

News Release (For Immediate Release)

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Current Business Trends

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MORE GROWTH: PACE IMPROVES

Last month, we returned to a pattern of slow growth. For September, the economic pace for West Michigan picked up a little more. According to the data collected in the last two weeks of September, NEW ORDERS, our closely-watched index of business improvement, edged up to +28 from +21. However, the West Michigan PRODUCTION index rose sharply to +29 from +16. Activity in the purchasing offices, the index of PURCHASES, edged higher to +21 from +15. Just as last month, the comments from our survey participants continue to articulate concerns over the uncertainty brought on by the tariffs, although the impact has so far not been as catastrophic as some had feared. The recent new accord with Canada and Mexico has been well received, but it is still not firmly in place.

Individual industries. Growth remains positive for most sectors in the West Michigan economy. Although auto sales continue to soften, the decline has so far been very orderly. Hence, business conditions for the local auto parts suppliers remain positive. Although the office furniture business plateaued last year, the new tax incentives have continued to boost many segments of the industry throughout 2018. The local firms producing capital equipment are also continuing to benefit from the tax incentives enacted in late 2017. For most of our industrial distributors, business conditions seasonally upticked in September.

The U.S. Economy. According to the October 1 press release from the Institute for Supply Management, our parent organization, the national economy remains in a pattern of slow growth, although the pace has moderated. NEW ORDERS, ISM's index of business improvement, remained strong but backtracked to +21 from +25. The PRODUCTION index came in virtually unchanged at +24. The EMPLOYMENT index backtracked two points to +15 from +17. ISM's overall index eased to 59.8, down from last month's four-year high of 61.3.

A more optimistic report on the U.S. economy comes from IHS Markit.com, the British international consulting firm. Markit.com's seasonally adjusted PMI for September rose to a four-month high of 55.6, up nicely from August's 54.7. Most of the survey's major components such as NEW ORDERS, PRODUCTION, and EXPORT ORDERS contributed to the rise. Chris Williamson, Chief Business Economist at IHS Markit, further noted:

"U.S. manufacturing showed resilience in the face of storms in September, with output rising at one of the fastest rates seen so far this year. New orders growth has lifted to the highest since May and is being boosted in particular by strong domestic demand, especially in consumer markets. In contrast, export orders grew only very modestly again. Worries about trade wars and tariffs continued to dominate, pushing business confidence in the outlook down to its lowest for a year. Tariffs, alongside higher oil prices, were meanwhile a key factor reportedly driving input costs higher. Almost two-thirds of all companies reporting higher input prices ascribed the increase to tariffs. Worries about the impact of tariffs on prices also led to increased incidences of stock building, exacerbating existing supply chain delays and driving prices further higher. Raw material inventories rose at one of the steepest rates seen this side of the global financial crisis. While stock building boosts current sales at suppliers, it poses downside risks to growth in future months."

The World Economy. Needless to say, the threat of some kind of a global trade war has dampened the world economy. The J.P. Morgan Monthly Global Manufacturing index encompassing 43 nations eased to a 22-month low of 52.2 in September, down from 52.6. Strength in

the U.S. and some of the European economies were offset by weakness in countries like Turkey, Russia, and Brazil. The PMI for China, the world's second largest economy, came in at 50.0, the break-even point between expansion and contraction. However, most European countries as well as the U.S. are still above the global average. The survey author further commented:

"September PMI data signalled a further growth slowdown in the global manufacturing sector, with rates of expansion in production and new order volumes both easing to two-year lows. The trend in new exports remained especially weak, with international trade flows declining for the first time since June 2016. Both domestic demand and export orders will need to strengthen if output growth is to regain lost traction in the coming months."

For September, the eurozone's overall manufacturing index eased to 53.2, down from 54.6. The economies of the Netherlands, Ireland, and Austria continue to be Europe's strongest performers, offset by the troubled economies of Spain and Italy. However, all of Europe's major economies are still at or near the 50.0 break-even point. Chris Williamson of HIS Markit, the survey author, further noted:

"Eurozone manufacturing shifted down yet another gear at the end of the third quarter. The sector has seen booming growth at the start of the year rapidly fade to the worst performance for two years in September as production and jobs growth have slowed in response to a stalling of export trade. The survey paints the worst trade picture for over five years, with export growth having slumped sharply from a series record high in late 2017 to near-stagnation in September. The slowdown can be linked to sluggish demand and increased risk aversion among customers, often linked to worries about trade wars and tariffs, but also ascribed to rising political uncertainty and higher prices. Forward-looking survey indicators suggest the worst is yet to come. Optimism about the year ahead is close to a three-year low, inflows of new orders and input buying are the weakest for over two years, and backlogs of work are dropping for the first time in over three years."

