MIDAMERICA FEBRUARY 2020 SUPPLY MANAGERS NEWSLETTER

"A monthly survey of supply chain managers"

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

Thank you for your survey participation. Ernie. Goss monthly interview at: http://bit.ly/MidAmericaBCIJan2020Video

Voting with Their Feet: Low Tax Red States Win, High Tax Blue States LosE

The Tax Cuts and Jobs Act of 2017 passed in December 2017 limited the federal deductibility of state and local taxes to $10,000. Prior to its passage, states were able to raise state and local taxes and transfer a portion of the burden to residents of other states via federal deductibility. In effect, the 2017 tax law made living in a high tax jurisdiction less economically desirable. That is, the 2017 tax law made it more expensive to live in high tax states and incentivized workers, particularly high-income workers, to move from high tax states to low tax states. Has this happened?

Data in Table 1 show net interstate population migration for the period 2017-19 by state and local tax burdens. States are ranked from highest tax state, Vermont, to lowest tax state, Alaska. States are also categorized as Red, Blue or Purple depending on voting records over the past four presidential elections. States that voted Republican in all four presidential elections are labeled Red "R", states that voted Democrat in all four elections are branded Blue "B", and states that split their electoral votes in the four elections are identified as Purple "P."

Table 1: 2017 state & local tax burden ranking and, 2017-19 net population migration

Rank	State	Red/Blue												
1	Vermont	B	11	Arkansas	R	21	Iowa	P	31	Nebraska	R	41	South Dakota	R
2	Maine	B	12	Maryland	B	22	California	B	32	Virginia	P	42	Arizona	R
3	New York	B	13	North Dakota	R	23	Montana	R	33	South Carolina	R	43	Oklahoma	R
4	Hawaii	B	14	New Mexico	P	24	Ohio	P	34	Colorado	P	44	Indiana	R
5	New Jersey	B	15	Illinois	B	25	Louisiana	R	35	Alabama	R	45	Wyoming	R
6	Connecticut	B	16	Pennsylvania	P	26	Nevada	P	36	Florida	P	46	Texas	R
7	Rhode Island	B	17	Wisconsin	P	27	Kansas	R	37	Missouri	R	47	Georgia	R
8	Mississippi	R	18	Idaho	R	28	Massachusetts	R	38	Washington	B	48	Delaware	B
9	West Virginia	R	19	Oregon	B	29	Michigan	P	39	North Carolina	P	49	Tennessee	R
10	Minnesota	B	20	Kentucky	R	30	New Hampshire	R	40	Utah	R	50	Alaska	R
Total net migration	-181,056			-34,840			-123,728			509,232			425,339	
Per 1,000 population	-2.9			-0.1			-0.5			7.1			2.8	
Percent Blue	80.0%			30.0%			10.0%			10.0%			10.0%	
Percent Red	20.0%			40.0%			50.0%			50.0%			90.0%	
Percent Purple	0.0%			30.0%			40.0%			40.0%			0.0%	

As listed, the ten states with the highest tax burdens in 2017 suffered a loss of 181,056 residents via migration, or 2.9 residents for each 1,000 in population. Eighty percent of these high tax states were Blue states, and 20% were Red states. On the other hand, the ten states with the lowest tax burdens in 2017 experienced a net gain of 425,339 residents via migration, or 2.8 residents per 1,000 in population between 2017 and 2019. Ninety percent of these migration gainers were Red states, and 10.0% were Blue states.

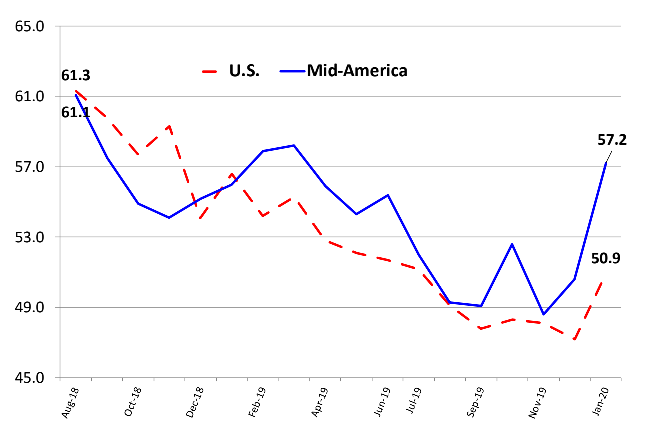
LAST MONTH'S SURVEY RESULTS

Mid-America Business Index Climbs Again: Confidence Rises from USMCA and Phase 1 Signing

- The overall index moved above growth neutral for the third time in the past four months, rising to its highest reading since March 2019.
- Hiring index rose above growth neutral.
- January passage of the USMCA and Phase 1 of the Chinese trade agreement boosted the regional business confidence index.
- Approximately 56% expect signing of USMCA and Phase 1 of the Chinese agreement to have a positive impact on business prospects.
- Due to the trade war, 28.2% of supply managers report changing international vendors for purchases.

