

"A monthly survey of supply chain managers"

Welcome to our July report covering results from Creighton's June supply manager survey. Creighton's monthly survey of supply managers in nine Mid-America states indicates that economic growth is in a range indicating positive manufacturing growth with modest inflationary pressure.

Goss monthly interview at: <http://bit.ly/Mid-AmericaBCIJuneVideo>

Does the U.S. Federal Debt Really Matter? Interest Rates Fall as Debt Load Soars

The three largest global economies, the U.S., China and Japan, currently have federal debt loads as a percent of gross domestic product (GDP) of 108%, 248%, and 236%, respectively. At the same time, interest rates on long term government bonds in each of the three global powers are 2.1% in the U.S., 3.1% in China, and minus 0.1% in Japan. We economists teach in our classes that as the government competes with consumers and businesses for investment dollars, interest rates rise. Are our models wrong, or have they lost relevance?

Noting the seeming disconnect between public debt and interest rates, several candidates for the Democrat presidential nomination have called for the passage of massive spending programs from Medicare for All to the Green New Deal (GND). Democrat representative Aleandria Ocasio-Cortez (AOC), too young to be a presidential candidate, but too old to remember anything from her Boston University economics classes, argues that the \$40 trillion GND can be paid for with \$8 trillion in taxes on the wealthy. She contends that the other \$32 trillion would come from debt, or the dollar printing press. Again, no recognition of the link between size of the debt and interest rates.

Look to Greece for economic parallels. Over the past 200 years, Greece has reneged seven times on the repayment of its national debt. And in 2017, Greece once again teetering on default but, by agreeing to austerity measures, was bailed out by the European Central Bank (ECB) and the International Monetary Fund (IMB). What has, and will, bail the U.S. government out of its overspending and debt accumulation.

First, the U.S. dollar is, and will continue to be, the global reserve currency. This means that foreign investors remain willing to lend to the U.S. despite the heavy debt load and current rock bottom interest rates. Second, the U.S. Federal Reserve stands ready to buy U.S. government bonds regardless of the size of the debt. This Fed action boosts the money supply, increases inflationary pressures, and reduces the size of the inflation-adjusted debt. Third, the U.S. Treasury can always open the dollar spigot to pay interest and principal on maturing notes, again adding to inflationary pressures and diminishing the size of the inflation-adjusted debt load. Finally, the federal government can raise federal taxes to cover government over-spending. The outcome from each of these actions for a younger generation will be a combination of higher interest rates, greater inflation and higher taxes. When will this happen? To quote economist Herbert Stein, former chairman of the Council of Economic Advisors, in 1976 in testimony before Congress, "If something cannot go on forever, it will stop."

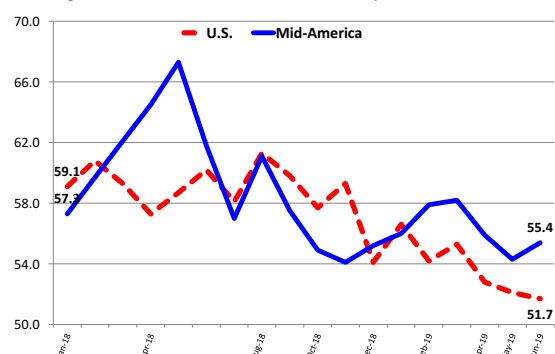
LAST MONTH'S SURVEY RESULTS

Mid-America Economy Expands for June: Support for Tariffs Remains Strong

JUNE SURVEY HIGHLIGHTS:

- Overall index rises for the first time since March.
- Approximately 71.1 percent of supply managers support a continuation, or expansion in current tariffs on Chinese

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



imports into U.S.

- Approximately 40 percent of supply managers named the shortage of qualified workers as their company's biggest challenge over the next 12 months.
- As a result of a regional shortage of workers, U.S. BLS data show that job growth for the national economy has been approximately three times that of the region since December 2018.
- Exports and imports orders slumped for the month.

