

January
2024

THE MIDAMERICA ECONOMIC REPORT

A monthly survey of supply managers

MIDAMERICA

Manufacturing Index Rebounds

- 46% of Supply Managers Expect 2024 Recession
- On average, supply managers expect prices for inputs that their firm purchases to rise by 5.9% in 2024, or well above wholesale inflation of 0.9% recorded by the U.S. Bureau of Labor Statistics (BLS) for the past 12 months ending in November 2023.
- Approximately 46% of supply managers expect a recession in 2024.
- Exports of manufactured goods from the nine-state region expanded from \$74.7 billion for the first 10 months of 2022 to \$77.9 billion for the same period in 2023 for 4.3% growth (U.S. International Trade Administration).
- U.S. BLS data showed that for 2023, the region's manufacturing hourly wage rates expanded by 3.4%.



Welcome to Creighton's January supply manager report covering December survey results. The December overall reading from supply managers in MidAmerica climbed above growth neutral threshold. **Happy New Year** to you, friends & family. Thank you for your contributions over the past year.

-Ernie

Recreational Marijuana Legalization: Do Crime Costs Outweigh "Pot" Tax Collections?

Voters in Colorado and Washington approved the use and sale of recreational marijuana in the second half of 2012. In 2014, Oregon joined these two states when 56% of state voters passed Measure 9 which approved the sale of marijuana for recreational use. How has this legalization affected crime rates, and state, and local government spending within each state?

Between 2012 and 2021, according to FBI data, violent crime per 100,000 inhabitants soared between marijuana passage in 2012 to 2022 by 59.4% in Colorado, by 38.3% in Oregon, and by 27.2% in Washington.

In Table 1 is listed the rankings of each state for violent and property crime before and after legalization. As presented, Colorado appears to have suffered the greatest increase in crimes during the period analyzed. In the remainder of this essay, the increase in crime above the median for all states is attributed to marijuana even though no proof is offered for this assumption.

Table 2 compares the three states and the U.S. median in terms of spending on police and fire protection per capita for 2012 and 2022. As presented,

each of the three states increased their per capita spending more than the median U.S. state. From this are derived the total 2022 excess spending by state on police and fire protection. State and local tax collections from recreational marijuana sales are inserted in this table. These ad valorem tax rates range from 6% in Missouri to 37% in Washington.

As listed, marijuana tax collections lagged the increase in state and local spending on police and fire protection for Colorado and Oregon. On the other hand, marijuana tax collections for recreational usage in Washington exceed the cost of added police and fire protection.

It is clear that many factors, including marijuana legalization, account for the growth in the crime values listed in Tables 1 and 2. However, this data do question, from a cost/benefit perspective, the legalization of recreational marijuana. Do the public costs outweigh the tax collections from recreational marijuana legalization? Ernie Goss

	Violent crime ranking		Property crime ranking	
	2012	2022	2012	2022
Colorado	29	8	29	3
Oregon	40	28	17	5
Washington	31	27	4	2

Source: FBI Note: Ranking of 51 indicates lowest crime rate in nation; Rates are in incidences per 100,000

	Spending on police/fire protection Per Capita			2022 Excess spending on police/fire protection compared to U.S. (in millions)	2022 state & local tax collections from marijuana (in millions)	Increase in state & local spending on police/fire protection above marijuana taxes (in millions)
	2012	2022	Growth			
Colorado	\$740	\$1,069	44.5%	\$807.4	\$313.0	\$484.4
Oregon	\$811	\$1,237	40.2%	\$508.4	\$170.6	\$337.8
Washington	\$722	\$951	31.6%	\$313.1	\$515.2	-\$202.1
U.S. median	\$611	\$783	28.1%	n.a.	\$2,948.1	n.a.