The January Creighton University Mid-America Business Conditions Index, a leading economic indicator for the nine-state region stretching from Minnesota to Arkansas, moved above growth neutral for a second straight month.

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



Overall index: This is the third time in the past four months the overall reading has climbed above growth neutral 50.0. The Business Conditions Index, which ranges between 0 and 100, rose to a solid 57.2, its highest level since March 2019, and up from December's 50.6.

This month's very solid reading, plus January's signing of USMCA and Phase 1 trade agreement with China, bode well for the regional manufacturing economy. However, the survey was conducted before the significant negative outcomes from the coronavirus were reported.

The negative impacts from this virus could place significant negative pressure on the regional economy in the weeks ahead.

Said one supply manager, "The three-day extension of CNY (Chinese New Year) due to coronavirus may affect future production dates."

Employment: The January employment index increased to 53.8 from December's four-year low of 45.6. In past months, trade constraints combined with the lack of available workers continued to constrain job growth in the region. In December, seven of 10 supply managers indicated that finding and hiring qualified workers was the greatest 2020 challenge for their firms.

However, January's positive employment reading was a positive and unexpected outcome.

The weakness in the region's manufacturing and agriculture sector has spilled over into the broader regional economy. Over the past 12 months, the Mid-America region has added jobs at a 0.6% pace, or less than half the 1.4% rate of the U.S. economy.

Wholesale Prices: The wholesale inflation gauge for the month indicated only modest wholesale inflationary pressures with a wholesale price index of 58.8, up from 57.6 in December.

As detailed by one supply manager, "An unusual juxtaposition -- anticipating significant growth alongside of soft commodity prices."

Confidence: Looking ahead six months, economic optimism, as captured by the January Business Confidence Index, climbed to 58.8 from December's 57.6.

January passage of the U.S. Canada, Mexico trade agreement (USMCA) and Phase I of the trade agreement boosted the regional business confidence index for the month

Inventories: Companies expanded inventories of raw materials and supplies for the month and at a faster pace than in December. The inventory index advanced to 58.4 from last month's 50.1.

Trade: The regional trade numbers were mixed with new export orders increasing to a tepid 52.1 from December's weak 43.5. Regional imports sank to 46.3 from December's 52.0.

January passage of the USMCA and Phase I of the Chinese trade agreement boosted the regional business confidence index for the month. Due to the trade war, 28.2% of supply managers report changing vendors in terms of international buying.

Approximately 56% of supply managers expect USMCA and Phase 1 Chinese agreement to have a positive impact on their business prospects.

One survey respondent said, "I see long term benefit from the use of tariffs in current foreign policy development. I see the current administration as very pragmatic, with long term policies that will produce positive benefits."

Other survey components: Other components of the January Business Conditions Index were new orders at 62.1, up from 50.1 in December; the production or sales index moved higher to 57.9 from December's 48.5; and speed of deliveries of raw materials and supplies index at 53.8 declined from last month's 54.4.

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.

ARKANSAS: The January Business Conditions Index for Arkansas climbed to 59.0 from December's 53.0. Components of the index from the monthly survey of supply managers were new orders at 68.1, production or sales at 54.8, delivery lead time at 54.8, inventories at 61.8, and employment at 55.4. Over the past 12 months, average hourly wages for private workers in Arkansas expanded by 6.7% which was the highest in the nine-state region. Nondurable goods manufacturers are outperforming durable goods producers in terms of Arkansas job growth.

MID-AMERICA STATES

IOWA: After falling below growth neutral for November, Iowa's overall Business Conditions Index climbed above the threshold for the last two months with a January reading of 55.7, up from 50.9 in December. Components of the overall index from the monthly survey of supply managers were new orders at 60.8, production or sales at 53.1, delivery lead time at 53.6, employment at 53.5, and inventories at 57.7. Over the past 12 months, average hourly wages for private workers in Iowa expanded by 3.0% which was seventh in the nine-state region. Both durable and nondurable goods manufacturers are adding jobs at a slow pace. Manufacturers closely linked to agriculture continue to experience slow to no growth.

