MIDAMERICA JANUARY 2020 SUPPLY MANAGERS NEWSLETTER

"A monthly survey of supply chain managers"

Welcome to our January report covering results from Creighton's December 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.

Happy New Year and thank you for your survey participation over the past year. Ernie.

Federal Government Has a Spending Problem: Taxes Grow, Spending Soars, & Under 50 Will Pay Up

Candidates for the Democrat presidential nomination have almJust last month, U.S. citizens witnessed consensus among Democrats, Republicans, and the Trump Administration as they approved $1.43 trillion in additional fiscal 2020 federal spending. As a result, the Congressional Budget Office (CBO) estimates that the federal budget deficit will top $1 trillion for the current fiscal year. Democrats blame the federal deficit on the 2017 tax cuts, while the Republicans attack spending as the culprit. Does the fault lie in too much spending, or too little in tax collections?

In December 2017, Congress passed and the President signed a major tax cut for businesses and individuals. Since then, the U.S. economy has, as measured by gross domestic product (GDP), expanded by 8.2%, but federal spending advanced by 9.3%, and tax collections actually grew by 3.4% despite the tax cut. Had spending increased at the same rate as tax collections, the current deficit would be $387 billion lower.

Since 1966, federal spending has soared at a rate 10 times that of the U.S. economic growth. During this same period of time, federal tax collections grew at 2.5 times that of the U.S. economy. Primarily as a result of this excess federal spending, the federal debt advanced by 3.4 times that of the overall U.S. economy. As a result, the current U.S. total debt now stands at 106% of GDP, up from 40% in 1966. Someone must pay the price for this financial gluttony. As Herb Stein, Chairman of the Council of Economic Advisors under Presidents Nixon and Ford once stated, "If something cannot go on forever, it will stop." But when will it stop? As economic bookends, Congressional Representative Alexandria Ocasio-Cortez and former Vice-President Cheney recently stated, "Deficits and debt do not matter."

But higher federal debt will ultimately be paid for by those currently under 50 years of age via either plummeting federal spending, soaring higher taxes, higher inflation, or higher interest rates. Before the 2008-09 recession, the federal debt of $20.5 trillion deficit resulted in interest payments of $609 billion, or 6.9%. Due to lower interest rates, current interest payments are only 3.8% on the debt. Should interest rates rise to pre-recession levels, U.S. taxpayers would have to cough up an additional $706 billion annually. Thus, in this economist's judgment, the debt "house of cards" will come tumbling down when rising inflation pushes interest rates back to their historical average. When will this happen? No mortal economist on this earth knows. Ernie Goss.

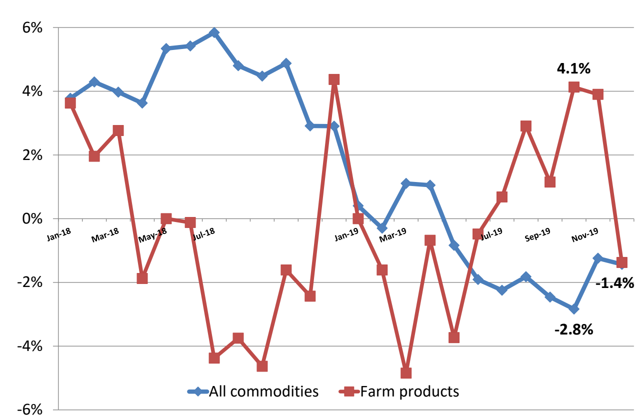
LAST MONTH'S SURVEY RESULTS

Mid-America Business Index Climbs at Year End:Labor Shortages Continue to Restrain Growth

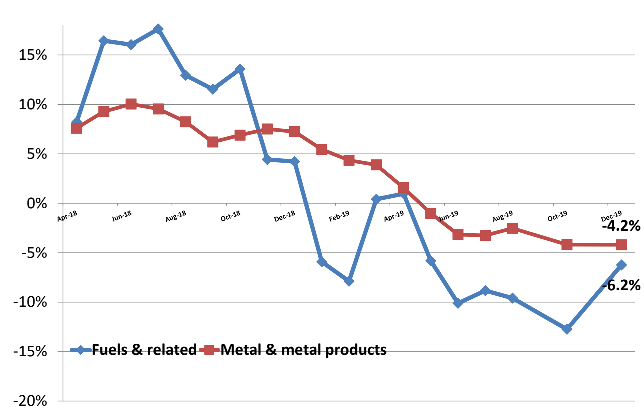
January Survey Highlights:

