MIDAMERICA MARCH 2020 SUPPLY MANAGERS NEWSLETTER

"A monthly survey of supply chain managers"

Creighton's monthly survey of supply managers and procurement experts in nine Mid-America states indicates that economic growth is in a range indicating improving and positive manufacturing growth with modest inflationary pressures. HOWEVER, THE SURVEY WAS CONDUCTED BEFORE THE EXTENT OF THE CORONA VIRUS WAS RECOGNIZED.

Thank you for your survey participation. Ernie.

Goss monthly interview at: http://bit.ly/MidAmericaBCIFeb2020Video

Presidential Candidate Vows to Shift Income Tax Burden to "Rich"

Past Shifting Has Not Reduced Income

Democrat presidential candidate Biden, in a modern-day caricature of Franklin Delano Roosevelt, has proposed massive spending plans, and higher taxes at the expense of those he terms the "wealthy." Biden recommends raising federal taxes by $4 trillion with the top 1% of earners paying 74% of the added burden. This is despite the fact that the top 1% already pay an average federal income tax rate that is approximately seven times that of the bottom 50% of wage earners.

His argument is twofold: First, the wealthy are not paying their fair share of federal taxes, and second, taxing the wealthy more heavily would reduce income inequality. He is wrong on both counts.

The latest federal income tax data show that the bottom 50% of wage earners pay 3.1% of the federal tax burden, while the top 10% (those earning over $145,000) pay 70.1% of the tax burden. Clearly his plan is an appeal to the majority of voters, but would worsen this disparity in the share of the burden paid by high income versus low income Americans. To paraphrase playwright George Bernard Shaw, if you tax Peter to pay Paul, you will never get any argument from Paul (and you will probably get Paul's vote).

Over the past several decades, the U.S. tax code has shifted the federal income tax burden from low income to high income workers, while income inequality has risen. Using the standard inequality measure the Gini Coefficient, with higher readings indicating greater income inequality, the U.S. Gini Coefficient climbed from 0.43 in 1990 to 0.49 in 2018. The reading for 2018 represented the greatest degree of income inequality recorded in the U.S. During this time of rising income inequality, the share of federal income taxes paid by the bottom 50% of earners declined from 5.8% in 1990 to 3.1% in 2018. Clearly, past tax data show that the federal tax code is, at best, an ineffective tool for addressing income inequality.

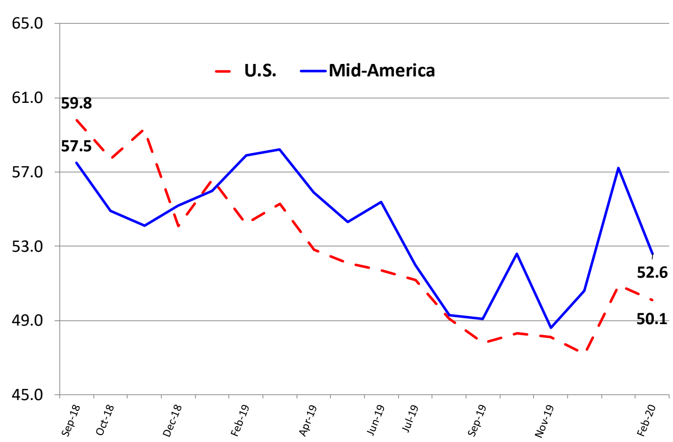
LAST MONTH'S SURVEY RESULTS

Mid-America Business Index Falls for February: Four in Ten Supply Managers Report Negative Coronavirus Impacts

February Survey Highlights:

- The overall index moved above growth neutral for a third consecutive month.
- Fully 40% of supply managers reported negative impacts from the coronavirus.
- Approximately 27% indicated that the coronavirus had forced their firm to cease or reduce international buying.
- Roughly 24% stated that the coronavirus had pushed their firm to switch to domestic vendors for certain inputs.
- The employment gauge fell below growth neutral for the fifth time in the last seven months.
- Due to coronavirus supply constraints, the import reading plummeted for the month.
- Over the last 12 months, the regional manufacturing sector experienced job losses with growth at minus 0.1% compared to a stronger, but tepid 0.5%, for the U.S.

