

## "A monthly survey of supply chain managers"

Welcome to our February Newsletter covering survey results for January. Creighton's monthly survey of supply managers and procurement experts in nine Mid-America states indicates that economic growth remains in a healthy, but, as in previous months, with elevated inflationary pressures. Follow my comments at: [www.twitter.com/erniegoss](http://www.twitter.com/erniegoss).

### Who Pays for the Green New Deal (GND)? Income Tax Rates and Income Inequality Rise with GND

Democrats, including presidential candidates Senators Warren, Harris, and Booker, have endorsed the Green New Deal (GND), a federal spending program to address income inequality, and climate change with an estimated cost between \$2 trillion and \$5.7 trillion. New York Democrat Representative Alexandria Ocasio-Cortez (AOC) seeks to include basic income programs, and universal health care programs into GND, thus pushing the cost of the program to the higher limits.

Rep. AOC also advocates a 70% tax on high income earners to pay for this diverse program. She argues, incorrectly, that this would return tax brackets to the pre-Reagan tax cuts. According to the Tax Foundation, the latest income tax data show that:

- The top 50% of income earners paid 97.3% of income taxes with the bottom half of income earners paying only 2.7% of income tax collections

- Furthermore, the top 1% of income earners paid an individual income tax rate of 27.1%, which was more than seven times higher than that of the bottom 50% of earners that had an average individual income tax rate of 3.5%.

Thus, a tax to support the GND that differentially supports low, and middle-income taxpayers would further distort a tax system that already punishes educational achievement, innovation, and entrepreneurship which lead to income growth.

The GND list includes goals like "eliminating greenhouse gas emissions from the manufacturing, agricultural and other industries" and "meeting 100% of national power demand through renewable sources by 2030." Contrary to its advocates' rhetoric, an increase in income tax rates on high incomes will increase, not reduce income inequality. In 1980, the top 10% of income earners paid 49.3% of total individual income tax collections, while the bottom 50% paid 7.1% of collections. More than three decades later, the share of income taxes paid by the top 10% soared to 70.9%, as the bottom half's share sank to 2.8%. What happened to income inequality during that time span? As measured by the Gini coefficient, income inequality climbed by 12%. Thus, empirical economic data indicate that the proposed GND will increase taxes, discourage educational attainment, and increase income inequality.

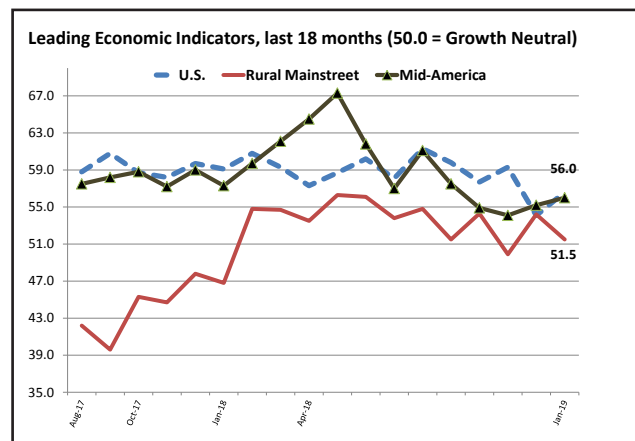
### LAST MONTH'S SURVEY RESULTS

Mid-America Begins 2019 on High Note:  
Business Confidence Falls to Lowest Level in Three Years

#### SURVEY RESULTS AT A GLANCE:

- The overall index rose to its highest level since September of last year, the 26th straight month the Business Conditions index has moved above growth neutral.
- More than 80 percent of supply managers reported that buying from abroad was important to their firms' success.
- Business confidence slumped to its lowest level in three years.
- Approximately 47.6 percent of supply managers expect labor shortages to be the biggest 2019 challenge.

- Tariffs and trade wars were the second most named 2019 challenges.



