



Institute for Supply Management,
Greater Grand Rapids, Inc.
P. O. Box 230621
Grand Rapids, MI 49523-0321

News Release (For Immediate Release)

March 5, 2015

Current Business Trends

By Brian G. Long, Ph.D., C.P.M.
Director, Supply Chain Management Research
Grand Valley State University (269) 323-2359

Modest growth continues with a new note of caution

The West Michigan economy continues on a path of modest growth, although there is now a hint of caution in the air. That's the latest word on the West Michigan economy, according to the data and comments collected in the last two weeks of February 2015. NEW ORDERS, our index of business improvement, came in at +13, the same level as the previous two months. In a similar move, the EMPLOYMENT index remained unchanged at +19. Despite a few weather challenges, the PRODUCTION index edged up to +18 from +13. Activity in the purchasing offices, our index of PURCHASES, remained virtually unchanged at +16, down from +17. Hence, the pattern of slow growth continues to move forward as we head into the spring season.

Just like last month, many of our local industrial groups reported mixed results for February. The office furniture business remains positive, but sales in the middle of winter are seasonally slow. It is worth repeating that Mike Dunlap's January Furniture Industry Index came in at the second best level since July 2007. With auto sales still very positive, our automotive parts producers continue to be optimistic. The capital equipment firms have turned flat, and are now much more cautious. For the industrial distributors, the February results came in mixed. While many of the comments from the survey participants remain positive, at least some respondents are sounding a note of caution.

The March 2, 2015 press release from the Institute for Supply Management, our parent organization, posted a slight increase in business activity. ISM's index of NEW ORDERS rose modestly higher to +11, up from +7, but still down significantly from November's +23. The PRODUCTION index also edged up to +11 from +9. NEW EXPORT ORDERS remained negative at -3. However, the BACKLOG OF ORDERS index flipped back to positive at +3.

Markit.com, the international consulting firm based in London, reported a slight upturn in the U.S. economy for the month of February. Markit's "Purchasing Managers' Index" or PMI rose to 55.1, up nicely from 53.9. The survey author writes:

"Manufacturers braved the cold weather in February, reporting an upturn in the pace of growth. A flurry of activity towards the month end helped raise production to a greater extent than signaled by the earlier flash reading. The upbeat survey points to minimal impact from the adverse weather that affected many parts of the country during the month. While growth of manufacturing output remained below the peaks seen last year, the survey is broadly consistent with production rising at an annualised rate approaching 4%."

At the international level, the March 2, 2015 J.P. Morgan report on Global Manufacturing still depicts a

flat world economy. JPM's index of NEW ORDERS remained unchanged at 52.3. The PRODUCTION index rose to 53.3 from 52.9. Of course, these indexes constitute averages for the whole world, but the heaviest weights come from the U.S., Japan, and China. For some of the smaller countries, Ireland's PMI is now at a 182-month high of 57.5. Other positive reports were posted by Spain, Italy, and Germany. However, France, Brazil, Greece, Russia, and Austria remain negative. China, after several months below the 50.0 break-even point, flipped back to positive at 50.7 in February. While China is key to the health of the world economy, Canada is our largest trading partner. In February, lower prices for oil and other resources finally caught up with the Canadian manufactures, miners, and exporters. The RBC Canadian manufacturing PMI fell to a four year low of 48.7, down from 51.0 just a month earlier.

Many of our survey participants commented this month about the negative impact of the West Coast dock strike and the West Coast worker slowdown. The entire supply chain was impaired by slow deliveries as well as the necessity to search for other sources of supply and other transportation modes. At least one of our local firms was facing the possibility of shutting down for lack of materials. Fortunately, on February 23, the West Coast dockworkers concluded a tentative agreement for a five-year contract featuring even higher wages and benefits than the current \$1,200-per-day that the average longshoreman now receives. It will take several months to clear the container backlog from the docks and return shipping to normal. Although we now don't have to worry about a strike for another five years, some manufacturers are making long term plans to ship through other ports. With the new expansion of the Panama Canal opening in a few months, ports like Houston and Mobile will now be able to unload the larger container ships. The West Coast ports have lost 7% of their business over the past seven years and will probably lose more to ports like Houston in the future.

