Welcome to Creighton's December Supply Manager Report. Merry Christmas and Happy Hanukkah to you and your family. I thank you for your participation over the past year. Survey data over the past six months indicate that the Mid-America economy remains strong but is weakening a bit. **Follow my comments at**: www.twitter.com/erniegoss

French Reject Climate Change Solutions: Citizens Want Someone Else to Pay

French President Macron last week scrapped his carbon fuel tax which was designed to reduce carbon emissions, and slow climate change. One million French environmentalists and others rioted against the tax. In environmentally friendly Washington State voters twice rejected a carbon tax suggesting that even environmentalists want a less transparent solution to climate change: specifically, one that hides the costs, and taxes someone else.

French and Americans prefer their energy taxes to be hidden by subsidies, and managed by government enterprises. The latest U.S. Department of Energy data (2016) show that electricity producers in the U.S. received $15.0 billion in subsidies with approximately $6.7 billion going to renewable energy. Thus, despite accounting for only 17.0% of electricity production, renewable electricity producers received almost 45.0% of subsidies.

Even with the subsidies, renewable electricity costs per megawatt hour of production, including plant & equipment costs, greatly exceeds that of more conventional methods of generation. For example, relative to nuclear electricity production, costs per MWH for wind was five times that of nuclear, and solar was six times that of nuclear. But instead of producing more electricity with carbon free and cheaper nuclear, the U.S. has embarked on closing nuclear facilities, and expanding wind and solar.

The higher cost of electricity due, in part, to the contraction of cheaper conventional and opening of more expensive renewable has been differentially borne by low income Americans. In 2016, the lowest 20% of U.S. income earners paid 34.2% of their income for utilities and fuel, while the top 20% of U.S. income earners expended only 2.8% of their income on utilities and fuel. And between 2013 and 2016, the share of income spent on utilities declined for high income Americans but expanded rapidly for the lowest 20%.

In terms of efficiency and transparency, federal, state and local governments should implement a carbon that allows consumers and business, not government, to decide how to allocate scarce resources. Rebates could then be issued to lower income families that are inordinately harmed by the carbon tax. French President Macron was finally on the right side of an issue, but the French public, like the American public, wish to ignore a market-based, transparent solution.

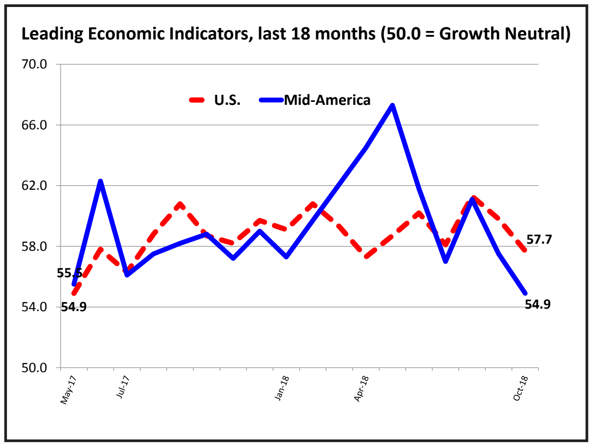
LAST MONTH'S SURVEY RESULTS

Mid-America October Index Lowest Since January 2017
Six of Ten Report Negative Tariff Impacts

SURVEY RESULTS AT A GLANCE:

- The Business Conditions Index remained above growth neutral for the 23rd straight month, but fell to its lowest level since January 2017.
- Job gains down from September advances.
- Approximately 60.0 percent of the supply managers indicated that rising tariffs had made it more difficult, or expensive, to purchase from abroad (Up from 40.8 percent in Sept.)
- Both exports and imports down for the month.
- On average, supply managers expect a 4.1 percent expansion in input and supply prices over the next 12 months.

The October Creighton University Mid-America Business Conditions Index, a leading economic indicator for the nine-state region stretching from Minnesota to Arkansas, sank to its lowest level since President Trump took office, but remained above growth neutral, and continues to point to positive economic growth for the next three to six months.



