THE PURCHASING ECONOMY SURVEY REPORT January 2019

"A monthly survey of supply chain managers"

Welcome to our January Newsletter covering survey results for December. Creighton's monthly survey of supply managers and procurement experts in nine Mid-America states indicates that economic growth remains in a healthy, but, as in previous months, with elevated inflationary pressures. Follow my comments at: www.twitter.com/erniegoss

Do International Migrants Reduce Wage Growth? Legal Immigration Is a Plus

Politicians and pundits have battered Americans with claims and counter-claims regarding the impact of immigration on American wages. Wage data from the U.S. Census Bureau and Bureau of Labor Statistics for 381 metropolitan areas between 2013 and 2017 show a clear positive relationship between **legal** immigration and wage growth.

In terms of the percentage of **legal** international migration, the top one-fifth of metros in terms of immigration gains experienced wage increases of 10.4% ($4,329) for all workers, 13.4% ($11,763) for management, and 15.6% ($3,284) for food servers and preparers. The one-fifth of metros experiencing the lowest immigration gains experienced wage gains of 7.4% ($2,870) for all workers, 4.1% ($2,425) for managers, and 10.0% ($1,987) for food servers and preparers. Data in Table 1 show that **legal** immigration was supportive of higher wage growth between 2013 and 2017.

Statistically speaking, correlation coefficients show a positive relationship between percent of population growth from immigration and wage expansion for all occupational categories examined. Contrary to expectations, the strongest positive relationship between immigration and wages was for low wage occupations. Unfortunately, today's debates regarding illegal immigration on the U.S./Mexico border undermine legal immigration and economic growth, other factors unchanged. Ernie Goss.

Wage increases for workers in 381 U.S. metropolitan areas, 2013-17

Metro Quintile	Percent Population gain from Immigration	All Workers		Managers		Food services workers	
		Wage gain	% Wage gain	Wage gain	% Wage gain	Wage gain	% Wage gain
Top 1/5	14.1%	$4,329	10.4%	$11,763	13.4%	$3,284	15.6%
Next 20%	7.1%	$4,253	10.4%	$9,473	11.0%	$3,059	14.7%
Next 20%	5.5%	$3,669	9.0%	$7,654	9.3%	$2,864	13.6%
Next 20%	4.1%	$2,953	7.3%	$7,178	8.9%	$2,274	11.2%
Bottom 1/5	2.8%	$2,870	7.4%	$2,425	4.1%	$1,987	10.0%

Source: Ernie Goss based on U.S. Census and U.S. BLS data (note: data does not account for out-migration)

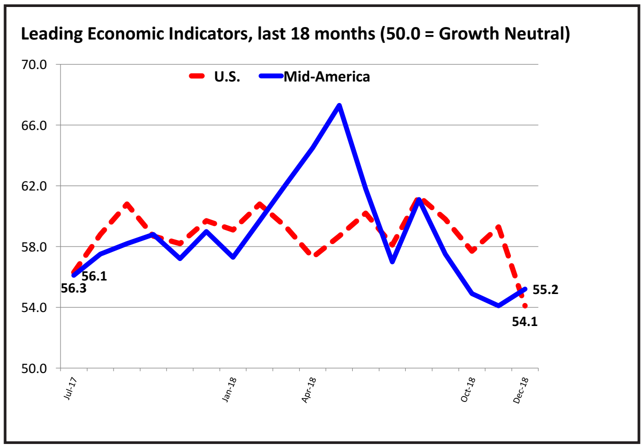
LAST MONTH'S SURVEY RESULTS

Mid-America December Index Expands
Labor Shortages Slow Employment Growth

SURVEY RESULTS AT A GLANCE:

- After declining for three straight months, the Business Conditions Index rose for the month remaining above growth neutral for the 25th straight month.
- Labor shortages pulled the employment index down to growth neutral, but more importantly, slowed quarter four growth.
- 2019 profit outlook remains strong.
- Trade numbers, both exports and imports, fell

The December Creighton University Mid-America Business Conditions Index, a leading economic indicator for the nine-state region stretching from Minnesota to Arkansas, rose for the first time since August and remained above growth neutral, pointing to positive economic growth for the next three to six months.



