Welcome to our December report covering results from Creighton's monthly survey of supply managers and procurement experts in nine Mid-America states indicate that the economic growth has turned negative (recessionary) for manufacturing and points to negative for the overall regional economy. Follow my comments at: www.twitter.com/erniegoss

Red, Blue and Purple Metropolitan Areas: Top Economic Performers

13 Red Metros Outperformed 77 Blue and 10 Purple Metros

Do Red metropolitan areas, which are viewed as more pro-business and tax friendly, experience superior economic performance in comparison to Blue metro areas that are judged as more pro-government and tax heavy? Of the 100 largest U.S. metro areas in terms of population, 77 have Democrat mayors (Blue), 10 have Independent mayors (Purple), and 13 have Republican mayors. Over the period of examination, 2001-2014, Red metros grew productivity, or gross domestic product (GDP) per worker, by a median 48.6 percent compared to 43.2 percent for Blue metros, and 37.5 percent for Purple metros. Over the time period, in comparison to workers in Red metros, each Blue worker lost $3,817 in productivity, and each Purple worker lost $8,523 in productivity.

The top performing metro area was Red Bakersfield, CA with productivity expanding by 78.3 percent, while the worst performing metro was Purple Fort Meyers, FL with productivity growth of only 12.4 percent. The number one Blue metro was Baton Rouge, LA with productivity growth of 77.5 percent over the time period.

However contrary to expectations, Red cities enlarged the size of government by 61.5 percent which exceeded that of Blue metros' 56.6 percent growth, and 60.8 percent growth for Purple metros. Fort Meyers, the slowest growing metro, expanded the relative size of government faster than the other 99 metros. The 10 metro areas expanding the relative size of government the most swiftly experienced productivity growth of 41.3 percent compared to 45.8 percent for the 10 metro areas advancing government growth the most slowly. These estimates do not take into account the likelihood that some of the metropolitan areas may have changed colors during the period of analysis. Ernie Goss.

Link to video:
http://bit.ly/1IwX6qq

LAST MONTH'S SURVEY RESULTS

Mid-America Business Conditions Weaken Again:
Strong Dollar Hurts Manufacturing

SURVEY RESULTS AT A GLANCE:

- For a fourth straight month, the region's overall index moved below growth neutral.
- Employment index plummets below growth neutral for a third consecutive month.
- Region is losing manufacturing jobs at twice the pace of the nation.
- Manufacturing, agriculture and energy pullbacks have yet to spill over into the broader economy.
- Only 18.2 percent expect negative impacts from a December Federal Reserve rate hike.

The Creighton University Mid-America Business Condition for November, a leading economic indicator for a nine-state region stretching from Arkansas to North Dakota, slumped for the month. **Overall index:** The November Business Conditions Index, which ranges between 0 and 100, slumped to 40.7 from October's 41.9. The regional index, much like the national reading, is impacted by a reduction in manufacturing activity, especially for producers linked to international markets.

Since our survey oversamples manufacturing firms, it is not surprising that our overall index has weakened significantly for states and industries heavily dependent on agriculture and energy which are being hammered by a strong U.S. dollar. I expect the national reading to come in below growth neutral when it is released later this morning.

The strong U.S. dollar and global economic weakness are having a significant and negative impact on manufacturers and businesses linked to manufacturing in the region. This weakness has been showing up in the Mid-America surveys over the last four months, but has yet to spill over into the broader regional economy.

Employment: The regional employment gauge slumped for November, and indicates job losses for the manufacturing and value added services sectors. The job gauge declined to 41.7 from 42.3 in October. Over the past year, the region has lost approximately 1.1 percent of its manufacturing jobs. This pace of job loss is roughly twice that of U.S. manufacturing, which is likewise shedding jobs. Areas heavily dependent on manufacturing, especially those linked to exports, agriculture and energy, are experiencing the largest losses.

Wholesale Prices: The wholesale inflation index for November fell to 42.6, its lowest level since May 2009, and down from October's 45.3. Even though our survey indicates recent deflation at the wholesale level, supply managers expect prices of goods and services they purchase to rise at an annual pace of 4 percent in the months ahead.

While 18.2 percent of purchasing managers expect negative impacts from a December Federal Reserve rate hike, about 82 percent say it won't have a negative impact and could potentially have a positive impact on their business.

Confidence: Looking ahead six months, economic optimism, as captured by the November business confidence index, sank to 41.2 from 42.3 in October. Falling agriculture and energy commodity prices, along with global economic uncertainty, pushed supply managers' expectations of future economic conditions lower for the month. Over the past 12 months, farm products and energy prices have fallen by 13.6 percent and 22.9 percent, respectively.

Inventories: In another sign of a sinking economic outlook, supply managers reduced their inventory levels for the month. The November inventory index, which tracks the change in the level of raw materials and supplies, fell to 39.2 from 41.2 in October.

