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News Release (For Immediate Release)

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Current Business Trends

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Another Strong West Michigan Economic Report; National Report Flattens

Considerably stronger. That's the latest word on the West Michigan economy, according to the data collected in the last two weeks of May, 2013. As you may recall, February was fairly flat, but March and April posted considerable improvement. May has turned out even better. NEW ORDERS, our index of business improvement, rose to +35 from +31, a two year high. The PRODUCTION index came in at +35, but was only slightly higher than last month's +34. The EMPLOYMENT index, which had backtracked modestly last month to +22, rose to +28. Additional good news came from the participant comments at the end of this report, which are generally very optimistic.

Looking at the individual industrial groups, there is still little doubt that the auto parts suppliers are underwriting the strength of the Michigan economy, as well as our economy in West Michigan. Auto sales remain strong, resulting in production schedules continuing to be revised upward. As noted last month, some of the smaller office furniture firms are seeing stronger sales. Larger office furniture firms, however, are just beginning to see a modest uptick, leaving behind the lackluster sales of the past few months. Our local capital equipment firms are still holding their own, and business has generally been acceptable. Just as we reported last month, most of the industrial distributors found May to be pretty much uneventful.

Now for the bad news. The national industrial economy is not NEARLY as strong as our local economy, according to the June 3 press release from the Institute for Supply Management, our parent organization. ISM's index of NEW ORDERS remained positive but backtracked to +6 from +14. In a similar move, the PRODUCTION index eased to +9 from +19. The EMPLOYMENT index, which has been stuck in single digits for months, came in at +4, down from +9. Although all of these numbers are modestly positive, but ISM's "seasonally adjusted" overall index turned negative to 49.0, down from 50.7. Since 50.0 is the break-even point for an up versus down industrial economy, this is the first negative report since November of 2012 and the weakest number since June 2009—almost four years ago. The survey author placed the blame for the weaker performance on the sluggish economy at both the national and internationals levels. Although the consumer market is partially offsetting the current weakness in the industrial market, some economists are saying that we cannot expect too much improvement in our domestic economy until the world economy picks up again. By contrast, Markit.com, the British economic firm, posted a U.S. industrial survey index of 52.3, up modestly from 52.1. Markit's U.S. index of NEW ORDERS came in at 53.3, up from last month's 51.5. The survey author credited the strength in NEW ORDERS to stronger demand in the domestic m

market, even though the U.S. export index remained virtually unchanged. However, the survey author repeated his warning that a slowdown could still be at hand.

At the international level, the June 3, 2013 J. P Morgan international manufacturing report is very modestly positive, and actually saw some marginal improvement in May. JPM's Global Manufacturing PMI edged slightly higher to 50.6, up from 50.4. NEW ORDERS rose to 51.4 from 50.8. Japan, Germany, Brazil, the US and the UK all reported modestly higher levels of new business. However, in the 17 national Eurozone, only Germany posted a modestly positive report, and many of the Olive Belt countries in Europe continue to pull the statistics lower.

In the economic news for this month, the first quarter GDP report estimate was revised downward from 2.5% to 2.4%. In texting terms, this revision is NBD. Given that most of the industrial sector (except for automotive) was starting to slow in early 2013, most of the strength came from consumer spending. Altogether too much of this spending went on the credit cards. Hence, growth projections for the second quarter do not look as strong.

Will the Fed take away the punch bowl? This, of course, refers to the current round of quantitative easing, also known as QEIII, and implies the figurative printing of more money in an attempt to continue to keep interest rates low. Because of the recent uptick in mortgage rates and the rise in long term treasuries, the concern has been raised that the era of easy money may be drawing to a close. As noted in previous reports, the Fed's policy of low interest rates has resulted in forcing the other major currencies of the world to lower their rates as well. Because of the huge number of money managers and hedge funds all over the world trying to maintain a good return for their investors, many of these previously conservative investors have been forced to look beyond CDs, bonds, treasury notes and other "institutional" investments. The result has been rolling rounds of speculation among the big ticket commodities such as copper, tin, zinc, oil, and most of the major grains. Most importantly, it has also driven the stock market to record territory, and until recently, has bolstered blue chip stocks with good dividends. Hence, if it becomes obvious that interest rates are on their way up, the stock market will fall until the price/earnings ratios of the stocks and their respective dividends reflect a more comparable value.

