THE PURCHASING ECONOMY SURVEY REPORT September 2017

"A monthly survey of supply chain managers"

Welcome to our August report covering results from Creighton's monthly survey of supply managers and procurement experts in nine Mid-America states. This survey indicates that the economic growth has moved into a range indicating healthy economic growth ahead with modest inflationary pressures. Follow my comments at: www.twitter.com/erniegoss

Could a Stock Market Swoon Damage Your Retirement Plans? Baby Boomers at Risk

Nine years of record low interest rates, an improving economy, and few high yielding investment alternatives, have propelled the U.S. stock market to record highs. For example, the current price-earnings (P/E) ratio of the Standard & Poor's 500 (S&P) stocks collectively is 24.5. This indicates that stock investors are paying $24.50 for each dollar of earnings, which is well above the average P/E ratio since 1950 of 17.85. If the S&P were to decline to its 1950-2017average P/E, S&P stock prices would plummet by 27.2%.

However for long-term investors, it is almost a certainty that the S&P would rebound to its old high. But how long will it take? Should the S&P P/E ratio drop to its 1950-2017 average, retired baby boomers who will be age 70.5 and older in 2018, and other retirees in need of funds for living, would be required to withdraw funds from their non-Roth retirement accounts at these low stock prices. The question then becomes, how long will it take for the S&P to return to its 2017 record high level?

In August 2000 with the S&P at 1517.7, the stock index plummeted 31.4% over the next 13 months. It then took the S&P 81 months to climb back to its August 2000 level. And six months later in November 2007, the S&P once again began falling ultimately slumping to 735.1 by February 2009. Thus, between August 2000 and February 2009, or 102 months, the S&P fell by 51.6%. During this bear or down market, individuals that made mandatory or voluntary withdrawals from their retirement accounts dominated by stocks likely suffered significant financial hits.

With U.S. stock prices at current record highs, recent empirical evidence indicate that those required to make significant withdrawals from their retirement accounts over a short time horizon should evaluate re-balancing their investment portfolio to be less dependent on stock prices. As investment guru Ben Graham advised, "Diversify, Diversify!" Ernie Goss.

Link to video: https://youtu.be/aCNT537QhSQ

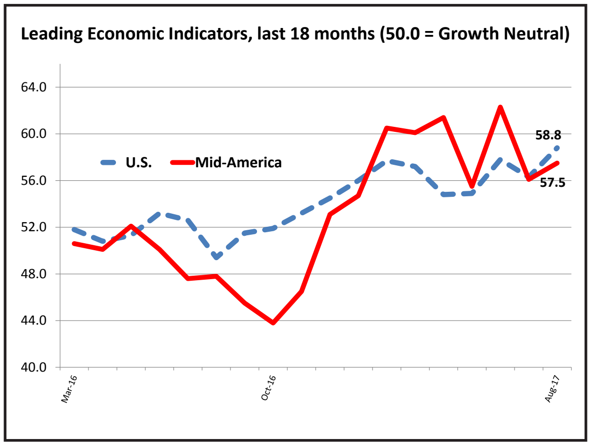
LAST MONTH'S SURVEY RESULTS

Mid-America Business Conditions Index Rises to Healthy Level: Exports Through the Port of Houston an Economic Headwind

SURVEY RESULTS AT A GLANCE:

- Overall index moved above growth neutral for a ninth straight month, pointing to solid growth ahead.
- Employment gauge remained in a healthy range.
- Inflation gauge moved into a range indicating modest inflationary pressures at the wholesale level.
- Overall index falls below growth neutral for Kansas and South Dakota.
- The export of important regional commodities traveling through the Port of Houston will be negatively impacted in the weeks and months ahead.

The Creighton University Mid-America Business Conditions Index, a leading economic indicator for a nine-state region stretching from Arkansas to North Dakota, expanded to a very healthy level for April, according the latest monthly survey results.