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



The February Creighton University Mid-America Business Conditions Index, a leading economic indicator for the nine-state region stretching from Minnesota to Arkansas, sank for the month, but remained above growth neutral.

Overall index: This is the third straight month the overall reading has remained above growth neutral 50.0. The Business Conditions Index, which ranges between 0 and 100, tumbled to 52.8 from January's 57.2, its highest level since March 2019.

This month's softer reading plus the mounting negative impacts from the coronavirus should concern policymakers regarding the strength of the economy. Fully 40% of supply managers reported negative impacts from the coronavirus. The coronavirus forced 27% of firms to cease, or reduce international buying.

Said one supply manager, "Coronavirus has caused us to dual source, but not everything is domestic/and China. Most are India and China."

Another supply chain manager indicated that, "(My firm is) seeing some lead times push out for electronic components due to COVID-19. Most issues stem from production and logistics constraints in the Shezhen province & Hong Kong."

Employment: The February employment index declined to 46.4 from January's 53.8. For February, trade constraints, the lack of available workers and the coronavirus produced job losses for the manufacturing sector of the regional economy.

Over the past 12 months, due the shortage of workers, regional manufacturing job growth was minus 0.1% compared to much stronger 0.5% for U.S. manufacturing job gains. The shortage of workers did, however, as expected, serve to push average hourly wage growth up by 4.5% compared to a lower 2.9% for the U.S. manufacturing sector over the same 12-month period.

Wholesale Prices: The wholesale inflation gauge for the month indicated only modest wholesale inflationary pressures with a wholesale price index of 61.3 which was up from 58.8 in January.

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 February Business Confidence Index, slumped to 51.4 from January's 58.8.

The emergence of the coronavirus offsets the positive confidence impact of the recent passage of the U.S. Canada, Mexico trade agreement (USMCA) and Phase I of the trade agreement with China.

Reported one supply manager, "We consider coronavirus as a short-term issue, not impacting long term buy decisions, only impacting short term buy decisions."

Inventories: Companies reduced inventories of raw materials and supplies for the month with an inventory index of 48.7, down from last month's 58.4.

According to one supply manager "It is too early for us to know yet what impact the Coronavirus will have on our business as our inventory is high on Chinese product due to standard buying practices before CNY (the Chinese New Year)."

Trade: The regional trade numbers were mixed with new export orders increasing to a tepid solid 58.0 from January's 52.1. On the other hand, the evolving coronavirus reduced Asian buying by supply mangers as the import index fell to 40.4 from January's 46.3.

Approximately 24% said that the coronavirus had pushed their firm to switch to domestic vendors for certain inputs. One in five supply managers reported that the coronavirus has forced their firm to rethink its sources of supplies and raw materials.

Other survey components: Other components of the February Business Conditions Index were new orders at 62.9, up from January's 62.1; the production or sales index sank to 53.7 from January's 57.9; and speed of deliveries of raw materials and supplies index at 52.5 declined 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 (ISM), formerly the National Association of Purchasing Management. The Mid-America report is produced independently of the national ISM.

MID-AMERICA STATES

ARKANSAS: The February Business Conditions Index for Arkansas sank to 52.7 from January's 59.0. Components of the index from the monthly survey of supply managers were new orders at 58.9, production or sales at 52.1, delivery lead time at 53.5, inventories at 51.5, and employment at 47.7. Over the last 12 months, Arkansas manufacturing employment growth ranked number one in the nine-state region expanding by 1.2%, while state manufacturing wage growth ranked number five in the region, growing by 4.6%.

IOWA: Iowa's overall Business Conditions Index has climbed above the growth-neutral threshold for the last three months with a February reading of 53.1, down from 55.7 in January. Components of the overall index from the monthly survey of supply managers were new orders at 59.9, production or sales at 54.0, delivery lead time at 52.3, employment at 51.3, and inventories at 48.1. Over the last 12 months, Iowa manufacturing employment growth ranked number four in the nine-state region expanding by 0.2%, while state manufacturing wage growth ranked number nine in the region, growing by 2.9%.

