

News Release (For Immediate Release)

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Current Business Trends

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West Michigan: Slow Growth Improves Slightly

Still slow, but improving. That's the latest word on the West Michigan economy, according to the data collected during the last two weeks of February, 2014. NEW ORDERS, our index of business improvement, advanced to +19 from +14. The PRODUCTION index posted a bigger gain, rising to +18 from +7. The EMPLOYMENT index remained in double digits at +10, although marginally lower than last month's +12. Activity in the purchasing offices picked up considerably, and the index of PURCHASES advanced to +16 from +6. The wave of annual price increases continued into February, so our index of PRICES came in at +18, virtually unchanged from last month's +19. It was a little surprising to see the index of FINISHED GOODS INVENTORY rise to +9 from +0, so we will be hopeful that the spring thaw will result in more sales to clear these inventories.

Looking at local industrial groups, the "integrated" office furniture companies are still in a winter slump, probably because of orders that were placed back in November and December to use up funds before the end of the year. However, several of our specialty office and steel furniture fabricators had a much better month. In a repeat of last month, the auto parts firms turned in a mixed performance, but the bias was still to the up side. The capital equipment firms are still positive but frustrated by the slow pace of decision making. Any of the industrial distributors that support heavy equipment had a VERY busy February, helping repair snow removal vehicles. Other distributors remained steady. Overall, most firms in our survey were slightly busier in February than January.

For the national economy, the March 3 press release from the Institute for Supply Management, our parent organization, reported that NEW ORDERS for ISM's manufacturing index bounced to +19 from +8. The PRODUCTION index came in unchanged from January's +8. Nationally, job growth in the industrial sector is better but still disappointing. ISM's EMPLOYMENT index remained in single digits, and rose to +7 from +2. ISM's overall manufacturing index registered a significant uptick to 53.2 from 51.3. However, the non-manufacturing index dropped 2.4 point to 51.6. Like so many things these days, bad weather was the presumed cause.

The economic forecasting firm of Markit posted a much stronger report for the US. Markit's "PMI" or Purchasing Manager's Index, jumped to 57.1, up considerably from February's 53.7. The NEW ORDERS index bounced to 59.6 from 53.9, one of the best gains in the past three years. Markit's index of NEW EXPORT ORDERS flipped back to positive at 51.6, up from 48.4. ORDER BACKLOGS also jumped to 57.9

from 49.2. Overall, Markit's view of the domestic economy is very positive.

At the international level, the March 3, 2014 press release from JP Morgan's "32 nation" Global Manufacturing PMI came in slightly stronger at 53.3, up from 53.0. The indexes from Russia, China, and South Korea retreated slightly, but were offset by strong performances in Japan, Canada, the US, and The UK.

For what is now several months, China is the country to watch. In recent years, China has become the largest importer of oil and iron ore. Some of China's taconite iron pellets actually come from Northern Michigan. China is also the world's largest user of steel, copper, zinc, lead, tin, and many other big ticket commodities. An economic downturn would impact the entire world market for commodities. Hence, the fall in HSBC's PMI to 48.5 from 49.5 is not good news. Furthermore, the latest numbers for February show an 18% drop in exports. The rising value of the yuan makes export less attractive to foreign customers, especially in Southeast Asia. Most importantly, new orders from the US and Europe are down considerably, partially because of much higher labor costs. With the ongoing problem of a shaky shadow banking system, the next few months will be critical. A total economic collapse in China, the world's second largest economy, would draw the rest of the world back into a recession. This is not too likely to happen, but if it does.....

In our survey's two categories relating to the short and long term business outlook, the SHORT TERM OUTLOOK index retreated slightly to +28 from +32, which is still much better than the +12 we reported in November. However, the LONG TERM OUTLOOK index dropped to +43 from +60 for no apparent reason, although some analysts would blame any drop on the bad winter weather. At least two respondents from the automotive sector are somewhat more pessimistic about the end of the year. Otherwise, the "comments" section in our report find many firms still at full capacity and still optimistic about the rest of the year.

For Michigan, the flat auto sales report for February drew some attention. Part of the drop can certainly be attributed to bad winter weather, although some analysts have also noted that higher interest rates have had an impact as well. For all of February, industry sales were a mere .03% lower than in February 2013, resulting in a year-to-date total down about 1%. Fueled by a 47% increase in Jeep sales, Chrysler posted a solid gain of 11%. Because of several new models, Nissan gained 16%. All of the other major brands were lower. GM lost 1%, and Ford dropped by -6%. For foreign nameplates, Honda fell

7%, Hyundai-Kia fell 4%, and Toyota edged 4% lower. One of the bigger disappointments is Volkswagen, where sales fell 9%. The company has been plagued with problems in the dealer network that will take some time to solve.