Michigan Unemployment. According to the latest report from Michigan's Department of Technology, Management, and Budget, Michigan's "headline" unemployment rate for August (latest month available) edged down to 4.1 percent. Total state-wide employment grew by 31,000 workers compared to August 2017. Just as last month, at least some of the new members of the workforce are previously discouraged workers who have been motivated to reenter the workforce. However, about 6,400 or 20 percent of the 31,000-workforce expansion came from Kent County alone. Although many new homes have been built in the Grand Rapids area over the past year, supply for additional housing has not kept up with demand.

West Michigan Unemployment. Our September index of EMPLOYMENT came in at +29, a nice improvement over last month's index of +21. Of the 83 counties in Michigan, Ottawa County boasts the lowest unemployment rate of 2.6 percent, followed closely by Kent County at 2.7 percent. Granted, Kent County employment has been as low as 2.1 percent over the past twenty years, so there is still a little room for improvement. At 2.8 percent, the unemployment rate in Allegan County is favorable as well. Although much of Michigan's comeback from the Great Recession can be attributed to West Michigan, it is good to see that some of the counties on the east side of the state are finally starting to prosper as well. For instance,

Oakland County's unemployment rate of 3.3 percent is well below the state-wide rate of 4.1 percent.

Automotive. Auto sales for September 2018 came in 5.7 percent below sales for September 2017, although industry analysts had predicted a drop of about 7.0 percent. However, the seasonally adjusted sales rate (SAAR) rose to 17.44 million vehicles from 16.58 in August. Although most of the major brands declined, Fiat-Chrysler sales rose 14.7 percent, fueled by a hefty 25 percent increase in fleet sales. GM posted a decline of 15.8 percent, Ford lost 11.5 percent, Honda shed 7.0 percent, and Hyundai-Kia slipped 0.6 percent. Firms with fewer offerings in trucks and SUVs posted larger declines. Hence, Toyota sales eased 10.9 percent, and Nissan slid 12.0 percent. According to David Phillips at Automotive News:

"While the U.S. economy and employment continue to grow, and consumer confidence remains high, rising interest rates and elevated gasoline prices are expected to dampen consumer demand. Increasing stockpiles of late-model used vehicles and climbing new-vehicle prices are also putting downward pressure on new car and light-truck sales."

Industrial Inflation. Many key industrial commodities are beginning to show at least some price relief, especially steel. Since our last report, some of the tariff threats have subsided, and the continued moderation in worldwide demand for many key industrial commodities has resulted in SOME price relief. Our local index of PRICES eased to +42 from last month's torrid +51. ISM's national index of PRICES eased to +34 from +44. The J.P. Morgan international pricing index also registered slightly lower. However, just as last month, freight rates, trucking shortages, and rising logistics costs are continuing to plague many of our West Michigan industrial firms.

GDP. With the first two quarters of 2018 now in the record books, focus is now shifting to estimates (or "guesstimates") for the third quarter which ended on September 30. Some of the optimistic numbers include 4.7 percent from the Atlanta Federal Reserve and

4.1 percent from the St. Louis Fed. Pessimistic estimates have been posted by the New York Fed at 2.5 percent. The Wall Street Journal average of 60 economists currently stands at 3.2 percent. Most the analysts who project slower growth for the third and fourth quarters of 2018 cite (1) the impact of the tariffs, even though the actual dollar drag may be limited, and (2) the logistical challenges faced by the nationwide shortage of trucks and drivers. Hence, the second half of 2018 will still be good, but not as great as we had hoped for. Even then, 2018 will still be the best year for growth since the end of the Great Recession.

Business Confidence. Although our local statistics remain positive, the optimism continues to fade. The West Michigan index for the SHORT-TERM BUSINESS OUTLOOK for September, which asks local firms about the perception for the next three to six months, ticked lower to +25 from +32. Although the index is still positive, the gain has eroded since February's reading of +51. Fortunately, the LONG-TERM BUSINESS OUTLOOK, which queries the perception for the next three to five years, remained unchanged at +33. Although these readings do indicate a little concern about where the West Michigan economy is headed, the overall mood is still positive.

