

Welcome to our February report covering results from Creighton's January survey of supply 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. www.twitter.com/erniegoss. Goss monthly interview at: <http://bit.ly/MidAmericaBCIJan2021YouTube>.

"A monthly survey of supply chain managers"

Mid-America Manufacturing Begins Year Strong: Inflation Gauge Soars to 10-Year High

January Survey Highlights:

- For the eighth straight month, the regional Business Conditions Index climbed above the growth neutral level.
- The wholesale inflation gauge for the month soared to its highest level in almost 10 years.
- Despite adding jobs in January, 75% of supply managers identified COVID-19 worker absences as having a negative impact on their businesses.
- A weak U.S. dollar bolstered exports, and restrained imports.
- Almost one-third of supply manager reported difficulties in international buying as having adverse impacts on their company's business activity.

Mainstreet Versus Wallstreet: Stocks Did Better Under Democrat Presidents

Workers Did Better Under Republican Presidents

Since the onset of Covid-19, Wallstreet, as captured by stock market indices, has significantly outperformed the overall U.S. economy. Since the fourth quarter of 2019 until the end of the fourth quarter of 2020, the Standard & Poor's 500 index (S&P) soared by 14.6% as the overall U.S. economy (GDP) shrank by 1.2%. This has caused critics to argue that the responses of the Republican Whitehouse, and the Federal Reserve (Fed) to Covid-19, as well as other economic maladies, have benefited Wallstreet business interests at the expense of workers, and small businesses on Mainstreet. Is there merit in the critics' argument?

Figure 1 compares the ratio of the S&P stock average and employee compensation to GDP from 1985 to 2020. As presented, since reaching a low of 52.6% of GDP in 2014 in the Obama Administration, employee compensation has risen to 54.6% in 2019 (the latest data) in the Trump Administration. During this same period of time, the S&P stock average climbed from 11.1% to 15.4% of GDP. However, the Fed has been clearly on the side of the stock market by reducing interest rates during 2020. For example, the yield on the 6-month U.S. Treasury bond tumbled from an average 2.11% in 2019 to 0.37% in 2020.

Table 1 compares the impact of 16 years of Democrat presidencies versus 20 years of Republican presidencies on stocks and workers. As presented in Table 1, stocks and business profits have expanded at a faster pace during Democrat presidencies, while worker compensation excelled under Republican presidencies. Likewise, the Fed appears to have been more supportive of stocks during Democrat presidencies than Republican presidencies by keeping interest rates lower.

While differences between Democrat and Republican presidencies listed in Table 1 are not substantial, they are surprising and contrary to the popular narrative. Furthermore, differences may spring from many factors, just one of which is control of the White House.

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

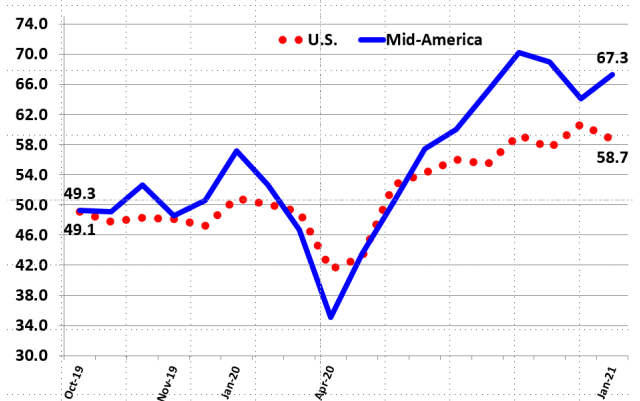


Figure 1: Ratio of S&P index, and employee compensation to GDP, 1985 to 2020

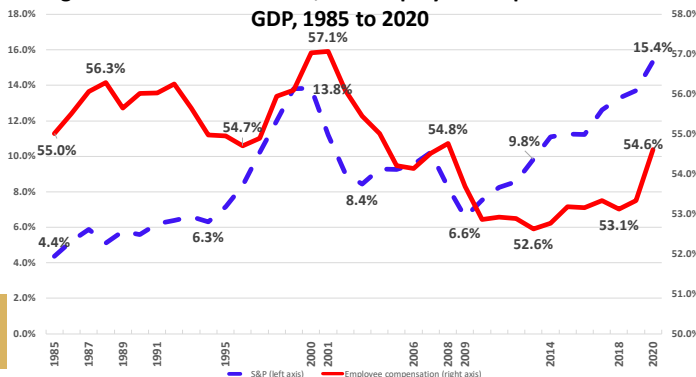


Table 1: Average S&P stock index, business profits and employee compensation as % of GDP by presidency, 1985-2020

S&P	Employee compensation	Business Profits	Yield on 6-month U.S. Treasury	Presidency	Years
9.5%	54.3%	10.6%	2.6%	Democrat	16
8.7%	55.2%	9.3%	4.1%	Republican	20

S&P = S&P 500 divided by GDP; Profit and wage data were not available for 2020.