Overall index: The Business Conditions Index, which ranges between 0 and 100, climbed to 55.2 from November's 54.1. This is the 25th straight month the index has remained above growth neutral 50.0.

The regional economy continues to expand at a positive pace. However, as in recent months, shortages of skilled workers remain an impediment to even stronger growth. Furthermore, supply managers are reporting negative impacts from tariffs and trade skirmishes.

As reported by one supply manager in the December survey, "Current tariffs and trade restrictions could become more difficult for us in the upcoming months. So far, the main thing is that it is costing us more to buy foreign products."

Employment: The December employment index sank to 50.0 from 57.5 in November.

Overall manufacturing employment growth in the region over the past 12 months has been very healthy at 2.3 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 Regional job growth for durable goods producers has been approximately four times that of nondurable goods manufacturers over recent months.

Wholesale Prices: The wholesale inflation gauge continues to indicate elevated inflationary pressures. However, lower oil prices softened the December index to 69.5 from November's 70.0.

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 19.8 percent over the past 12 months. At the consumer level, the consumer price index advanced by 2.2 percent over the past 12 months.

I expect lower oil prices and slowing growth to push both wholesale and consumer inflation lower," Goss said. "I expect the Federal Reserve to announce at their next meeting on Jan. 30 that any additional rate hikes will be data dependent. At the Dec. 19 meeting, the Fed was more locked in on two rate increases for 2019. The Fed is likely to remove that certainty at the January meeting.

Confidence: Looking ahead six months, economic optimism, as captured by the December Business Confidence Index, fell to a still solid 54.1 from November's 55.5.

However, I expect business confidence to depend heavily on the Fed's interest rate policies and trade talks with China. Approximately 43.2 percent, of supply managers expect business profits for their company to improve in 2019.

Inventories: Companies contracted inventories of raw materials and supplies for the month. The December inventory index sank to 47.4 from November's 53.3.

Trade: The regional trade numbers turned sharply lower for December. The new export orders index slumped to 48.1 from November's 51.8, and the import index plummeted to 41.1 from 54.3 in November. Despite higher tariffs on imported goods, healthy regional growth boosted imports for the month.

One supply manager indicated his firm had resourced supply purchases from China to India. He does not expect to return to buying from Chinese firms. According to the supply manager, "Prices and quality from our new Indian supplier are just as good as from our old Chinese provider."

Another supply manager reported, "Tariffs and trade wars will ruin our economy. (The) Government not setting the right example."

Other components: Components of the Business Conditions Index were new orders at 55.5, up from November's 51.2; the production or sales index at 55.4, up from 52.2 in November; and speed of deliveries of raw materials and supplies index up sharply to 67.6 from last month's 56.5.

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 December Business Conditions Index for Arkansas fell to 50.5 from November's 53.9. Components of the index from the monthly survey of supply managers were new orders at 51.8, production or sales at 50.7, delivery lead time at 62.0, inventories at 42.7, and employment at 45.3. Over the past 12 months, Arkansas' job market has been the weakest in the nine-state region with the state's unemployment rate remaining at a regional high of 3.3 percent with 10,000 more workers joining the ranks of the unemployed. For 2019, I expect that the leading industry in Arkansas will be outside of manufacturing and in business services and the lagging industry to be natural gas drillers. Predicted 2019 economic growth: eighth among nine regional states.

IOWA

The December Business Conditions Index for Iowa expanded to 53.5 from November's 52.8. Components of the overall index from the monthly survey of supply managers were new orders at 52.4, production or sales at 51.5, delivery lead time at 63.0, employment at 52.4, and inventories at 48.3. Over the past 12 months, Iowa's job market has been the strongest in the nine-state region with the state's unemployment rate declining from 2.5 percent to 1.9 percent the ranks of the unemployed falling by 10,000. For 2019, I expect that the leading industry for Iowa will be metal producers and the lagging industry to be slaughter houses. Predicted 2019 economic growth: second among nine regional states.

