

Welcome to our June report covering results from Creighton's May survey of Supply Managers.

Creighton's monthly survey of supply managers and procurement experts in nine Mid-America states indicates that economic growth is in a range indicating an economic downturn rivaling the Great Depression. Thank you for participating. Follow my comments at: [www.twitter.com/erniegoss](http://www.twitter.com/erniegoss)


Goss monthly interview at:

<http://bit.ly/MidAmericaBCIMarch2020Video>

An Economic Recovery? If so, What Is the Shape? V, W, or Nike-Swoosh 

The May U.S. jobs report indicated that the nation's economy added 2.5 million jobs, the highest monthly addition on record. This news emboldened the optimists who envisioned a V-shaped recovery, and dampened the pessimists that foresaw a W-shaped economic rebound. Other recent economic indicators support an economic recovery somewhere between the extremes, a Nike Swoosh, which would be a sharp downturn followed by a slow recovery.

1) **A V-Shaped Recovery:** Record federal deficit spending via the CARES Act, and the Federal Reserve's support for ultra-low short and long-term interest rates, are punishing savers and rewarding spenders. Furthermore, the ending of the lockdown of most state economies is pushing consumers to spend a share of their pent-up demand. The biggest stimulus for the labor market will come at the end of July when the federal government's \$600 weekly support for jobless workers receiving state unemployment benefits. U.S. equity markets are pricing in an economic revival with expanding business profits indicative of a "V."

2) **A  shaped rebound:** Even after adding 1.2 million jobs in May, the nation's leisure and hospitality industry has shed 7.0 million employees since covid-19. Contrary to most recessions, this one was led by the consumer and there is little evidence from consumer spending data of a return to pre-covid spending levels. State and local regulations have limited most businesses in this industry to approximately 50% of their pre-covid-19 capacity.

Compared to pre-covid-19 levels, U.S. bond yields at roughly half their yields, and gold prices up more than 7%, both safe-haven stashes for risk averse investors, continue to indicate that investors remain very, very cautious about the U.S. economy.

U.S. exports and imports both posted their largest monthly decreases on record as imports fell 13.7% between March and April and exports plummeted 20.5% during the same period of time. These are the largest declines since record-keeping began in 1992, and will continue to be a drag on U.S. economic growth.

3) **A W-Shaped Recovery, Recession Revisit:** 1): Rising U.S. covid-19 infection and death rates would put a dagger in the heart of any economic rebound. Growth based on federal government deficit spending and Federal Reserve's ultra-low interest rates is not sustainable. The U.S. and global consumers must return to work and spending. State economic lockdowns will guarantee a return to a recession as the economy reaches the top of the V.

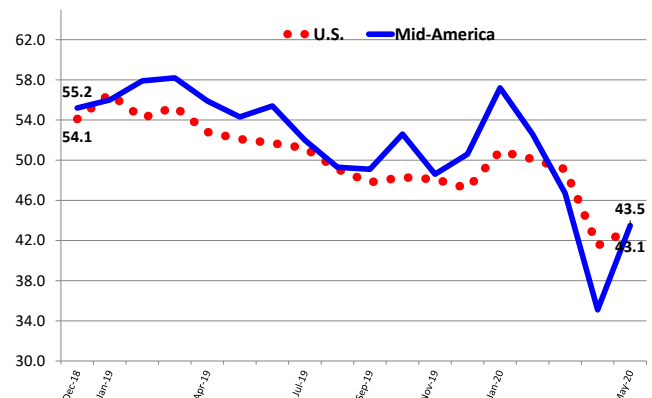
## LAST MONTH'S SURVEY RESULTS

**May's Mid-America Business Index Remains in Recession Range: More Than One-Third of Firms Cancelled Vendor Contracts**

### May Survey Highlights:

- The Business Conditions Index expanded to a still recessionary reading.
- Employment reading indicated that the rate of job losses slowed from April.
- Stimulus programs from the Federal Reserve and the federal government boosted economic confidence.
- As a result of COVID-19: 34% of firms extended the period of paying outstanding invoices; 35.9% revised or cancelled contracts; and 28.2% moved purchases from foreign sources to domestic sources.
- Between the middle of March and the first week of May, the percent of insured unemployed in the region soared from 1.3% to 10.5%.

