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Current Business Trends

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FEBRUARY: A SIGNIFICANT BOUNCE

January was good, but February was better. According to the data collected in the last two weeks of last month, NEW ORDERS, our closely-watched index of business improvement, upticked to +32 from +23. In a similar move, the West Michigan PRODUCTION index edged up to +31 from +24. A more modest move came from the activity in the purchasing offices, wherein the index of PURCHASES rose modestly to +22 from +18. Although the West Michigan industrial economy has been in a pattern of slow growth for the past eight years, we still get an occasional bounce like we did in February. We will see if the trend continues in the coming months.

Individual industries. The positive result of the recent tax reform legislation has been a boom to the capital equipment manufacturers. Although there are a few exceptions, most of these firms report being recently swamped with new orders. Slower auto sales remain a concern to the automotive parts producers, but most remain very stable, and a few are actually still growing. The same is true of the office furniture firms. Most are topping out, but a couple of the smaller firms are expanding. With the exception of one local survey participant, February was a great month for the industrial distributors who participate in our West Michigan survey. Regrettably, almost all of the manufacturing firms continue to be constrained by an inability to find new workers to fill open positions.

The U.S. Economy. The March 1, 2018 statistics released from the Institute for Supply Management, our parent organization, picked up pace in February. ISM's manufacturing index for NEW ORDERS rose to +35 from +25. The PRODUCTION index edged up from +22 to +26. ISM's EMPLOYMENT index rose sharply to a six-year high of +18, up from +6. The PMI, ISM's overall manufacturing index, came in at a 14-year high of 60.8. In confirmation, the IHS Market.com PMI for the U.S. registered 55.3 in February 2018, just slightly below the 55.5 reported last month. However, NEW ORDERS were reported to be expanding much more rapidly than expected. The survey author, who was modestly pessimistic only a few months ago, has now shifted to a much more positive stance:

> "U.S. factories are enjoying one of the best growth spells seen since 2014, boding well for the sector to make a solid contribution to GDP in the first quarter. The most encouraging news was another surge in new order inflows, which helped boost optimism about the year ahead and drive further widespread job gains. Manufacturers are clearly in expansion mode, enjoying robust demand from home alongside rising export orders. Capacity is still being stretched, however, as indicated by widespread supply chain delays and the build-up of uncompleted orders at factories. Factory selling prices are consequently rising at the steepest rate in four years."

The World Economy. For the second month in a row, the J. P. Morgan Monthly Global Manufacturing Report reported a slightly slower pace to the already-strong world economy. According to JPM's March 1 press release, JPM's NEW ORDERS index came in at 55.1, slightly below January's 55.5, but still well ahead of the 50.0 break-even threshold. EMPLOYMENT held steady at 53.0. Just like the U.S., industrial inflation is still a major concern to many firms around the world, although the February index of PRICES eased modestly to 60.7 from 61.4. Probably because of the strong euro, JPM's index of EXPORTS eased modestly to 53.3 from 54.1. The survey author further commented:

> "The global manufacturing sector continued to achieve a solid pace of expansion in February, according to the latest PMI data. Nonetheless, the PMI, along with the latest data on production and expenditures, indicate that goods-sector expansion is moderating from the red-hot pace of late 2017."

Although all of the major European economies are now positive, the IHS Markit Eurozone PMI eased to a four-month low of 58.6, down from 59.6 in January. Although several of the major European countries have experienced some modest back-tracking, it was gratifying to see the PMI for Spain come in at a three-month high, and beleaguered Greece file the strongest report in almost 18 years. After losing about 25 percent of its GDP, the Greek and other European investors are now coming in for the "fire sales" of abandoned factories., resulting in the industrial economy is slowly beginning to improve. Chris Williamson, Chief Business Economist at London-based IHS Markit, further noted:

> "Although the Eurozone Manufacturing PMI fell for a second successive month in February, the survey data indicate that factories are still enjoying their best growth spell for 18 years. The average PMI for the first quarter so far is the second-highest since the spring of 2000, falling just short of the near-record peak seen in the fourth quarter of last year. Some of the slowdown may, however, be due to capacity constraints. Skill shortages are being increasingly reported and supply chains are being stretched to one of the greatest extents on record. These signs of overheating have important implications for inflation. In terms of prices, the stronger euro appears to be helping bring down imported inflation, but widespread cases of demand exceeding supply highlight the ongoing presence of solid underlying core inflationary pressures."

