

"A monthly survey of supply chain managers"

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

Goss monthly interview at: <http://bit.ly/MidAmericaBCIMay2019Video>

Buy Low, Sell High, or Buy High, and Sell Higher: Which Is the Best Stock Buying Strategy?

In his book, *How to Make Money in Stocks*, William J. O'Neil argues that, "What seems too high and risky to the majority generally goes higher, and what seems low and cheap generally goes lower." Is this a basis for profitable investing?

First, what makes a stock cheap or expensive? The most commonly used metric is the stock price of the target company for each \$1.00 of earnings of the same company. That is, how much do you have to pay for each dollar of earnings? For example, three years ago, June 2016, the median stock price to one dollar of earnings, referred to as the Price/Earnings (P/E) ratio of the Dow 30 stocks was 18.1. That is, of the 27 Dow 30 stocks with valid earnings data in June 2016, the mid-point P/E ratio was UnitedHealth Group (UNH) with a P/E of 18.1.

Of the 13 companies more pricey than UNH, the most expensive was Verizon (VZ) with a price of \$74.80 for every dollar of earnings. Of the 13 low cost companies, the least costly was JP Morgan (JPM) with a price of \$14.60 per dollar of earnings.

But more importantly, how did each group perform in terms of the growth in price adjusted for dividends and stock splits? The accompanying table summarizes the performance for the last three years.

Table 1: Value of \$1,000 invested in Dow's expensive versus cheap stocks, 2016-19				
	Value of \$1,000 invested June 2016 (includes dividends) to:			
	January 2017	June 2017	June 2018	June 2019
13 pricey stocks (more expensive than median)	\$1,026	\$1,074	\$1,050	\$1,293
13 stocks (cheaper than median)	\$1,009	\$1,077	\$1,375	\$1,455

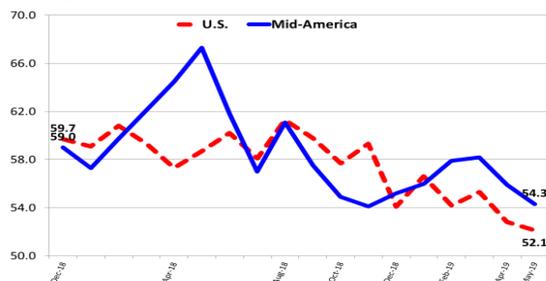
Note: Only 27 of Dow 30 stocks had valid (positive) earnings June 2016 quarter. Dow 30 are large, publicly owned companies based in U.S. meant to reflect market performance.

Two potential limitations of applying the analysis in table 1 to the broader U.S. stock markets. First, it is based on the Dow 30 stocks and the time period June 2016 to June 2019. However, data in Table 1 support the hypothesis that buying high and selling higher works better the shorter the time period. For longer, time periods, returns are higher for a buy low, and sell high strategy.

LAST MONTH'S SURVEY RESULTS

[Trade Issues Slow Mid-America Growth for May:](#)
[Trade War Making Purchasing More Difficult](#)

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



MAY SURVEY HIGHLIGHTS:

- May overall index declines for second straight month; trade issues identified as mounting problem.
- Almost one-fourth of supply managers reported ordering early to avoid expanding tariffs.
- One in eight manufacturers reported switching suppliers to avoid growing tariffs.
- Almost two-thirds of manufacturers indicated trade skirmishes were making it more difficult to purchase from abroad.
- Four states, Iowa, Nebraska, North Dakota and Oklahoma recorded overall indices below growth neutral for the month.
- Export orders slumped for the month.

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

Overall index: The Business Conditions Index, which ranges between 0 and 100, declined to 54.3 from April's 55.9. This is the second straight decline in the overall index, but the 30th straight month the index has remained above growth neutral 50.0.

The regional economy continues to expand at a positive pace, However, tariffs and flooding across several states pulled the overall index below growth neutral for four states: Iowa, Nebraska, North Dakota and Oklahoma. I expect the latest announced tariffs against Mexico, if implemented, to push more Mid-America states into job loss territory in the months ahead.

As one supply manager noted, "We need a measured approach to tariffs. Currently the USA lacks capacity in some types paper materials." Other supply managers pinned the current trade situation on past U.S. presidents. As reported by one supply manger, "It's unfortunate that previous administrations allowed this to happen costing future generations a good standard of living and possibly their freedoms."

Employment: As a result of continuing worker shortages, the May employment index settled at a 52.2, but up from April's tepid 51.1.

Recent flooding and trade issues have pushed regional manufacturing employment back to December 2018 levels. U.S. Bureau of Labor Statistics data show that regional manufacturing employment in April stood at 1,466,000, unchanged from December's reading.