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



The May Creighton University Mid-America Business Conditions Index, a leading economic indicator for the nine-state region stretching from Minnesota to Arkansas, advanced to a still recessionary level.

Overall index: After falling below growth neutral for March, the overall index has remained in recessionary territory for two straight months. The Business Conditions Index, which ranges between 0 and 100, increased to 43.5 from April's 35.1, but down from March's 46.7.

According to Creighton's May survey of regional manufacturing supply managers, COVID-19 had a less significant impact on the manufacturing sector than other areas of the economy more directly tied to the consumer. This is a consumer led recession with manufacturing lagging. Nonetheless, Creighton's survey indicates that the regional manufacturing sector is trapped in a recession.

**Employment:** The May employment index continued to indicate job losses, but at a slower pace than in April. The May index rose to 40.0 from April's record low of 26.2.

In the middle of March U.S. Department of Labor data showed that only 160,170 workers in the nine-state region were unemployed and receiving unemployment insurance benefits. This represented only 1.3% of individuals covered by the unemployment insurance system. By the first week of May 1,328,520 workers were receiving unemployment insurance benefits, or 10.5% of covered workers.

As a result of COVID-19: 34% of firms extended the period of paying outstanding invoices; 35.9% revised or cancelled contracts; and 28.2% moved purchases from foreign sources to domestic sources.

**Wholesale Prices:** The wholesale inflation gauge for the month indicated deflationary pressures at the wholesale level with a wholesale price index of 48.6 for May, which was up from 44.0 in April.

I expect to see deflationary pressures at the wholesale level in the weeks and months ahead despite the Federal Reserve's, and the U.S. government's record economic stimulus programs.

### Comments from supply managers from the May survey included:

- "With most of our business coming from the public sector, I expect a subdued peak season and a meager winter as states and municipalities tighten fiscal belts for the foreseeable future."
- "Trusted business relationships are more valuable than ever."
- "Our management team will evaluate bringing more people back (from home office) in phases after two weeks."
- "The beginning of May was horrible for sales and employment, with a slight uptick expected toward the end of May...nowhere near what it was in February (far below)."

**Confidence:** Looking ahead six months, economic optimism, as captured by the May Business Confidence Index, rebounded to 56.6 from April's weak 45.5.

The federal stimulus plan, the Federal Reserve monetary incentive programs, and the rebound in U.S. stock markets boosted confidence from April's low reading.

**Inventories:** The regional inventory index for May, reflecting levels of raw materials and supplies, climbed to 48.6 from last month's 36.9.

**Trade:** The regional trade numbers were very negative for the month with new export orders tumbling to a record low of 15.9 from April's 19.4. Imports fell to 36.0 from 38.7 in April.

**Other survey components:** Other components of the May Business Conditions Index were new orders at 31.7, up from April's 21.0; the production or sales index expanded to 33.3 from April's 23.3; and speed of deliveries of raw materials and supplies index at 63.8 was down from last month's 68.

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 May Business Conditions Index for Arkansas rose to 43.7 from April's 35.1. Components of the May index from the monthly survey of supply managers were: new orders at 32.8, production or sales at 34.1, delivery lead time at 60.9, inventories at 49.6, and employment at 41.1. The state's unemployment rate (not seasonally adjusted) jumped from 4.9% in March to 10.3% in April. The state lost 102,000 jobs in this one-month covid-19 span

**IOWA:** Iowa's Business Conditions Index, or overall index, once again slumped below growth neutral. However, the reading climbed to a weak 41.9 from 34.4 in April. Components of the overall May index from the monthly survey of supply managers were: new orders at 31.1, production or sales at 34.5, delivery lead time at 57.6, employment at 39.0, and inventories at 47.1. The state's unemployment rate (not seasonally adjusted) jumped from 3.6% in March to 10.7% in April. The state lost 177,000 jobs in this one-month covid-19 span.

