THE PURCHASING ECONOMY SURVEY REPORT
March 2018
"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.

Is the U.S. the Next Greece? Looming U.S. Debt Crunch: Boomers Revenge on Millennials

Over the past 200 years, Greece has reneged seven times on the repayment of its national debt. And in 2017, Greece once again teetered on default but, by agreeing to austerity measures, was bailed out by the European Central Bank (ECB) and the International Monetary Fund (IMB). In most cases, Greek government spending beyond its means, i.e. deficit spending, produced these nasty outcomes. Will the U.S. government face the same problem in the years ahead?

With the U.S. debt, both public and private, now exceeding $20 trillion, or 104% of Gross Domestic Product (GDP), lenders and taxpayers are questioning the federal government's ability to pay interest and principal on that debt. The debt as a percent of GDP has exploded from 39.6% in 1966 to 103.7% in 2017 producing this concern. During this time period, U.S. presidents ranged in their contribution to the problem. As a percent of GDP, during Obama's term, the debt increased by 4.7 percentage points per year. At the other end of the spectrum, the ratio declined by 1.1 percentage points annually under Johnson. Others include: Bush Sr. a yearly gain of 3.1 points; Reagan an increase of 2.2 points annually; Bush Jr. an upturn of 1.5 points per year; Ford an expansion of 0.4 points yearly; Carter a reduction of 0.5 points per year; Nixon a decrease of 0.6 points yearly; and Clinton an annual drop of 0.8 points.

Adding to the potential crisis, the CBO projects that debt held by the public will advance by another 12% in the next decade. U.S. taxpayers and investors ask, is the U.S. the next Greece? The quick, short and accurate answer is NO! But why not?

First, the U.S. dollar is, and will continue to be, the global reserve currency. This means that foreign investors remain willing to lend to the U.S. despite the heavy debt load and current rock bottom interest rates. Second, the U.S. Federal Reserve stands ready to buy U.S. debt regardless of the size of the debt. This Fed action would boost the money supply, increase inflationary pressures, and reduce the size of the inflation-adjusted debt. Third, the U.S. Treasury can always open the dollar spigot to pay interest and return principal on maturing notes, again adding to inflationary pressures and diminishing the size of the inflation-adjusted debt load. Finally, the federal government can raise federal taxes to cover government over-spending. The outcomes from these actions for a younger generation are likely to be a combination of higher interest rates, greater inflation and expanding taxes. That is, baby boomers stick it to millennials!.

Link to video: https://youtu.be/WLDdxOOnB1o

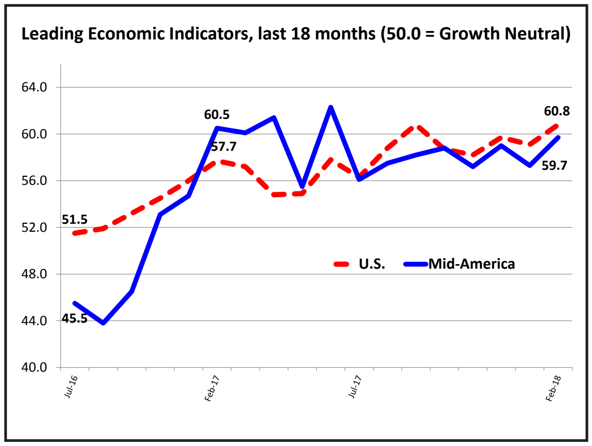
LAST MONTH'S SURVEY RESULTS

Mid-America Economy in Like a Lion:
Jobs, Inflation and Exports Soared

SURVEY RESULTS AT A GLANCE:

- The Business Conditions Index moved above growth neutral for the 15th straight month, pointing to healthy growth for the next three to six months.
- The employment index advanced to a very healthy level. Over the last 12 months, regional manufacturing has expanded by 2.3 percent compared to a 1.5 percent for U.S.
- Inflation gauge indicated elevated wholesale inflation. Fed rate hikes ahead.
- Approximately 60 percent of firms expect to add workers over the next six months.
- Exports and imports rose sharply.

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



Overall index: The February 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 healthy reading pointing to healthy growth for the next three to six months.

The durable, nondurable and nonmanufacturing sectors in the region are experiencing very healthy growth in business activity. At this point in time, according to our surveys, Mid-America manufacturing firms are outperforming their U.S. counterparts. However, government data indicate that U.S. nonmanufacturing activity is exceeding that of Mid-American nonmanufacturing firms.

Employment: The February employment index jumped to 59.4 from 52.3 in January. Over the past 12 months, regional manufacturing employment has expanded by 2.4 percent compared to U.S. manufacturing growth of a much softer 1.1 percent. Sixty percent of firms in our survey expect to add workers in the next six months.

Wholesale Prices: The wholesale inflation gauge continues to point to elevated inflationary pressures at the wholesale level. The regional inflation gauge climbed to 82.0 from January's very strong 74.5.

Both our regional wholesale inflation index and the U.S. inflation gauge are elevated. I expect this growth 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 March 21.

