

"A monthly survey of supply chain managers"

Welcome to our September Newsletter covering August 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, robust range, but, as in previous months, with elevated inflationary pressures. Follow my comments at: www.twitter.com/erniegoss

ObamaCare's Medicaid Expansion Sends States Fishing for Fed Dollars: Annual Average of \$375 Billion Goes to a Participating State

As a part of President Obama's Affordable Care Act of 2010, states were required to "Expand Medicaid to all non-Medicare eligible individuals under age 65 (children, pregnant women, parents, and adults without dependent children) with incomes up to 133% FPL based on modified adjusted gross income." In 2012 the U.S. Supreme Court ruled that the mandatory Medicaid pension was unconstitutional, thus making it optional for the states.

By 2014, 33 states and D.C had expanded Medicaid while 18 states chose not to broaden Medicaid. Not including state outlays, federal spending on Medicaid soared from \$440 billion in 2013 to \$577 billion in 2017, or 31.2%. States that expanded Medicaid according to Federal guidelines grew their federal injections into the economy from \$1,597 per capita in 2013 to \$2,101 per capita in 2016. States that rejected the expansion netted \$1,133 per capita in 2013 growing to \$1,299 per capita in 2016. In 2016, the median U.S. state to expand Medicaid received a federal subsidy of \$375 billion while the median non-expanding state netted a much smaller \$189 billion from the federal government.

Not surprisingly, numerous studies have measured positive economic impacts from this "spend today, pay back later strategy." However, there are no "free lunches." Specifically, while the Federal government pays 100 percent of the cost of Medicaid expansion for 2014 through 2016, that share falls to 95 percent in 2017, 94 percent in 2018, 93 percent in 2019, and levels off at 90 percent for 2020 and beyond. Beyond 2020, Americans in all states will pay for this overspending via either higher taxes, soaring interest rates, spiraling inflation, or a combination of these three "bads." Ernie Goss.

Link to video: <https://youtu.be/E4FZoKovsU>

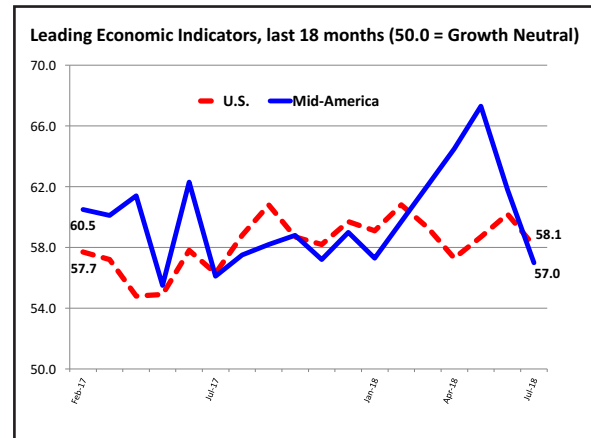
LAST MONTH'S SURVEY RESULTS

Mid-America Economic Index Surges for August: 4 of 5 Supply Managers Support Tariffs

SURVEY RESULTS AT A GLANCE:

- The Business Conditions Index moved above growth neutral for the 21st straight month.
- Wholesale inflation index pointing to Federal Reserve rate hike Sept. 26
- Slightly more than one-half of supply managers indicated negative impact from tariffs on international buying.
- Despite the negative impacts of tariffs on buying from abroad, four of five supply managers support continuing, or even expanding tariffs and trade restrictions.

The August Creighton University Mid-America Business Conditions Index, a leading economic indicator for the nine-state region stretching from Minnesota to Arkansas, jumped to a very healthy level, continuing to point to positive and improving growth for the next three to six months.



Overall index: The Business Conditions Index, which ranges between 0 and 100, climbed to 61.1 from July's 57.0. This is the 21st straight month the index has remained above growth neutral 50.0.

The regional economy continues to expand at a very healthy pace with manufacturing growth of approximately 3.1 percent over the past 12 months compared to a much lower 2.6 percent for the U.S.