Overall index: The Business Conditions Index, which ranges between 0 and 100, rose to 57.5 from July's 56.1. This is the ninth straight month the index has remained above growth neutral, continuing to point to positive growth for the region over the next three to six months. The overall index over the past several months indicates a healthy regional manufacturing economy, and points to solid growth for both manufacturing and nonmanufacturing for the rest of 2017.

Employment: The August employment index once again jumped above growth neutral with a healthy reading of 59.2, and up from July's 56.5. Both the durable, nondurable and nonmanufacturing sectors are adding jobs at a solid pace. Except for manufacturing tied to agriculture, businesses across the region added jobs at a solid pace for the month. With the recent boost in employment growth, total regional employment growth (year over year) is now 1.4 percent, and slightly below the nation's 1.5 percent gain over the same time period.

Wholesale Prices: After falling for two straight months, the regional wholesale inflation gauge rose to a level indicating modest inflationary pressures. The wholesale price index increased to 65.5 from July's 62.0. Given modest inflationary reading from our surveys and government surveys over the past several months, I expect the Federal Reserve to raise short term interest rates no earlier than December. I do, however, anticipate the Fed will announce plans to begin the sale of its $4.5 trillion bond portfolio. As a result of monthly sales, long-term interest rates, including mortgage rates, are apt to rise at a slow pace in the months ahead.

Confidence: Looking ahead six months, economic optimism, as captured by the August business confidence index, jumped to a strong 62.5 from 60.2 in July. Strong profit growth, still low interest rates, and international sales boosted the economic outlook among supply managers in the nine-state region.

However, as reported by one supply manager, "Forecasted sales tied with governmental activities are all showing signs of softening in the back half of the year, causing our slow down now."

Thus, the economic hurdles of the national debt ceiling, a potential U.S. budget impasse, tax reform and shipping bottlenecks tied to Hurricane Harvey may weigh on economic confidence in the next month.

Inventories: The August inventory index, which tracks the change in the level of raw materials and supplies bounced to 56.5 from July's 50.0.

Trade: The regional new export orders index slipped to 52.8 from 54.3 in July, and the import index inched higher to 50.1 from July's 50.0. "A weaker U.S. dollar, making imported purchases more expensive held imports down to almost growth neutral. On the other hand, the weaker U.S. dollar, making regional goods more competitively priced abroad, pushed the new export order index above growth neutral," said Goss.

Approximately, 43 percent of supply managers reported the export of their firm's goods was an important factor influencing profitability.

However, several supply managers indicated that the export of important regional commodities that normally travel through the Port of Houston will be negatively impacted in the weeks and months ahead. "For example, exports of commodities such as ethanol, hard red winter wheat, corn and soybean will be slowed by port bottlenecks in the short term," said Goss.

Other components: Components of the August Business Conditions Index were new orders at 53.8, down from 60.8 in July; production or sales index was 62.5, up from July's 57.7; and delivery speed of raw materials and supplies expanded slightly to 55.7 from last month's 55.5.

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 August overall index for Arkansas advanced to 65.9 from July's 61.2. Components of the index from the monthly survey of supply managers were new orders at 61.3, production or sales at 70.1, delivery lead time at 65.6, inventories at 64.7, and employment at 68.0. Arkansas is adding manufacturing jobs at an annual pace above 2.2 percent and nonmanufacturing at a rate exceeding 2.5 percent. Our surveys over the past several months indicate this positive trend will continue for the remainder of 2017.

IOWA

The August Business Conditions Index for Iowa expanded to 57.7 from 54.9 in July. Components of the overall index from the monthly survey of supply managers were new orders at 53.6, production or sales at 62.3, delivery lead time at 56.4, employment at 59.4, and inventories at 56.6. The state is adding manufacturing jobs at an annual pace slightly below 1 percent and nonmanufacturing employment at a rate slightly above 1 percent. Our surveys over the past several months indicate this positive, but modest, trend will continue for the remainder of 2017.

