4 from 49.3 in January.

Trade: The new export orders improved to a still weak 46.1 from 40.0 in January. The import index for February slipped to 50.1 from January's 53.1. The strong U.S. dollar, making U.S. goods less competitively priced abroad, and a weaker global economy, remain obstacles to improvements in export orders. On the other hand, the strong dollar, making foreign goods more competitively priced in the U.S. boosted imports above growth neutral for the month.

Other components: Components of the February Business Conditions Index were new orders at 52.5, up from 43.7 in January; production or sales moved higher to 54.2 from January's 45.3; and delivery speed of raw materials and supplies dipped to 53.2 from last month's 53.9.

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 state's February overall index, or leading economic indicator, sank to 46.1 from January's 50.1. Components of the index from the monthly survey of supply managers were new orders at 46.0, production or sales at 47.6, delivery lead time at 46.7, inventories at 42.4, and employment at 47.8. Over the past 12 months, Arkansas has lost 4,500, or 2.9 percent of its manufacturing jobs. Our surveys over the past month indicate these job losses will continue, but at a slower pace in the next three to six months. These losses will reduce overall state job growth.

IOWA

The February Business Conditions Index for Iowa climbed to a positive 51.3 from 50.3 in January. Components of the index from the monthly survey of supply managers were new orders at 51.3, production or sales at 53.0, delivery lead time at 52.0, employment at 50.2, and inventories at 49.8. Over the past 12 months, the state has lost 1,700, or 0.8 percent of its manufacturing jobs. Our surveys over the past month indicate the manufacturing sector is now gaining jobs, but at a very slow pace. These slight gains will spill over into the broader state economy with moderate job gains for the overall economy.

KANSAS

The Kansas Business Conditions Index for February rose to 52.3 from 50.7 in January. Components of the leading economic indicator from the monthly survey of supply managers were new orders at 52.2, production or sales at 53.9, delivery lead time at 52.9, employment at 48.0, and inventories at 55.0. Over the past 12 months, the state has added a slight 400, or 0.2 percent, to its manufacturing job base. Our surveys

over the past several months indicate the manufacturing sector is continues to add jobs, but at a very slow pace. These slight gains will spill over into the broader state economy with moderate job gains for the overall state economy.

MINNESOTA

The February Minnesota Business Conditions Index climbed to 52.1 from January's 50.1. Components of the index from the monthly survey of supply managers were new orders at 52.0, production or sales at 53.7, delivery lead time at 52.8, inventories at 52.3, and employment at 49.5. Over the past 12 months, Minnesota has lost a slight 200, or 0.1 percent of its manufacturing jobs. Our surveys over the past several months indicate the manufacturing sector is now gaining jobs, but at a very slow pace. These slight gains will spill over into the broader state economy with moderate job gains for the overall state economy through the second quarter.

MISSOURI

The February Business Conditions Index for Missouri increased to 52.3 from January's 47.7. Components of the index from the survey of supply managers were new orders at 52.3, production or sales at 54.0, delivery lead time at 56.3, inventories at 55.3, and employment at 44.2. Over the past 12 months, the state has added 1,200 manufacturing jobs for a gain of 0.5 percent. Our surveys over the past several months indicate the manufacturing sector is now shedding jobs, but at a very slow pace. I expect recent additions to new orders to translate into jobs gains for the broader state economy with moderate job gains for the overall state economy through quarter two of this year.

NEBRASKA

February's Business Conditions Index for the state slumped to 47.2 from January's regional high of 54.3. Components of the index from the monthly survey of supply managers were new orders at 47.1, production or sales at 48.7, delivery lead time at 57.1, inventories at 43.4, and employment at 39.8. Over the past 12 months, the state has lost 2,300, or 2.4 percent of its manufacturing jobs. Our surveys over the past month indicate that these job losses will continue, but at a slower pace in the next three to six months. These losses will reduce overall state job growth close to zero for the state through quarter two of this year.

NORTH DAKOTA

North Dakota's leading economic indicator for February remained below growth neutral 50.0. The Business Conditions Index for the month increased to 46.4 from January's 41.3. Components of the overall index from the monthly survey of supply managers were new orders at 46.3, production or sales at 47.9, delivery lead time at 56.1, employment at 39.2, and inventories at 42.7. Over the past 12 months, the state has lost 1,300, or 4.9 percent of its manufacturing jobs. Our surveys over the past month indicate these job losses will continue, but at a slower pace in the next three to six months. These losses will push overall job growth into negative territory for the second quarter of 2016.

OKLAHOMA

The February Business Conditions Index for Oklahoma slumped below growth neutral for a tenth straight month. The index from a monthly survey of supply managers fell to 39.4 from 48.3 in January. Components of the February survey of supply managers were new orders at 39.3, production or sales at 40.6, delivery lead time at 47.5, inventories at 36.3, and employment at 33.3. Over the past 12 months, the state has lost 8,900, or 6.4 percent of its manufacturing jobs. Our surveys over the past month indicate these job losses will continue, but at a slower pace in the next three to six months. These losses will push overall state job

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Goss Eggs
(Recent Dumb Economic Moves)

- The two Democratic presidential candidates went on record indicating that each would stop natural gas fracking in the U.S. Clinton said, "By the time we get through all of my conditions, I do not think there will be many places in America where fracking will continue to take place". But thanks to fracking, natural gas prices in the U.S. have fallen by 60% since 2008 saving the American consumer \$32 billion annually. Can low income Americans afford this policy?

