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News Release (For Immediate Release)

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Current Business Trends

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Growth Rate Improves

After a summer lull, the West Michigan economy resumed the positive growth pattern we have seen for the past eight years. According to the survey conducted during the last two weeks of August, NEW ORDERS, our index of business improvement, rose to +19, up nicely from last month's reading of +8. In a similar move, the PRODUCTION index grew to +20 from +6. Activity in the purchasing offices, our index of PURCHASES, moved higher to +24 from +12. The index of FINISHED GOODS INVENTORY remained stable at +2, but the RAW MATERIALS INVENTORIES jumped to +16 from +4, largely because of lead times starting to stretch out for some commodities.

The status of most of the individual industries in our survey remains virtually unchanged. Most auto parts suppliers continue to express concern about the slower sales figures that have been reported every month since the beginning of the year, but so far, none of the firms in our local survey are talking about major sales declines. The office furniture industry continues to show signs of topping out at the present level, but no one is talking about any significant setback. Some of the capital equipment firms are reporting weaker sales due to the slowdown in the auto parts industry. The summer maintenance schedules continue to bolster some of our local industrial distributors. Most firms realize that we are now over eight years into the recovery from the Great Recession, but none of the respondents feel that a major decline is coming any time soon. Having successfully recovered from one of the sharpest dips in recent history, many of our local firms have wisely resisted the temptation to over expand.

In other local news, Mike Dunlap's quarterly "Furniture Industry Report" is out again, and the news is good. The July 2017 Overall Index came in at 57.49, fractionally below January 2017's 57.87. The highest recorded index was 59.72 in July 2005, and the lowest was 41.45 in April 2009 at the bottom of the Great Recession. Much as our own survey has indicated, the office furniture industry appears to be stabilizing at the current level. Even though some of the major firms are showing signs of topping out, Mr. Dunlap notes that much of the industry growth is coming from smaller firms with fewer than 500 employees.

At the national level, there is a divergence of opinion regarding the direction of the economy. The September 1 press release from the Institute for Supply Management, our parent organization, came in with a very bullish headline. However, NEW ORDERS, ISM's index of business improvement, backtracked to +18 from +21. The PRODUCTION index held steady at +20. The EMPLOYMENT index rose to +19 from +14, a five-year high. But INVENTORIES jumped to +11 from +0, implying less certainty about the future. Primarily because of statistical anomalies, ISM's overall index of manufacturing activity came in at a six-year high of 58.8 percent, up sharply from last month's 56.3 percent.

A contrasting view of the U.S. economy comes from IHS Markit.com, the British economics consulting firm. Although the Markit.com report is still positive, the headline notes that the August manufacturing output expanded at its weakest pace in over a year. The PRODUCTION index remained positive but drifted lower, as did the index of NEW ORDERS. The IHS Markit PMI for the U.S. came in at 52.8, a number slightly below last month's 53.3, and considerably lower than the 58.8 PMI reported by ISM's U.S. survey. Chris Williamson, the chief business economist for Markit, sounded a note of caution:

"Although still above the 50 'no change' level, the decline in the PMI shows signs of renewed stuttering of the manufacturing economy during August. The latest reading indicates one of the weakest improvements in the overall health of the sector seen over the past year, and translates into disappointing signals for comparable official data. The drop in the output index indicates that manufacturing could act as a drag on the economy in the third quarter, with exports dampening order book growth."

Coincidentally, Williamson's comments are in contrast to last month's depiction declaring that the second half of the year "got off to a good start." What a difference a month can make.

In general, the economy for the rest of the world continues to improve. The August report from J.P. Morgan's Global Manufacturing survey of 31 nations came in at a 75-month high, although the current index of 53.1 is still far below the lofty readings of ten years ago. August contractions were noted in Thailand, Myanmar, and Russia, but China, Taiwan, Brazil, and India all showed improvements. The survey author further noted:

"The upturn in the global manufacturing sector is gathering pace in the third quarter, with August seeing the Manufacturing PMI rise to its highest level in over six years. Rates of expansion in output and new orders also accelerated, underpinning a further solid bounce in job creation."

For the European economy, it was another very good month. The Purchasing Manager's Indexes (PMIs) for Austria, Netherlands, and Germany led the way at 61.1, 59.7, and 59.3, respectively. These three PMIs are now the highest for the 31 countries that JPM surveys. France came in at a 76-month high of 55.8, and Greece posted a 108-month high of 52.2. There is hope that Greece can now begin the long, slow climb out of the 2009 economic abyss. IHS Markit's chief economist commented:

"The Eurozone's impressive manufacturing upturn regained momentum in August, with a summer surge in factory activity suggesting rising goods production will support another strong GDP reading in the third quarter. The survey

indicates that euro area manufacturing output is growing at an annual rate of approximately 4%. Producers across the region are benefitting from rising domestic demand as economic recoveries gain momentum, as well as surging export sales.”