Despite adding jobs in January, 75% of supply managers identified COVID-19 worker absences as having a negative impact on their businesses.

For an eighth straight month, the Creighton University Mid-America Business Conditions Index, a leading economic indicator for the nine-state region stretching from Minnesota to Arkansas, moved into growth territory.

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 eight of the past nine months. The Business Conditions Index, which ranges between 0 and 100, climbed to a strong 67.3 from December's healthy 64.1.

The nine-state region lost 1.5 million, or 10.9% of nonfarm jobs between the onset of COVID-19 and April of last year. However, since bottoming out in April, the region has regained 841,000 of the jobs lost. Creighton's monthly survey results indicate that the region is adding jobs and economic activity at a healthy pace, and that growth will remain healthy well into 2021.

Employment: The regional employment index remained well above growth neutral for January, but fell to 57.2 from 57.7 in December. Despite adding jobs in January, 75% of supply managers identified COVID-19 worker absences as having a negative impact on their businesses.

In January, supply managers were asked to identify the negative impacts of COVID-19 on their firms' business prospects. Six of 10 identified vendor business stoppage, or shutdowns, as having a negative impact on their firm. Roughly 43% reported cancellation of business meetings as weighing on their firms' business. Almost one-third, or 32%, reported difficulties in international buying as having adverse impacts on their businesses' activity.

Other comments from January survey participants:

- "At the end of the calendar year most of the tariff exclusion expired. This has caused an increase in selecting suppliers that are out of China. Some may be domestic others may be moving to Malaysia and other countries in that region."
- "Shortages in raw material is a major problem, both domestic and international."
- "Import shipping container shortages, ship capacity, delays, costs and lead time have increased."

Wholesale Prices: The wholesale inflation gauge for the month soared to 91.1, its highest level in almost 10 years, from December's still inflationary 81.5.

At the wholesale level, Creighton's survey is tracking higher and higher inflationary pressures. Metal and metal products manufacturing are experiencing significant upward pressures in prices. Over the last six months for example, metal prices have expanded by 7.5% according to U.S. Bureau of Labor Statistics data. Despite this pickup in inflationary pressures, the Federal Reserve remains committed to current expansionary policy.

Confidence: Looking ahead six months, economic optimism, as captured by the January Business Confidence Index, jumped to 53.6 from December's weak 45.8.

The completed presidential elections, a COVID-19 vaccine rollout, and a weak dollar, making U.S. manufactured goods more competitively priced abroad, have bolstered economic confidence among manufacturing supply managers.

Inventories: The regional inventory index for January, reflecting levels of raw materials and supplies, slipped to 55.4 from last month's 55.8.

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Regarding inventory levels, one supply manager reported that, "Ports in California are creating problems with JIT (just-in-time) inventory levels and supporting customers."

Trade: The regional trade numbers were strengthened for the month, with new export orders soaring to 62.5 from December's 50.1. An expanding domestic manufacturing sector supported an import reading of 52.3, but was down from 63.2 in December.

The trade-weighted value of the U.S. dollar has declined by approximately 9.1% between April of last year and today. 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 continue to be very supportive of U.S. exports, and weigh on imports in the months ahead.

Other survey components of the January Business Conditions Index were: new orders advanced to 76.9 from 66.0 in December; the production or sales index expanded to 80.4 from December's 61.6; and the speed of deliveries of raw materials and supplies index fell to 69.7 from last month's 79.7.

Said one supply manager, "Order fulfillment times have extended from 8-10 weeks to 20-22 weeks and longer."

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 January Business Conditions Index for Arkansas increased to 76.9 from December's 62.3. Components from the January survey of supply managers were: new orders at 80.9, production or sales at 77.0, delivery lead time at 78.4, inventories at 83.7, and employment at 64.5. Since bottoming in May of last year, manufacturing employment in the state has expanded by 4,000 jobs for a 2.8% gain. Creighton's surveys over the past several months indicate that this rate of growth will continue well into 2021 for the state's manufacturing sector.

IOWA

Iowa's Business Conditions Index remained above growth neutral for January as the overall reading climbed to 71.5 from 64.7 in December. Components of the overall January index were: new orders at 79.4, production, or sales at 75.8, delivery lead time at 74.0, employment at 65.6, and inventories at 70.8. Since bottoming in April of last year, manufacturing employment in the state has expanded by almost 14,000 jobs for a 6.4% gain. Creighton's surveys over the past several months indicate that this rate of growth will continue well into 2021 for the state's manufacturing sector.

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THE BULLISH NEWS

- Stock prices, as measured by the S&P 500, have soared by 5% since the beginning of 2021.
- 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 very healthy manufacturing growth.
- Over the past 12 months, according to the Case-Shiller national home price index, housing prices expanded by 9.5% in November (one of the highest on record).



