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News Release (For Immediate Release)

November 11, 2014

Current Business Trends

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West Michigan: Moderate Growth Continues

The strength of September has continued into October. According to the data collected during the last two weeks of October, our index of NEW ORDERS remained significantly positive at +26, insignificantly lower than the +27 we reported last month, and up convincingly from August's +9. The PRODUCTION index came in at +23, lower than the 29 reported last month, but still strong. Activity in the purchasing office, our index of PURCHASES, edged up to +20 from +14. Just as last month, some of our firms are still unable to locate enough qualified workers. Hence, the EMPLOYMENT index, which had risen to a three-year high of +34, retreated to +25. The index of LEAD TIMES moderated again this month to +8, down from +18. The comments from survey participants remain positive, and none of the survey respondents are expressing any major concerns about the future.

Turning as we always do to individual industry groups, the office furniture business is now seeing stronger sales. Mike Dunlap's October survey reports an index of 57.58, the strongest the index has been since July 2007. This compares with the Dunlap indexes' all time record of 59.72 in the July 2005 report. For the capital equipment firms, the fall uptick is now in full swing. Some firms are rushing to make capital investments before the end of the year because of budget and tax considerations. Industrial distributors were generally positive. Last but not least, the boom continues for most of our auto parts producers.

Probably because of geopolitical turmoil, our indexes of business optimism slipped modestly in October. The SHORT TERM BUSINESS OUTLOOK index remained positive but eased to +12 from +26, the lowest the index had been since its inception over a year ago. The October index for the LONG TERM BUSINESS OUTLOOK retreated to +43 from +52. With numerous firms still reporting record sales, we continue to see that the mood of most business firms in West Michigan remains positive,

According to the November 3, 2014 press release from the Institute for Supply Management, our parent organization, the national economy strengthened modestly in October. ISM's index of NEW ORDERS edged up to +20 from +15. The EMPLOYMENT index, which backtracked to +6 in September, rose to +7 in October. The PRODUCTION index remained unchanged at +21. ISM's seasonally adjusted composite Index of Manufacturing rose sharply to +59.0, largely because of statistical variations. In contrast, the Non-Manufacturing Index remained positive but backtracked to 57.1 from 59.6.

The U.S. statistics from Markit.com, the British international economics consulting firm, reported a drop in the PMI to a nine month low of 55.9, down considerably from 57.5. Although all index numbers

above 50.0 are considered positive, the PRODUCTION index retreated to a seven month low. The EMPLOYMENT index remained near a thirty month high. According to the survey author, "... the latest figures indicate that the recovery has lost some intensity at the start of the fourth quarter, reflecting subdued export demand from the euro area and key emerging markets. Meanwhile, a solid rate of manufacturing job creation was sustained in October, which provides an early indication that domestic labour market conditions have continued to strengthen through the final quarter of the year."

At the international level, J.P. Morgan's Global Manufacturing PMI for October remained unchanged at 52.2. Despite plenty of negative economic news, the PMI for Eurozone manufacturing sector rose modestly to 50.6 from 50.3. Italy, Austria, France, and Greece remained below the 50.0 neutral mark, but Ireland, Spain, and the Netherlands kept the index positive. In addition, Germany flipped back to positive growth at 51.4. However, no one is expecting a significant upturn in any of the European economies any time soon.

Because of political shifts, Germany has developed a confused policy toward green energy. They are making major investments in infrastructure to bring more wind powered electricity to the industrial heartland, but at the same time they are building numerous coal powered facilities. Germany has announced the closure of all of its nuclear power plants over the next seven years, but 17% of the country's power still comes from nuclear. At the same time, the US is now shipping to Germany more coal than at any time in our history. This confusion of policy has seriously inhibited expansion for industries that require large amounts of energy.

At least for the short term, Europe's problems are actually benefitting the U.S. economy in several ways. First, demand for oil is down, so American consumers are celebrating lower gasoline prices. At the industrial level, most petroleum based products are either stable or falling in price. The slower industrial economy in Europe and in Asia has yielded some modest price drops for big ticket commodities like copper, steel, and nickel. Higher interest rates in the United States are drawing money away from Europe. All of this results in lots of European money finding its way into the U.S. stock market.

