MIDAMERICA JULY 2020 SUPPLY MANAGERS NEWSLETTER

"A monthly survey of supply chain managers"

Welcome to our July report covering results from Creighton's June survey of supply 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 that the negatives are getting less negative.

Follow my comments at: www.twitter.com/erniegoss

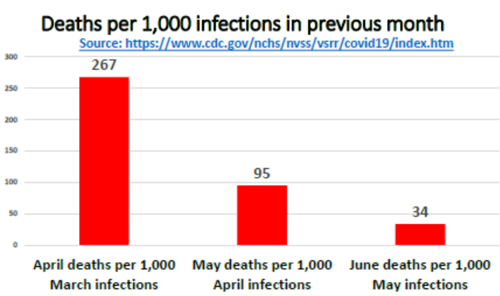
Goss monthly interview at:
https://bit.ly/MidAmericaJune2020YouTubeVideo

Covid-19 Deaths Rates Fall as Infections Rise: State Shutdowns Hurt Economies, but Not Covid-19

The media and politicians are fixating on the rapid rise in covid-19 infections. As a result, many medical experts, politicians, and pundits are calling for shutdowns of state economies experiencing the greatest growth in infections. Before taking this drastic action, two questions should be examined: 1) will the latest infections generate the negative outcomes as in previous months and 2) will the negative economic impacts of shutdowns exceed the positive health outcomes from economic lockdowns?

The latest CDC data show that deaths per 10,000 infections have declined from 1,315 on March 7 to 8.9 on July 7. (Source: https://www.cdc.gov/nchs/nvss/vsrr/covid19/index.htm) From this data, some assert (but not proven) that higher infection rates are due to: 1) the opening up of state economies which has encouraged young individuals, who are less likely to suffer negative health consequences from covid-19, to continue with normal living, and 2) an increase in testing rates that now uncover individuals with the infection, but little or no negative health outcomes. 3) encouraging older individuals with other health issues to take greater precautions in daily living (e.g. social distancing), 4) improved treatment of covid-19 illnesses.

Others argue that there exists a lag between infections and deaths with today's soaring infection rates leading to zooming death rates ahead. However, the accompanying chart shows that death rates are clearly trending lower even after controlling for the delay between infection and death, declining from 267 April deaths per 10,000 March infections to 34 June deaths per 10,000 May infections.



<u>Did state lockdowns work?</u> The 42 states and D.C. that implemented shelter-in-place directives experienced a 10.1% increase in their insured unemployment rates between the first week in March until the second week in June, compared to a lower 6.6% increase during the same time period for the 9 states that did not shut down. Using simple linear regression, it is concluded that each 30 days of shutdown was associated with a one percentage point increase in the insured unemployment rate. In terms of infections and deaths per 10,000 for March–June, shelter-in-place states experienced median infection rates of 60.0 compared to a higher 73.6 for non-shelter-in-place states, while non-shelter-in-place states suffered a lower death rate of 1.2 compared to a double 2.4 for shelter-in-place states. None of the differences were statistically significant.

Summary. In the back-of-the-envelope calculations in this essay, it was concluded that while covid-19 infections are expanding dramatically, covid-19 month ahead death rates per infection are in fact declining. Furthermore, it is concluded that shelter-in-place states, while having a statistically significant on increasing insured unemployment rates, had no statistically significant impact on covid-19 infection rates or death rates. (All analysis is available on request ernieg@creighton.edu).

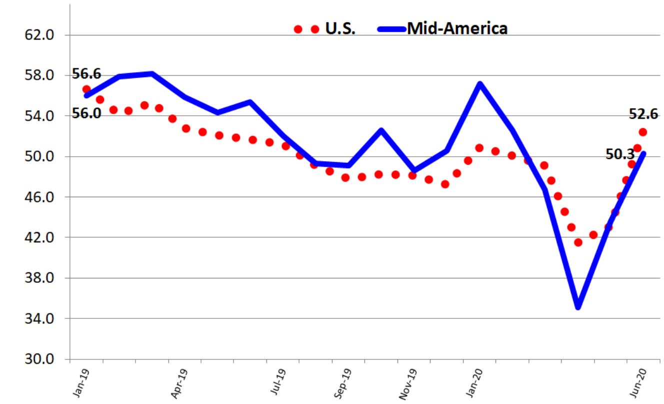
LAST MONTH'S SURVEY RESULTS

Negatives Get Less Negative for Mid-America Economy in June: Only 6% Expect Additional Layoffs

Survey Highlights:

- The Business Conditions Index expanded to a reading slightly above growth neutral.
- Job losses continued for June with an employment index well below growth neutral.
- In terms of hiring for the rest of 2020, 51% expect no changes, 17% anticipate bringing back furloughed workers,
- 26% expect to bring back furloughed workers and add new workers, and 6% predicted a continuation of layoffs.
- Regional trade numbers remain near record lows.