Summary. The tax cuts will continue to move the U.S. economy in a positive direction, but uncertainty about the trade talks will limit future economic growth. Recessions have historically occurred when a proverbial "bubble breaks." The problem, of course, is often identifying the "bubble." After the collapse of the housing market, it was obvious that the banks buried themselves in sub-prime loans. Today, we have several bubbles that are starting to form, but none of them appear to be great enough to upset the current economic momentum. The recent report of a new trade agreement with Canada and Mexico, our two largest trading partners, relaxes some of the fear of an international trade war. Because we (presumably) have a new basic agreement with the European community, this leaves China as the last major barrier. However, the statistics for West Michigan and the rest of the country are still strong enough to carry us well into 2019—and hopefully beyond.

SEPTEMBER COMMENTS FROM SURVEY PARTICIPANTS

"Dry nickel chloride remains in short supply due to continued shutdown of the Eramet refinery in France."

"If we could find enough production employees, we would be dangerous."

"Business is strong. We just finished the fiscal year and we had record sales. We expect to exceed that number over the next fiscal year. We are starting to see some price hikes due to the China tariffs, but we are working out plans to move around it."

"Tariffs are being used as a license to increase prices. Raw material deliveries are late, and it is a trickle-down effect from there. Good times to be had."

"Sales remain very strong. The ability to keep up with demand and control costs remain the greatest current struggle."

"We're noticing some softness in order volumes in August and September. I'm not sure at this point if it is a trend or just uncertainty over tariffs."

"Lead times are going up due to lack of truck drivers. The tariffs for China are creating major pricing concerns, and will most likely negatively impact freight deliveries as companies rush to get ahead of them. With the upcoming holiday season, we are likely to see long delays at the ports."

"Some of our paving projects are being effected by the state-wide MITA lockout and, if not resolved soon, may have to be carried over into next spring."

"We've been very busy the last few months. Our forecast remains strong."

"This month's report is a repeat of the last several months. Strong demand, but feeling constrained by labor and raw material availability."

"Orders continue to meet expectation."

"We are still doing quite well"

"The new tariffs will really hurt our bottom line. We have to pass on the extra costs to our customers."

"A number of raw materials will see 10-25% increases due to tariff increases imposed by the Trump administration."

"We're still having low intake numbers, but see some help on the horizon."

"Tariffs have had a cooling effect on new orders as customers have a wait and see strategy. Costs on some product categories going up as we move them to other countries for source of supply."

"I hope that by 2021 the electronics market stabilizes."

"We have a healthy order backlog from last month, but domestic foundries are increasing lead times. Skilled workers are still impossible to find and hire, tariffs hitting our China imports and rising freight costs/lead times. Price increase to our customers are rolling out soon."

"Raw material prices are rising rapidly. We're still having a hard time filling all the open manufacturing positions."

"We had a good summer and it is continuing into the start of fall."

"We're seeing some price increases due to tariffs."

"Business is stronger this month. We should do well the rest of the year."

"Tariffs, Tariffs, Tariffs. We're waiting, planning, and trying to understand the impact and how to mitigate. Electronic component pricing and lead-times are having a large impact on financials, inventory, etc."

"Supplier capacity issues continue to impact delivery on-time delivery performance."

"Business has gotten super slow."

"We just finished the IMTS trade show, with record attendance. There's great enthusiasm in manufacturing."

"Tariffs hurt."

"Tariffs will impact business in the short term."

SEPTEMBER 2018 Survey Statistics

	UP	SAME	DOWN	N/A	Sept. Index	Aug. Index	July Index	25 Year Average
Sales (New Orders)	38%	50%	10%	2%	+28	+21	- 3	+14
Production	34%	56%	5%	5%	+29	+16	+23	+14
Employment	36%	57%	7%		+29	+21	+21	+ 8
Purchases	32%	57%	11%		+21	+15	+13	+ 7
Prices Paid (major commod.)	38%	57%	5%		+33	+42	+51	+15
Lead Times (from suppliers)	48%	52%	0%		+48	+49	+55	+11
Purchased Materials Inv. (Raw materials & supplies)	27%	50%	18%	5%	+ 9	+20	+17	- 4
Finished Goods Inventory	20%	55%	18%	7%	+ 2	+ 3	+ 9	- 8
Short Term Business Outlook (Next 3-6 months)	34%	57%	9%		+25	+32	+33	-
Long Term Business Outlook (Next 3-5 years)	38%	54%	5%	3%	+33	+32	+33	-