KANSAS

The Kansas Business Conditions Index for December sank to 49.7 from November's 51.6. Components of the leading economic indicator from the monthly survey of supply managers were new orders at 51.2, production or sales at 49.9, delivery lead time at 61.0, employment at 44.6, and inventories at 42.0. Over the past 12 months, Kansas' job market has been strong and improving with the state's unemployment rate falling from 3.1 percent to 2.9 percent with state's unemployed ranks declining by 3,000 workers. For 2019, I expect that the leading industry for Kansas will be the aircraft and aircraft parts industry. This industry, however, will count on an improving trade picture. The state's 2019 lagging industry to be slaughter houses. Predicted 2019 economic growth: fifth among nine regional states.

MINNESOTA

The December Business Conditions Index for Minnesota climbed to 55.5 from November's 53.9. Components of the overall December index from the monthly survey of supply managers were new orders at 57.2, production or sales at 52.5, delivery lead time at 70.3, inventories at 44.2, and employment at 53.4. Over the past 12 months, Minnesota's job market has been very healthy and improving with the state's unemployment rate falling from 2.8 percent to 2.2 percent and the state's unemployed ranks declining by 18,000 workers. For 2019, I expect that the leading industry for Minnesota will be manufacturers of medical equipment and supplies. I expect the state's 2019 lagging industry to be transportation equipment producers. Predicted 2019 economic growth: third among nine regional states.

MISSOURI

The December Business Conditions Index for Missouri declined to 53.9 from 54.7 in November. Components of the overall index from the survey of supply managers were new orders at 54.6, production or sales at 54.4, delivery lead time at 66.5, inventories at 45.8, and employment at 48.1. Over the past 12 months, Missouri's job market has been very healthy and improving with the state's unemployment rate falling from 3.1 percent to 2.5 percent and the state's unemployed ranks declining by 18,000 workers. For 2019, I expect that the leading industry for Missouri will be transportation equipment manufacturers, excluding vehicle producers. I expect the state's 2019 lagging industry to be motor vehicle manufacturers. Predicted 2019 economic growth: fourth among nine regional states.

NEBRASKA

The December Business Conditions Index for Nebraska dipped below growth neutral to 49.7 from November's 51.3. Components of the index from the monthly survey of supply managers were new orders at 51.3, production or sales at 50.1, delivery lead time at 61.2, inventories at 42.2, and employment at 44.8. Over the past 12 months, Nebraska's job market has been healthy and stable with the state's unemployment rate falling from 2.5 percent to 2.3 percent and the state's unemployed ranks declining by 800 workers. For 2019, I expect that the leading industry for Nebraska will be machinery manufacturing (depending on Chines trade deal). I expect the state's 2019 lagging industry to be printing and published. Predicted 2019 economic growth: sixth among nine regional states.

NORTH DAKOTA

The December Business Conditions Index for North Dakota fell to 52.6 from 57.6 for November. Components of the overall index were new orders at 53.5, production or sales at 52.9, delivery lead time at 64.7, employment at 47.0, and inventories at 44.6. Over the past 12 months, North Dakota's job market has been solid and improving with the state's unemployment rate falling from 2.3 percent to 2.2 percent and the state's unemployed ranks falling by 1,600 workers. For 2019 for North Dakota, I expect that the leading industry will be machinery manufacturers (depending on Chinese trade deal). I expect the state's 2019 lagging industry to be energy including drilling and mining. Predicted 2019 economic growth: ninth among nine regional states.

OKLAHOMA

Oklahoma's Business Conditions Index has now remained above the 50.0 threshold for the last 17 months. The overall index from a monthly survey of supply managers advanced to 56.4 from 55.9 in November. Components of the overall December index were new orders at 56.7, production or sales at 57.1, delivery lead time at 69.8, inventories at 48.1, and employment at 50.3. Over the past 12 months, Oklahoma's job market has been healthy and improving rapidly with the state's unemployment rate falling from 3.9 percent to 2.8 percent and the state's unemployed ranks declining by 20,000 workers. For 2019, I expect that the leading industry for Oklahoma will be metal producers. I expect the state's 2019 lagging industry to be energy, including drillers and mining. Predicted 2019 economic growth: seventh among nine regional states.

