"A monthly survey of supply chain managers"

Welcome to our July Newsletter covering June 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

Rural versus Urban Economies: Trade and Fed Policy Divide the Two

Just as the drunk with one hand in the fireplace and the other in the refrigerator is, on average, doing well, the agricultural and energy dependent states have been, on average, doing (performing) well. Currently however, state averages blend healthy growth in urban areas in each state with economic fatigue in the rural areas of the same statesnd other cryptocurrencies are attempting to fill Friedman's void.

Between 2009 and 2013, Creighton's Rural Mainstreet survey typically indicated very healthy growth in rural areas that are dependent on agriculture and energy. During this time period, driven by Federal Reserve (Fed) easy money policies that stimulated agriculture and energy exports, our surveys and government data tracked rural areas growing at brisk rates. During the Fed's expansion policies from 2009 to 2013, average yearly export growth in agriculture, food and oil products soared by 12.6 percent.

In 2014, the Fed ended Quantitative Easing, one of its major stimulus programs, which lowered long-term interest rates, and in 2015 began raising short-term interest rates. The end of the Fed interest rate stimulation programs, or easy money policies, raised the value of the U.S. dollar and restrained exports, particularly of agriculture and energy commodities. Thus, urban areas of the region, more dependent on manufacturing and housing, continued to expand while rural areas relying on agriculture and energy moved into negative territory. During the Fed's less accommodative money polices, 2014-17, the average yearly export sales of agriculture, food, and oil products plummeted by 6.3 percent. As a result, employment in urban areas of the region over the past three years expanded by 4.1 percent, while employment in rural areas of the same states contracted by 0.3 percent.

The current trade skirmish/war has the potential to widen the economic performance gap between rural and urban areas. China's retaliatory tariffs on $34 billion worth of U.S. goods are directly aimed at rural regions of the nation that produce soybeans, cotton, rice, sorghum, beef, pork, dairy, nuts and produce. Not surprisingly, soybean prices have tumbled by $2.00 per bushel over the past week. Other ag commodity prices are under downward pressures. Historically, the first casualty of a trade war is agriculture, and agriculturally dependent areas of the nation.

Link to video: https://youtu.be/Lxd6bC1Euog

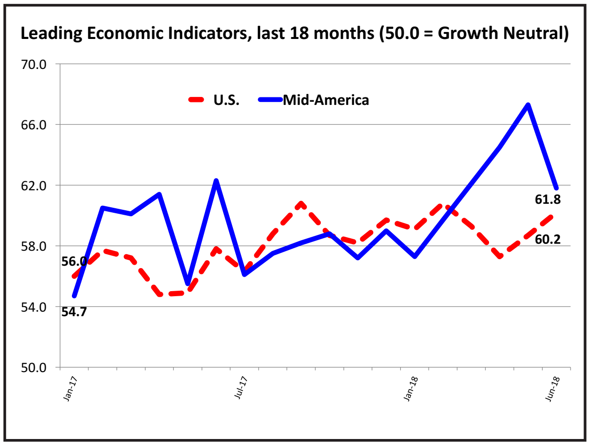
LAST MONTH'S SURVEY RESULTS

Mid-America Economic Index Remains Healthy:
Inflation Gauge Points to Fed Rate Hike by End of September

SURVEY RESULTS AT A GLANCE:

- The Business Conditions Index moved above growth neutral for the 19th straight month, and into a range pointing to healthy growth in the next four to six months.
- Tariffs contributed to elevated inflationary pressures at the wholesale level. Those pressures point to at least one more Federal Reserve rate hike before the end of September.
- Exports and imports remained healthy.

The June Creighton University Mid-America Business Conditions Index, a leading economic indicator for the nine-state region stretching from Arkansas to North Dakota, fell to a healthy level continuing to point to strong growth for the next threeto six months.



Overall index: The Business Conditions Index, which ranges between 0 and 100, declined to 61.8 from May's 67.3. This is the 19th straight month the index has remained above growth neutral 50.0.

The regional economy continues to expand at a very healthy pace with manufacturing growth of approximately 2.5 percent over the past 12 months compared to a lower 2.1 percent for the U.S. However, I expect expanding tariffs, trade restrictions and rising oil prices to slow growth and push inflation into a range leading to more aggressive Federal Reserve rate hikes.

Employment: The June employment decreased to 61.9 from May's 66.3. 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 86.9, down from 88.9 in May.

Supply managers expect the prices of the products sold by their firm to expand by a robust 2.9 percent. This is up significantly from last June when a growth of 1.8 percent was projected.

