MIDAMERICA DECEMBER 2019 SUPPLY MANAGERS NEWSLETTER

"A monthly survey of supply chain managers"

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

Thank you for your survey participation over the past year. I hope that you, family and friends have a wonderful Christmas and holiday season. Ernie.

An Economic Misery Index for States: Income Inequality and Slow GDP Growth Produce Misery

Candidates for the Democrat presidential nomination have almost uniformly argued for reducing income inequality by raising taxes on businesses, and, yet to be defined, high income earners. What is the evidence that such a shift would in fact produce positive outcomes? In this essay, I combine an a widely accepted measure of income inequality, the Gini Coefficient, and gross domestic product (GDP) to arrive at a **Misery Index**. Those states with high income inequality (high Gini Coefficients) and low GDP growth are awarded a high **Misery Index**. States with low income inequality (low Gini Coefficients) and high GDP growth are awarded a low **Misery Index** I then calculate state and local tax burdens to gauge whether higher taxes are likely to lead to a lower or higher **Misery Index**.

Inequality Misery: The 10 states with greatest 2018 income inequality were: DC (#50, last in nation), New York, Connecticut, Louisiana California, New Mexico, Florida, Massachusetts, Alabama, and Illinois (#41). The 10 states with the least income inequality for 2018 were: Utah (top state), Alaska, Iowa, North Dakota, South Dakota, Hawaii, Idaho, Vermont, Wisconsin, Nebraska, and Maine (#10)

Economic Growth Misery: The 10 states with the poorest 2015-18 GDP growth were: Delaware (#50, last in nation), Wyoming, North Dakota, Alaska, Oklahoma, Connecticut, Rhode Island, Iowa, Louisiana, and South Dakota (#41). The 10 states with the highest 2015-18 GDP growth were: Washington (top state), Oregon, California, Utah, Idaho, Arizona, Nevada, Colorado, Florida, Georgia (#10).

Overall Misery Index: In terms of the overall **Misery Index**, from most **Misery** to least **Misery**: 51. (Highest **Misery Index**) Connecticut, 50. Louisiana, 49. New Mexico, 48. Mississippi, 47. New York, 46. Arkansas, 45. Illinois, 44. Oklahoma, 43. Rhode Island, 42. District of Columbia, 41. Delaware, 40. West Virginia, 39. New Jersey, 38. Kentucky, 37. Alabama, 36. Wyoming, 35. Missouri, 34. Pennsylvania, 33. Virginia, 32. North Carolina, 31. Massachusetts, 30. Ohio, 29. Florida, 28. North Dakota, 27. Texas, 26. Alaska, 25. Montana, 24. California, 23. Georgia, 22. Iowa, 21. South Dakota, 20. Tennessee, 19. Vermont, 18. Kansas, 17. Michigan, 16. South Carolina, 15. Nebraska, 14. Indiana, 13. Nevada, 12. Wisconsin, 11. New Hampshire, 10. Minnesota, 9. Maryland, 8. Maine, 7. Arizona, 6. Colorado, 5. Oregon, 4. Hawaii, 3.Washington, 2. Idaho, 1. Utah (Lowest **Misery Index**).

State and Local Tax Burdens: States with the highest **Misery Index** had the highest average per capita state and local taxes of $5,092 compared to states with the lowest **Misery Index** with the lower per capita state and local taxes of $4.580. In terms of states' business tax climate ranking, the highest **Misery Index** states had a worse business tax climate ranking, the highest **Misery Index** states had a worse business tax climate ranking of 28 compared to 23 for the low **Misery Index** states (lower ranking connotes a superior business tax climate).

LAST MONTH'S SURVEY RESULTS

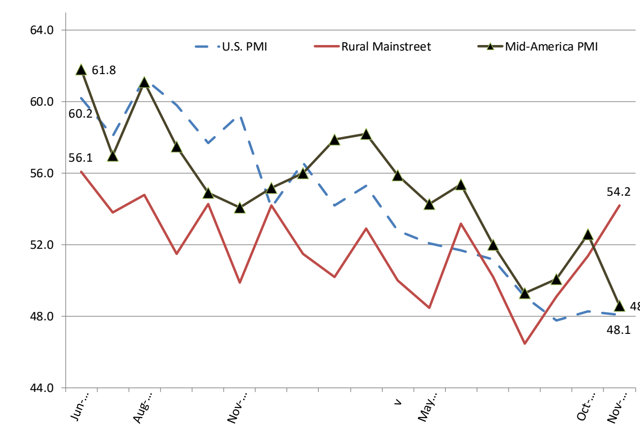
Mid-America Business Index Falls to Three-Year Low:Imports Rise in Anticipation of Tariffs

December Survey Highlights:

- The overall index declined below growth neutral for the third time in the past four months to its lowest level in three years.
- Regarding tariffs on purchased goods, only 17% of supply managers expect their firms to absorb the cost of the tariffs. Approximately 77% expect consumers to pay the costs of tariffs.
- Supply managers advanced purchasing from abroad to combat impending December tariffs.
- Despite the negative impact of the trade war on jobs, 60% of supply managers in the survey support continuing, or even expanding, trade restrictions and tariffs on imports from China.
- Hiring index declined to its lowest level in four years.

