THE PURCHASING ECONOMY SURVEY REPORT

March 2019

"A monthly survey of supply chain managers"

Welcome to our March Newsletter covering survey results for February. 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

Can the U.S. Afford Medicare for All? Federal Budget & Debt Already Soaring

Almost all of the major Democrat candidates for the party's presidential nomination support expanding Medicare to cover all U.S. residents. Medicare is already the second largest program in the federal budget. The Congressional Budget Office (CBO) projects that it cost $583 billion in FY 2018, representing 14 percent of total federal spending. Adding to this burden, the Mercatus Center at George Mason University estimated that this "Medicare for All" would cost taxpayers approximately $3.3 trillion per year, or 75% of total federal spending of $4.4 trillion in 2019.

Even without this program expansion, excessive federal spending has ballooned this year's October to January federal deficit by 77% over the deficit for the same period last year. Central to the soaring deficit problem is the growth in programs such as food stamps (SNAP), Medicare, and Medicaid. The Congressional Budget Office has estimated that these three programs will skyrocket by two and one-half times the expansion in the overall U.S. economy to almost $1.4 trillion in 2020. And this is without expanding Medicare coverage to younger Americans. Interest on the accumulated debt for these three programs alone will amount to almost $50 billion in 2020. Interest payment on the U.S. debt was $843 billion in 2018, or approximately $5,600, for each worker in the nation.

As bad as the Medicare expansion policy is on the debt and deficit, the proposed method of paying for it is even worse. New York Congressional Rep (D) Alexandria Ocasio-Cortez has proposed that spending growth on social programs can be paid for by printing more money and/or raising income taxes.

Of course, there really are only three ways to pay for the Medicare expansion: 1) Printing more money and spurring excessive or hyper-inflation, 2) Issuing more debt and ballooning interest rates, and 3) Raising the tax burden on workers. All three outcomes would slow investment and economic growth.

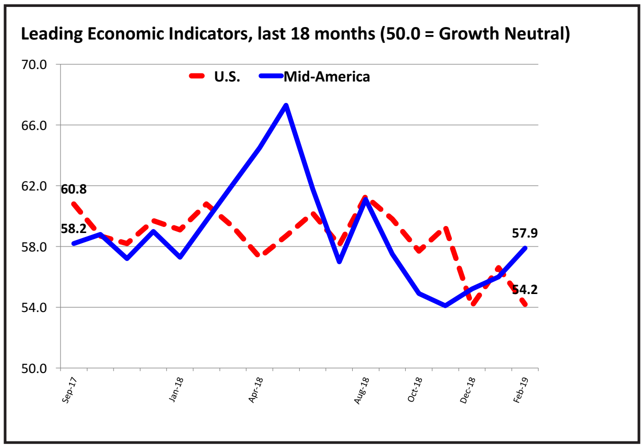
The oddity of Medicare for All is that the biggest supporters are young citizens, the same individuals that will have to pay for the rocketing debt burden with either excessive inflation, higher interest rates, higher taxes, or a combination of all three.

LAST MONTH'S SURVEY RESULTS

Mid-America Manufacturing Advances Again:
Half of Supply Managers Report Tariffs Making Purchasing More Difficult

SURVEY RESULTS AT A GLANCE:

- The overall index rose to its highest level since August of last year.
- Inflationary pressures cooled for the month.
- Approximately half, or 49.0 percent of supply managers, reported current tariffs and restrictions made it more difficult to purchase internationally.
- Almost one-fourth of supply managers support raising tariffs even more on imported Chinese goods.
- In 2018, the region exported approximately $5.2 billion in goods supporting almost 52,000 jobs in the region.



The February Creighton University Mid-America Business Conditions Index, a leading economic indicator for the nine-state region stretching from Minnesota to Arkansas, rose to its highest level since September of last year signaling solid growth for the region over the next three to six months

Overall index: The Business Conditions Index, which ranges between 0 and 100, climbed to 57.9 from January's 56.0. This is the 27th 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 and international trade tension/tariffs remain an impediment to even stronger growth. Surprisingly, almost one-fourth of supply managers support raising tariffs even more on the import of Chinese goods. An almost equal percentage support reducing tariffs on Chinese imports.

Employment: The February employment index expanded to a strong 59.0 from January's healthy 58.5.

