May
2024

THE MIDAMERICA ECONOMIC REPORT

A monthly survey of supply managers

Welcome to Creighton's May supply manager report covering April survey results. The April overall reading from supply managers in MidAmerica rebounded to its highest level since September with elevated inflationary pressures. Thank you for your contributions. Ernie

MIDAMERICA

Mid-America Manufacturing Expands for the Month: Job Losses Continue with Elevated Inflation

- Overall, or Business Conditions Index, climbed to its highest level since September 2023.
- The wholesale price remained at a level indicating elevated inflationary pressures.
- The region's manufacturing sector lost jobs for a fourth straight month.
- Supply managers expect input prices to expand by 5.3% over the next six months.
- Survey participants reported a wage gain of 3.5% over the past 12 months, or below the rate of inflation.
- The number of discharges and layoffs in the region soared by 24.5%, or 35,000 involuntary separations over the 12 months.

(continued next page)

Federal Spending Dominates While the Federal Reserve Accommodates

Approximately 95% of economists, including yours truly, expected a recession in either 2023, or the first half of 2024. So, what went wrong with our forecasts, or right with the economy. **First, federal spending domination**: Post-pandemic, federal spending expanded at a pace not matched outside of wars and recessions. **Second, Federal Reserve (FED) accommodation**: During federal fiscal domination, the FED abetted the spending by purchasing debt (bonds) issued by the U.S. Treasury, which generated a rocketing money supply.

Federal Spending Domination-As presented in Figure 1, federal government spending expanded at a compounded annual growth rate (CAGR) of; 5.1% between QI, 2017 and the beginning of the pandemic; 10.3% between Q1, 2020 and Q1, 2022, and; 5.4% between Q1, 2022 and Q1, 2024. To enable this spending, as presented, the U.S. federal debt soared by a CAGR of 10.6% from the beginning of the pandemic to QI, 2024. But how did the Fed accommodate this spending and debt growth?

FED Accommodation-As presented in Figure 2, the Fed spiked the U.S. money supply by a CAGR of 15.3% between the beginning of the pandemic to the first quarter of 2024.

The rapid expansion was accomplished by the FED buying U.S. debt (Treasury bonds) and U.S. government agency backed securities by a CAGR of 43.9% during this same time-period. Termed Quantitative Easing (QE), this is sometimes referred to as monetizing the debt, or in today's parlance, Modern Monetary Theory (MMT)—the hypothesis that the federal government can overspend in perpetuity as long as the FED stands ready as a buyer of last resort for U.S. Treasury bonds (debt). Ernie Goss.

Figure 1: Federal debt & spending, 2017-24

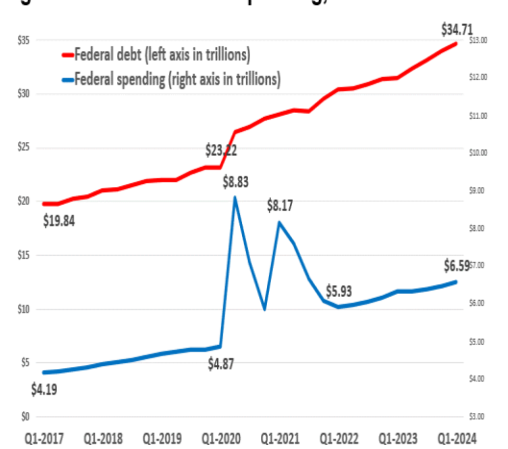
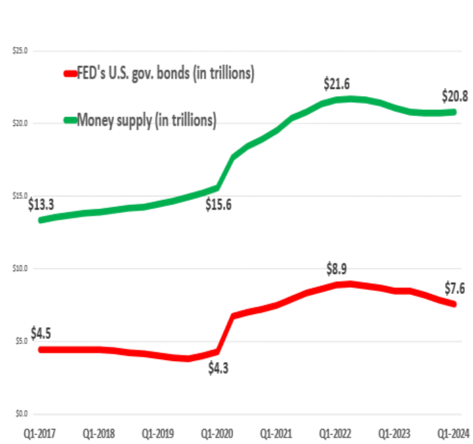


Figure 2: Fed bond holdings & money supply, 2017-24



BULLISH NEWS

- The New York Fed estimates Q2, 2024 GDP growth at 2.3% (not great, but not bad).
- The U.S. economy added a strong 175,000 jobs in April and the unemployment rate rose to 3.9%.
- According to the Case-Shiller home price index February home prices jumped 6.4% year over year, the fastest pace since November 2022.

