

News Release (For Immediate Release)

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Current Business Trends

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Growth, But Slightly Slower

For the past couple of years, growth in the West Michigan economy has been a little sluggish in the fall. For instance, NEW ORDERS, our index of business improvement, dipped to -1 in November 2015 and dropped much more abruptly to -13 in the October 2016 on the eve of a contentious presidential election. According to the West Michigan survey conducted during the last two weeks of October 2017, NEW ORDERS remained positive at +11, but declined from the +21 reported in September. In contrast, the PRODUCTION index posted a modest gain, rising from +17 to +20. In a similar move, activity in the purchasing offices, our index of PURCHASES, rose to +22 from +14. The index of FINISHED GOODS INVENTORY remained fairly stable at -2, down from +0. However, the RAW MATERIALS INVENTORIES index dropped to -5 from +5, probably because the recent hurricanes and stronger business conditions have drained a lot of inventory. Because of shortages, the index of LEAD TIMES for October remained stretched at +28, considerably higher than our 25-year average of +4.

Looking at individual industries, there is little change to report for October. Most of the auto parts suppliers are still maintaining their present status, although some have voiced concern about the slower auto sales. However, no one is suggesting the need for any kind of a layoff. A similar mood is noted among the office furniture firms, and the industry still appears to be topping out at the present level. Given that expansion is slowing in both automotive and office furniture, so is the pace of business for the capital equipment fabricators and dealers. For the industrial distributors, October was generally a good month.

In this month's report, business optimism remained little changed. The OCTOBER index for the SHORT-TERM BUSINESS OUTLOOK, which asks local firms about the perception for the next three to six months, eased modestly to +28 from +30. However, the LONG-TERM BUSINESS OUTLOOK edged slightly higher to +49, up from +45. Just as last month, the anecdotal comments from our survey participants continue to be cautiously optimistic. The negative rhetoric from Washington and the continued threats from North Korea seem to be taken in stride.

At the national level, the industrial economy remains very strong. The November 2 press release from the Institute for Supply Management, our parent organization, remained near record levels but backtracked a little from last month's lofty highs. ISM's index of NEW ORDERS eased to +22 from +26. The PRODUCTION index tapered to +19 from +21. Responding to the stronger sales and production reports in recent months, the EMPLOYMENT index edged up to +19 from +18. Because of difficulties in the supply chain for delivering materials and services to meet production schedules, ISM's index of INVENTORIES slid to -5 from October's +5. ISM's overall index for October eased to 58.7, down from 60.8. However, the index is still very strong by historical standards.

The report on the U.S. industrial economy from IHS Markit.com, the British economics consulting firm, also came in stronger for October. The Markit.com indexes of NEW ORDERS and PRODUCTION both rose at a significant rate. Markit's overall PMI edged up to 54.6 from 53.1, the best performance since the beginning of the year. Chris Williamson, the chief business economist for Markit, is finally starting to be more optimistic:

"U.S. manufacturing stepped up a gear at the start of the fourth quarter, boding well for higher factory production to support robust economic growth in the closing months of 2017. Production volumes jumped higher on the back of a substantial improvement in order book inflows, in part due to supply chains returning to normal after the hurricanes but also reflecting a combination of strong underlying demand. Factory jobs growth has also picked up to one of the strongest levels since the global financial crisis, underscoring the improvement in optimism about future trading among manufacturers."

An old saying portends that a rising tide floats all boats, and most of the major economies of the world continue to rise. Hence, the J.P. Morgan Global Manufacturing PMI released on November boasted a 78-month high of 53.5. JPM's index of NEW ORDERS rose to 54.2 from 53.8. This is a significant move, given that the survey covers 31 countries and all of the major industrial firms in the world. The survey author further commented:

"The global manufacturing PMI points to continued robust gains in production. The output PMI was little changed at an elevated level while the index of new orders moved up. Furthermore, the PMI indicates that output growth remains broad-based across the consumer, intermediate and investment goods sectors."

For Europe, the PMI rose to an 80-month high. Germany, Austria, Italy, and the Netherlands filed the strongest reports in almost twelve years. With new leadership in France, October's PMI came in at a 29-month high. Even Greece eked out a modest grow with a PMI of 52.1. IHS Markit's chief economist commented:

"October's PMI was the highest since February 2011 and the second-highest in over 17 years. The overall performance of the manufacturing sector so far this year has been the strongest since 2000. It's especially encouraging to see employment growing at a survey-record pace as firms seek to boost capacity in response to fuller order books. Export order growth remains encouragingly solid, suggesting little impact from the strengthening of the euro this year, and domestic demand continues to improve across the region. However, with inflows of work rising at an increased pace, factories and their suppliers are struggling to meet demand. Outstanding orders rose to a degree never before exceeded in the survey's 15-year history."