Overall manufacturing employment growth in the region over the past 12 months has been very healthy and exceeded that of the nation. I expect this gap to close in the months ahead as regional job growth slows more than national manufacturing job growth. Regional job growth for durable-goods producers has been approximately three times that of nondurable goods manufacturers over recent months.

Wholesale Prices: The wholesale inflation gauge continues to indicate softening inflationary pressures. The February price-index plummeted to 64.1 from January's 76.3.

Both Creighton's regional wholesale inflation index and the U.S. inflation gauge have weakened recently. While tariffs and expanding growth, for example, have boosted steel prices over the past 12 months, prices of other goods have pulled our inflation gauge, and the Federal Reserve's target rate below their objective.

I expect slowing growth to push both wholesale and consumer inflation lower even lower in the months ahead," Goss said. "Due to prices at the consumer level moving at an acceptable pace, I do not expect the Federal Reserve to raise interest before its September meetings.

Confidence: Looking ahead six months, economic optimism, as captured by the February Business Confidence Index, advanced to 58.8 from January's 53.7.

However, I expect business confidence to depend heavily on trade talks with China. Approximately half, or 49.0 percent, of supply manager reported that current tariffs and restrictions had made it more difficult for their firm to purchase internationally.

Inventories: Companies expanded inventories of raw materials and supplies for the month. The February inventory index increased slightly to 57.8 from January's 57.7.

Trade: The regional trade numbers for February were solid with both imports and exports advancing. The new export orders index moved higher to a solid 55.6 from January's 48.3, and the import index expanded to 54.8 from 54.4 in January. Despite higher tariffs on imported goods, healthy regional growth boosted imports for the month, as new export orders improved for the month.

Other components: Components of the Business Conditions Index were new orders at 55.3, down from January's 56.2; the production or sales index at 53.9, unchanged from January; and speed of deliveries of raw materials and supplies index at 63.8 and up sharply from last month's 53.8.

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 rose to 56.6 from January's 54.6. Components of the index from the monthly survey of supply managers were new orders at 54.2, production or sales at 52.6, delivery lead time at 62.1, inventories at 56.7, and employment at 57.6. Arkansas is estimated to have exported $351.8 million in goods to China for 2018, making it number six in the region. The exports to China supported approximately 3,500 jobs in Arkansas for 2018.

IOWA

The February Business Conditions Index for Iowa expanded to 56.9 from January's 54.8. Components of the overall index from the monthly survey of supply managers were new orders at 55.5, production or sales at 52.2, delivery lead time at 50.9, employment at 58.9, and inventories at 56.3. Iowa is estimated to have exported $561.8 million in goods to China for 2018, making it number four in the region. The exports to China supported approximately 5,600 jobs in Iowa for 2018.

KANSAS

The Kansas Business Conditions Index for February advanced to 55.2 from January's 53.3. Components of the leading economic indicator from the monthly survey of supply managers were new orders at 53.1, production or sales at 51.2, delivery lead time at 60.5, employment at 56.2, and inventories at 55.2. Kansas is estimated to have exported $674.9 million in goods to China for 2018, making it number three in the region. The exports to China supported approximately 6,800 jobs in Kansas for 2018.

MINNESOTA

The February Business Conditions Index for Minnesota declined to 53.4 from 54.5 in January. Components of the overall February index from the monthly survey of supply managers were new orders at 51.7, production or sales at 49.4, delivery lead time at 58.4, inventories at 53.2, and employment at 54.5. Minnesota is estimated to have exported $1.9 billion in goods to China for 2018, making it number one in the region. The exports to China supported approximately 19,000 jobs in Minnesota for 2018.

MISSOURI

The February Business Conditions Index for Missouri climbed to 57.0 from January's 55.0. Components of the overall index from the survey of supply managers were new orders at 54.5, production or sales at 53.0, delivery lead time at 62.6, inventories at 57.1, and employment at 58.0. Missouri is estimated to have exported $888.7 million in goods to China for 2018, making it number two in the region. The exports to China supported approximately 8,900 jobs in Missouri for 2018.

NEBRASKA

After dipping below growth neutral for December, the state's Business Conditions Index has moved above the threshold of 50.0. Nebraska's February overall index expanded to 52.4 from January's 50.5. Components of the index from the monthly survey of supply managers were new orders at 50.9, production or sales at 48.3, delivery lead time at 57.1, inventories at 52.1, and employment at 53.5. Nebraska is estimated to have exported $462.0 million in goods to China for 2018, making it number five in the region. The exports to China supported approximately 4,600 jobs in Nebraska for 2018.

