"A monthly survey of supply chain managers"

Welcome to our March 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

## Federal Government Has a Spending Problem: Taxes Expand, but Spending Soars

Since 1930, the federal government has spent approximately $90.2 trillion and collected $69.7 trillion in taxes, thus adding $20.5 trillion to the national debt, or approximately 104% of total 2017 U.S. output. Adding to the debt problem, the Congressional Budget Office (CBO) recently estimated that the federal deficit will rise by more than $1 trillion yearly by 2020. Big Congressional spenders blame the shortfall on the 2017 tax reform package. But the CBO estimates that tax collections will grow by 10.2% over the next two years, while spending will soar by 13.1%. Thus, the true fiscal culprit is a spending explosion, not a lack of tax collections.

Central to the rising spending problem is the growth in programs such as food stamps (SNAP), Medicare, and Medicaid. These three programs will skyrocket by 16.4% by 2020, or two and one-half times the expansion in the overall U.S. economy, to almost $1.4 trillion in 2020. Interest on the accumulated debt for these three programs will amount to almost $50 billion in 2020 alone.

Despite a robust and rapidly growing U.S. economy beginning in 2009 with unemployment rates dropping from 9.3% to 4.1%, the nation's food stamp program has expanded from 33,000,000 recipients in 2009 to 42,600,000 in 2017. This means that more than one-third of U.S. households received food stamps in 2017 at a cost of $1,663 per household, or $68.5 billion.

In an effort to slow the expansion in these three programs, President Trump last week issued an executive order calling for enforcement of existing work requirements and also reviewing current waivers and exemptions to working. However, since most households receiving food stamps contain a working adult, a work requirement will do little to reduce SNAP, or food stamp, expenditures. A better approach is to lower the income threshold beyond which households lose all, or portion of food stamps. Policymakers that advocate raising taxes to solve the debt problem are shooting at the wrong target. Ernie Goss.

**Link to video:** https://www.youtube.com/watch?v=mIRqj-_U-OQ&feature=youtu.be

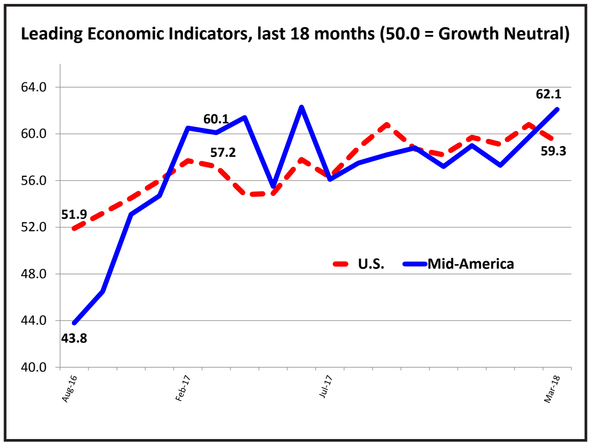
## LAST MONTH'S SURVEY RESULTS

Mid-America Economy Ends First Quarter on High Note: Jobs, Inflation and Exports Very Healthy

SURVEY RESULTS AT A GLANCE:

- The Business Conditions Index moved above growth neutral for the 16th straight month, pointing to healthy growth for the next three to six months.
- The employment index advanced to a very healthy level. Almost two-thirds of firms expect to add workers for the rest of 2018.
- Inflation gauge indicated elevated wholesale inflation. Fed rate hike likely in May.
- Exports and imports remained very healthy.

The April Creighton University Mid-America Business Conditions Index, a leading economic indicator for the nine-state region stretching from Arkansas to North Dakota, jumped to a very strong reading pointing to healthy growth for the next three to six months.




**Overall index**: The Business Conditions Index, which ranges between 0 and 100, expanded to a robust 62.1 from February's strong 59.7. This is the 16th straight month the index has remained above growth neutral 50.0,and is the highest reading since June of last year, pointing to improving growth for the region over the next three to six months.

Twenty percent of the survey participants reported rapidly expanding healthy economic growth in their area while only 4 percent reported an economic downturn in their area. In the region, durable goods manufacturers are expanding at almost twice the pace of nondurable goods producers.

**Employment:** The March employment index slipped to a still brisk 58.4 from 59.4 in February. Over the past 12 months, regional manufacturing employment has expanded by 1.9 percent compared to U.S. manufacturing growth of 1.8 percent. For both the U.S. and the region, durable goods manufacturers are adding jobs at almost double the pace of nondurable goods producers.

Two-thirds of Mid-America firms indicated they would add workers for the remainder of 2018.

**Wholesale Prices**: The wholesale inflation gauge continues to point to elevated inflationary pressures at the wholesale level. The regional inflation gauge slipped to a still high 80.7 from February's 82.0.

Both our regional wholesale inflation index and the U.S. inflation gauge are elevated. I expect this elevated inflation to begin to show up at the consumer level. As a result, I expect the Federal Reserve's interest rate setting committee to raise short-term interest rates by one-quarter of one percentage point (25 basis points) at its next meeting on May 2.