.BEARISH NEWS

- Between March 2023 and March 2024, the number of U.S. new hires fell by 455,000.
- The Congressional Budget Office (CBO) projects Federal budget deficits of $20 trillion 2025-34 on top of the current debt of $34.5 trillion.
- The average U.S. wage rate expanded by 3.5% over the past 12 months, or approximately equal to the growth in consumer prices.

Overall: 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, increased to 52.5 from March's 49.6-the 3rd time in past five months above growth neutral-Ernie

After two straight months of below above growth neutral, the Creighton University Mid-America Business Conditions Index, a leading economic indicator for the nine-state region stretching from Minnesota to Arkansas, climbed above the 50.0 growth neutral threshold for April.

The overall index, much like the U.S. reading, has vacillated around growth neutral for the last five months. Additionally, supply managers remained pessimistic regarding the 2024 outlook with approximately 45% expecting a recession in the second half of 2024. The Mid-America report is produced independently of the national ISM.

Employment: After climbing to growth neutral for December, the employment gauge has tumbled below 50.0 for the past four months. The April employment index fell to 40.0 from March's 40.9. Over the past 12 months, according to the latest monthly U.S. Bureau of Labor Statistics data, the number of discharges and layoffs in the region soared by 24.5%, or 35,000 job involuntary separations over the 12 months.

Despite labor shortages and elevated inflationary pressures, supply managers reported a 12-month wage gain of only 3.5%, or less than inflation over the same period of time.

Comments from supply managers in April:

•"Our input costs are affected by crude oil prices."

•"Predicting that 'Basic Commodities' in general will see price erosion in the next year. In addition, where there is opportunity for cost reduction initiatives, overall cost of goods sold will go down."

•"Areas where there is lack of completion or inability to make changes, will show high increases in prices."

•"Orders down and prices are up."

•"Price of fuel and housing starts impact our business dramatically. Fuel is stable, but housing is weak so business is soft, but fairly stable.".

•"We expect the current challenging business environment to slightly worsen until the Fed cuts interest rates."

•"Inflation and national debt - the silent tax that is accelerating. Wake up!"

Wholesale Prices: The April price gauge slipped to a still too high 76.0 from 77.3 in March. Supply managers expect input prices to expand by 5.3% over the next 6 months. The regional inflation yardstick has moved into a range indicating elevated inflationary pressures and points to price growth well above the Fed's target for the second half of 2024.

Confidence: Looking ahead six months, economic optimism as captured by the April Business Confidence Index sank to 32.0, its lowest level since January 2024, and down from 41.0 in March. Approximately 45% of supply managers expect worsening business conditions over the next six months. However, this is an improvement from March's 68% that expected economic deterioration.

Inventories: The regional inventory index, reflecting levels of raw materials and supplies, climbed to 56.3 from March's 54.6. Manufacturers have increased inventories in anticipation of greater sales in the months ahead,

Trade: The rising value of the U.S. dollar, making U.S. goods less competitively priced abroad is hurting exports. As a result, export numbers worsened for the month with new export orders sinking to 42.9 from March's 53.9. April's import reading climbed to a weak 47.4 from 44.2 in March.

Other survey components of the April Business Conditions Index were: new orders increased to a solid 58.4 from 47.8 in March; the production or sales index improved to 52.0 from 50.1 in March; and the speed of deliveries of raw materials and supplies climbed to 56.0 from March's 54.5. The increase indicates an upturn in supply chain disruptions and delivery bottlenecks for the month.

.Below are the state reports:

Arkansas: The state's Business Conditions Index increased to 53.2 from March's 50.1. Components from the April survey of supply managers were: new orders at 59.1; production or sales at 52.0; delivery lead time at 58.2; inventories at 59.8; and employment at 37.0. According to the latest month's U.S. Bureau of Labor Statistics data, involuntary job losses expanded by 4,000, or 30.8%, over the past 12 months in Arkansas.

GOSS EGGS

RECENT DUMB ECONOMIC MOVES

Freddie at It Again!

As Yogi Berra would say, "It's Déjà vu all over again." Apparently Government Supported Enterprises (GSEs), Freddie Mac and Fannie Mae, learned nothing from their mortgage backed loan failures in 2008-11 which inflicted U.S. taxpayers with total combined losses of $266 and required a $187.5 billion bailout from the U.S. Treasury.

Now according to the Wallstreet Journal Editorial Board, Freddie Mac wants to guarantee second mortgages on homes on which owners have ultra-low first mortgage interest rates, lots of home equity and wish to tap into this equity to pay off current high interest auto and credit card balances. That is, in addition to $7.5 trillion of taxpayer backing at risk the GSEs wants to get back into your wallet.