Whereas the U.S. economy remains sound, it is worth repeating that our major concerns are still the other economies of the world, namely Europe, Brazil, China, South Africa, Russia, Turkey, and any of the other countries that have recently reported trouble. Fortunately, the PMI reports for Russia, China, and South Africa are still MODESTLY positive. The Brazil PMI is slightly negative. For our major trading partners,

Canada posted the strongest PMI for October in thirteen months, and the report from Mexico came in at a ten month high. In short, none of the weakness reported around the world by various economies should have a significant impact on the U.S. economy. If China, Europe, and several other economies of the world were to severely stumble, the U.S. could be drawn into the crisis. But the PRESENT numbers portend no such problem at this time.

Auto sales for October were 6% higher, and overall sales for the first nine months of 2014 have now accumulated to 6% as well. The average sales price rose to \$33,361 per car, up over \$300 from a year ago. Among the leading brands, Chrysler rose 22%, largely because of very strong sales for Jeep and Ram vehicles. Ford, which is still in the process of retooling the F-150 pickup, declined by 2%. Overall, GM sales were flat, selling only about 400 vehicles more than in 2013. Toyota sales rose 7%, Honda edged up 6%, and Hyundai rose a modest 4%. Nissan's U.S. division sales have now set records for 13 consecutive months. Even Volkswagen managed a 10% gain, although sales for the year are still off by 4%.

In other economic news, we continue to get updates on GDP from the Bureau of Labor Statistics. For the third quarter of 2014, the "advance estimate" of Gross

Domestic Product increased at an annual rate of 3.5 percent. The "second" estimate for the third quarter, based on more complete data, will be released on November 25, 2014. In the press release, BLS notes that "...the increase in real GDP in the third quarter primarily reflected positive contributions from personal consumption expenditures (PCE), exports, nonresidential fixed investment, federal government spending, and state and local government spending." Negative factors included a decline in private inventory investment and exports.

In terms of industrial inflation, the picture continues to improve. For West Michigan, our index of PRICES retreated to +6, the lowest the index has been since January 2013. For the ISM national survey, the index of PRICES came in at +7, which is also the lowest the index has been in many months.

In summary, the West Michigan economy remains on a path of positive growth. With the Ebola problem now seeming to be contained, the mood toward the rest of the world has improved. Weakness in European and Chinese economies are still a distant concern for most people, and falling gasoline prices have put more money in the hands of consumers. The ever-present threat of a terrorist attack could quickly derail our confidence, but for now, the economic road ahead is positive.

October 2014 COMMENTS FROM SURVEY PARTICIPANT

"The fourth quarter is going to be strong for us."

"Our firm is unwilling to pull the trigger when it comes to hiring someone new in the supply chain."

"September showed a slight improvement over August (+4%). This month seems slower based on total activity, but our largest customer placed an order that has us on pace to have a better month in October than September if we keep it up."

"We continue to grow and ensure controlled growth."

"We've seen a slight downturn of orders, and we have a new ERP system this month."

"Busy."

"New orders have slowed down, but we're still doing lots of quoting."

"New inquires have fallen off. It may be that customers are waiting to see what is new and available at the Metalform show in Atlanta November 11-13th."

"Demand just keeps coming."

"In a lot of ways, the USA is in a Goldilocks position economically."

"Business normally slows for the 4th quarter, and we are seeing some of that in November and December orders."

"We're hearing more talk about price increases."

"Business continues to be very good. We continue to look for improvements as we struggle to meet demand. We just kicked off a large capital project that will improve our capacity but it will not be ready for almost a year."

"We're starting to see some price creep on stretch films (due to resin)."

"Freight costs continue to increase since the number of loads to be shipped now exceeds the total delivery capacity in North America."

"Stainless seems to be on an upward trend. The first of 2015 will be interesting."

"Sales in October are tracking even with September. Sales pace continues at 4%-5% over 2013."

"Business is still strong, but has slowed slightly since the last report."

"It has been a very good year for us, and we expect 2015 to be even better."

"The price of salt has increased throughout the State of Michigan and the supplies are limited. Those that did not secure their supplies early on are having a hard time even getting the salt, and if they can, it will cost them over \$100.00 per ton. Our organization and participating agencies were pro-active in the spring and have secured our quantities."

"We're moving out of our busy season and aligning resources as needed."

"Future orders are looking strong. Keep them coming...."

"Business is good, and remains strong and steady."