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: Steel, steel components, aluminum, stainless steel, polypropylene, PVC resin, UV stabilizers, acrylic process aids, electrical components, compressors, fans coming from China, resins, stamped components, transportation, any tariff related HTS codes, oil, freight, trucking, passive electronics, all plastic resins (PP, PA, POM, PC), hardware, powder paint, anything touched by the tariffs.

Prices on the DOWN side: Natural rubber, steel*, carbon steel, scrap steel, brass, aluminum*, copper, zinc, some electronics*.

*Item reported as both up AND down in price.

Latest Unemployment Reports

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

	Aug. 2018	Aug. 2017	Aug. 2009	20 Year Low
State of Michigan (Adj.)	4.1%	4.6%	14.6%	3.2%
State of Michigan (Unadj.)	3.8%	5.1%	14.1%	2.9%
Kent County	2.7%	4.1%	11.9%	2.1%
Kalamazoo County	3.2%	4.8%	11.1%	2.1%
Calhoun County	3.8%	5.5%	12.8%	2.7%
Ottawa County	2.6%	3.8%	13.3%	1.8%
Barry County	3.0%	4.5%	10.9%	2.2%
Kalamazoo City	3.9%	5.9%	15.2%	3.2%
Portage City	2.9%	4.4%	8.7%	1.3%
Grand Rapids City	3.6%	5.4%	16.1%	3.0%
Kentwood City	2.6%	3.8%	10.7%	1.4%
Plainfield Twp.	2.0%	3.1%	8.0%	1.4%
U.S. Official Rate (Aug.)	3.9%	4.5%	9.6%	3.8%
U.S. Rate (Unadjusted)	3.9%	4.4%	9.6%	3.6%
U.S. U-6 Rate (July)**	7.4%	8.6%	16.7%	8.0%

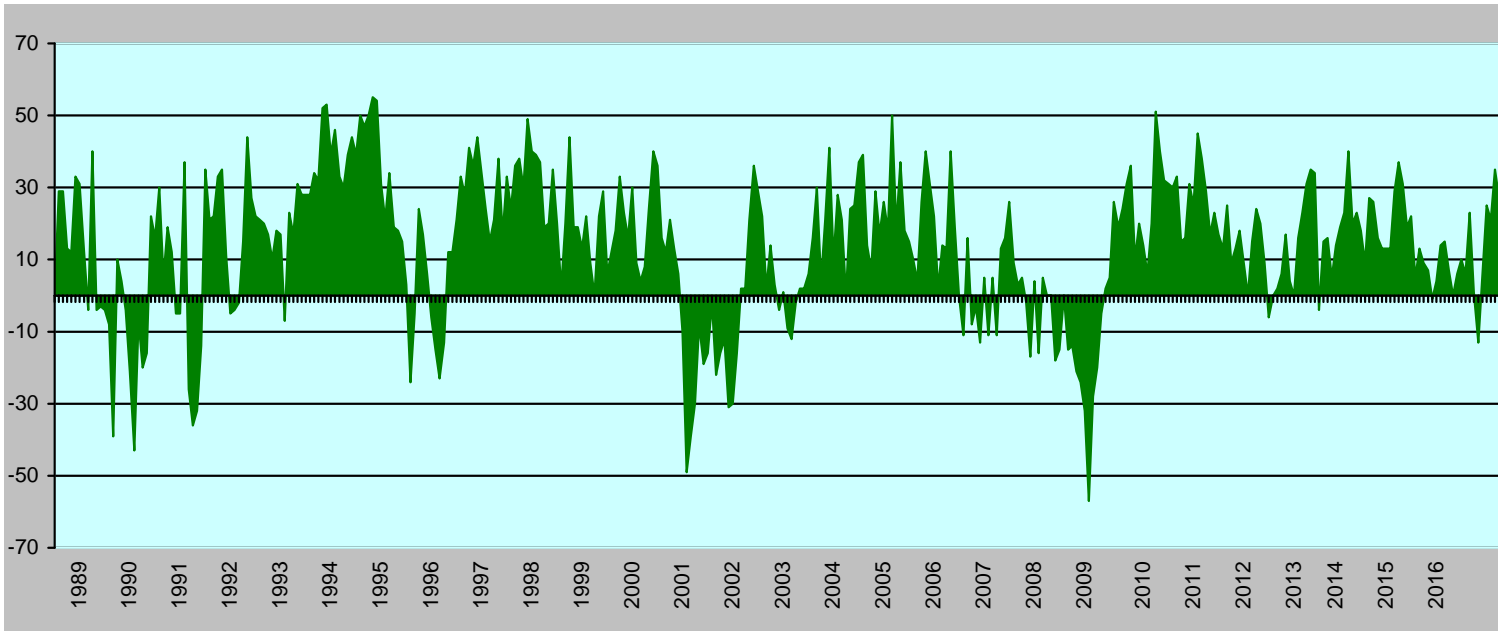
**U-6 for Michigan = 8.9% for July 2017 to June 2018