The January Creighton University Mid-America Business Conditions Index, a leading economic indicator for the nine-state region stretching from Minnesota to Arkansas, rose to its highest level since September of last year signaling solid growth for the region over the next three to six months.

**Overall index:** The Business Conditions Index, which ranges between 0 and 100, climbed to 56.0 from December's 55.2. This is the 26th straight month the index has remained above growth neutral 50.0.

The regional economy continues to expand at a positive pace. However, as in recent months, shortages of skilled workers and international trade tension/tariffs remain an impediment to even stronger growth. More than eight of 10 supply managers reported buying from abroad was an important factor in company success.

**Employment:** The January employment index expanded to a healthy 58.5 from December's much weaker 50.0.

Overall manufacturing employment growth in the region over the past 12 months has been very healthy at 2.4 percent, compared to a lower 2.3 percent for the U.S.," said Goss. "I expect this gap to close in the months ahead as regional job growth slows faster than national manufacturing job growth. Regional job growth for durable goods producers has been approximately three times that of nondurable goods manufacturers over recent months.

**Wholesale Prices:** The wholesale inflation gauge continues to indicate elevated inflationary pressures. The January price index climbed to 76.3 from December's 69.5.

Both Creighton's regional wholesale inflation index and the U.S. inflation gauge are elevated. Tariffs and expanding growth, for example, have boosted steel prices by 18.7 percent over the past 12 months. At the consumer level, the consumer price index advanced by an acceptable 1.9 percent over the past 12 months.

I expect lower oil prices and slowing growth to push both wholesale and consumer inflation lower," Goss said. "Due to prices at the consumer level moving at an acceptable pace, I do not expect the Federal Reserve to raise interest before its June meetings.

**Confidence:** Looking ahead six months, economic optimism, as captured by the January Business Confidence Index, fell to 53.7, from December's 54.1, its lowest level in three years.

However, I expect business confidence to depend heavily on

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trade talks with China. Approximately one in five supply manager reported that access to international markets was essential to their firm's success, while 34.2 indicated that this access was either important or very important. Only 19 percent indicated that access to international markets was not important.

**Inventories:** Companies expanded inventories of raw materials and supplies for the month. The January inventory index jumped to 57.7 from December's 47.4.

**Trade:** The regional trade numbers for January were mixed with imports heading higher and new export orders remaining weak. The new export orders index moved slightly higher to a weak 48.3 from December's 48.1, and the import index soared to 54.4 from 41.1 in December. Despite higher tariffs on imported goods, healthy regional growth boosted imports for the month, but slower global growth reduced new export orders.

**Other components:** Components of the Business Conditions Index were new orders at 56.2, up from December's 55.5; the production or sales index at 53.9, down from 55.4 in December; and speed of deliveries of raw materials and supplies index down sharply to 53.7 from last month's 67.6.

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 January Business Conditions Index for Arkansas rose to 54.6 from December's 50.5. Components of the index from the monthly survey of supply managers were new orders at 55.4, production or sales at 52.6, delivery lead time at 51.3, inventories at 56.6, and employment at 57.1. Over the past 12 months, nondurable goods manufacturers in the state have expanded jobs by a healthy 2.0 percent, while Arkansas durable goods producers have added jobs at an even stronger pace of 2.8 percent.

### IOWA

The January Business Conditions Index for Iowa expanded to 54.8 from December's 53.5. Components of the overall index from the monthly survey of supply managers were new orders at 57.8, production or sales at 52.2, delivery lead time at 50.9, employment at 56.7, and inventories at 56.2. Over the past 12 months, nondurable goods manufacturers in the state have expanded jobs by a very healthy 2.8 percent, while Iowa durable goods producers have added jobs at an even stronger pace of 3.9 percent.

### KANSAS

The Kansas Business Conditions Index for January increased to 53.3 from December's 49.7. Components of the leading economic indicator from the monthly survey of supply

managers were new orders at 54.3, production or sales at 51.2, delivery lead time at 49.9, employment at 55.7, and inventories at 55.1. Over the past 12 months, nondurable goods manufacturers in the state have expanded jobs by a healthy 2.2 percent, while Kansas durable goods producers have added jobs at an even stronger pace of 4.1 percent.