Turning to auto sales, February was another good month for the industry as a whole. Subaru posted a 18.5% gain, and Toyota's sales rose 13.3%. For the domestic nameplates, Chrysler led the way with an uptick of 5.6%, and GM rose 4.2%. Ford lost 2.0%, held down by the Lincoln division. However, Lincoln is now only 3.6% of the company's sales, and rumors are circulating around Detroit that Ford may soon drop the division altogether. Fortunately, many of our local auto parts suppliers have now won contracts with both the Japanese and Korean transplant companies. As noted in the past, at least some of our local firms are WORLD competitive in price, quality, and service. In terms of TOTAL cost, they can go toe-to-toe with Korean, Chinese, Mexican, and Brazilian competitors.

Industrial deflation continues to be a two edged sword. Price drops for most major commodities, including oil, steel, and copper, have given many firms some

welcome relief. Although some suppliers have been slow to pass their cost savings along, many firms expect input costs to fall well below their estimates of a few months ago. Our local index of PRICES for February fell to -22, down from January's -16. The ISM index of PRICES, which fell to -30 last month, remained at -30 in February. It is worth repeating that the ISM national data base shows the history of the PRICES index for 805 months since January 1948. Of those 805 monthly reports, only 21 logged an index of 30 or below. All of these 21 reports occurred during recessions. However, as the saying goes, past performance is not necessarily an indication of future performance. In today's world we are in uncharted territory. Typical for any period of deflation, many firms have decreased their input inventories in anticipation of lower prices in the near future. However, the West Coast dock problem simultaneously forced an increase in inventories for other firms. To complicate the calculus even further, some of the basic commodities like copper have been purchased for speculation. If the speculators purchased with borrowed money, they could be forced to sell their holdings into an already surplus market. In short, we do not yet know the impact of this convoluted round of industrial deflation, but because of the trillions of

dollars involved worldwide, the situation requires continued scrutiny. Having SOME industrial prices coming down may be a good thing for the short term, but having ALL industrial prices fall could easily spell economic trouble.

Looking ahead, rapid growth will be restrained by the sluggish world economy. The European economy remains marginal, but recent strength in the German economy bodes well as far as avoiding a recession in the Eurozone. The strong dollar continues to hurt our exports. Simultaneously, the strong dollar reduces the earnings for our multinational companies. The situation in Greece is still uncertain, and the four month reprieve to reach a debt refinancing agreement WE HOPE will result in a compromise. However, the public oratory generated by both the new Greek government and European lenders may cause swings in the financial markets. In general, the markets now seem to be downplaying the uncertain geopolitical problems in Libya, Yemen, the Ukraine, and other places around the world. Barring a geopolitical catastrophe or a terrorist attack, our economy still has enough momentum to carry us forward for the next few months. The second half of the year will depend on how the world financial community deals with industrial inflation and with Greece.

FEBRUARY 2015 COMMENTS FROM SURVEY PARTICIPANTS

"The inquiries are starting to pick up now that the holidays are over and the "annual" first of the year dead spot is over."

"Energy sector is in a downturn."

"We have hit a slowdown. Bookings are way off from normal. Our business is NOT seasonal. The winter should not be affecting orders. I am a little baffled at this point."

"This is our typical slow time of the year. We have a lot of bid activity, and a busy summer coming."

"We're trending upward, but the orders are small." "It seems like things are slowing down. We've been running a promotion with aggressive discounting for machinery, but not getting much interest."

"We're seeing price relief on Items that are linked to oil."

"We're signs of softening, although this is somewhat common for our industry in the first quarter. Sales are not as brisk as they were the previous two years, but still pretty good."

"Business is fair, but not as aggressive as last year at this time."

"We are very busy in our shop, and our suppliers are also busy."