Confidence: Looking ahead six months, economic optimism, as captured by the February Business Confidence dipped to strong 74.5 from January's 80.5. Healthy profit growth, still low interest rates, and the recently passed tax reform package pushed business confidence into a range indicating vigorous business confidence.

Inventories: The February inventory index indicated that businesses expanded supplies of raw materials and supplies, and at a faster pace than in January. The regional inventory index for February rose to 56.7 from January's 55.6.

Trade: The regional new export orders index zoomed to 64.6 from 58.1 in January, and the import index climbed to 59.3 from January's 53.9. A cheap U.S. dollar making U.S. goods more competitively priced abroad, and growth among U.S. trading partners, boosted regional exports while regional economic growth boosted purchases from abroad.

Other components: Components of the February Business Conditions Index were new orders at 61.7, down from 67.4 in January; the production or sales index fell to a strong 64.4 from January's 68.2; and delivery speed of raw materials and supplies rose to 56.4 from last month's 43.5.

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 February Business Conditions Index for Arkansas advanced to 55.4 from January's 50.0. Components of the index from the monthly survey of supply managers were new orders at 53.4, production or sales at 65.4, delivery lead time at 47.9, inventories at 59.1, and employment at 51.2. Average hourly earnings for Arkansas private-sector workers expanded by a solid 2.9 percent over the past 12 months. Nondurable manufacturing in the state is growing at a very strong pace while Arkansas durable goods producers continue to expand at a slow rate.

IOWA

The February Business Conditions Index for Iowa climbed to a very healthy 59.4 from 58.0 in January. Components of the overall index from the monthly survey of supply managers were new orders at 61.5, production or sales at 63.8, delivery lead time at 56.4, employment at 59.1, and inventories at 56.1. Average hourly earnings for Iowa private-sector workers expanded by a tepid 1.2 percent over the past 12 months. Nondurable manufacturing in the state is growing at very strong pace and Iowa durable goods producers continue to expand at an equally healthy rate.

KANSAS

The Kansas Business Conditions Index for February advanced to 62.4 from December's strong 59.6. Components of the leading economic indicator from the monthly survey of supply managers were new orders at 64.7, production or sales at 66.6, delivery lead time at 59.7, employment at 62.1, and inventories at 59.0. Average hourly earnings for Kansas private-sector workers expanded by a tepid 1.6 percent over the past 12 months. Both nondurable manufacturing and durable goods producers in the state are expanding at a very slow pace.

MINNESOTA

The February Business Conditions Index for Minnesota expanded to a healthy 57.6 from January's 55.8. Components of the overall February index from the monthly survey of supply managers were new orders at 62.2, production or sales at 59.8, delivery lead time at 51.8, inventories at 52.1, and employment at 62.2. Average hourly earnings for Minnesota private-sector workers expanded by a solid 3.2 percent over the past 12 months. Both nondurable and durable goods firms in the state are growing a steady pace.

MISSOURI

The February Business Conditions Index for Missouri climbed to 58.0 from 53.6 in January. Components of the overall index from the survey of supply managers were new orders at 61.9, production or sales at 58.2, delivery lead time at 50.0, inventories at 58.8, and employment at 61.1. Average hourly earnings for Missouri private sector-workers expanded by a very healthy 4.5 percent over the past 12 months. Durable goods manufacturers are expanding at a very strong rate while nondurable goods producers are growing at a slower, but positive pace.

NEBRASKA

The February Business Conditions Index for Nebraska rose to 58.3 from 53.7 in January. Components of the index from the monthly survey of supply managers were new orders at 58.1, production or sales at 65.5, delivery lead time at 58.8, inventories at 53.1, and employment at 55.8. Average hourly earnings for Nebraska private-sector workers expanded by a very healthy 5.4 percent over the past 12 months. Nondurable goods manufacturers are expanding at a very healthy rate while durable goods producers are experiencing pullbacks in economic activity.

NORTH DAKOTA

The Business Conditions Index for North Dakota climbed above growth neutral for February. The overall index from a survey of supply managers climbed to 53.3 from 49.6 in January. Components of the overall index were new orders at 54.6, production or sales at 51.7, delivery lead time at 58.3, employment at 57.8, and inventories at 43.9. "Average hourly earnings for North Dakota private-sector workers expanded by a solid 2.7 percent over the past 12 months. Both durable and nondurable goods manufacturers in the state are expanding at a slow, but positive pace," said Goss.

OKLAHOMA

Boosted by higher oil prices, Oklahoma's Business Conditions Index has remained above the 50.0 threshold for the last seven months. The overall index from a monthly survey of supply managers improved to 60.5 from January's 57.8. Components of the overall February index were new orders at 62.7, production or sales at 64.8, delivery lead time at 57.6, inventories at 57.2, and employment at 60.2. "Average hourly earnings for Oklahoma private-sector workers expanded by a solid 3.3 percent over the past 12 months. Durable goods manufacturers in the states are expanding at a brisk pace while nondurable goods producers are experiencing pullbacks in economic activity," said Goss.