KANSAS: The Kansas Business Conditions Index for January increased to 58.4 from December's 52.1. Components of the leading economic indicator from the monthly survey of supply managers were new orders at 65.6, production or sales at 56.9, delivery lead time at 54.4, employment at 54.7, and inventories at 60.4. Over the past 12 months, average hourly wages for private workers in Kansas expanded by 4.3% which was fourth in the nine-state region. Both durable and nondurable goods manufacturers are expanding at a slow but positive pace. Even aircraft component manufacturers continue to expand despite Boeing's problems.

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MINNESOTA: The January Business Conditions Index for Minnesota expanded to 57.9 from 50.7 in December. Components of the overall January index from the monthly survey of supply managers were new orders at 64.1, production or sales at 57.3, delivery lead time at 54.1, inventories at 59.5, and employment at 54.3. Over the past 12 months, average hourly wages for private workers in Minnesota expanded by 4.5% which was third in the nine-state region. Durable goods manufacturers in the state are shedding jobs while nondurable goods manufacturers continue to add jobs at a slow but positive pace.

MISSOURIi: The January Business Conditions Index for Missouri rose to 56.2 from December's 50.5. Components of the overall index from the survey of supply managers were new orders at 59.3, production or sales at 58.7, delivery lead time at 53.3, inventories at 56.8, and employment at 53.1. Over the past 12 months, average hourly wages for private workers in Missouri expanded by 3.5% which was fifth in the nine-state region. Nondurable goods manufacturers are expanding at a solid pace while durable goods producers are experiencing pullbacks in economic activity.

NEBRASKA: After falling below growth neutral in November, Nebraska's Business Conditions Index has risen above the threshold for two consecutive months. The state's overall index jumped to 58.8 from 52.1 in December. Components of the index from the monthly survey of supply managers were new orders at 68.0, production or sales at 53.9, delivery lead time at 54.8, inventories at 61.7, and employment at 55.3. Over the past 12 months, average hourly wages for private workers in Nebraska expanded by 5.2% which was second in the nine-state region. Nondurable goods manufacturers in the state are expanding at a solid pace while durable goods producers are experiencing slight to no growth.

NORTH DAKOTA: The January Business Conditions Index for North Dakota expanded to 52.0 from December's 48.2. Components of the overall index were new orders at 63.0, production or sales at 39.3, delivery lead time at 49.8, employment at 48.7, and inventories at 58.9. Over the past 12 months, average hourly wages for private workers in North Dakota expanded by 2.6% which was eighth in the nine-state region. Nondurable goods manufacturers in the state are experiencing slow to no growth while durable goods producers are expanding at a solid pace.

OKLAHOMA: For the first time since October, Oklahoma's Business Conditions Index climbed above growth neutral. The overall index for January rose to 52.2 from December's 48.4. Components of the overall January index were new orders at 40.1, production or sales at 59.0, delivery lead time at 53.1, inventories at 56.1, and employment at 52.7. Over the past 12 months, average hourly wages for private workers in Oklahoma expanded by 0.8% which was ninth in the nine-state region. Both durable and nondurable goods manufacturers in the state are experiencing slow to no growth.

SOUTH DAKOTA: The January Business Conditions Index for South Dakota climbed to a regional high 59.3 from December's 52.3. Components of the overall index from the January survey of supply managers in the state were new orders at 68.2, production or sales at 56.2, delivery lead time at 54.9, inventories at 61.8, and employment at 55.4. Over the past 12 months, average hourly wages for private workers in South Dakota expanded by 3.3% which was sixth in the nine-state region. Both durable and nondurable goods manufacturers in the state are expanding at a slow, but positive pace.

Survey results for February will be released on the first business day, March 2.

THE BULLISH NEWS

- Both Creighton's and the U.S.'s Purchasing Management Indices (PMI) for January rose above growth neutral.
- The U.S. economy added a much stronger than expected 225,000 jobs in January as hourly wages ticked up a solid 3.1% over the past 12 months.
- The Case-Shiller U.S. Home Price covering all nine U.S. census divisions, for November reported a 2.6% year-over-year gain, up from 2.2% in the previous month.

THE BEARISH NEWS

U.S. GDP growth for 2019 slowed to 2.3% from 2.9% in 2018.

- The Congressional Budget Office estimates that the U.S. budget deficit will average $1.3 trillion yearly between 2020 and rise from 4.6% of GDP in 2020 to 5.4% of GDP in 2030.