Throughout West Michigan, the employment numbers continue to be positive, and the unemployment rate for most reporting units are still modestly improving. In our local survey, the August index of EMPLOYMENT came in at +21, about the same as July’s +20 and June’s +23. At the national level, ISM’s index of EMPLOYMENT rose to +19 from +14, a six-year high. Even though all of our measures for unemployment in West Michigan continue to improve, we cannot expect the numbers to get much better. We have firms that would like to expand, but they continue to scream about the absence of qualified people to hire. For Michigan, there are about 80,000 jobs that can’t be filled because enough trained people are not available to fill the positions. At some firms, even unskilled labor jobs starting at \$14 an hour can’t be permanently filled.

For the sixth straight month, auto sales for August are lower, although the decline percentage moderated to 1.8 percent from 6.9 percent. On the positive side, Toyota recorded a 6.8 percent gain, and GM sales advanced 7.5 percent because of higher fleet orders. GM has generally been deemphasizing fleet sales because of the lower margins. Dealers also dislike fleet sales because of the dampening impact on the used car market when the fleets are turned over. Subaru posted a 4.6 percent gain, and publicity-troubled Volkswagen sales rose 9.0 percent. On the down side, Ford lost 2.1 percent, and Nissan sales dipped 15.0 percent. After many years of positive growth, Fiat-Chrysler sales have now fallen for twelve consecutive months. The Chrysler brand alone reported a 33 percent loss for August. Even sales for the Jeep brand, which had

remained a strong seller the past ten years, declined sharply in August partially because of rumors that the division might be sold to a Chinese firm.

After many years without natural disasters having a major impact on the economy, we have again been hit with some devastating hurricanes. For West Michigan, the impact of these storms will largely be felt in the form of higher prices. We have already seen prices at the gas pump jump higher, but most of the Houston area refineries expect to be back on line in a matter of days. In the construction industry, the sudden demand for plywood, roofing materials, and drywall will drive prices higher. The contractors have already been complaining about high prices of building materials, and the hurricanes will make the situation worse. For the auto industry, the hurricanes will result in huge numbers damaged vehicles being scrapped. This will raise the demand for both new and used vehicles, and both Texas and Florida dealers will soon be coming to the West Michigan auctions in search of inventory to ship back to Texas and Florida.

In summary, many of the economic trouble spots that had us worried a couple of years ago have dissipated. The Western European economy is now back on track, and the fear of a collapse in the Eurodollar now seems unlikely. Even Greece has started to turn the corner. China appear to be working through their debt problems, and the latest PMI index numbers are now modestly positive. But the big “elephant in the room” is the tenuous geopolitical situation that we see unfolding in the news every day. North Korea is currently the major problem, but the Middle East remains volatile as well. The markets as well as most people in their daily lives appear to have grown desensitize to the daily barrage of threats against America. All of this could change very quickly.

AUGUST COMMENTS FROM SURVEY PARTICIPANTS

“Lead times are starting to increase from our suppliers due to capacity issues.”

“Flat again. We’re hoping for fall pickup.”

“It’s very challenging to hire and retain production staff.”

“We had a good month in July. August looks good so far, too.”

“Will 2017 finish as strong as it started? That is the question we are currently facing.”

“I’m too busy to comment!”

“We are lucky with the car lines we support. Business has been good.”

“We are seeing a seasonal slowdown, but future orders are still strong.”

“Aftermarket Aerospace sales are down a bit this summer. It appears to be because the airlines are delaying overhauls to keep planes flying through the peak summer travel season.”

“We’re on the upswing for new business, and it looks promising for the rest of the year.”

“When vacations are over, school starts and the 2018 autos start to roll. Hopefully, business will start to move.”

“We’re still seeing a very strong market.”

“Despite all the turmoil in Washington D.C., we keep rolling along and business is strong.”

“We see controlled growth with some signs of a little slowdown. But otherwise, we are selling nearly all we can produce.”

“We are still doing well, and expect to continue to do well for the near future. We make a very high quality “value added” product.”

“Business is steady.”

“We see lots of good indicators that currently point to 2018 being a busy year.”

“We need people, but the hindrance of red tape is excessive.”

“Business is still strong, but we have been slower than plan.”

“We have nothing of consequence to report.”

“We’re in medical packaging, and have seen a spike in customer orders this quarter. Very busy!”

