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News Release (For Immediate Release)

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Current Business Trends

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OFF TO A SLOW START

Much as we expected, the West Michigan industrial economy flattened in January, signaling a slow start to 2019. According to the data collected in the last two weeks of January, NEW ORDERS, our index of business improvement, edged downward to -4. The PRODUCTION index, which had been as high as +33 in November, softened to +4. Activity in the purchasing offices, the index of PURCHASES, flattened to +3. According to the comments made by survey participants, the overall outlook is much more cautious than it was just a few months ago. Several of our survey participants continue to voice concern over the price impact of the still-unresolved tariff war with China. Others are cautious about the potential decline in auto sales. In contrast, firms associated with the office furniture industry remain watchfully optimistic.

Office Furniture. Good news for our local economy comes from Mike Dunlop's quarterly survey of the office furniture industry. The Dunlop Quarterly Gross Shipments Index rose to 64.40, up significantly from the October report of 58.24 and close to the survey's thirteen-year high of 66.86 set last July. The Capital Expenditures Index rose to 61.20 from last quarter's 55.96. The Dunlap Personal Outlook Index rose to an all-time high of 66.54. Aside from the survey, some of the recent uptick in office furniture sales can be related to end-of-year tax considerations. Demand for new furniture is also influenced by the recent surge in new office construction and expanded employment. Dunlap further commented:

"The industry remains very strong. The overall index has improved to near-record levels (59.31), and is well above the 55.05 survey average. I feel good about where the industry is currently. 2018 will finish strong in spite of the current political uncertainties, the effect of the mid-term elections, and tariff and trade questions."

The U.S. Economy. According to the February 1 press release from the Institute for Supply Management, our parent organization, the national industrial economy posted a modest gain for January. NEW ORDERS, ISM's index of business improvement, came in at +12, up nicely from December's ominous reading of -3. The PRODUCTION index also upticked to +13 from +2. The EMPLOYMENT index gained two points to +6. ISM's overall index rose to 56.6, up from 54.3, and well ahead of the expectations of most analysts.

The British international consulting firm of IHS Markit.com offers a confirming view of the U.S. economy. The seasonally adjusted PMI for January rose to 54.3, up from December's 53.8. The positive results were attributed to "steep" increases in both PRODUCTION and NEW ORDERS. Chris Williamson, Chief Business Economist at IHS Markit, further noted:

"January saw U.S. manufacturers start the year with renewed vigour. Production rose at a markedly increased rate, commensurate with the factory sector contributing to robust economic growth of approximately 2.5% in the first quarter if such momentum can be sustained in coming months. Other encouraging signs included an improved rate of job creation and increased purchasing of inputs, suggesting firms are in the mood for expanding capacity. The upturn in business activity in January helped lift confidence in the outlook, though many companies clearly remain concerned about the impact of trade wars and rising protectionism."

The World Economy. The J.P. Morgan Monthly Global Manufacturing index encompassing 43 nations remains pessimistic and slipped to a 28-month low of 50.7 in January. Because 50.0 is the break-even point between expansion and contraction, the report is still considered positive, although the trend is weakening. The strong report from the U.S. helped keep the overall survey statistics positive, but weaker reports from China and many of the European countries moderated the results. JPM's index of NEW ORDERS eased to 50.1, down from 51.1. The PRODUCTION index also softened to 50.8. The index of NEW EXPORTS remained negative at 49.4.

For January, the eurozone's overall manufacturing index eased to a four-year low of 50.5, down from 51.4 in December. As noted in previous reports, the pace of the European economy has continued to slow for most of 2018. Despite recording relatively subdued readings, France and Spain bucked the trend and posted upticks for the month. The PMI for Italy sank to a 68-month low of 47.8, and the German PMI turned negative for the first time in over four years. The Netherlands PMI remains the strongest for the eurozone group, although the pace in January eased to 55.1. The PMI for beleaguered Greece came in at 53.7, reflecting some modest growth following the proverbial post-debacle fire sale of unused production facilities. The IHS Markit survey author further noted:

"The January PMI adds to the likelihood that the manufacturing sector is in recession and will act as a drag on the economy in the first quarter. Some temporary factors remain evident, including an auto sector that is struggling to regain momentum after new emissions regulation and some signs of 'yellow vest' disturbances dampening demand in France. However, there appears to be a more deep-rooted malaise setting in, which reflects widespread concerns about the destabilising effect of political uncertainty and the damage to exports from rising trade protectionism. Business optimism did perk up from December's six-year low, but jobs growth is starting to deteriorate as increasing numbers of firms seek to cut costs and raise productivity. Any such downturn in the labour market will in turn potentially drive consumer sentiment lower, and adds further to the risk that economic growth will continue to slow in coming months."