The June Creighton University Mid-America Business Conditions Index, a leading economic indicator for the nine-state region stretching from Minnesota to Arkansas, expanded to a solid reading signaling positive growth for the region over the next three to six months.

Overall index: The Business Conditions Index, which ranges between 0 and 100, advanced to 55.4 from May's 54.3. This is the first increase in the overall index since March, and the 31st straight month the index has remained above growth neutral 50.0.

The regional economy expanded at a slower pace than the rest of the nation for the first half of 2019.

Weak farm income, produced partially by tariffs and flooding, pulled regional growth below that of the nation. Even so, based on our manufacturing survey over the past several months, I expect overall growth to remain solidly positive. According to the June survey, 71.1 percent of supply managers supported continuing current tariffs on China or even raising them.

As noted by one supply manager, "While President Trump takes heat for the trade tariffs, this seems to be the only tool in the tool chest currently that can make a difference. Unfortunately, he will be on borrowed time if the next round of increases do (sic) not hit the intended targets and America's farmers are at a breaking point however patriotic they might be."

Employment: Despite worker shortages, the June employment index climbed to 58.9 from May's 52.2.

Since December of 2018, the national employment growth rate has been approximately three times that of the region. Not Surprisingly, approximately 40 percent of supply managers reported that the shortage of qualified workers was the greatest economic challenge for their company for the next 12 months.

Due to shortages of workers in the region, U.S. Labor Statistics data show that the average regional hourly wage rate rose by 4.8 percent over the past 12 months, well above the

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national gain of 3.1 percent over the same period of time.

Wholesale Prices: The wholesale inflation gauge for the month indicated modest inflationary pressures for the month with a wholesale price index of 59.1, down from 62.8 in May and 67.5 in April. However, I expect tariffs and flood impacts to put a floor under the wholesale inflation index in the months ahead.

Moderate and declining wholesale inflation from our survey and national surveys support a Federal Reserve rate cut. I expect the Federal Reserve to reduce short-term interest rates at their July or September meetings.

Confidence: Looking ahead six months, economic optimism, as captured by the June Business Confidence Index, advanced to 59.1 from May's 54.5. However, I expect business confidence to depend heavily on trade talks with China and Federal Reserve's interest rate actions in the weeks and months ahead.

Inventories: Companies expanded inventories of raw materials and supplies for the month with the June inventory climbing to 55.9 from May's 48.8.

Trade: The regional trade numbers for June were down with both export orders and imports falling. The new export orders index sank to 48.3, down from May's 48.5, and the import index slumping to 50.0 from April's 57.0.

Creighton's survey is beginning to measure growing impacts from tariffs. June's import reading is the lowest recorded this year, and June's export orders index matches January's low index. As indicated by one supply manager, "In regard to tariffs, we should proceed rationally and slowly insuring that we understand the real world impact on our domestic markets"

Other survey components: Other components of the June Business Conditions Index were new orders at 53.4, down from May's 58.2; the production or sales index at 53.3 was down from 57.9 in May; and speed of deliveries of raw materials and supplies index at 55.6, up from last month's 54.4 reading.

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 June Business Conditions Index for Arkansas advanced to 60.1 from May's 55.9. Components of the index from the monthly survey of supply managers were new orders at 57.0, production or sales at 58.2, delivery lead time at 60.7, inventories at 61.0, and employment at 63.7. Recent surveys indicate that

both durable and non-durable goods producers in the state are experiencing solid gains in economic activity. U.S. Bureau of Labor Statistics data show that workers in the state have experienced a strong 4.9 percent gain in hourly wages over the past 12 months, well above the national gain of 3.1 percent.

IOWA

After two straight months of below growth neutral readings, Iowa's, overall Business Conditions Index rose above the 50.0 threshold. The overall index for June expanded to 50.4 from May's 47.0. Components of the overall index from the monthly survey of supply managers were new orders at 53.5, production or sales at 47.7, delivery lead time at 49.8, employment at 51.0, and inventories at 50.0. Recent surveys indicate that both durable and non-durable goods producers in the state are experiencing positive gains in economic activity. U.S. Bureau of Labor Statistics data show that workers in the state have experienced a solid 3.6 percent increase in hourly wages over the past 12 months, above the national gain of 3.1 percent over the same period of time.