SOUTH DAKOTA
The February Business Conditions Index for South Dakota slipped to a solid 56.6 from 56.8 in January. Components of the overall index from the February survey of supply managers in the state were new orders at 59.4, production or sales at 61.9, delivery lead time at 50.2, inventories at 54.2, and employment at 57.1. "Average hourly earnings for South Dakota private-sector workers improved by a tepid 1.3 percent over the past 12 months. Both durable and nondurable goods producers in the state are expanding at a healthy pace," said Goss.

THE BULLISH NEWS

- U.S. home prices rose 7.0% in December from one year earlier. This reflects supply constraints and an almost severe shortage of homes for sale in certain many parts of the nation. Growth in home prices cannot continue to outstrip income growth by such huge margins. A bubble for sure.

- According to the U.S. BLS, the nation added 313,000 jobs in February.

THE BEARISH NEWS

- The U.S. trade deficit rose to a 10-year high for January 2018 driven by imports. (note: a larger trade deficit is a by-product of an expanding U.S. economy).

- According to the U.S. Census Bureau, retail sales for January 2018 fell 0.3% from December. Over the 12 months, retail sales expanded by a low 3.6%.

WHAT TO WATCH

- **Inflation, Inflation, Inflation**: The Bureau of Labor Statistics will release the inflation gauge for March on April 11. An annualized increase above 2.5% will be bearish for bond prices (rising yields, falling prices).

- **Wage Growth**: On April 6, the U.S. Bureau of Economic Analysis releases its March jobs report. Focus on the wage growth number. Year-over-year growth over 2.8% will be viewed as a signal of budding inflation with higher interest rates to follow.

- **Home Price:** On the last Tuesday of the month, March 27. S&P Corelogic will release its Case-Shiller home price index for January. Home prices have been rising by over 5.0% (annualized) since November 2015. Air will continue to inflate this bubble with a dearth of U.S. housing.

Goss Eggs
(Recent Dumb Economic Moves)

- President Trump's decision to place tariffs of 25% and 10% on imported steel and aluminum, respectively could almost undo all of his otherwise stellar economic actions. The good from tariffs: a positive for wages, salaries, and profits for steel and aluminum companies. The bad and ugly: invites retaliation and potential trade wars; increases costs for steel and aluminum users reducing their wages, and profits, while increasing their prices; tends to raise U.S. inflation and interest rates; in the end, this action will actually raise the U.S. trade deficit as a share of GDP. This represents the worst presidential economic policy action since Nixon's wage and price controls almost 50 years ago.

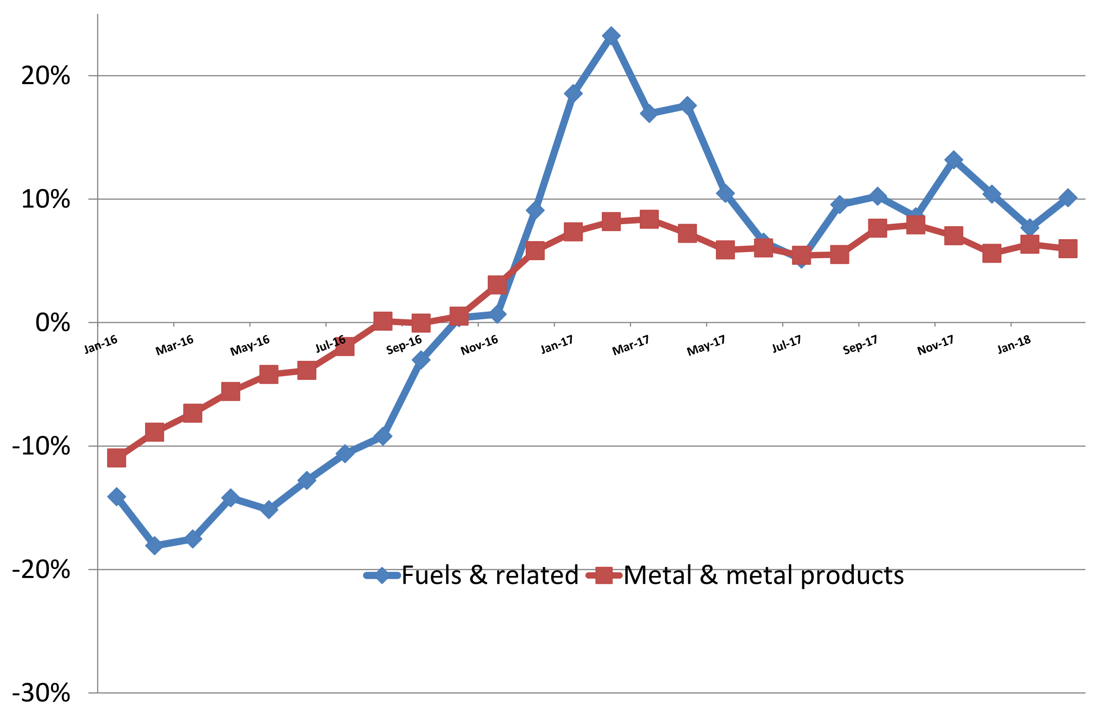
Survey results for December will be released on the first business day of next month, April 2.

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

PRICE DATA

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

Year over year price change, fuels and metal products, 2016-17



Year over year price change, fuels and metal products, 2016-17