On the international stage, new concerns have been raised about the true economic health of China. The questionable numbers which the Chinese government disseminates purports GDP growth to still be around 7%. However, the HSBC survey of purchasing managers came in with a composite growth rate of only 50.9%. Needless to say, this kind of a number is totally

inconsistent with an economic growth rate anywhere near 7%. However, the biggest worry is that the Chinese growth miracle MAY have run its course, and that a downturn may be at hand. Even with trillions of dollars of reserves, the government cannot prop up the Chinese economy forever.

As previously noted, our index of EMPLOYMENT came in very positive for this month. Although there is a lag factor in the state unemployment reports, the latest gains for most of West Michigan were gratifying. Of the 83 Michigan counties, Barry County came in with the second lowest unemployment rate of 5.4%. Kent County was third, at 5.6%, followed by fifth ranked Ottawa at 5.9%, and seventh place Kalamazoo at 6.2%. The unemployment rate in all of these counties was lower by about 0.5% over the previous report, although some of the decline is seasonal. Last but not least, the jobless rate in the Holland-Zeeland "High Productivity Corridor" fell to 2.6 from 2.8%. No matter how these numbers are compared to the unemployment rates for the world, nation, or even rest of the state, it is easy to conclude that West Michigan is doing much better than average. Many local manufacturers are still looking for good, qualified people, which bodes well for reducing unemployment—if the qualified people can be found.

For the automotive parts suppliers, business keeps booming, even though we are now in the traditional slow season for production. Except for General Motors, which currently has a few too many cars in dealer lots, the traditional summer auto plant shutdown is quickly fading away. With tight

inventories, rising sales and customers flocking to big, profitable vehicles, the Detroit Three can no longer afford to halt production for two weeks. Indeed, auto sales are still the driving factor behind our West Michigan economy, and the industry posted a sales gain of 8% for May. Among the Detroit Three, Ford gain 14%, Chrysler added 11%, but GM only 3%. Among the transplants, Nissan gained 25%, Mazda added 19%, and BMW grew by 10%. The traditional transplants like Honda grew 5%, and Toyota only 3%. The SAAR rate ticked up to 15.2 million cars per year. Although this rate is a little stronger than one that can be retained over time, the analysts justify it on the basis of relieving pent-up demand.

Finally, it should be noted that a couple of other economic sectors are contributing to our recent economic good fortune. First, there has been a modest uptick in office furniture sales, especially among the smaller firms, which is good news for the summer economy. As noted prior, this industry seemed to plateau in late 2012 and early 2013 at level that still left additional capacity idle. Second, the housing market continues to show significant improvement, even though geographical pockets of weak values remain. For our local firms that supply new home construction, this has been especially good news. For these firms as well as the home construction firms themselves, this means more opportunities for employment. Indeed, for the first time in many years, skilled carpenters and home craftsmen are now in short supply.

May, 2013 COMMENTS FROM SURVEY PARTICIPANTS

"Our mood is cautious optimism."

"We are starting to see an increase in business for the summer. Most pricing on the purchase side has been relatively consistent, however."

"Everyone is busy and the prices show it."

"Business continues to be steady. We're very busy."

"Due to smaller quantities, we're getting croaked on pricing."

"We seem to have hit a 'soft patch' this month in what has been up to now a record year."

"Steel mills continue to announce increase in price, but they have not been successful."

"Steady as she goes."

"New business continues to grow."

"April was a great month for us. May will be strong, however, it is a drop off. Business is still ahead of last year's pace."

"We are increasing our Finished Goods levels to allow for quick delivery to our customers."

"Sales seem to be softening for us, but sales are still reasonably robust."

"I have to report April was down from March, but business is still strong. We need to keep stressing the positive and move forward."

"Economy is still weak except for automotive. We're beginning to hear of some cutbacks due to government spending cutbacks."

"The order book is strong going into the summer."

"Business is very strong still."

"Multiple commodities are down in price. It's a good time to pressure suppliers for lower prices."

"Business is mixed, but we're predicting upward movement."

"The economy is coming back at a fast pace, although our growth isn't from the US. It's coming from overseas."

"The rest of the year looks great!"

"We're struggling to keep up with all the quoting and balancing getting parts on time from suppliers."

"Steady as she goes, but higher auto inventories are a concern for longer term growth."

"We've cut production from 24/5 to 20/4. Sales continue to be slow."

"Business is staying strong."

"We're anticipating another strong year in sales."

"Construction is beginning to pick up and vendors are very eager to please. Hopefully, it will be a busy and productive year."

"The year looks like it will end very nice. Interest in new equipment continues to be robust."

"Business is starting to slow. We're down 10% for May."

"Business is booming, but we cannot find decent used equipment. Lead times for new machines are extending."