"There are some signs of a slowdown especially in the petroleum markets."

"International freight being impacted by dock strikes, causing us to carry higher inventories or buy locally at a higher price."

"Sales are flat, and we are well behind our sales plan that called for 5% growth in 2015."

"Lead times are up on the parts we receive from overseas due to the port congestion and workers slowdown on the West Coast."

"We are extremely busy! I would say we are 'cautiously' excited as we see raw material prices falling. It is only a matter of time before we see the slowdown."

"We are at a seasonal low for office furniture."

"My company may be an anomaly right now, due to technical changes in our product."

"We are expecting solid customer demand through the end of October."

"Some orders from customer have been reduced based on the labor dispute on the West Coast ports. A stronger dollar is having an impact as well."

"The West Coast Port situation is dire."

"I'm ready to be done with winter and begin spring time operations!"

"Our 'live events' related business is up, but the manufacturing side is down."

"The West Coast port slowdown is causing delivery delays and increasing delivered cost of some products."

"The port congestion is getting bad, and is going to shut us down. Obama need to do something."

"Challenges with West Coast ports slowdown have forced increases in inventory."

"The West Coast is really causing issues with the supply chain, and we do not even ship that much through there!"

"We had a solid month in January, and a good start to 2015."

"All of our savings efforts are driven from VAVE projects."

"The West Coast issues have been very challenging for bringing in parts from the Far East."

February 2015 Survey Statistics

| | UP | SAME | DOWN | N/A | Feb. Index | Jan. Index | Dec. Index | 20 Year Average |
|--|-----|------|------|-----|---------------|---------------|---------------|--------------------|
| Sales (New Orders) | 33% | 46% | 20% | 1% | +13 | +13 | +13 | +29 |
| Production | 31% | 50% | 13% | 6% | +18 | +13 | +19 | +13 |
| Employment | 28% | 63% | 9% | | +19 | +19 | +23 | + 8 |
| Purchases | 37% | 40% | 21% | 2% | +16 | +17 | +13 | + 7 |
| Prices Paid (major commod.) | 8% | 60% | 30% | 2% | -22 | -16 | + 0 | +35 |
| Lead Times (from suppliers) | 36% | 58% | 6% | | +30 | +12 | +12 | +11 |
| Purchased Materials Inv. (Raw materials & supplies) | 30% | 48% | 16% | 6% | +14 | +15 | - 3 | - 5 |
| Finished Goods Inventory | 19% | 57% | 16% | 8% | + 3 | - 7 | - 6 | -10 |
| Short Term Business Outlook (Next 3-6 months) | 30% | 58% | 12% | | +18 | +20 | +24 | - |
| Long Term Business Outlook (Next 3-5 years) | 49% | 39% | 8% | 4% | +41 | +35 | +40 | - |

Items in short supply: Ball bearings, surfactants, amines, unskilled labor, everything coming from West Coast ports.

Prices on the UP side: Chemical based items, shipping, bituminous paving materials, emulsions, aluminum, sodium hypophosphite, carbonyl gas, nickel powder, polypropylene, PVC resin, fuel, solvents, domestic steel.

Prices on the DOWN side: Steel*, oil based items, steel surcharges, carbon steel, steel scrap, PET resin, polypropylene resin, fuel, copper, aluminum, plasticizer, SEBS resin, fuel, gasoline, petroleum based finished goods (5-10%), machine tools, paper, plastic, imports from Europe and India, NaOH, HCl, steel castings, Chinese steel, Chinese Rod, rubber, copper.

*Note: All items marked with an asterisk are reported as BOTH **up** AND **down** by different survey participants.