Unemployment. Although the Michigan unemployment rate for people "actively looking for work" has improved modestly in recent months, the latest numbers reported by Michigan's Department of Technology, Management and Budget came in at 4.7 percent, somewhat higher than the official national rate of 4.1 percent. Michigan's U-6 rate, which includes part-time and discouraged job seekers, has now fallen to 9.1 percent. Looking at individual city and county unemployment rates, some people have become concerned that the rates are now as much as a half percentage point higher than last year at the same time. Hence, it is worth repeating that these slightly higher rates stem from workers reentering the workforce and "actively looking for work." But the current numbers also show unemployment for Ottawa County at 3.2 percent and Kent County at 3.4 percent. These are still fairly enviable unemployment rates.

Automotive. After a modest rise of 1.2 percent January, auto sales resumed the year-long pattern of modest decline. Overall sale for cars and light trucks eased by 2.3 percent in February, although the pattern of declining auto sales remains both modest and orderly. Of the major brands, Toyota lead the upticks for the month with a year-over-year gain of 10.0 percent. Beleaguered Volkswagen is finally recovering after many months of bad publicity and added 8.0 percent for February. Subaru gained 2.5 percent, and Nissan added 2.2 percent. All of the Detroit Three were modest losers. Fiat-Chrysler extended its losing streak to 18 months by losing 6.8 percent, Ford dropped 6.6 percent, and General Motors eased 3.2 percent. Although the pattern of slower sales may continue for the rest of the year, it is worth repeating that our West Michigan auto parts producers are still not seeing any significant slump in sales.

Industrial Inflation. Just as last month, the strong economy around the globe has continued to escalate the world inflation rate for a wide variety of industrial commodities. For West Michigan, our index of PRICES jumped to +51 from +41. At the national level, ISM's index of PRICES pushed up to +48 from +45, eclipsing last month's seven-year high. JPM's "Input Prices" index came off an 80-month high to settle at 60.7, down slightly from 61.4. This month's West Michigan index of LEAD TIMES rose to +42 from +31, adding more pressure to the prices our survey participants must pay. Among the "big ticket" items rising in price are linerboard, brass, aluminum, zinc, all types of plastic resins, and almost all grades and types of steel. Freight costs are rising steadily, largely because of a shortage of both trucks and drivers. One final inflation note. Given that steel and aluminum were already rapidly rising in price, the newly-threatened tariffs would result in even more inflation in these commodities.

Interest Rates. After nine years of very low inflation, is it possible that things are about to change? Granted, the Consumer Price Index continues to rise, and the Federal Reserve is now talking of several more interest rate increases before the year is over. Industrial inflation is already high, and the prospects are for it to become even worse in coming months. Annualized wage growth for 2017 was 2.9 percent, the best since 2009. Initial unemployment claims recent hit a 49-year low. It seems counterintuitive, but all of this good economic news may actually cause the Fed to raise interest rates more quickly.

Business Confidence. The ambiance of the industrial economy received a significant boost in February, probably because of the recent tax cuts and otherwise positive economic news. The February West Michigan index for the SHORT-TERM BUSINESS OUTLOOK, which asks local firms about the perception for the next three to six months, jumped to +51 from +38, a record high. The LONG-TERM BUSINESS OUTLOOK also posted a significant bounce and rose to +53 from +44. However, these statistics were gathered before the tariff announcement, which implies that this month's gains could become next month's losses.