Michigan Unemployment. According to the latest report from Michigan's Department of Technology, Management, and Budget, Michigan's "headline" unemployment rate for December (latest month available) edged up to 4.0 percent, but well below the 4.7% reported for December 2017. Total state-wide employment grew by over 33,000 workers compared to December 2017, and the number of people unemployed decreased by 35,000.

West Michigan Unemployment. Despite the weakness in our latest survey, the January EMPLOYMENT index remains double-digit positive at +14. The unemployment rate for most of our reporting units is still well below the levels of a year ago. At 2.7 percent, Ottawa County took the honors for the lowest unemployment rate among Michigan's 83 counties. Kent County came in second place at 2.8 percent. At 3.3 percent, Kalamazoo County's rate is still well below the statewide average. Regrettably, Michigan still has about 80,000 jobs that cannot be filled for lack of available qualified workers. If these qualified workers were available, our unemployment numbers would now be at record low levels. Hence, it is worth repeating that

the current low unemployment numbers are as good as we can expect for the near future.

Automotive. It is somewhat obvious that the West Michigan automotive sector is one of our most cyclical industries and warrants constant monitoring. The 2019 pessimism among the ranks of our local auto parts suppliers is partially based on industry statics that show a large number of vehicles, especially SUVs, coming off lease and threatening to dampen the 2019 market for new cars and trucks. However, the sales decline still appears to be fairly orderly. According to Automotive News:

"U.S. light-vehicle sales dropped 1 percent in January, with higher fleet shipments offsetting lower retail volume, as the government shutdown and severe cold that blasted the Midwest this week dampened consumer demand. January is typically one of the lowest months of the year for industry sales, with the least bearing on the year's final results. Still, solid economic growth, employment gains, low gasoline prices and available credit continue to support light-vehicle demand, analysts said, even as consumers face higher financing costs."

The auto industry's seasonally adjusted sales rate (SAAR) slipped to 16.9 million units, down from 17.22 in January 2018. Looking at the Detroit Three, sales for GM declined 6.9 percent, but Fiat-Chrysler posted modest gain of 2.5 percent, and Ford added 7.1 percent. Among the other major nameplates, Honda gained 1.5 percent and Subaru added 3.9 percent. On the down side, Nissan plunged by 18.5 percent, VW eased by 3.0 percent, and Toyota lost 6.6 percent.

Industrial Inflation. With a reading of +21, our local index of PRICES is finally catching up with the world markets. The index was as high as +46 just three months ago. The J.P. Morgan international pricing index eased to 54.2 in January, down from 55.3. At -1, ISM's national index of PRICES flipped negative for the first time in three years. ISM's index of PRICES has dropped 22 percentage points over the past three months. Timothy Fiore, ISM's survey committee chair, further noted:

"Steel prices have generally returned to more normal, pre-tariff levels, including for products manufactured primarily from steel, like mechanical components and fabricated metal products. Price increases continue for electronic components, including integrated circuits and printed circuit board assemblies, and freight."

JANUARY COMMENTS FROM SURVEY PARTICIPANTS

"We have had slow sales and shipments for the past four months, but January finally brought us back to our normal sales intake target. February shipments will also be slow, but March will be good."

"With a rough outlook for 2019 in the automotive industry, it will be interesting to see how we can diversify to counter this."

"The China automotive market is hurting right now."

"Business is down, but China is down even more."

"Quotes are strong, but our orders up and down from week to week right now."

"It's still a 'wait and see' attitude by buyers (customers)."

"We're now in a cash flow crunch between revenue streams, but we should turn the corner in late 2019."

"We're off to a sluggish start to the new year."

"We're still having a hard time filling manufacturing positions."

"Supplier lead-times continue to grow."