SOUTH DAKOTA

The December Business Conditions Index for South Dakota climbed to a regional high of 63.1 from November's 55.6. Components of the overall index from the December survey of supply managers in the state were new orders at 62.3, production or sales at 64.4, delivery lead time at 78.7, inventories at 54.2, and employment at 56.0. Over the past 12 months, South Dakota's job market has been healthy and improving rapidly with the state's unemployment rate falling from 3.3 percent to 2.8 percent and the state's unemployed ranks declining by 2,000 workers. For 2019, I expect that the leading industry for South Dakota will be finance and banking. I expect the state's 2019 lagging industry to be mining and drilling. Predicted 2019 economic growth: first among nine regional states.

THE BULLISH NEWS

- In December, the U.S. economy added 312,000 jobs, and the unemployment rate rose to 3.9%.

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- Over the past 12 months ending in December, U.S. hourly wages climbed by 3.2% to $27.48. This is the fastest growth in nine years.
- Creighton's December survey of manufacturers points to solid but slower growth for the first quarter of 2019.
- More and more Americans are entering the workforce pushing the labor force participation to 63.1%.

THE BEARISH NEWS

- The U.S. trade deficit rose to a 10-year high of $55.5 billion in October. The trade gap with China stood at $38.2 billion in October.

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- The National Purchasing Management Index plummeted from 59.3 to 54.1 in December. It still indicates positive, albeit slower, growth ahead.
- The U.S. budget deficit is expected to exceed $1 trillion in 2019.

THE OUTLOOK

National Association of Business Economics (NABE). SUMMARY: "NABE Outlook panelists continue to view the economy as having solid momentum entering 2019, but they foresee GDP growth cooling from 2.9% this year to 2.7% in 2019," said NABE President Kevin Swift, CBE, chief economist, American Chemistry Council. "The panel expects the Federal Reserve to continue gradually tightening monetary policy, and anticipates a federal funds rate hike at the upcoming December FOMC meeting, followed by three rate increases in 2019." "While panelists remain generally optimistic, three-quarters of respondents see risks being tilted to the downside," added Survey Chair Gregory Daco, chief U.S. economist, Oxford Economics. "Panelists view increasing trade tensions as the primary downside risk to their outlook, with 80% of respondents reducing their 2019 GDP growth outlook in response to trade policy developments. Even so, recession risks are still perceived to be low in the near term, with the panel expecting a 20% risk of recession by the second half of 2019, and a 30% chance by the end of 2020."

From Goss:): I expect **the Federal Reserve to hold on any rate increase for the first half of 2019. **GDP growth to slow in the first half of 2019, moving below 2.0% annualized. ***annualized growth in the consumer price index (CPI) to equal 2.0% for Q1, 2019.

WHAT TO WATCH

- **Consumer Price Index for December:** The U.S. Bureau of Labor Statistics will release the CPI for December on January 11. Year-over-year growth above 2.5% will be bearish for bonds and stocks.
- **Wage Data:** On February 1, the U.S. Bureau of Labor Statistics will release wage data for January. Another year-over-year growth above 3.2% will be a strong inflation signal and encourage the Fed to raise in the first half of 2019.

- **Inverted Yield:** . Every recession since 1980 has been preceded by 2-year rates exceeding, or approximating, 10-year rates (termed an inverted yield). Currently 18 basis points (0.18%), and too low for comfort.

STATISTIC OF THE MONTH

70%. New York Democratic Rep Alexandria Ocasio-Cortez supports paying for a "Green New Deal" with a 70% marginal tax rate on top income earners.

Goss Eggs (Recent Dumb Economic Moves)

- Finally, the DC political class has advanced a measure that both Democrats and Republicans support---spending more on infrastructure. Despite a national debt of $21,943,897,507,130, much of the Democrat plan would fund boondoggles requiring diversity of everything except diversity of thought. Why not fund my favorite program: $100 billion for "No Economist Left Behind."?