KANSAS

The Kansas Business Conditions Index for June improved to a regional high 62.9 from 55.9 in May. Components of the leading economic indicator from the monthly survey of supply managers were new orders at 59.2, production or sales at 66.4, delivery lead time at 63.7, employment at 61.1, and inventories at 64.0. Recent surveys indicate that durable manufacturers, including metal producer in the state, are experiencing positive gains in economic activity. Likewise, non-durable goods producers, including food processors, experienced positive economic conditions in recent months. U.S. Bureau of Labor Statistics data show that workers in the state have experienced a strong 4.9 percent gain in hourly wages over the past 12 months, well above the national gain of 3.1 percent over the same period of time.

MINNESOTA

The June Business Conditions Index for Minnesota fell to 53.4 from 55.0 in April. Components of the overall June index from the monthly survey of supply managers were new orders at 51.8, production or sales at 51.2, delivery lead time at 56.9, inventories at 53.7, and employment at 53.4. Recent surveys indicate that durable manufacturers, including metal producer in the state are experiencing slight positive gains in economic activity. On the other hand, non-durable goods producers, including food processors, experienced slight negative economic conditions in recent months. U.S. Bureau of Labor Statistics data show that workers in the state have experienced a solid 3.4 percent increase in hourly wages over the past 12 months, above the national gain of 3.1 percent over the same period of time.

MISSOURI

The June Business Conditions Index for Missouri climbed to 59.9 from May's 57.1. Components of the overall index from the survey of supply managers were new orders at 63.5, production or sales at 58.0, delivery lead time at 60.5, inventories at 60.8, and employment at 56.9. Recent surveys indicate that both durable goods manufacturers, including metal producers, and non-durable goods producers, including food manufacturers, in the state are experiencing solid gains in economic activity. U.S. Bureau of Labor Statistics data show that workers in the state have experienced a weak 2.4 percent gain in hourly wages over the past 12 months, well below the national gain of 3.1 percent.

NEBRASKA

After falling below growth neutral last month, Nebraska's Business Conditions Index rose above the growth neutral threshold of 50.0. The state's overall index rose in June to 55.9 from 48.9 in May. Components of the index from the monthly

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survey of supply managers were new orders at 53.0, production or sales at 52.9, delivery lead time at 55.1, inventories at 55.4, and employment at 58.5. Recent surveys indicate that durable goods producers, including machinery manufacturers experienced slight declines in economic activity. On the other hand, non-durable goods producers, including food manufactures, in the state are experiencing solid gains in economic activity. U.S. Bureau of Labor Statistics data show that workers in the state have experienced a solid 3.3 percent increase in hourly wages over the past 12 months, slightly above the national gain of 3.1 percent.

NORTH DAKOTA

The June Business Conditions Index for North Dakota climbed to 55.0 from May's 49.0. Components of the overall index were new orders at 51.6, production or sales at 50.9, delivery lead time at 53.1, employment at 56.6, and inventories at 53.4. Recent surveys indicate that both durable goods producers, including machinery manufacturers, and non-durable goods producers, including food manufacturers, in the state are experiencing solid gains in economic activity. U.S. Bureau of Labor Statistics data show that workers in the state have experienced a strong 4.7 percent increase in hourly wages over the past 12 months, well above the national gain of 3.1 percent.

OKLAHOMA

After two straight months of below growth neutral readings, Oklahoma's Business Conditions Index bounced above growth neutral 50.0. The overall index from a monthly survey of supply managers for June jumped to 54.9 from May's 48.9 and April's 48.6. Components of the overall June index were new orders at 53.0, production or sales at 52.8, delivery lead time at 55.1, inventories at 55.3, and employment at 58.4. Except for June, recent surveys indicate that both durable and non-durable goods producers in the state experienced business pullbacks in economic activity. U.S. Bureau of Labor Statistics data show that workers in the state have experienced a strong 6.7 percent increase in hourly wages over the past 12 months, well above the national gain of 3.1 percent.