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

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

growth into negative territory for the second quarter of 2016.

SOUTH DAKOTA

For a second straight month, South Dakota's leading economic indicator rose above the growth neutral threshold of 50.0 to a regional high of 57.4 from January's 51.3. Components of the overall index for February were new orders at 61.1, production or sales at 61.2, delivery lead time at 59.6, inventories at 52.9, and employment at 52.3. Over the past 12 months, the state has added 400 manufacturing jobs for a slight gain of 0.9 percent. Our surveys over the past several months indicate that the manufacturing sector continues to add manufacturing jobs, but at a very slow pace. I expect recent additions to new orders to translate into gains for the broader state economy with moderate job gains for the overall economy through quarter two of this year.



THE BULLISH NEWS

- The U.S. added 242,000 jobs for February and the unemployment rate stood at its lowest level in 8 years.
- According to the latest Case-Shiller index, U.S. home prices advanced by 5.7% between December 2014 and December 2015.
- U.S. ethanol exports had a strong start in January 2016, expanding 7% over December volumes to a 14-month high.



THE BEARISH NEWS

- Average hourly earnings for February fell 3 cents and were up a weak 2.2% from one year earlier.
- Both the U.S. and Creighton survey of supply managers indicate that the manufacturing economy continues to limp along but it does appear to have stabilized.
- U.S. January exports fall to lowest level since mid-2011 as the U.S. trade deficit climbs 2.2% to \$45.7 billion.

WHAT TO WATCH

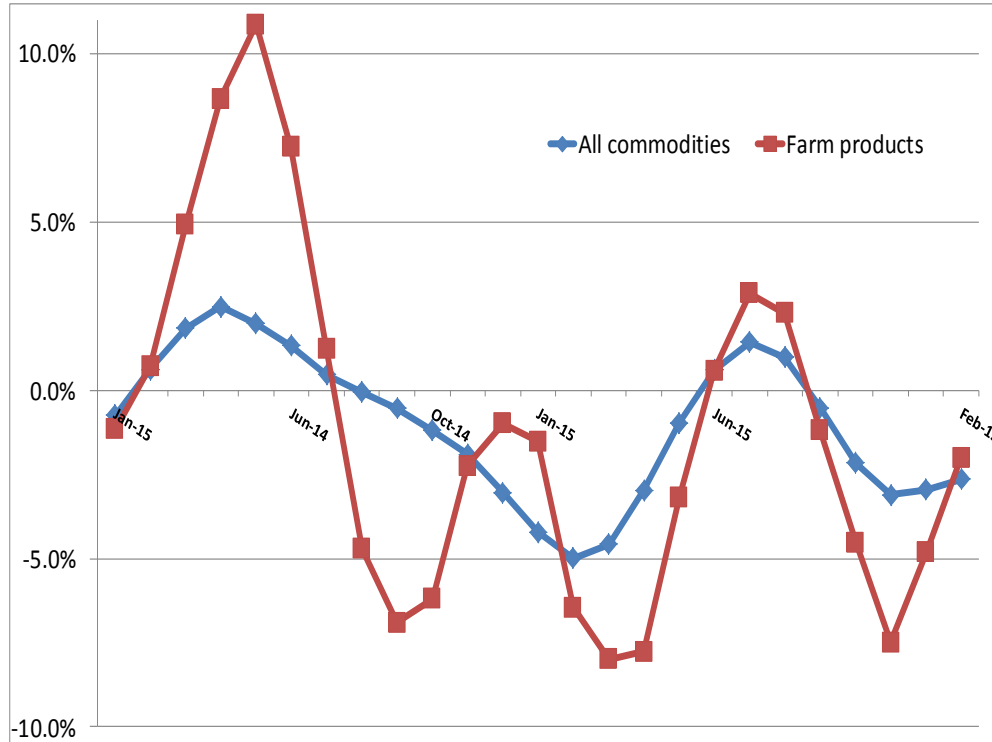
- CPI:** On April 14, the BLS will release the consumer price indices for March. The core CPI, which excludes food and energy, increased 2.2% between January 2015 and January 2016. This is above the Federal Reserve's target and will push the Fed to raise rates more aggressively in 2016.
- The Yield Curve:** The yield on the 10-year U.S. Treasury is now 1.83% and the yield on the 2-year U.S. Treasury is now 0.88% for a gap or yield difference of 0.95%. Further reductions in the difference are warnings of slowing U.S. economic growth.
- The Jobs Report:** On April 1, the Bureau of Labor Statistics will report March jobs report. Another very strong report (200,000 jobs and unemployment rate of 4.8%) will push the Federal Reserve to raise rates at their April 26-27 meetings.

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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- Feb. 2016



Price changes, 3 month moving average, Jan. 2014 – Feb. 2016

