

News Release (For Immediate Release)

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Current Business Trends

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GR Manufacturing Economy: Dead Flat

We're dead flat. That's the latest word on the West Michigan Economy, according to the data collected in the last two weeks of January of 2013. As we reported last month, December was flat, but January was even flatter. NEW ORDERS, our index of business improvement, came in at +0, down from +4. Following the slowdown trend, the PRODUCTION index flipped negative to -6, down from +11. Activity in the purchasing offices, our index of PURCHASES, also turned negative at -1, down from +11. The EMPLOYMENT remained modestly positive at +10 although down from +14. However, positive is still positive. In contrast to the last few months, the comments at the end of this report seemed to be more optimistic, although some firms are still cautious about the future. As noted last month, we have some firms at full capacity. Some are reporting all-time highs in sales, and some are very optimistic about 2013. Only two reports from the 71 firms in this month's survey were seriously negative.

Looking at individual industrial groups, Mike Dunlop's quarterly report on the furniture industry came out this month, and more or less confirms what we have been hearing from the individual firms for the past few months. To quote the report, "The industry remains on a very steady, albeit flat, trend line." At an index of 54.30, the report notes that the industry is on "solid grounds." Like our survey, 50.0 is the break-even point. The auto parts suppliers remain positive, but with quoting activity now down a little, many of our local firms may be topping out. Of course, topping out at full capacity is certainly not a negative. Just as last month, the capital equipment firms were widely mixed. For industrial distributors, once again the performance came in mixed, but this month's bias was to the down side.

At the national level, the February 1, 2013 press release from our parent organization, the Institute for Supply Management, came in more positive than expected. After six continuous modestly negative reports, ISM's national index of NEW ORDERS bounced to +7 from -7. In a similar move, the PRODUCTION index also shot up to +6 from -4. ISM's EMPLOYMENT index rose from +0 to +5. All of this resulted in a 2.9% increase in ISM's composite index, which rose to 53.1 from 50.2. In confirmation, the U.S. industrial survey from the British economic firm of Market.com came in at 55.8, up from 54.0. According to the report, much of the gain can be attributed to new export orders. Any way you look at it, January was a good month for the national industrial economy.

At the international level, the February 1, 2013 J. P. Morgan international manufacturing report also turned in a better than expected performance in what the author called a "bright start to 2013." JPM's Global Manufacturing PMI edged up to 51.5 from 50.1, a ten month high. For the 17 country Eurozone,

the index came in at 47.9, an eleven month high. France, Greece, and Spain are still sharply negative, but upticks in Ireland and Germany helped to improve the index. The UK index edged up to a 16 month high. China posted its best report in nearly two years. In short, many of the stronger countries in the world are slowly picking up steam, although there is still considerable concern about the "contamination effect" of countries like Greece, Spain, and Portugal. The survey author continues to believe that the strong countries will continue to MORE than offset the weak countries as 2013 unfolds. All of this obviously still requires that current efforts to refinance the European sovereign debt remain on track, and that the US will avoid a governmental shut-down over the upcoming debt ceiling negotiations.

This month's bad news came from an unexpected drop in the preliminary estimate of GDP for the fourth quarter of 2012. At -0.1%, the GDP is about as close to flat as statistically possible, although it is far below the +1% consensus that a cross section of economists had projected. Again, this is a preliminary estimate, and by past history, we have seen the Federal Reserve readjust GDP numbers as many as four times. Hence, the next revision could swing back to positive, although a downward revision to a more negative reading is also possible.

December local unemployment numbers caused analysts some concern, but most of the problems are more statistical than fundamental. In Kalamazoo County, the jobless rate jumped to 9.1% from 7.7%. For Kent County, the increase was to 6.2% from 5.3%. Even our Cinderella corridor around Holland/Zeeland moved up to 2.8% from 2.2%. State economists consider part of the problem to be seasonal layoffs after the Christmas season. Because the area's sizeable student population joins the workforce upon graduation, they subsequently increase the unemployment figures due to the absence of jobs. Two other things to keep in mind are (1) these numbers are not seasonally adjusted, and (2) the sample sizes are small, causing the numbers to jump around a lot more from month to month.

At the national level, some modestly bad news came from a slight uptick in the national unemployment rate to 7.9% from 7.8%. The marginal improvement in the economy has resulted in some of the discouraged workers who dropped out of the workforce to jump back in again. This raises the official number of people looking for work when computing the unemployment rate. Hence, we saw a slight uptick to 7.9%. Furthermore, most analysts continue to say that we need to see job growth of about 200,000 before we can expect the unemployment rate to start dropping significantly. Although 157,000 payroll positions were added last month, we hope to see some better numbers in future months.

In addition to the improved international purchasing indexes, there is some additional good news coming from across the pond. In the Eurozone, the fourth quarter of 2012 saw the first inflow of capital in months, signaling a positive outlook to the ongoing debt crisis. Several countries, including Greece, Spain, Ireland, and Italy, have seen some limited success to their austerity programs. Interest rates have fallen considerably in many countries, signaling a sluggish return of confidence. Critics also note that the slow improvement in some of the key economies like Germany and the UK are also helping. Indeed, the Eurocrisis is still far from over, and there will continue to be many bumps in the road. However, a consensus is emerging that the potential meltdown is now less likely than it was a few months ago. A serious European recession would drag the US down with it, so it is good news that the odds of this happening are now falling.