August 2017 Survey Statistics

	UP	SAME	DOWN	N/A	Aug. Index	July Index	June Index	25 Year Average
Sales (New Orders)	28%	61%	9%	2%	+19	+ 8	+31	+14
Production	24%	67%	4%	5%	+20	+ 6	+26	+14
Employment	28%	65%	7%		+21	+20	+23	+ 8
Purchases	28%	68%	4%		+24	+12	+22	+ 7
Prices Paid (major commod.)	17%	81%	2%		+15	+21	+15	+15
Lead Times (from suppliers)	30%	70%	0%		+30	+20	+26	+11
Purchased Materials Inv. (Raw materials & supplies)	20%	69%	4%	7%	+16	+ 4	+11	- 4
Finished Goods Inventory	15%	66%	13%	6%	+ 2	+ 5	+ 0	- 8
Short Term Business Outlook (Next 3-6 months)	37%	56%	7%		+30	+33	+34	-
Long Term Business Outlook (Next 3-5 years)	41%	53%	2%	4%	+39	+50	+37	-

Items in short supply: Xenoy and Ultem resins, entry and mid-level machine operators, production labor.

Prices on the UP side: Refrigerants, copper products, brass, corrugated boxes, aluminum, steel, shrink wrap, OSB, electrical steel, asphalt, cleaning solutions, plastic resin, low carbon steel, carbon steel, stainless steel scrap, engineering grade resins, China wire rod, ocean freight, polypropylene, molded and fabricated foam, all steel and steel components.

Prices on the DOWN side: SEBS resin.

Latest Unemployment Reports

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

	July 2017	July 2016	Aug. 2009	20 Year Low
State of Michigan (Adj.)	3.7%	4.9%	14.6%	3.2%
State of Michigan (Unadj.)	4.9%	5.8%	14.1%	2.9%
Kent County	4.2%	4.3%	11.9%	2.1%
Kalamazoo County	4.8%	4.9%	11.1%	2.1%
Calhoun County	5.6%	5.6%	12.8%	2.7%
Ottawa County	3.9%	4.0%	13.3%	1.8%
Barry County	4.5%	4.6%	10.9%	2.2%
Kalamazoo City	6.0%	6.1%	15.2%	3.2%
Portage City	4.4%	4.5%	8.7%	1.3%
Grand Rapids City	5.6%	5.6%	16.1%	3.0%
Kentwood City	4.0%	4.0%	10.7%	1.4%
Plainfield Twp.	3.2%	3.2%	8.0%	1.4%
U.S. Official Rate (Aug.)	4.4%	4.9%	9.6%	3.8%
U.S. Rate Unadjusted	4.5%	5.0%	9.6%	3.6%
U.S. U-6 Rate**	8.6%	9.7%	16.7%	8.0%

**U-6 for Michigan = 9.5% for 2016 - 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 +19 for the month of August 2017

Previous Month + 8 for the month of July 2017

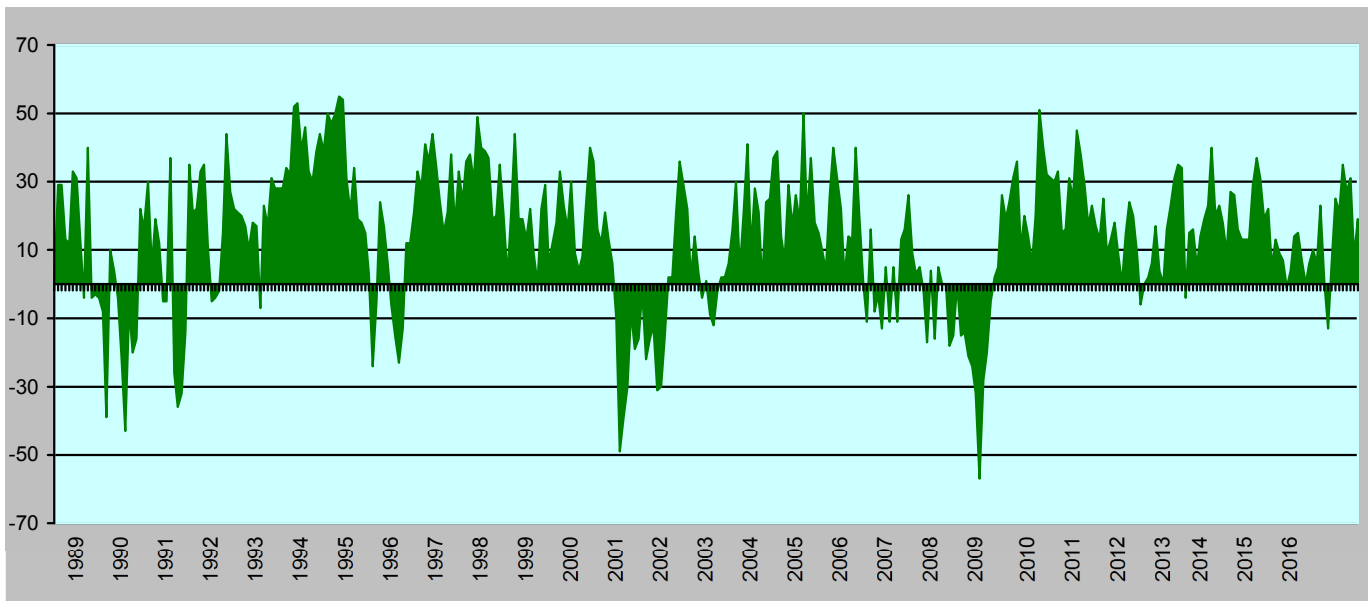
One Year Ago +23 for the month of August 2016