"We are currently in our busiest time of the year for capital equipment purchases. Companies typical wait until this time of the year to review business conditions, then make end-of-year purchases."

"We experienced a 10% production drop in October. November and December are historically weak months, so we are hoping to bounce back for January 2015!"

"Our new ATA case business is growing quickly."

"Our 3-5 Year business plan is looking very strong."

"Employment would be up, but we cannot find certified welders and CNC machinists."

"It's getting more difficult to find manual and professional labor."

October 2014 Survey Statistics

	UP	SAME	DOWN	N/A	Oct. Index	Sept. Index	Aug. Index	20 Year Average
Sales (New Orders)	41%	42%	14%	3%	+26	+27	+ 9	+29
Production	40%	42%	11%	7%	+23	+29	+12	+13
Employment	37%	60%	3%		+25	+34	+25	+ 8
Purchases	26%	61%	13%		+20	+14	+ 5	+ 7
Prices Paid (major commod.)	15%	78%	3%	4%	+ 6	+12	+11	+35
Lead Times (from suppliers)	19%	80%	1%		+ 8	+18	+29	+11
Purchased Materials Inv. (Raw materials & supplies)	14%	64%	15%	7%	+20	- 1	+14	- 5
Finished Goods Inventory	19%	56%	18%	7%	+ 2	+ 1	- 5	-10
Short Term Business Outlook (Next 3-6 months)	30%	66%	4%		+12	+26	+20	-
Long Term Business Outlook (Next 3-5 years)	55%	38%	4%	3%	+43	+51	+42	-

Items in short supply: Stainless steel sheets, argon gas, bearings, salt, hazmat trucks & drivers as well as tankers, gears, hydrochloric acid, some alloy bar & HR 1020-25 super heavy plate, skilled labor.

Prices on the UP side: Stainless steel, aluminum, argon, zinc, PVC resin, polypropylene, salt, foam, non-touch monitors, freight costs, hydrochloric acid, caustic soda, solvents, plastics, wages.

Prices on the DOWN side: Steel, steel sheets, fuel, paraffinic oil, computers, nickel, chromic acid, carbon steel, scrap steel, pig iron, resin, certain metals.

Latest Unemployment Reports

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

	Sept. 2014	Aug. 2014	Aug. 2009	20 Year Low
State of Michigan	6.7%	8.6%	14.8%	3.1%
Kent County	4.5%	4.6%	11.9%	2.1%
Kalamazoo County	5.3%	5.3%	11.1%	2.1%
Calhoun County	5.6%	5.5%	12.8%	2.7%
Ottawa County	4.5%	4.6%	13.3%	1.8%
Barry County	4.7%	4.8%	10.9%	2.2%
Kalamazoo City	7.4%	7.4%	15.2%	3.2%
Portage City	4.1%	4.1%	8.7%	1.3%
Grand Rapids City	6.4%	6.5%	16.1%	3.0%
Kentwood City	4.1%	4.2%	10.7%	1.4%
Plainfield Twp.	3.0%	4.1%	8.0%	1.4%
Holland City/Allegan	1.9%	2.0%	3.7%	0.9%
U.S. National Official Rate	5.8%	5.9%	9.7%	3.6%
U.S. U-6 Rate*	12.0%	14.3%	16.7%	8.0%

*U-6 for Michigan = 14.7% for second 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 +26 for the month of October, 2014