Finally, this leaves us with two big elephants in the room, namely the problems of the March 1 budget

sequester and the debt ceiling, due to hit about March 20. Right now, it appears that the probability of a federal government shutdown is about 70%. Over the long term, even the congressional budget office calls the current rate of spending "unsustainable." The problem is of course that some very popular government programs are going to have to be cut and/or scaled back. Julie Mack on Mlive posted a rather interesting article a couple of months ago that depicted a typical couple retiring today will have paid in about \$600 thousand in social security payments and should expect to draw an average of \$900 thousand out over their lifetimes, given the current system. Considering that the baby boomers are now just beginning to retire in larger numbers, the problem becomes obvious. When you add in Medicare, Medicare, government pensions, disability payments, and a few other things, the problem clearly becomes monstrous. March could be a difficult month, and it's only a few days away.

JANUARY COMMENTS FROM SURVEY PARTICIPANTS

"Securing new employees remains a challenge. Odd, considering the environment."

"January generally comes in like a lamb and goes out like a lion, and sales are somewhat following that trend. We hope this continues along this path."

"December was down slightly from November. Overall, it was a very good year. Sales were up over 17% from the year before without any major price increases. January has started a little slow, but is gathering steam as we get towards the end."

"We are busy, but slower than last month. Generally, the first quarter is slower for us."

"First it was the fiscal cliff, and now it is the debt ceiling. What will it be next?"

"Business steady and strong."

"We're steady, but nervous."

"We'll see what happens as the new taxes start to kick in."

"Sales remain strong."

"The economy is still unsettled. The future and what the government leaders will do is concerning, and doesn't give the consumer much confidence. How will their decisions affect small business?"

"We are doing quite well."

"Production was robust during the holiday season."

"Sales are very strong."

"Some weeks are up, some weeks down. It's very flat."

"Things still look promising in the automotive industry. There is a slowdown in quoting activity, but we are still ahead of plan for getting jobs ready for production."

"The Chinese New Year, the year of the snake, is impacting lead time."

"Plant is on shutdown beginning 1/14/2013 for annual repairs."

"Lead times are moving out as most of our suppliers are slammed with work."

"I am keeping an eye on inflation and what impact it will have on cost this year."

"We are very slow."

"We've had a great start to 2013."

"It ain't fun anymore!"

"We're hearing double digit increases for PP at January's closing. Benzene is also at a record high. 2013 may be rough with resin price increases."

"We're looking for a flat sales year for our company, just like last year. And the recession is supposed to be over???"

"2013 is starting off strong!"

"I will be interested to see how the SEC decision to allow JP Morgan to launch an ETF (Exchange-Traded Fund) for copper will affect the price. Some believe price will increase just like gold did when the ETF was approved."

"The lack of snow has helped our winter budget, but has not helped our contractors or the overall economy."

"Sameo, samo."

"January sales came in quite a bit stronger than December but are still down 20% compared to the third quarter of 2012."

"The New Year does not feel as robust as we had hoped. I think the presidential election has business moving very cautiously into 2013."

"Business remains steady, and 2013 looks like a big year. We have a new ERP system and new paint system."

"The economy on durable good side is just not that robust, outside of autos."

"Much of our business is stemming from Hurricane Sandy."

"Early January sales are down, but the sales people are still confident they will pick up and have even raised their forecast."

"We experienced an increase in orders as we do every December. Companies purchase to get the write-off. However, sales were not as good as previous years."

"The repeatedly relative mild winter is keeping scrap prices flat."

General Annual. Wed, Jan 23, 2013 8:41 AM
Find...

"We've had general annual price increases up to 3-5%."

"Beginning of year price increases from many contracts are between 1-3%, on average."

"Recent corrugated price hikes stuck, due to producers jointly raising prices."

January, 2013 Survey Statistics

	UP	SAME	DOWN	N/A	Jan. Index	Dec. Index	Nov. Index	20 Year Average
Sales (New Orders)	21%	54%	21%	4%	+ 0	+ 4	+17	+29
Production	17%	47%	23%	13%	- 6	+11	+21	+13
Employment	21%	68%	11%		+10	+14	+13	+ 8
Purchases	20%	59%	21%		- 1	+11	+ 8	+ 7
Prices Paid (major commod.)	27%	69%	4%		+23	+ 4	+17	+35
Lead Times (from suppliers)	13%	83%	4%		+ 9	+ 2	- 2	+11
Purchased Materials Inv. (Raw materials & supplies)	18%	57%	14%	11%	+ 4	+ 2	- 6	- 5
Finished Goods Inventory	16%	61%	13%	10%	+ 3	+ 4	- 9	-10

Items in short supply: Electronic components, gears, large forgings, cattle, castings, versatile indicators, some resin, some electronic components, skilled trades employees.