KANSAS: The Kansas Business Conditions Index for February declined to 54.7 from January's 58.4. Components of the leading economic indicator from the monthly survey of supply managers were new orders at 66.4, production or sales at 52.7, delivery lead time at 53.1, employment at 51.1, and inventories at 50.3. Over the last 12 months, Kansas manufacturing employment growth ranked number five in the nine-state region expanding by 0.19%, while state manufacturing wage growth ranked number four in the region, growing by 5.5%.

MINNESOTA: The February Business Conditions Index for Minnesota sank to 53.3 from January's 57.9. Components of the overall February index from the monthly survey of supply managers were new orders at 64.9, production or sales at 53.1, delivery lead time at 52.8, inventories at 49.6, and employment at 46.1. Over the last 12 months, Minnesota manufacturing employment growth ranked number eight in the nine-state region contracting by minus 0.5%, while state manufacturing wage growth ranked number two in the region growing by 6.3%.

MISSOURI: The February Business Conditions Index for Missouri slumped to 51.1 from January's 56.2. Components of the overall index from the survey of supply managers were new orders at 60.0, production or sales at 54.4, delivery lead time at 52.0, inventories at 43.3, and employment at 45.7. Over the last 12 months, Missouri manufacturing employment growth ranked number six in the nine-state region expanding by 0.1%, while state manufacturing wage growth ranked number seven in the region, growing by 3.2%.

NEBRASKA: After falling below growth neutral in November, Nebraska's Business Conditions Index has now been above the threshold for three consecutive months. The state's overall index for February tumbled to 54.7 from 58.8 in January. Components of the index from the monthly survey of supply managers were new orders at 68.8, production or sales at 52.1, delivery lead time at 51.4, inventories at 53.5, and employment at 47.7. Over the last 12 months, Nebraska manufacturing employment growth ranked number three in the nine-state region expanding by 0.8%, while state manufacturing wage growth ranked number three in the region, growing by 5.5%.

NORTH DAKOTA: The February Business Conditions Index for North Dakota expanded to 52.7 from 52.0 in January. Components of the overall index were new orders at 53.4, production or sales at 63.8, delivery lead time at 52.7, employment at 44.4, and inventories at 49.1. Over the last 12 months, North Dakota manufacturing employment growth ranked number seven in the nine-state region with no job gains over the period, while state manufacturing wage growth ranked number eight in the region, growing by 3.1%.

OKLAHOMA: The February Business Conditions Index for North Dakota expanded to 52.7 from 52.0 in January. Components of the overall index were new orders at 53.4, production or sales at 63.8, delivery lead time at 52.7, employment at 44.4, and inventories at 49.1. Over the last 12 months, North Dakota manufacturing employment growth ranked number seven in the nine-state region with no job gains over the period, while state manufacturing wage growth ranked number eight in the region, growing by 3.1%.

SOUTH DAKOTA: The February Business Conditions Index for South Dakota slid to 54.1 from January's regional high 59.3. Components of the overall index from the February survey of supply managers in the state were new orders at 69.0, production or sales at 52.1, delivery lead time at 50.1, inventories at 47.7, and employment at 51.6. Over the last 12 months, South Dakota manufacturing employment growth ranked number two in the nine-state region expanding by 0.81%, while state manufacturing wage growth ranked number one in the region, growing by 9.1%.

Survey results for February will be released on the first business day, April 1.

THE BULLISH NEWS

- **Both Creighton's and the U.S.'s Purchasing Management Indices (PMI) for February were positive, but were taken before recognition of the potential impact of the coronavirus in the U.S.**
- The U.S. economy added a much stronger than expected 273,000 jobs in February as hourly wages ticked up an ok 3.0% over the past 12 months. This is likely to be the last solid reading until Q3 of this year.

THE BEARISH NEWS

- **The Case-Shiller U.S. Home Price covering all nine U.S. census divisions, for 2019 expanded by 3.5%, its slowest pace since 2012.**
- In Creighton's February survey of manufacturers in 9 Mid-American states, fully 40% of supply managers reported negative impacts from the coronavirus. Approximately 27% indicated that the coronavirus had forced their firm to cease or reduce international buying. Roughly 24% stated that the coronavirus had pushed their firm to switch to domestic vendors for certain inputs.
- Creighton's Mid-American employment gauge fell below growth neutral for the fifth time in the last seven months.
- As a measure of soaring risks in the U.S. economy from the coronavirus, the yield on the 10-year U.S. Treasury bond sank to record lows in March.

