

Welcome to our January 2021 report covering results from Creighton's October survey of supply managers.

"A monthly survey of supply chain managers"

Creighton's monthly survey of supply managers and procurement experts in nine Mid-America states indicates economic growth is in a range indicating the regional economy is rebounding at a healthy pace, but current employment is well below their pre-Covid-19 levels. www.twitter.com/erniegoss Goss monthly interview at: <http://bit.ly/MidAmericaBCIDec2020YouTube>.

Year End Mid-America Manufacturing Index Falls: Finding & Hiring Workers Top 2021 Challenge

December Survey Highlights:

- For a second straight month, the regional Business Conditions Index declined, but remained in growth range.
- Approximately 36% of manufacturers reported that finding and hiring qualified workers would be their top challenge for 2021. This compares to 70% recorded last year at this time.
- On average, supply managers expect to receive an average wage and salary increase of 2.1%. This compares to 2.5% recorded at this time last year.
- The wholesale inflation gauge indicates elevated inflation in the pipeline.
- Comparative 2020 economic performance from top to bottom: (1) Nebraska, South Dakota, Arkansas, Missouri, Kansas, Oklahoma, Iowa, Minnesota and (9) North Dakota.

Punishing Success by Raising Taxes: Biden's Bite to Support Government Expansion

President-elect Biden has promised to raise taxes on high income individuals to fund his planned rapid decade-long expansion in federal spending. His approach calls for raising the top income tax rate from 37% to 39.6%, limiting deductions for top earners, and boosting the long-term capital gains tax rate for high earners from 20% to 39.6%.

Table 1 below lists the 10 states with current highest income tax rates on additional income. As presented, a California high wage earner, or self-employed, keeps only \$35.85 of every \$100 of additional income. Importantly, these rates do not account for other taxes paid primarily by higher income individuals such as capital gains taxes, and do not consider Biden's proposed cap on deductions for high income earners. The rates do include Medicare, and Social Security taxes.

Even before the Biden Bite, the top 5% of earners pay approximately 58% of federal income taxes. Likewise, the increase is ill-timed hitting earners in an economic downturn (i.e. a reverse stimulus). The Keynesians should be properly outraged, but don't count on witnessing it.

In addition to funding a plethora of new government programs, proponents of the Biden Bite argue that these tax hikes will reduce income inequality as measured by the Gini Coefficient. The Gini Coefficient measures income inequality with the coefficient varying from zero (least income inequality) to 1.00 (maximum income equality).

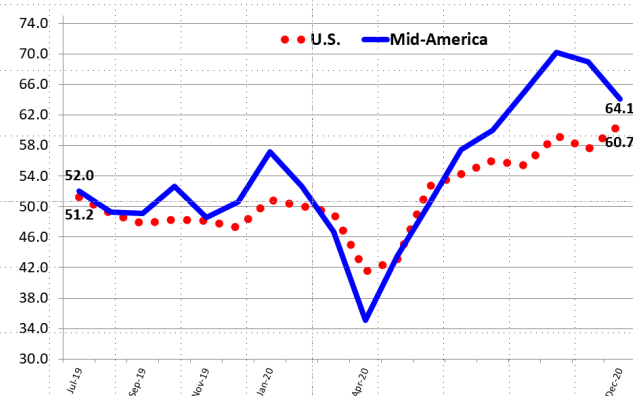
Table 2 lists the ten states experiencing the greatest degree on income inequality.

Four states with the highest income inequality are ranked in the top 15 states in terms of income tax rates. Calculating the correlation between top tax rates and the Gini Coefficients for the 50 states and D.C. indicates only a slight association between tax rates and the Gini Coefficients. However, the association is opposite to that argued by the Biden proponents. That is, states with higher tax rates on higher earners experience greater income inequality, not less.

This essay is based on state income tax data presented indicate that increasing the tax rate on higher income has not and will not reduce income inequality, and in fact may increase income inequality. Taxing better educated higher earners will instead further burden high earners which discourages initiative, reduces the motivation to improve human capital via education, and incentivizes tax avoidance and/or tax evasion. Furthermore, raising taxes at this time, offsets some of the positive impacts of stimulating the economy with higher consumer spending fueled by Stimulus I and II.