Prices on the UP side: Aluminum castings, bearings, most raw material, stainless steel, plastic resin, aluminum billet, polypropylene, plasticizer, calcium carbonate filler, plastic laminate, polypro, PC/ABS, solvents, some electronics assemblies due to soft volumes, pumps, refrigeration components, gravel, aggregate, asphalt, petroleum based products, steel and corrugated metal, concrete, fasteners, copper, copper wire, vending, lumber (probably due to hurricane Sandy) corrugated containers, helium, small tooling pieces, HR & CR steel.

Prices on the DOWN side: Aluminum*, sheet steel*, TiO2, some plastic resins*, polypropylene*, gasoline, paraffinic oil, plastic injection moldings, carbon steel, rare earth metals, sand, scrap steel, steel, propane.

*These items are reported as both up AND down in price.

Latest Unemployment Reports

(Note: Data are NOT seasonally adjusted)

	Dec. 2012	Nov. 2012	Aug. 2009	20 Year Low
State of Michigan	8.9%	7.9%	14.8%	3.1%
Kent County	6.2%	5.3%	11.8%	2.1%
Kalamazoo County	6.6%	5.6%	11.1%	2.1%
Ottawa County	6.3%	5.3%	13.3%	1.8%
Barry County	6.3%	5.0%	10.9%	2.2%
Kalamazoo City	9.1%	7.7%	15.2%	3.2%
Portage City	5.1%	4.3%	8.7%	1.3%
Grand Rapids City	8.7%	7.4%	16.1%	3.0%
Kentwood City	5.6%	4.7%	10.7%	1.4%
Plainfield Twp.	4.1%	3.4%	8.0%	1.4%
Holland City/Allegan	2.8%	2.2%	3.7%	0.9%
U.S. National Rate	7.6%	7.4%	9.7%	3.6%

Index of New Orders: Greater Grand Rapids

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 +4 for the month of December, 2012

Previous Month +4 for the month of December, 2012

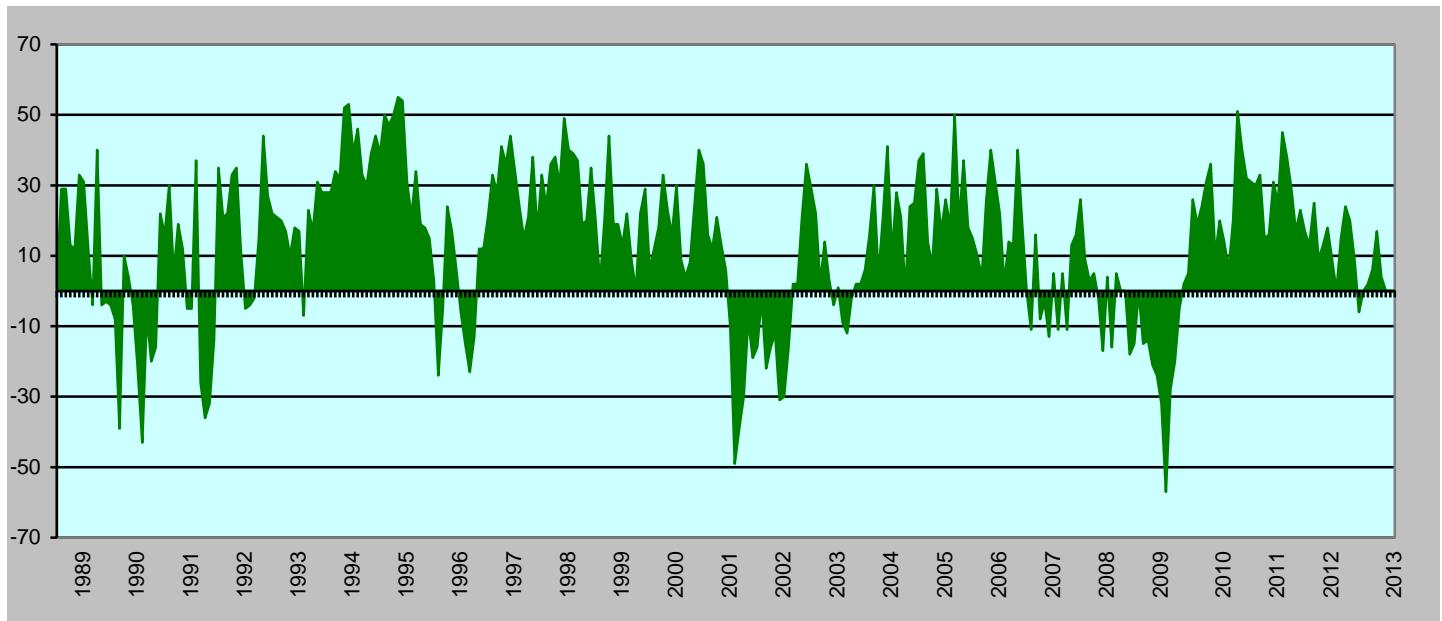
One Year Ago +18 for the month of January, 2012

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

Index of New Orders 1988 - 2013



Index of New Orders 2005 - 2013 Only