Overall index: The Business Conditions Index, which ranges between 0 and 100, fell to 54.9 from September's strong 57.5. This is the 23rd straight month the index has remained above growth neutral 50.0, but dropped to the lowest reading since January 2017.

The regional economy continues to expand at a healthy pace. However, as in recent months, shortages of skilled workers remain an impediment to even stronger growth. Furthermore, supply managers are reporting mounting negative impacts from tariffs and trade skirmishes. I expect expanding tariffs, trade restrictions, and rising short-term interest rates from a more aggressive Federal Reserve, to slow regional growth to a more modest, but still positive pace in the months ahead.

In October, approximately 60.0 percent of the supply (purchasing) managers indicated that rising tariffs had made it more difficult, or expensive, to purchase from abroad. This is up from 40.8 percent recorded last month.

Employment: The October employment index sank to 52.2 from 56.2 in September and 58.5 in August.

Overall manufacturing employment growth in the region over the past 12 months has been very healthy at 2.4 percent, compared to a lower 2.2 percent for the U.S. I expect this gap to close in the months ahead as regional job growth slows faster than national manufacturing job growth.

Wholesale Prices: The wholesale inflation gauge continues to indicate elevated inflationary pressures with an October index of 79.9, up from September's 76.1.

Both Creighton's regional wholesale inflation index and the U.S. inflation gauge are elevated. Tariffs and expanding growth, for example, have boosted steel prices by 12.2 percent over the past 12 months. At the consumer level, the consumer price index advanced by 2.3 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," Goss said. "The Fed raised short-term interest rates by one-quarter of one percentage point last week. I expect an identical rate hike (one-quarter percent) on December 19.

More than one-third, or 35.7 percent of supply managers, expect a December rate hike to have a negative impact on their business profitability. As reported by one supply manager, "I consider tariffs the same as a price increase. If tariffs on steel and aluminum products from Euro and China are short term, then I expect no change to prices."

On average, supply managers expect to experience a 4.1 percent increase in the price of inputs and supplies over the next 12 month.

Confidence: Looking ahead six months, economic optimism, as captured by the October Business Confidence Index, fell to a strong 59.6 from September's 68.0. "In terms of business confidence, rising trade tensions, tariffs, and interest rates have reduced economic optimism among supply managers in the region," reported Goss.

Inventories: Companies cut inventories of raw materials and supplies for the month. The October inventory index sank to 47.9 from September's 56.3.

Trade: The regional new export orders index dropped to 51.5 from September's 53.1, and the import index plummeted to 48.7 from September's 57.2 and August's 58.1. We are beginning to track the negative impacts of the tariffs as the price of goods, both imports and exports, expands. Even with the NAFTA resolution, trade barriers and tariffs are slowing international sales.

Other components: Components of the October Business Conditions Index were new orders at 57.8, down from 59.4 in September; the production or sales index at 56.5, down from September's 58.4; and speed of deliveries of raw materials and supplies index at 60.5, up from last month's 57.0.

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 October Business Conditions Index for Arkansas increased to 52.9 from September's 52.5. Components of the index from the monthly survey of supply managers were new orders at 56.5, production or sales at 53.4, delivery lead time at 57.9, inventories at 44.6, and employment at 51.9. Over the past 12 months, Arkansas non-durable goods manufacturers added 1,500 workers for a 1.8 percent gain making the state number five among the nine states in terms of the rate of growth. During this same period of time, durable goods producers in the state boosted jobs by 800 for a 1.1 percent gain pushing the state to number nine among the nine states in terms of the rate of growth.

IOWA

The October Business Conditions Index for Iowa tumbled to 51.8 from September's healthy 59.4. Components of the overall index from the monthly survey of supply managers were new orders at 57.8, production or sales at 51.0, delivery lead time at 55.3, employment at 52.4, and inventories at 42.6. Over the past 12 months, Iowa non-durable goods manufacturers added 2,400 workers for a 2.6 percent gain making the state number three among the nine states in terms of the rate of growth. During this same period of time, durable goods producers in the state boosted jobs by 6,000 for a 4.8 percent gain pushing the state to number three among the nine states in terms of the rate of growth.