Trade: The new export orders dropped for the month, but at a bit slower pace as the index increased to a very weak 39.5 from 38.2 in October. The import index for November slumped to 37.0 from October's 40.9. The strong

U.S. dollar, making U.S. goods less competitively priced abroad, and a weaker global economy, battered new export orders for the month. On the other hand, negative regional manufacturing growth and lower oil prices again pushed the import index below growth neutral for the month.

Other components: Components of the November Business Conditions Index were new orders at 34.2, down from 38.1 in October; production or sales moved lower to 36.2 from October's 38.7; and delivery speed of raw materials and supplies advanced to 52.4 from last month's 49.3.

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

Arkansas' November overall index, or leading economic indicator, sank to 42.1 from October's 43.6. Components of the index from the monthly survey of supply managers were new orders at 35.3, production or sales at 37.4, delivery lead time at 54.1, inventories at 40.5, and employment at 43.1. U.S. Bureau of Labor Statistics data show that over the last 12 months, Arkansas lost 4,000 manufacturing jobs. Our surveys of supply managers in the state indicate these losses will continue into the first quarter of 2016.

IOWA

The November Business Conditions Index for Iowa declined to 42.3 from 44.2 in October. Components of the index from the monthly survey of supply managers were new orders at 35.5, production or sales at 37.6, delivery lead time at 54.4, employment at 43.3, and inventories at 40.7. U.S. Bureau of Labor Statistics data show that over the last 12 months, Iowa lost 1,300 manufacturing jobs. Our surveys of supply managers in the state indicate this trend will continue into the first quarter of 2016.

KANSAS

The Kansas Business Conditions Index for November rose to a weak 42.6 from October's 41.7. Components of the leading economic indicator from the monthly survey of supply managers were new orders at 35.8, production or sales at 37.9, delivery lead time at 54.8, employment at 43.6, and inventories at 41.0. U.S. Bureau of Labor Statistics data show that since January of this year, Kansas lost 2,000 manufacturing jobs. Our surveys of supply managers in the state indicate these losses will continue into the first quarter of 2016.

MINNESOTA

The November Minnesota Business Conditions Index slumped to 41.1 from October's 42.7. Components of the index from the monthly survey of supply managers were new orders at 34.5, production or sales at 36.5, delivery lead time at 52.8, inventories at 39.5, and employment at 42.0. U.S. Bureau of Labor Statistics data show that over the last 12 months, Minnesota lost 800 manufacturing jobs. Our surveys of supply managers in the state point to slight losses into the first quarter of 2016 as manufacturing exports slide even lower.

MISSOURI

The Business Conditions Index for Missouri slumped to 41.9 from October's 50.1. Components of the index from the survey of supply managers were new orders at 45.6, production or sales at 39.5, delivery lead time at 41.4, inventories at 43.2, and employment at 42.0. U.S. Bureau of Labor Statistics data show that over the last 12 months, Missouri added 3,000 vehicle manufacturing jobs, but lost 1,400 manufacturing jobs outside of vehicle production. I expect slight manufacturing losses into the first quarter of 2016.

NEBRASKA

Nebraska's Business Conditions Index fell below 50.0 for the fifth straight month. The index, a leading economic indicator from a monthly survey of supply managers, increased to 43.6 from 40.1 in October. Components of the index were new orders at 35.0, production or sales at 38.5, delivery lead time at 49.0, inventories at 40.9, and employment at 42.1. U.S. Bureau of Labor Statistics data show that over the last 12 months, Nebraska lost 2,500 manufacturing jobs. Our surveys of supply managers indicate these losses will continue into the first quarter of 2016.

NORTH DAKOTA

North Dakota's leading economic indicator for November remained below growth neutral 50.0. The Business Conditions Index increased slightly to a regional low 36.9 from November's 36.7, also a regional low. Components of the overall index from the monthly survey of supply managers were new orders at 31.0, production or sales at 32.8, delivery lead time at 47.5, employment at 37.8, and inventories at 35.5. U.S. Bureau of Labor Statistics data show that over the last 12 months, North Dakota lost 300 manufacturing jobs. Our surveys of supply managers indicate these losses will widen into the first quarter of 2016 as manufacturing linked to agriculture and energy sustain losses.

OKLAHOMA

The November Business Conditions Index for Oklahoma slumped below growth neutral for a seventh straight month. The index from a monthly survey of supply managers in the state fell to 37.5 from 40.1 in October. Components of the November survey of supply managers were new orders at 33.2, production or sales at 37.0, delivery lead time at 43.2, inventories at 39.8, and employment at 42.3. U.S. Bureau of Labor Statistics data show that over the last 12 months, Oklahoma has lost 9,000 manufacturing jobs. Our surveys of supply managers indicate these losses will continue into the first quarter of 2016 as lower energy prices weigh on Oklahoma's economy and manufacturing.