May, 2013 Survey Statistics

	UP	SAME	DOWN	N/A	May Index	Apr. Index	Mar. Index	20 Year Average
Sales (New Orders)	51%	29%	16%	4%	+35	+31	+23	+29
Production	45%	34%	10%	11%	+35	+34	+22	+13
Employment	36%	56%	8%		+28	+22	+26	+ 8
Purchases	44%	42%	14%		+30	+25	+18	+ 7
Prices Paid (major commod.)	16%	73%	8%	3%	+ 8	+ 7	+30	+35
Lead Times (from suppliers)	15%	84%	1%		+14	+ 8	+18	+11
Purchased Materials Inv. (Raw materials & supplies)	23%	55%	11%	11%	+12	+11	+13	- 5
Finished Goods Inventory	29%	50%	11%	10%	+11	+11	+ 0	-10

Items in short supply: Castings, gears, foundry capacity, some aluminum grades, some key raw materials, beef herds, safety clothing, filters, light bulbs, heavy HRS plate, good used equipment.

Prices on the UP side: Bearings, some metals, fasteners, corrugated (averaging about 5.5%), fuel, polystyrene, paper, polypropylene, PVC resin, SEBS resin, poplar lumber, plywood, oil based products, some steel, large pumps, breakers, wood products, solvents, 42 lb. linerboard, salt, emulsions, asphalt products.

Prices on the DOWN side: Polypropylene,* plastics,* PET sheet stock, plastic resin,* steel,* plasticizers, aluminum,* stainless steel, some chemicals, carbon steel, zinc, large plate steel, TiO₂, copper, propane, paper,* light flat rolled steel, scrap steel.

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

Latest Unemployment Reports

(Note: Data are NOT seasonally adjusted)

	Apr. 2013	Mar. 2013	Aug. 2009	20 Year Low
State of Michigan	8.2%	8.8%	14.8%	3.1%
Kent County	5.6%	5.9%	11.8%	2.1%
Kalamazoo County	6.2%	6.3%	11.1%	2.1%
Calhoun County	6.6%	6.8%	12.8%	7.2%
Ottawa County	5.9%	6.2%	13.3%	1.8%
Barry County	5.4%	5.9%	10.9%	2.2%
Kalamazoo City	8.6%	8.8%	15.2%	3.2%
Portage City	4.8%	4.9%	8.7%	1.3%
Grand Rapids City	7.9%	8.3%	16.1%	3.0%
Kentwood City	5.1%	5.3%	10.7%	1.4%
Plainfield Twp.	3.7%	3.9%	8.0%	1.4%
Holland City/Allegan	2.6%	2.8%	3.7%	0.9%
U.S. National Rate	7.1%	7.6%	9.7%	3.6%

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 +35 for the month of May, 2013

Previous Month +31 for the month of April, 2013

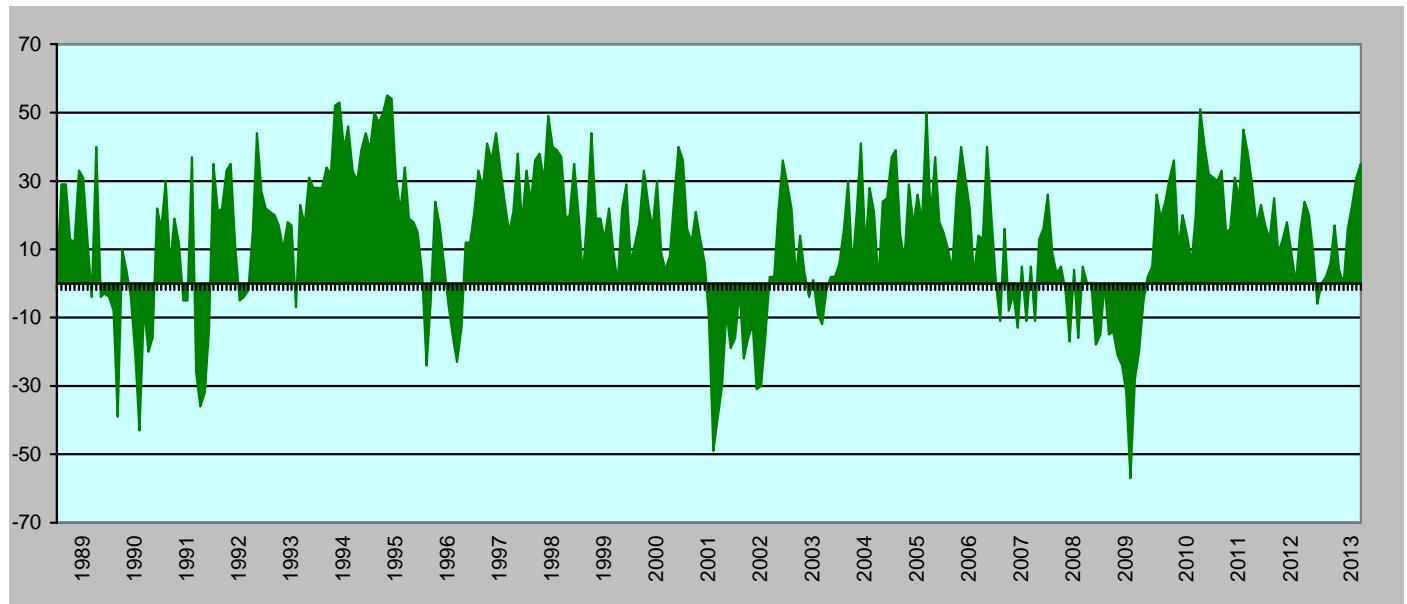
One Year Ago +24 for the month of May, 2012