THE BEARISH NEWS

- U.S. payroll employment expanded at a snail's pace of 50,000 jobs and 406,000 workers left the labor force.
- The U.S. debt has climbed to \$27.2 trillion.
- As a percent of GDP, the U.S. budget deficit will rise to its highest level since World War II.
- The 2020 trade deficit climbed to its highest level in more than 12 years.

THE OUTLOOK

The Conference Board (February 2021). "Real GDP growth will probably rise by 3.5 percent* (annualized rate) in 4Q20 and 2.0 percent** in 1Q21 as the US economy continues to wrestle with the COVID-19 pandemic. The Conference Board has generated three potential recovery scenarios based on specific sets of assumptions. Our base case forecast yields 1Q21 real GDP growth of 2.0 percent* (annualized rate), and an annual expansion of 4.1 percent for 2021, following an annual contraction of 3.5 percent for 2020. Alternatively, we offer a second more optimistic scenario in which the economy grows 6.4 percent for 2021, following an annual contraction of 3.5 percent for 2020. Finally, we offer a third more pessimistic scenario in which the US economy contracts in 1Q21 before stabilizing over the summer. This scenario yields annual growth of 0.8 percent in 2021."

Goss (February 2021): **Since the presidential elections, the yield on U.S. long-term Treasury bonds has expanded from 0.83% to 1.17%. I expect that yield to climb by another ¼ % (25 basis points) by the end of Q1, 2021. Mortgage rates, which have not expanded yet, will rise by 25 basis points by the end of Q1, 2021. **Annualized and seasonally adjusted Q1 2021 GDP growth will range between 2% to 3%.

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

KANSAS

The Kansas Business Conditions Index for January rose to 62.0 from 55.3 in December. Components of the leading economic indicator from the monthly survey of supply managers were: new orders at 72.8, production or sales at 81.3, delivery lead time at 63.3, employment at 53.3, and inventories at 39.3. Since bottoming in April of last year, manufacturing employment in the state has expanded by only 800 jobs for a 0.5% gain. Creighton's surveys over the past several months indicate that this rate of growth will accelerate in the months ahead for the state's manufacturing sector.

MINNESOTA

The January Business Conditions Index for Minnesota dipped to 66.9 from 67.6 in December. Components of the overall January index were: new orders at 83.2, production or sales at 69.3, delivery lead time at 68.9, inventories at 55.6, and employment at 57.4. Since bottoming in May of last year, manufacturing employment in the state has expanded by 10,500 jobs for a 3.2% gain. Creighton's surveys over the past several months indicate that this rate of growth will continue in the months ahead for the state's manufacturing sector.

MISSOURI

The January Business Conditions Index for Missouri dropped to 62.5 from 67.2 in December. Components of the overall index from the survey of supply managers for January were: new orders at 73.0, production or sales at 81.5, delivery lead time at 63.8, inventories at 40.7, and employment at 53.6. Since bottoming in April of last year, manufacturing employment in the state has expanded by almost 29,000 jobs for a 11.9% gain. Creighton's surveys over the past several months indicate that this rate of growth will slow to a still healthy pace in the months ahead for the state's manufacturing sector.

NEBRASKA

Nebraska's overall index for January rose to 69.2 from 67.0 in December. Components of the index from the monthly survey of supply managers for January were: new orders at 74.7, production or sales at 83.6, delivery lead time at 70.1, inventories at 59.4, and employment at 58.4. Since bottoming in June of last year, manufacturing employment in the state has expanded by 2,000 jobs for a 2.1% gain. Creighton's surveys over the past several months indicate that this rate of growth will continue in the months ahead for the state's manufacturing sector.

NORTH DAKOTA

The January Business Conditions Index for North Dakota soared to 75.6 from 62.8 in December. Components of the overall index for January were: new orders at 76.1, production or sales at 85.4, delivery lead time at 79.9, employment at 62.2, and inventories at 74.4. Since bottoming in November of last year, manufacturing employment in the state has added no new jobs. Creighton's surveys over the past several months indicate that growth will expand, but at a very modest pace in the months ahead for the state's manufacturing sector.

OKLAHOMA

Oklahoma's Business Conditions Index expanded above growth neutral in January. The overall index climbed to 65.4 from December's 55.9. Components of the overall January index were: new orders at 73.7, production or sales at 82.4, delivery lead time at 66.5, inventories at 48.8, and employment at 55.7. Since bottoming in September of last year, manufacturing employment in the state has expanded by only 900 jobs for a 0.7% gain. Creighton's surveys over the past several months indicate that this rate of growth will improve in the months ahead for the state's manufacturing sector.