- The overall index moved above growth neutral for the second time in the past three months.
- For 2019 in terms of overall economic growth, the states ranked from top to bottom: #1 Arkansas, #2 Nebraska, #3 Kansas, #4 South Dakota, #5 Minnesota, #6 Missouri, #7 Iowa, #8 North Dakota, #9 Oklahoma.
- Seven of 10 supply managers expect finding and hiring qualified workers to be the greatest 2020 challenge for their firms.
- On average, supply managers expect to receive a 2.5% wage increase in 2020 .
- In terms of projected 2020 overall economic growth, the states ranked from top to bottom are: #1 South Dakota, #2 Nebraska, #3 Arkansas, #4 Kansas, #5 Minnesota, #6 Iowa, #7 Missouri, #8 North Dakota, #9 Oklahoma.

Year-over-year price change, commodities and farm product, 2018-19



Year-over-year price change, fuels and metal products, 2018-19



The December 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.

Overall index: This is the second time in the last three months that the overall reading has climbed above growth neutral 50.0. The Business Conditions Index, which ranges between 0 and 100, rose to 50.6 from November's 48.6.

Surveys over the past several months indicate that the regional manufacturing economy is being negatively impacted by the trade war with China and the global economic slowdown. This will be a drag on the overall Mid-America economy for the first half of 2020. However, I expect overall regional growth to remain soft but positive for the first half of the year.

Employment: The December employment index increased to 45.6 from November's very weak 37.2. The availability of workers continues to constrain job growth in the region. In December, seven of ten supply managers indicated that finding and hiring qualified workers was the greatest 2020 challenge for their firms.

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 0.7% pace, or less than half the 1.5% rate of the U.S. economy.

As a result of the weak regional manufacturing regional economy, supply managers expect a low average 2.5% wage gains for 2020.

One supply manager responded, "Biggest challenge to 2020 economic success: Everywhere in our organization is challenged to hire good, steady employees."

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 and declining wholesale inflationary pressures with a wholesale price index of 57.6, down from 65.7 in November.

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."

MID-AMERICA STATES

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

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 December Business Confidence Index, climbed to 57.6 from November's 52.9.

"Potential 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," said Goss.

As stated by one supply manager, "I am VERY happy to see US/China Phase 1 agreement to cancel tariffs for 12/15 and cut the Sept 1 tariffs in half.

Inventories: Companies expanded inventories of raw materials and supplies for the month but at a slower pace as the inventory index fell to 50.1 from last month's 54.6. "Supply managers expanded their inventories in anticipation of higher tariffs in the weeks and months ahead," reported Goss.

Trade: The regional trade numbers were mixed with new export orders increasing to a weak 43.5 from November's 39.1. On the other hand, imports were unchanged from November's 52.0. Supply managers continue to boost purchasing from abroad in anticipation of higher tariffs in the weeks and months ahead.

Other survey components: Other components of the December Business Conditions Index were new orders at 50.1, up from November's 48.5; the production or sales index moved higher to 48.5 from November's 44.1; and speed of deliveries of raw materials and supplies index at 54.4 declined from last month's 61.4.

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 December Business Conditions Index for Arkansas climbed to 53.0 from November's 49.7. Components of the index from the monthly survey of supply managers were new orders at 54.2, production or sales at 51.4, delivery lead time at 55.3, inventories at 57.2, and employment at 46.7. For 2019, Arkansas's overall economy ranked number one in economic performance among the nine Mid-America states. Based on recent surveys, I expect the Arkansas economy, for the first half of 2020, to rank number three in the region in terms of economic performance with overall annualized inflation-adjusted GDP growth at 2.8%.

IOWA: After falling below growth neutral for November, the state's overall Business Conditions Index climbed above the threshold for December rising to 50.9 from 49.2 in November. Components of the overall index from the monthly survey of supply managers were new orders at 48.2, production or sales at 50.8, delivery lead time at 54.7, employment at 45.8, and inventories at 55.1. For 2019, Iowa's overall economy ranked number seven in economic performance among the nine Mid-America states. Based on recent surveys, I expect the Iowa economy, for the first half of 2020, to rank number six in the region in terms of economic performance with overall annualized inflation-adjusted GDP growth at 1.6%.

