Welcome to our December report covering results from Creighton's November economic survey. Creighton's monthly survey of supply managers and procurement experts in nine Mid-America states indicate that the economic growth was negative for manufacturing with weakening economic conditions and job losses. Follow my comments at: www.twitter.com/erniegoss

Productivity Is Major Manufacturing Job Killer: Not Mexico

Politicians from both sides of the aisle are fond of blaming outsourcing and imported manufactured goods for job losses among U.S. manufacturers. Between 2000 and 2015, U.S. manufacturing did lose 29.6 percent of total sector employment, or 4.7 million production jobs, as the nation experienced a 9.1 percent employment gain outside of manufacturing. But over this same time period, agriculture lost 76,000 jobs for a 8.5 percent loss. Has any Washington politician recently called for bringing back our lost agriculture jobs?

While it is correct that U.S. manufacturing has lost jobs during a period of solid U.S. employment growth "the fault, dear Brutus, is not in our stars, but in ourselves." Between 2000 and 2015, the overall U.S. economy, or gross domestic product (GDP), expanded by 38.4 percent while the U.S. manufacturing sector GDP climbed by a much stronger 58.8 percent. To accomplish this very healthy jump in manufacturing output, output per manufacturing worker expanded at a pace 4.6 times that of the overall economy. If manufacturing productivity had expanded at the same slower rate as the overall economy, the U.S. would have lost 2.2 million fewer jobs.

In other words, rising productivity generated manufacturing job losses of 2.2 million between 2000 and 2015. But who benefited from the productivity gains? From 2000 to 2015, adjusted for inflation, manufacturing workers' annual wages increased by 27.9 percent, while manufacturing profits expanded from 4.9 percent of manufacturing GDP to 10.6 percent of sector GDP. Data show that the rising tide of productivity lifted the boats of both workers that kept their jobs, and owners. The real economic problem is, how does the U.S. transition former manufacturing workers to alternative non-manufacturing positions? Ernie Goss.

Link to video: https://youtu.be/sBiF5_ZH-m0

LAST MONTH'S SURVEY RESULTS

November Mid-America Business Conditions Weak: 2017 Expected Wage Gains Below 3 Percent

SURVEY RESULTS AT A GLANCE:

- For a fifth straight month, the overall index sank below growth neutral 50.0.
- Employment index remained below growth neutral for a sixth consecutive month.
- Government data show that over the past 12 months regional manufacturing employment declined by 1.2 percent, but regional nonmanufacturing employment expanded by 0.8 percent.
- On average, companies across the region expect 2017 wage gains of 2.7 percent over 2016 levels.
- Almost four in 10 supply managers expect continuing slow growth to be the economic challenge for their company for 2017.

The Creighton University Mid-America Business Conditions Index, a leading economic indicator for a nine-state region stretching from Arkansas to North Dakota, rose to a still weak reading for November.

Overall index: The Business Conditions Index, which ranges between 0 and 100, rose in November but remained below growth neutral at 46.5, up from October's 43.8. This is the fifth straight month the index has moved below growth neutral 50.0. Like the national survey of supply managers, our regional survey is indicating the manufacturing sector continues to experience weak to negative growth. Weakness among manufacturers linked to agriculture, energy and international markets continue to weigh on regional economic conditions. Due to the heavy dependence of the region on agriculture and energy, I expect the overall regional economy to continue to underperform the national economy. Despite the decline in manufacturing, the nonmanufacturing sector of the regional economy is expanding, albeit at a slow pace.

Employment: The regional employment gauge indicates the nine-state manufacturing sector continues to lose jobs, as the index fell below growth neutral for the sixth straight month. The job gauge for November declined to 41.9 from October's 44.4. The growth gap between regional manufacturing and nonmanufacturing remains wide. Over the last 12 months, U.S. Bureau of Labor Statistics data indicate the region's manufacturing sector lost more than 16,000 jobs, a 1.2 percent decline, while regional nonmanufacturing added almost 102,000 jobs, an increase of a sub-par 0.8 percent. This month, supply managers indicated they expect their businesses to increase 2017 wages by 2.7 percent over 2016 levels. Manufacturing wage growth continues to expand, but at a tepid pace for producers in the region. Consistent with slow wage growth, supply managers see slow to negative growth for the near term as the biggest threat facing their business.

Wholesale Prices: The wholesale inflation gauge remained in a range indicating modest inflationary pressures at the wholesale level, as the prices-paid index climbed to 57.5 from October's 57.4. Even though wholesale price inflation remains in a range indicating only modest upward price pressures, I expect the Federal Reserve to raise interest rates at the December meeting of the rate setting committee. Markets will be paying close attention to remarks coming out of the Fed's rate meeting on Dec. 14. While a rate hike is expected, language indicating more rate hikes to follow will jolt markets.

Confidence: Looking ahead six months, economic optimism, as captured by the November business confidence index, soared to 61.6 from a frail 39.7 in October. As expressed by one supply manager, "So glad the election is over. Let's go to work."