**Confidence**: Looking ahead six months, economic optimism, as captured by the March Business Confidence Index, dipped to a strong 64.3 from February's 74.5. Healthy profit growth, still low interest rates, and a reduction of global trade tensions pushed business confidence into a range indicating healthy business confidence.

**Inventories**: The March inventory index indicated that businesses expanded supplies of raw materials and supplies, and at a faster pace than in February. The regional inventory index for March climbed to 59.4 from February's 56.7.

**Trade:** The regional new export orders index dipped to a still vigorous 63.6 from 64.6 in February, and the import index climbed to 63.5 from February's 59.3. A cheap U.S. dollar making U.S. goods more competitively priced abroad, and growth among U.S. trading partners, supported regional exports, while regional economic growth boosted purchases from abroad.

**Other components**: Components of the March Business Conditions Index were new orders at 66.0, up from 61.7 in February; the production or sales index advanced to 68.0 from February's 64.4; and delivery speed of raw materials and supplies rose to 59.0 from last month's 56.4.

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 March Business Conditions Index for Arkansas fell to 53.7 from February's 55.4. Components of the index from the monthly survey of supply managers were new orders at 57.3, production or sales at 59.8, delivery lead time at 50.3, inventories at 51.1, and employment at 50.1. In 2017, Arkansas ranked 36th in the nation, and sixth in the nine-state region in terms of the export of goods. These exports supported approximately 45,000 jobs, directly and indirectly in Arkansas. The state's new export orders for March of 54.6 indicates that Arkansas exports remain solid.

IOWA

The March Business Conditions Index for Iowa climbed to a very healthy 64.7 from 59.4 in February. Components of the overall index from the monthly survey of supply managers were new orders at 69.0, production or sales at 70.2, delivery lead time at 62.2, employment at 60.4, and inventories at 61.6. In 2017, Iowa ranked 27th in the nation, and third in the nine-state region in terms of the export of goods. These exports supported approximately 92,500 jobs, directly and indirectly in the state. Iowa's new export orders for March of 67.5 indicates that Iowa exports remain very healthy.

KANSAS

The Kansas Business Conditions Index for March advanced to 63.8 from February's 62.4. Components of the leading economic indicator from the monthly survey of supply managers were new orders at 68.1, production or sales at 69.3, delivery lead time at 61.2, employment at 59.6, and inventories at 60.8. In 2017, Kansas ranked 30th in the nation, and fourth in the nine-state region in terms of the export of goods. These exports supported approximately 79,000 jobs, directly and indirectly in the state. The state's new export orders for March of 66.5 indicates that Kansas exports remain very healthy.

MINNESOTA

The March Business Conditions Index for Minnesota expanded to a very healthy 61.0 from February's 57.6. Components of the overall March index from the monthly survey of supply managers were new orders at 65.1, production or sales at 66.7, delivery lead time at 58.2, inventories at 58.1, and employment at 57.0. In 2017, Minnesota ranked 23rd in the nation, and first in the nine-state region in terms of the export of goods. These exports supported approximately 144,500 jobs, directly and indirectly in the state. The state's new export orders for March of 57.2 indicates that Minnesota exports remain strong.

MISSOURI

The March Business Conditions Index for Missouri climbed to 63.2 from 58.0 in February. Components of the overall index from the survey of supply managers were new orders at 67.5, production or sales at 68.8, delivery lead time at 60.6, inventories at 60.2, and employment at 59.1. In 2017, Missouri ranked 26th in the nation, and second in the nine-state region in terms of the export of goods. These exports supported approximately 99,000 jobs, directly and indirectly in the state. Missouri's new export orders for March of 65.8 indicates that Missouri exports remain very healthy.

NEBRASKA

The March Business Conditions Index for Nebraska rose to 63.4 from 58.3 in February. Components of the index from the monthly survey of supply managers were new orders at 68.2, production or sales at 68.8, delivery lead time at 60.7, inventories at 60.3, and employment at 59.1. In 2017, Nebraska ranked 34th in the nation, and fifth in the nine-state region in terms of the export of goods. These exports supported approximately 50,500 jobs, directly and indirectly in the state. Nebraska's new export orders for March of 62.1 indicates that Nebraska exports remain healthy.

NORTH DAKOTA

The Business Conditions Index for North Dakota sank below growth neutral for March. The overall index from a survey of supply managers slumped to a regional low of 42.5 from 53.3 in February. Components of the overall index were new orders at 45.3, production or sales at 49.1, delivery lead time at 38.2, employment at 39.7, and inventories at 40.4. In 2017, North Dakota ranked 38th in the nation, and eighth in the nine-state region in terms of the export of goods. These exports supported approximately 37,000 jobs, directly and indirectly in the state. The state's new export orders for March of 53.4 indicates that North Dakota exports remain solid.

OKLAHOMA

Oklahoma's Business Conditions Index has remained above the 50.0 threshold for the last eight months. The overall index from a monthly survey of supply managers improved to 62.4 from February's 60.5. Components of the overall March index were new orders at 66.6, production or sales at 68.0, delivery lead time at 59.7, inventories at 59.5, and employment at 58.3. In 2017, Oklahoma ranked 37th in the nation, and seventh in the nine-state region in terms of the export of goods. These exports supported approximately 39,000 jobs, directly and indirectly in the state. The state's new export orders for March of 64.8 indicates that Oklahoma exports remain solid.