**KANSAS:** The Kansas Business Conditions Index for May increased to 42.8 from April's 36.3. Components of the leading economic indicator from the monthly survey of supply managers for May were: new orders at 32.7, production or sales at 30.1, delivery lead time at 60.7, employment at 41.0, and inventories at 49.5. The state's unemployment rate (not seasonally adjusted) jumped from 2.9% in March to 11.6% in April. The state lost 130,000 jobs in this one-month covid-19 span.

**MINNESOTA:** The May Business Conditions Index for Minnesota increased to 39.8 from 34.8 in April. Components of the overall May index from the monthly survey of supply managers were: new orders at 27.1, production or sales at 34.6, delivery lead time at 56.7, inventories at 42.3, and employment at 38.5. The state's unemployment rate (not seasonally adjusted) jumped from 3.5% in March to 8.6% in April. The state lost 360,000 jobs in this one-month covid-19 span.

**MISSOURI:** The May Business Conditions Index for Missouri climbed to 42.3 from 35.1 in April. Components of the overall index from the survey of supply managers for May were: new orders at 31.5, production or sales at 34.4, delivery lead time at 58.5, inventories at 47.8, and employment at 39.5. The state's unemployment rate (not seasonally adjusted) jumped from 3.9% in March to 9.8% in April. The state lost 305,000 jobs in this one-month covid-19 span.

**NEBRASKA:** The state's overall index for May rose to 43.9 from 36.0 in April. Components of the index from the monthly survey of supply managers for May were: new orders at 32.9, production or sales at 34.1, delivery lead time at 61.2, inventories at 49.9, and employment at 41.3. The state's unemployment rate (not seasonally adjusted) jumped from 4.2% in March to 8.6% in April. The state lost 86,000 jobs in this one-month covid-19 span

**NORTH DAKOTA:** The May Business Conditions Index for North Dakota climbed to 43.4 from 35.8 in April. Components of the overall index for May were: new orders at 32.5, production or sales at 34.2, delivery lead time at 60.3, employment at 40.7, and inventories at 49.2. The state's unemployment rate (not seasonally adjusted) jumped from 2.7% in March to 9.2% in April. The state lost 43,000 jobs in this one-month covid-19 span.

**OKLAHOMA:** Oklahoma's Business Conditions Index once again moved below growth neutral in May. The overall index for May advanced to a weak 43.0 from April's 34.2. Components of the overall May index were: new orders at 32.1, production or sales at 34.3, delivery lead time at 59.7, inventories at 48.7, and employment at 40.3. The state's unemployment rate (not seasonally adjusted) jumped from 3.0% in March to 14.3% in April. The state lost 131,000 jobs in this one-month covid-19 span

**SOUTH DAKOTA:** The May Business Conditions Index for South Dakota increased to 43.8 from April's 35.9. Components of the overall index from the May survey of supply managers in the state were: new orders at 32.9, production or sales at 34.1, delivery lead time at 61.2, inventories at 49.9, and employment at 41.3. The state's unemployment rate (not seasonally adjusted) jumped from 3.4% in March to 12.0% in April. The state lost 36,000 jobs in this one-month covid-19 span. In April survey one supply manager reported that, "Our orders are being canceled. Chinese armed forces have confiscated some of our products we had planned to use to combat corona. US Government ordered Grainger to ship to them first, even though we have standing orders for N95 masks."

**TRADE:** The regional trade numbers were very negative for the month with new export orders tumbling to 19.4 from March's 34.7. "On the other hand, international buying by supply managers remained weak but increased to 38.7 from 32.7 in March," reported Goss.

**OTHER SURVEY COMPONENTS:** Other components of the April Business Conditions Index were new orders at 21.0, down from March's 40.0; the production or sales index sank to 23.3 from March's 37.8; and speed of deliveries of raw materials and supplies index at 68.3 dipped slightly from last month's 68.4 reflecting slower deliveries and/or shipping difficulties.