### MINNESOTA

The January Business Conditions Index for Minnesota declined to 54.5 from December's 55.5. Components of the overall January index from the monthly survey of supply managers were new orders at 52.8, production or sales at 53.2, delivery lead time at 54.8, inventories at 53.2, and employment at 58.5. Over the past 12 months, nondurable goods manufacturers in the state have expanded jobs by a solid 1.2 percent, while Minnesota durable goods producers have added jobs at a strong pace of 3.0 percent.

### MISSOURI

The January Business Conditions Index for Missouri climbed to 55.0 from 53.9 in December. Components of the overall index from the survey of supply managers were new orders at 55.7, production or sales at 53.0, delivery lead time at 51.6, inventories at 57.1, and employment at 57.4. Over the past 12 months, nondurable goods manufacturers in the state have shed jobs at a pace of minus 1.6 percent, while Missouri durable goods producers have added jobs at a healthy pace of 3.0 percent.

### NEBRASKA

After dipping below growth neutral for December, the January Business Conditions Index for Nebraska advanced to 50.5 from December's 49.7. Components of the index from the monthly survey of supply managers were new orders at 52.0, production or sales at 48.3, delivery lead time at 47.1, inventories at 52.1, and employment at 53.0. Over the past 12 months, nondurable goods manufacturers in the state have expanded jobs by a very healthy 4.4 percent, while Nebraska durable goods producers have added jobs at a somewhat slower but still very healthy pace of 3.9 percent.

### NORTH DAKOTA

The January Business Conditions Index for North Dakota fell to 49.8 from 52.6 in December. Components of the overall index were new orders at 51.3, production or sales at 47.6, delivery lead time at 49.8, employment at 52.2, and inventories at 51.2. Over the past 12 months, nondurable goods manufacturers in the state have experienced no change in employment, while North Dakota durable goods producers have added jobs at a solid pace of 1.2 percent.

### OKLAHOMA

Oklahoma's Business Conditions Index has remained above the 50.0 threshold for the last 18 straight months. The overall index from a monthly survey of supply managers advanced to 57.1 from 56.4 in December. Components of the overall January index were new orders at 56.4, production or sales at 53.8, delivery lead time at 59.3, inventories at 57.9, and employment at 58.2. Over the past 12 months, nondurable goods manufacturers in the state have experienced job losses of minus 4.9 percent while Oklahoma durable goods producers have added jobs at a very healthy 4.2 percent pace.

### SOUTH DAKOTA

The January Business Conditions Index for South Dakota climbed to a regional high of 66.2 from December's 63.1, also a regional high. Components of the overall index from the January survey of supply managers in the state were new orders at 65.0, production or sales at 64.6, delivery lead time at 63.0, inventories at 69.6, and employment at 68.6. Over

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the past 12 months, nondurable goods manufacturers in the state have expanded jobs by a healthy 3.2 percent, while South Dakota durable goods producers have added jobs at a somewhat slower, but still strong, pace of 2.8 percent.



### THE BULLISH NEWS

- In January, the U.S. economy added 304,000 jobs, and the unemployment rate rose to a still healthy 4.0%.
- Over the past 12 months ending in January, U.S. hourly wages climbed by 3.2% to \$27.56. This is the fastest growth in nine years.
- The national and Creighton January surveys of manufacturers points to solid but slower growth through the second quarter of 2019.
- More and more Americans are entering the workforce pushing the labor force participation to 63.2% in January.



### THE BEARISH NEWS

- The 2018 U.S. trade deficit with China soared to a record due to growth in U.S. imports from China.
- The Congressional Budget Office Report predicts a \$118 billion increase in the U.S. budget deficit over last year's \$779 billion deficit.