GDP. The second estimate for the fourth quarter GDP came in at a growth rate of 2.5 percent, just a little below the first estimate of 2.6%. Although the recent tax cuts have given a slight increase in buying power for many sectors of the workforce, the big boom is still coming from the industrial sector. Although it is possible that the last half of 2018 could still reflect strong growth, the impact of the steel and aluminum tariffs, if implemented, would probably slow the economy considerably.

Overall Economy. Yes, the stock market has gyrated wildly in recent weeks, and most experts note that one trigger has been the threat of higher interest rates. More recently, the threat of a trade war sparked a significant short-term panic. On any given day, North Korea could do or say something to spook the markets. But the overall trend remains positive, and the prospect for a good 2018 remains on track.

FEBRUARY COMMENTS FROM SURVEY PARTICIPANTS

"Carbide steel pricing is going up, forcing tooling suppliers to raise pricing."

"Certain forms of nickel plating anodes and nickel-based chemicals are tight with premiums rising. Poly drums and pails are also becoming tight Truck transportation is also becoming a problem. I heard that yesterday there was the equivalent of 1,100 full truckloads of freight that was looking for trucks with only about 120 trucks available."

"We're starting to see some projects cut loose. Finally!"

"We're hearing word of a potential paper increase on the horizon. Sales were a bit flat at the end 2017 and start of the New Year."

"Price increases seem to be announced daily."

"There are rumors of a corrugated price increase of another $50/ton. Raw material suppliers are taking advantage of a growing economy by raising prices."

"Section 232 is coming to a head. Will it have the impact intended?"

"Business is steady and strong."

"Business is steady, but not increasing at this time."

"Business is good. We had a slight downturn at the beginning of January but it was short lived."

"We are a little slower in February, but March forecast looks strong."

"All raw material prices are increasing with the exception of stainless and galvanized steel. That is holding steady."

"We are gearing up for a few added road projects because of the increase in funding… at least for this year."

"Lead times and prices for passive components are increasing reportedly all the way into 2019."

"It should be another good year for us in the capital equipment world."

"Tightening belt on employment showing some negative impacts to FG levels."

"This is our normal slow time of year. Business is steady and looks to be picking up next month."

"We are running out of stock on many items and are looking to add suppliers to keep up with the demand."

"Business is strong and expenses are controlled. Controlled growth is extremely important to ensure profitability while continuing to grow top-line sales."

"We opened 2018 with record sales."

"A few new purchases are starting to trickle in. Projects we quoted in November 2017 are hatching, and customers are gearing up for 2018."

"There is upward pressure on lots of items, not just new 'calendar year" price increases."

"What the heck happened? VERY slow. Dec was worst month of the year. January was barely better. February is awful. All the customers and vendors we are talking to are saying business is way off."

FEBRUARY 2018 Survey Statistics

	UP	SAME	DOWN	N/A	Feb. Index	Jan. Index	Dec. Index	25 Year Average
Sales (New Orders)	45%	40%	13%	2%	+32	+23	+19	+14
Production	44%	38%	13%	5%	+31	+24	+22	+14
Employment	31%	51%	15%		+16	+20	+15	+ 8
Purchases	31%	58%	9%		+22	+18	+16	+ 7
Prices Paid (major commod.)	55%	38%	3%		+51	+41	+33	+15
Lead Times (from suppliers)	42%	58%			+42	+31	+33	+11
Purchased Materials Inv. (Raw materials & supplies)	25%	51%	18%	6%	+ 7	+18	+ 9	- 4
Finished Goods Inventory	16%	58%	18%	8%	- 2	- 3	-11	- 8
Short Term Business Outlook (Next 3-6 months)	55%	41%	4%		+51	+38	+39	-
Long Term Business Outlook (Next 3-5 years)	55%	38%	2%	5%	+53	+44	+45	-

Items in short supply: Freight services, steel, some heavy construction equipment, aggregates, salt, electronic components, aluminum sheets, steel forgings, electronic components.