SOUTH DAKOTA

The January Business Conditions Index for South Dakota sank to 62.2 from 76.3 in December. Components of the overall index from the January survey of supply managers in the state were: new orders at 72.9, production or sales at 81.4, delivery lead time at 63.5, inventories at 40.0, and employment at 53.5. Since bottoming in August of last year, manufacturing employment in the state has expanded by 1,200 jobs for a 2.9% gain. Creighton's surveys over the past several months indicate that this rate of growth will continue in the months ahead for

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GOSS EGGS (for recent dumb economic moves)

Despite approval by the Obama Administration's State Department, the Biden Administration killed the Keystone XL pipeline by Executive Order. Apparently, the Biden Administration wants greater infrastructure, but only U.S. taxpayer funded infrastructure. His decision kills high wage jobs that contribute to a cleaner environment (i.e. pipeline delivery is much more environmentally friendly than trucks or trains). I consulted with TransCanada for 3 years on this project and can report that this decision costs the State of Nebraska \$311 million (2018 \$\$s) in state and local tax collections, and support for K-12 education in 12 Nebraska counties.

STATISTIC OF THE MONTH

70.9%. According to the Wallstreet Journal, 70.9% of previous stimulus checks were either saved (36.4%), or used to pay down debt (34.5%). Thus, the payments failed in the goal to significantly stimulate consumer spending.

KEEP AN EYE ON

- **U.S. Inflation Report.** On March 10, the U.S. Bureau of Labor Statistics releases its consumer price index (CPI) for February.
- **U.S. Retail sales for January.** On Feb. 17, the U.S. Census Bureau releases retail and food services sales for January. Look for weaker reports to signal a buying pullback by the U.S. consumer
- **U.S. Jobs Report.** On March 5, the U.S. Bureau of Labor Statistics releases its job numbers for February. Another disappointing report would encourage Congress to expand economic stimulus programs.
- **Creighton's Rural Mainstreet report.** On February 18th, Creighton releases its February 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.

FOLLOW ERNIE

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>

SUPPLY MANAGERS READING ROOM

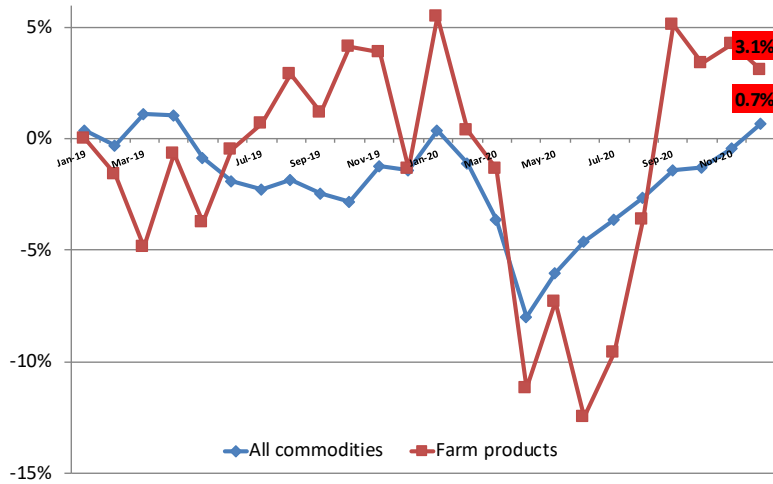
"5 Causes of Bottlenecks in the Global Supply Chain," Brian Hoey, May 21, 2020. As it is with cooking, so too is it with the global supply chain. Instead of being too slow to chop veggies or having too little equipment, you might be dealing with disorganized inventory or siloed route planning—but the effect is the same: you need to find those bottlenecks and root them out. **1. Single-sourcing, 2. Planning Silos. 3. Poor Technology Integration. 4. Low Visibility. 5. Lack of Planning.** <https://tinyurl.com/4sks84mk>

SUPPLY MANAGER CAREERS

Buyer, Timpte, Inc. David City, Nebraska. As the Buyer – Current Products, you will be responsible for identifying and developing supply base, for current and newly designed captive parts or assemblies, to support an assemble-to-order production flow. This individual will lay the groundwork for their team of planners and support all planner activities. Areas of concentration for supplier development includes Quality, Lead time, Delivery Performance, Responsiveness, and Cost (value add). Requirements: *Must possess a Bachelor's degree in related field or a minimum of 5-7 years' of proven sourcing and/or contract experience in commodities such as metals, fabrications, coatings and subcontracting. *Project Management Professional (PMP). Preferred: *Must have working knowledge of Microsoft Office programs; including Word, Excel, PowerPoint, and MRP/ERP business software. *Excellent communication skills in both verbal and written format. *Must be able to maintain confidentiality of proprietary information. *Must have an insurable driving record, as travel is required. <https://tinyurl.com/11dcb88q>

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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 - November 2020