Industrial inflation continues to be a cause of concern for many firms. Locally, our index of PRICES came in at +28, well above the 25-year average of +15. For the ISM report, the PRICES index remained significantly high at +37. Using an index of 50 as a break-even point, JPM's index of PRICES rose to 61.3 from 60.9. All of the numbers offer a clear sign that world prices are rising for most of the major industrial commodities. Except for some grades of steel, most major industrial commodities such as aluminum, brass, copper, zinc, caustic soda, corrugated boxes, and most types of plastic resins are now rising in price with no immediate relief in sight. However, it is important to note that SO FAR, the surge of industrial inflation has not spilled over to the consumer sector. If and when it does, it is almost certain that the Fed will begin rising interest rates at an accelerated pace.

Although it is encouraging to see that our local index of EMPLOYMENT is still double-digit positive at +14, the employment shortage "scream" continues to grow louder every month. In fact, about one quarter of the firms in our local survey report being understaffed. Although technical training is required for some of vacant jobs, even the \$16 per hour unskilled jobs are still not being filled. The problem of personnel shortages has caused some firms to defer expansion. Especially in the case of a few local automotive parts fabricators, business has been profitable and money is available to purchase new equipment. However, finding enough new people to run the new equipment is a problem.

Looking at automotive, it was not a surprise to see that the Automotive News October sales report from cars and light trucks continued the downward pattern which started back at the beginning of the year. This month's industry-wide decline was a scant 1.1%, which conforms with the premise that the decline in auto sales has been very orderly. Of the major brands, Nissan lead the way upward with a 8.4% uptick, followed by Ford at 6.4%, Toyota adding 1.1% and Honda gaining a scant at 0.9%. Fiat-Chrysler dropped 13.2%, GM lost 2.2%, and Hyundai-Kia shed 12.6%. The market shift in favor of SUVs, trucks, and crossovers continues to accelerate. For instance, GM posted a 24% decline in sedan sales, which was offset by trucks and crossovers.

The other economic news that has come out over the past month has generally been very positive. The "official" unemployment rate has now fallen to 4.1%. That's only a breath away from the twenty-year low of 3.8%. The U-6 unemployment rate, which some people call the "real" unemployment rate has fallen to a 30-year low of 7.9%. The initial estimate of GDP for the third quarter of 2017 came in at 3.0%, reflecting the additional strength we have seen in all of our other economic statistics. Hence, the local economy is good, the national economy is good, and the international economy is good. This may be as good as it gets. However, any kind of a war or act of war, terrorist attack, or collapse of Washington's promises could change the mood of the economy. Hopefully, wiser minds will prevail.

OCTOBER COMMENTS FROM SURVEY PARTICIPANTS

"Large item orders and inquiries are down, but smaller "maintenance" items are steady."

"Things have picked up dramatically over the last few weeks. We will be very busy between now and the end of the year."

"We are starting to see business soften for the next 2-3 months."

"We are treading water when it comes to staffing. One goes out and one comes in, but it takes time to get the new person up to speed."

"Business levels remain stable through the third quarter. Outlook for fourth quarter is more of the same, allowing for holiday seasonal adjustments."

"Business is still strong. It's going to be a good finish for 2017."

"We are keeping our suppliers very busy."

"The trend is downward. I don't see this year finishing strong."

"Business is good, but we are running into increased lead times from our suppliers. They are at maximum capacity, and are finding it difficult to add capacity due their inability to find enough qualified employees."

"Our primary PVC resin supplier has ended "force majeure" on its products. Most raw material pipelines are less than a month away from being 100% restored to their pre-hurricane levels."

"Business has slowed a little bit, but we are expecting the slowdown to be very short."

"Capital equipment industry is still doing well and appears that it will continue to do well into 2018."

"Raw material prices (metals & plastic resin) continue to increase."

"We had a tough month-end, but the year-end is still on track for small growth."

"We're seeing a lot of retirements in the hourly ranks, and it is slow to find acceptable replacement hires."

"Looks like a good end for the calendar year."

"Business is good, steady, and strong."

"Now that things are picking back up, factory workers are hard to find."

"Price of steel has come down slightly in the last several weeks, but the mills have announced increases. Coil steel has stayed in a tight pricing range for the last 10 months, so it will not likely change dramatically."

"Sales are picking up, but only time will tell if it is sustainable this time."

"New orders very strong, and quotes very strong."

"Commodity pricing continues to rise, and electronics lead-times are continuing to extend."