Prices on the UP side: Linerboard, brass, all plastic resins, nylon, polypropylene, steel, PVC resin, paraffinic oil, plasticizer, SEBS resin, acrylic process aids, carbon steel, stainless steel, freight costs, metals, metal-based chemicals, transportation, paper, ABS, PC/ABS, scrap steel, construction equipment, aggregates, passive components, aluminum, corrugated packaging, paper products, zinc, all metal powder.

Prices on the DOWN side: Aluminum*, copper*.

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

Latest Unemployment Reports

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

	Dec. 2017	Dec. 2016	Aug. 2009	20 Year Low
State of Michigan (Adj.)	4.7%	5.1%	14.6%	3.2%
State of Michigan (Unadj.)	4.4%	4.5%	14.1%	2.9%
Kent County	3.4%	2.9%	11.9%	2.1%
Kalamazoo County	3.9%	3.8%	11.1%	2.1%
Calhoun County	4.8%	4.4%	12.8%	2.7%
Ottawa County	3.2%	2.8%	13.3%	1.8%
Barry County	4.4%	4.2%	10.9%	2.2%
Kalamazoo City	4.8%	4.3%	15.2%	3.2%
Portage City	3.5%	3.2%	8.7%	1.3%
Grand Rapids City	4.5%	3.9%	16.1%	3.0%
Kentwood City	3.2%	2.8%	10.7%	1.4%
Plainfield Twp.	2.5%	2.2%	8.0%	1.4%
U.S. Official Rate (Dec.)	4.1%	4.7%	9.6%	3.8%
U.S. Rate (Unadjusted)	3.9%	4.5%	9.6%	3.6%
U.S. U-6 Rate**	8.1%	9.1%	16.7%	8.0%

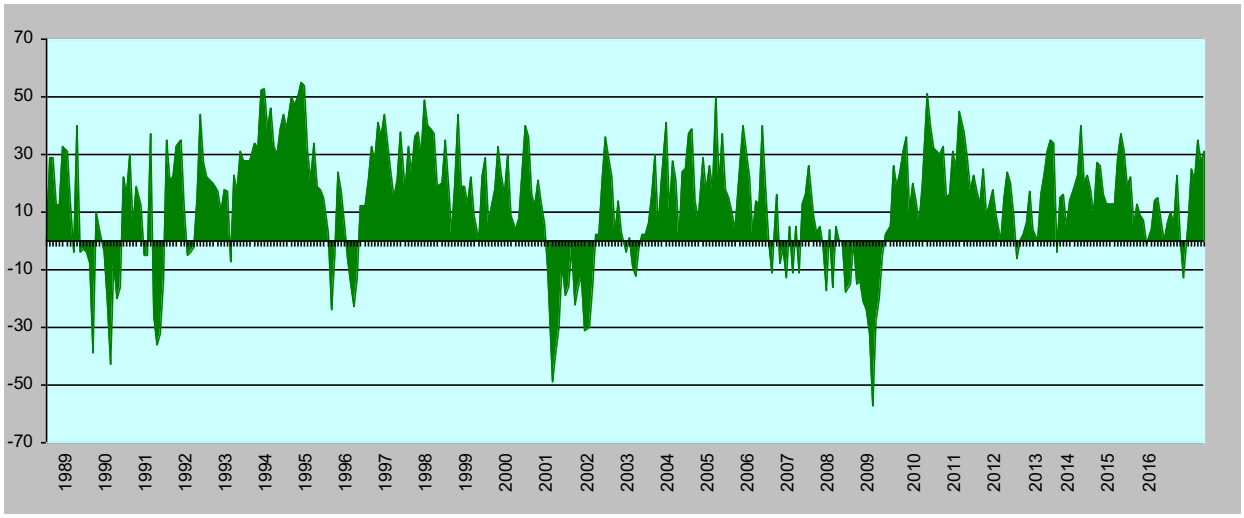
**U-6 for Michigan = 9.1% for all of 2017