A reduction in equity would once again subject the taxpayer to massive losses from a downturn in home prices and climbing interest rates. The GSEs can implement the plan within 60 days unless the FHFA (Federal Housing Finance Authority) vetoes it. There is the temptation to see politics behind this move since it would significantly boost consumer spending as the second mortgage refinancing finds it way onto the street. Not bad for incumbent politicians running for office this November.

5 OF 5 GOSS EGGS

Iowa: The state's Business Conditions Index for April improved to 55.3 from 51.8 in March. Components of the overall April index were: new orders at 59.3; production or sales at 51.9; delivery lead time at 58.1; employment at 47.8; and inventories at 59.3. According to the latest month's U.S. Bureau of Labor Statistics data, involuntary job losses expanded by 1,000, or 5.9%, over the past 12 months in Iowa.

Kansas: The Kansas Business Conditions Index for April expanded to 51.5 from March's 45.6. Components of the leading economic indicator from the monthly survey of supply managers for April were: new orders at 58.7; production or sales at 51.6; delivery lead time at 56.6; employment at 38.8; and inventories at 51.9. According to the latest month's U.S. Bureau of Labor Statistics data, involuntary job losses fell by 1,000, or 6.7%, over the past 12 months in Kansas.

Minnesota: The April Business Conditions Index for Minnesota climbed to 52.4 from 47.4 in March. Components of the overall April index were: new orders at 58.8; production or sales at 51.7; delivery lead time at 57.0; inventories at 53.7; and employment at 41.0. According to the latest month's U.S. Bureau of Labor Statistics data, involuntary job losses soared by 37,000, or 132.1%, over the past 12 months in Minnesota.

Missouri: The state's April Business Conditions Index expanded to 55.5 from 53.8 in March. Components of the overall index from the survey of supply managers for April were: new orders at 59.1; production or sales at 52.0; delivery lead time at 58.2; inventories at 59.7; and employment at 48.4. According to the latest month's U.S. Bureau of Labor Statistics data, involuntary job losses fell by 4,000, or 13.8%, over the past 12 months in Missouri.

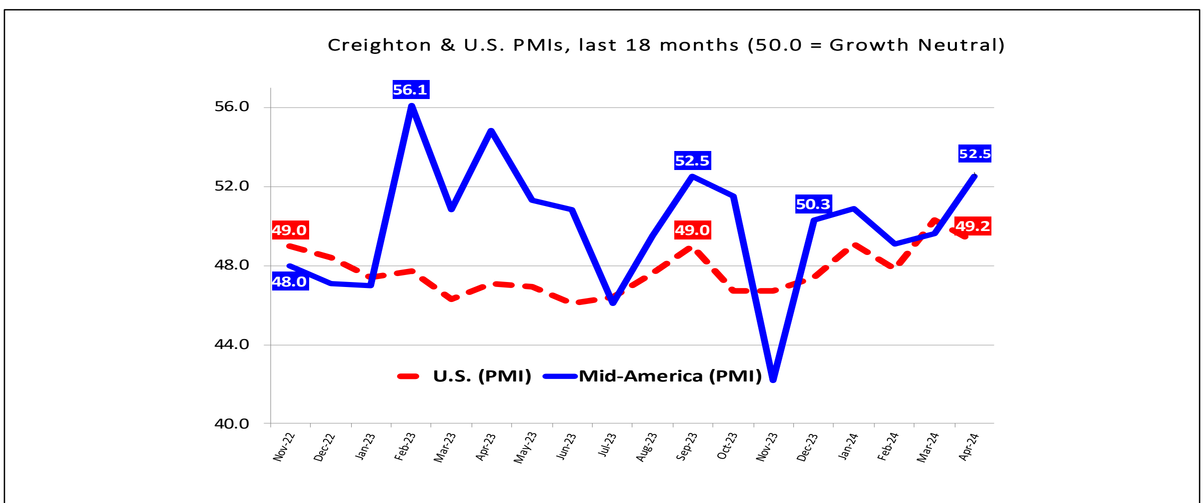
Nebraska: After two straight months of below growth neutral readings, Nebraska's Business Conditions Index moved above the 50.0 threshold. The overall reading for April increased to 50.1 from 49.7 in March. Components of the index from the monthly survey of supply managers for April were: new orders at 58.5; production or sales at 51.5; delivery lead time at 56.0; inventories at 49.0; and employment at 35.3. According to the latest month's U.S. Bureau of Labor Statistics data, involuntary job losses were unchanged over the past 12 months in Nebraska.

