

## "A monthly survey of supply chain managers"

Welcome to our June Newsletter covering May survey results. Creighton's monthly survey of supply managers and procurement experts in nine Mid-America states indicates that economic growth remains in a very healthy range, but with elevated inflationary pressures. Follow my comments at: [www.twitter.com/erniegoss](http://www.twitter.com/erniegoss)

### Bitcoin: A Poker Chip, or Money? Only 1 of 700 U.S. Businesses Accept Bitcoin

In 1999, prophetic Milton Friedman, 1976 winner of the Nobel prize in economics, said, "I think the internet is going to be one of the major forces for reducing the role of government. The one thing that's missing, but that will soon be developed, is a reliable e-cash." Bitcoin, and other cryptocurrencies are attempting to fill Friedman's void.

But can Bitcoin be regarded as money? Since its introduction in January 2009, the currency has expanded by 1,624,036% measured against the U.S. dollar rising from \$0.04 to \$7,638.62 on June 2, 2018. During this same period of time, the price of gold (in U.S. dollars) climbed by 6.4%, and the value of the U.S. dollar against the Eurozone currency, the Euro, actually declined by 9.7%.

To serve as money, whether dollar, gold or Bitcoin, it must first be a medium of exchange, and second a store of value. How has each served these two functions?

**Medium of exchange (acceptance).** According to Coinmap.org, 11,291 businesses accepted Bitcoin for payment of products and services at the end of 2017. Despite acceptance rates growing by 38% per year, less than one in 700 U.S. businesses accepted Bitcoin as a unit of payment at the end of 2017. Data on the acceptance of gold to purchase goods and services were not available, but 100% of U.S. businesses are legally required to accept the U.S. dollar for payment for goods and services.

**Store of value.** In 2017 against the Euro, the Bitcoin varied by 71.3% from its average, the U.S. dollar varied by 7.3% from its average, and gold deviated by only 0.1% from its average. Since the beginning of this year against the Euro, Bitcoin plummeted by 50.2%, the U.S. dollar sank by 3.2%, and gold rose by 2.6%. Clearly, Bitcoin from 2009 to 2018, was not a reliable store-of-value.

**Verdict: Bitcoin, at this point-in-time, is more of a poker chip than money.** However, the rapid acceptance of Bitcoin for payment will support its wide-spread use as money in the years ahead---just not likely in 2018, 2019 or 2020

Link to video: <https://www.youtube.com/watch?v=PTfObHivIEs&t=30s>

## LAST MONTH'S SURVEY RESULTS

May Mid-America Economy Index Soars to 14 Year High:  
Inflation Gauge Surges to 7 Year High

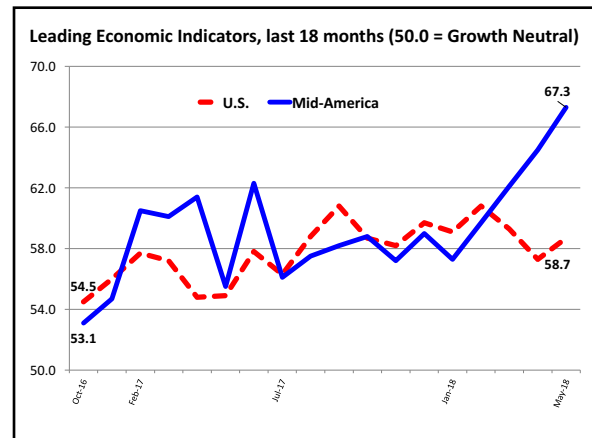
### SURVEY RESULTS AT A GLANCE:

- The Business Conditions Index moved above growth neutral for the 18th straight month and to its highest level in 14 years.
- The regional wholesale inflation gauge climbed to its highest level in more than seven years. Points to Federal Reserve rate hike in June.
- Hiring gauge soars for the month.
- More than half of supply managers indicated that

finding and hiring qualified workers was biggest 2018 challenge.

- Almost 13 percent reported that data security was the most important factor in choosing a supplier.

The May Creighton University Mid-America Business Conditions Index, a leading economic indicator for the nine-state region stretching from Arkansas to North Dakota, jumped to its highest level in 14 years pointing to strong growth for the next three to six months.



**Overall index:** The Business Conditions Index, which ranges between 0 and 100, expanded to a robust 67.3 from April's 64.5. This is the 18th straight month the index has remained above growth neutral 50.0, and is the highest reading in 14 years, pointing to strong growth for the region over the next three to six months.