SOUTH DAKOTA

The March Business Conditions Index for South Dakota expanded to a strong and regional high 67.4 from last month's 56.6. Components of the overall index from the March survey of supply managers in the state were new orders at 71.9, production or sales at 72.7, delivery lead time at 65.1, inventories at 64.2, and employment at 62.9. In 2017, South Dakota ranked 49th in the nation, and ninth in the nine-state region in terms of the export of goods. These exports supported approximately 9,500 jobs, directly and indirectly in the state. The state's new export orders for March of 70.6 indicates that South Dakota exports remain very strong.

## THE BULLISH NEWS

- Since the market bottom in December 2012, the Case-Shiller National Home Price index has climbed at a 4.7%– inflation adjusted – annual rate. That is approximately twice the rate GDP growth.

- The national and Creighton PMIs (Purchasing Management Indices) were both strong for March indicating that manufacturing, regional and national, remain strong.

- Quarter I earnings for the S&P 500 are projected to rise to their highest level in 7 years.

## THE BEARISH NEWS

- The gap between the yield on investment grade corporate bonds and U.S. Treasury bonds has widened to 1.14% indicating expanding financial risks (still low but climbing).

- This week the Congressional Budget Office estimated that the U.S. budget deficit will exceed $1 trillion by 2020.

- The U.S. economy added only 103,000 jobs for March and January and February job additions were revised down by 50,000.

## WHAT TO WATCH

- **Inflation, Inflation, Inflation**: The Bureau of Labor Statistics will release the inflation gauge for April on May 10. An annualized increase above 2.5% will be bullish for stock prices and bearish for bond prices (rising yields, falling prices).

- **GDP Growth:** On April 27, the U.S. Bureau of Economic Analysis releases its estimate of first quarter gross domestic product growth. Annualized growth below 2.0% will be bearish for stocks and bullish for bonds.

- **Federal Open Market Committee (FOMC):** On May 2, the interest rate setting committee of the Federal Reserve (FOMC) will announce its current stance on interest rates. Bullish statements by the committee would take some air out of U.S. equity markets.

## Goss Eggs
## (Recent Dumb Economic Moves)

- New Jersey Governor Phil Murphy has proposed that the state provide "free" attendance for residents at community colleges in the state. To pay for this misguided program, he proposes raising the state sales tax rate to 7% and boosting the income tax rate on workers earning more than $1 million from 8.97% to 10.75%. Snow birds will take flight to warmer environs.

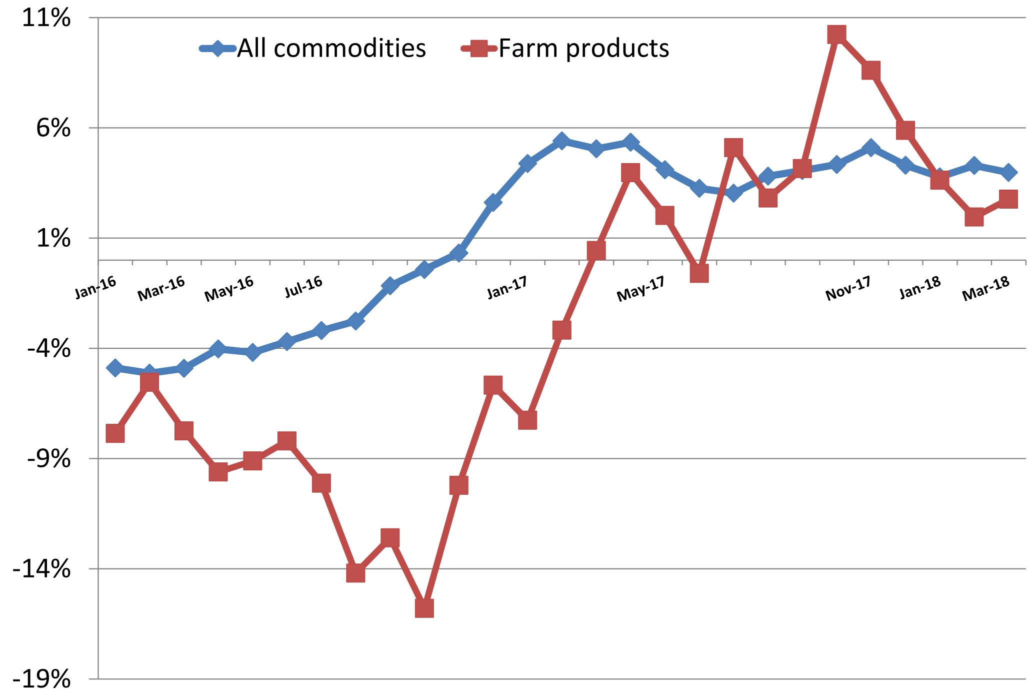
Survey results for April will be released on the first business day of next month, May 1.

Follow Goss on twitter at http://twitter.com/erniegoss
For historical data and forecasts visit our website at:
http://www2.creighton.edu/business/economicoutlook/

## 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