Latest Unemployment Reports

(Note: Data are **NOT** seasonally adjusted)

| | Dec. 2014 | Nov. 2014 | Aug. 2009 | 20 Year Low |
|-----------------------------|--------------|--------------|--------------|----------------|
| State of Michigan | 5.6% | 5.7% | 14.8% | 3.1% |
| Kent County | 3.4% | 3.5% | 11.9% | 2.1% |
| Kalamazoo County | 3.9% | 4.1% | 11.1% | 2.1% |
| Calhoun County | 4.6% | 4.6% | 12.8% | 2.7% |
| Ottawa County | 3.6% | 3.8% | 13.3% | 1.8% |
| Barry County | 4.1% | 3.8% | 10.9% | 2.2% |
| Kalamazoo City | 5.5% | 5.8% | 15.2% | 3.2% |
| Portage City | 3.0% | 3.1% | 8.7% | 1.3% |
| Grand Rapids City | 4.8% | 5.0% | 16.1% | 3.0% |
| Kentwood City | 3.1% | 3.2% | 10.7% | 1.4% |
| Plainfield Twp. | 2.2% | 2.3% | 8.0% | 1.4% |
| Holland City/Allegan | 1.7% | 1.6% | 3.7% | 0.9% |
| U.S. National Official Rate | 5.6% | 5.8% | 9.7% | 3.6% |
| U.S. U-6 Rate* | 11.2% | 11.4% | 16.7% | 8.0% |

*U-6 for Michigan = 14.2% for third quarter of 2014

Index of New Orders: West Michigan

As the name implies, this index measures new business coming into the firm, and signifies business improvement or business decline. When this index is positive for an extended period of time, it implies that the firm or organization will soon need to purchase more raw materials and services, hire more people, or possibly expand facilities. Since new orders are often received weeks or even months before any money is actually paid, this index is our best view of the future.

Latest Report +13 for the month of February, 2015

Previous Month +13 for the month of December, 2014

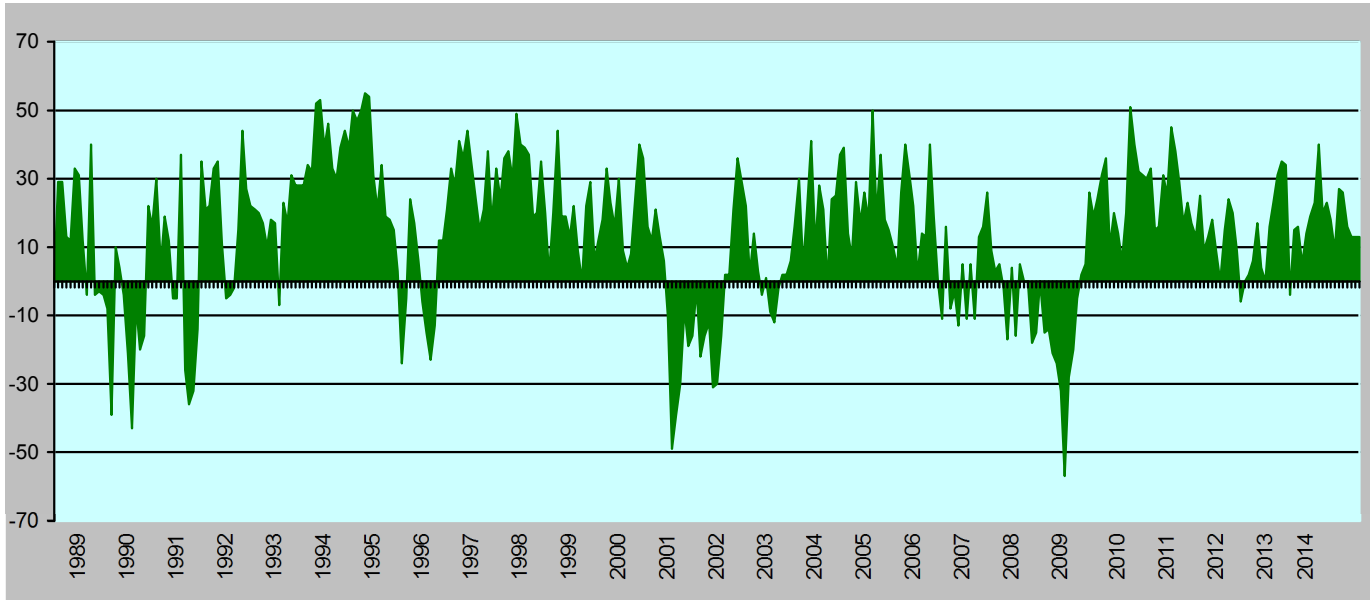
One Year Ago +17 for the month of February, 2014

