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News Release (For Immediate Release)

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Current Business Trends

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West Michigan: Still Slow Growth

Slow growth. That's the ongoing word on the West Michigan economy, according to the data collected for November. As the year winds down, our index of business improvement, which we call NEW ORDERS, remained virtually unchanged at +16, up from +15. The PRODUCTION index remained unchanged at +13. Fortunately, the EMPLOYMENT index resumed its pattern of modest growth, and rose to +9 from +0. Industrial inflation, which we report as our index of PRICES, remains in check at +10. For the 34th time since the recovery began, it can be concluded that slow growth for the West Michigan economy continues, and probably will continue for the foreseeable future.

As we enter the third month of collecting our new "outlook" statistics, the numbers are starting to bounce around a little as attitudes and perceptions shift. For November, the SHORT TERM BUSINESS OUTLOOK index rose significantly to +29 from +17, despite all of the iffy news we have been hearing. The LONG TERM BUSINESS OUTLOOK index advanced to +53 from +46. The survey respondents have concerns about the short term economic prospects, but are still very positive about the longer term.

Reviewing our local industrial groups, positive auto sales are still driving new quoting opportunities for our local auto parts suppliers, and optimism is still growing over the 2014 model year. The office furniture firms posted one of the best months of the year. The recent upticks in office rentals around the country have translated to the purchase of new, more modern office furniture. For industrial distributors, the reports were mixed, but this month's bias is to the up side. The reports from the capital equipment firms could best be described as stable: not up or down, but just holding their own in a market that still has snug margins. Overall, we have stability among our various industrial groups, and for most, at least a reasonable level of sustainable profitability.

At the national level, the December 2 press release from the Institute for Supply Management, our parent organization, reported that NEW ORDERS for ISM's manufacturing index strengthened to +18, up nicely from +12. In a similar move, the PRODUCTION index advanced to +19 from +14. ISM's anemic EMPLOYMENT index remained virtually unchanged at +6, up from +5. Industrial inflation, which ISM reports as an index of PRICES, remains very modest at +5, down from +11. Adding everything together into a composite model, ISM's overall manufacturing index rose to 57.4, up for 56.4. The survey author described the results as "...the best report in 2013." For ISM, this report constitutes the 54th month of economic expansion, although some will call it the 54th month of economic recovery or the 54th month of economic convalescence.

Another view of the U.S. economy comes from Markit.com, the British economic forecasting firm, which also surveys U.S. purchasing managers to assess business conditions. For November, Markit's composite

manufacturing "PMI" or Purchasing Manager's Index came in at 54.7, up substantially from the 51.8 recorded in October. Much of the improvement came from a jump from 50.6 to 57.4 in Markit's index of OUTPUT, which is similar to our index of PRODUCTION. The rise in the index of NEW ORDERS from 52.7 to 56.2 also helped fuel the advance. The survey author also observed that the U.S. has recently seen a surge in the production of capital goods such as plant and machinery, which is now growing at the fastest rate since the financial crisis.

At the international level, the J.P. Morgan global manufacturing report from the month ended November 30 was termed the best report since February of 2011. JPM's index of NEW ORDERS rose to 54.8 from 53.3. The index of OUTPUT also posted a substantial gain, rising to 55.3 from 52.9. In addition to the US, countries like Germany, Ireland, Italy, Austria and the Netherlands reported positive economic results for November. Japan reported the best PRODUCTION numbers since 2009. Some countries like Russia and China are now flat, but France and Spain remain dampened by the ongoing fiscal crunch. At an index of 49.2, Greece is still barely below the breakeven point of 50.0, but there is now hope that some kind of a bottom has been reached and that a slow recovery may begin over the next few months. However, over 20% of the economy has been lost, and the road to recovery will be very, very long.

The most recent economic news has been mixed, largely because of the slow growth we have been observing for many months. On November 7, the Bureau of Labor Statistics announce that the preliminary estimate of growth for the third quarter came in at 2.8%, up from the 2.5% recorded for the second quarter of 2013. According to many analysts, this slow growth is just barely enough to exceed the demographic expansion of the workforce and can only chip away at our still-too-high unemployment. Furthermore, the BLS cautions that at least part of the gain came from rebuilding inventories, not from new forms of sustainable demand. Historically, it can be observed that it takes a GDP growth rate of about 4% to put a significant dent in unemployment. In addition to the "official" US unemployment rate of 7.3%, BLS also reported a U-6 unemployment rate of 13.4%, which is marginally lower than the 16.7% rate reported in the peak of the recession. The U-6 statistic, which has been collected for years but not reported for years, includes discouraged workers who are no longer ACTIVELY seeking employment, as well as underutilized workers such as engineers bagging groceries for minimum wage.