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



(Survey results continue on the following page)

Table 1: Top tax rates for highest earners (rates are for income tax rates only, and do not include other Biden increases such as capital gains)

	Current Top Income tax rate	Biden addition	New top tax rate
1. California	64.15%	2.60%	66.75%
2. Hawaii	61.85%	2.60%	64.45%
3. New Jersey	61.60%	2.60%	64.20%
4. Oregon	60.75%	2.60%	63.35%
5. Minnesota	60.70%	2.60%	63.30%
6. D.C.	59.80%	2.60%	62.40%
7. New York	59.67%	2.60%	62.27%
8. Vermont	59.60%	2.60%	62.20%
9. Iowa	59.38%	2.60%	61.98%
10. Wisconsin	58.50%	2.60%	61.10%

Notes: Iowa's income tax rate allows the deductibility of federal income taxes and is thus somewhat lower than that listed.

Table 2: Ten states with the greatest income inequality

State	Total Current top tax rate	2018 Gini coefficient
1. District of Columbia	59.80%	0.524
2. New York	59.67%	0.513
3. Connecticut	57.84%	0.501
4. Louisiana	56.85%	0.494
5. California	64.15%	0.491
6. New Mexico	55.75%	0.489
7. Florida	50.85%	0.489
8. Massachusetts	55.85%	0.488
9. Alabama	55.85%	0.486
10. Arkansas	57.45%	0.485

For a second straight month, the Creighton University Mid-America Business Conditions Index, a leading economic indicator for the nine-state region stretching from Minnesota to Arkansas, fell, but remained above growth neutral for the month.

Overall index: In April of this year, COVID-19 pushed the overall index to its lowest level in 11 years. Since April, the overall index has climbed above growth neutral 50.0 for seven of the past eight months. The Business Conditions Index, which ranges between 0 and 100, dropped to 64.1 from November's 69.0.

Creighton's monthly survey results have mirrored the national manufacturing survey results indicating that the manufacturing sector has been expanding at a solid, but slowing, pace since sinking to a post-2008 recession low in April. Even so, current output in the regional and U.S. manufacturing sectors remains well below pre-COVID-19 levels.

Employment: The regional employment index remained well above growth neutral for December, but fell to 57.7 from 63.1 in November. Since the onset of COVID-19, U.S. Bureau of Labor Statistics data indicate that regional nonfarm employment is down 655,000 jobs, or 4.7%, and regional manufacturing employment is off by 66,000 jobs or 4.5%.

Since bottoming out in April, regional manufacturing has gained back roughly 43,000 of the initial manufacturing job losses.

In December, supply managers were asked to identify the greatest 2021 economic challenge for their firm. Approximately 36% reported that finding and hiring qualified workers would be their top challenge for 2021. Another one fifth, or 20%, named rising input prices as the biggest 2021 challenge.

On average, supply managers expect to receive an average wage and salary increase of 2.1%, with one-fifth of respondents anticipating no 2021 wage increase.

Other comments from December survey participants:

- "Besides rising prices as the top challenge for 2021, a close second is finding qualified workers throughout our supply chains."
- "Based on our customer orders we have in hand, 2021 is going to be a record year as far as products sold. I am concerned the supply base cannot keep up. Also, the price of steel is a large concern."

Wholesale Prices: The wholesale inflation gauge for the month slipped to a still inflationary 81.5 from 84.8 in November.

"Over the past six months, the seasonally adjusted consumer price index has risen by 2%, or 4% annualized. Despite this pickup in inflationary pressures at the consumer level, the Federal Reserve remains comfortable with current ultra-low short-term interest rates. In recent meetings of the rate setting committee, the FOMC, they indicated they will likely keep short-term interest rates at near record lows well into the future even as inflation ticks up above their target," said Goss.

Confidence: Looking ahead six months, economic optimism, as captured by the December Business Confidence Index, plummeted to 45.8 from November's 50.0.

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"A sharp upturn in COVID-19 infections, along with more economic lockdowns, weighted on December's economic outlook," said Goss.

Inventories: The regional inventory index for December, reflecting levels of raw materials and supplies, slumped to a still solid 55.8 from last month's 59.2.

Trade: The regional trade numbers were weakened for the month, with new export orders sinking to 50.1 from November's 75.0. An expanding domestic manufacturing sector supported a solid import index at 63.2, down from 67.9 in November.

The trade-weighted value of the U.S. dollar has declined by approximately 10 percent over the past nine months. Moreover, the outlook continues to be negative for the dollar. The cheaper dollar makes U.S. goods more competitively priced abroad. I expect this trend to be very supportive of U.S. exports in the months ahead.

Other survey components of the December Business

Conditions Index were: new orders at 66.0, down from 77.3 in November; the production or sales index plummeted to a still healthy 61.6 from 78.3 in November; and the speed of deliveries of raw materials and supplies index at 79.7 up significantly from last month's 67.4.

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.