WHAT TO WATCH

- ISM and Creighton's PMIs for March. On April 1, 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. This will be one of the first indicators of the impact of the coronavirus.
- BLS's jobs report. On April 3, the BLS will report job gains and the hourly wage value for March. This will be the first snapshot of the employment impact of the coronavirus.
- Yield on 10-Year U.S. Treasury bond. Find instantaneously, at https://finance.yahoo.com. Watch for this yield to rise back above 1.5% to signal coronavirus impacts waning. Right now, that yield is pointing to soaring risks, and a U.S. recession

STATISTIC OF THE MONTH

1/2%. On March 9, as fears of the economic impact of the coronavirus skyrocketed, the yield (interest rate) on the 10-year U.S. Treasury bond plummeted to one-half of one percentage point as investors sought the safety of U.S. government bonds. That is, investors were so scared they were willing to accept an inflation-adjusted rate of return of minus 1.5% rather than invest in U.S. stocks.

GOSS EGGS (Recent Dumb Economic Moves)

In December 2018, the U.S. Federal Reserve raised short-term interest rates to a range between 2.25% and 2.50%. Recognizing their mistake, the rate setting committee of the Fed (the FOMC) has since reduced rates by 2.25%.

SUPPLY MANAGER CAREERS

Staff Purchaser, Burns & McDonnell, Kansas City, MO. The Staff Purchaser performs purchasing responsibilities throughout the project life cycle which includes ordering materials, supplies, equipment, and the follow through with vendors on shipment and delivery. *Prepare procurement documents and agreements. Perform commercial bid evaluations of supplier proposals and coordinate technical evaluations and recommendations to procurement manager and senior purchaser.*Prepare purchase order documents and enter purchase order information into online purchasing application. **Qualifications:** *Bachelor's degree in Business, Supply Chain Management, Construction, Law or related field. Applicable experience may be substituted for the degree requirement. *A minimum of 3 years direct purchasing experience. *Project purchasing experience preferred. *C.P.M. or CPSM certification preferred. *Excellent written and verbal communication skills. **https://tinyurl.com/wuug5yc**

Supply Manager Reading Room

"Managing Coronavirus's Economic Fallout - Demand AND Supply Side Measures," Robert Hockett. "The temporary 'social distancing' measures that our national Coronavirus response requires will disrupt productive activity and, with it, both the supply and the demand sides of our macro-economy - in mutually complementary ways. It will accordingly be crucial, both as a matter of justice and solidarity, and as a matter of limiting long-term damage to our physical health and economic wellbeing, to address both sides in tandem at once. In this light it is critical that the following measures, beginning on the demand side and proceeding to the supply side, be taken with all deliberate speed. Further measures will surely be called for in future over the medium- and longer-term. But first things first..." **https://tinyurl.com/yxylpmj5**

The Outlook

OECD Outlook. "CORONAVIRUS: THE WORLD ECONOMY AT RISK." "The coronavirus (COVID-19) outbreak has already brought considerable human suffering and major economic disruption. Output contractions in China are being felt around the world, reflecting the key and rising role China has in global supply chains, travel and commodity markets. Subsequent outbreaks in other economies are having similar effects, albeit on a smaller scale. Growth prospects remain highly uncertain.

• On the assumption that the epidemic peaks in China in the first quarter of 2020 and outbreaks in other countries prove mild and contained, global growth could be lowered by around ½ percentage point this year relative to that expected in the November 2019 Economic Outlook.

• Accordingly, annual global GDP growth is projected to drop to 2.4% in 2020 as a whole, from an already weak 2.9% in 2019, with growth possibly even being negative in the first quarter of 2020.