SOUTH DAKOTA

For a second consecutive month, South Dakota's leading economic indicator fell below growth neutral 50.0. The Business Conditions Index, from a monthly survey of supply managers, declined to 39.6 from 42.6 in October. Components of the overall index for November were new orders at 33.3, production or sales at 35.2, delivery lead time at 50.9, inventories at 38.1, and employment at 40.5. U.S. Bureau of Labor Statistics data show that over the last 12 months South Dakota added 900 manufacturing jobs. However, surveys over the last two months point to manufacturing losses through the first quarter of 2016.

THE PURCHASING ECONOMY SURVEY REPORT December 2015

"A monthly survey of supply chain managers"

THE BULLISH NEWS

- The U.S. added 211,000 jobs in November and the unemployment rate was unchanged at a low 5.0%. This is strong and well above expectations. It pushed the likelihood of a Fed rate hike at its December 2015 meetings to 75%.
- The Case-Shiller home price index for September 2015 was 5.5% above that for September 2014. We are tracking more and more housing price bubbles across the U.S. Rents are also expanding at an unsustainable pace.

THE BEARISH NEWS

- Over the past 12 months, the U.S. energy sector has lost 122,000 jobs (14.2%) and manufacturing sector has shed 36,000 jobs (0.3%).
- Retail sales for October were weak expanding by only 1.7% from October 2014. The holiday buying season is likely to come in weak.

WHAT TO WATCH

- **CPI**: Around Jan. 17 (has not been scheduled at this time), the Bureau of Labor Statistics will announced the consumer price index for December. Note the core CPI, which excludes food and energy. The latest release indicated 1.9% growth. This should be a concern for the Fed since it is close to their target.
- **PMIs:** On Jan. 4, the first business day of January, Creighton and the National Institute for Supply Management will release regional and national PMIs for December. Both PMIs are moving lower. Very weak readings for both, which I expect, will be bearish for stocks.
- **Yield on 10-Year Treasury Bond:** On finance.yahoo.com follow the yield on this long-bond yield for evidence or rising inflationary pressures. Yields above 2.7% are early warnings of higher interest rates in the months ahead.

Goss Eggs (Recent Dumb Economic Moves)

- In order to reduce CO_2 emissions, Bernie Sanders, candidate for the Democrat presidential nomination, calls for: a carbon tax, and a ban on offshore drilling, fracking for natural gas, and the export of oil and natural gas. He calls for new and massive subsidies for wind and solar energy production. These actions may, or may not, have substantial impacts on CO_2 emissions but they will, with 100% probability, cost the taxpayer and the consumer substantial dollars and increase income inequality.

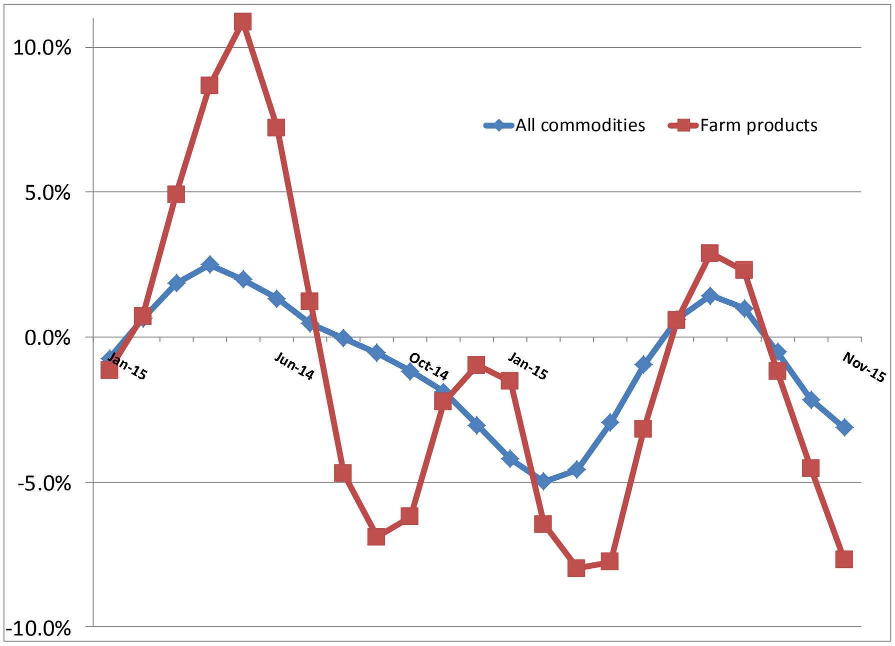
Survey results for October will be released on the first business day of next month, Dec. 1.

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

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



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