# MIDAMERICA NOVEMBER 2019 SUPPLY MANAGERS NEWSLETTER

"A monthly survey of supply chain managers"

Welcome to our November report covering results from Creighton's October supply manager survey. Creighton's monthly survey of supply managers in nine Mid-America states indicates that economic growth is in a range indicating a somewhat weaker manufacturing sector with modest inflationary pressures.

## Taxing Wealth Is Not A Solution: Just Another Problem

Senator Elizabeth Warren, Democrat presidential contender, has found what she considers to be a pot of gold to fund her "Medicare for All." Warren is proposing $20.5 trillion in new federal spending under the proposal, or greater than the size of the total federal debt accumulated over the last 80 years.

The Senator contends that to pay for this program expansion, she would introduce a wealth tax on the ultra-rich. Since she promises to levy this tax on 1% of the population, this plan has resonated among the 99% who would pay nothing, at least in the beginning. As George Bernard Shaw once said, "The Government that robs Peter to pay Paul can always count on the support of Paul."

There are a multitude of reasons that nine of 12 European nations that adopted a wealth tax have since dropped it. First, is the high cost of administration. How can administrators accurately measure wealth and collect the tax without incurring excessive costs? Second, since initially introducing the tax at 3% of all wealth over $50 million, Warren has raised the rate to 6%. Just as the top federal income tax rate was raised from 7% in 1915 to 92% in 1953, it is likely that the rate and base would be expanded. Would the tax be expanded to eventually swipe the innards of the piggy banks for ambitious, successful teenage newspaper carriers? Third, U.S. wealth, for example, corporate investment, would be moved out of the U.S. to lower tax nations. Fourth, certain forms of wealth are virtually impossible to value. For example, Leonardo's Mona Lisa sold for $450 million in 2017. Will the buyer have to cough up $27 million annually to fund Senator Warren's Medicare for All? Furthermore, after paying $450 million for the painting, will the buyer have enough to pay this annual tax?

As one of the super rich, Bill Gates, advised Warren, "I implore you to connect the dots." Economic jealousy is no basis for a sound functioning tax system that aids, not depletes, economic growth.

## LAST MONTH'S SURVEY RESULTS

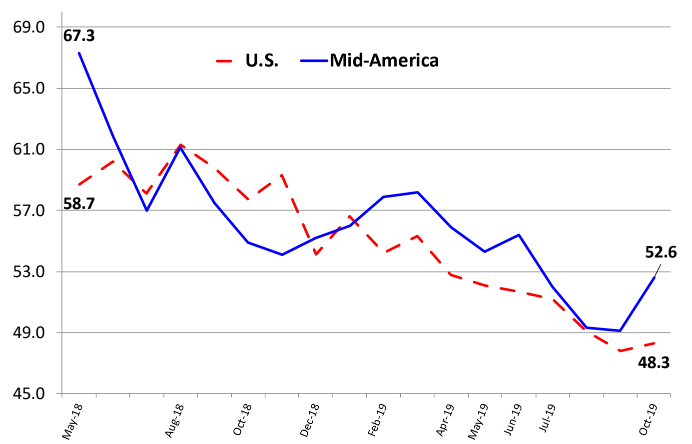
### Mid-America Index Advances Above Growth Neutral:More Than Half of Supply Managers Reported Tariffs Increasing

### September Survey Highlights:

- After two months of below growth neutral readings, the overall manufacturing index bounced above 50.0.
- Despite the negative impacts of the trade war, more than half, or 54% of supply managers, support continuing or even expanding trade restrictions and tariffs on Chinese imports.
- Both exports and imports declined for the month.
- Approximately 59.5% of supply managers reported that tariffs had increased the prices of supplies and inputs purchased by their firm.

Goss monthly interview at: http://bit.ly/Mid-AmericaBCIOct2019Video.

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




The October Creighton University Mid-America Business Conditions Index, a leading economic indicator for the nine-state region stretching from Minnesota to Arkansas, climbed above growth neutral after two straight months of below the 50.0 threshold.

**Overall index:** After two straight months of below growth neutral readings, the region's overall index moved above 50.0 for October. The Business Conditions Index, which ranges between 0 and 100, rose to 52.6 from September's 49.1.

For 2019, the Mid-America economy has been expanding at a pace well below that of the nation. The trade war and the global economic slowdown have cut regional growth to approximately one-half that of the U.S. October's survey results indicate that regional growth is likely to bottom at positive, but slow rate, in fourth quarter of this year.