"Production capacity for ductile iron casting suppliers is very tight."

Business Confidence. Although many of our local firms remain cautiously optimistic, others are increasingly concerned about the longer-term impact of the Chinese trade war and the gradual easing of auto sales. West Michigan's index for the SHORT-TERM BUSINESS OUTLOOK for January, which asks local firms about the perception for the next three to six months, dropped sharply to +5, the lowest level in over four years. The LONG-TERM BUSINESS OUTLOOK, which queries the perception for the next three to five years, fell to an all-time low of +22. Although both of the indexes are still positive, West Michigan business confidence has clearly dampened over the past twelve months.

Consumer Confidence. The current methodology for computing GDP concentrates heavily on the consumer sector, even though most of the economy is actually controlled by the business and manufacturing sectors. Unfortunately, the recent reports for consumer confidence are fading. According to Lynn Franco at The Conference Board:

"Consumer Confidence declined in January, following an earlier decrease in December. The Present Situation Index was virtually unchanged, suggesting economic conditions remain favorable. Expectations, however, declined sharply as financial market volatility and the government shutdown appear to have impacted consumers. Shock events such as government shutdowns (i.e. 2013) tend to have sharp, but temporary, impacts on consumer confidence. Thus, it appears that this month's decline is more the result of a temporary shock than a precursor to a significant slowdown in the coming months."

Hence, there is no surprise that the GDP estimates for the 2019 first quarter are now running as low as 2.1 percent.

Summary. Based on the stronger-than-expected start to 2019 national economy, it is possible that the 2017 tax cuts may have a little more room to run than we expected. However, the softening of the world economy will pull us in the opposite direction. Locally, we need to keep a watchful eye on the health of the office furniture industry and auto sales. The economy still has plenty of momentum to carry through the first two quarters of 2019 and quite likely beyond. Although over 58 percent of the Wall Street Journal's panel of 60 economist expect the next recession to start in 2020, we have yet to see a major event that could catalyze another major downturn. 2019 could turn out to be just another year of slow growth.

"December sales were slow as customers hold back on year-end inventories. January is starting off hot and heavy, and some new programs should increase our 2019 outlook by at least 10% up over 2018."

"We're busy this month again, but there's still a lot of nervousness about a recession in late 2019."

"We're off to an interesting start to the new year."

"Winter has so far been great on our budget, and if it continues to be a mild winter, then those dollars will be spent on projects in the spring."

"Bookings are softer for the first two weeks this year compared to last year."

"Business seems to be very steady. No major changes"

"December was pretty slow, the worst month of the 4th quarter. However, December is almost always slow, and it was no worse than most Decembers."

"Things are off to a slower start in January than I would like to see."

"OEM capital equipment industry is still going quite strong."

"January has picked up after a slowdown in December."

JANUARY Survey Statistics

	UP	SAME	DOWN	N/A	Jan. Index	Dec. Index	Nov. Index	25 Year Average
Sales (New Orders)	18%	58%	22%	2%	- 4	+17	+38	+14
Production	16%	64%	12%	8%	+ 4	+15	+33	+14
Employment	20%	74%	6%	0%	+14	+20	+25	+ 8
Purchases	18%	65%	15%	2%	+ 3	+20	+36	+ 7
Prices Paid (major commod.)	25%	71%	4%	0%	+21	+34	+46	+15
Lead Times (from suppliers)	27%	71%	2%	0%	+25	+38	+50	+11
Purchased Materials Inv. (Raw materials & supplies)	20%	58%	14%	8%	+ 6	+15	+23	- 4
Finished Goods Inventory	18%	66%	10%	6%	+ 8	+ 9	+11	- 8
Short Term Business Outlook (Next 3-6 months)	25%	55%	20%	0%	+ 5	+19	+28	-
Long Term Business Outlook (Next 3-5 years)	40%	44%	12%	4%	+22	+25	+29	-

Items in short supply: Polypropylene, UV stabilizers, trucking, transportation, both domestic TL and LT, space on ocean vessels, sodium chloride, paving contractors, trucking services, aluminum, trucking, passive electronic, electronic components, nylon 6/6, acetal, raw castings, linear bearings. In addition, about 30% of the responses listed various forms of labor, people, employees, or labor.