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## THE BULLISH NEWS

- The nation added 2.5 million jobs and the unemployment rate fell to 13.3% for May. This is very good news but it is too early to pop the Champagne.
- Between January 2, 2020 and June 8, 2020, on average NASDAQ stocks advanced by 8.7% compared to a decline of only 1.2% for S&P stocks, and fall of less than 4.3% for Dow 30 stocks.
- The 2019 U.S. trade deficit fell by 1.7% to \$616.8 billion. However, the trade deficit usually sinks during a U.S. economic slowdown.
- Both Creighton's and ISM's manufacturing PMIs are increasing, remain in a negative range.



## THE BEARISH NEWS

- Covid-19 is hurting U.S. housing supply. The number of privately-owned housing units authorized by new building permits for the month of April fell to just over 1 million, a decline of 21% from 1.3 million, the revised number for March, and is 19.2% lower than the number of permits for the same month last year
- Every U.S. metropolitan area's April unemployment rate increased from March's reading.
- U.S. exports and imports both posted their largest monthly decreases on record amid coronavirus-related shutdowns around the world. Imports fell 13.7% in April from March, and exports dropped 20.5%, the largest declines since record-keeping began in 1992.

## STATISTIC OF THE MONTH

**\$1,000 and \$2,200.** According to a recent NBER study, a New York couple with four children would lose \$2,200 in cash benefits and food aid for earning an additional \$1,000. <https://www.nber.org/papers/w27164>

## GOSS EGGS (Recent Dumb Economic Moves)

"I just spoke to my brother-in-law who lives near Buffalo, NY. He said his son Ben lost his job at his college fitness center due to the school's shutdown. He worked about 20 hours/week during the school year at \$10/hour. Out of curiosity he filed for unemployment benefits and was approved. He now 'makes' \$800/week and has taken up golf and purchased a new set of clubs. In light of this very rational behavior, today's jobs report was beyond fantastic. While the extra \$600/week will eventually run out, so far, in his mind, it's truly been 'The Summer of Ben.' What a horrible lesson to learn." From my Creighton colleague and economics professor, Tim Bastian.

## THE OUTLOOK

**National Association for Business Economics (NABE):**  
**SUMMARY:** "NABE Outlook Survey panelists expect a 5.6% decline in inflation-adjusted gross domestic product from the fourth quarter of 2019 to the fourth quarter of 2020," said NABE President Constance Hunter, CBE, chief economist, KPMG. "Panelists expect the largest decline, 33.5%, annualized, quarter-over-quarter, in the second quarter of the year. These decreases reflect the impact of the COVID-19 pandemic." "The NABE panel remains decidedly pessimistic about the second quarter of the year, as 80% of participants view risks to the outlook tilted to the downside," added Outlook Survey Chair Eugenio Aleman, economist, Wells Fargo Bank.

**Goss (May 2020):** ): \*\*Contrary to NABE, I do not expect GDP economic rebound until 2021. Too few states and communities are "returning to work" in a scale approaching that of the pre-coronavirus economy. \*\*Job growth for August-September 2020 will be strong with the end of the \$600 weekly federal unemployment compensation at the end of July. \*\*The U.S. economic recovery will not resemble a V, or even a U. Unfortunately, it will look more like a Nike swoosh.

## KEEP AN EYE ON

- **U.S. BLS's July jobs report for June.** On July 2, the BLS releases the number of jobs lost or gained for June. Another positive reading will be very bullish for U.S. stocks and bearish for the U.S. bond market.
- **U.S. Bureau of Labor's weekly continuing claims data.** Released every Thursday, this is the earliest reading on the U.S. and state labor markets. The level of unemployed will likely move lower in the weeks ahead as the first-time claims continue to decline. .
- **Yield on 10-Year U.S. Treasury bond.** Find instantaneously, at <https://finance.yahoo.com>. Watch for this yield to rise back above 1.5% to signal coronavirus impacts waning. Right now, that yield is pointing to less, but still high, U.S. economic risks.