The Goldilocks economy, not too hot, not too cold, will be tested in the months ahead as trade skirmishes and potential wars slow growth and contribute to higher prices for inputs such as steel and aluminum. These higher prices will slow growth and push the Federal Reserve to be more aggressive in raising interest rates in the weeks and months ahead.

**Employment:** The May employment surged to 66.3 from April's 48.1. Even with the May upturn, the share of supply managers reporting labor shortages continues to grow. Over the past 12 months, regional employment has expanded by 0.9 percent compared to U.S. job growth of 1.5 percent.

This month more than half, or 52.6 percent of companies indicated that finding and hiring qualified workers was the greatest 2018 economic challenge facing their firms. Coming in at a distant second, approximately, 15.8 percent of supply managers reported that rising input prices represents the greatest 2018 economic challenge.

As reported by one supply manager, "One of the things I manage is contingent labor and I know finding qualified workers right now is a huge challenge for light industrial positions."

**Wholesale Prices:** The wholesale inflation gauge continues to point to elevated inflationary with an index of 88.9, highest since April 2011, and up from 85.7 in April.

"Both our regional wholesale inflation index and the U.S. inflation gauge are elevated. I expect this elevated inflation to begin to show up at the consumer level. As a result, I expect the Federal Reserve's interest rate setting committee to raise short-term interest rates by one-quarter

## "A monthly survey of supply chain managers"

of one percentage point (25 basis points) at its June meeting.

**Confidence:** Looking ahead six months, economic optimism, as captured by the May Business Confidence Index, decreased to a still strong 66.3 from April's 70.2. Healthy profit growth, still low interest rates, and lower tax rates, pushed business confidence into a range indicating robust confidence. However, the May survey was conducted before the announcement of higher U.S. tariffs on steel and aluminum.

**Inventories:** Companies expanded their inventories of raw materials and supplies but at a slower pace than in April. The May inventory index declined to 59.3 from April's 64.3.

In terms of choosing a supply vendor, almost 13 percent reported that data security was the most important factor in choosing a supplier. Another 25 percent of the supply managers indicated that data security was a very important factor in selecting a supplier.

**Trade:** The regional new export orders index slipped to a still healthy 64.8 from 70.0 in April, and the import index expanded to a strong 63.0 from April's 62.5. Rapidly rising export orders and imports may be the result of firms in the U.S., and among trading partners, advancing purchasing in anticipation of rising trade restrictions and tariffs.

**Other components:** Components of the May Business Conditions Index were new orders at 78.4, up from 76.8 in April; the production or sales index advanced to 72.4, up from April's 70.8; and speed of deliveries of raw materials and supplies fell to 60.0 from last month's 62.8.

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, formerly the National Association of Purchasing Management.

### MID-AMERICA STATES

#### ARKANSAS

The May Business Conditions Index for Arkansas rose to 66.2 from April's 59.6. Components of the index from the monthly survey of supply managers were new orders at 77.9, production or sales at 70.9, delivery lead time at 58.8, inventories at 57.6, and employment at 66.1. Over the past 12 months, the Arkansas economy has added 1,200 durable goods manufacturing jobs for a growth of 1.6 percent, and 1,900 nondurable manufacturing jobs for a growth of 2.3 percent. Arkansas ranked seventh among the nine states in the region in terms of the rate of overall manufacturing growth over the past 12 months.

#### IOWA

The May Business Conditions Index for Iowa declined to a very healthy 62.5 from 63.9 in April. Components of the overall index from the monthly survey of supply managers were new orders

at 62.3, production or sales at 70.2, delivery lead time at 58.1, employment at 65.1, and inventories at 56.9. Over the past 12 months, the Iowa economy has added 7,700 durable goods manufacturing jobs for a growth of 6.3 percent, and 2,200 nondurable manufacturing jobs for a growth of 2.4 percent. Iowa ranked second among the nine states in the region in terms of the rate of overall manufacturing growth over the past 12 months.

#### KANSAS

The Kansas Business Conditions Index for May advanced to 68.7 from April's 66.5. Components of the leading economic indicator from the monthly survey of supply managers were new orders at 80.6, production or sales at 73.0, delivery lead time at 61.2, employment at 69.0, and inventories at 59.6. Over the past 12 months, the Kansas economy has added 900 durable goods manufacturing jobs for a growth of 1.0 percent, and 2,800 nondurable manufacturing jobs for a growth of 4.3 percent. Kansas ranked sixth among the nine states in the region in terms of the rate of overall manufacturing growth over the past 12 months.