The current international geopolitical attention has shifted to the Ukraine. To the United States, the current economic impact of the trouble in the Ukraine is more psychological than economic. No one wants or expects to see a return to the Cold War, but the threat is destabilizing to the world economy. If conditions worsen, the supply of petroleum in the form of both oil and natural gas to Europe could be restricted or stopped. If this were to happen, the European economy would tank almost immediately. The impact on the United States would be to halt our current pattern of slow growth, and possibly turn the economy slightly negative. So far, the Ukrainian impact has been limited to rising commodity prices.

Since the Ukraine is the bread basket of Eastern Europe, any disruptions in the spring planting cycle will drive corn, barley, and soybean prices higher around the world.

This past month's economic news noted a revision in the fourth quarter GDP from 3.2% growth down to 2.4%. As a result, many economists are now starting to be less optimistic about a booming second half of 2014. Indeed, the current numbers we are collecting in West Michigan depict a third and fourth quarter of continued slow growth, much resembling the pattern we have seen since April of 2009 when our report first resumed positive growth. Of course, international events could destabilize the current growth pattern at any time. It is worth repeating that we are hoping for a moderation of auto sales at or near the present levels, forestalling any kind of price wars between the manufacturers, or even worse, a boom-bust cycle resulting from overproduction.

February, 2014 COMMENTS FROM SURVEY PARTICIPANTS

"Things are starting to heat up after the mid December-January cool down."

"The outlook is still very good."

"We're doing well here. Growing pains are hard to manage at times."

"We're slow but steady."

"Iron casting lead times continue to increase."

"Business for 2014 has started off higher than expected. We are busier than normal this time of year."

"Paperboard and SBS roll stock are going up \$50/ton industry wide effective March 1."

"We had another price increase on machine tools from some brands, but other manufacturers held their pricing."

"Due to the weather, lead times have increased."

"We continue to see small growth, but are falling short of forecast. Weather has impacted demand."

"We are still seeing annual increases from suppliers of 3-4%."

"Some motor manufacturers have raised prices.....some are holding fast, for now."

"January was slightly above December, but February is looking weak."

"Vehicle dealer inventories are climbing. Can car production be sustained at the current level?"

"We are on the verge of landing more large orders."

"Order booking are up over last year same time."

"Big push this year to drive savings through impact of margin by design evaluation."

"The winter weather has created or is being blamed for some of the higher prices and shortages."

"Economy appears to be steady and growing slightly."

"Customers keep "hammering" me for quotations then sit on the results. I wish I could "get" 10% of what I am quoting."

"Business is still very strong. We are having to turn down opportunities due to lack of capacity."

"Over the past several years we have added several new products/markets. We are hoping to reap the rewards of this investment with record years the next 5 years."

"Sales up slightly, but we are letting inventory fall."

"We are busy implementing a new ERP system. What an undertaking!"

"The winter budgets are being strained and the inventories are being depleted. This will have a direct impact on the maintenance and construction season."

"2013 was not a good year for our organization. Sales have been down, and we just laid off about 15% of our staff. Here's hoping to a better 2014!"

"Business is typical for this time of year. Things will pick up in March and April."

"We have begun our annual shutdown for maintenance and repairs."

"Business is still really good. We are starting to see a little slow down, but nothing like the past few years."

"Weather is just playing such a large part right now with the snow, cold, and truck availability. I think it is hard to determine how the Midwest economy is doing right now. There's very little historical precedent in recent years for weather."

"Prices for industrial goods always go up at first of year."