**Employment:** The October employment index increased to a weak 50.0 from September's 46.7. The availability of workers continues to constrain job growth in the region.

For 2019, Mid-America annualized employment growth has been 1.0% compared to a much higher 1.9% for the U.S. Despite the negative impact of the trade war, more than half, or 54%, support continuing or expanding trade restrictions and tariffs on imports from China.

**Wholesale Prices:** The wholesale inflation gauge for the month indicated only modest inflationary pressures with a wholesale price index of 57.0, up from 55.3 in August.

This month, 59.5% of supply managers reported that tariffs had increased the prices of supplies and inputs purchased by their firm. However, tariffs have, to date, have had little impact on our wholesale inflation gauge.

As reported by one supply manager, "Importers, manufacturers and retailers are the ones paying for the tariffs. Where is the money going that the U.S. government is collecting in tariffs?"

Even so, moderate wholesale inflation from our survey and national surveys support the Federal Reserve current wait and see approach. I expect the Federal Reserve to make no additional rate changes in 2019.

**Confidence:** Looking ahead six months, economic optimism, as captured by the October Business Confidence Index, slipped to a very weak 47.3 from September's 47.7 reading.

I expect business confidence to depend heavily on trade talks with China, and the passage of the nation's trade agreement with Canada and Mexico, or USMCA. Quick passage of USMCA is very important for the regional economy and business confidence.

**Inventories:** Companies shrank inventories of raw materials and supplies for the month, but at a slower pace with an index of 48.6, which was higher than September's inventory index of 46.4. This is yet another signal of weak business confidence as manufacturers reduce their inventories of raw materials and supplies based on an anemic sales outlook.

**Trade:** The regional trade numbers were very weak with both export orders and imports falling, but at a somewhat slower pace. The new export orders index increased to 44.7 from September's 36.2, and the import index increased to 48.2 from 42.4 in September.

**Other survey components:** Other components of the October Business Conditions Index were new orders at 57.2, up from September's 47.6; the production or sales index moved higher to 58.6 from September's 50.0; and speed of deliveries of raw materials and supplies index at 48.6 was down significantly from last month's 56.0.

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 October Business Conditions Index for Arkansas increased to 53.4 from September's 48.3. Components of the index from the monthly survey of supply managers were new orders at 59.2, production or sales at 57.9, delivery lead time at 49.2, inventories at 49.7, and employment at 51.2. Over the past 12 months the state's manufacturing sector has boosted jobs by 1.3%, third among the nine Mid-America states, and hourly wages by 4.8%, also third in the region. Based on recent surveys of manufacturers in the state, I expect job growth to slow, but remain positive, and hourly wage growth to decline to an annualized range of 3.5% - 4.0% through the first quarter of 2020.

**IOWA:** After two straight months of below growth neutral readings, the state's overall Business Conditions Index advanced above growth neutral 50.0 for October. The overall index climbed to 53.5 from September's 49.6. Components of the overall index from the monthly survey of supply managers were new orders at 59.3, production or sales at 57.9, delivery lead time at 49.2, employment at 51.2, and inventories at 49.8. Over the past 12 months the state's manufacturing sector has boosted jobs by 2.5%, second among the nine Mid-America states, and hourly wages by 3.6%, fourth in the region. Based on recent surveys of manufacturers in the state, I expect job growth to slow, but remain positive, and hourly wage growth to continue at its current solid pace through the first quarter of 2020.

**KANSAS:** The Kansas Business Conditions Index for October rose to 54.6 from September's 51.1. Components of the leading economic indicator from the monthly survey of supply managers were new orders at 62.0, production or sales at 56.9, delivery lead time at 50.0, employment at 52.8, and inventories at 51.3. Over the past 12 months the manufacturing sector has boosted jobs by 0.9%, fifth among the nine Mid-America states, and hourly wages by 1.4%, eighth in the region. Based on recent surveys of manufacturers in the state, I expect job growth to remain at its current pace, and hourly wage growth to expand above its current pace through the first quarter of 2020.

**MINNESOTA:** The October Business Conditions Index for Minnesota increased to 51.3 from 48.4 in September. Components of the overall October index from the monthly survey of supply managers were new orders at 50.2, production or sales at 58.4, delivery lead time at 48.7, inventories at 48.9, and employment at 50.3. Over the past 12 months the state's manufacturing sector shed jobs by 0.5%, eight among the nine Mid-America states, and hourly wages by 5.3%, second in the region. Based on recent surveys of manufacturers in the state, I expect job growth to move into positive territory but below an annualized pace of 1.0%, and annualized hourly wage growth to slow to a 3.5% - 4.0% range through the first quarter of 2020.