However, I continue to expect expanding tariffs, trade restrictions, and rising short-term interest rates from a more aggressive Federal Reserve to slow regional growth to a more modest, but still positive pace, in the months ahead.

Approximately 53.4 percent of supply managers indicated that recent trade tariffs and restrictions had already begun to have negative impacts on buying from abroad. Despite the negative impacts of tariffs on buying from abroad, only one in five, or 20.9 percent of supply managers, support reducing tariffs and trade restrictions.

On the other hand, one supply manager reported, "The impact (of tariffs) is showing up in dramatic reductions of orders from our customers."

Employment: August employment slipped to a still solid 58.5 from July's 58.9.

Overall employment growth in the region over the past 12 months has been healthy at 1.4 percent, but below the nation's 1.6 percent over the same period of time. On the other hand, manufacturing job growth has been stronger in the region than the rest of the U.S.

Wholesale Prices: The wholesale inflation gauge continues to indicate elevated inflationary pressures with an index of 80.5, but down from 83.8 in July

Both Creighton's regional wholesale inflation index and the U.S. inflation gauge are elevated. Over the past 12 months, U.S. wholesale prices have expanded by 5.8 percent, the fastest growth since 2009. At the consumer level, the consumer price index advanced by 2.9 percent over the past 12 months.

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I expect rising tariffs, trade restrictions, and higher oil prices to continue to boost wholesale and consumer inflation growth above the Federal Reserve's target. This trend has already begun to push consumer inflation higher. As a result, I expect, the Federal Reserve's interest rate-setting committee to raise short-term interest rates by one-quarter of one percentage point (25 basis points) at its Sept. 26 meeting.

One supply manager reported, "I buy steel for our organization. Tariffs create both a direct and indirect impact on my pricing, for sure. The threat of tariffs is helping to support higher domestic steel prices...way higher."

Confidence: Looking ahead six months, economic, as captured by the August Business Confidence Index, declined to a still strong 60.8 from July's 63.9. Despite trade tensions and tariffs, healthy profit growth, still low interest rates, and lower tax rates, supported robust business confidence.

Inventories: Companies expanded their inventories of raw materials and supplies and at a faster pace than in July. The August inventory index advanced to 58.8 from July's 53.3.

Trade: The regional new export orders index sank to 51.8 from 53.2 in July, and the import index slipped to 58.1 from July's 60.1. Positive export orders and imports may be the result of firms in the U.S., and among trading partners, advancing purchasing in anticipation of expanding tariffs and trade restrictions.

Other components: Components of the August Business Conditions Index were new orders at 65.5, up from 55.6 in July; the production or sales index expanded to 61.9 from July's 57.8; and speed of deliveries of raw materials and supplies rose to 60.7 from last month's 59.6.

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 August Business Conditions Index for Arkansas climbed to 58.7 from July's 56.7. Components of the index from the monthly survey of supply managers were new orders at 64.6, production or sales at 58.1, delivery lead time at 57.7, inventories at 56.6, and employment at 56.6. Over the past 12 months, the state's durable manufacturing sector has expanded jobs by 1.2 percent, while nondurable goods producers grew jobs at a 3.5 percent pace for overall manufacturing growth of 2.4 percent over the 12-month period, seventh among the nine Mid-America states.

IOWA

The August Business Conditions Index for Iowa advanced

to a healthy 59.2 from July's solid 55.9. Components of the overall index from the monthly survey of supply managers were new orders at 67.2, production or sales at 58.7, delivery lead time at 57.4, employment at 56.3, and inventories at 56.3. Over the past 12 months, the state's durable manufacturing sector has expanded jobs by 6.0 percent, while nondurable goods producers grew jobs at a 4.6 percent pace for overall manufacturing growth of 5.4 percent over the 12-month period, first among the nine Mid-America states.