North Dakota: For a second straight month, the state's overall index fell below growth neutral. The state's overall, or Business Conditions Index, increased slightly to 44.8, a regional low, from March's 43.9. Components of the overall index for April were: new orders at 57.4; production or sales at 50.3; delivery lead time at 51.2; employment at 39.0; inventories at 51.2. According to the latest month's U.S. Bureau of Labor Statistics data, involuntary job losses were unchanged over the past 12 months in North Dakota.

Oklahoma: The state's Business Conditions Index expanded to a solid 54.7 from March's 53.3. Components of the overall April index were: new orders at 59.0; production or sales at 51.9; delivery lead time at 57.9; inventories at 58.2; and employment at 46.6. According to the latest month's U.S. Bureau of Labor Statistics data, involuntary job losses fell by 1,000, or 5.3%, over the past 12 months in Oklahoma.

South Dakota: The April Business Conditions Index for South Dakota bounced to a third consecutive high of 61.4 from March's 60.8. Components of the overall index were: new orders at 53.0; production or sales at 60.1; delivery lead time at 62.3; inventories at 79.6; and employment at 52.0. According to the latest month's U.S. Bureau of Labor Statistics data, involuntary job losses fell by 1,000, or 16.7%, over the past 12 months in South Dakota.

Survey results for the month of May will be released on June 3, 2024, the first business day of the month.



THE OUTLOOK

National Association of Business Economics (NABE) April 2024. NABE Panelists Report More Widespread Sales and Profit Margin Increases, But Less Optimism Regarding Growth in Next Three Months. COMMENTS: “The April 2024 Business Conditions Survey results suggest a still-strong business environment, with more respondents than in the January survey reporting rising sales and profit margins in the previous three months,” said NABE President Ellen Zentner, chief U.S. economist, Morgan Stanley. “However, fewer panelists than in January expect their firms’ sales or profit margins to increase in the next three months.”

“The results also suggest that inflation is still with us, but may be easing,” added NABE Business Conditions Survey Chair Carlos Herrera, chief economist, Coca-Cola North America. “Almost two-thirds of panelists expect prices charged to remain unchanged in the next three months.” HIGHLIGHTS Compared to the results from the January survey, more panelists are reporting rising sales and fewer are reporting falling sales in the past three months. The Net Rising Index (NRI) for sales—the percentage of panelists report-ing rising sales minus the percentage reporting falling sales—rose to 49 in April. This is up from 37 in the January survey, and marks the highest reading since the April 2022 sur-vey conduct. https://tinyurl.com/3d94jy8t

Supply Manager Reading Room

How to Respond to Supply Chain Disruptions?

Businesses must navigate disruption’s financial and operational challenges. And they need to do so while rapidly addressing the needs of their people, customers, and suppliers. With the right actions, supply chain leaders can turn massive complexity and disruption into meaningful change.

Businesses need to create value chains with long-term resilience. This requires holistic approaches to managing the supply chain. Companies must build in sufficient flexibility to protect against future disruptions. And they need a responsive and resilient risk management operations capability.

Read rest of essay at:

https://tinyurl.com/58kej43e

Supply Manager Job Market

Supply Chain Manager-Eastman Chemical, St. Louis, Mo. Founded in 1920, Eastman is a global specialty materials company that produces a broad range of products found in items people use every day. With the purpose of enhancing the quality of life in a material way, Eastman works with customers to deliver innovative products and solutions while maintaining a commitment to safety and sustainability.

*Master’s degree in Engineering, Supply Chain, Operations Research or similar**A minimum of 10-year experience in a leadership position in a supply chain environment with focus on IBP/S&OP, inventory management, supply chain performance management**Strategic Thinking – Developing compelling and effective supply chain strategies that are aligned with segment strategies**Coaching – Has demonstrated Leadership skills.

https://tinyurl.com/53pxn264

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 4.7% is a warning signal.

•Consumer price index (CPI). On June 12th the U.S. BLS releases its CPI for May. Another monthly gain above 0.3% will push a Fed rate could would push a rate cut to no earlier than Q4, 2024.