Record Low -57 for the month of December, 2008

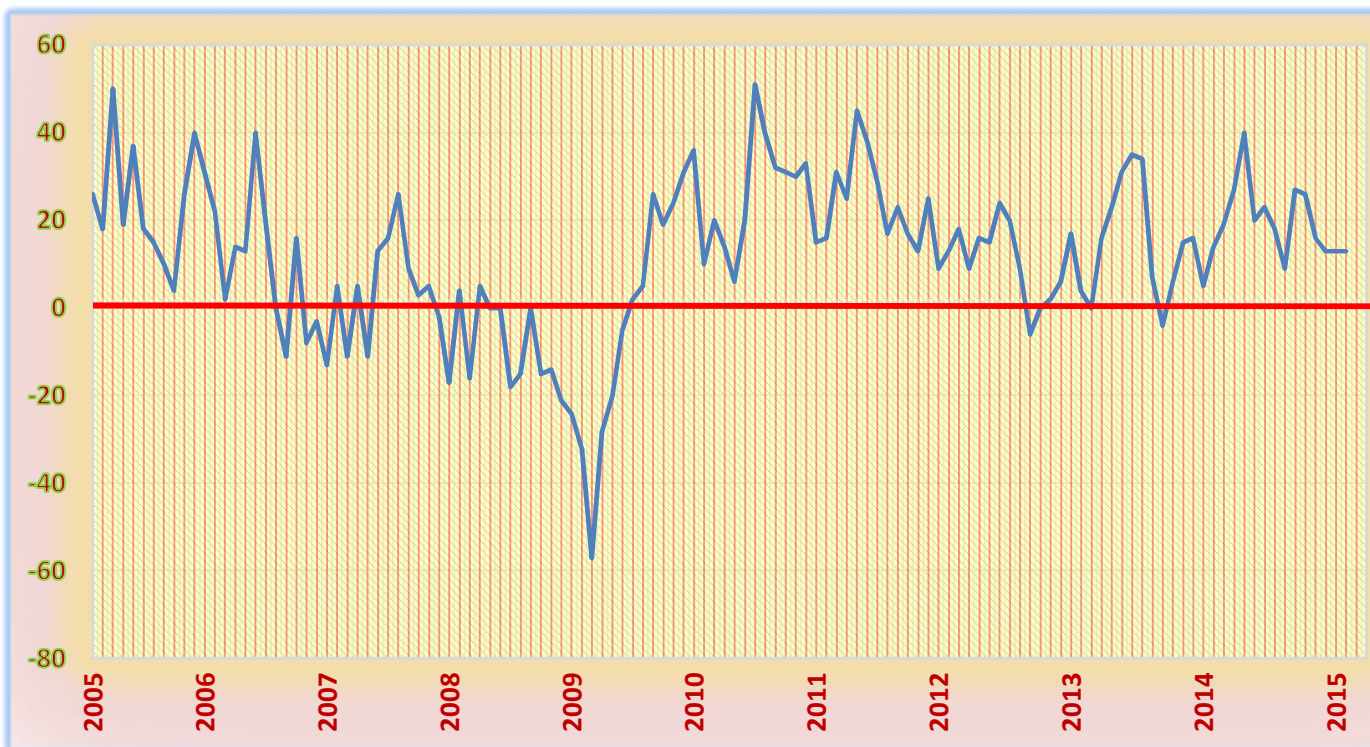
Record High +55 for the month of September, 1994