February, 2014 Survey Statistics

	UP	SAME	DOWN	N/A	Feb. Index	Jan. Index	Dec. Index	20 Year Average
Sales (New Orders)	36%	44%	17%	3%	+19	+14	+ 5	+29
Production	31%	47%	13%	9%	+18	+ 7	+10	+13
Employment	26%	58%	16%		+10	+12	+ 9	+ 8
Purchases	29%	57%	13%	1%	+16	+ 6	+ 7	+ 7
Prices Paid (major commod.)	20%	71%	2%	7%	+18	+19	+15	+35
Lead Times (from suppliers)	17%	78%	3%	2%	+ 9	+ 9	+14	+11
Purchased Materials Inv. (Raw materials & supplies)	23%	55%	15%	7%	+ 8	+ 6	- 4	- 5
Finished Goods Inventory	22%	59%	13%	12%	+ 9	+ 0	+ 1	-10
Short Term Business Outlook (Next 3-6 months)	41%	46%	13%		+28	+32	+27	-
Long Term Business Outlook (Next 3-5 years)	49%	39%	6%	6%	+43	+60	+53	-

Items in short supply: UV absorber, propane, electrical components, some cold rolled steel, corrugated, pallets, some fuel, salt, sand, grader blades, construction equipment, loaders, some grades of veneer.

Prices on the UP side: ABS plastic, polycarbonate plastic, nylon, chemicals, PVC resin, SEBS resin, acrylics, polypropylene, steel sheets, fuel, aluminum extrusions, electric motors, lumber, natural gas, oil, wood, cold and hot rolled steel, copper wire, welding gases, plastics, fuel, propane, salt, grader blades, diesel fuel, wood veneer, propylene, methanol, alcohols, acids, glycols, polypro and HIPS roll stock for thermoforming, insulation.

Prices on the DOWN side: Some steel*, paraffinic oil, scrap steel, aluminum sheets, carbon steel, warehouse metals & plastics, ethanol.

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

Latest Unemployment Reports

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

	Dec. 2013	Nov. 2013	Aug. 2009	20 Year Low
State of Michigan	7.7%	7.8%	14.8%	3.1%
Kent County	5.4%	5.5%	11.9%	2.1%
Kalamazoo County	6.2%	6.3%	11.1%	2.1%
Calhoun County	5.5%	6.5%	12.8%	7.2%
Ottawa County	5.9%	5.8%	13.3%	1.8%
Barry County	5.2%	5.2%	10.9%	2.2%
Kalamazoo City	8.6%	8.7%	15.2%	3.2%
Portage City	4.8%	4.8%	8.7%	1.3%
Grand Rapids City	7.6%	7.7%	16.1%	3.0%
Kentwood City	4.9%	5.0%	10.7%	1.4%
Plainfield Twp.	3.6%	3.6%	8.0%	1.4%
Holland City/Allegan	2.7%	2.5%	3.7%	0.9%
U.S. National Official Rate	6.5%	6.6%	9.7%	3.6%
U.S. U-6 Rate	13.0%	13.1%	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 +19 for the month of February, 2014

Previous Month +14 for the month of January, 2014

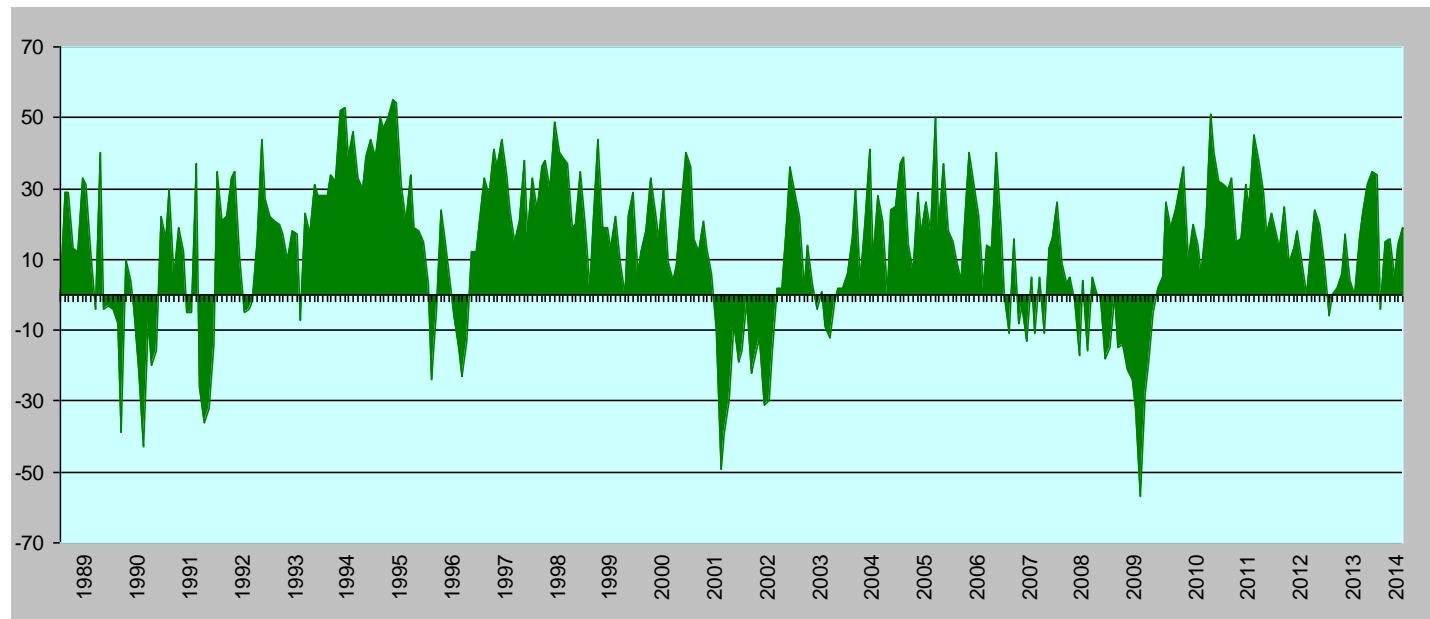
One Year Ago +16 for the month of February, 2013

