

"A monthly survey of supply chain managers"

Welcome to our August Newsletter covering May survey results. Creighton's monthly survey of supply managers and procurement experts in nine Mid-America states indicates that economic growth remains in a very healthy range, but with elevated inflationary pressures. Follow my comments at: www.twitter.com/erniegoss

Trump's Economic Progress Exceeded Obama's: Less Regulation and Tax Cuts Play Important Roles

By the end of July 2018, President Trump had presided over the U.S. economy for approximately 1.5 years. Compared to President Obama's last 1.5 years, how has the Trump economy stacked up?

Overall economic growth. For the first 1.5 years of the Trump administration, the U.S. economy expanded by 4.1%, but for the last 1.5 years of the Obama Administration, the U.S. economy advanced by a much smaller 2.2%. Not only was growth significantly stronger in the Trump era, growth in the Obama Administration was trending downward in his last 1.5 years. Conversely, growth in the Trump Administration is trending upward.

Table 1 compares the Trump Administration's first 1.5 years to the last 1.5 years of the Obama Administration's across several critical economic performance measures.

	Trump's First 1.5 years	Obama's Last 1.5 years
Overall economic growth (GDP)	4.1%	2.2%
Job growth	4.0%	4.8%
Growth in average wages	5.3%	5.0%
S&P 500 stock prices	45.4%	19.0%
Corporate profits (5 quarters only)	-7.2%	1.2%
Federal deficit as percent GDP	+6.0%	+4.2%
Change in unemployment rate (percentage points)	-0.9	-0.5
Number of persons receiving food stamps	-12.3%	-1.3%

Sources: U.S. BEA, U.S. BLS, Yahoo.com, U.S.D.A.

As listed, the economic performance of the Trump Administration surpassed that of the Obama Administration across all metrics except the growth in jobs, corporate profits, and the expansion in the federal deficit.

The president's influence on the overall economy is limited with other factors such as global growth and Federal Reserve policy playing significant roles. Nonetheless, there is evidence that Trump's economic policies of less regulation and lower taxes are pushing most economic metrics in a more favorable direction than experienced during the 1.5 years before Trump took office.

Link to video: <https://www.youtube.com/watch?v=brnQbPgOTkQ&>

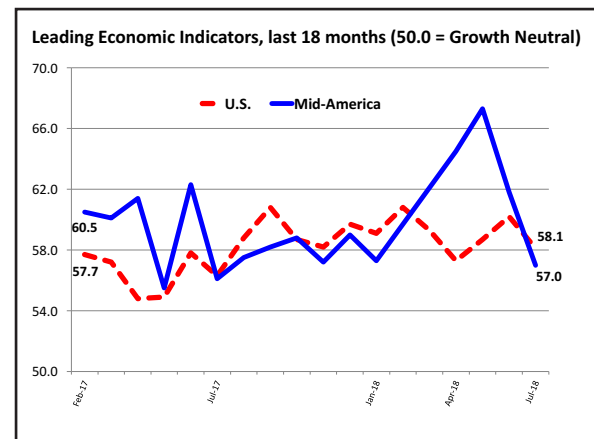
LAST MONTH'S SURVEY RESULTS

Mid-America Economic Index Points to Slower Growth: Tariffs Negatively Impact Two-Thirds of Firms

SURVEY RESULTS AT A GLANCE:

- The Business Conditions Index moved above growth neutral for the 20th straight month, and into a range pointing to positive but slower growth in the next three to six months.
- Wholesale inflation index pointing to Federal Reserve rate hike Sept. 26.
- Almost two-thirds of firms reported recent tariffs and trade restrictions have had, or will have, a negative impact on their company.
- Approximately 46.8 percent of supply managers indicated recent tariffs have had negative impacts on buying from abroad.
- Business confidence rose to a very healthy level.

The July Creighton University Mid-America Business Conditions Index, a leading economic indicator for the nine-state region stretching from Minnesota to Arkansas, fell to a solid level continuing to point to positive, but slower, growth for the next three to six months.



Overall index: The Business Conditions Index, which ranges between 0 and 100, declined to 57.0 from June's 61.8 and May's 67.3. This is the 20th straight month the index has remained above growth neutral 50.0, but the second straight month that the index has fallen.