KANSAS: The Kansas Business Conditions Index for December increased to 52.1 from November's 51.0. Components of the leading economic indicator from the monthly survey of supply managers were new orders at

54.1, production or sales at 47.3, delivery lead time at 55.3, employment at 46.7, and inventories at 57.2. For 2019, Kansas's overall economy ranked number three in economic performance among the nine Mid-America states. Based on recent surveys, I expect the Kansas economy, for the first half of 2020, to rank number four in the region in terms of economic performance with overall annualized inflation-adjusted GDP growth at 2.84%.

MINNESOTA: The December Business Conditions Index for Minnesota slipped to 50.7 from 50.9 in November. Components of the overall December index from the monthly survey of supply managers were new orders at 49.5, production or sales at 48.1, delivery lead time at 54.7, inventories at 55.4, and employment at 45.9. For 2019, Minnesota's overall economy ranked number five in economic performance among the nine Mid-America states. Based on recent surveys, I expect the Minnesota economy, for the first half of 2020, to rank number five in the region in terms of economic performance with overall annualized inflation-adjusted GDP growth at 1.7%

MISSOURIi: The December Business Conditions Index for Missouri rose to 50.5 from November's 48.4. Components of the overall index from the survey of supply managers were new orders at 49.8, production or sales at 48.5, delivery lead time at 54.3, inventories at 54.4, and employment at 45.5. For 2019, Missouri's overall economy ranked number six in economic performance among the nine Mid-America states. Based on recent surveys, I expect the Missouri economy, for the first half of 2020, to rank number seven in the region in terms of economic performance with overall annualized inflation-adjusted GDP growth at 1.1%.

NEBRASKA: The Business Conditions Index climbed above growth neutral after falling below the threshold in November. The state's overall index jumped to 52.1 from 48.2 in November. Components of the index from the monthly survey of supply managers were new orders at 54.2, production or sales at 47.2, delivery lead time at 55.3, inventories at 57.3, and employment at 46.7. For 2019, Nebraska's overall economy ranked number two in economic performance among the nine Mid-America states. Based on recent surveys, I expect the Nebraska economy, for the first half of 2020, to rank number two in the region in terms of economic performance with overall annualized inflation-adjusted GDP growth at 2.85%.

NORTH DAKOTA: The December Business Conditions Index for North Dakota sank to 48.2 from November's 50.0. Components of the overall index were new orders at 42.1, production or sales at 49.5, delivery lead time at 53.6, employment at 44.5, and inventories at 52.1. For 2019, North Dakota's overall economy ranked number eight in economic performance among the nine Mid-America states. Based on recent surveys, I expect the North Dakota economy, for the first half of 2020, to rank number eight in the region in terms of economic performance with overall annualized inflation-adjusted GDP growth at 0.9%.

OKLAHOMA: For a third straight month, Oklahoma's Business Conditions Index sank below growth neutral signaling slow to no growth in the months ahead. The overall index for December rose slightly to 48.4 from November's 47.8. Components of the overall December index were new orders at 42.1, production or sales at 49.5, delivery lead time at 53.6, inventories at 52.1, and employment at 44.5. For 2019, Oklahoma's overall economy ranked number nine in economic performance among the nine Mid-America states. Based on recent surveys, I expect the Oklahoma economy, for the first half of 2020, to rank number four in the region in terms of economic performance with overall annualized inflation-adjusted GDP growth at minus 0.2%.

SOUTH DAKOTA: The December Business Conditions Index for South Dakota climbed to 52.3 from November's 48.9. Components of the overall index from the December survey of supply managers in the state were new orders at 54.5, production or sales at 47.2, delivery lead time at 55.4, inventories at 57.5, and employment at 46.8. For 2019, South Dakota's overall economy ranked number four in economic performance among the nine Mid-America states. Based on recent surveys, I expect the South Dakota economy, for the first half of 2020, to rank number one in the region in terms of economic performance with overall annualized inflation-adjusted GDP growth at 3.0%.

THE BULLISH NEWS

- The last Federal Reserve meeting of the year brought no adjustment for the federal funds rate. The vote to leave short-term rates unchanged was unanimous.
- The wages of the lower-most quartile grew by 4.5% over the past year according to the Federal Reserve. while wages for the top quartile of earners increased by 2.9% over the same period.
- November export of goods, particularly crops, autos and industrial supplies, climbed 0.7% to $136.4 billion.
- The U.S. manufacturing PMI (purchasing management index) fell to its lowest level since June 2009, the final month of the last recession.