Record Low -57 for the month of December, 2008

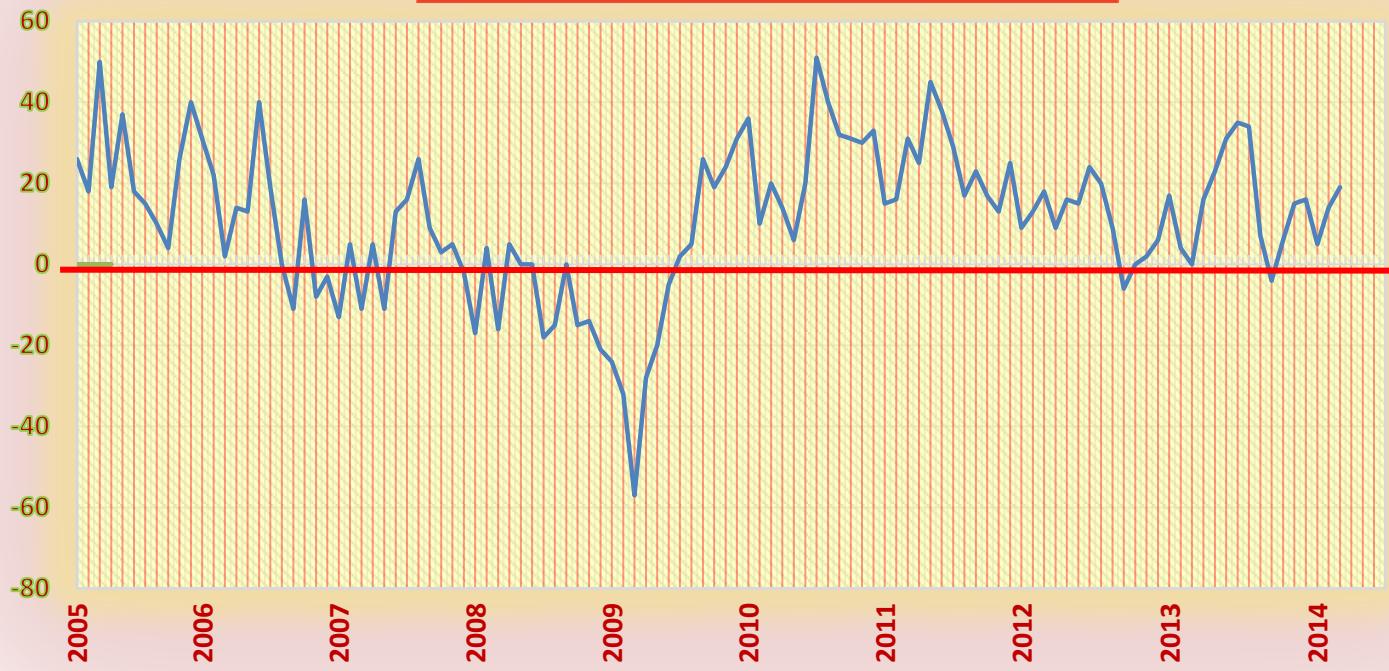
Record High +55 for the month of September, 1994

First Recovery +3 in April of 2009 and forward

Index of New Orders 1988 - 2014



Index of New Orders: 2005 - 2014 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 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.

EMPLOYMENT INDEX 2005-2014