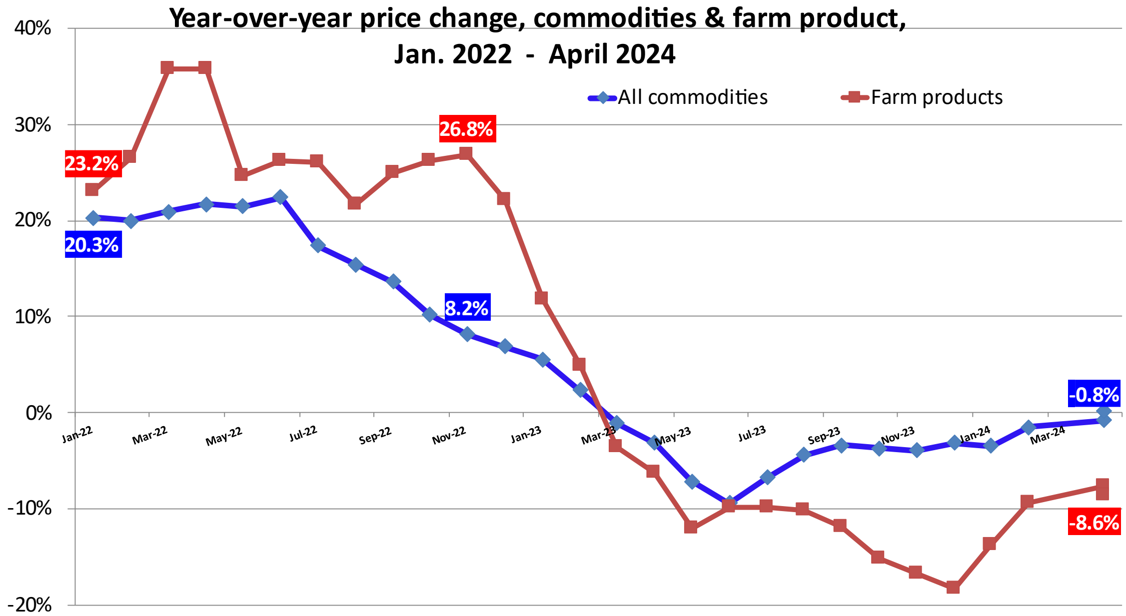
•Employment Report for May. On June 7th, the U.S. BLS releases its estimate for May unemployment. A rate above 4.0% would shake equity markets and boost bond prices and could push the Fed to cut rates later in Quarter III.

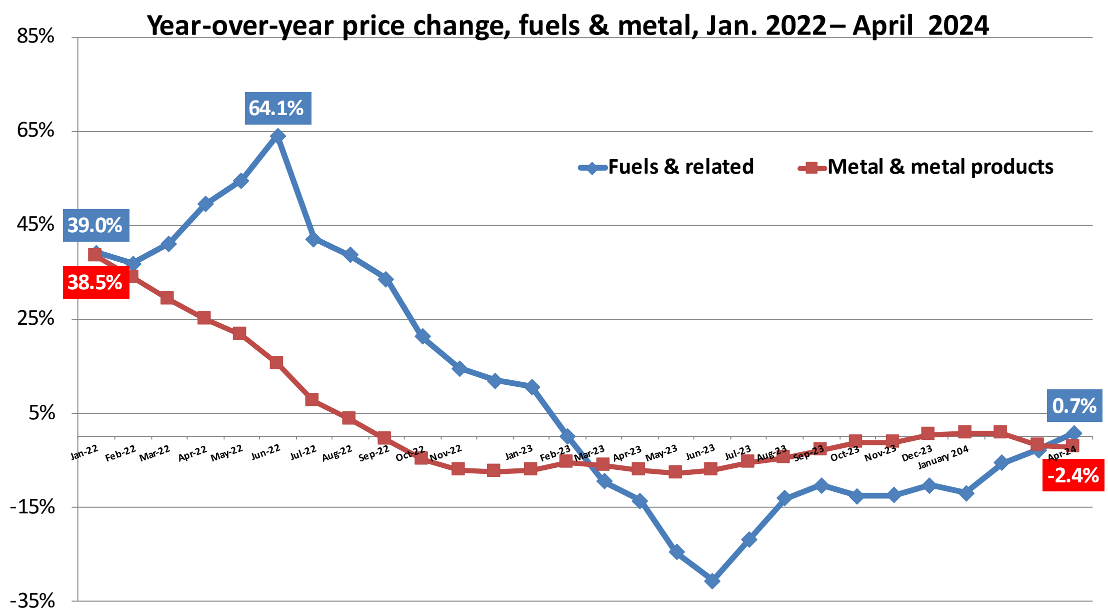
Gold prices. Driven higher by inflation and financial risks the price per ounce has reached a record high of $2,420. See instant prices at http:finance.yahoo.com

STATISTIC(S) OF THE MONTH

12.5 years

The average age of cars and light trucks on American roads rose to a record high of 12.5 years in 2023 (a 2.1 year expansion since 2015 and 3.7 year increase since 2003). Higher interest rates, inflation, and supply constraints contributed.





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For ongoing commentary on recent economic developments, visit our blog at: www.economictrends.blogspot.com

Goss monthly interview at: https://bit.ly/MidAmericaBCIApril2024YouTube

This month's survey results will be released on June 3rd