### THE OUTLOOK

#### National Association of Business Economics (NABE). SUMMARY:

"The results of the January 2019 NABE Business Conditions Survey indicate that most respondents do not expect a recession within the next 12 months, but fewer respondents than previously expect robust economic growth in the year ahead," said NABE Business Conditions Survey Chair Sam Kyei, CBE, chief economist, SAK Economics LLC. "Respondents are nearly unanimous that growth in inflation-adjusted gross domestic product—real GDP—would remain positive through the end of 2019. Two-thirds of respondents expect growth to exceed 2%, however, that share is smaller than the 90% of respondents in the previous survey—which covered the outlook from the third quarter of 2018 to the third quarter of 2019. "After a year of robust capital spending, business investment has cooled a bit, and expectations for the next three months slackened similarly," added NABE President Kevin Swift, CBE, chief economist, American Chemistry Council.

**From Goss:** I expect \*\*the Federal Reserve to forego interest rate increases until the middle of 2019. \*\*GDP growth to slow in the first half of 2019 to 1.9% to 2.2%. \*\*\*annualized growth in the consumer price index (CPI) to exceed 2.0% in Q1, 2019.\*\*\*GDP growth for the 4th Quarter of 2018 of 2.4%..

### WHAT TO WATCH

- **Consumer Price Index January & February:** The U.S. Bureau of Labor Statistics will release the CPI for January on February 13 and for February on March 12.

Year-over-year growth between 1.9% and 2.2% will be in the "sweet spot."

- **Wage Data:** On March 8, the U.S. Bureau of Labor Statistics will release wage data for February. Year-over-year growth above 3.3% will be a strong inflation signal, and encourage the Fed to raise in the first half of 2019.
- **Inverted Yield:** Every recession since 1980 has been preceded by 2-year rates exceeding, or approximating, 10-year rates (termed an inverted yield). Currently 18 basis points (0.18%), and too low for comfort.

### STATISTIC OF THE MONTH

\$33,800. This is the average student debt owed by Americans age 60-69 in 2017.

### Goss Eggs (Recent Dumb Economic Moves)

- In 2009 and 2011, Falmouth, Mass. broke ground on two wind turbines on 314 acres of city land investing \$10 million of taxpayer dollars. Both turbines recently closed due to noise pollution. Falmouth taxpayers will spend the next 11 years paying off \$3.6 million in bonds, and another \$5 million in contractual obligations.

### Supply Manager Careers

Supply Chain Manager, Highway Equipment Company, Cedar Rapids, Iowa. Oversees management of Inventory, Purchasing and Scheduling to direct activities so that materials and supplies are on site for approved products to be manufactured on schedule and within budget. Responsibilities require knowledge of scheduling practices.

**Key Responsibilities:** Understands functions and responsibilities of each employee assigned to the Director of Operations position and manages them in all aspects of employment, including but not limited to: Hiring, Performance, Discipline, and Termination Training, Coaching, Mentoring, Guidance, and Motivation. Effectively manages employees and or processes to ensure all responsibilities of assigned employees are met and that each external/internal customers' needs are met in a timely manner. Ensures systems utilized by department (i.e. JDE, ADP, SolidWorks, etc.) meets or exceeds needs of all company employees. Develops, implements, and monitors progress of short-term and long-term goals for all assigned employees. Maintains a high level of confidentiality. Qualifications and Essential Skills: \*Bachelor's degree in Industrial, Mechanical or Business Administration, or related field.\*Experience managing and controlling inventory with an ERP is required. Experience should include demonstrated skills in using data to identify problems and implement and measure solutions/improvements. Strong computer skills, including ERP/MRP, data analysis, and MS Office (Excel, Word, Visio). Experience working with manufacturing based technology, processes, and principles. Ability to write routine reports and correspondence. Ability to speak effectively before groups of customers, vendors, or employees of organization. Willing to travel both domestically and internationally up to four (4) weeks per year.