Index of New Orders: West Michigan

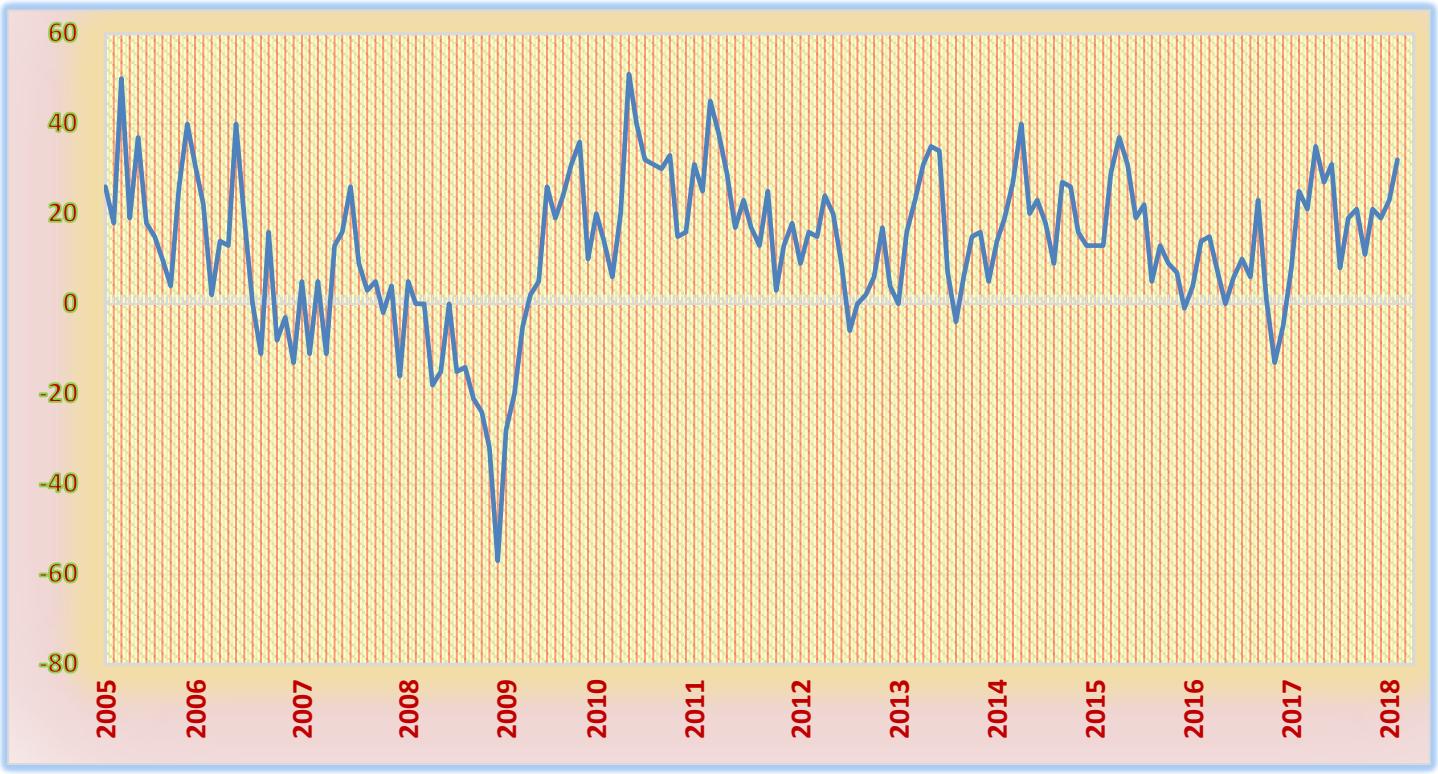
As the name implies, this index measures new business coming into the firm, and signifies business improvement or business decline. When this index is positive for an extended period of time, it implies that the firm or organization will soon need to purchase more raw materials and services, hire more 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	+32 for the month of February 2018
Previous Month	+23 for the month of January 2018
One Year Ago	+25 for the month of February 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 - 2017