Supply Manager Careers

Penske Truck Leasing, Kansas City, MO. LLP Manager will manage a single customer account and execute the day to day operations which have Penske-wide implications and impact. The position will be the primary operational and strategic account owner as viewed by both Penske and Customer. Customer operation consists of but not limited to inbound shipment of parts and outbound shipments of final product and all the various entities utilized to perform such work (Suppliers, 3PLâ€™s, Carriers, etc.). **Major Responsibilities:** -Interview and hire salaried associates. Facilitate the recruitment and assignment of all personnel required within the organizational structure of the account. Defines duties, responsibilities and scope of authority.-Conduct performance review, corrective action, and goal setting for team of salaried employees-Provide career development, mentoring, and promotional opportunities to direct reports to create future leaders.-Provide leadership to team members in identifying project risks early and guide them in developing appropriate mitigation plans. **Qualifications:** *Bachelor's degree in Business or Supply Chain required. 3 - 5 years related functional experience in multiple supply chain service lines (transportation, warehousing, LLP, etc), required.* 3 - 5 years managerial or supervisory experience, required. *A strong understanding of operations and supporting technology, especially web based applications. *Knowledge of Transportation Management and systems.
Apply at: https://penske.jobs/kansas-city-mo/llp-manager/16027843B21947108B87143E468A5E03/job/

Supply Manager Reading Room

ISM® Special Report On Business Survey Regarding Tax Reform. On December 22, 2017, President Donald Trump signed into law the Tax Cuts and Jobs Act of 2017 (TCJA). Called the "biggest tax reform in a generation" by supporters, the TCJA changes the income tax code for individuals and corporations. A goal of this legislation is to accelerate the pace of economic growth in the U.S. Since this legislation was highly anticipated and its various iterations closely studied by many organizations, some companies managed to implement changes to policy and practice immediately. On January 25, 2018, Institute for Supply Management® (ISM®) opened a special survey that asked members of the Manufacturing and Non-Manufacturing Business Survey Committees to (1) report on their organizations' familiarity with and activity generated by the law and (2) assess how the new tax code might impact their businesses. https://www.instituteforsupplymanagement.org/news/NewsRoomDetail.cfm?ItemNumber=3102

FOLLOW ERNIE

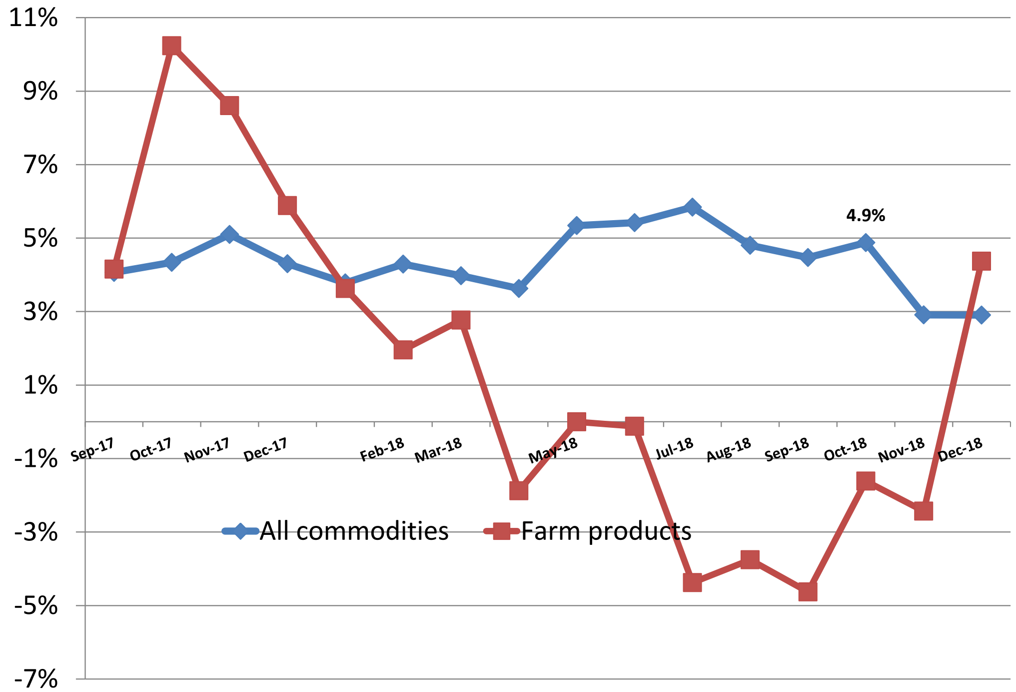
Survey results for January will be released on February 1, the first business day of the month.

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