SOUTH DAKOTA

The June Business Conditions Index for South Dakota fell to a still solid 54.1 from May's 55. Components of the overall index from the June survey of supply managers in the state were new orders at 53.4, production or sales at 58.9, delivery lead time at 49.2, inventories at 55.9, and employment at 53.3. Recent surveys indicate that both durable and non-durable goods producers in the state are experiencing solid gains in economic activity. U.S. Bureau of Labor Statistics data show that workers in the state have experienced a weak 2.4 percent gain in hourly wages over the past 12 months, well below the national gain of 3.1 percent. Both durable goods and nondurable goods manufacturers reported positive, but slowing growth for the month.

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



THE BEARISH NEWS

- Growth in national home prices continues to wane with 3.5% year-over-year advancement down from 3.7% in March according to the CoreLogic Case-Shiller home price index. This is the weakest value in 7 years.
- Despite higher tariffs, the U.S. trade deficit jumped to a five-month high in May as imports of goods increased, likely as businesses restocked ahead of an increase in tariffs on Chinese merchandise, eclipsing a broad rise in exports
- The U.S. budget deficit soared by 39% in first 8 months of fiscal year

THE OUTLOOK

The Conference Board Economic Forecast for the U.S. Economy (July 2019): "Weaker US Economic Data Point to Slower Growth and a Possible Rate Cut in 2019. The US Economy encountered turbulence in May. Renewed trade tensions with Mexico and China have given businesses further pause in setting future investment plans. Even before these events, spending on capital equipment and business confidence had slowed. Growth for the rest of the year should settle right around its long-term two-percent trend. At the same time, low inflation provides the Federal Reserve with room to cut rates in order to boost both prices and growth. Increased uncertainty points to slowing economic growth, not rising recession risks. As the expansion is projected to continue, labor market conditions will continue to tighten while signs of increased productivity will support future growth.

Goss (May 2019): I expect **Annualized GDP growth of 1.9% for Q2, 2019. **Year-over-year increase in U.S. housing prices (Case-Shiller) to fall below 3.0% in Q3 (and to continue to drop). **The Federal Reserve Open Market Committee (FOMC) to reduce short-term interest rates by ¼ % (25 basis points) at July 30-31 meetings.

KEEP AN EYE ON

- **Case-Shiller Home Price Index for May.** Released by S&P Corelogic on July 30. Year-over-year price growth below 3.0% will be another bearish signal for the housing market.
- **ISM and Creighton's PMIs for July.** On August 1, 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. The U.S. number is trending downward and could break below growth neutral 50.0 for the month.
- **10-Year U.S. Treasury bond yield.** Currently 2.06% (immediate value at <https://finance.yahoo.com>). A move to, and hold below 2.0%, is a real warning of rising economic risks and slower economic growth.



THE BULLISH NEWS

- U.S. nonfarm payrolls expanded by 224,000 in June with wage growth registering a solid 3.1% advancement over the last 12 months.
- The nation's unemployment rate rose to a very positive 3.7% for the right reason—more individuals encouraged by a strong job market entered the labor market and began looking for a job, thus counted as unemployed.

STATISTIC OF THE MONTH

1.3 million to 3.7 million. The Congressional Budget Office estimates that raising the national minimum wage to \$15 will cost 1.3 million to 3.7 million U.S. jobs

**Goss Eggs
(Recent Dumb Economic Moves)**

Organizers of Afrofuturis music festival planned for Detroit proposed to charge white attendees \$20 admission compared to \$10 for “people of color.” Will dark-skinned Caucasians and light skinned African Americans be charged \$15? After receiving pushback from the public, organizers reversed course now charging attendees of all color, \$20, though there will be “a suggested donation for white people.