#### MINNESOTA

The May Business Conditions Index for Minnesota expanded to a very healthy 64.2 from April's 63.6. Components of the overall May index from the monthly survey of supply managers were new orders at 75.6, production or sales at 69.1, delivery lead time at 56.9, inventories at 55.8, and employment at 63.6. Over the past 12 months, the Minnesota economy has added 2,800 durable goods manufacturing jobs for a growth of 1.4 percent, and 1,900 nondurable manufacturing jobs for a growth of 1.6 percent. Minnesota ranked eighth among the nine states in the region in terms of the rate overall manufacturing growth over the past 12 months.

#### MISSOURI

The May Business Conditions Index for Missouri climbed to 69.6 from 67.4 in April. Components of the overall index from the survey of supply managers were new orders at 81.6, production or sales at 73.9, delivery lead time at 62.1, inventories at 60.4, and employment at 70.1. Over the past 12 months, the Missouri economy has added 4,100 durable goods manufacturing jobs for a growth of 2.6 percent, and lost 1,700 nondurable manufacturing jobs for a growth of minus 1.6 percent. Missouri ranked ninth among the nine states in the region in terms of the rate of overall manufacturing growth over the past 12 months.

#### NEBRASKA

The May Business Conditions Index for Nebraska rose to 70.1 from 67.0 in April. Components of the index from the monthly survey of supply managers were new orders at 82.2, production or sales at 74.3, delivery lead time at 62.5, inventories at 60.7, and employment at 70.7. Over the past 12 months, the Nebraska economy has added 1,900 durable goods manufacturing jobs for a growth of 4.3 percent, and 1,200 nondurable manufacturing jobs for a growth of 2.2 percent. Nebraska ranked third among the nine states in the region in terms of the rate of overall manufacturing growth over the past 12 months.

#### NORTH DAKOTA

The Business Conditions Index for North Dakota rocketed to 62.4 from April's regional low of 49.8. Components of the overall index were new orders at 73.6, production or sales at 67.5, delivery lead time at 55.1, employment at 61.4, and inventories at 54.4. Over the past 12 months, the North Dakota economy has added 800 durable goods manufacturing jobs for a growth of 5.0 percent, and lost 100 nondurable manufacturing jobs for a growth of minus 1.2 percent. North Dakota ranked fifth among the nine states in the region in terms of the rate of overall manufacturing growth over the past 12 months.

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significantly from the 2.3% forecasted in the December survey. The panel's median forecast for average annual real gross domestic product (GDP) growth in 2018 is 2.8%, off the 2.9% expected in the previous survey, but still an increase from the 2.5% anticipated in the December survey. Note that 57% of panelists believe that 2018 risks to real GDP growth are weighted to the downside, and nearly 71% believe the risks to inflation are weighted to the upside."

**From Goss:** I expect \*\*two more Federal Reserve rate hikes by the end of 2018 (0.50% or 50 basis points); \*\*mortgage rates to climb by another ¾% by the end of 2018.

### WHAT TO WATCH

- **Inflation, Inflation, Inflation:** The Bureau of Labor Statistics will release the inflation gauge for June on July 12. An annualized increase above 2.5% will be bearish for bond prices (rising yields, falling prices).
- **Wage Data for June:** On July 6, the U.S. Bureau of Labor Statistics will release wage data for June. Year over year growth approaching 3.0% will be a strong inflation signal (more interest rate increases from the Fed).
- **Trade Balance:** On July 6, the U.S. Bureau of Economic Analysis will release May exports and imports for the nation. A widening trade deficit will push the President and Congress to undertake even more aggressive, and wrong-headed trade restrictions.

### Goss Eggs (Recent Dumb Economic Moves)

- On June 1, President Trump ordered Energy Secretary Rick Perry to "prepare immediate steps," including subsidies, to stop the closing of unprofitable coal and nuclear plants around the country. Alternatively, the President should stop the subsidies going to solar and wind.

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

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For historical data and forecasts visit our website at: <http://www2.creighton.edu/business/economicoutlook/>

#### OKLAHOMA

Oklahoma's Business Conditions Index has now remained above the 50.0 threshold for the last 10 months. The overall index from a monthly survey of supply managers improved to 68.5 from April's 62.7. Components of the overall May index were new orders at 80.4, production or sales at 72.9, delivery lead time at 61.0, inventories at 59.4, and employment at 68.8. Over the past 12 months, the Oklahoma economy has added 5,200 durable goods manufacturing jobs for a growth of 6.0 percent, and lost 1,400 nondurable manufacturing jobs for a growth of minus 3.4 percent. Oklahoma ranked fourth among the nine states in the region in terms of the rate of overall manufacturing growth over the past 12 months.