Sources: U.S. Census Bureau for spending; Tax Foundation for marijuana tax collections (marijuana taxes do not include medical sales)

BULLISH NEWS

- The nation added 216,000 jobs and the unemployment rate held at 3.7% for December.
- According to the Case-Shiller home price index for Oct, home prices jumped for the 9th month in a row and by 0.2% over September's reading.
- Falling imports reduced the November U.S. trade deficit by 2%.

BEARISH NEWS

- There were 591 corporate bankruptcies in 2023, the highest since 2011.
- The U.S. budget deficit hits record high for November and up 26% from Nov. 2022 on higher interest costs.
- Business 2024 pay raises are declining to 4%. This is down from 4.4% for 2023 according to Willis Towers and Watson.
- The U.S. BLS did a record number of revisions to original data releases in 2023.



Even with the positive bounce in December's reading, supply managers remained pessimistic regarding the 2024 economy with 46% expecting a 2024 recession in the first half of the year. Less than one-fifth, or 19%, anticipate an economic expansion in the first half of 2024.

The Mid-America report is produced independently from the national ISM.

As stated by a December survey participant, "I see a large drop off coming in January that will be larger than the normal after holiday drop off."

The rapid expansion in federal government spending and debt will limit the Federal Reserve's ability to reduce interest rates in 2024. Even so, I do expect a rate cut in March, but no rate change at the Fed's rate-cutting committee meetings, January 30-31..

Employment: After two straight months of below growth neutral employment readings, the hiring gauge expanded to 50.0 from 42.5 in November. Over the past 12 months, according to U.S. Bureau of Statistics data, the region's manufacturing sector shed employment by 4,400 jobs, or -0.3%, with the average hourly wage rate expanding by +3.4% for the period, or above the 3.1% increase in consumer prices.

Other comments from supply managers in December:

- "Baseless spending with no rule of law – print money."
- "We need more workers in the U.S."
- "Too many complex cross currents in the economy to feel confident in predicting 2024."
- "Politics has created our problems and it will take legitimate voters to correct it. Too many lies, deceptions and misleading narratives, confusing voters who are not seeing through the smoke and mirrors. It's time to pull back the curtain on the man behind it!"

Wholesale Prices: The wholesale inflation gauge for the month plummeted to 57.7 from November's "too hot" 71.1. "On average, supply managers expect prices for inputs that their firm purchases to rise by 5.9% in 2024. This is well above wholesale price inflation recently recorded by the U.S. Bureau of Labor Statistics of 0.9% for the 12 months ending in November 2023," said Goss.

As stated by one supply manager, "We are forecasting a price change of 4-6%."

Confidence: Looking ahead six months, economic optimism as captured by the December Business

Overall: Overall Index: The Business Conditions Index, which uses the identical methodology as the national Institute for Supply Management (ISM) and ranges between 0 and 100 with 50.0 representing growth neutral, climbed to 50.3 from 42.2 in November.
-Ernie Goss

Confidence Index slipped to a very weak 35.2 from November's 35.8. Only 19% of supply managers expect expanding business conditions over the next six months.

Inventories: The regional inventory index, reflecting levels of raw materials and supplies, increased to 46.0 from November's 42.6. Manufacturing firms had been expanding inventory levels for much of 2023, but recent slower growth and downturns for November and December point to concerns among manufacturers regarding the sales outlook.

Trade: Trade numbers were weak for the month with new export orders sinking to 47.0 from November's solid 54.6. November imports dropped to 36.9 from 46.7 in November. According to the U.S. International Trade Administration, the export of manufactured goods from the nine- state region expanded from \$74.7 billion for the first 10 months of 2022 to \$77.9 billion for the same period in 2023 for 4.3% growth.

Other survey components of the December Business Conditions Index were: new orders increased slightly to 40.7 from 40.5 in November; the production or sales index improved to 60.0 from 35.7 in November; and the speed of deliveries of raw materials and supplies climbed to 64.8 from November's 50.0. The increase indicates an upturn in supply chain disruptions and delivery bottlenecks for the month.