First Recovery +3 in April of 2009 and forward

ISM-West Michigan Index of New Orders 1988 - 2014

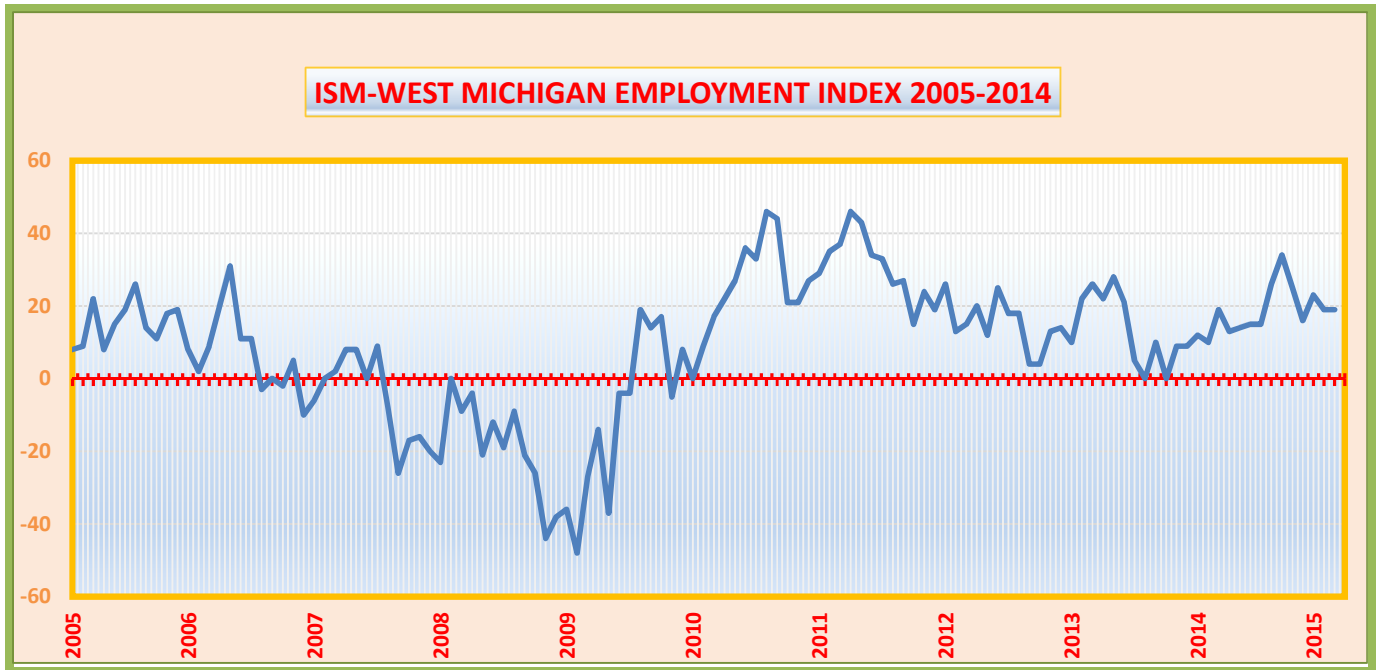


ISM-West Michigan Index of New Orders: 2005-2014 Only



ISM-West Michigan Index of Employment

The index of EMPLOYMENT measures the firm's increases and decreases in staffing, including permanent workers and temps. After economic downturns, it measure new hires as well as previous workers called back to work. When this index is positive for an extended period of time, it almost always signals a downturn in industrial unemployment for West Michigan. Normally, there is about a month in lag time between this report and the payroll numbers being picked up by the government statistics. However, almost all employment indexes are laggards, meaning that firms often wait until upticks in orders are confirmed before adding staff, and conversely lay off staff only after a downturn in orders appears to be certain for the foreseeable future.



ISM-West Michigan Future Business Outlook

The indexes of LONG TERM BUSINESS OUTLOOK and SHORT TERM BUSINESS OUTLOOK provide a glimpse at current and future attitudes of the business community. Traditionally, most businesses are more optimistic about the long term, although current event can result in perceptions changing very rapidly. Both short and long term attitudes reflect current business conditions, and are usually higher when sales, production, and employment are positive.