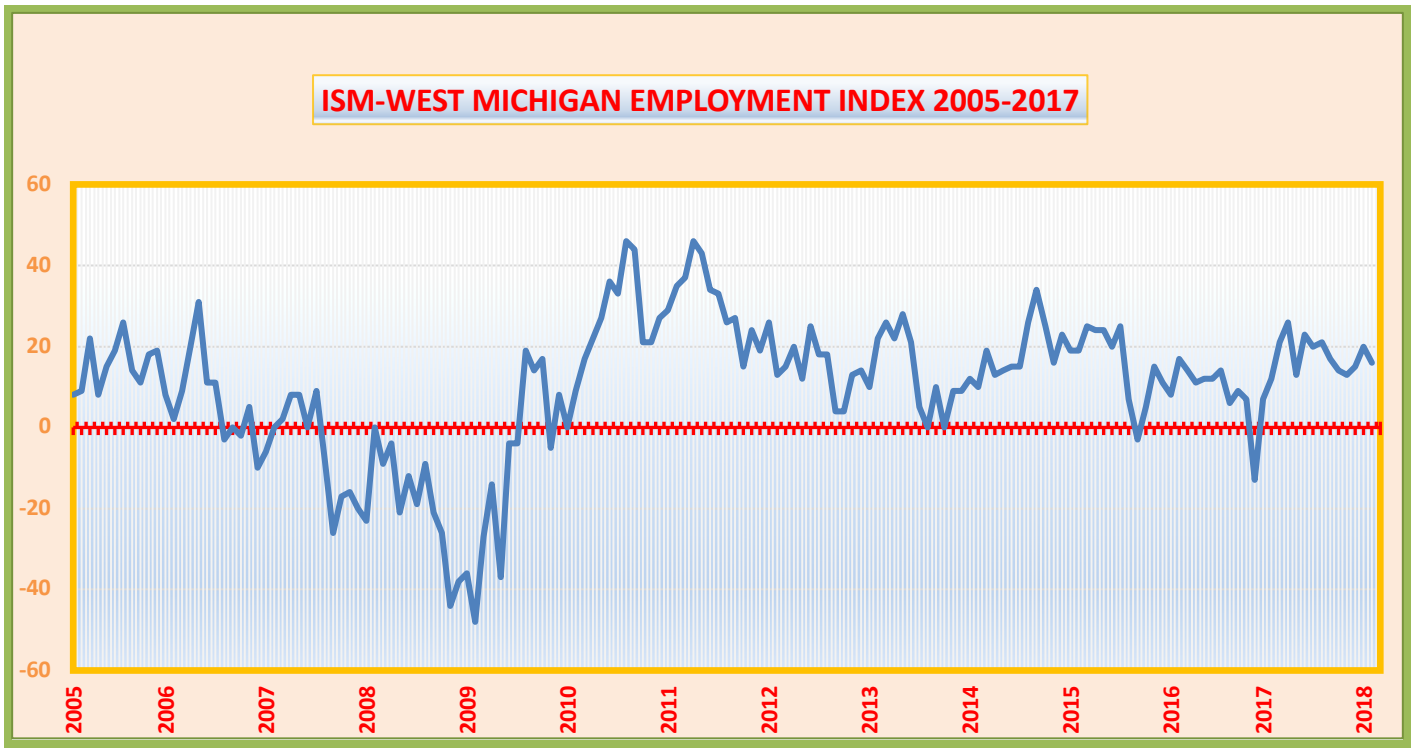


ISM-West Michigan Index of New Orders: 2005-2017 Only



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 BUSIESS 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.