The regional economy continues to expand at a healthy pace with manufacturing growth of approximately 2.6 percent over the past 12 months compared to a lower 2.3 percent for the U.S.

However, I expect expanding tariffs, trade restrictions, and rising short-term interest rates from a more aggressive Federal Reserve to slow growth to a more modest, but still positive pace.

Employment: July employment decreased to 58.9 from June's 61.9.

Overall employment growth in the region over the past 12 months has been healthy but expanding at a rate below that of the nation. On the other hand, manufacturing job growth has been stronger in the region than the rest of the U.S.

Wholesale Prices: The wholesale inflation gauge continues to indicate elevated inflationary pressures with an index of 83.8, but down from 86.9 in June.

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Both Creighton's regional wholesale inflation index and the U.S. inflation gauge are elevated. Over the past 12 months, U.S. wholesale prices have expanded by 3.1 percent, the fastest growth since 2012. At the consumer level, the consumer price index advanced by 2.9 percent over the past 12 months.

I expect rising tariffs, trade restrictions, and higher oil prices to continue to boost wholesale and consumer inflation growth above the Federal Reserve's target. This trend has already begun to push consumer inflation higher. As a result, in my judgment, the Federal Reserve's interest rate-setting committee will raise short-term interest rates by one-quarter of one percentage point (25 basis points) at their Sept. 26 meeting.

Approximately 46.8 percent of supply managers indicated that recent trade tariffs and restrictions had already begun to have negative impacts on buying from abroad. One supply manager reported that tariffs on Canadian steel were having a bigger effect on his firm than expected.

Almost two-thirds, or 63.1 percent of supply managers reported that recent tariffs and trade restrictions have had, or will have, negative impact on their companies. Despite this negative impact, 32.6 supported raising tariffs even higher.

Confidence: Looking ahead six months, economic optimism, as captured by the July Business Confidence Index, climbed to a strong 63.9 from June's 59.8. Despite trade tensions and skirmishes, healthy profit growth, still low interest rates, and lower tax rates, supported robust business confidence.

Inventories: Companies expanded their inventories of raw materials and supplies, but at a slower pace than in June. The July inventory index declined to 53.3 from June's 58.6.

Trade: The regional new export orders index sank to 53.2 from 60.0 in June, and the import index rose to 60.1 from June's solid 56.5. Positive export orders and imports may be the result of firms in the U.S., and among trading partners, advancing purchasing in anticipation of rising trade restrictions and tariffs.

However, as reported by one supply manager, "President Trump's decision to tackle the trade deficit is the right one."

Other components: Components of the July Business Conditions Index were new orders at 55.6, down from 64.7 in June; the production or sales index declined to 57.8 from June's 64.7; and speed of deliveries of raw materials and supplies rose to 59.6 from last month's 58.3.

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

MID-AMERICA STATES

ARKANSAS

The July Business Conditions Index for Arkansas fell to 56.7 from June's 62.5. Components of the index from the monthly survey of supply managers were new orders at 54.8, production or sales at 57.7, delivery lead time at 59.8, inventories at 52.9, and employment at 58.4. U.S. Census data indicate that Arkansas exported \$1.1 billion in agriculture and food products in 2017. This represented 17.7 percent of total 2017 state exports, fifth highest in the nine-state region.

IOWA

The July Business Conditions Index for Iowa sank to a solid 55.9 from June's very healthy 62.6. Components of the overall index from the monthly survey of supply managers were new orders at 53.6, production or sales at 58.8, delivery lead time at 58.4, employment at 57.1, and inventories at 51.6. U.S. Census data indicate that Iowa exported \$4.5 billion in agriculture and food products in 2017. This represented 34.3 percent of total 2017 state exports, or third highest in the nine-state region.

KANSAS

The Kansas Business Conditions Index for July dipped to 60.5 from June's 62.5. Components of the leading economic indicator from the monthly survey of supply managers were new orders at 58.3, production or sales at 61.9, delivery lead time at 64.1, employment at 62.1, and inventories at 56.7. U.S. Census data indicate that Kansas exported \$3.8 billion in agriculture and food products in 2017. This represented 34.1 percent of total 2017 state exports, or fourth highest in the nine-state region.