Supply Manager Careers

Material Control Analyst, Penske Trucking Leasing, Kansas City, MO. Penske Logistics is looking for material control analysts to become part of an excellent team. This is a great opportunity for individuals who are self-motivated, with strong analytical and computer skills, customer-centric, and safety conscious. This position coordinates all processes and functions of a department and provides visibility to management by tracking, process over-sight, auditing, researching and troubleshooting operational issues or functions. MAJOR RESPONSIBILITIES: *Use computer to enter records and generate reports *Weigh or count items for distribution within plant to ensure conformance to company standards (as applicable) *Read work orders or receive oral instructions to determine work assignments. Qualifications: *1-3 years inventory/auditing/transportation experience preferred. *High school diploma or equivalent required. *Some college, preferred. *Fundamental understanding of transportation, supply chain and logistics concepts. *Advanced computer skills including Excel and Outlook required. *Must also be able to learn and regularly operate multiple company and customer owned Warehouse Management System (WMS) platforms. See more at: <https://tinyurl.com/y36kxmng>

Supply Manager Reading Room

“The Impact of Tariffs on Supply Chain Costs” Site Selection, Government Policy, Business Climate. President Trump and Senator Bernie Sanders agree on almost nothing — except that they both like tariffs designed to “protect” American workers and especially those imposed on China. Given that rare bipartisan agreement, many businesses are reluctantly reaching the conclusion that protectionist tariffs are becoming the new normal and are now beginning to plan accordingly. <https://tinyurl.com/y25prb8b>

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

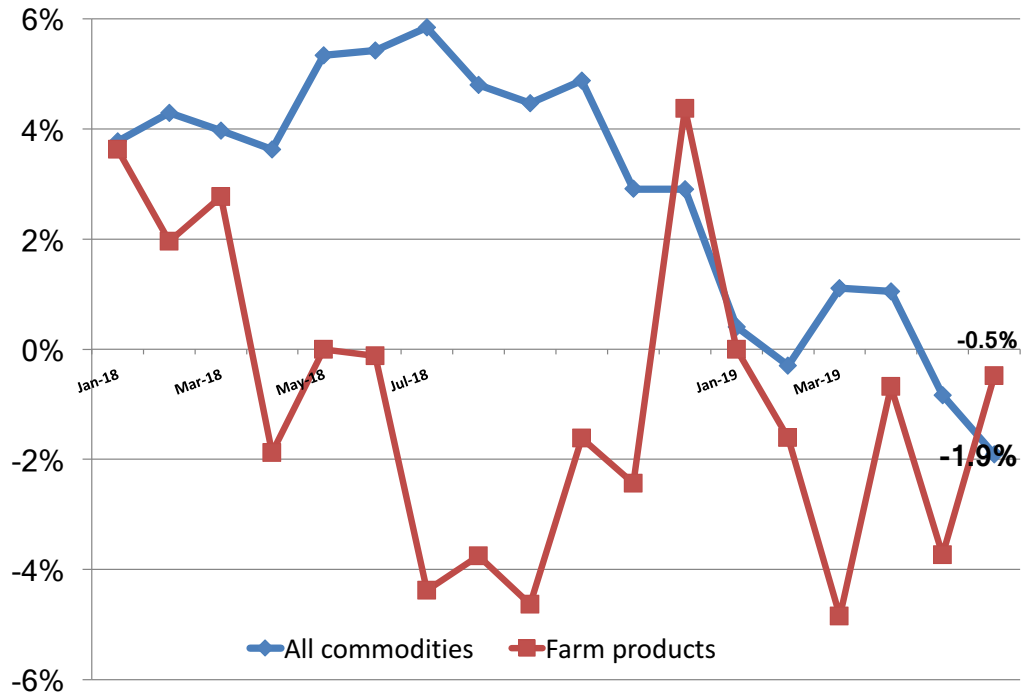
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PRICE DATA

ALL COMMODITIES/FARM PRODUCTS 2007-2019
FUELS & RELATED/METALS & METAL PRODUCTS

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



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