KANSAS

The Kansas Business Conditions Index for August slumped to a regional low of 42.8 from July's 45.9, also a regional low. Components of the leading economic indicator from the monthly survey of supply managers were new orders at 39.8, production or sales at 48.3, delivery lead time at 40.0, employment at 44.1, and inventories at 42.0. Kansas is shedding manufacturing jobs at an annual pace of one-half of one percentage point and losing nonmanufacturing at an annual rate of almost 1 percent. Our surveys over the past several months indicate this negative trend will continue for the remainder of 2017.

MINNESOTA

The August Business Conditions Index for Minnesota declined to a still healthy 61.8 from July's 63.2. Components of the overall August index from the monthly survey of supply managers were new orders at 57.5, production or sales at 66.2, delivery lead time at 61.0, inventories at 60.7, and employment at 63.8. The state is adding manufacturing jobs at an annual pace of approximately 1 percent, and growing nonmanufacturing employment at a rate exceeding 2 percent. Our surveys over the past several months indicate this positive trend will continue for the remainder of 2017.

MISSOURI

The August Business Conditions Index for Missouri jumped to 61.1 from 52.3 in July. Components of the overall August index from the survey of supply managers were new orders at 56.8, production or sales at 65.5, delivery lead time at 60.2, inventories at 60.0, and employment at 63.0. Missouri is adding manufacturing jobs at an annual pace of approximately 2.5 percent and adding nonmanufacturing employment at a rate exceeding 2 percent. Our surveys over the past several months indicate this positive and healthy trend will continue for the remainder of 2017.

NEBRASKA

The August Business Conditions Index for Nebraska fell slightly to 57.9 from 58.0 in July. Components of the index from the monthly survey of supply managers were new orders at 53.8, production or sales at 62.5, delivery lead time at 56.7, inventories at 56.8, and employment at 59.7. The state is adding manufacturing jobs at an annual pace of almost 1.5 percent and growing nonmanufacturing employment at a rate of approximately 1.2 percent. Our surveys over the past several months indicate this positive trend will continue for the remainder of 2017.

NORTH DAKOTA

North Dakota's overall, or Business Conditions Index, soared above growth neutral for the month. The index for August from a survey of supply managers climbed to a regional high 69.1 from July's 66.7, also a regional high. Components of the overall index were new orders at 64.3, production or sales at 73.1, delivery lead time at 69.1, employment at 71.3, and inventories at 67.8. While the state is losing manufacturing jobs at an annual pace of approximately 2 percent, North Dakota is growing jobs linked to energy and nonmanufacturing employment at a rate exceeding 1.5 percent. Our surveys over the past several months indicate this positive trend will gain steam for the remainder of 2017 as the state's energy sector boosts the overall state economy.

OKLAHOMA

After falling below growth neutral for July, Oklahoma's Business

Conditions Index rose above the 50.0 threshold for August. The overall index from a monthly survey of supply managers climbed to a solid 56.2 from 49.4 in July. Components of the overall August index from a survey of supply managers in the state were new orders at 52.2, production or sales at 60.9, delivery lead time at 54.7, inventories at 55.1, and employment at 57.9. The state is adding manufacturing jobs at an annual pace of almost 2 percent and growing nonmanufacturing employment at a rate slightly above 1 percent. Our surveys over the past several months indicate this positive trend will continue for the remainder of 2017.

SOUTH DAKOTA

The Business Conditions Index for South Dakota plummeted to 45.5 from July's 53.3. Components of the overall index for the August survey of supply managers in the state were new orders at 43.1, production or sales at 47.1, delivery lead time at 43.9, inventories at 45.5, and employment at 47.8. South Dakota is shedding manufacturing jobs at an annual pace of approximately 1 percent, but growing nonmanufacturing employment at a rate only slightly above 0.3 percent. Our surveys over the past several months indicate this sluggish trend will continue for the remainder of 2017.

THE BULLISH NEWS

- The median sales price of an existing home climbed to $263,000 in June, its highest level on record and up 40% from the first quarter of 2014.
- Multi-family starts appear to have peaked for this cycle, but a number of factors suggest that single-family starts could continue to rise.