KANSAS

The Kansas Business Conditions Index for August dipped to 60.2 from July's 60.5. Components of the leading economic indicator from the monthly survey of supply managers were new orders at 66.8, production or sales at 58.5, delivery lead time at 60.7, employment at 55.4, and inventories at 59.6. Over the past 12 months, the state's durable manufacturing sector has expanded jobs by 3.3 percent, while nondurable goods producers grew jobs at a 3.6 percent pace for overall manufacturing growth of 3.4 percent over the 12-month period fourth among the nine Mid-America states.

MINNESOTA

The August Business Conditions Index for Minnesota climbed to 61.9 from July's 55.8. Components of the overall August index from the monthly survey of supply managers were new orders at 67.0, production or sales at 62.3, delivery lead time at 61.0, inventories at 59.8, and employment at 59.4. Over the past 12 months, the state's durable manufacturing sector has expanded jobs by 2.5 percent, while nondurable goods producers grew jobs at a 3.6 percent pace for overall manufacturing growth of 2.9 percent over the 12-month period, fifth among the nine Mid-America states.

MISSOURI

The August Business Conditions Index for Missouri inched upward to 56.5 from 56.4 in July. Components of the overall index from the survey of supply managers were new orders at 62.7, production or sales at 56.4, delivery lead time at 55.1, inventories at 54.1, and employment at 54.4. Over the past 12 months, the state's durable manufacturing sector has expanded jobs by 3.1 percent, while nondurable goods producers shed jobs at a minus 1.0 percent pace for overall manufacturing growth of 1.5 percent over the 12-month period, ninth among the nine Mid-America states.

NEBRASKA

The August Business Conditions Index for Nebraska increased slightly to 61.9 from July's 61.0. Components of the index from the monthly survey of supply managers were new orders at 67.0, production or sales at 62.3, delivery lead time at 60.9, inventories at 59.8, and employment at 59.4. Over the past 12 months, the state's durable manufacturing sector has expanded jobs by 4.7 percent, while nondurable goods producers grew jobs at a 5.0 percent pace for overall manufacturing growth of 4.9 percent over the 12-month period, second among the nine Mid-America states.

NORTH DAKOTA

The Business Conditions Index for North Dakota climbed to 76.0 for August from July's 69.6. Components of the overall index were new orders at 78.2, production or sales at 78.0, delivery lead time at 76.2, employment at 72.7, and inventories at 74.8. Over the past 12 months, the state's durable manufacturing sector has expanded jobs by 4.8 percent, while non-durable goods producers lost 1.2 percent of its employment base for overall manufacturing growth of 2.8 percent over the 12-month period, sixth among the nine Mid-America states.

OKLAHOMA

Oklahoma's Business Conditions Index has now remained

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above the 50.0 threshold for the last 13 months. The overall index from a monthly survey of supply managers slipped to 60.4 from July's 60.6. Components of the overall August index were new orders at 65.8, production or sales at 60.7, delivery lead time at 59.4, inventories at 58.2, and employment at 58.0. Over the past 12 months, the state's durable manufacturing sector has expanded jobs by 4.9 percent, while nondurable goods producers lost 5.9 percent of its employment base for overall manufacturing growth of 1.5 percent over the 12-month period, eighth among the nine Mid-America states.

SOUTH DAKOTA

The August Business Conditions Index for South Dakota increased to 55.6 for August from July's 54.3. Components of the overall index from the August survey of supply managers in the state were new orders at 62.0, production or sales at 55.4, delivery lead time at 54.1, inventories at 53.1, and employment at 53.5. Over the past 12 months, the state's durable manufacturing sector has expanded jobs by 5.4 percent, while nondurable goods producers grew jobs at a 2.6 percent pace for overall manufacturing growth of 4.4 percent over the 12-month period, third among nine Mid-America states.

highest in more than 11 years. Most panelists believe the Federal Reserve's current inflation target of 2% should be maintained. Of the remaining panelists, more favor raising the target than lowering it." "Seven out of 10 panelists maintain that fiscal policy is 'too stimulative,'" added Survey Chair Jim Diffley, CBE, executive director, IHS Markit. "In general, the panel expects the federal deficit, as a percentage of the economy, to grow in the longer term, with eight out of 10 panelists indicating that fiscal policy should help shrink the deficit as a share of the economy.