Goss monthly interview at:http://bit.ly/Mid-AmericaBCINovember2019Video

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



It was concluded that **Misery Indices** were higher for high tax states and lower for lower tax states, supporting the hypothesis that raising taxes will not reduce economic **Misery**, but may in fact produce more economic **misery**, or slower economic growth and higher income inequality.

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The November Creighton University Mid-America Business Conditions Index, a leading economic indicator for the nine-state region stretching from Minnesota to Arkansas, sank below growth neutral to its lowest level in three years.

Overall index: This is the third time in the last four months that the overall reading has fallen below a growth neutral 50.0. The Business Conditions Index, which ranges between 0 and 100, slumped to 48.6 from October's 52.6.

Slow global growth and trade skirmishes and wars are negatively affecting growth among manufacturers in the region. For 2019, manufacturing in Mid-America lost jobs at a pace of minus 0.1% compared to a positive job growth of 0.04% for U.S. manufacturing.

Employment: The November employment index plummeted to 37.2, its lowest in four years, from 50.0 in October. The availability of workers continues to constrain job growth in the region.

Despite the negative impact of the trade war on jobs, 60% of supply managers in our survey, support continuing, or even expanding, trade restrictions and tariffs on imports from China.

As one supply manager responded, "Tariffs should be applied to combat unfair trade practices (dumping) or due to adequate domestic supply."

Wholesale Prices: The wholesale inflation gauge for the month indicated only modest inflationary pressures with a wholesale price index of 65.7, up from 57.0 in October.

This month, 43% of supply managers reported tariffs had increased the prices of supplies and inputs purchased by their firm. However, one supply manager said, "The increase in commodities purchased are the result of tariffs."

"Tariffs have, to date, had only a modest impact on our wholesale inflation gauge," said Goss.

Only 17% of supply managers expect their firms to absorb the cost of tariffs. Approximately 77% indicated that ultimately consumers pay for tariffs

Another supply manager said, "Open market trade benefits a wider range of consumers over isolating certain items through tariffs."

Confidence: Looking ahead six months, economic optimism, as captured by the November Business Confidence Index, climbed to 52.9 from October's very weak 47.3.

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 expanded inventories of raw materials and supplies significantly for the month with an index of 54.6 from last month's 48.6. Supply managers expanded their inventories in anticipation of higher tariffs in the weeks and months ahead.

Trade: The regional trade numbers were mixed with new export orders plummeting to 39.1 from October's 44.7. On the other hand, imports climbed to 52.0 from last month's below growth neutral reading. Supply managers advanced purchasing from abroad in anticipation of higher tariffs in the weeks and months ahead.

Other survey components: Other components of the November Business Conditions Index were new orders at 45.6, down from October's 57.2; the production or sales index moved lower to 44.1 from October's 58.6; and speed of deliveries of raw materials and supplies index at 61.4, was up significantly from last month's 48.6.

MID-AMERICA STATES

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 November Business Conditions Index for Arkansas sank to 49.7 from October's 53.4. Components of the index from the monthly survey of supply managers were new orders at 47.8, production or sales at 43.4, delivery lead time at 56.4, inventories at 62.4, and employment at 38.4. Over the past 12 months Arkansas' manufacturing sector has boosted hourly wages by 4.6%, fourth in the nine-state region. Both durable and nondurable goods are shedding jobs at a slightly negative pace.

IOWA: After rising above growth neural for October, the state's overall Business Conditions Index slumped below growth neutral 50.0 for November, falling to 49.2 from October's 53.5. Components of the overall index from the monthly survey of supply managers were new orders at 46.8, production or sales at 43.7, delivery lead time at 61.9, employment at 37.9, and inventories at 55.5. Over the past 12 months the state's manufacturing sector has lifted hourly wages by 3.2%, seventh in the nine-state region. Agriculture equipment manufacturers are adding jobs at a slow pace, while transportation equipment producers are losing jobs at a measured pace.