Index of New Orders: West Michigan

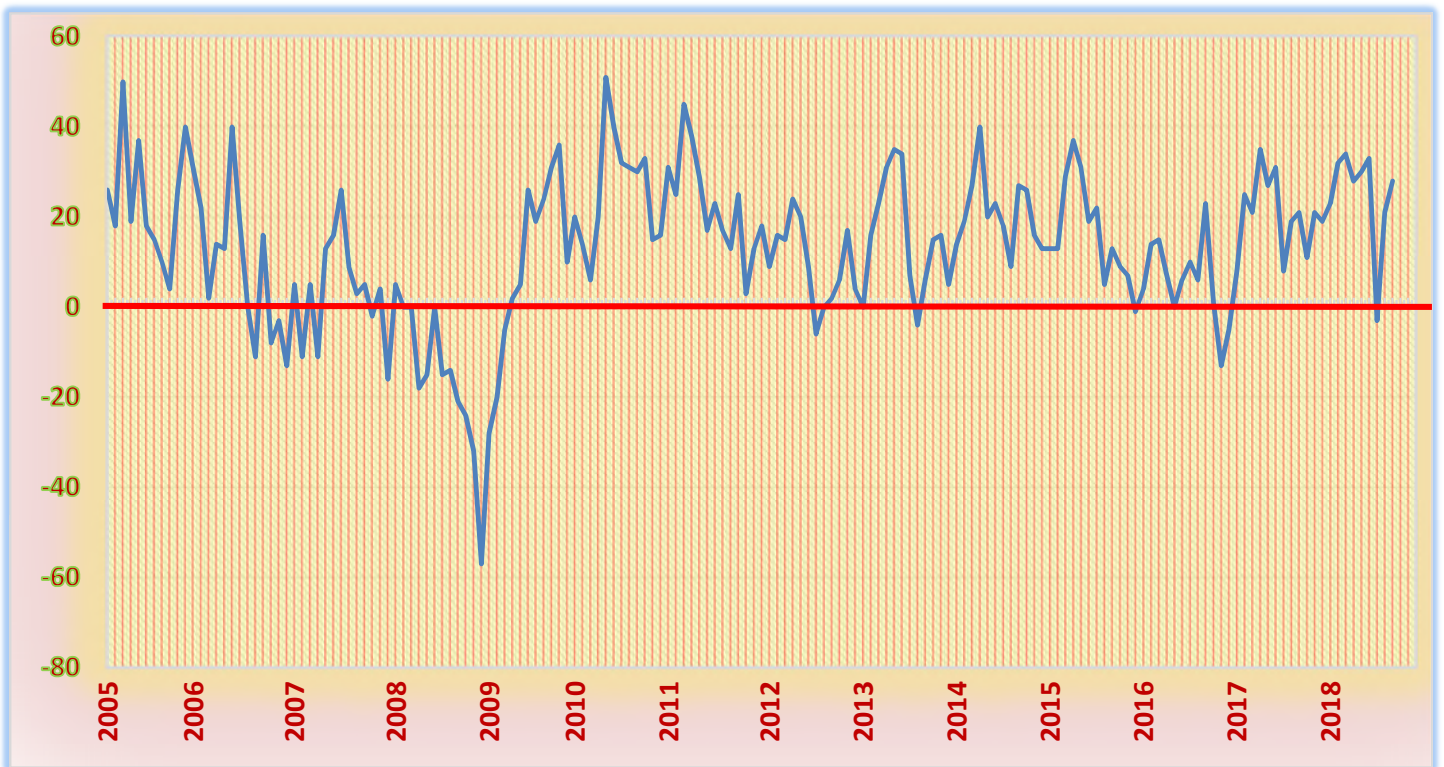
As the name implies, this index measures new business coming into the firm, and signifies business improvement or business decline. When this index is positive for an extended period of time, it implies that the firm or organization will soon need to purchase more raw materials and services, hire more 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	+ 28 for the month of September 2018
Previous Month	+ 21 for the month of August 2018
One Year Ago	+ 23 for the month of September 2017
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 - 2018