THE BEARISH NEWS

- Creighton's Mid-America Purchasing Management Indices (PMI) for December rose to 50.6. This is the second time in the last three months that the manufacturing reading has moved above growth neutral.
- October U.S. housing prices increased by 2.2% from 12 months earlier. Housing price growth continues to fall.
- The government budget gap was 12% bigger in the first two months of the fiscal year, as higher spending on the military and health care pushed up government outlays.

WHAT TO WATCH

- ISM and Creighton's PMIs for January. On February 3, 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 the U.S. reading is trending downward.

- 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.
- Retail sales report. On January 16, the U.S. Census Bureau released its retails sales number for December. This was an important gauge of consumer strength. A monthly increase greater than 0.4% was a positive.

STATISTIC OF THE MONTH

56%. Since 1990, 27 economists/lawyers have served on the Board of Governors of the Federal Reserve. Fully 56% of these appointees received their economic/legal education at Harvard, MIT or Yale; institutions separated by less than 140 miles. Recently the Fed reported that it sought, "A staff that better reflects the U.S. population that could limit the potential for groupthink." This goal does not extend to the educational background of its governing body and is based on measuring "groupthink" by race, gender and ethnicity.

SUPPLY MANAGER CAREERS

Senior Logistics Manager, Lozier, Omaha, Nebraska. The Senior Logistics Manager will be responsible for managing logistical process services and providers from vendor sources to end customer locations; including strategically sourcing, qualifying, selecting and negotiating agreements with service providers. This person is also responsible for leading logistics service strategies including route guide execution, timely transportation services, setting appropriate metrics for the department/team and creating new logistics models to support organizational needs. As an important facet of the supply chain process, they will manage relationships with all areas of the business to improve overall supply chain flows and delivery schedules. JOB QUALIFICATIONS: Education, Bachelors degree in business, logistics or supply chain management.

EXPERIENCE: Minimum of 7 years of experience in a manufacturing/distribution setting in Logistics, Supply Chain, Sales, or Customer Service • Minimum of 5 years of supervisory or management experience Required Skills: • Strong understanding of freight movement operations via various modes of transport. • Demonstrated negotiation experience. • Demonstrated knowledge of transportation laws, regulations and statutes. • Demonstrated knowledge of logistics service provider agreements/contracts and key elements. • Demonstrated verbal and written communication skills. • Demonstrated knowledge of transportation management systems. • Demonstrated leadership skills. • Intermediate Microsoft Office Suite.

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GOSS EGGS
(Recent Dumb Economic Moves)

Currently, China is building more coal-fired plant capacity than the rest of the world combined. Despite the 2014 Obama-Xi Jinping agreement to limit CO2 coal plant emissions, China will consume 3 billion tons of coal equivalents in 2020, which is unchanged from 2014.

The Outlook

Conference Board, (Jan. 2020):). "We expect US Real GDP growth to come in at 2.0 percent for Q4 over Q3 and annual growth for 2019 to be 2.3 percent. While this rate is lower than last year's 2.9 percent growth rate, we do not believe growth will dip below 2.0 percent in 2020. The drivers of growth next year will likely be different from those seen this year. The growth contribution from real consumer spending will likely decline; however, we expect improvements in business sentiment to bolster capital formation. Furthermore, we believe that improvements in residential investment will also provide a boost."

"Despite strong consumer confidence, households in the Euro Area are getting more cautious about spending, possibly because of recession fears. Recent moderations in the decline of the PMI and business confidence suggest that the manufacturing downturn may be bottoming out. A trade agreement between U.S. and China, as modest as it may be, will foster more optimism among manufacturers. Profit performance of non-financial corporations in the Euro Area has weakened, especially in Germany and Italy".

Goss (Jan. 2020): I expect 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 2.0% in Q1, 2020. **The Consumer Price Index to move above the Federal Reserve's target rate in the first quarter 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.

Supply Manager Reading Room

"Institute for Supply Management® Announces 2020 Board of Directors," Institute for Supply Management® (ISM®) announced its 2020 Board of Directors during the Annual ISM Membership Meeting in Denver, CO on August 22, 2019. Three new Board members were introduced, and Board member, Camille Batiste, CPSM, C.P.M., vice president, global procurement at Archer Daniels Midland Company elected as Board Chair for a two-year term. Read more at https://www.instituteforsupplymanagement.org/news/NewsRoomDetail.cfm?ItemNumber=31146

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