KANSAS: The Kansas Business Conditions Index for November decreased to 51.0 from October's 54.6. Components of the leading economic indicator from the monthly survey of supply managers were new orders at 52.1, production or sales at 42.8, delivery lead time at 63.2, employment at 39.3, and inventories at 57.7. Over the past 12 months the state's manufacturing sector has increased hourly wages by 2.3%, ninth in the nine-state region. Aerospace product and parts manufacturers are adding jobs at a solid pace, while food producers are experiencing flat job levels.

MINNESOTA: The November Business Conditions Index for Minnesota slipped to 50.9 from 51.3 in October. Components of the overall November index from the monthly survey of supply managers were new orders at 47.0, production or sales at 52.9, delivery lead time at 61.8, inventories at 55.2, and employment at 37.7. Over the past 12 months the state's manufacturing sector has lifted hourly wages by 5.6%, third in the nine-state region. Medical equipment producers are adding jobs at a solid pace, while food processors are shedding jobs.

MISSOURIi: The October Business Conditions Index for Missouri adThe November Business Conditions Index for Missouri sank to 48.4 from October's 53.6. Components of the overall index from the survey of supply managers were new orders at 46.7, production or sales at 43.9, delivery lead time at 59.8, inventories at 55.1, and employment at 37.6. Over the past 12 months the state's manufacturing sector has boosted hourly wages by 2.4%, eighth in the nine-state region. While manufacturing job losses for November were noteworthy, metal products producers and computer and component manufacturers are adding jobs at a solid pace.

NEBRASKA: The Business Conditions Index fell below growth neutral after rising above the 50.0 threshold for two straight months. The state's overall index sank to 48.2 from 53.7 in October. Components of the index from the monthly survey of supply managers were new orders at 44.6, production or sales at 44.3, delivery lead time at 61.1, inventories at 54.1, and employment at 36.9. Over the past 12 months the state's manufacturing sector has lifted hourly wages by 3.8%, fifth in the nine-state region. Farm machinery manufacturers are shedding jobs, but at a slight pace, while food producers are adding jobs at a positive rate.

NORTH DAKOTA: The November Business Conditions Index for North Dakota rose slightly to 50.0 from 49.7 in October. Components of the overall index were new orders at 49.4, production or sales at 43.4, delivery lead time at 62.4, employment at 38.5, and inventories at 56.4. Over the past 12 months the state's manufacturing sector has boosted hourly wages by 6.2%, second in the nine-state region. Durable goods manufacturers are adding jobs at a positive pace while nondurable goods producers are losing jobs at a slow pace.

OKLAHOMA: For a second straight month, Oklahoma's Business Conditions Index sank below growth neutral signaling slow to no growth in the months ahead. The overall index for November sank to 47.8 from October's 48.7. Components of the overall November index were new orders at 43.6, production or sales at 44.5, delivery lead time at 60.9, inventories at 53.6, and employment at 36.6. Over the past 12 months the state's manufacturing sector has increased hourly wages by 3.5%, sixth in the nine-state region. Both durable and nondurable goods manufacturers are experiencing job losses.

SOUTH DAKOTA: The November Business Conditions Index for South Dakota fell to 48.9 from October's 52.6. Components of the overall index from the November survey of supply managers in the state were new orders at 37.5, production or sales at 43.9, delivery lead time at 61.7, inventories at 55.0, and employment at 46.6. Over the past 12 months the state's manufacturing sector has lifted hourly wages by 8.7%, first in the nine-state region. Until November, both durable and nondurable goods manufacturers had been adding jobs at a solid pace.

THE BULLISH NEWS

- The U.S. goods and services trade deficit was $47.2 billion in October, down $3.9 billion from $51.1 billion in September. However, trade deficits normally decline as U.S. growth falls.
- Inflation adjusted gross domestic product (GDP) increased at an annual rate of 2.1% in Q3, 2019 compared to 2.0% in Q2, 2019.
- The November jobs report was all peaches and cream as the nation added 266,000 jobs and the unemployment rate sank to 3.5%, its lowest since 1969.

THE BEARISH NEWS

- Both Creighton's and ISM's Purchasing Management Indices (PMI) fell to their lowest level in 3 years signaling slower economic growth.
- U.S. labor productivity fell 0.3% in Q3, 3019. This is a troubling statistic since worker wages are tied to productivity.
- Over the past two years, the trade weighted value of the U.S. dollar has climbed by 9.4% making U.S. manufactured and farm goods less competitively priced abroad.