Inventories: The November inventory index, which tracks the change in the level of raw materials and supplies, advanced to a weak 42.8 from October's 38.5.

Trade: The new export orders index fell to 45.7 from 47.3 in October, and the import index increased slightly to 46.4 from October's 44.6. Supply managers reported that slowing global economic conditions were restraining export growth while the domestic manufacturing slowdown was curtailing buying from abroad.

Other components: Components of the November Business Conditions Index were new orders at 46.4, up from 41.4 in October; production or sales index was 48.2, up from 39.1 in October; and delivery speed of raw materials and supplies declined to 53.6 from last month's 55.6.

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
Arkansas' overall index for November rose to 47.7 from 41.5 in October. Components of the index from the monthly survey of supply managers were new orders at 45.9, production or sales at 47.7, delivery lead time at 55.3, inventories at 47.0, and employment at 42.8. As in October, gains for nondurable goods manufacturers in the state were more than offset by losses for the larger durable goods sector. Percent change in jobs over last 12 months; Manufacturing, -1.0 percent; All nonfarm, 0.9 percent.

IOWA
The November Business Conditions Index for Iowa sank to 48.3 from October's 48.9. Components of the overall index from the monthly survey of supply managers were new orders at 46.1, production or sales at 47.9, delivery lead time at 55.8, employment at 43.2, and inventories at 48.4. Both durable and nondurable goods manufacturers experienced pullbacks in economic activity. Percent change in jobs over last 12 months; Manufacturing, -2.4 percet; All nonfarm, 1.1 percent.

KANSAS
The Kansas Business Conditions Index for November increased to 44.4 from 43.7 in October. Components of the leading economic indicator from the monthly survey of supply managers were new orders at 45.1, production or sales at 46.9, delivery lead time at 49.8, employment at 40.6, and inventories at 39.4. Gains for non-durable goods producers were more than offset by losses for durable goods producers. Percent change in jobs over last 12 months; Manufacturing, -0.2 percent; All nonfarm, -0.4 percent.

MINNESOTA
The November Business Conditions Index for Minnesota fell to 46.5 from October's 48.7. Components of the overall November index from the monthly survey of supply managers were new orders at 45.9, production or sales at 47.7, delivery lead time at 48.9, inventories at 47.0, and employment at 42.8. Both durable and non-durable goods producers detailed pullbacks for the month. Percent change in jobs over last 12 months; Manufacturing, -0.4 percent; All nonfarm, 1.1 percent.

MISSOURI
The November Business Conditions Index for Missouri rocketed to 55.1, a regional high, from October's 41.6. Components of the overall November index from the survey of supply managers were new orders at 48.6, production or sales at 50.5, delivery lead time at 59.8, inventories at 59.9, and employment at 56.7. Both durable and nondurable goods producers recorded slight losses for the month. Percent change in jobs over last 12 months; Manufacturing, -0.3 percent; All nonfarm, 1.8 percent.

NEBRASKA
The November Business Conditions Index for Nebraska expanded to 45.0 from 43.3 in October. Components of the index from the monthly survey of supply managers were new orders at 45.3, production or sales at 47.0, delivery lead time at 51.0, inventories at 40.9, and employment at 41.0. Nondurable goods producers recorded gains while durable goods manufacturers detailed pullbacks for the month. Percent change in jobs over last 12 months; Manufacturing, 0.2 percent; All nonfarm, 0.4 percent.

NORTH DAKOTA
North Dakota's leading economic indicator for November once again sank below growth neutral 50.0. However, the Business Conditions Index for the month climbed to 47.6 from 40.5 in October. Components of the overall index from the monthly survey of supply managers were new orders at 45.9, production or sales at 47.7, delivery lead time at 54.7, employment at 42.8, and inventories at 40.9. Both durable and nondurable goods firms in the state, especially those linked to farming and energy, experienced pullbacks in economic activity for the month. Percent change in jobs over last 12 months; Manufacturing, -3.5 percent; All nonfarm, -1.8 percent.

OKLAHOMA
After moving above growth neutral for May, Oklahoma's Business Conditions Index has been below growth neutral 50.0 for six consecutive months. The November index sank to a regional low of 43.3 from 38.8 in October, also a regional low. Components of the overall November index from a survey of supply managers in the state were new orders at 44.8, production or sales at 46.6, delivery lead time at 48.9, inventories at 36.9, and employment at 36.9. Large losses for durable producers more than offset solid gains for non-durable goods manufacturers. Percent change in jobs over last 12 months; Manufacturing, -4.8 percent; All nonfarm, -0.7 percent.

SOUTH DAKOTA
The Business Conditions Index for South Dakota improved to 50.2 from October's 46.8. Components of the overall index for the November survey of supply managers in the state were new orders at 46.6, production or sales at 48.3, delivery lead time at 58.8, inventories at 52.7, and employment at 44.5. Manufacturers in the state linked to agriculture, energy and international markets, detailed downturns in economic activity. Percent change in jobs over last 12 months; Manufacturing, -0.9 percent; All nonfarm, 2.5 percent.