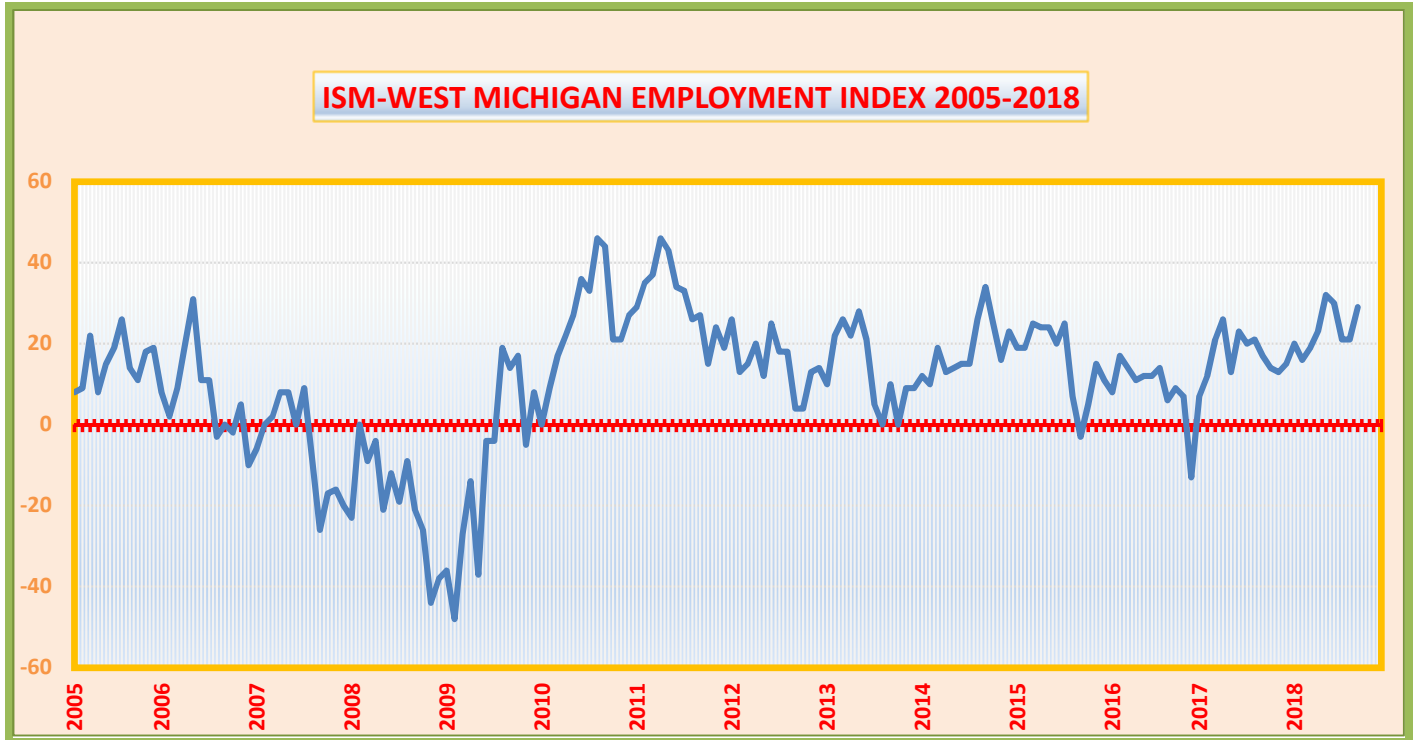


ISM-West Michigan Index of New Orders: 2005-2018 Only



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.