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

Confidence: Looking ahead six months, economic optimism, as captured by the May Business Confidence Index, slumped to 54.5 from April's 62.2. However, I expect business confidence to depend heavily on trade talks with China and Mexico in the weeks and months ahead.

Inventories: Companies contracted inventories of raw materials and supplies for the month, with the May inventory index falling to 48.8 from 53.5 in April. Almost one-fourth, or 24.4 percent, of supply managers reported ordering early to avoid expanding tariffs.

"A significant boost in inventories for the first quarter was the prime factor pushing the U.S. GDP growth to 3.1 percent. I expect sinking inventories to weigh on both regional and U.S. growth for the second quarter 2019," said Goss.

Trade: The regional trade numbers for May were mixed with export orders falling and imports unchanged. The new export orders index sank to 48.5 from April's 53.9, and the import index was unchanged from April's 57.0.

More than one in eight manufacturers, or 13.3 percent, reported switching suppliers to avoid tariffs. Furthermore, almost two-thirds of manufacturers, or 62.2 percent, indicated that trade skirmishes were making it more difficult to purchase from abroad.

Other survey components: Components of the May Business Conditions Index were new orders at 58.2, down from April's 62.2; the production or sales index at 57.9 was down from April's 58.4; and speed of deliveries of raw materials and supplies index at 54.4 was unchanged from last month's 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 May Business Conditions Index for Arkansas declined to 55.9 from April's 57.7. Components of the index from the monthly survey of supply managers were new orders at 61.2, production or sales at 57.8, delivery lead time at 57.9, inventories at 47.8, and employment at 54.9. Arkansas manufacturers are expanding the average work week hours as well as hiring. Construction activity remains strong.

Nondurable goods producers are adding jobs at a solid pace.

IOWA

For a second straight month, Iowa's overall Business Conditions Index fell below growth neutral. The overall index for May sank to 47.0 from April's 48.9. Components of the overall index from the monthly survey of supply managers were new orders at 49.9, production or sales at 47.3, delivery lead time at 43.3, employment at 47.3, and inventories at 44.3. Flooding, especially in Western Iowa, stymied manufacturing activity in the state for the month. Large portions of I-29 in Iowa have been closed contributing to the May slowdown.

KANSAS

The Kansas Business Conditions Index for May improved to 55.9 from 48.3 in April. Components of the leading economic indicator from the monthly survey of supply managers were new orders at 60.2, production or sales at 60.6, delivery lead time at 55.4, employment at 53.2, and inventories at 50.2. Durable goods manufacturers, including transportation equipment producers, reported solid gains for the month. Nondurable goods producers, including food processors, also indicated business gains for the month.

MINNESOTA

The May Business Conditions Index for Minnesota expanded to 55.0 from 54.5 in April. Components of the overall May index from the monthly survey of supply managers were new orders at 57.6, production or sales at 55.9, delivery lead time at 57.9, inventories at 51.1, and employment at 52.3. Durable goods manufacturing, including medical equipment producers, experienced positive gains for the month, while nondurable goods producers, excluding food processors, detail advances for the month.

MISSOURI

The May Business Conditions Index for Missouri slipped to 57.1 from April's 57.6. Components of the overall index from the survey of supply managers were new orders at 59.7, production or sales at 59.3, delivery lead time at 54.9, inventories at 54.3, and employment at 57.4. "Durable goods producers in the state, including metal manufacturers, detailed strong gains for the month. Likewise, nondurable goods producers, including foods processors, reported healthy expansions for the month.

NEBRASKA

For the first time since December, Nebraska's Business Conditions Index has moved below the growth neutral threshold of 50.0. The state's overall index fell in May to 48.9 from April's 53.8. Components of the index from the monthly survey of supply managers were new orders at 53.9, production or sales at 52.5, delivery lead time at 47.9, inventories at 43.4, and employment at 46.8. Durable goods producers in the state, including agriculture equipment manufacturers, experienced pullbacks for the month. Food processors and other nondurable goods producers experienced slowdowns for the month.

NORTH DAKOTA

The May Business Conditions Index for North Dakota sank to 49.0 from 50.6 in April. Components of the overall index were new orders at 52.4, production or sales at 59.2, delivery lead time at 46.2, employment at 45.3, and inventories at 41.9. Pullbacks in economic activity among the state's nondurable goods producers, including food processors, more than offset soft, but positive, gains for durable goods manufacturers in the state.