Prices on the UP side: Most resins, freight, steel machined components, salt, sand, construction, services, plasticizer, paraffinic oil, polypropylene, all engineering grade plastic resins, tariff related items, steel, carbon steel, stainless steel, electric motors, transportation (fuel surcharges), petroleum-based products, some castings, carbide tooling, corrugated, aluminum, aluminum cans, Midwest premium aluminum, electronic components, red metals.

Prices on the DOWN side: Scrap steel, cold rolled steel, stainless steel*, SEBS resin*, aluminum*, stainless steel surcharges, zinc, copper*, powder paint, fuel*.

*Item reported as both up AND down in price.

Latest Unemployment Reports

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

	Dec. 2018	Dec. 2017	Aug. 2009	20 Year Low
State of Michigan (Adj.)	4.0%	4.7%	14.6%	3.2%
State of Michigan (Unadj.)	4.0%	4.4%	14.1%	2.9%
Kent County	2.6%	3.5%	11.9%	2.1%
Kalamazoo County	3.3%	4.0%	11.1%	2.1%
Calhoun County	4.1%	4.9%	12.8%	2.7%
Ottawa County	2.7%	3.3%	13.3%	1.8%
Barry County	3.4%	4.1%	10.9%	2.2%
Kalamazoo City	4.1%	4.9%	15.2%	3.2%
Portage City	3.6%	3.0%	8.7%	1.3%
Grand Rapids City	3.7%	4.6%	16.1%	3.0%
Kentwood City	2.6%	3.2%	10.7%	1.4%
Plainfield Twp.	2.1%	2.6%	8.0%	1.4%
U.S. Official Rate (Jan.)	3.9%	4.1%	9.6%	3.8%
U.S. Rate (Unadjusted)	3.7%	3.9%	9.6%	3.6%
U.S. U-6 Rate (Jan.)**	8.1%	8.2%	16.7%	8.0%

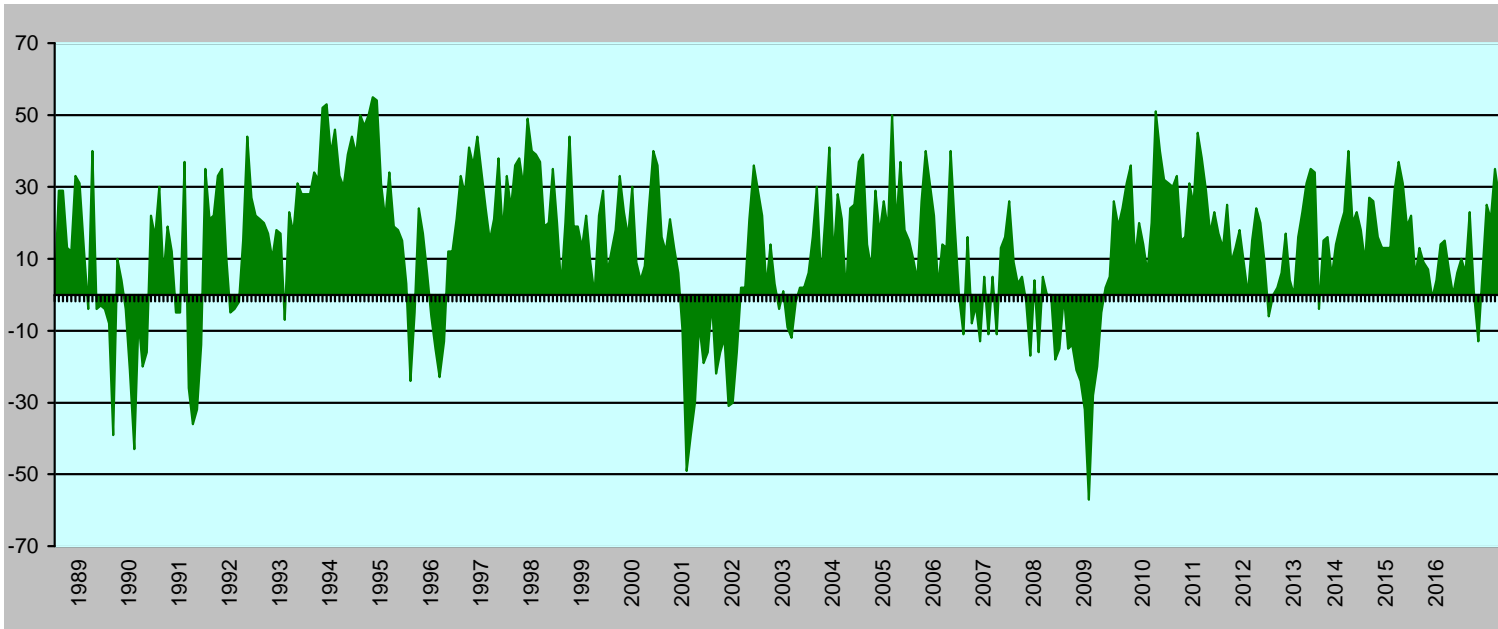
**U-6 for Michigan = 7.9% for all of 2018