Record Low -57 for the month of December, 2008

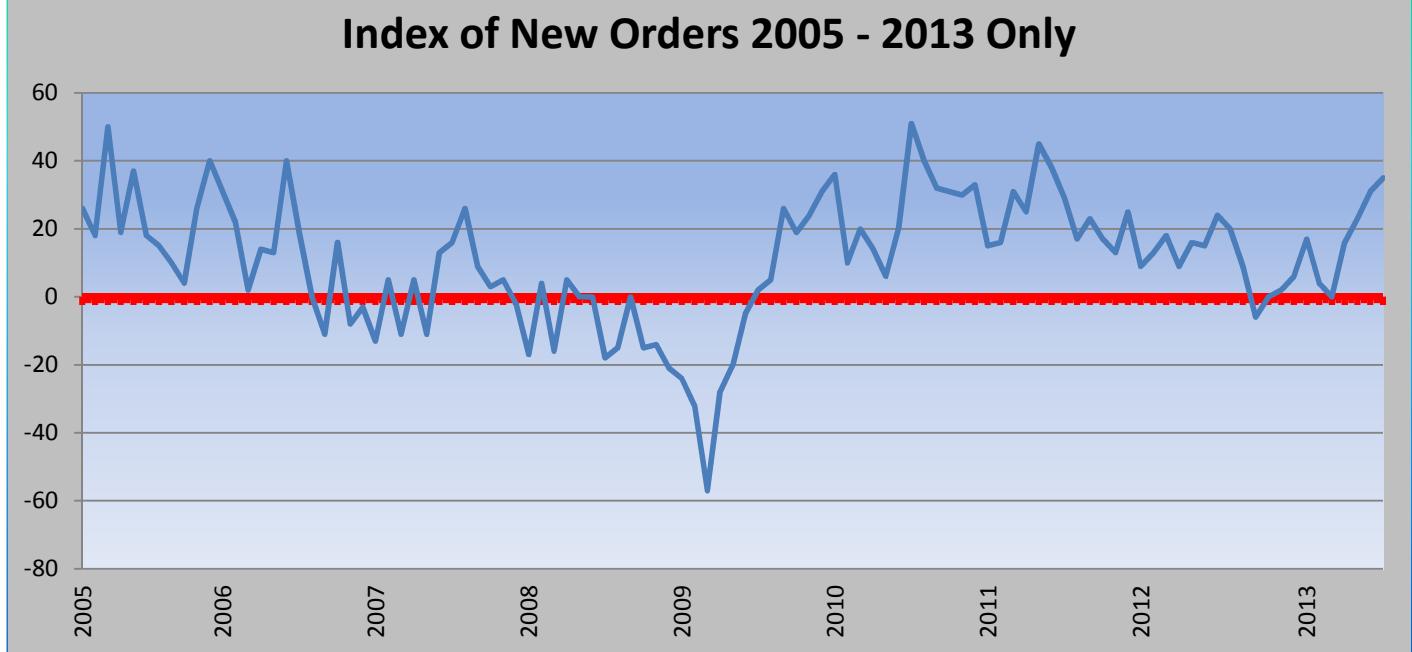
Record High +55 for the month of September, 1994

First Recovery +3 in April of 2009 and forward

Index of New Orders 1988 - 2013



Index of New Orders 2005 - 2013 Only



Index of Employment: West Michigan

This index measures the firm's increases and decreases in staffing, including permanent workers and temps. After economic downturns, it measures 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.