October 2017 Survey Statistics

	UP	SAME	DOWN	N/A	Oct. Index	Sept. Index	Aug. Index	25 Year Average
Sales (New Orders)	33%	43%	22%	2%	+11	+21	+19	+14
Production	32%	50%	12%	6%	+20	+17	+20	+14
Employment	22%	70%	8%		+14	+17	+21	+ 8
Purchases	30%	62%	8%		+22	+14	+24	+ 7
Prices Paid (major commod.)	30%	68%	2%		+28	+29	+15	+15
Lead Times (from suppliers)	30%	68%	2%		+28	+30	+30	+11
Purchased Materials Inv. (Raw materials & supplies)	22%	60%	13%	5%	- 8	+ 3	+16	- 4
Finished Goods Inventory	15%	63%	17%	5%	- 2	+ 0	+ 2	- 8
Short Term Business Outlook (Next 3-6 months)	35%	58%	7%		+28	+30	+30	-
Long Term Business Outlook (Next 3-5 years)	52%	42%	3%	3%	+49	+45	+39	-

Items in short supply: Electrical components, polypropylene, polyethylene, grader blades, heavy construction mechanics, labor, good people, castings, nickel chemicals, nickel carbonate, nickel chloride, nickel hydroxide, steel forgings, steel.

Prices on the UP side: Electronic components, SEBS resin, paraffinic oil, polypropylene, steel, sand, aggregate, trucking, zinc die castings, brass rod, aluminum, carbon steel, stainless steel, fabricated parts, polystyrene, freight, paper, aluminum, all metals, copper, zinc, cobalt, tin.

Prices on the DOWN side: Salt, optics, rubber, steel*, scrap steel, carbon steel*, paraffinic oil, ocean freight.

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

Latest Unemployment Reports

(Except as noted, data are **NOT** seasonally adjusted)

	Sept. 2017	Sept. 2016	Aug. 2009	20 Year Low
State of Michigan (Adj.)	4.3%	5.0%	14.6%	3.2%
State of Michigan (Unadj.)	4.5%	4.8%	14.1%	2.9%
Kent County	3.5%	3.3%	11.9%	2.1%
Kalamazoo County	4.2%	3.8%	11.1%	2.1%
Calhoun County	4.8%	4.4%	12.8%	2.7%
Ottawa County	3.4%	3.1%	13.3%	1.8%
Barry County	3.8%	3.5%	10.9%	2.2%
Kalamazoo City	5.2%	4.8%	15.2%	3.2%
Portage City	3.8%	3.5%	8.7%	1.3%
Grand Rapids City	4.7%	4.3%	16.1%	3.0%
Kentwood City	3.3%	3.1%	10.7%	1.4%
Plainfield Twp.	2.7%	2.5%	8.0%	1.4%
U.S. Official Rate (Oct.)	4.1%	4.8%	9.6%	3.8%
U.S. Rate (Unadjusted)	3.9%	4.7%	9.6%	3.6%
U.S. U-6 Rate**	7.9%	9.5%	16.7%	8.0%