KANSAS

The Kansas Business Conditions Index for October fell to 51.4 from September's 56.9. Components of the leading economic indicator from the monthly survey of supply managers were new orders at 55.7, production or sales at 52.2 delivery lead time at 56.7, employment at 48.9, and inventories at 43.6. Over the past 12 months, Kansas non-durable goods manufacturers added 1,400 workers for a 2.1 percent gain making the state number four among the nine states in terms of the rate of growth. During this same period of time, durable goods producers in the state boosted jobs by 2,200 for a 2.3 percent gain pushing the state to number seven among the nine states in terms of the rate of growth.

MINNESOTA

The October Business Conditions Index for Minnesota declined to a solid 54.9 from September's 60.0. Components of the overall October index from the monthly survey of supply managers were new orders at 58.5, production or sales at 56.1, delivery lead time at 60.9, inventories at 46.9, and employment at 52.2. Over the past 12 months, Minnesota non-durable goods manufacturers added 1,400 workers for a 1.2 percent gain making the state number six among the nine states in terms of the rate of growth. During this same period of time, durable goods producers in the state boosted jobs by 4,400 for a 2.2 percent gain pushing the state to number eight among the nine states in terms of the rate of growth.

MISSOURI

The October Business Conditions Index for Missouri decreased to 52.5 from 54.8 in September. Components of the overall index from the survey of supply managers were new orders at 55.2, production or sales at 55.5, delivery lead time at 55.8, inventories at 47.8, and employment at 48.2. Over the past 12 months, Missouri non-durable goods manufacturers lost 1,600 jobs for a minus 1.5 percent loss making the state number eight among the nine states in terms of the rate of growth. During this same period of time, durable goods producers in the state boosted jobs by 6,300 for a 4.0 percent gain pushing the state to number four among the nine states in terms of the rate of growth.

NEBRASKA

The October Business Conditions Index for Nebraska sank to a solid 51.5 from September's 55.1. Components of the index from the monthly survey of supply managers were new orders at 55.8, production or sales at 52.3, delivery lead time at 56.7, inventories at 43.7, and employment at 49.0. Over the past 12 months, Nebraska non-durable goods manufacturers added 2,200 workers for a 4.1 percent gain making the state number one among the nine states in terms of the rate of growth. During this same period of time, durable goods producers in the state boosted jobs by 2,700 for a 6.2 percent gain pushing the state to number one among the nine states in terms of the rate of growth.

NORTH DAKOTA

The Business Conditions Index for North Dakota fell to a very healthy 61.3 from 69.0 for September. Components of the overall index were new orders at 63.5, production or sales at 63.3, delivery lead time at 68.7, employment at 58.1, and inventories at 52.9. Over the past 12 months, North Dakota non-durable goods manufacturers added no workers making the state number seven among the nine states in terms of the rate of growth. During this same period of time, durable goods producers in the state boosted jobs by 500 for a 3.0 percent gain pushing the state to number six among the nine states in terms of the rate of growth.

OKLAHOMA

Oklahoma's Business Conditions Index has now remained above the 50.0 threshold for the last 15 months. The overall index from a monthly survey of supply managers sank to a solid 55.0 from September's 57.6. Components of the overall October index were new orders at 58.2, production or sales at 55.7, delivery lead time at 60.5, inventories at 46.6, and employment at 54.3. Over the past 12 months, Oklahoma non-durable goods manufacturers shed 2,000 workers for a minus 4.9 percent loss making the state number nine among the nine states in terms of the rate of growth. During this same period of time, durable goods producers in the state boosted jobs by 4,300 for a 4.9 percent gain pushing the state to number two among the nine states in terms of the rate of growth.

SOUTH DAKOTA

The October Business Conditions Index for South Dakota climbed to 52.6 from 50.4 in September. Components of the overall index from the October survey of supply managers in the state were new orders at 53.8, production or sales at 54.3, delivery lead time at 53.6, inventories at 51.2, and employment at 49.9. Over the past 12 months, South Dakota non-durable goods manufacturers added 500 workers for a 3.2 percent gain making the state number two among the nine states in terms of the rate of growth. During this same period of time, durable goods producers in the state boosted jobs by 1,000 for a 3.6 percent gain pushing the state to number five among the nine states in terms of the rate of growth.