From Goss: I expect **the Federal Reserve to raise rates on September 26 (0.25% or 25 basis points); **the Fed to raise rates again December 19 by another ¼% (80% likely). ***GDP growth to slow in the second half of 2018, but remain above 3.0% annualized. ***annualized growth in the consumer price index (CPI) to exceed 3% in Q4, 2018

WHAT TO WATCH

- **Inflation, Inflation, Inflation:** The Bureau of Labor Statistics will release the inflation gauge for September on October 11. Year-over-year growth above 3.0% will be bearish for bond prices (rising yields, falling prices).
- **Wage Data for June:** On October 5, the U.S. Bureau of Labor Statistics will release wage data for September. Year-over-year growth above 3.0% will be a strong inflation signal and push the Fed to raise short-term interest rates at their September and December meetings.
- **Inverted Yield:** . Marketwatch.com provides contemporaneous yields on the 2-year and 10-year U.S. Treasury bonds. Every recession since 1980 has been preceded by 2-year rates exceeding, or only slightly below 10-year rates (termed an inverted yield when negative). Currently 24 basis points (0.24%).

Goss Eggs

(Recent Dumb Economic Moves)

- Last month in a show of bi-partisan nonsense, Republican Senator Rubio, introduced a bill to provide a public (government) option for paid parental leave. The bill would allow any American to take paid time off to be with a new child. It pays for the program by allowing a parent to draw from future Social Security benefits. Nothing more in-line with Congressional thinking than taking funds from one underfunded, potentially bankrupt program, to support another government spending program.

STATISTIC OF THE MONTH

6.94 million. The number of available (open) jobs in the U.S. This is the highest recorded since 2000. Only 6.28 million workers are unemployed.

THE BULLISH NEWS

- The nation added 201,000 jobs in August as the unemployment rate was unchanged at 3.9%.
- Housing prices were up 6.2% in June from 12 months earlier. Supply constraints continue to push price growth at a pace that is diverging from much slower income growth.

THE BEARISH NEWS

- The U.S. trade deficit expanded in July to a 5-month high. The trade deficit in goods with China surged 10% to a record high \$36.8 billion.
- For the first ten months of fiscal 2018, the nation's budget deficit widened by 21% compared to the same period in fiscal 2017
- In a signal of rising inflationary pressures, the consumer price index expanded by 2.9% in the 12 months ending in July 2018.

THE OUTLOOK

NABE Business Conditions Survey (August 2018). Highlights: "Over 90 percent of the NABE Policy Survey panel considers current tariffs and threats of tariffs as having unfavorable consequential impacts on the U.S. economy," said NABE Vice President Kevin Swift, CBE, chief economist, American Chemistry Council. "Panelists also expect unfavorable consequential impacts should the United States withdraw from NAFTA. "Current monetary policy continues to be supported by business economists, with nearly eight in 10 reporting that the Federal Reserve Board's policy is 'about right,'" according to Swift. "Indeed, the percentage holding this view is the

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Supply Manager Careers

Senior Supply Chain Analyst. Target Inc. Minneapolis, MN. The Global Supply Chain Design team is responsible for defining Target Supply Chain's future operating model across the full value chain from vendor to guest. This team is responsible for developing long-term supply chain strategy by evaluating product flow from vendor to distribution center, across the first mile, middle mile and last mile, with focus on delivery speed, ensuring sufficient capacity for throughput and storage (inventory modeling). Team Members in this role provide analytical and thought leadership as they collaborate with stakeholders across product, technology and business teams to transform Target's Supply chain. The Senior Supply Chain Analyst will coordinate with and influence key partners in Inventory Management, Finance, Promotions & Pricing COE, GSCL Operations, and Network Planning.