As reported by a supply manager, the (price) increase of commodities (i.e. steel, stainless steel, aluminum, etc.) and freight hasreducedourprofits.Sinceitisnowaseller'smarket,oursuppliers are telling us to take the (price) increase or move our business.

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 2.8 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) no later than Sept. 26.

Confidence: Looking ahead six months, economic optimism, as captured by the June Business Confidence Index, dropped to a strong 59.8 from May's 66.3. Despite trade tensions and skirmishes, healthy profit growth, still low interest rates, and lower tax rates, supported a robust business confidence.

Inventories: Companies expanded their inventories of raw materials and supplies, but at a slower pace than in May. The June inventory index declined to 58.6 from May's 59.3.

In terms of choosing a supply vendor, almost 13 percent reported that data security was the most important factor in choosing a supplier. Another 25 percent of the supply managers indicated that data security was a very important factor in selecting a supplier.

Trade: The regional new export orders index slipped to a still healthy 60.0 from 64.8 in May, and the import index fell to a solid 56.5 from May's 63.0. Rapidly rising 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 manger, Other countries are taking advantage of the situation and they are raising their pricing also. Then you add on the tariffs, it is not a good situation.

Other components: Components of the June Business Conditions Index were new orders at 64.7, down from 78.4 in May; the production or sales index declined to 64.7 from May's 72.4; and speed of deliveries of raw materials and supplies fell to 58.3 from last month's 60.0.

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 June Business Conditions Index for Arkansas fell to 62.5 from May's 66.2. Components of the index from the monthly survey of supply managers were new orders at 65.2, production or sales at 66.0, delivery lead time at 60.0, inventories at 59.2, and employment at 62.1. Over the past 12 months, the Arkansas economy has added 1,500 durable goods manufacturing jobs for a growth of 2.0 percent, and 2,600 nondurable manufacturing jobs for a growth of 3.2 percent. Arkansas ranked sixth among the nine states in the region in terms of the rate of overall manufacturing growth over the past 12 months.

IOWA
The June Business Conditions Index for Iowa rose slightly to a very healthy 62.6 from 62.5 in May. Components of the overall index from the monthly survey of supply managers were new orders at 63.3, production or sales at 69.9, delivery lead time at 64.4, employment at 59.3, and inventories at 56.2. Over the past 12 months, the Iowa economy has added 7,200 durable goods manufacturing jobs for a growth of 5.8 percent, and 2,400 nondurable manufacturing jobs for a growth of 2.6 percent. Iowa ranked first among the nine states in the region in terms of the rate of overall manufacturing growth over the past 12 months.

KANSAS
The Kansas Business Conditions Index for June declined to 62.5 from May's 68.7. Components of the leading economic indicator from the monthly survey of supply managers were new orders at 65.6, production or sales at 64.3, delivery lead time at 60.4, employment at 62.5, and inventories at 59.7. Over the past 12 months, the Kansas economy has added 2,300 durable goods manufacturing jobs for a growth of 2.4 percent, and 2,400 nondurable manufacturing jobs for a growth of 3.6 percent. Kansas ranked fourth among the nine states in the region in terms of the rate of overall manufacturing growth over the past 12 months.

MINNESOTA
The June Business Conditions Index for Minnesota decreased to a still solid 58.8 from May's 64.2. Components of the overall June index from the monthly survey of supply managers were new orders at 61.2, production or sales at 61.4, delivery lead time at 55.9, inventories at 55.2, and employment at 60.1. Over the past 12 months, the Minnesota economy added 4,600 durable goods manufacturing jobs for a growth of 2.3 percent, and 1,300 nondurable manufacturing jobs for a growth of 1.1 percent. Minnesota ranked seventh among the nine states in the region in terms of the rate of overall manufacturing growth over the past 12 months.

MISSOURI
TThe June Business Conditions Index for Missouri sank to 62.6 from 69.6 in May. Components of the overall index from the survey of supply managers were new orders at 64.9 production or sales at 65.6, delivery lead time at 59.7, inventories at 61.1, and employment at 61.8. Over the past 12 months, the Missouri economy added 2,000 durable goods manufacturing jobs for a growth of 1.3 percent, but lost 700 nondurable manufacturing jobs for a growth of minus 0.7 percent. Missouri ranked last among the nine states in the region in terms of the rate of overall manufacturing growth over the past 12 months.