Below are the state reports:

Arkansas: The state's December Business Conditions Index increased to 47.0 from 37.1 in November. Components from the December survey of supply managers were: new orders at 39.4; production or sales at 49.0; delivery lead time at 59.2; inventories at 45.3; and employment at 42.3. Over the past 12 months, according to U.S. Bureau of Statistics data, the state's manufacturing sector **shed** 2,300 jobs, or -1.4%, with the average hourly wage rate **expanding** by +0.9% for the 12 months, and well below the 3.1% increase in consumer prices.

Iowa: The state's Business Conditions Index for December rose to 49.7 from November's 44.6. Components of the overall December index were: new orders at 49.6; production or sales at 40.0; delivery lead time at 63.5; employment at 46.6; and inventories at 48.9. Over the past 12 months, according to U.S. Bureau of Statistics data, the state's manufacturing sector **boosted** employment by 2,500 jobs, or +1.1%, with the average hourly wage rate **decreasing** by -0.2% for the period, or well below the 3.1% increase in consumer prices.

Kansas: The Kansas Business Conditions Index for December climbed to 54.1 from November's 44.7. Components of the leading economic indicator from the monthly survey of supply managers for December

GOSS EGGS

RECENT DUMB ECONOMIC MOVES

The Wallstreet Journal recently reported that California Governor Newsom will present his budget for the next fiscal year in the days ahead.

Unfortunately for the state and the rest of the nation, he will call for an annual wealth tax of 1.5% on all fulltime and part-time residents whose net worth exceeds \$1 billion.

The wealth tax would apply to nearly all assets including artworks, farmland, homes, and financial assets held offshore.

Current residents who choose to leave will also take the state's tax liability with them. As the Eagles sang, "You can check out, any time you like, but you can never leave."

Regrettably, what starts in California does not stay in California, nor will the taxable net worth remain at \$1 billion. On Jan. 1, 2026, the taxable net worth falls to \$50 million.

In the years ahead, taxpayers can expect taxable net worth to fall faster than Governor Asa Hutchinson's presidential campaign hopes.

Alarmingly, as the saying goes, "what happens in California does not stay in California."

were: new orders at 40.8; production or sales at 50.4; delivery lead time at 69.5; employment at 52.6; and inventories at 57.1. Over the past 12 months, according to U.S. Bureau of Statistics data, the state's manufacturing sector **shed** 600 jobs, or -0.9%, with the average hourly wage rate **expanding** by +4.4% for the period, or above the 3.1% increase in consumer prices.

Minnesota: The December Business Conditions Index for Minnesota strengthened to 55.7 from 43.9 in November. Components of the overall December index were: new orders at 41.0; production or sales at 50.6; delivery lead time at 70.8; inventories at 62.2; and employment at 54.0. Over the past 12 months, according to U.S. Bureau of Statistics data, the state's manufacturing sector **shed** 3,900 jobs, or -1.2%, with the average hourly wage rate **expanding** by +0.5% for the period, or well below the 3.1% increase in consumer prices.

Missouri: The state's December Business Conditions Index increased to a weak 46.1 from 37.5 in November. Components of the overall index from the survey of supply managers for December were: new orders at 39.9; production or sales at 49.5; delivery lead time at 62.9; inventories at 32.3; and employment at 46.0. Over the past 12 months, according to U.S. Bureau of Statistics data, the state's manufacturing sector **boosted** employment by 3,400, or +1.2%, with the average hourly wage rate **expanding** by +8.6% for the period, or well above the 3.1% increase in consumer prices.