OKLAHOMA

For a second straight month, Oklahoma's Business Conditions Index fell below growth neutral 50.0. The overall index from

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a monthly survey of supply managers for May rose slightly to a weak 48.9 from 48.6 in April. Components of the overall May index were new orders at 53.8, production or sales at 52.4, delivery lead time at 47.9, inventories at 43.4, and employment at 46.8. Economic losses for the state's durable goods and nondurable goods producers spilled over into other portions of the state's economy for the month.

SOUTH DAKOTA

The April Business Conditions Index for South Dakota climbed to a regional high of 62.2 from March's 70.8, also a regional high. Components of the overall index from the April survey of supply managers in the state were new orders at 68.7, production or sales at 66.2, delivery lead time at 60.0, inventories at 60.2, and employment at 55.8. Over the last 12 months, the South Dakota economy has added jobs at a 1.7 percent pace, while durable and nondurable goods manufacturers have expanded jobs at a rate of 1.8 percent and 1.1 percent, respectively.

Survey results for May will be released on the first business day, June 3.



THE BULLISH NEWS

- The U.S. trade deficit decreased to \$50.8 billion in April as both exports and imports fell (a warning economic signal).
- The nation's unemployment rate remained at a 50-year low of 3.6%.
- U.S. jobs outnumber job seekers by record amount.



THE BEARISH NEWS

- U.S. employers added only 75,000 jobs in May. This is far below the 223,000 average for 2018.
- Average hourly wages in May rose by 3.1% from one year earlier. Growth has waned.
- National home prices rose 3.7% annually in March, down from 3.9% in February, according to the S&P CoreLogic Case-Shiller home price index. This is the weakest value in 7 years.

THE OUTLOOK

National Association of Business Economics (NABE). JUNE SUMMARY. "Despite a number of mixed economic reports, NABE Outlook Survey panelists believe the U.S. economy will continue to expand," said NABE President Kevin Swift, CBE, chief economist, American Chemistry Council. "The consensus forecast calls for real GDP growth to slow from 2.9% in 2018 to 2.6% in 2019, and then to 2.1% in 2020. While the panel has turned slightly more optimistic about the outlook since the previous survey, 60% of panelists still view risks to the outlook as tilted to the downside." "Increased trade protectionism is considered the primary downside risk to growth by a majority of respondents, followed by financial market strains and a global growth slowdown," added Survey Chair Gregory Daco, chief U.S. economist, Oxford Economics. "Recession risks are perceived to be low in the near term, but to rise rapidly in 2020. While a small majority of panelists anticipates the next Fed move will be a rate hike, the median forecast does not reflect

any rate increases until the third quarter of 2020, and a majority of panelists believes weakness in the real economy would be the primary factor driving a rate cut."

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 3.5% next month (and to continue to drop). **The Federal Reserve to leave short-term interest rates unchanged at their June 19 meeting, but to reduce short-term rates by ¼ % (25 basis points) on July 31).

KEEP AN EYE ON

- **Case-Shiller Home Price Index for April.** Released by S&P CoreLogic on June 25. Year-over-year price growth below 3.5% will be another bearish signal for the housing market.
- **Jobs numbers for June.** The U.S. Bureau of Labor Statistics (BLS) will release its jobs report for the month of June on July 5. Job gains of less than 50,000 will be a bearish signal for the U.S. economy.
- **10-Year U.S. Treasury bond yield.** Currently 2.135% (immediate value at <https://finance.yahoo.com>). A move and hold below 2.0% is a real warning of rising economic risks and slower economic growth.

STATISTIC OF THE MONTH

58,936. According to a January 2019 survey, there are 58,936 homeless people in Los Angeles County. Combined, there are 297 counties in Iowa, Kansas and Nebraska. If the LA homeless all moved to Arthur County in Nebraska, its population ranking would move from 297 to 24.

Goss Eggs Recent Dumb Economic Moves)

California has sunk more than \$400 million into methane digesters to capture cow flatulence in the state. California Governor Newsom wants to spend another \$35 million to bag even more bovine belches and farts. Two biofuel producers, Maas Energy Works and Texas-based California Bioenergy have captured 90% of the subsidies. Maybe they can next capture the methane from the California legislature and governor's office.