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



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

Overall index: After falling below growth neutral for three straight months, the overall index bounced into positive territory for June. The Business Conditions Index, which ranges between 0 and 100, increased to 50.3 from May's 43.5.
While the June reading was much higher than I expected, it provides no grounds for celebration. June's above growth neutral reading indicates that between May and June, business conditions improved. It will take many months of above 50.0 before the regional economy returns to pre-Covid-19 levels.

Employment: The June employment index continued to indicate job losses, and at a faster pace than in May. The June index slumped to 38.9 from May's 40.0, but was up from April's record low of 26.2.

According to U.S. Department of Labor data between the first week in May and the second week in June, the number of workers in the nine-state region receiving unemployment compensation declined from 1.3 million to 1.2 million.

Said one supply manager, "In June we permanently laid off 40 workers who were already on furlough, while bringing back other workers off furlough. Compared to last month employment is up, but compared to pre-COVID, our employment is down."

Wholesale Prices: The wholesale inflation gauge for the month indicated an upturn in wholesale prices from May with a wholesale price index of 59.7, up from 48.6 for May.

Despite June's reading, I expect to see little to no inflationary pressures at the wholesale level in the weeks and months ahead, even with the Federal Reserve's, and the U.S. government's massive economic stimulus programs.

Other June Comments from Supply Managers:

- "We have not seen the recession here--no one has been laid off at our place and our economy is recovering quite well."
- "The virus epidemic has reduced our economy, lifestyle, sense of well-being, social interaction, patience and a host of other human values and emotions. Hope is our greatest strength now until we are free to return to our treasured normal lives.
- "The RV industry is booming."
- "We are a laboratory, so we were considered essential. While the testing we are involved in was way down, it does appear to be starting back up."
- "The $600 dollars extra in unemployment was a big mistake with no incentive to go back to work."
- "The resist movement established by the Obama Administration prior to leaving office and continued by the deep state initiative have done more harm to this country than anything previously known. Our future generations will not be able to dig out of the debt we have incurred."

Confidence: Looking ahead six months, economic optimism, as captured by the June Business Confidence Index, climbed to a strong 65.3 from 56.6 in May.

The federal stimulus plan, the Federal Reserve monetary incentive programs, and the solid U.S. stock markets boosted confidence from May's reading.

Inventories: The regional inventory index for June, reflecting levels of raw materials and supplies, climbed to 52.8 from last month's 48.6.

Trade: The regional trade numbers were, as in previous months, very negative with new export orders rising to a very weak 26.4 from May's record low of 15.9. Imports fell to 32.0 from 36.0 in May.

Just as the global recession has reduced regional exports, the regional recession has contracted the import of supplies and raw materials for manufacturers among the nine Mid-America states. i

Other survey components of the June Business Conditions Index were: new orders at 54.2, up from May's 31.7; the production or sales index expanded to 52.9 from May's 33.3; and speed of deliveries of raw materials and supplies index at 52.8 was down from last month's 63.8.

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.

ARKANSAS: The June Business Conditions Index for Arkansas rose to 50.9 from May's 43.7. Components of the June index from the monthly survey of supply managers were: new orders at 58.7, production or sales at 55.2, delivery lead time at 47.4, inventories at 54.4, and employment at 38.8. Since the onset of COVID-19, Arkansas has lost 88,000 jobs, or almost 7.0% of its employment. Our surveys point to a flattening of employment with only slight job gains in the months ahead.

IOWA: Iowa's Business Conditions Index, or overall index, once again slumped below growth neutral. However, the reading climbed to a weak 47.1 from 41.9 in May. Components of the overall June index from the monthly survey of supply managers were: new orders at 50.2, production. or sales at 56.1, delivery lead time at 43.2, employment at 35.7, and inventories at 50.2. Since the onset of COVID-19, Iowa has lost 161,000 jobs, or approximately 10% of its employment. Our surveys point to a flattening of employment with only slight job gains in the months ahead.

KANSAS: The Kansas Business Conditions Index for June increased to 45.1 from May's 42.8. Components of the leading economic indicator from the monthly survey of supply managers for June were: new orders at 57.1, production or sales at 30.1, delivery lead time at 46.6, employment at 38.2, and inventories at 53.6. Since the onset of COVID-19, the state has lost more than 108,000 jobs, or approximately 7.6% of its employment. Our surveys point to a flattening of employment with only slight job gains in the months ahead.