NORTH DAKOTA

The February Business Conditions Index for North Dakota increased to 51.6 from 49.8 in January. Components of the overall index were new orders at 50.3, production or sales at 47.6, delivery lead time at 56.2, employment at 52.7, and inventories at 51.3. North Dakota is estimated to have exported $49.3 million in goods to China for 2018, making it number nine in the region. The exports to China supported approximately 500 jobs in North Dakota for 2018.

OKLAHOMA

Oklahoma's Business Conditions Index has remained above the 50.0 threshold for the last 19 straight months. The overall index from a monthly survey of supply managers advanced to 58.1 from 57.1 in January. Components of the overall February index were new orders at 55.2, production or sales at 53.8, delivery lead time at 63.6, inventories at 58.0, and employment at 60.0. Oklahoma is estimated to have exported $212.6 million in goods to China for 2018, making it number seven in the region. The exports to China supported approximately 2,100 jobs in Oklahoma for 2018.

SOUTH DAKOTA

The February Business Conditions Index for South Dakota climbed to a regional high of 68.7 from January's 66.2, also a regional high. Components of the overall index from the February survey of supply managers in the state were new orders at 63.7, production or sales at 64.6, delivery lead time at 76.3, inventories at 69.7, and employment at 69.2. South Dakota is estimated to have exported $60.8 million in goods to China for 2018, making it number eight in the region. The exports to China supported approximately 600 jobs in South Dakota for 2018.

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THE BULLISH NEWS

- U.S. 2018 economic growth rose to its highest level since 2005.

- U.S. productivity growth rose a solid 1.9% in Q4 of 2018.

- U.S. business investment growth in equipment for 2018 climbed by 6.7% in 2018.

THE BEARISH NEWS

- America's trade deficit in goods rose to $891.3 billion, its highest level in history.

- U.S. home prices in December rose at the slowest pace since August 2015, or 4.7% year-over-year.

- The Q4, 2018 GDP report showed that the Fed's preferred price index rose at 1.5% annualized rate, below the Fed's target and potentially indicating slower growth.

- The U.S. added only 20,000 jobs in February, well below the expected 180,000.

THE OUTLOOK

National Association of Business Economics (NABE). FEBRUARY SUMMARY: "Three-fourths of the NABE Policy Survey panelists expect an economic recession by the end of 2021," said NABE President Kevin Swift, CBE, chief economist at the American Chemistry Council. "While only 10% of panelists expect a recession in 2019, 42% say a recession will happen in 2020, and 25% expect one in 2021. A majority of panelists also indicates they would be worried about a budget deficit in the U.S. that equaled up to 4% of gross domestic product. This is an outcome which will likely occur in 2019 given the deficit for fiscal year 2018 was 3.85%, and respondents expect spending policies to increase the deficit compared with the Congressional Budget Office's current 10-year baseline estimate. "Business economists continue to approve of current monetary policy," continued Swift. "Nearly three-quarters of panelists believe that the Federal Reserve's policy is 'about right,' roughly the same percentage as in the August survey. A majority of panelists continues to believe the Fed should maintain its current inflation target of 2%."

From Goss:):): I expect **the Federal Reserve to forego interest rate changes until the third quarter of 2019. I expect the next rate change by the Fed will be a rate reduction. **GDP annualized growth to slow in the first half of 2019 to 2.6%. ***annualized growth in the consumer price index (CPI) to exceed 2.0% in Q1, 2019.

WHAT TO WATCH

- **Consumer Price Index for February and March:** The U.S. Bureau of Labor Statistics will release the CPI for February and March on March 12 and April 10, respectively. Year-over-year growth between 1.9% and 2.2% will be in the "sweet spot."

- **New residential home sales:** On March 28, the U.S. Census Bureau new residential home sales for January. Another decline greater than 2.5% should raise red flags.

- **Inverted Yield:** . Every recession since 1980 has been preceded by 2-year rates exceeding, or approximating, 10-year rates (termed an inverted yield). Currently (March 7) 16 basis points (0.16%), and too low for comfort.

STATISTIC OF THE MONTH

30%. Goss estimated that the likelihood of a recession beginning in Q1, 2020 is approximately 30%. This is more than double the probability of a recession measured just two years ago.

Goss Eggs (Recent Dumb Economic Moves)

- China is building a wall—a wall of debt that is. Local governments across the nation have run up trillions of dollars of debt as they borrow and build which in the end, ineffectively fight the economic slowdown. China's debt to GDP has risen by more than 100% over the past decade and is double that of the U.S.