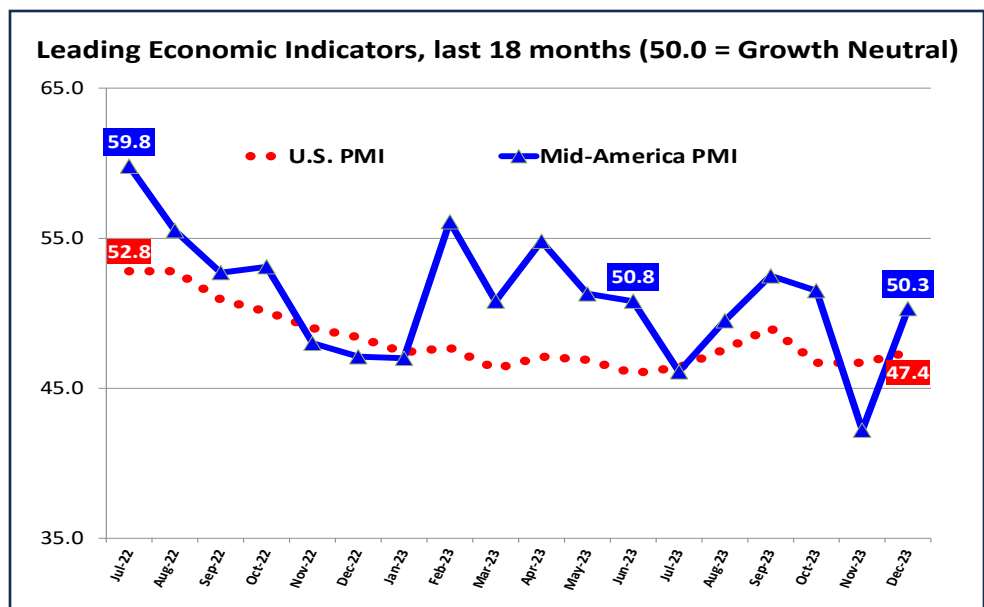
Nebraska: For a third straight month, Nebraska's Business Conditions Index sank below growth neutral, but climbed to 49.4 from 39.3 in November. Components of the index from the monthly survey of supply managers for December were: new orders at 40.3; production or sales at 49.9; delivery lead time at 65.6; inventories at 42.6; and employment at 48.8. Over the past 12 months, according to U.S.

Bureau of Statistics data, the state's manufacturing sector **boosted** employment by 2,100, or +2.9%, with the average hourly wage rate expanding by +6.7% for the period, or more than twice the 3.1% increase in consumer prices.

North Dakota: After falling below growth neutral for November, the state's December Business Conditions Index climbed to 54.7 from November's 47.2. Components of the overall index for December were: new orders at 40.9; production or sales at 50.4; delivery lead time at 70.0; employment at 53.1 and inventories at 58.9. Over the past 12 months, according to U.S. Bureau of Statistics data, the state's manufacturing sector's employment increased by 200 jobs, or +0.5%, with the average hourly wage rate **expanding** by +0.4% for the period, or well below the 3.1% increase in consumer prices.

Oklahoma: After sinking below growth neutral for November, Oklahoma's Business Conditions Index rose to 50.5 from 43.2 in November. Components of the overall December index were: new orders at 40.4; production or sales at 50.0; delivery lead time at 66.5; inventories at 46.0; and employment at 49.7. Over the past 12 months, according to U.S. Bureau of Statistics data, the state's manufacturing sector **boosted** employment by 300, or +0.2%, with the average hourly wage rate **expanding** by +3.0% for the period, or slightly below the 3.1% increase in consumer prices.

South Dakota: The December Business Conditions Index for South Dakota bounced to a regional high 57.2 from November's 48.5, also a regional high. Components of the overall index were: new orders at 42.1; production or sales at 51.7; delivery lead time at 79.0; inventories at 51.2; and employment at 62.2. Over the past 12 months, according to U.S. Bureau of Statistics data, the state's manufacturing sector **boosted** employment by 500, or +1.1%, with the average hourly wage rate **expanding** by +9.2% for the period, or almost three times the 3.1% increase in consumer prices.