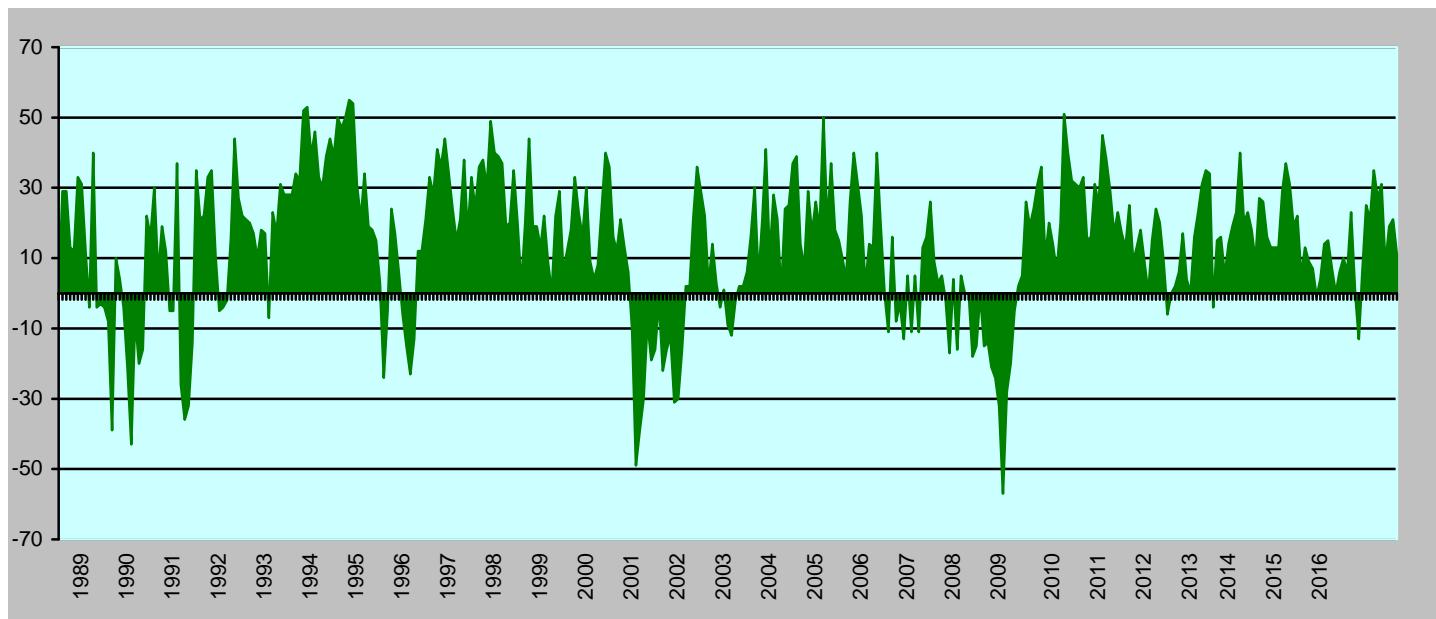
Index of New Orders: West Michigan

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.

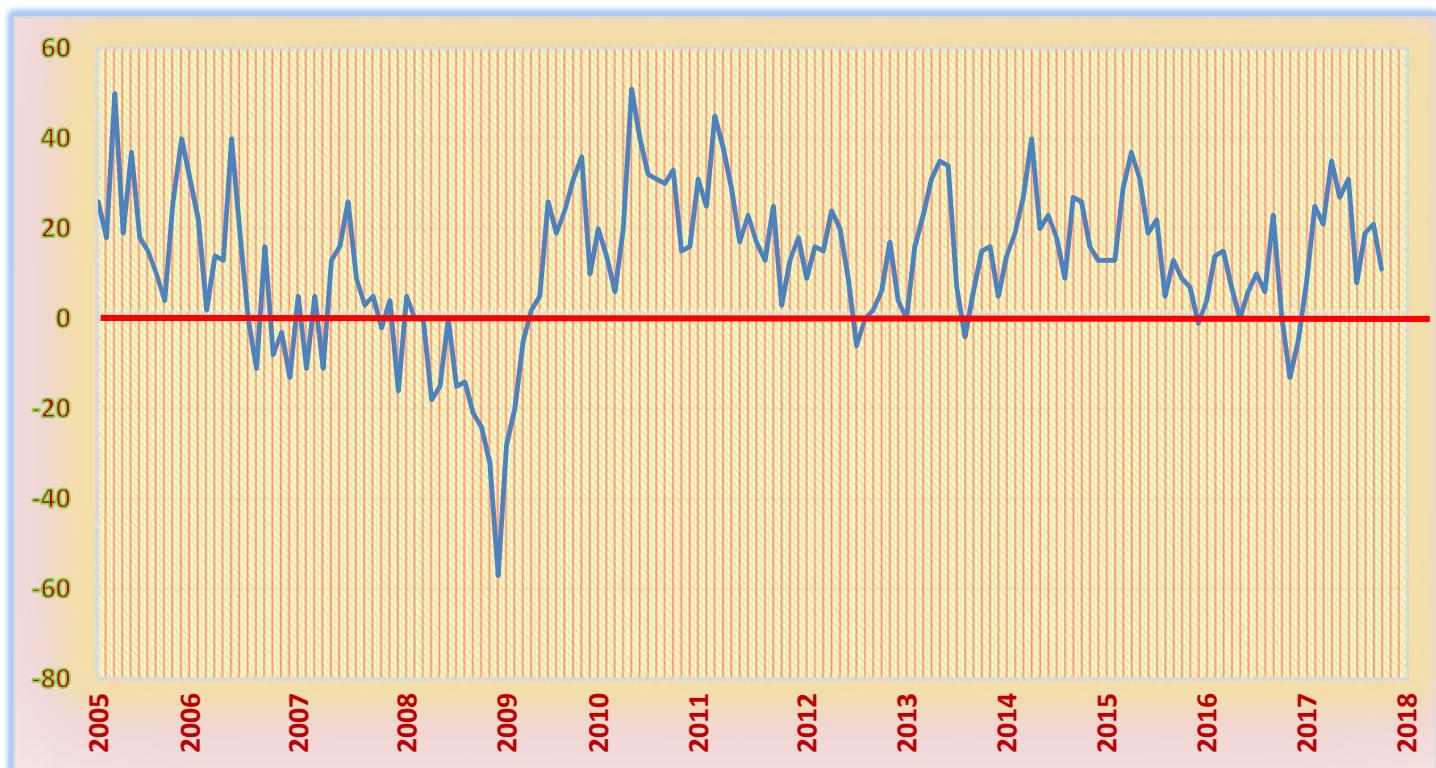
Latest Report	+11 for the month of October 2017
Previous Month	+21 for the month of September 2017
One Year Ago	-13 for the month of October 2016
Record Low	- 57 for the month of December, 2008
Record High	+ 55 for the month of September, 1994
First Recovery	+ 3 in April of 2009 and forward