Other economic news this month came in the form of an MSU Extension study on municipal fiscal responsibility in Michigan. Some of our West Michigan municipalities came out very good in the analysis of unfunded pension liabilities. For instance, the average unfunded liability per resident in the city of Kentwood is currently a scant \$64. In Portage, the funding actually exceeds the liability by an average of \$23 per resident. At a deficit of \$812 per resident, Wyoming did not fare quite as well. For the

cities of Grand Rapids and Kalamazoo, the numbers were much less favorable at \$1,729 and \$1,805, respectively. From a longer term economic perspective, the problem is simple: The higher the liabilities, the more that taxes will have to be raised, pensions will have to be cut, and services will have to be reduced at SOME TIME in the future. At this time, even a level of \$1,805 is fixable IF the economy of the city is growing AND fiscal restraint is implemented. However, Flint's shortfall of \$10,857 and Saginaw's \$6,050 per person liabilities are NOT easily fixable because their economies are clearly declining. Another random thought: Given that all businesses pay various kinds of taxes, if you were thinking of opening a new business, where would you want to locate given this information about the respective locations?

An interesting study was released this month from NerdWallet, an internet-based personal finance consumer advocacy group. The study of employment labor markets, which they call the "The Ten Best Places in Michigan for Job Seekers," names three West Michigan cities. Kentwood came in at number five in the state, followed by number eight Wyoming, and Portage in

ninth place. Although the study is based on statistical analysis of things like the local GDP estimates, help wanted listing, and current unemployment rates, it still offers an optimistic view of these three local economies.

Another note of interest came from a recent article in Automotive News about Honda. The company announce a goal of using 30% of the North American production base to export to the rest of the world. If other auto manufacturers follow suit, this COULD turn out to be another segment of growth for the US economy. Since many West Michigan firms are suppliers to Honda, this could prove to be a new conduit for economic growth.

As we wrap up 2013, our slow growth continues, and the same slow pace of growth will probably continue into the New Year. Brisk auto sales continue to fuel our Michigan recovery, and prospects for sustained sales for the 2014 model year are good. Our analysis continues to recognize that 1. there is limit to what further expansion we can expect from our traditional industries like office furniture and automotive, and 2. that now is the time to begin cultivating other industries for expansion.

November, 2013 COMMENTS FROM SURVEY PARTICIPANTS

"The auto show season is in full swing, so part of our business is up and the other is down. But that is normal for us at the end of the year."

"October was a very strong month. If November and December don't show an utter collapse, we will have concluded a really good year. November WILL be slower than October (as it usually is for deer season)."

"Business is still strong, but we should see this lighten up during the holiday season."

"We just had a record profit month."

"This health care law is going to kill business!!!! And the workers too, with the costs going up 40-100%."

"Our company is currently reorganizing."

"Business remains basically strong."

"We're rolling right along."

"We're receiving strong orders from automotive customers, and the forecast for 2014 are still strong."

"November sales appear to be right on par with October sales. Relatively flat."

"Growth continues to be real strong through the 4th quarter."

"Business remains slow, and will continue that way through the end of the year."

"The short term is looking much brighter. It seems almost everyone has seen at least some pick up in business."

"Flat is the new norm."

"Things have slowed down a little for the end of the year, but the rest of the year has been great."

"We're seeing some price increases being released for grey iron castings."

"Most prices have been stable. No one category moving upward."

"Beef cattle will remain in short supply. Feedlots (1000 head capacity) are at about 60% capacity. Supplies for October were down about 1%. August 2012 was last time feedlot supplies were up."

"Business is mixed right now. Most customers are slowing down for the holiday season with a few that are picking up. Overall, we are looking at our best year ever."

"Funding is still an issue, and it doesn't look like it will be addressed in 2014, so organizations will continue to decide what public services will and will not be provided."

"Business remains strong and busy."

"We have some new projects coming that will keep us busy well into the New Year."

"Shipments continue to be strong but new orders are down, which will lead to an expected weak December. Production is up, increasing FG's inventory that must be managed over the coming months."

"Business continues to be strong and looks to continue through the end of the year and beyond..."

"Business is very good."

"We still cannot build any momentum on sales, and are revising the forecast down for the second time this year."

"Strikes in India are causing us delays in transportation."

"Material compliance supplier response tracking, (i.e. conflict minerals), is gathering steam and catching the supply base off balance."