Apply at: <https://tinyurl.com/yxq8hrzy>

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## Supply Manager Reading Room

**"More Companies Make Supply Chain Changes in China."** When Apple Inc. cut guidance last week — sending its stock down 10 percent and the S&P 500 down 2.5 percent — CEO Tim Cook cited trade issues in a letter to investors. "We believe the economic environment in China has been further impacted by rising trade tensions with the United States," he said. The following day, Kevin Hassett, chairman of the U.S. Council of Economic Advisers, added to the China concerns in an interview with CNN stating, "the Chinese economy is slowing in a way that I haven't seen in a decade." Bloomberg searched through conference call transcripts, from the second half of 2018, looking for companies that mentioned they were exploring manufacturing options outside of China as a result of tariffs and the trade war: Enphase Energy, whose solar microinverters were subject to tariffs, spoke of the need to move manufacturing out of China at its analyst day in August. A month later, it announced an expansion in Mexico with contract manufacturer Flex. "We are fighting for exclusion et cetera, but our strategy is pretty simple. We recognized the need to have contract manufacturing outside China. We are already proceeding towards qualifying Mexico. I have already invested the capital for that. I'm going to have manufacturing in Mexico in six months to nine months like what I said on the earnings call and those are actually happening as we speak" —Enphase Energy transcript. <https://tinyurl.com/y4dmj83s>.

## FOLLOW ERNIE

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

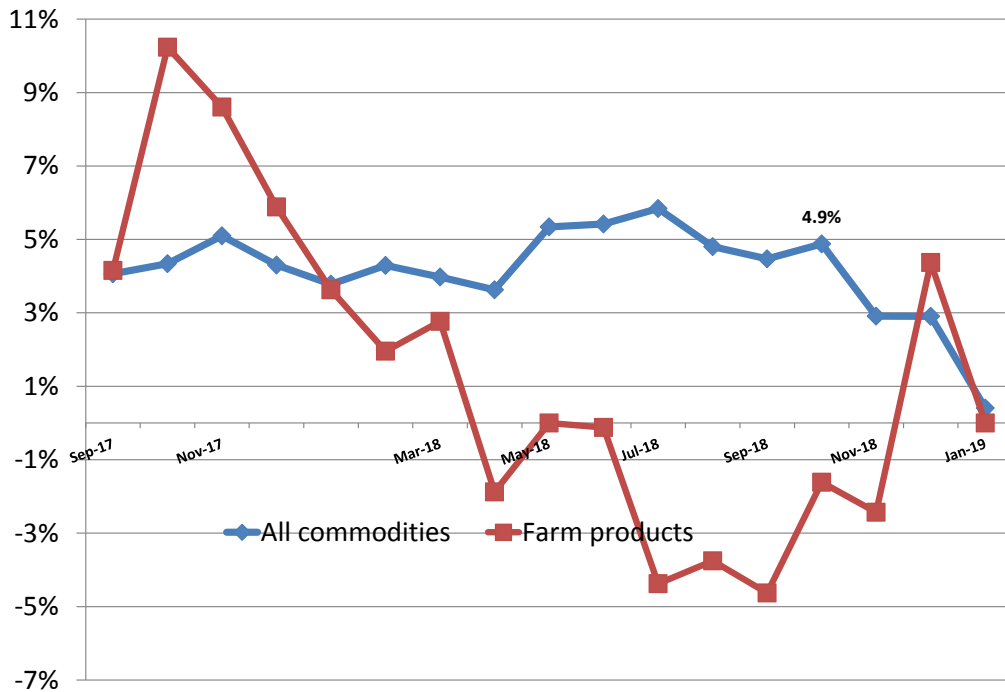
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For historical data and forecasts visit our website at:  
<http://business.creighton.edu/organizations-programs/economic-outlook>

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## PRICE DATA

ALL COMMODITIES/FARM PRODUCTS 2007-2018  
FUELS & RELATED/METALS & METAL PRODUCTS

Year over year price change, commodities and farm product, 2017-19



Year over year price change, fuels and metal products, 2017-19