**MISSOURIi:** The October Business Conditions Index for Missouri advanced to 53.6 from September's 49.2. Components of the overall index from the survey of supply managers were new orders at 59.6, production or sales at 57.8, delivery lead time at 49.3, inventories at 50.0, and employment at 51.4. Over the past 12 months the state's manufacturing sector has boosted jobs by 0.9%, sixth among the nine Mid-America states, and hourly wages by 1.1%, last in the region. Based on recent surveys of manufacturers in the state, I expect job growth to accelerate but remain below an annualized rate of 1.5%, and hourly wage growth to rise significantly to an annualized range of 3.5% - 4.0% range through the first quarter of 2020.

**NEBRASKA:** After falling below growth neutral for August, Nebraska's Business Conditions Index moved above the threshold for two straight months. The state's overall index climbed to 53.7 from September's 50.6. Components of the index from the monthly survey of supply managers were new orders at 59.7, production or sales at 57.7, delivery lead time at 49.3, inventories at 50.0, and employment at 51.5. Over the past 12 months Nebraska's manufacturing sector has boosted jobs by 0.7%, seventh among the nine Mid-America states, and hourly wages by 2.5%, also seventh in the region. Based on recent surveys of manufacturers in the state, I expect job growth to rise slightly, and hourly wage growth to expand at a higher annualized pace of 3.0% - 4.0% through the first quarter of 2020.

**NORTH DAKOTA:** The October Business Conditions Index for North Dakota slipped to 49.7 from 50.1 in September. Components of the overall index were new orders at 50.3, production or sales at 58.4, delivery lead time at 45.8, employment at 48.7, and inventories at 45.4. Over the past 12 months North Dakota's manufacturing sector has boosted jobs by 1.1%, fourth among the nine Mid-America states, and hourly wages by 6.0%, first in the region. Based on recent surveys of manufacturers in the state, I expect job growth to slow, but remain positive, and annualized hourly wage growth to decline to less than 4% through the first quarter of 2020.

**OKLAHOMA:** Oklahoma's Business Conditions Index has fallen below growth neutral for two of the last three months signaling slow to no growth in the months ahead. The overall index for October sank to 48.7 from September's 50.1. Components of the overall October index were new orders at 52.7, production or sales at 58.4, delivery lead time at 42.3, inventories at 44.5, and employment at 45.6. Over the past 12 months the state's manufacturing sector has lost 1.5% of its employment, last among the nine Mid-America states, and hourly wages by 3.2%, fifth in the region. Based on recent surveys of manufacturers in the state, I expect job growth to move into positive territory, but remain below 1.0% annualized, and hourly wage growth to continue at its current solid pace through the first quarter of 2020.

**SOUTH DAKOTA:** TThe October Business Conditions Index for South Dakota increased to 52.6 from September's 47.8. Components of the overall index from the October survey of supply managers in the state were new orders at 57.3, production or sales at 58.6, delivery lead time at 48.6, inventories at 48.7, and employment at 50.1. Over the past 12 months the state's manufacturing sector has boosted jobs by 3.6%, first among the nine Mid-America states, and hourly wages by 3.2%, sixth in the region. Based on recent surveys of manufacturers in South Dakota, I expect job growth to slow, but remain positive, and hourly wage growth to continue at its current solid pace through the first quarter of 2020.

## THE BULLISH NEWS

- Both Creighton's and ISM's Purchasing Management Indices (PMI) rose for October, but still pointed to weakness, not recession, for 2020.
- Despite the General Motors strike, the nation added 128,000 jobs in October.
- The Consumer Price Index rose 0.4% in October after being unchanged in September. Over the last 12 months, the all items index increased 1.8%, slightly below the Federal Reserve's target.

## THE BEARISH NEWS

- The U.S. economy expanded at a tepid 1.9% (annualized) in Q3, 2019.
- Over the past 12 months, average hourly earnings have increased by 3.0 percent. We need to see this closer to 4%.
- The FY 2019 budget created a $1.09 trillion deficit. Spending of $4.53 trillion was more than the estimated $3.44 trillion in revenue. Tax collections are growing but spending is growing faster.