"Sales are very robust, and PO's are coming in on a regular bases."

"Business is good, sales continue to rise, people are being hired, and facilities are expanding!"

"We continue to do very well by marketing ourselves aggressively and making high quality custom products."

November, 2013 Survey Statistics

	UP	SAME	DOWN	N/A	Nov. Index	Oct. Index	Sept. Index	20 Year Average
Sales (New Orders)	38%	37%	22%	3%	+16	+15	+ 6	+29
Production	27%	51%	14%	8%	+13	+13	+ 2	+13
Employment	21%	67%	12%		+ 9	+ 0	+10	+ 8
Purchases	25%	59%	16%		+ 9	+13	+ 4	+ 7
Prices Paid (major commod.)	16%	79%	3%	5%	+10	+10	+ 8	+35
Lead Times (from suppliers)	15%	81%	3%	1%	+12	+19	+ 2	+11
Purchased Materials Inv. (Raw materials & supplies)	16%	51%	21%	7%	- 5	- 1	+ 4	- 5
Finished Goods Inventory	15%	53%	21%	11%	- 6	+10	+ 3	-10
Short Term Business Outlook (Next 3-6 months)	44%	41%	15%	2%	+29	+17	+12	-
Long Term Business Outlook (Next 3-5 years)	56%	37%	3%	5%	+53	+46	+64	-

Items in short supply: Some resin types, helium, acrylic process aids, aerosol actuators, slag aggregate.

Prices on the UP side: Resins, lower volume parts (machined, electrical), capital equipment, carbon steel, SEBS resin, scrap steel, plate steel, industrial supplies, glass, propylene, corrugated packaging, slag aggregate, paper products, polypropylene.

Prices on the DOWN side: Polypropylene,* resin,* aluminum, machined items, electronic components, PET resin, polypropylene, brass, PVC resin, rare earth metals, Xylene (Crude), corn based products, ethanol, stainless steel, fuel, salt, nitrogen, nylon, funding.

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

Latest Unemployment Reports

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

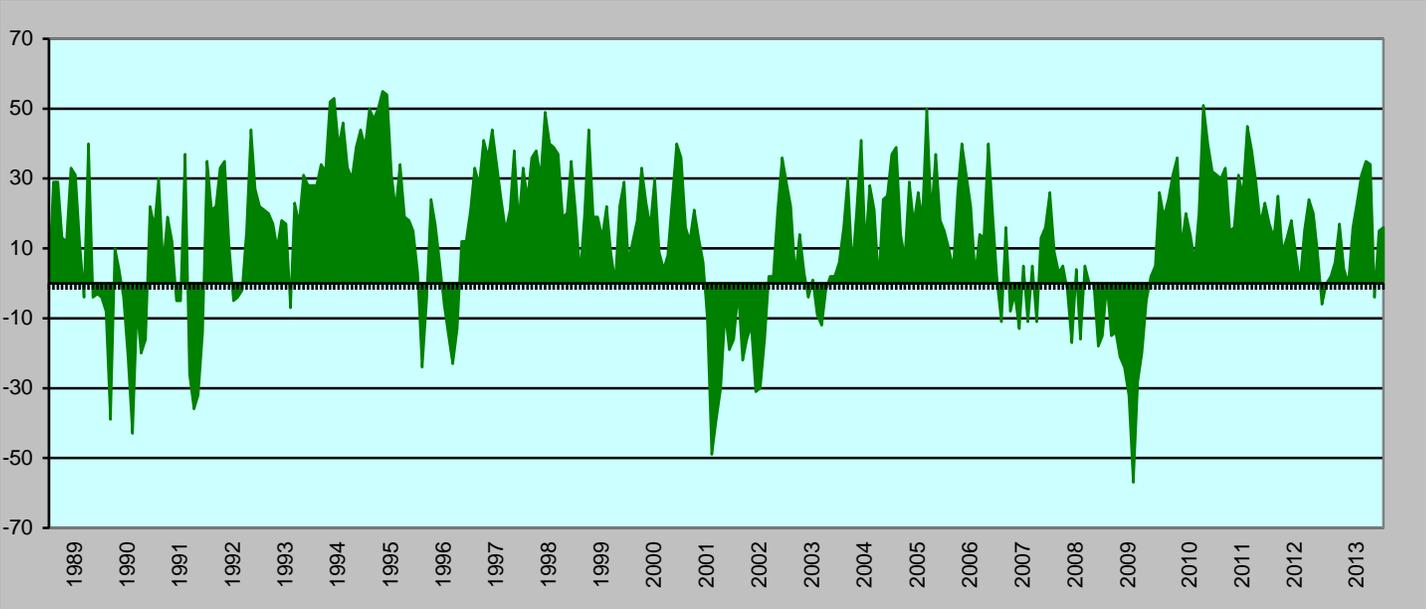
	Oct. 2013	Sept 2013	Aug. 2009	20 Year Low
State of Michigan	8.3%	8.3%	14.8%	3.1%
Kent County	6.2%	5.9%	11.9%	2.1%
Kalamazoo County	7.2%	6.7%	11.1%	2.1%
Calhoun County	7.2%	6.9%	12.8%	7.2%
Ottawa County	6.4%	6.0%	13.3%	1.8%
Barry County	5.6%	5.3%	10.9%	2.2%
Kalamazoo City	10.0%	9.3%	15.2%	3.2%
Portage City	5.6%	5.2%	8.7%	1.3%
Grand Rapids City	8.7%	8.2%	16.1%	3.0%
Kentwood City	5.6%	5.3%	10.7%	1.4%
Plainfield Twp.	4.1%	3.9%	8.0%	1.4%
Holland City/Allegan	2.7%	2.5%	3.7%	0.9%
U.S. National Official Rate	7.0%	7.0%	9.7%	3.6%
U.S. U-6 Rate	14.1%	14.0%	16.7%	8.0%