MID-AMERICA STATES

ARKANSAS

The December Business Conditions Index for Arkansas increased slightly to 62.3 from November's 62.2. Components from the December survey of supply managers were: new orders at 64.9, production or sales at 60.9, delivery lead time at 76.6, inventories at 52.3, and employment at 56.7. Since the onset of COVID-19 in February, the Arkansas economy has lost a net of 41,000 nonfarm jobs, or 3.2%, according to the U.S. Bureau of Labor Statistics. Top performing industry for 2020: Construction.

IOWA

Iowa's Business Conditions Index remained above growth neutral for December though the reading declined to 64.7 from 74.6 in November. Components of the overall December index were: new orders at 66.2, production or sales at 62.5, delivery lead time at 83.0, employment at 55.6, and inventories at 57.7. Since the onset of COVID-19 in February, the Iowa economy has lost a net of 78,000 nonfarm jobs, or 4.9%, according to the U.S. Bureau of Labor Statistics. Top performing industry for 2020: Financial Activities.

KANSAS

The Kansas Business Conditions Index for December decreased to 55.3 from 60.1 in November. Components of the leading economic indicator from the monthly survey of supply managers were: new orders at 62.7, production or sales at 58.2, delivery lead time at 65.6, employment at 44.2, and inventories at 45.6. Since the onset of COVID-19 in February, the Kansas economy has lost a net of 69,000 nonfarm jobs, or 4.8%, according to the U.S. Bureau of Labor Statistics. Top performing industry for 2020: Construction.

MINNESOTA

The December Business Conditions Index for Minnesota declined to 67.6 from 73.2 in November. Components of the overall December index were: new orders at 67.3, production or sales at 63.8, delivery lead time at 88.5, inventories at 54.0, and employment at 64.4. Since the onset of COVID-19 in February, the Minnesota economy has lost a net of 195,000 jobs, or 6.5%, according to the U.S. Bureau of Labor Statistics. Top performing industry for 2020: Financial Activities.

MISSOURI

The December Business Conditions Index for Missouri dropped to 67.2 from November's 75.6. Components of the overall index from the survey of supply managers for December were: new orders at 65.4, production or sales at 61.5, delivery lead time at 78.9, inventories at 72.0, and employment at 58.3. Since the onset of COVID-19 in February, the Missouri economy has lost a net of 115,000 nonfarm jobs, or 4%, according to the U.S. Bureau of Labor Statistics. Top performing industry for 2020: Construction.

NEBRASKA

Nebraska's overall index for December rose to 67.0 from 66.8 in November. Components of the index from the monthly survey of supply managers for December were: new orders at 66.3, production or sales at 62.6, delivery lead time at 83.5, inventories at 61.2, and employment at 61.2. Since the onset of COVID-19 in February, the Nebraska economy has lost a net of 35,000 nonfarm jobs, or 3.4%, according to the U.S. Bureau of Labor Statistics. Top performing industry for 2020: Education & Health Services.

NORTH DAKOTA

The December Business Conditions Index for North Dakota expanded to 62.8 from 57.2 in November. Components of the overall index for December were: new orders at 64.4, production or sales at 60.3, delivery lead time at 74.2, employment at 55.2, and inventories at 60.0. Since the onset of COVID-19 in February, the North Dakota economy has lost a net of 33,000 nonfarm jobs, or 7.4%, according to the U.S. Bureau of Labor Statistics. Top performing industry for 2020: Financial Activities.

OKLAHOMA

Oklahoma's Business Conditions Index expanded above growth neutral in December. The overall index climbed to 55.9 from November's 49.4. Components of the overall December index were: new orders at 62.6, production or sales at 58.1, delivery lead time at 65.1, inventories at 44.4, and employment at 49.3. Since the onset of COVID-19 in February, the Oklahoma economy has lost a net of 72,000 nonfarm jobs, or 4.3%, according to the U.S. Bureau of Labor Statistics. Top performing industry for 2020: Financial Activities.

SOUTH DAKOTA

The Business Conditions Index expanded above growth neutral in December. The overall index climbed to 55.9 from November's 49.4. Components of the overall December index were: new orders at 62.6, production or sales at 58.1, delivery lead time at 65.1, inventories at 44.4, and employment at 49.3. Since the onset of COVID-19 in February, the Oklahoma economy has lost a net of 72,000 nonfarm jobs, or 4.3%, according to the U.S. Bureau of Labor Statistics. Top performing industry for 2020: Financial Activities.

