MidAmerica August 2019 Supply Managers

Welcome to our August report covering results from Creighton's July supply manager survey. Creighton's monthly survey of supply managers in nine Mid-America states indicates that economic growth is in a range indicating positive, but slowing, manufacturing growth with modest inflationary pressures.

U.S. Is First Casualty of Trade War: Tariffs Politically Popular, but Economically Damaging

The Dow Jones Industrial Average plunged by 304 points just after President Trump announced his intent to impose a 10% tariff on $300 billion of Chinese goods imported into the U.S.

Set to begin September 1, these duties are on top of his 2018 tariffs on $200 billion of imports from China. In opposition to sound economic theory and U.S. equity markets, President Trump assumes his actions against Chinese imports will reduce the nation's trade deficit and force some U.S. companies producing in China to move production back to the U.S.

Since enacting tariffs in 2018, the trade deficit has increased by almost 15% from $114 billion in the first quarter (Q1) of 2018 to $130 billion in Q1, 2019.

Contrary to President Trump's goal of reducing the trade deficit, a smaller trade deficit normally accompanies a U.S. recession. For example, in the 2008-09 recession, the trade deficit fell by 52.2% from $180 billion in Q1, 2008 to $86 billion in Q1, 2009. Over the last four decades, the U.S. achieved a trade surplus only twice, 1981 and 1991, both recession years. Thus, a U.S. recession, instead of tariffs, would be a more effective way of reducing the trade deficit.

Furthermore, instead of seeing the trade deficit with China as "bad," Chinese imports have provided U.S. consumers with high quality goods at a low price. At the same time the Chinese return the U.S. consumer dollars spent on Chinese imports by purchasing U.S. Treasury bonds, thus lowering U.S. interest rates.

It is correct that the Chinese have "stolen" U.S. patents and technology. Reducing this is a goal that could and should be pursued, not reducing trade deficit. Targeting the Chinese trade deficit with tariffs will punish U.S. consumers and producers.

But the pain of the tariffs has not been shared uniformly. Since tariffs were enacted, due to retaliation from trading partners, the U.S. export of agricultural goods has fallen by 12.2%. The U.S. market for U.S. agricultural goods and most manufactured products is not big enough for the output of the most productive firms and farmers on the face of the earth.

Furthermore, economic history points to more financial pain for U.S. consumers, manufacturers and farmers as the trade war escalates. When politics and economics collide, economics lose.

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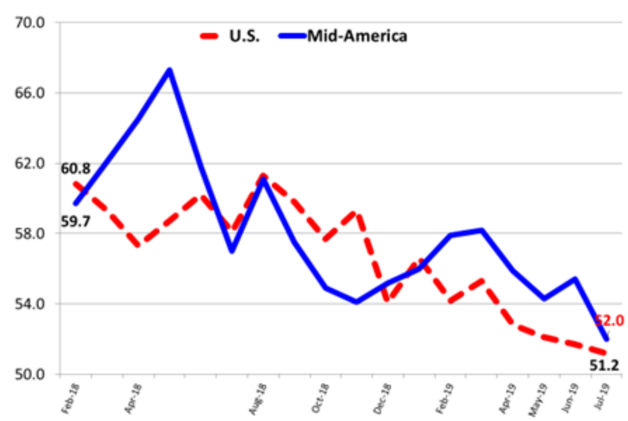
LAST MONTH'S SURVEY RESULTS

Mid-America Economy Sinks to 42 Month Low: Two-Thirds of Supply Managers Report Negative Trade Impacts

July Survey Highlights:

- Overall index remains above growth neutral, but drops to lowest level in 42 months.
- Business confidence slumps to 33-month low.
- Two-thirds of supply managers indicated the trade war and tariffs are having negative impacts on their firm.
- More than half, or 54% of supply managers, indicated tariffs were making it more difficult to buy internationally.
- Exports and imports orders slumped for the month.

Leading Economic Indicators, last 18 months (50.0 = Growth Neutral)



The July Creighton University Mid-America Business Conditions Index, a leading economic indicator for the nine-state region stretching from Minnesota to Arkansas, slumped to a weak reading signaling positive, but slower, growth for the region over the next three to six months.

Overall index: The Business Conditions Index, which ranges between 0 and 100, fell to 52.0 from June's 55.4. This is the lowest reading that we have recorded in more than three years. Even so, this was the 32nd straight month the index has remained above growth neutral 50.0.

The regional economy expanded at a slower pace than the rest of the nation for the first half of 2019.