Index of New Orders: West Michigan

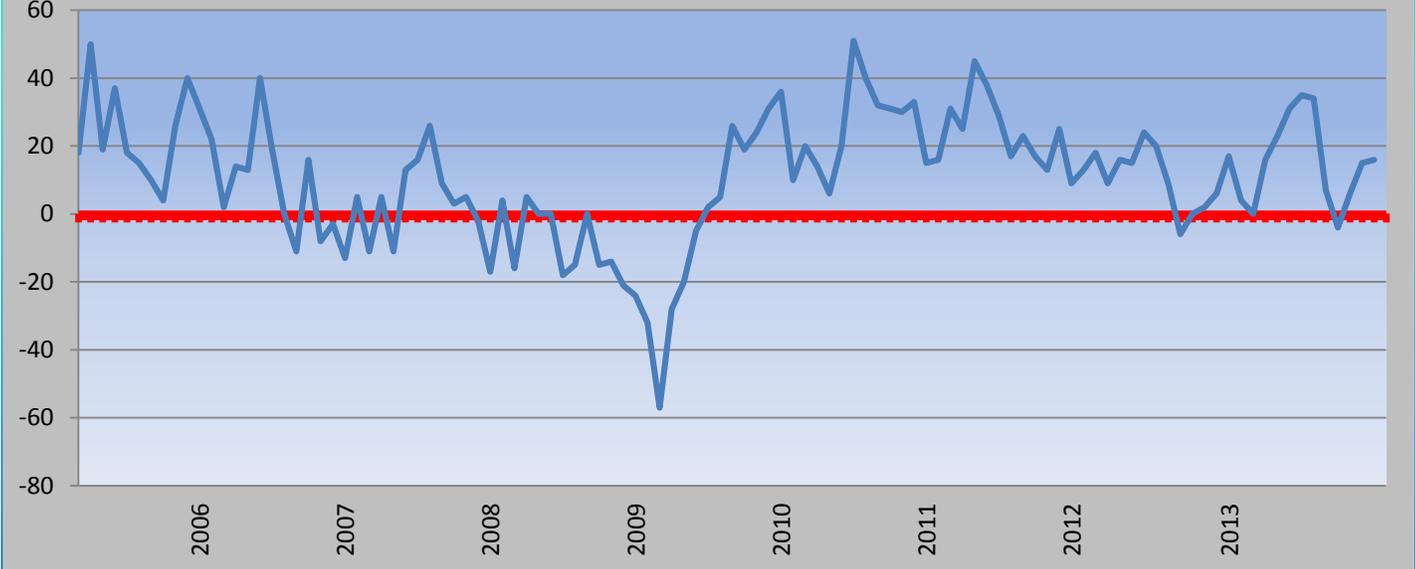
As the name implies, this index measures new business coming into the firm, and signifies business improvement or business decline. When this index is positive for an extended period of time, it implies that the firm or organization will soon need to purchase more raw materials and services, hire more 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	+16 for the month of November, 2013
Previous Month	+15 for the month of October, 2013
One Year Ago	+17 for the month of November, 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

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.