Supply Manager Careers

Director of Supply Chain Operations - Belton Regional Medical Center, Belton, Missouri. The Director of Supply Chain Operations integrates the department's services with the hospital's primary functions, develops/implements policies and procedures thatguide or support services, assesses and improves department performance, and ensures orientation and continuing education of departmental staff.

Operational Responsibilities:

Lead and manage all facility Supply Chain operations activities. Manage the profit and loss of the facility Supply Chain operations Execute the infrastructure project plan for the facility. This includes the implementation of the standardization programs for all supply chain functions, SMART cleanup, master file standardization, online requisitioning, and EDI. Facilitate the implementation of market based purchasing projects at the facility.. Maintains a high level of confidentiality

EDUCATION : Bachelor's degreerequired, preferably in Business Management, Finance, Accounting,Logistics, Supply Chain, or healthcare related focus. Master'sdegree preferred. EXPERIENCE Minimum of three years hospital management experience required.

Apply at: https://tinyurl.com/yyr6r53c

Supply Manager Reading Room

"Getting sourcing right in China." Three issues hold the key to working successfully with Chinese suppliers. Five years ago, flights to China from Europe, North America, and Japan were filled with sales managers seeking markets for their companies' products. Today those flights have as many procurement and supply chain managers as marketers. Leading Western and Japanese companies are no less eager to source Chinese parts and products for developed markets than to sell into one of the world's fastest-growing economies. Read rest of essay at: https://www.mckinsey.com/business-functions/operations/our-insights/getting-sourcing-right-in-china

FOLLOW ERNIE

Survey results for March will be released on April 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

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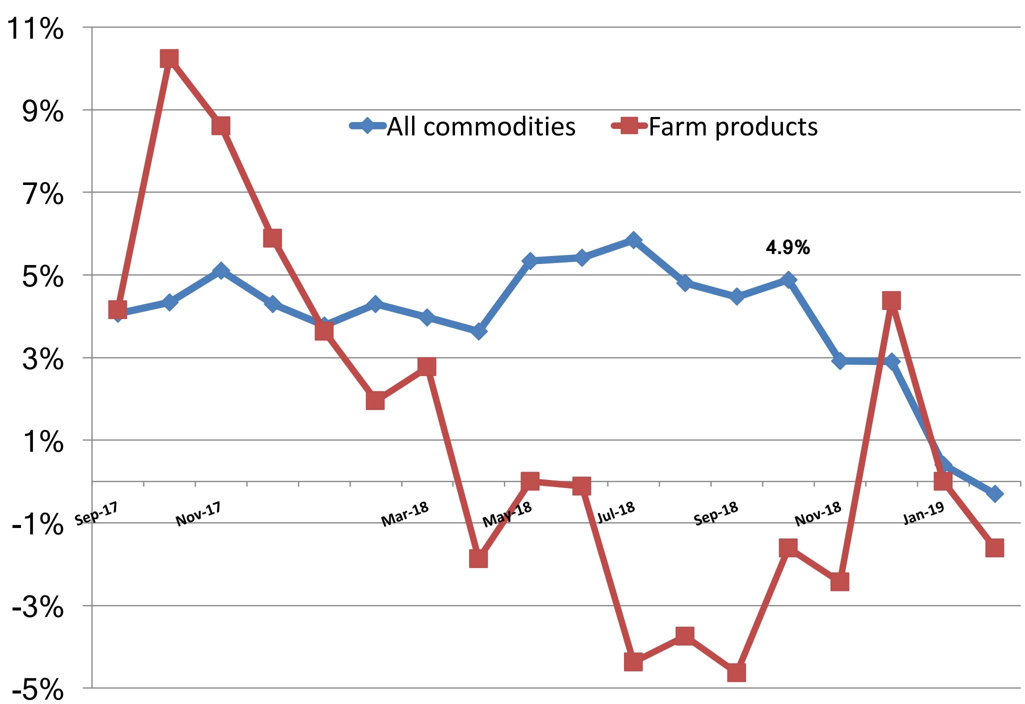
PRICE DATA

ALL COMMODITIES/FARM PRODUCTS 2007-2018
FUELS & RELATED/METALS & METAL PRODUCTS

Year over year price change, commodities and farm product, 2017-19



Year over year price change, fuels and metal products, 2017-19