Previous Month +27 for the month of September, 2014

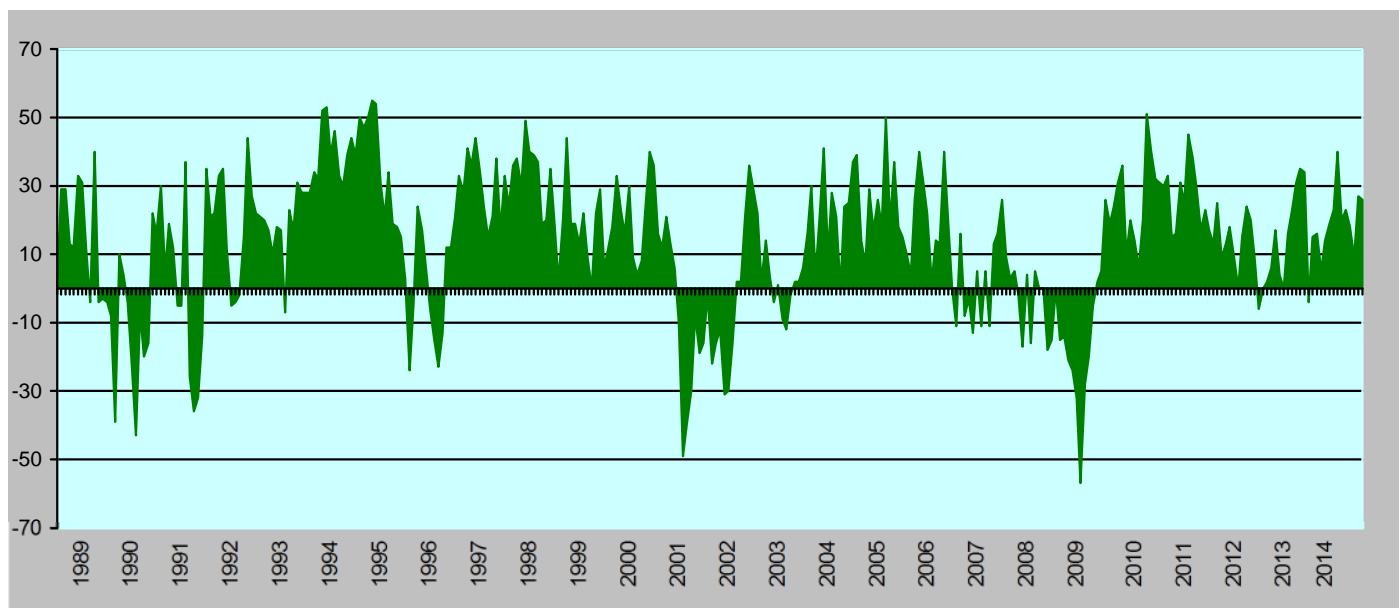
One Year Ago +15 for the month of October, 2013

Record Low -57 for the month of December, 2008

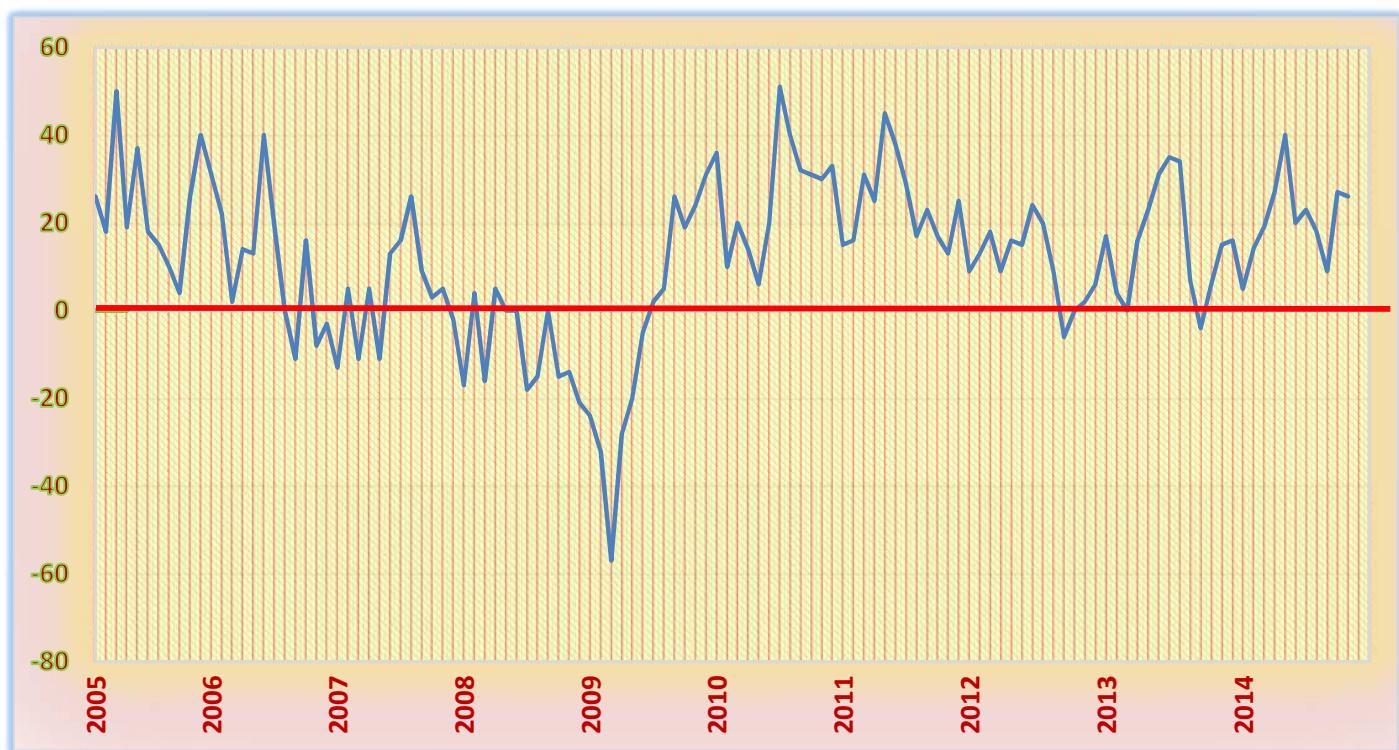
Record High +55 for the month of September, 1994