THE BEARISH NEWS

- In August, the unemployment rate rose slightly, the labor force participation rate did not change and the employment-to-population ratio fell slightly. Also growth in labor compensation measures remained subdued.
- U.S. automobile sales sank in August.
- The August consumer price index increased by 0.4% over the reading for July. Is this a signal of rising inflationary pressures. Still too early to tell.

WHAT TO WATCH

- **Jobs Report on October 4:** The Bureau of Labor Statistics will release its employment report for September. Another weak reading on wages could push the Federal Reserve to forego another 2017 rate hike.
- **Consumer Price Index on October 13:** The Bureau of Labor Statistics will release the inflation gauge for September. An annualized increase below 1.5% will be bullish for bond prices and sink both short and long-term interest rates.
- **Yield on 10-Year US Treasury Bond:** This yield will rise as inflation advances. Current yield is 2.06% and down by 25 basis point over the last month. Indicates safe haven buying or lower inflation.

Goss Eggs (Recent Dumb Economic Moves)

- Guilty of being an economist. Greece's former chief economist/statistician Andreas Georgiou was convicted last month of "breach of duty" for his recalculation of the country's public finances in 2009 which showed that Greece was in serious fiscal health and needed to be bailed out. Politicians' desires always trump economists' statistics.

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

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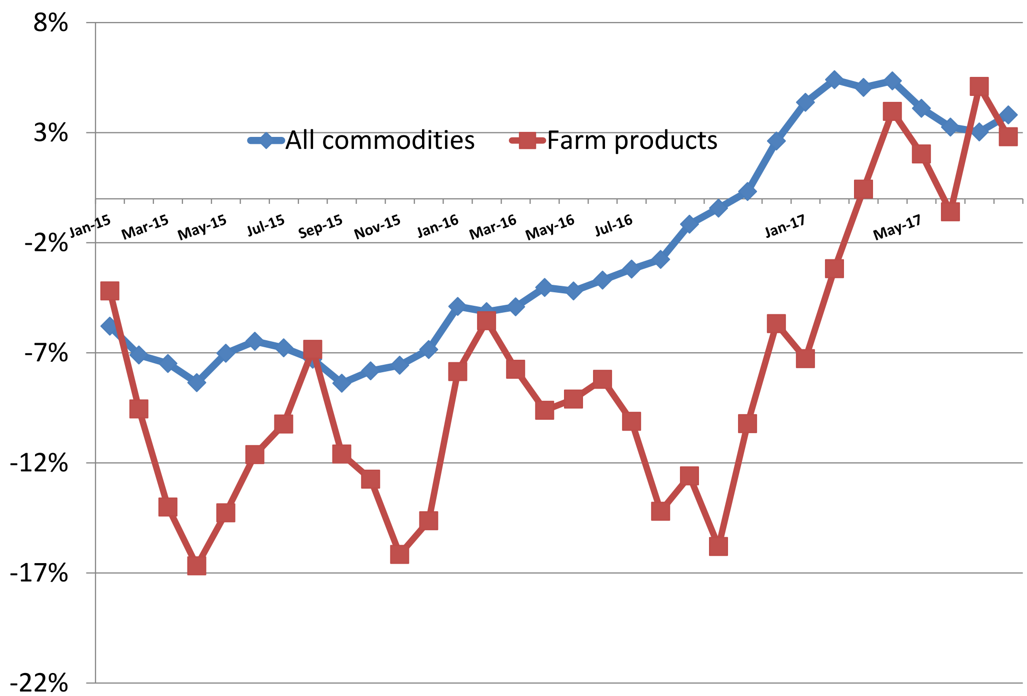
For historical data and forecasts visit our website at:
http://www2.creighton.edu/business/economicoutlook/

PRICE DATA

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

Year over year price change, commodities and farm product, 2015-17



Year over year price change, fuels and metal products, 2015-17