THE BULLISH NEWS

- U.S. GDP expanded by 3.5% for Q3 of 2018. This compares very favorably to the 2.0% average since 2000.
- In October, the U.S. economy added 250,000 jobs, the unemployment rate stood at 3.7% and hourly wages increased by 3.1% from October of last year.
- Both Creighton's and the national surveys of manufacturers shows slower but still solid growth.

THE BEARISH NEWS

- The U.S. trade deficit increased to $54 billion in September. The trade gap with China widened to $40.2 billion despite tariffs on Chinese goods into the U.S.
- The U.S. federal budget deficit rose in fiscal 2018 to the highest level in six years as spending climbed by $127 billion and revenues climbed by$14 billion.
- In August, annual home-price gains slid below 6% for the first time in a year to 5.8% (this is good news for some).

THE OUTLOOK

NABE Business Conditions Survey (October 2018). "High Growth Environment Now, but Slowing Ahead." "How long will business and consumer confidence remain strong? The Conference Board's Consumer Confidence Index remains at its highest level since 2000 and while our CEO Confidence Index declined in the third quarter, it remains solidly in positive territory. Strong sentiment and continued support from tax cuts will drive growth to 3.8 percent in the second half of the year and is helping to generate other positive signals. Labor markets show strong job growth and modestly accelerating wage growth. Profits reached record highs on a before- and after-tax basis in the second quarter and should remain elevated based on strong consumer demand.

Growth will encounter more headwinds in 2019 especially with the Federal Reserve set to raise interest rates three or four more times by the end of next year. Businesses with plans to invest can move those activities forward to take advantage of lower interest rates and still high consumer demand. The withdrawal of stimulus support and the effect of higher capital costs will lower GDP growth to 2.2 percent by the end of 2019."

From Goss:): I expect **the Federal Reserve to raise rates on December 19 (0.25% or 25 basis points) 90% likelihood; **GDP growth to slow in the second half of 2018, but remain above 3.3% annualized. ***annualized growth in the consumer price index (CPI) to exceed 2.6% in Q4, 2018.

WHAT TO WATCH

- **Consumer Price Index for October:** The U.S. Bureau of Labor Statistics will release the CPI for October on November 14. Year-over-year growth above 2.5% will be bearish for bonds and stocks.
- **Wage Data:** On December 9r, the U.S. Bureau of Labor Statistics will release wage data for November. Another year-over-year growth above 3.0% will be a strong inflation signal and push the Fed to raise short-term interest rates at their December 19 meeting.
- **Inverted Yield:** . Every recession since 1980 has been preceded by 2-year rates exceeding, or approximating, 10-year rates (termed an inverted yield). Currently 30 basis points (0.30%), and too low from comfort.

her teacher pay. A new 8% tax bracket would begin at $250,000 and

Goss Eggs (Recent Dumb Economic Moves)

- The Young Socialists of America chapter at Southern Illinois University launched a petition drive to make college tuition "free." According to the backers in a Tweet, "More jobs and more students means more money circulating the local economy." If anything, this drive makes the case for more economics classes and fewer classes in "Tree Climbing." At Cornell University, students can take a one-credit class in Tree Climbing which will "teach you how to get up into the canopy of any tree." I suppose this is the prerequisite for Cornell's "Getting Down from a Tree."

STATISTIC OF THE MONTH

23.4%. Weekly wages for U.S. high school dropouts have risen by 23.4% compared to 14.4% for college educated.

Supply Manager Careers

Business Development Specialist, University of Minnesota, Minneapolis, MN. Salary $70,033. RESPONSIBILITIES: The Business Development Specialist will have three primary areas of responsibility. First, the Specialist will conduct a rapid assessment of supply chain development opportunities for all FGI crops to identify the best near-term opportunities for development of robust and scalable value chains. - 25%. Second, the Specialist will develop full supply chain assessments for the most promising opportunities. Each assessment will encompass production, (i.e., current and potential area planted, key factors in production), inputs such as seed supply, key post-harvest factors such as storage, transportation, processing, and factors in end uses. Thirdly, the Specialist will collaborate with the Market Opportunity Development Specialist and other FGI network members to organize and implement cross-institution and cross-sector collaborations for advancing commercialization of highest-priority FGI crop – 25%.