## SUPPLY MANAGER CAREERS

**Production Planning Manager, Hexagon Group, Lincoln, NE. Job Summary:** The production planning manager is responsible for all manufacturing planning of production and all ancillary items that fall within that scope. Provide clear communication of requirements and capabilities to sales, purchasing, engineering, and operations. Drive continuous improvement in the planning process to enable scalability as the company grows. **Duties and Responsibilities\*** Oversee and mentor the Planning Group to ensure a high level of proficiency and development.\* Determine production requirements based on plant capacity and production specifications.\* Manage activities of a level loaded Master Production Schedule while maintaining targeted inventory levels.\*Ensure a consistent handoff of planning information to production via the Planner(s). \*Maintain a valid capacity requirement plan that supports the master production schedule.\* Identify and manage scheduling of bottlenecks and capacity issues with the Production. **Education & Qualifications:** Bachelor's degree in Business, Engineering, Supply Chain Management or similar discipline. Or combination of education and experience.\*Plus, a minimum of 5 years' experience in planning and/or scheduling with a manufacturing company, required. \*Prior Managerial experience required. Pay \$85,000 - \$105,000 annual. <https://tinyurl.com/yapznte9>

## SUPPLY MANAGER READING ROOM

**Here's how global supply chains will change after COVID-19** "The coronavirus crisis has revealed the fragility of the modern supply chain.\*Recent data shows the devastating economic impact as week-on-week trade in China, the US and Europe halved because of the crisis. • Diverse sourcing and digitization will be the key to building stronger, smarter supply chains and ensuring a lasting recovery. The COVID-19 pandemic has hit global trade and investment at an unprecedented speed and scale. Multinational companies faced an initial supply shock, then a demand shock as more and more countries ordered people to stay at home. Governments, businesses and individual consumers suddenly struggled to procure basic products and materials, and were forced to confront the fragility of the modern supply chain. The urgent need to design smarter, stronger and more diverse supply chains has been one of the main lessons of this crisis." <https://tinyurl.com/yangzogh>

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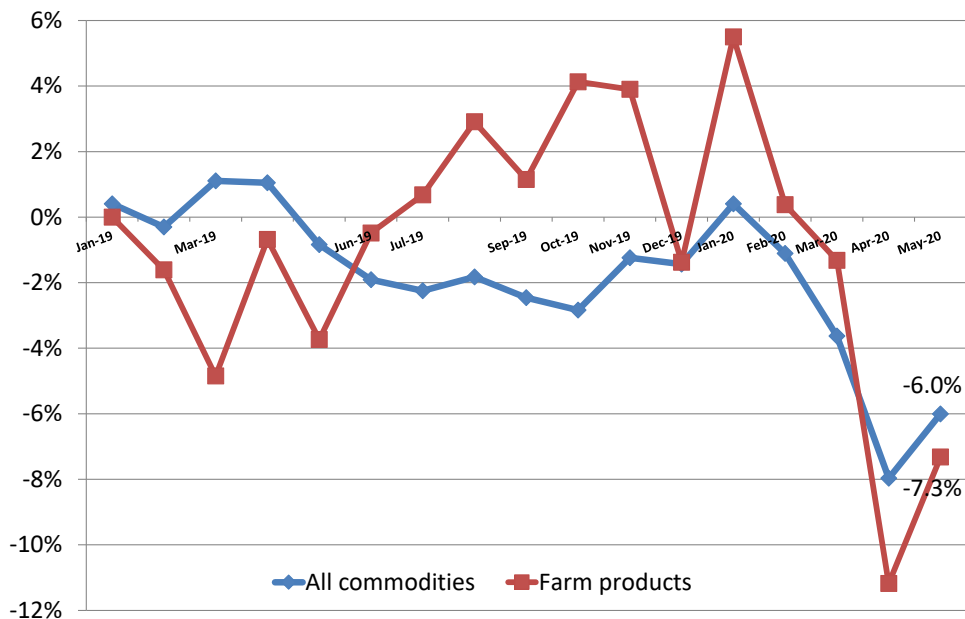
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# MIDAMERICA JUNE 2020 SUPPLY MANAGERS NEWSLETTER

"A monthly survey of supply chain managers"

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



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