First Recovery +3 in April of 2009 and forward

ISM-West Michigan Index of New Orders 1988 - 2014

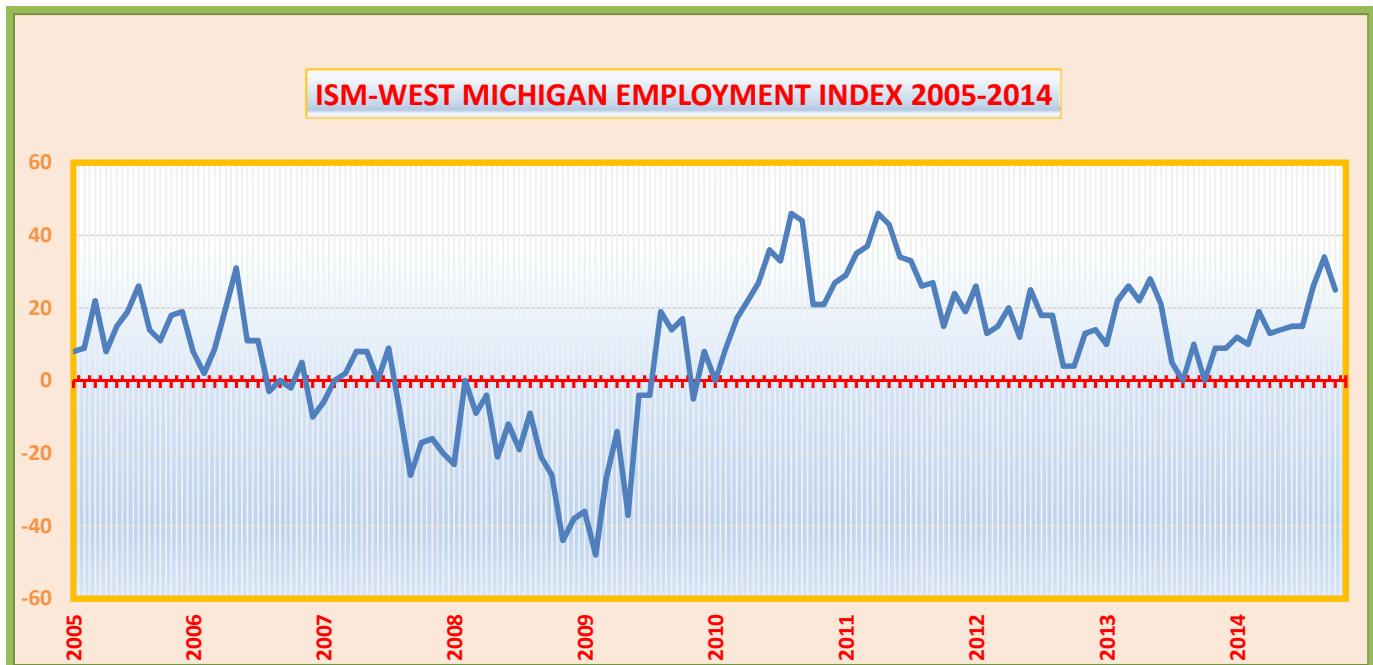


ISM-West Michigan Index of New Orders: 2005-2014 Only



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 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.



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 events 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.