WHAT TO WATCH

- ISM and Creighton's PMIs for February. On March 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. Continuation of January's stronger growth will be bullish.
- BLS's jobs report. On February 7, the BLS will report job gains and the hourly wage value for January. A job gain greater than 150,000 and an annual wage gain of more than 3% will be very bullish indicator for the economy.
- Yield on 10-Year U.S. Treasury bond. Find instantaneously, at https://finance.yahoo.com. As economic risks rise the yield (rate) will drop from its current 1.58%. On the other hand, as inflation ticks up, the yield the bond will rise.

STATISTIC OF THE MONTH

60%. Approximately 60% of Democrat primary voters support cancellation of all student debt. This would mean liquidation of almost $36,000 for each of the 45,000,000 current and former college students. Instead of burdening each U.S. worker with additional taxes of more than $10,000 to pay for this, why not instead assess the universities and colleges that benefited from these loans with the burden?

GOSS EGGS
(Recent Dumb Economic Moves)

Last month, the Seattle City Council attacked landlord property rights by passing two measures. First, Seattle's "first in time" rule requires landlords to set rental criteria in advance and then rent to the first person who walks in the door with an adequate application. The second law prohibits a landlord from inquiring about or considering an applicant's criminal history—deemed an "unfair practice" that can subject the landlord to severe civil penalties. Both measures will have the same outcome---making the current shortage of rental units more severe.

SUPPLY MANAGER CAREERS

Procurement Specialist, Zoetis, Lincoln Nebraska. *Compiles and analyzes statistical data to determine feasibility of buying materials and to drive savings opportunities. *Works with supplier base and internal customers to resolve issues related to quality, process performance, supply, and project management.*Updates and maintains supplier information in corporate change management system in accordance with regulatory standards.*Supports Procure-to-Pay process if linked to procurement, identifying repeat issues and assisting in the improvement of the overall P2P process as it affects the Site Observe and ensure the compliance to GMS policies and procedures *Demonstrates ability to work collectively with the Strategic Sourcing network, other enabling functions, and other manufacturing. Leverages global purchasing power to drive savings projects. *Purchase order creation and resolution (pricing resolution) *Invoice resolution/ VIM Issues *New Vendor Requests/ Updates *Paperwork requests (Tax exempt, etc.). QUALIFICATIONS: *BA/BS with at least 2 years of experience. *A good understanding of the Manufacturing environment / experience of working closely with and in Manufacturing sites. *An understanding of GMP and the Quality standards required in a Pharmaceuticals business. *Strong negotiation management experience preferred Apply: https://tinyurl.com/s7hbfs4

Supply Manager Reading Room

"Global High-tech Supply Chains Disrupted By The Coronavirus." Why is the coronavirus disrupting global supply chains? Afterall, as of February 10th, while more than 40,000 people have been infected, only 910 have died. That is a mortality rate of about two percent. While any mortality is a tragedy to the loved ones impacted, should a two percent mortality rate shut down the city of Wuhan, lead to the quarantine of 60 million people, impact inland transportation and transportation into and out of China, shut down factories, and lead to global supply chain disruptions? https://tinyurl.com/uw5lt8h

The Outlook

NABE Panel Reports a Rosier View of GDP Growth, As Outlook Brightens for Sales, Employment, and Wages; COMMENTS: "Respondents to the January 2020 NABE Business Conditions Survey are more bullish about economic growth over the coming 12 months than they were in October," said NABE President Constance Hunter, CBE, chief economist, KPMG. "As in the October 2019 survey, about two-thirds of respondents expect inflation-adjusted gross domestic product (real GDP) to increase by 1.1% to 2.0% over the next four quarters. But the share expecting stronger growth jumped from 20% of respondents in October to 31% in the current survey."

"For the first time in a decade, there are as many respondents reporting decreases as increases in employment at their firms than in the previous three months," added NABE Business Conditions Survey Chair Megan Greene, senior fellow, Harvard Kennedy School. "However, this may have been due to difficulty finding workers rather than a pullback in demand. There was a significant increase in the percentage of firms reporting shortages of unskilled labor, while nearly half reports shortages of skilled labor.

Goss (February 2020): I expect **Annualized GDP growth of 2.0% for Q1, 2020. **Year-over-year increase in U.S. housing prices (Case-Shiller) to fall below 2.0% in Q1, 2020. **The annualized Consumer Price Index to move above 2.5% in the first half of 2020. Even so, the Federal Reserve Open Market Committee (FOMC) will make no changes in short-term interest rates for the first half of 2020.

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