Weak farm income, produced partially by tariffs and flooding, pulled regional growth below that of the nation. Even so, based on our manufacturing survey over the past several months, I expect overall growth to remain on a positive, but slower path.

As noted by one supply manager, "While I understand the negative impacts trade changes may impose on our business, I see this as short-term pain for long term gain. Previous administrations did nothing, but kick the can down the road."

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Employment: Despite worker shortages, the July employment index stood at a solid 56.3, but down from June's 58.9.

For the first half of 2019, the national employment growth rate has been approximately twice that of the region. Not surprisingly last month, approximately 40% of supply managers reported that the shortage of qualified workers was the greatest economic challenge for their company for the next 12 months.

One supply manager indicated that tight labor markets are making it difficult to expand., while another said, "We're struggling to hire enough workers to meet our demand."

Wholesale Prices: The wholesale inflation gauge for the month indicated rising inflationary pressures for the month with a wholesale price index of 71.9, up significantly from 59.1 in June. Tariffs have begun to push wholesale inflation higher as tariffs increase the price of imported raw materials and supplies.

Moderate wholesale inflation from our survey and national surveys support a Federal Reserve rate cut. I expect the Federal Reserve to reduce short-term interest rates again at its September meetings. Record low interest rates by global central banks and a strong U.S. dollar are pushing the Fed to continue reducing rates.

A supply manager noted that the price of corrugated boxes, a leading economic indicator for him, are going down. An indication of a slowing manufacturing economy.

Confidence: Looking ahead six months, economic optimism, as captured by the July Business Confidence Index, dropped to 51.4 from June's much higher 59.1. This is the lowest recorded confidence reading since October 2016.

"I expect business confidence to depend heavily on trade talks with China and the Federal Reserve's interest rate actions in the weeks and months ahead," reported Goss.

Inventories: Companies shrank inventories of raw materials and supplies for the month with the July inventory plummeting to 46.0 from June's 55.9.

Trade: The regional trade numbers were down again with both export orders and imports falling. The new export orders index sank to 44.7, down from June's 48.3, and the import index slumping to 43.8 from 50.0 in June.

Two-thirds of our supply managers indicated that the trade war and tariffs were having negative impacts on their firm.

More than half, or 54% of supply managers indicated that tariffs were making it more difficult to buy internationally. This percentage is unchanged from January of this year when the same question was asked.

Other survey components: Other components of the July Business Conditions Index were new orders at 51.3, down from June's 53.4; the production or sales index at 52.6, down from 53.3 in June; and speed of deliveries of raw materials and supplies index at 53.8, down from last month's 55.6 reading.

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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 (ISM), formerly the National Association of Purchasing Management. The Mid-America report is produced independently of the national ISM.

MID-AMERICA STATES

ARKANSAS: The July Business Conditions Index for Arkansas fell to 51.0 from June's 60.1. Components of the index from the monthly survey of supply managers were new orders at 48.7, production or sales at 52.4, delivery lead time at 54.0, inventories at 46.7, and employment at 53.2. Recent surveys indicate that durable and nondurable goods producers in the state are experiencing solid gains in economic activity. U.S. Bureau of Labor Statistics data show that workers in the state have experienced a strong 5.2% gain in hourly wages over the past 12 months, well above the national gain of 3.2%.

IOWA: For a second consecutive month, Iowa's, overall Business Conditions Index rose above the 50.0 threshold. The overall index for July expanded to 52.6 from June's 50.4. Components of the overall index from the monthly survey of supply managers were new orders at 52.6, production or sales at 52.2, delivery lead time at 54.1, employment at 56.6, and inventories at 47.2. Recent surveys indicate that both durable and nondurable goods producers in the state are experiencing positive gains in economic activity. U.S. Bureau of Labor Statistics data show workers have experienced a solid 3.1% increase in hourly wages over the past 12 months, slightly below the national gain of 3.2% over the same period of time.

KANSAS: The Kansas Business Conditions Index for July sank to 52.1 from June's regional high 62.9. Components of the leading economic indicator from the monthly survey of supply managers were new orders at 54.7, production or sales at 51.7, delivery lead time at 51.7, employment at 57.2, and inventories at 45.2. Recent surveys indicate that durable manufacturers are experiencing positive gains in economic activity. Likewise, nondurable goods producers, including food processors, experienced positive economic conditions in recent months. U.S. Bureau of Labor Statistics data show that workers have experienced a strong 5.4% gain in hourly wages over the past 12 months, well above the national gain of 3.2% over the same period of time.