## THE OUTLOOK

**National Association of Business Economics (November): SUMMARY:** "NABE Outlook Survey panelists believe the U.S. economy will continue to expand into 2020, but they anticipate GDP growth will fall below 2% next year for the first time since 2016," said NABE President Constance Hunter, CBE, chief economist, KPMG. "The consensus forecast calls for real GDP growth to slow from 2.9% in 2018 to 2.3% in 2019, and then to 1.8% in 2020." "The panel turned decidedly more pessimistic about the outlook over the summer, with 80% of participants viewing risks to the outlook as tilted to the downside," added Survey Chair Gregory Daco, chief U.S. economist, Oxford Economics. "The rise in protectionism, pervasive trade policy uncertainty, and slower global growth are considered key downside risks to U.S. economic activity. While a small majority of panelists expects that any action by the Federal Reserve on interest rates will be on hold through year-end of 2019, over 40% anticipate at least one more rate cut. Three-quarters of respondents expect at least one rate cut by the end of 2020, and a third expects at least two further rate cuts by the end of next year."

**Goss (November 2019)**: ): I expect **Annualized GDP growth of 0.9% for Q4, 2019 and 1.1% in Q1, 2020. **Year-over-year increase in U.S. housing prices (Case-Shiller) to fall below 2.5% in Q4 (and to continue to drop). **The Federal Reserve Open Market Committee (FOMC) to make no changes in short-term interest rates for the rest of 2019. **U.S. November job additions of 140,000 (include GM additions).

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## WHAT TO WATCH

- **ISM and Creighton's PMIs for November.** On December 2, 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 upward but remain weak.

- **BLS's wage value for November.** On December 6, the BLS will report the hourly wage value for November. A gain of less than 3% for the last 12 months will be a concern and sound economic alarm bells.

- **BLS's CPI for November.** On December 11, the BLS will release its CPI for November. Another +0.4% will be a potential warning of climbing inflationary pressures generating higher interest rates.

## STATISTIC OF THE MONTH

**10%.** Democrat Senator Chris Van Hollen introduced what he calls a Millionaires Surtax Act, which adds another 10% on individual income above $1 million. This is despite the fact that the richest 1% of U.S. taxpayers already pay 37% of total income taxes. This is up from 26% in 1986.

## SUPPLY MANAGER CAREERS

Director of Supply Chain. Envision, Wichita, Kansas. The Director of Supply Chain is responsible for leading and developing the Supply Chain across the entire organization, while creating and implementing a vision for continual improvement of procurement processes. Success will be measured on cost to serve, order performance, and working capital performance. Director supervises 5. **JOB REQUIREMENTS INCLUDE**: **Education:** Bachelor's degree in Supply Chain Management or Business Administration field required; Master's degree preferred. Experience: Minimum of 8 years of Supply Chain experience in a manufacturing environment, with the responsibilities of production, purchasing, inventory, production control, warehouse/shipping and receiving. A minimum of 5 years in a supervisory role required. **Apply at:** **https://tinyurl.com/s59ts3g**

## GOSS EGGS
## (Recent Dumb Economic Moves)

On September 13, 2019, Goldman Sachs downgraded its Apple price target to $165 from $187. Since that downgrade, Apple shares are up 20.3% to $262.20 on November 11, 2019. Only two months earlier, Goldman upgraded Apple stock. More evidence that you should trust your own investment advice. A client asks his adviser, "is all my money really gone?" "No, of course not," the adviser says. "It's just with somebody else!"