THE BULLISH NEWS

- According to the latest estimate of growth in the U.S. economy, the nation's third quarter GDP advanced by an annualized 3.2% from the original estimate of 2.9%. That's getting close to being acceptable.
- In November 2016, the U.S. job market added 178,000 jobs and the unemployment rate sank to a very healthy 4.6%. The unemployment rate for college graduates hit 2.3% while the jobless rate for high school dropouts rose to 7.9%.

THE PURCHASING ECONOMY SURVEY REPORT December 2016

"A monthly survey of supply chain managers"

- The S&P/Case-Shiller home price index for September climbed by 5.5% from 12-months earlier.

THE BEARISH NEWS

- November average hourly earnings for private-sector workers declined by 3 cents from October to $25.89.
- The Creighton PMI fell below growth neutral for November and the U.S. PMI stood at a weak 53.2 for the month.
- Mortgage rates on a 30-year fixed rate mortgage jumped to 4% from 3.3% since the presidential elections.

WHAT TO WATCH

- **Federal Reserve (Fed) Meetings**: On Dec. 14, the interest rate setting committee of the Fed met and raised short term interest rates by 25 basis points (¼%). I am writing this before the decision but it looks like a "done deal." Look for any signal that another rate hike in the first quarter of 2017. This would be bearish news for stocks.
- **CPI:** On Dec. 15 and Jan. 18, the Bureau of Labor Statistics will release the consumer price indices for November and December, respectively.
- **10-Year U.S. Treasury yield:** Since the Presidential election, the yield on the 10-year U.S. Treasury bond has risen by ½% (50 basis points). Due to rising expected inflation, lenders have increased mortgage rates. If inflationary expectations continue to expand, so will the 10-year bond yield and mortgage rates.

Goss Eggs (Recent Dumb Economic Moves)

- It took four years to construct a new runway at the Seattle-Tacoma Airport, but that was preceded by 15 years of applying and receiving the necessary regulatory approval. Thus, if incoming President Trump is going to boost infrastructure spending, he is going to have to battle regulation as much as funding.

Survey results for December will be released on the first business day of next month, January 2.

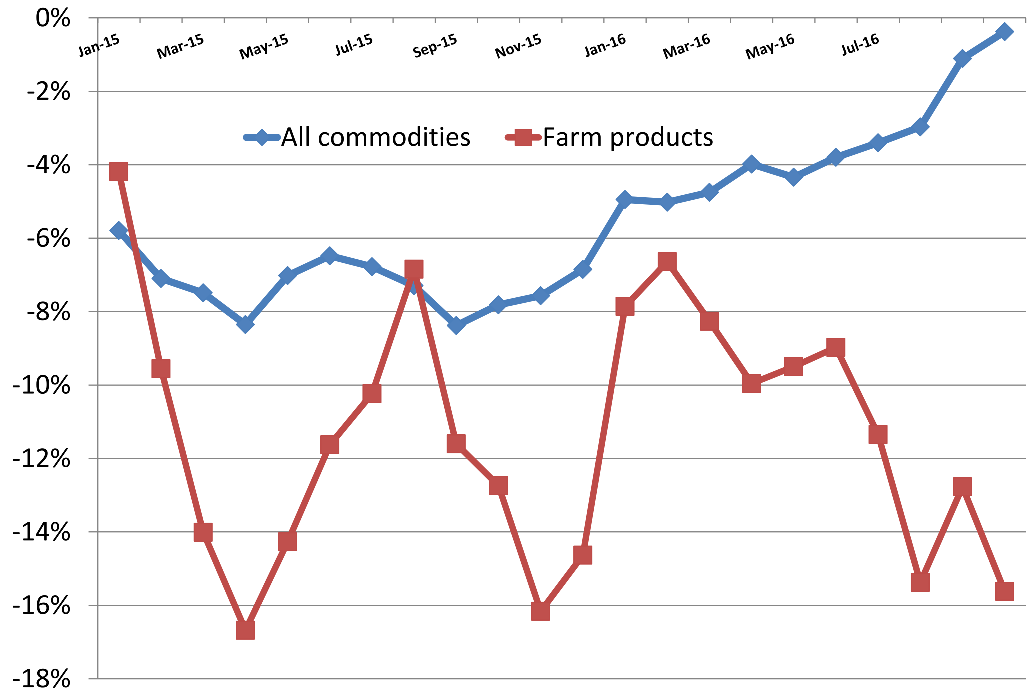
Follow Goss on twitter at http://twitter.com/erniegoss
For historical data and forecasts visit our website at:
http://www2.creighton.edu/business/economicoutlook/

"A monthly survey of supply chain managers"

PRICE DATA

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

Year over year price change, commodities and farm product, 2015-16



Year over year price change, fuels and metal products, 2015-16