5 out of 5 Goss Eggs





THE OUTLOOK

The U.S. Conference Board: "US consumer spending has held up remarkably well this year despite elevated inflation and higher interest rates. However, this trend cannot hold, in our view. Real disposable personal income growth is flat, pandemic savings are dwindling, and household debt is rising. Additionally, new student loan repayment requirements are beginning to weigh on consumers. Thus, we forecast that overall consumer spending growth will slow towards yearend and then contract in Q1 2024 and Q2 2024. As inflation and interest rates abate later in 2024, we expect consumption to begin to expand once more."

"Meanwhile, following strong growth in Q2 2023, business investment stalled in Q3 2023 as interest rate increases made financing activities more expensive. We expect this trend to intensify over the next several quarters as the Fed resists calls to cut rates until mid-2024. Residential investment, which had been contracting since 2021, began to grow again in Q3 2023. Persistent demand for new homes and a dearth of supply was the driver. However, we don't expect this trend to accelerate until interest rates begin to come down."

Goss: I expect: ***The Federal Reserve Open Market Committee to leave short-term interest rates unchanged at their first meetings in 2024, Jan. 30-31. ***I continue to expect a mild U.S. recession in the first half of 2024. The real estate market will be the catalyst with foreclosures rising dramatically. ***Business bankruptcies will continue to rise in the months ahead.

SUPPLY MANAGER READING ROOM

20 Key Negotiation Strategies for Supply Chain Success. Forbes Panel, Oct. 20, 2023.

Negotiating efficiently with supply vendors is paramount to a company's success in ensuring customer satisfaction and maintaining a healthy bottom line. Supply vendors play a pivotal role in providing the essential materials and resources that enable your business to deliver quality products and services. Consequently, honing your negotiation skills in this realm is vital to maintaining a competitive edge in today's fast-paced market. See rest of article at:

<https://tinyurl.com/yy8dyz5t>

SUPPLY MANAGER JOB MARKET

Supply Chain Program Manager. General Dynamics, Bloomington, MN. As the Supply Chain Program Manager, you'll lead the supply chain efforts, accountable for supplier performance in meeting the cost, schedule and technical needs of our business. **Qualifications: Bachelor's degree in a related field; Department of Defense Secret security clearance; Applicants must be willing to be subject to security clearance. Salary range: \$135,775 - \$146,912.

Apply at: <https://tinyurl.com/t9uhrw4>

KEEP AN EYE ON

➤ Yield on 10-year U.S. Treasury bond.

This indicator which is released in almost "real time" has become the most watched financial indicator. Moving outside the range of 3.9% and 4.6% is a warning signal.

➤ GDP for QIV, 2023.

On Jan. 25, the U.S. BEA releases its QIV GDP growth estimate. New York's Nowcast is estimating 2.54%. Below 1% or above 3.0% will move bonds. Below 1%, bond prices rise and yields fall. Above 3%, bond yields rise and prices increase.