**U-6 for Michigan = 9.5% for 2016 - 2017

ISM-West Michigan Index of New Orders 1988 - 2017

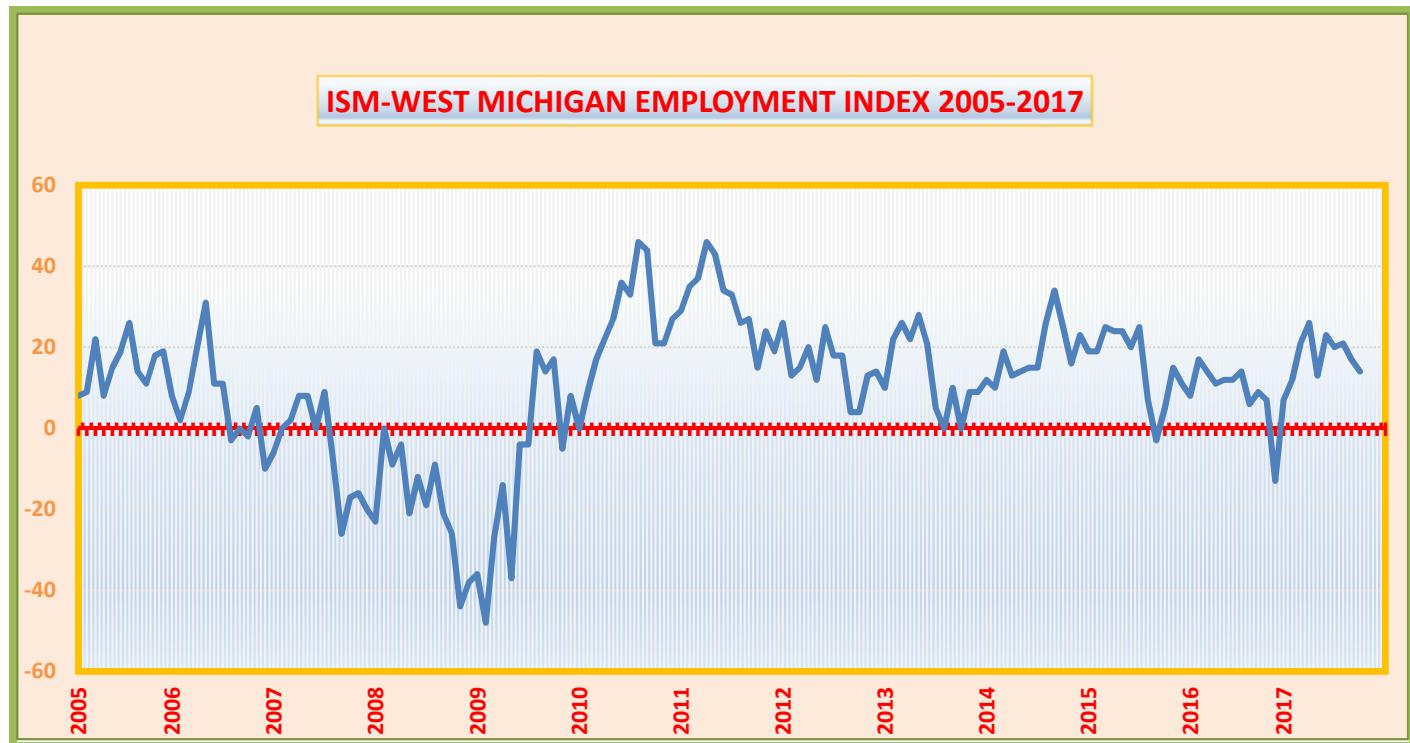


ISM-West Michigan Index of New Orders: 2005-2017 Only



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 reduction in industrial unemployment for West Michigan. Normally, there is about a month or two in lag time between this report and the payroll numbers being reflected 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 laying 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 event 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.