Index of New Orders: West Michigan

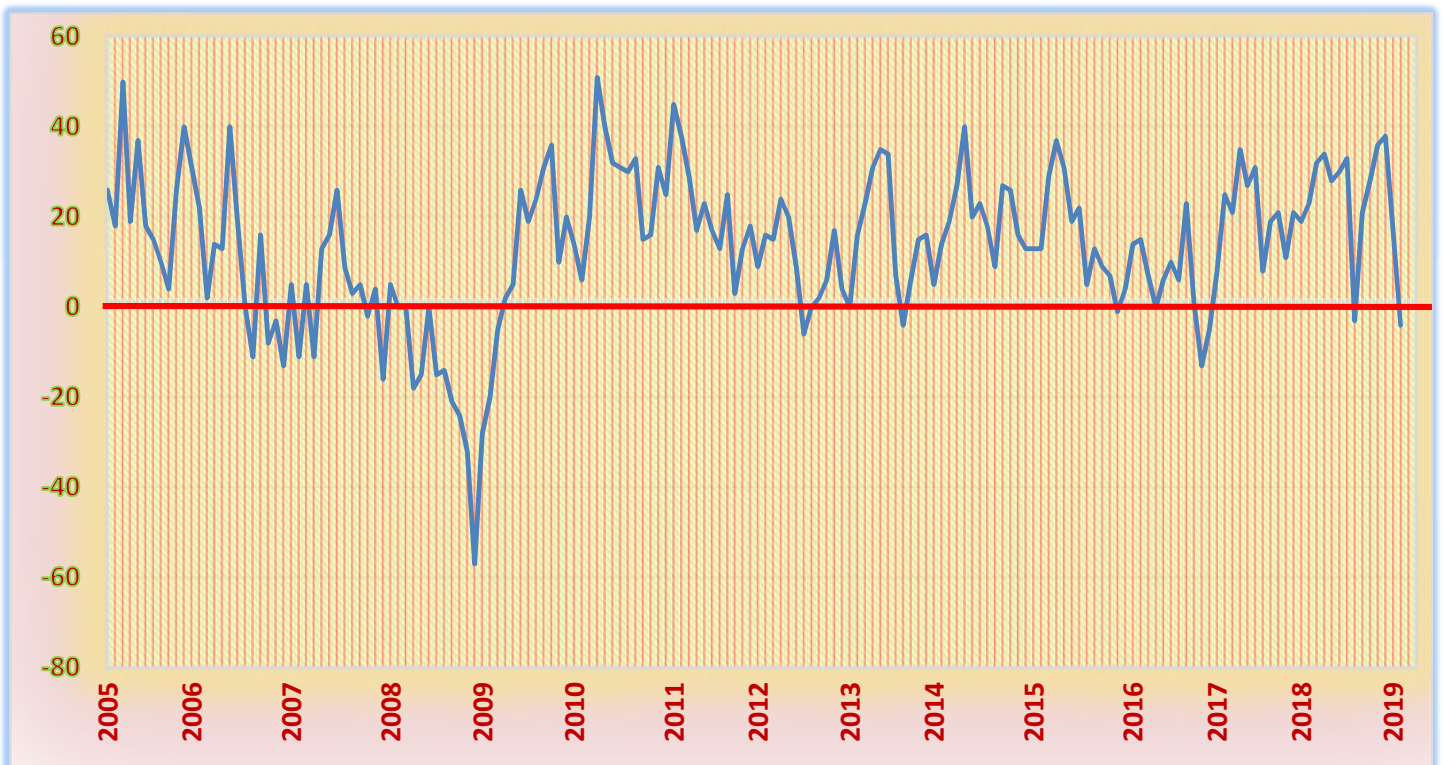
As the name implies, this index measures new business coming into the firm, and signifies business improvement or business decline. When this index is positive for an extended period of time, it implies that the firm or organization will soon need to purchase more raw materials and services, hire more 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	+ 36 for the month of January 2019
Previous Month	+ 17 for the month of December 2018
One Year Ago	+ 23 for the month of January 2018
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 - 2019