Minimum Requirements. *Bachelors and/ or advanced degree in math, statistics, physics, computer science, supply chain, finance, engineering or related analytical field. *A strong passion for empirical research and problem solving through data and statistical analysis. *Ability to synthesize complex data to make optimal decisions. High sense of urgency and self-motivation; ability to innovate and drive continuous improvement strategies quickly and independently. *Ability to work well in an ambiguous, rapidly changing environment. *Strong interpersonal and communication skills for effective relationship management. *Proficiency with SQL, R, SAS, Python or similar tools for analyzing relational databases at scale. Experience in Inventory Management, Supply Chain design, or Sales & Operations.

Apply at: <https://tinyurl.com/ya3vxqu7>

Supply Manager Reading Room

Report: "Managing Supply Risk. Are You Prepared for a Black Swan Event?" Although disruptions are inevitable, procurement is often not prepared to respond. Organizations that can quickly identify, diagnose, and resolve these issues will be in the best position to weather the storms. *Learn how supplier risk management's responsibilities have evolved over the past decade. *Understand 12 macro trends affecting global supply chains. *Leverage financial health as a key metric for managing supplier risk. *Gain risk management insight to inform long-term supply strategies. Read more at: <https://tinyurl.com/ybq6pem3>

Survey results for September will be released on Oct. 1, the first business day of the month.

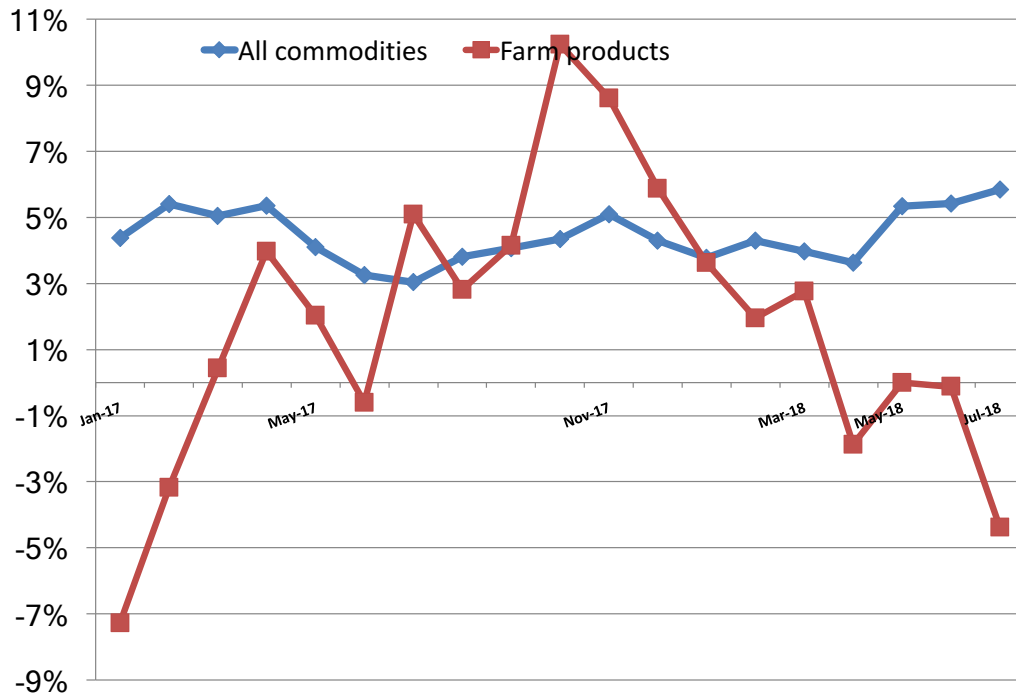
Follow Goss on twitter at <http://twitter.com/erniegoss>
For historical data and forecasts visit our website at: <http://business.creighton.edu/organizations-programs/economic-outlook>

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PRICE DATA

ALL COMMODITIES/FARM PRODUCTS 2007-2018
FUELS & RELATED/METALS & METAL PRODUCTS

Year over year price change, commodities and farm product, 2017-18



Year over year price change, fuels and metal products, 2017-18