Minimum Requirements. Masters degree and Academic training and work experience in relevant fields, including, but not limited to supply chain management or supply chain logistics or business administration.

Apply at: https://tinyurl.com/ycx6jylw

Supply Manager Reading Room

Report: "US importers warn Jan. 1 tariffs will crunch supply chains," US importers, already suffering supply-chain disruptions from previous rounds of tariffs, say the threat of a 25 percent tariff to be imposed by the Trump administration on imports on China, effective January 1, will further roil shipping patterns and will stress the intermodal supply chain, especially warehouse space, beyond capacity. The warnings, which were issued Tuesday at the Intermodal Association of North America (IANA) Intermodal Expo in Long Beach, included advice to beneficial cargo owners (BCOs) that now is the time to work closely with ocean, truck, and rail partners to ensure they can provide the capacity that will be needed in what should have been slack shipping months in November and December. "If everything gets loaded prior to Jan. 1, it will cause a huge surge," said Steve Hughes, president/CEO of HCS International, who specializes in auto parts logistics. "How do you plan for the December-January rush on the intermodal side?" he said.

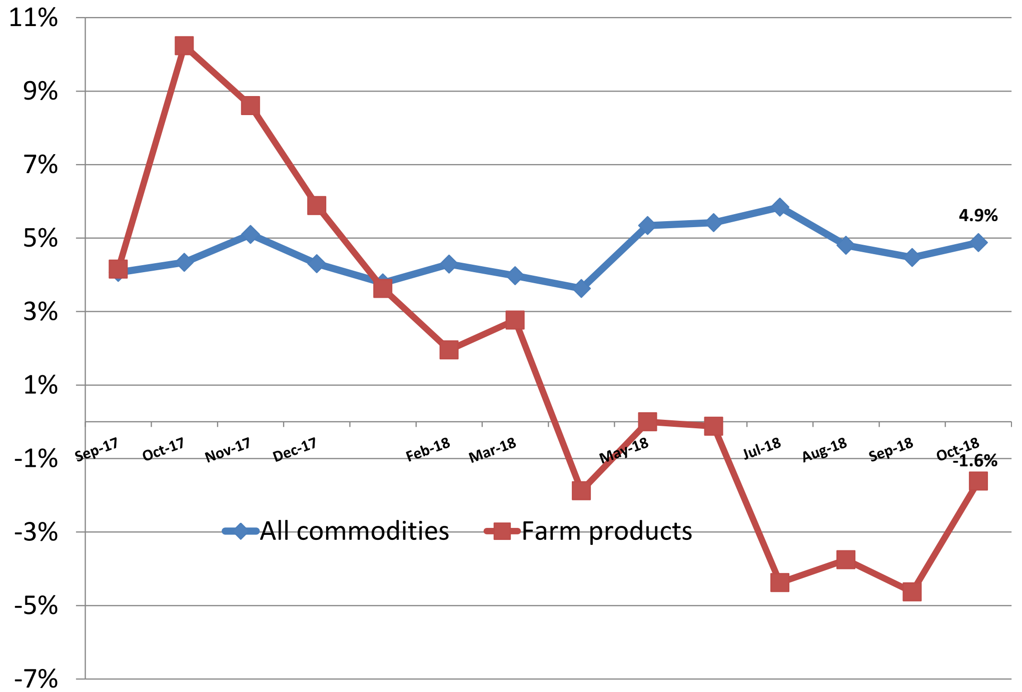
Survey results for November will be released on December 3, the first business day of the month.

Follow Goss on twitter at http://twitter.com/erniegoss
For historical data and forecasts visit our website at: http://business.creighton.edu/organizations-programs/economic-outlook

PRICE DATA

ALL COMMODITIES/FARM PRODUCTS 2007-2018
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