NEBRASKA
The June Business Conditions Index for Nebraska fell to 66.1 from May's regional high of 70.1. Components of the index from the monthly survey of supply managers were new orders at 69.1, production or sales at 70.4, delivery lead time at 62.1, inventories at 63.2, and employment at 65.8. Over the past 12 months, the Nebraska economy added 1,800 durable goods manufacturing jobs for a growth of 4.1 percent, and 1,700 nondurable manufacturing jobs for a growth of 3.2 percent. Nebraska ranked third among the nine states in the region in terms of the rate of overall manufacturing growth over the past 12 months.

NORTH DAKOTA
The Business Conditions Index for North Dakota climbed to 66.4 from May's 62.4. Components of the overall index were new orders at 68.9, production or sales at 70.3, delivery lead time

at 63.9, employment at 65.7, and inventories at 63.1. Over the past 12 months, the North Dakota economy added 600 durable goods manufacturing jobs for a growth of 3.6 percent, but lost 300 nondurable manufacturing jobs for a growth of minus 3.6 percent. North Dakota ranked eighth among the nine states in the region in terms of the rate of overall manufacturing growth over the past 12 months.

OKLAHOMA

Oklahoma's Business Conditions Index has now remained above the 50.0 threshold for the last 11 months. The overall index from a monthly survey of supply managers fell to 61.1 from May's 68.5. Components of the overall June index were new orders at 63.8, production or sales at 64.4, delivery lead time at 58.6, inventories at 57.8, and employment at 60.8. Over the past 12 months, the Oklahoma economy added 5,000 durable goods manufacturing jobs for a growth of 5.7 percent, but lost 1,500 nondurable manufacturing jobs for a growth of minus 3.3 percent. Oklahoma ranked fifth among the nine states in the region in terms of the rate of overall manufacturing growth over the past 12 months.

SOUTH DAKOTA

The June Business Conditions Index for South Dakota fell to a still healthy 58.0 from May's 66.8. Components of the overall index from the June survey of supply managers in the state were new orders at 60.8, production or sales at 61.0, delivery lead time at 55.4, inventories at 54.7, and employment at 57.9. Over the past 12 months, the South Dakota economy added 1,400 durable goods manufacturing jobs for a growth of 5.0 percent, and 500 nondurable manufacturing jobs for a growth of 3.3 percent. South Dakota ranked second among the nine states in the region in terms of the rate of overall manufacturing growth over the past 12 months.

THE BULLISH NEWS

- The nation added 213,000 jobs for June as 601,000 formerly discouraged workers entered the labor market. This caused the unemployment rate to increase from 3.8% to 4.0%.

- The U.S. trade deficit slid to a 19-month low of $43.1 billion for May. Exports rose 1.9% to a record $215.3 billion for the month. Watch for declines in exports in the months ahead.

- The Case-Shiller home price index for April rose 6.4% from a year earlier. Home price growth continues to outstrip income growth. How much longer can this go on?

THE BEARISH NEWS

- Average hourly earnings increased 5 cents to $26.98, keeping the annual increase unchanged at 2.7%. Low unemployment rates have yet to boost average hourly pay.

- Both the Consumer Price Index and the Wholesale Price Index in June increased at their fastest rate in six year (year-over-year
- The nation's labor force participation rate for May stood at an unacceptably low 62.7%.

THE OUTLOOK

NABE Business Conditions Survey (June 2018). SUMMARY: "The median forecast for growth in inflation-adjusted gross domestic product (real GDP) from the fourth quarter (Q4) of 2017 to Q4 2018 is 2.8%. The median forecast for real GDP growth from Q4 2018 to Q4 2019 calls for a moderation to 2.5%—unchanged from the March 2018 NABE Outlook Survey. Overall, the panel continues to expect economic growth in 2018 to be stronger than the actual 2.3% annual real GDP growth rate in 2017. On an annual basis, real GDP growth in 2018 is also expected to be 2.8%, compared with 2.9% in the March survey, and the median forecast for average annual real GDP growth in 2019 is 2.7%. The panel has shifted its sentiment regarding the risks to the outlook since the previous survey, with more than half of survey respondents—57%—currently indicating that the balance of risks to real GDP growth through 2019 is weighted to the downside. Thirty-one percent of panelists indicate the balance of risks is weighted to the upside. This is in stark contrast to results in the March 2018 survey, which reflected over 75% of the panel stating risks were largely weighted to the upside for 2018. Note that the March survey was conducted when economic policy proposals were focused on tax cuts and fiscal policy in the near term. Since then, the discussion of economic policy has been dominated by tariffs and potential trade wars."

From Goss : 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.