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MINNESOTA: The July Business Conditions Index for Minnesota fell to 51.7 from 53.4 in June. Components of the overall July index from the monthly survey of supply managers were new orders at 50.0, production or sales at 52.6, delivery lead time at 53.8, inventories at 46.2, and employment at 55.9. Recent surveys indicate that durable manufacturers, including metal producers, are experiencing slow to no gains in economic activity. Nondurable goods producers, including food processors, experienced slight negative economic conditions in recent months. U.S. Bureau of Labor Statistics data show that workers have experienced a solid 3.6% increase in hourly wages over the past 12 months, above the national gain of 3.2% over the same period of time.

MISSOURIi: The July Business Conditions Index for Missouri slumped to 51.9 from June's 59.9. Components of the overall index from the survey of supply managers were new orders at 51.8, production or sales at 51.4, delivery lead time at 48.8, inventories at 50.0, and employment at 57.5. Recent surveys indicate that durable goods manufacturers, including metal producers, and nondurable goods producers, including food manufacturers, are experiencing solid gains in economic activity. U.S. Bureau of Labor Statistics data show that workers have experienced a weak 2.7% gain in hourly wages over the past 12 months, well below the national gain of 3.2%.

NEBRASKA: After falling below growth neutral in May, Nebraska's Business Conditions Index rose above the growth neutral threshold of 50.0 for a second straight month. The state's overall index tumbled to 52.9 from June's 55.9. Components of the index from the monthly survey of supply managers were new orders at 53.4, production or sales at 52.0, delivery lead time at 54.3, inventories at 47.9, and employment at 56.8. Recent surveys indicate that durable goods producers, including machinery manufacturers experienced declines in economic activity. On the other hand, nondurable goods producers, including food manufactures, are experiencing solid gains in economic activity. U.S. Bureau of Labor Statistics data show that workers have experienced a 3.1% increase in hourly wages over the past 12 months, slightly below the national gain of 3.2%.

NORTH DAKOTA: The July Business Conditions Index for North Dakota climbed to 55.4 from June's 55.0. Components of the overall index were new orders at 54.0, production or sales at 55.6, delivery lead time at 58.5, employment at 57.0, and inventories at 52.0. Recent surveys indicate that durable goods producers, including machinery manufacturers, are experiencing solid gains in business activity. On the other hand, nondurable goods producers, including food manufacturers, are experiencing slight declines in economic activity. U.S. Bureau of Labor Statistics data show that workers have experienced a solid 4.6% increase in hourly wages over the past 12 months, well above the national gain of 3.2%.

OKLAHOMA: For a second straight month, Oklahoma's Business Conditions Index remained above growth neutral 50.0. The overall index from a monthly survey of supply managers for July dropped to 52.8 from June's 54.9. Components of the overall July index were new orders at 53.2, production or sales at 52.1, delivery lead time at 54.3, inventories at 47.7, and employment at 56.8. Recent surveys indicate that both durable and nondurable goods producers in the state experienced business pullbacks in economic activity. U.S. Bureau of Labor Statistics data show workers have experienced a strong 4.5% increase in hourly wages over the past 12 months, well above the national gain of 3.2%.

SOUTH DAKOTA: The July Business Conditions Index for South Dakota fell to 52.5 from June's 54.1. Components of the overall index from the July survey of supply managers in the state were new orders at 52.6, production or sales at 52.3, delivery lead time at 47.2, inventories at 47.2, and employment at 56.6. Recent surveys indicate that both durable and nondurable goods producers are experiencing solid gains in economic activity. U.S. Bureau of Labor Statistics data show that workers have experienced a weak 2.5% gain in hourly wages over the past 12 months, well below the national gain of 3.2%.

THE BULLISH NEWS

- U.S. nonfarm payrolls expanded by 164,000 in July with wage growth registering an ok 3.0% advancement over the last 12 months.
- The nation's unemployment rate remained at a very strong 3.7% even as more and more workers entered the workforce looking for a job (i.e. the labor participation rate rose).

THE BEARISH NEWS

- Home price inflation slowed further in May as the Case-Shiller index rose 0.1% in May compared with April. Prices were 2.4% higher from one year earlier. That is the 14th straight month in which the annual rise in home prices has slowed and is the slowest growth rate since August 2012.
- For the first time since the Clinton Administration, the Trump Treasury declared China a currency manipulator. The U.S. Treasury will work with the IMF to eliminate any competitive advantage that this provides China. A lower valued Chinese Yuan makes Chinese goods cheaper in the U.S.