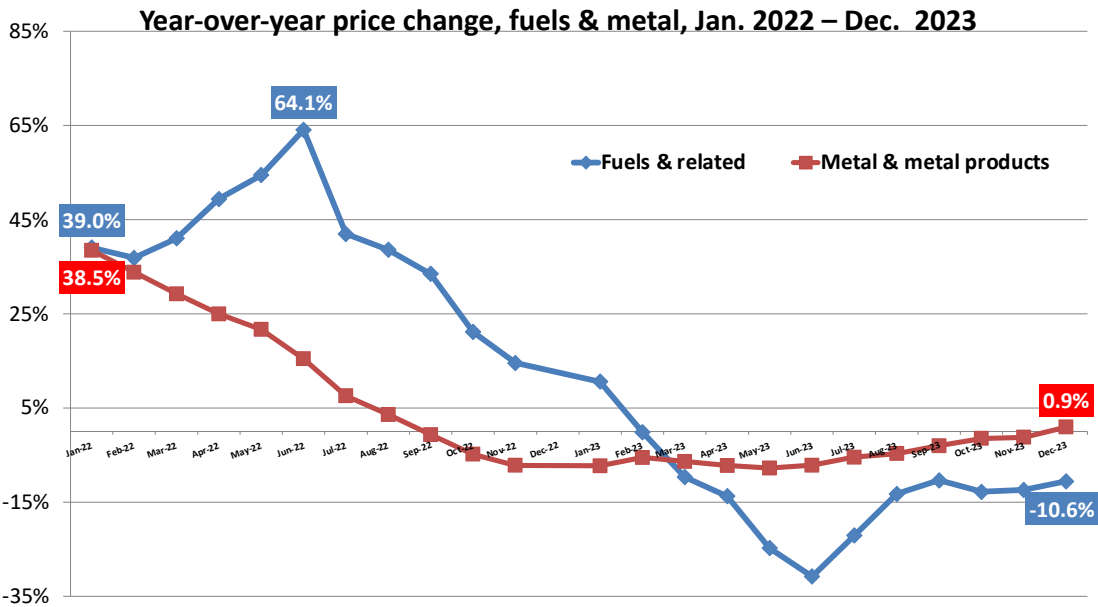
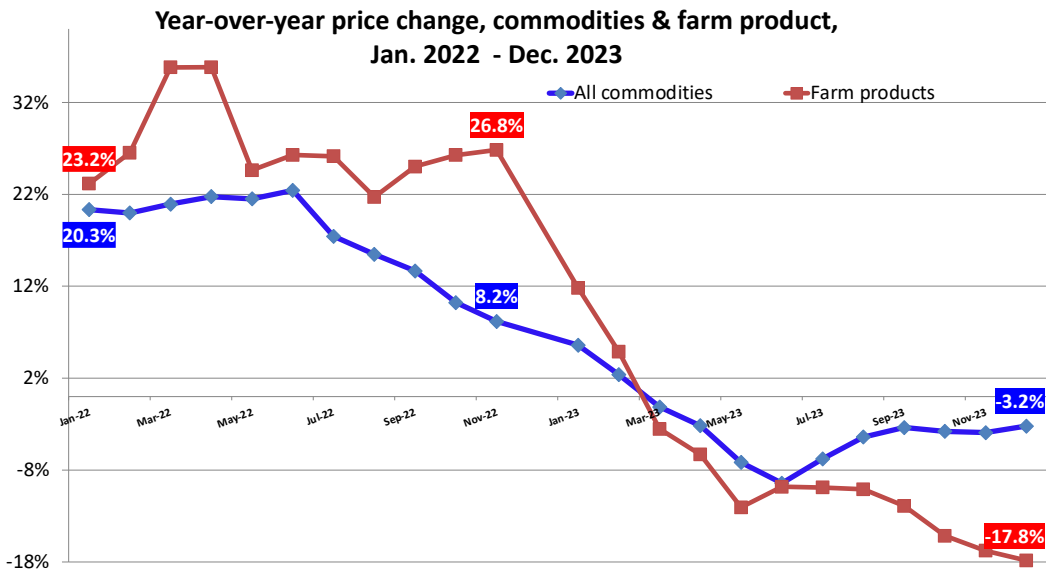
➤ Employment Report for Jan. On Feb.

2, the U.S. BLS releases its estimate for Jan. employment. Another strong reading (above 190,000) will be bad for bond prices as yields begin to rise again dashing investors hopes for Fed rate cuts.

STATISTIC(S) OF THE MONTH

19.6%

According to Moody's Analytics, 19.6% of office space in major U.S. cities was unleased for Q4, 2023



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For historical data and forecasts, visit our website:

www.creighton.edu/economicoutlook.com

For ongoing commentary on recent economic developments, visit our blog at:

www.economicstrends.blogspot.com

Goss monthly interview at: <https://bit.ly/MidAmericaBCIDecember2023YouTube>

This month's survey results will be released on February 1st



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