MINNESOTA: The June Business Conditions Index for Minnesota increased to 45.0 from 39.8 in May. Components of the overall June index from the monthly survey of supply managers were: new orders at 45.4, production or sales at 56.5, delivery lead time at 40.9, inventories at 47.9, and employment at 34.0. Since the onset of COVID-19, the state has lost more than 350,000 jobs, or almost 12.0% of its employment. Our surveys point to a flattening of employment with only slight job gains in the months ahead.

MISSOURI: The June Business Conditions Index for Missouri climbed to 50.5 from 42.3 in May. Components of the overall index from the survey of supply managers for June were: new orders at 51.3, production or sales at 56.0, delivery lead time at 49.8, inventories at 50.8, and employment at 44.6. Since the onset of COVID-19, the state has lost 262,000 jobs, or approximately 9.0% of its employment. Our surveys point to a flattening of employment with only slight job gains in the months ahead.

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NEBRASKA: The state's overall index for June rose to 52.6 from 43.9 in May. Components of the index from the monthly survey of supply managers for June were: new orders at 59.1, production or sales at 55.2, delivery lead time at 55.5, inventories at 54.6, and employment at 38.9. Since the onset of COVID-19, Nebraska has lost almost 77,000 jobs, or approximately 7.5% of its employment. Our surveys point to a flattening of employment with only slight job gains in the months ahead.

NORTH DAKOTA: The June Business Conditions Index for North Dakota climbed to 51.6 from 43.4 in May. Components of the overall index for June were: new orders at 55.1, production or sales at 55.6, delivery lead time at 57.1, employment at 37.5, and inventories at 52.6. Since the onset of COVID-19, the state has lost approximately 41,000 jobs, or roughly 9.4% of its employment. Our surveys point to a flattening of employment with only slight job gains in the months ahead.

OKLAHOMA: The state's Business Conditions Index moved above growth neutral in June. The overall index advanced to 53.1 from May's 43.0. Components of the overall June index were: new orders at 59.9, production or sales at 55.1, delivery lead time at 56.2, inventories at 55.0, and employment at 39.2. Since the onset of COVID-19, Oklahoma has lost almost 108,000 jobs, or approximately 6.4% of its employment. Our surveys point to a flattening of employment with only slight job gains in the months ahead.

SOUTH DAKOTA: The June Business Conditions Index for South Dakota increased to 52.4 from May's 43.8. Components of the overall index from the June survey of supply managers in the state were: new orders at 57.7, production or sales at 55.3, delivery lead time at 56.7, inventories at 53.9, and employment at 38.4. Since the onset of COVID-19, the state has lost approximately 34,000 jobs, or 7.8% of its employment. Our surveys point to a flattening of employment with only slight job gains in the months ahead.

THE BULLISH NEWS

- The nation added 4.8 million jobs, the biggest single-month payroll gain in history and the unemployment rate fell to 11.1% for June.
- Between May 2019 and May 2020, U.S. housing prices advanced by a healthy 4.3%.
- U.S. retail sales advanced in May by 17.7% from the previous month.
- Both Creighton's and ISM's manufacturing PMIs rose above growth neutral for June.

THE BEARISH NEWS

- The nation added 4.8 million jobs, the biggest single-month payroll gain in history, and the unemployment rate fell to 11.1% for June.
- Between May 2019 and May 2020, U.S. housing prices advanced by a healthy 4.3%.
- U.S. retail sales advanced in May by 17.7% from the previous month.
- Both Creighton's and ISM's manufacturing PMIs rose above growth neutral for June.

THE OUTLOOK

The Conference Board Economic Forecast (June 2020). "The second estimate of first quarter 2020 GDP shows a contraction of 5.0 percent (annualized) over the last quarter of 2019. Given the timing of COVID-19 and the 'lockdown' seen around the country, however, we expect to see a much deeper contraction in Q2 with the worst pain concentrated in April. May and June, fortunately, will show a fairly strong rebound as the economy comes back online, and solid progress will continue to be made over the summer. However, monthly economic output in September will still be approximately 6 percent lower than it was in December 2019, before the pandemic hit. Growth in Q4 will likely slow further as consumer spending struggles to return to the levels seen in 2019."

"The Conference Board is adopting a "swoosh" shaped scenario as our base forecast. We expect second quarter GDP to decline by almost 40 percent (annualized). This large drop is driven by a fall in consumer spending of nearly 50%, a drop in real capital spending of just over 20% and a fall in exports of more than 35%. Following a large rebound of over 30 percent in Q3, we expect slower growth in Q4 that will bring December 2020 economic output to about 95% of what it was a year earlier". https://tinyurl.com/yd32c2ww

Goss (July 2020): **Contrary to the Conference Board, I expect Q2 GDP growth to come in 25% - 30% lower. **The July job additions will be somewhat disappointing in comparison to June's. However, ending the $600 per week federal support for the unemployed at the end of July will super-charge August job additions. **The U.S. economic recovery will not resemble a V, or even a U. Unfortunately, it will look more like a Nike swoosh. Too many governors are getting "cold feet" in terms of opening up state economies.