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THE BULLISH NEWS

- U.S. listed companies raised a record \$167 billion in initial public offerings in 2020 exceeding the former record \$107.9 billion in IPOs for 1999.
- The USDA said U.S. stockpiles of corn and soybeans would shrink to their lowest levels since 2014 and the average price for corn and soybeans this marketing year would be the highest since 2013-14.
- The latest Purchasing Management Indices (PMI) for both ISM's national survey and Creighton's Mid-America were in a range indicating healthy manufacturing growth.
- According to the Case-Shiller national home price index expanded at an annual pace of 7.9% in October.



THE BEARISH NEWS

- For the first time in eight months, the U.S. lost jobs, shedding 140,000 non-farm jobs in December as the unemployment rate remained steady at 6.7%
- Since August 2020, the yield on the 10-year U.S. Treasury bond has risen by almost 60 basis points (0.6%). Two factors account for this: higher expected inflation, and lower risk.
- Green energy euphoria has truly set investors up for heartbreak in 2021. For example, Tesla stock is now selling for 1,000 times earnings (i.e. a rate-of-return of 0.001 or 0.1%)
- The U.S. trade deficit climbed to its highest level since 2006. The U.S. budget deficit soared to \$572 billion in the first quarter of the fiscal year

THE OUTLOOK

Fed Outlook (as shared by Pacific Financial Planners): "The Federal Reserve on Wednesday concluded its last meeting of the Federal Open Market Committee for 2020. Fed officials provided more detail for its monthly bond purchase program and reiterated their commitment to a monthly purchase of \$120 billion of Treasury and mortgage-back securities until its inflation and employment goals are met. The Federal Reserve also raised its outlook on the U.S. economy. It revised its September forecast of a 3.7% decline in GDP in 2020 to a 2.4% decline, and increased its 2021 GDP growth forecast from 4.0% to 4.2%. It also expects unemployment at 2020 year-end would fall to 6.7%, substantially lower than its earlier estimate of 7.6%.

"Goss (2021): **The yield on U.S. long-term Treasury bonds, along with mortgage rates, to climb by another ¼ % (25 basis points) by the end of Q1, 2021. **The January job additions will likely be disappointing. **Annualized and seasonally adjusted Q4 2020 GDP growth will range between 1% to 2%.

Survey results for January
will be released on
Feb. 1, 2021,
the first business day
of the month.

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GOSS EGGS (for recent dumb economic moves)

Buyers of Special Purpose Acquisition Companies (SPAC) have not been bitten yet, but they need to beware of elevated risks in 2021. SPACs raised more capital in 2020 than in the previous 10 years. Michael Klausner, a Stanford law professor found that between January 2019 and June 2020, SPACs lost 12% of their value within six months of finding a private firm to take public. The bubble is likely to burst in 2021 as investors learn the truth about SPACs.

STATISTIC OF THE MONTH

\$120 billion. At their December meeting, the Federal Reserve's Open Market Committee reaffirmed its commitment to purchase \$120 billion in U.S. Treasury bonds and mortgage-backed securities. What does this mean for you? This commits the Fed to inject \$120 billion per month into the U.S. economy. This tends to increase the U.S. money supply, reduce the value of the U.S. dollar, hold interest rates down, and stimulate inflation.

KEEP AN EYE ON

- **U.S. Retail Sales report.** On Jan. 15 and Feb. 17, the U.S. Census Bureau releases retail and food services sales for December and January, respectively. Look for weaker reports to signal a buying pullback by the U.S. consumer
- **U.S. Jobs Report.** On February 5, the U.S. Bureau of Labor Statistics releases its job numbers for January. Another disappointing report would encourage Congress to expand economic stimulus programs.
- **Creighton's Rural Mainstreet report.** On January 21st, Creighton releases its January survey results of bank CEOs in rural areas of 10 states in the Rocky Mountains and Plains states. Growth in the rural economy has been solid and improving.
- **Yield on 10-year U.S. Treasury bond.** Contemporaneous @ finance.yahoo.com. As inflation expectations rise, so will this yield. A better measure of future inflation than CPI.

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SUPPLY MANAGERS READING ROOM