MINNESOTA

The July Business Conditions Index for Minnesota decreased to a still positive 55.8 from June's 58.8. Components of the overall July index from the monthly survey of supply managers were new orders at 56.6, production or sales at 56.1, delivery lead time at 58.0, inventories at 51.3, and employment at 56.9. U.S. Census data indicate that Minnesota exported \$2.3 billion in agriculture and food products in 2017. This represented 11.3 percent of total 2017 state exports, or eighth highest in the nine-state region.

MISSOURI

The July Business Conditions Index for Missouri sank to 56.4 from 62.6 in June. Components of the overall index from the survey of supply managers were new orders at 54.5, production or sales at 57.4, delivery lead time at 59.4, inventories at 52.5, and employment at 58.0. "U.S. Census data indicate that Missouri exported \$1.8 billion in agriculture and food products in 2017. This represented 13.0 percent of total 2017 state exports, or seventh highest in the nine-state region.

NEBRASKA

The July Business Conditions Index for Nebraska fell to 61.0 from June's 66.1. Components of the index from the monthly survey of supply managers were new orders at 58.6, production or sales at 62.3, delivery lead time at 64.5, inventories at 57.1, and employment at 62.5. U.S. Census data indicate that Nebraska exported \$3.7 billion in agriculture and food products in 2017. This represented 51.9 percent of total 2017 state exports, or tops in the nine-state region.

NORTH DAKOTA

The Business Conditions Index for North Dakota climbed to 69.6 from June's 66.4. Components of the overall index were new orders at 66.4, production or sales at 71.5, delivery lead

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time at 74.1, employment at 70.7, and inventories at 65.5. U.S. Census data indicate that North Dakota exported \$709.2 million in agriculture and food products in 2017. This represented 13.3 percent of total 2017 state exports, or sixth highest in the nine-state region.

OKLAHOMA

Oklahoma's Business Conditions Index has now remained above the 50.0 threshold for the last 12 months. The overall index from a monthly survey of supply managers slipped to 60.6 from June's 61.1. Components of the overall July index were new orders at 57.1, production or sales at 60.5, delivery lead time at 68.9, inventories at 55.4, and employment at 61.1. U.S. Census data indicate that Oklahoma exported \$561.1 million in agriculture and food products in 2017. This represented 10.4 percent of total 2017 state exports, or the bottom in the nine-state region.

SOUTH DAKOTA

The July Business Conditions Index for South Dakota fell to a still solid 54.3 from June's 58.0. Components of the overall index from the June survey of supply managers in the state were new orders at 52.6, production or sales at 55.2, delivery lead time at 57.1, inventories at 50.5, and employment at 56.1. U.S. Census data indicate that South Dakota exported \$475.3 million in agriculture and food products in 2017. This represented 34.9 percent of total 2017 state exports, or second highest in the nine-state region.



THE BULLISH NEWS

- The nation added 157,000 jobs in July as the unemployment rate dipped to 3.9%.
- Housing prices were up 6.4% in May from 12 months earlier. Supply constraints continue to push price growth at a pace that is diverging from much slower income growth. In May, the housing affordability index fell to its lowest level in 10 years.



THE BEARISH NEWS

- The U.S. trade deficit expanded in June as exports fell and imports climbed.
- For the first nine months of fiscal 2018, the nation's budget deficit widened by 16% compared to the same period in fiscal 2017.

WHAT TO WATCH

- **Inflation, Inflation, Inflation:** The Bureau of Labor Statistics will release the inflation gauge for August on September 13. An annualized increase above 2.5% will be bearish for bond prices (rising yields, falling prices).
- **Inverted Yield:** Marketwatch.com provides contemporaneous yields on the 2-year and 10-year U.S. Treasury bonds. Every recession since 1980 has been preceded by 2-year rates exceeding 10-year rates (termed an inverted yield). Currently 30 basis points (0.30%).

- **Wage Data for July:** On September 7, the U.S. Bureau of Labor Statistics will release wage data for August. Year over year growth approaching 3.0% will be a strong inflation signal (more interest rate increases from the Fed).