STATISTIC OF THE MONTH

6. At the time of the writing of this newsletter, **6** Euro Zone nations including non-EU Great Britain had higher population adjusted death rates than the U.S. Spain, Italy, France, Sweden, Belgium, and the United Kingdom had higher covid-19 deaths per 1,000,000 population than the U.S.

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WHAT TO WATCH

- **U.S. BLS's August jobs report for July.** On August 7, the BLS releases the number of jobs lost or gained for July. Another positive and strong reading will be very bullish for U.S. stocks and bearish for the U..S. bond market.
- **U.S. Bureau of Labor's weekly continuing claims data.** Released every Thursday, this is the earliest reading on the U.S. and state labor markets. The level of unemployed will likely move lower in the weeks ahead as the first-time claims continue to decline.
- **Yield on 10-Year U.S. Treasury bond.** Find instantaneously, at https://finance.yahoo.com. Watch for this yield to rise back above 1.2% to signal coronavirus impacts waning. Right now, that yield is pointing to less, but still high, U.S. economic risks.

SUPPLY MANAGER CAREERS

Buyer, City of Tulsa, Tulsa, OK. Responsible for the procurement of Supplies, Equipment, and Services for all City Departments. Ensures compliance with Ordinance governing procurement. Handles Requisitions from Departments through Tyler MUNIS financial system. Utilizes a formal competitive bidding process, and an informal request for quotes process. QUALIFICATIONS:

Graduation from an accredited college or university with a bachelor's degree in purchasing management, business administration, public administration or a related field and two (2) years of responsible purchasing experience in a governmental or private purchasing system. HOURS: Regular LOCATION: Finance, Purchasing, City Hall (SN).

https://tinyurl.com/yadbwxth

Survey results for July will be released on Monday, August 3, the first business day of the month.

GOSS EGGS
(Recent Dumb Economic Moves)

Amtrak has decided to forgo its traditional white-tablecloth dining experience on most long-distance routes east of the Mississippi River. This has sparked outrage among labor unions and politicians and inspired six pages about Amtrak food service in the 2,309-page House Democratic infrastructure bill. Essentially, the bill is a way to force Amtrak to bring back fine dining. Taxpayer subsidized pork will be served in abundance at the Amtrak feeding trough upon passage.

Supply Manager Reading Room

"The Monthly Metric: Percent of Spend Via P-Cards." "A layman would likely consider a purchasing card (p-card) critical to a procurement practitioner. After all, the name of the function is in the alternate title; p-cards are also known as "procurement cards." And while many businesses are using p-cards — they are projected to account for more than US$400 billion in annual spend by the end of next year, according to the National Association for Purchasing Card Professionals (NAPCP) — for small, routine purchases, their use in supply management organizations has been minimal. In a profession where documenting each purchase and limiting rogue spend are of paramount importance, the potential for abuse with p-cards has made them mostly unpalatable, says Jim Fleming, CPSM, CPSD, Program Manager, Learning Solutions at Institute for Supply Management® (ISM®)" read rest of article at: **https://tinyurl.com/y9b5chvr**

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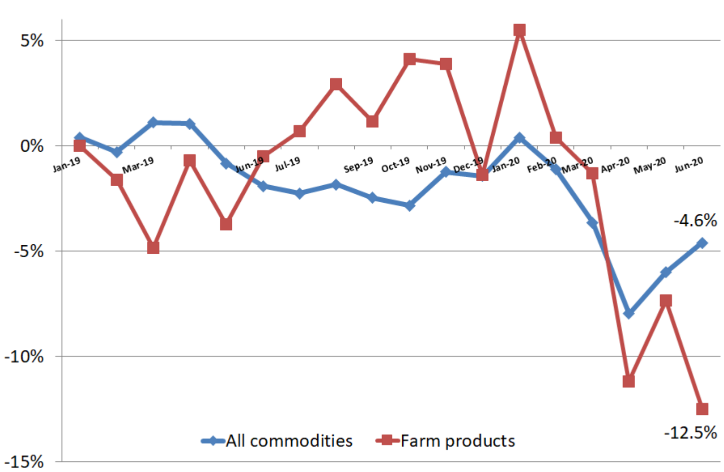
For historical data and forecasts visit our website at: http://business.creighton.edu/organizations-programs/economic-outlook

Year-over-year price change, commodities and farm product, 2019 - June 2020



Year-over-year price change, fuels and metal products, 2019 - June 2020