## Supply Manager Reading Room

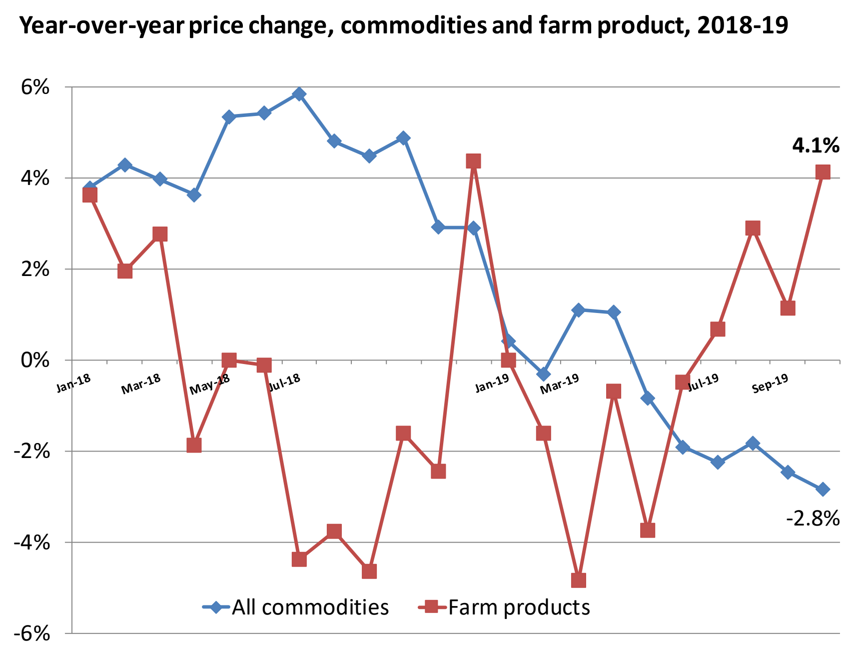
**"Why U.S.-China Supply Chains Are Stronger Than the Trade War," Wharton School, Public Policy. Sept. 5, 2019.** "While the trade war between the U.S. and China continues to take its toll, global supply chains provide a "force for reason" in ending the standoff because they bind the two countries in prosperity, writes Wharton dean Geoffrey Garrett in this opinion piece. Say the words "supply chain" and most people tune out. Supply chains sound technical, geeky and boring. But nothing could be further from the truth. Here are my three cheers for supply chains: 1. Supply chains are at the core of the modern global economy. 2. Supply chains will help resolve the China-U.S. trade war. 3. Supply chains will make a new Cold War less likely." Read rest of essay at: https://knowledge.wharton.upenn.edu/article/trade-war-supply-chain-impact/

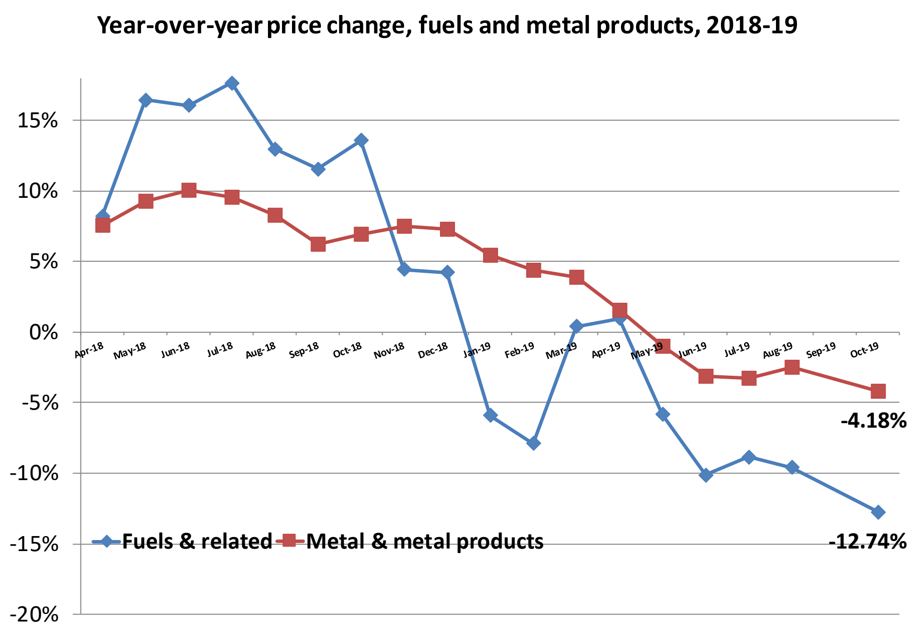
## FOLLOW ERNIE

**Survey results for November will be released on December 2, 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


Year-over-year price change, commodities and farm product, 2018-19
6%
4%
2%
0%
-2%
-4%
-6%
Jan-18
Mar-18
May-18
Jul-18
Jan-19
Mar-19
Jul-19
Sep-19
4.1%
-2.8%
All commodities
Farm products


Year-over-year price change, fuels and metal products, 2018-19
15%
10%
5%
0%
-5%
-10%
-15%
-20%
Apr-18
May-18
Jun-18
Jul-18
Aug-18
Sep-18
Oct-18
Nov-18
Dec-18
Jan-19
Feb-19
Mar-19
Apr-19
May-19
Jun-19
Jul-19
Aug-19
Sep-19
Oct-19
-4.18%
-12.74%
Fuels & related
Metal & metal products