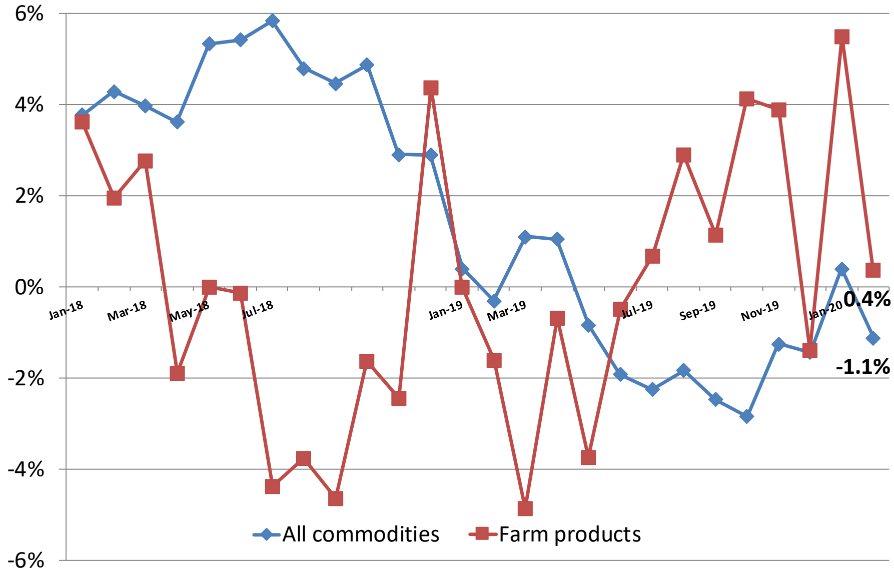
. • A longer lasting and more intensive coronavirus outbreak, spreading widely throughout the Asia-Pacific region, Europe and North America, would weaken prospects considerably. In this event, global growth could drop to 1½ per cent in 2020, half the rate projected prior to the virus outbreak."

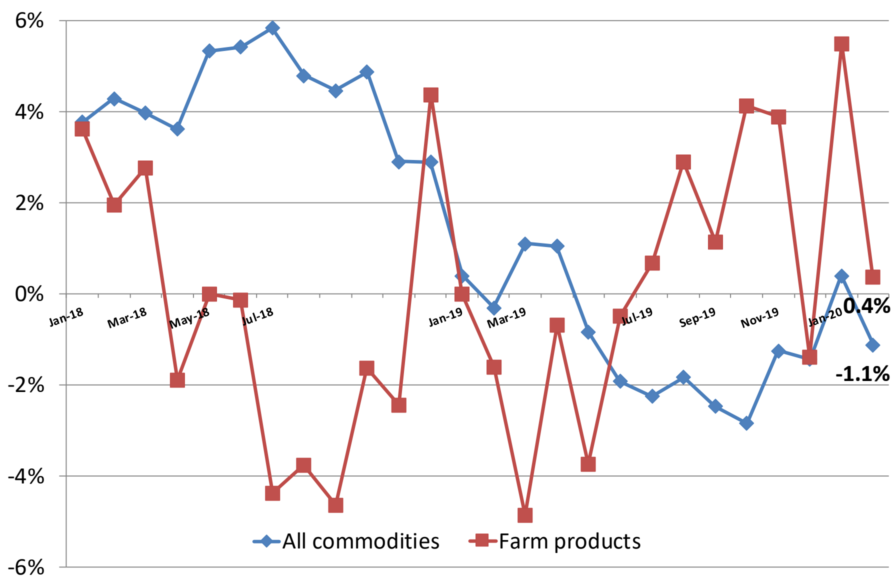
Goss (March 2020):): I expect **Annualized GDP growth to be negative for Q1, and Q2 of 2020. ***The U.S. economy to stabilize in Q3, 2020, but growth to remain weak until the first half of 2021. **The annualized Consumer Price Index to move below 1% in the first half of 2020.

FOLLOW ERNIE

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


6%
4%
2%
0%
-2%
-4%
-6%
Jan-18
Mar-18
May-18
Jul-18
Jan-19
Mar-19
Jul-19
Sep-19
Nov-19
Jan-20
0.4%
-1.1%
All commodities
Farm products


6%
4%
2%
0%
-2%
-4%
-6%
Jan-18
Mar-18
May-18
Jul-18
Jan-19
Mar-19
Jul-19
Sep-19
Nov-19
Jan-20
0.4%
-1.1%
All commodities
Farm products