Goss Eggs (Recent Dumb Economic Moves)

- The latest data show that approximately 50% of able-bodied food stamp recipients age 18-55 reported working zero hours. In House version of the latest Food Stamp Bill (part of the Farm Bill), anyone between 18 and 59-years-old, who is not disabled and doesn't have kids under 6, would have to work at least 20 hours each week, or undertake at least 20 hours of training. Unfortunately, this element of the bill was not passed by the Senate, and will die in conference committee.

Goss (August 2018): I expect **the next Federal Reserve rate hike on September 26 (0.25% or 25 basis points); **mortgage rates to climb by another ¼% by the end of 2018. ***GDP growth to slow in the second half of 2018. ***annualized growth in the consumer price index (CPI) to exceed 3% in Q4, 2018

THE OUTLOOK

NABE Business Conditions Survey (August 2018). Highlights: "The results of the July 2018 NABE Business Conditions Survey indicate strong sales and steady profit margins in the second quarter of 2018, as well as increasing materials costs and wages," said NABE Business Conditions Survey Chair Sara Rutledge, independent real estate economist and data science research fellow at StratoDem Analytics. "All panelists expect continued economic growth over the next 12 months, with most panelists anticipating inflation-adjusted gross domestic product— real GDP growth—to exceed 2%. Labor market conditions are tight, with skilled labor shortages driving firms to raise pay, increase training, and consider additional automation."

STATISTIC OF THE MONTH

- The nation's affordability index declined to 95, its lowest level in 10 years as higher mortgage rates, rising building costs, and lack of supply pushed prices up faster than income. The U.S. median home price in June was a record \$276,900

Survey results for August will be released on September 4, the first business day of the month.

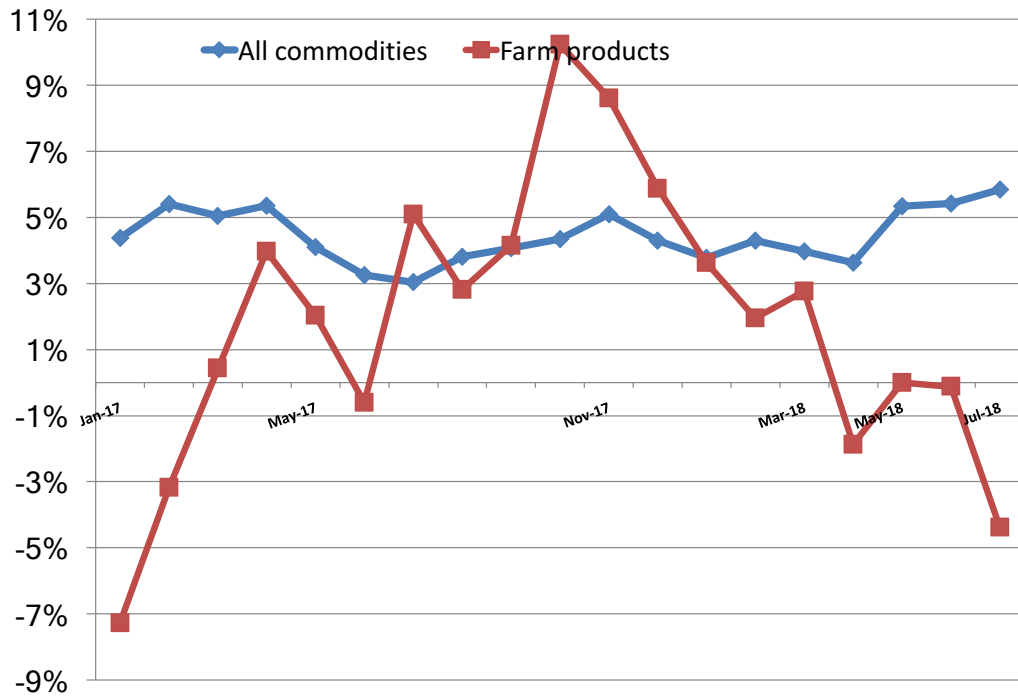
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For historical data and forecasts visit our website at: <http://www2.creighton.edu/business/economicoutlook/>

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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, 2017-18



Year over year price change, fuels and metal products, 2017-18