WHAT TO WATCH

- **Inflation, Inflation, Inflation**: The Bureau of Labor Statistics will release the inflation gauge for June on July 12. 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)
- **Wage Data for June:** On July 6, the U.S. Bureau of Labor Statistics will release wage data for June. Year over year growth approaching 3.0% will be a strong inflation signal (more interest rate increases from the Fed).
- **Trade Balance:** On July 6, the U.S. Bureau of Economic Analysis will release May exports and imports for the nation. A widening trade deficit will push the President and Congress to undertake even more aggressive, and wrong-headed trade restrictions.

Goss Eggs (Recent Dumb Economic Moves)

- In 2017, Harley-Davidson sold 39,775 motorcycles in Europe which were built in the U.S. Due to recent European tariffs of 31% on imported cycles, Harley is.

moving production to Europe. Like boxers in the ring, all sides get bloodied from ill-advised trade wars and skirmishes. Smart for Harley; dumb for U.S. and Europe.

STATISTIC OF THE MONTH

0.29% (29 basis points). The gap between the yield on the 10-year U.S. Treasury bond (2.83%) and the 2-year U.S. Treasury bond (2.54%) sank to its lowest level since the 2008-09 recession. A signal of a slowing U.S. economy.

SUPPLY MANAGER READING ROOM

"ISM Special Report On Business Survey Regarding Tax Reform," On December 22, 2017, President Donald Trump signed into law the Tax Cuts and Jobs Act of 2017 (TCJA). Called the "biggest tax reform in a generation" by supporters, the TCJA changes the income tax code for individuals and corporations. A goal of this legislation is to accelerate the pace of economic growth in the U.S. Since this legislation was highly anticipated and its various iterations closely studied by many organizations, some companies managed to implement changes to policy and practice immediately. On January 25, 2018, Institute for Supply Management® (ISM®) opened a special survey that asked members of the Manufacturing and Non-Manufacturing Business Survey Committees to (1) report on their organizations' familiarity with and activity generated by the law and (2) assess how the new tax code might impact their businesses.
https://tinyurl.com/y8qvjgrk

Survey results for July will be released on Aug. 1, the first business day of the month

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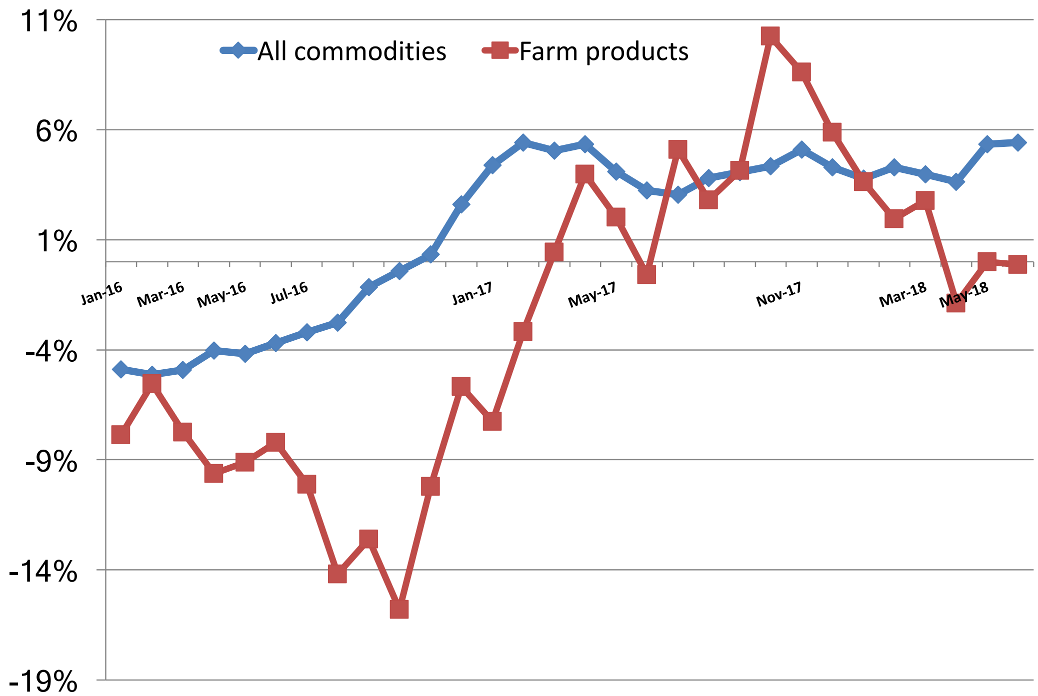
For historical data and forecasts visit our website at:
http://business.creighton.edu/organizations-programs/economic-outlook

PRICE DATA

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

Year over year price change, commodities and farm product, 2016-18



Year over year price change, fuels and metal products, 2016-18