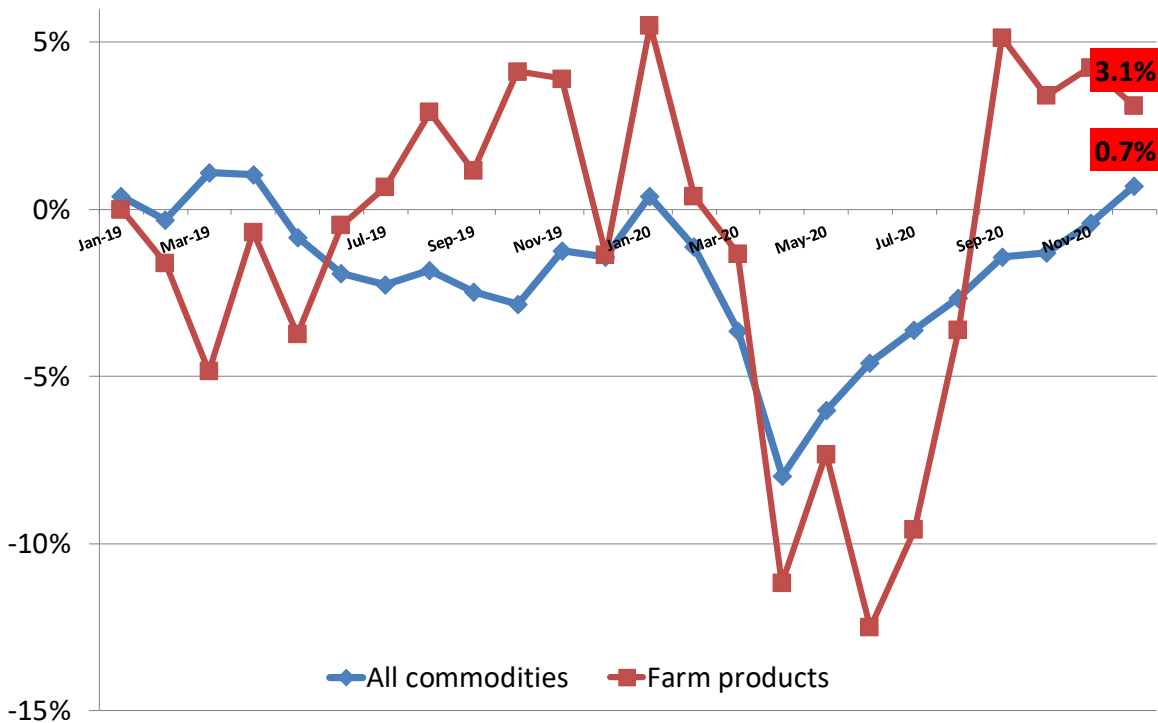
"Global Supply Chains in a Post-Pandemic World," "Companies need to make their networks more resilient. Here's how. Harvard Business Review. By [Willy C. Shih](#). When the Covid-19 pandemic subsides, the world is going to look markedly different. The supply shock that started in China in February and the demand shock that followed as the global economy shut down exposed vulnerabilities in the production strategies and supply chains of firms just about everywhere. Temporary trade restrictions and shortages of pharmaceuticals, critical medical supplies, and other products highlighted their weaknesses. Those developments, combined with the U.S.-China trade war, have triggered a rise in economic nationalism. As a consequence of all this, manufacturers worldwide are going to be under greater political and competitive pressures to increase their domestic production, grow employment in their home countries, reduce or even eliminate their dependence on sources that are perceived as risky, and rethink their use of lean manufacturing strategies that involve minimizing the amount of inventory held in their global supply chains." <https://tinyurl.com/y4hb8an7>

SUPPLY MANAGER CAREERS

Supply Chain Manager, Briggs and Stratton, Holdrege, Nebraska. Manages the purchasing, warehouse, logistics and scheduling departments for a specific location. Provides leadership and direction to Materials Management personnel. Leads the implementation of strategic projects. Job Responsibilities • Leads team to optimize forecast, demand planning and creates supply plans that ensure availability of service parts and products • Monitors forecasts and demand to identify changes or to determine their effect on supply chain activities • Defines performance metrics for measurement, comparison, or evaluation of supply chain factors, inventory accuracy, and shipping/receiving compliance • Analyzes inventories to determine how to increase inventory turns, manage fill rates, determine estimated time of arrival, reduce waste, or optimize customer service • Manages production scheduling to meet the sales forecast • Ensures component and product inventory is stored and managed in an appropriate manner. Qualifications: Thorough knowledge of manufacturing, distribution, inventory, and quality procedures and management programs and systems • Comprehensive understanding of integrated supply chain management including demand planning, forecasting and procurement • Excellent written and verbal communication and interpersonal skills to interact with diverse groups of people inside and outside of the corporation • Excellent analytical skills and the ability to exercise judgment and make critical decisions • Proficient computer skills including familiarity with enterprise resource planning and business intelligence/analytics systems, Google, and MS Office applications • Fluent in English and primary language used in area of responsibility and/or location Education Bachelor's Degree in Supply Chain Management or related field, or equivalent education and experience. Minimum of seven years of experience in a continuous supply chain within high volume manufacturing environment. <https://tinyurl.com/y554lgb6>

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



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