#### SOUTH DAKOTA

The May Business Conditions Index for South Dakota fell to a still healthy 66.8 from April's regional high 69.3. Components of the overall index from the May survey of supply managers in the state were new orders at 78.6, production or sales at 71.4, delivery lead time at 59.4, inventories at 58.1, and employment at 66.8. "Over the past 12 months, the South Dakota economy has added 1,600 durable goods manufacturing jobs for a growth of 5.9 percent, and 500 nondurable manufacturing jobs for a growth of 3.3 percent. South Dakota ranked first among the nine states in the region in terms of the rate of overall manufacturing growth over the past 12 months," said Goss.



### THE BULLISH NEWS

- The nation added 223,000 jobs for May and the unemployment rate declined to an 18 year low of 3.8%.
- This spring, the U.S. had more job openings than unemployed workers.
- In order to reduce borrowing costs, the state of Connecticut is issuing debt with the promise to limit state spending and future borrowing and funnel excess into a reserve fund.
- On June 4, the Nasdaq stock index notched a record high as Apple and Amazon soared to new highs



### THE BEARISH NEWS

- This year, for the first time since 1982, social security payments will exceed receipts as baby boomers retire.
- The nation's labor force participation rate for May stood at an unacceptably low 62.7%.

### THE OUTLOOK

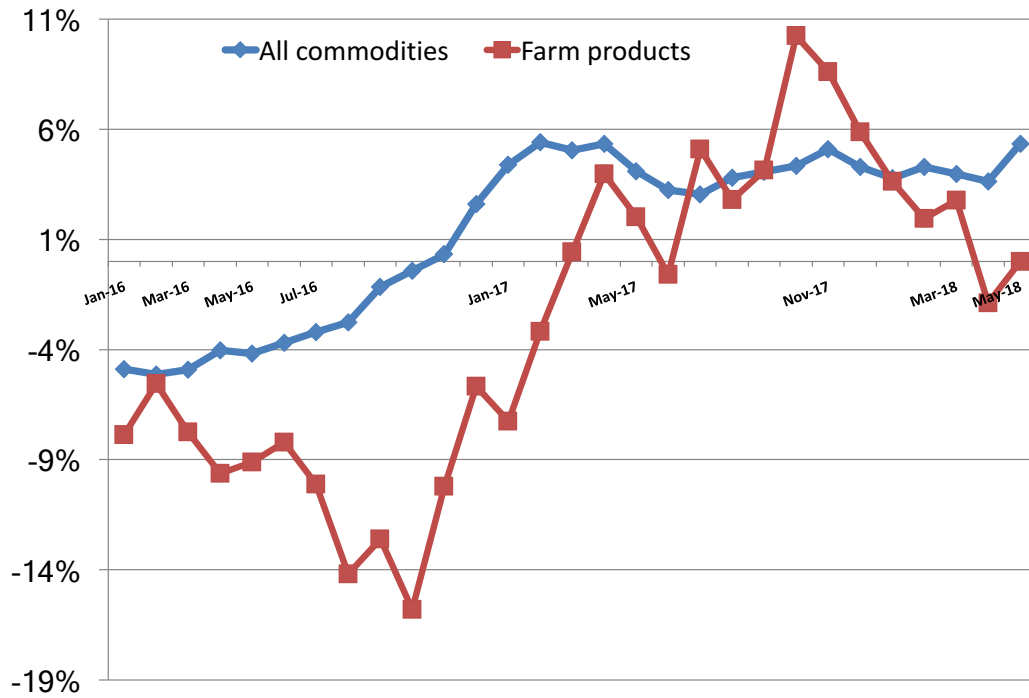
**NABE Business Conditions Survey (June 2018).** SUMMARY: "NABE Outlook Survey panelists are slightly less optimistic about the U.S. economy in 2018 than they were three months ago," said NABE Vice President Kevin Swift, CBE, chief economist, American Chemistry Council. "However, they are much more positive about the prospects for industrial production—anticipating 3.8% average growth in 2018, up from the 3.3% gain forecasted in March, and up

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## PRICE DATA

ALL COMMODITIES/FARM PRODUCTS 2007-2014  
FUELS & RELATED/METALS & METAL PRODUCTS

Year over year price change, commodities and farm product, 2016-18



Year over year price change, fuels and metal products, 2016-18