Supply Manager Careers

Procurement and Vendor Management Specialist, Transamerica, Cedar Rapids, IA. As an Intermediate Procurement & Vendor Management Specialist you will partner closely with the business, and deliver high-value, Professional Services Consulting vendor evaluation/identification/selection. If your experience includes technology services as well, that will be a bonus. What you will Do: • Using your experience and skills in INDIRECT SOURCING FOR PROFESSIONAL SERVICES/CONSULTANTS, you will provide consultation and subject matter expertise to the key business stakeholders, as you research, identify and recommend the appropriate category strategies for various procurement projects that you will manage in a growing wealth management firm. • You will gain a deep understanding of your stakeholders needs, and provide guidance and

recommendations as their trusted strategic partner. • Through your effective contract negotiations and vendor management and oversight, you will ensure successful on-time project delivery, supplier compliance, and cost savings. What You Need: • Bachelor's degree in business administration, operations management, or other directly applicable field or equivalent education/experience. • Minimum of 2 years of experience in INDIRECT category procurement, strategic sourcing, supplier management or contract management in the specified categories. • Experience with the supplier identification, selection and negotiation process. • Knowledge of supplier management best practices and industry trends. • Exceptional written, interpersonal and verbal communication skills requiring a balance of assertiveness tact and diplomacy; demonstrated ability to lead difficult conversations and collaborate, facilitate, and achieve consensus amongst key stakeholders • Ability to work effectively and cultivate strong relationships across all levels of the organization and with external parties • Demonstrated ability to influence others and drive change • Proven analytical and problem-solving skills, with a keen attention to detail. <https://tinyurl.com/y4tk9yjn>

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Supply Manager Reading Room

"Supply Chain Strategies to Minimize the Impact of Tariffs." Chainalytics. May 14, 2019. Over the past 15 months, the media has constantly discussed the impact of tariffs on trade between the U.S. and China. At midnight on Friday, 5 May 2019, the U.S. filed paperwork to raise tariff rates, from 10% to 25%, on \$200 billion of goods imported from China. While the 10% tariff has been in effect for months now, companies in the U.S. have mostly been able to pass on the cost to the consumer, thanks to historically low unemployment and all-time highs of domestic consumer sentiments. However, the additional 15% in tariffs, along with the risk of further increases, now requires companies more than ever to assess options to change their supply chains in a manner that lets them avoid the tariffs and future uncertainties. See rest of article at: <https://tinyurl.com/y4l37v9u>

FOLLOW ERNIE

Survey results for May will be released on June 3, the first business day of the month.

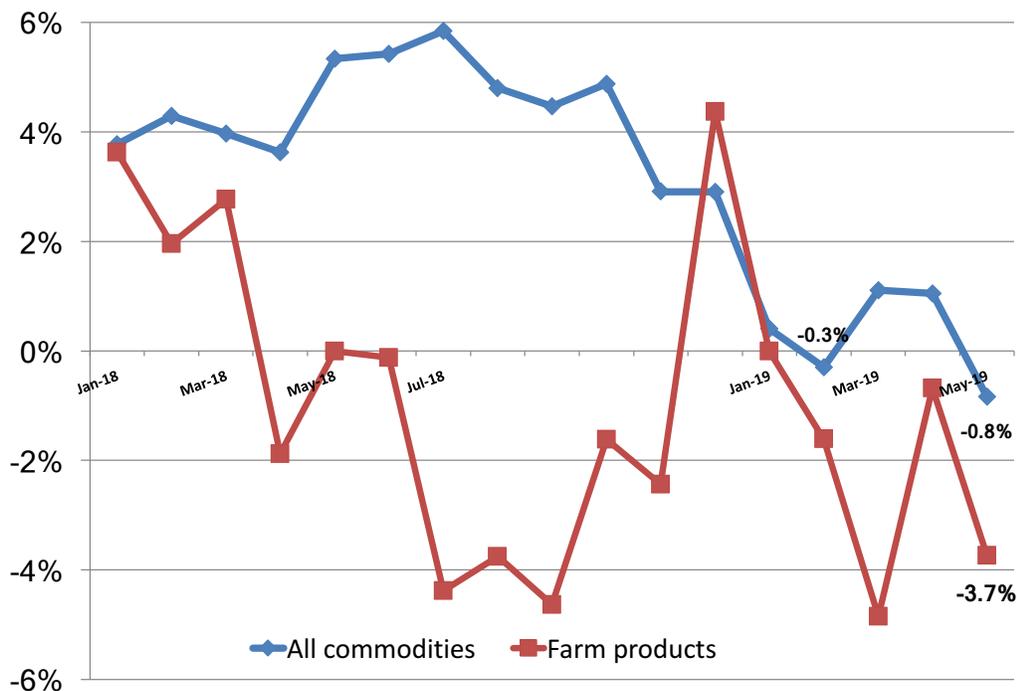
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For historical data and forecasts visit our website at:
<http://business.creighton.edu/organizations-programs/economic-outlook>

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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