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THE OUTLOOK

- **National Association of Business Economics (NABE), (August 2019).** All survey respondents expect the U.S. economy, as measured by the change in inflation-adjusted gross domestic product (real GDP), to increase over the next four quarters. However, expectations for growth have cooled, on balance, over the past two surveys. Forty-eight percent of panelists expect real GDP growth to rise by more than 2%, compared to 53% of respondents in April and 67% in January who held that view. • Expectations for sales increases over the next three months are less widespread than they were three months ago. The forward-looking NRI (net rising index) is 35, down from 54 in the April survey. • Profit margin decreases became more prevalent during the second quarter of 2019. The NRI for profit margins in the July survey plummeted to -6, compared to 17 in April and 26 in mid-2018. • For the first time in seven years, price cuts were as common as price increases at respondent firms. The NRI for prices charged fell from 18 in the April survey to 0, the lowest reading since the second quarter of 2012.
- From Goss (August 2019): I expect **Annualized GDP growth of 1.5% for Q3, 2019. **Year-over-year increase in U.S. housing prices (Case-Shiller) to fall below 2.5% in Q3 (and to continue to drop). **The Federal Reserve Open Market Committee (FOMC) to reduce short-term interest rates by another ¼ % (25 basis points) at their September 17-18 meetings, or before.
- Case-Shiller Home Price Index for June. Released by S&P Corelogic on August 26. Year-over-year price growth below

WHAT TO WATCH

2.3% will be another bearish signal for the housing market.

- ISM and Creighton's PMIs for August. On September 3, the Institute for Supply Management and Creighton University release their surveys of supply managers in the U.S. and Mid-America, respectively. This is an early reading of manufacturing growth. Both are trending downward and could break below growth neutral 50.0 for the month.
- 10-Year U.S. Treasury bond yield. Currently 1.74% (immediate value at https://finance.yahoo.com). This lowest yield in 7 years and indicates a significant increase in global tensions as investors flee risky bets and buy safer U.S. Treasury bonds driving prices up and yields lower.

STATISTIC OF THE MONTH

- 0.0%, -0.1% and 19.8%.
- The interest rates for the European Central Bank, the Bank of Japan and the Turkish Central Bank are 0.0%, -0.1% and 19.8%, respectively. Time to borrow, not lend. U.S. interest rates to come down as well.

GOSS EGGS
(Recent Dumb Economic Moves)

- Just last month, the Berkeley City Council (CA) adopted a gender-neutral language policy for the Berkeley Municipal Code. No more manhole covers. Instead they have become maintenance holes. According to the Council "broadening societal awareness of transgender and gender nonconforming identities has brought to light the importance of non-binary gender inclusivity." Even George Orwell did not see this one coming.

Supply Manager Careers

Purchasing Agent. IWOC Direct, Chanhassen, Minnesota. The Purchasing Agent is responsible for sourcing and obtaining required fine paper products or services at a competitive price, within the required timeframe and appropriate quality level for direct material requirements. Responsibilities • Review jobs for material requirements, suggest proper paper for jobs, and check needs against current supply.• Maintain JIT stock purchasing without risk of stock outages; identify, escalate and resolve paper shortages before they impact production schedule• Review inventory items assigned on a regular basis; project material needs based on daily revisions • Provide purchasing and inventory support for manufacturing, sales, and client services. • Maintain accurate transaction records in Foundation, Verticent, or PSI.• Provide back-up support for other Purchasing Agents. • Negotiate prices with suppliers and quote pricing for estimates. Requirements. Bachelor's degree in Business Administration, Graphic Arts, or related field. 5+ years purchasing experience in a manufacturing environment; industry experience preferred. Previous paper buying experience required; product knowledge. Excellent negotiation, communication, and interpersonal skills. Ability to organize and manage multiple priorities and balance changing client and company needs Proficient in MS Office Suite. Pre-employment drug screen and background check required. https://tinyurl.com/y5gkzyxt.

Supply Manager Reading Room

"Global Supply Chains Are Dangerously Easy to Snap." FP News. he British have been discovering this summer that misery most certainly loves company. First came the unusually hot July weather—and then it emerged that the U.K. government was making plans to stockpile food and medicine in case a no-deal Brexit, where the U.K. exits the EU next March without any arrangement in place, caused regulatory and customs chaos. But the rest of the world shouldn't snicker at Britain's misfortune. On the contrary, the government's stockpiling plans are a wake-up call for any developed country. https://tinyurl.com/yyhbmskm

FOLLOW ERNIE

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

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For historical data and forecasts visit our website at

http://business.creighton.edu/organizations-programs/economic-outlook