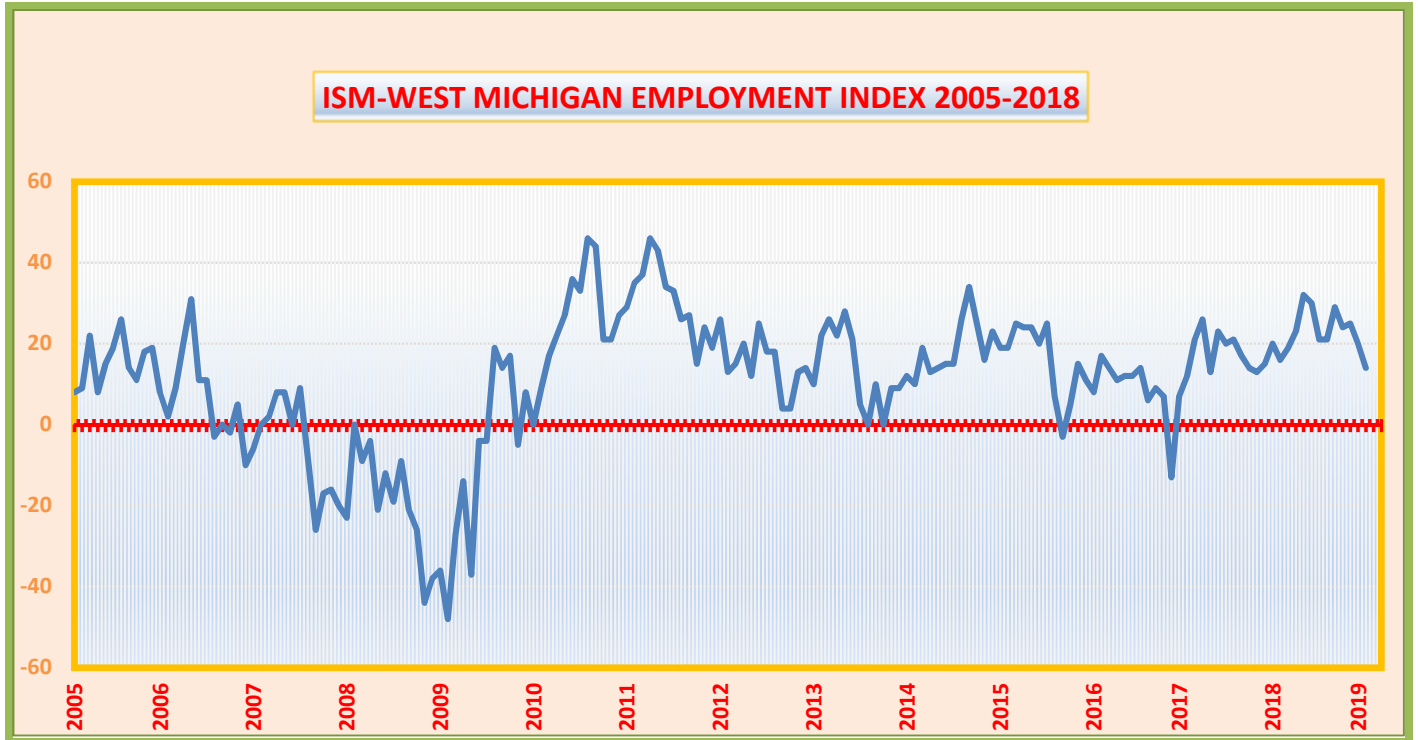


ISM-West Michigan Index of New Orders: 2005-2019 Only



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.