THE OUTLOOK

Conference Board, (December 2019): Global Economic Outlook 2020: Stagnating Growth amid an Uncertain Outlook The global economy took a bigger hit in 2019 than anticipated, slowing to 2.3 percent in 2019, down from 3.3 percent in 2017 and 3.0 percent in 2018. The slowdown is disconcerting because over the past two decades, a dip in global growth below 2 percent has often meant recessions in the form of GDP contractions across a broad range of regional economies. [1] Recession fears are currently widespread but appear to be overblown. We expect global growth to remain slow but slightly improve next year, reaching 2.5 percent.

Overall, we have arrived in a world of stagnating growth. While no widespread global recession has occurred in the last decade, global growth has now dropped below its long-term trend of around 2.7 percent. The fact that global GDP growth has not declined even more in recent years is mainly due to solid consumer spending and strong labor markets in most large economies around the world. Of course, current conditions and future challenges differ in regions throughout the world. In this edition of the Global Economic Outlook, we've included regional sections for the US, Asia, and Europe that describe the underlying forces that will shape growth in the short and medium term. The overarching theme of this year's outlook is stagnating growth and stalling globalization and what this means for business.

ISM and Creighton's PMIs for December. On January 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 weak and trending downward.

Goss (December 2019): I expect **Annualized GDP growth of 1.3% for Q4, 2019 and 1.7% for Q1, 2020. **Year-over-year increase in U.S. housing prices (Case-Shiller) to fall below 3.0% 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 and for the first half of 2020.

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WHAT TO WATCH

- BLS's jobs report. On January 10, the BLS will report job gains and the hourly wage value for December. A job gain greater than 150,000 and an annual wage gain of more than 3% will be very bullish indicator for the economy.
- Retail sales report. On January 16, the U.S. Census Bureau releases its retails sales number for December. This will be an important gauge of consumer strength. A monthly increase greater than 0.4% will be a positive.

STATISTIC OF THE MONTH

6 States. Between 2013 and 2018, 6 states experienced a decline in net farm income greater than 50%, Tennessee (79.0%), Nebraska (64.8%), South Carolina (61.8%), Indiana (61.3%), Kansas (53.4%), and Missouri (51.8%).

SUPPLY MANAGER CAREERS

Procurement Agent, Associated Electric Cooperative, Inc. Springfield, Missouri. We are currently seeking applicants for a Procurement Agent position in the Accounting & Finance Division located in Springfield, MO. This position is responsible for working within a category management procurement system, handling site materials and services while coordinating supplier work and quality assessment. The Procurement Agent handles a large volume of fluctuating requirements with a variety of suppliers, ensuring procurement disciplines are observed, existing negotiated agreements are utilized, and maximum service and quality is obtained at minimal cost. Responsibilities also include in-depth analysis of materials/services categories, development of procurement strategies, and vendor sourcing for contracting activities.

Qualified candidates will have a Bachelor's degree in business or other related technical field, or equivalent experience. All levels of experience will be considered, with a preference for those with at least six years of procurement experience including knowledge and understanding of plant operations and needs. Successful candidates must have in-depth analytical skills, the ability to perform strategic sourcing, negotiations and forge strong vendor relations. Previous experience within the power industry and professional certification is preferred. We are seeking an individual with a strong technical background, excellent written and verbal communication skills, strong computer skills and the ability to assume ownership and provide resolution to issues. This individual will have strong attention to detail, be effective in a team environment and be able to prioritize work schedules to meet deadlines.

https://www.indeed.com/q-Aeci-l-Missouri-jobs.html

Survey results for December will be released on January 2, the first business day of the month.

GOSS EGGS
(Recent Dumb Economic Moves)

French businesses and consumers with higher prices at the same time it invites retaliation from the U.S. President Trump announced that it would strike back by raising tariffs on French goods just as it did on steel and aluminum from Argentine and Brazil in November. Consumers and businesses across the globe are being harmed by these tariff tantrums.

Supply Manager Reading Room

China Manufacturing Purchasing Managers Index (PMI).). "China Manufacturing Purchasing Managers Index (PMI) provides an early indication each month of economic activities in the Chinese manufacturing sector. It is compiled by China Federation of Logistics & Purchasing (CFLP) and China Logistics Information Centre (CLIC), based on data collected by the National Bureau of Statistics (NBS).Li & Fung Research Centre is responsible for drafting and disseminating the English PMI report. Every month questionnaires are sent to over 700 manufacturing enterprises all over China. The data presented here is compiled from the enterprises responses about their purchasing activities and supply situations. The PMI should be compared to other economic data sources when used in decision-making. A higher than expected reading should be taken as positive/bullish for the CNY, while a lower than expected reading should be taken as negative/bearish for the CNY." China's November 2019 PMI = 50.2. https://www.investing.com/economic-calendar/chinese-manufacturing-pmi-594

"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/

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