Record Low - 57 for the month of December, 2008

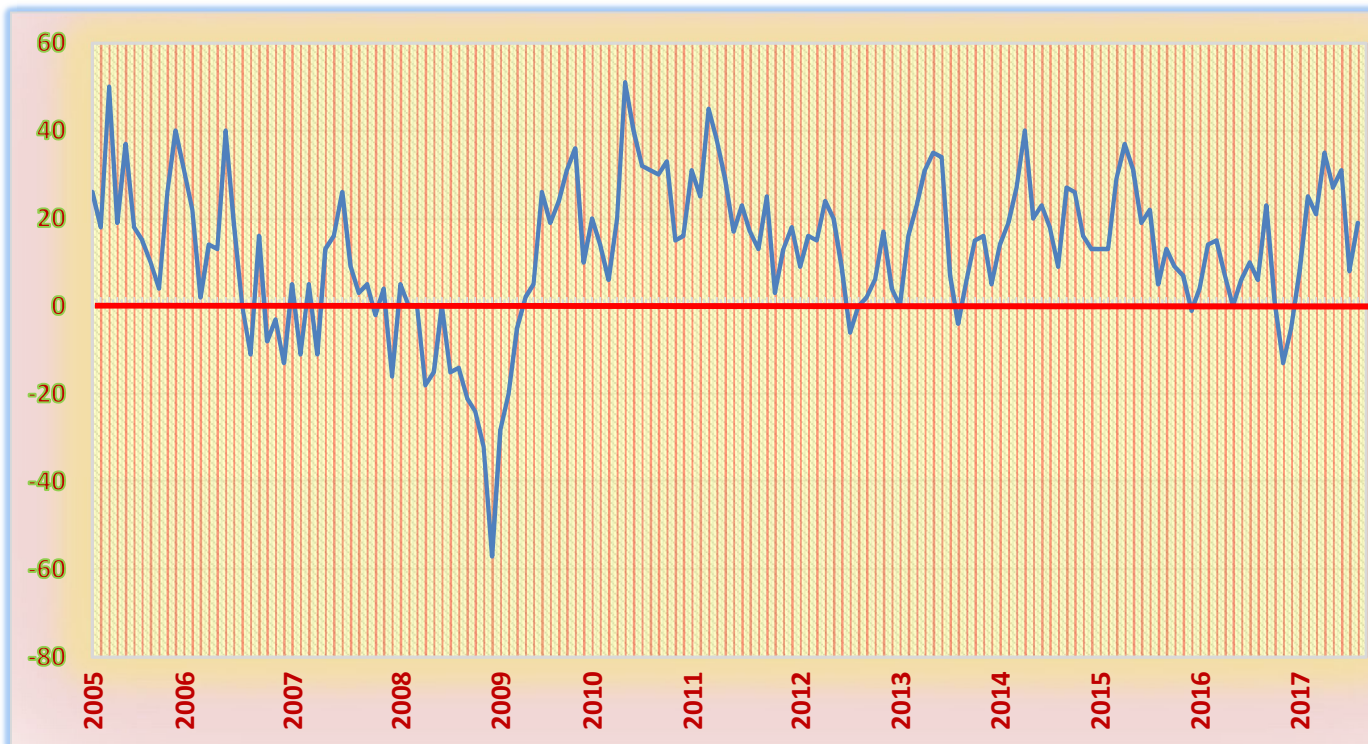
Record High + 55 for the month of September, 1994

First Recovery + 3 in April of 2009 and forward

ISM-West Michigan Index of New Orders 1988 - 2017

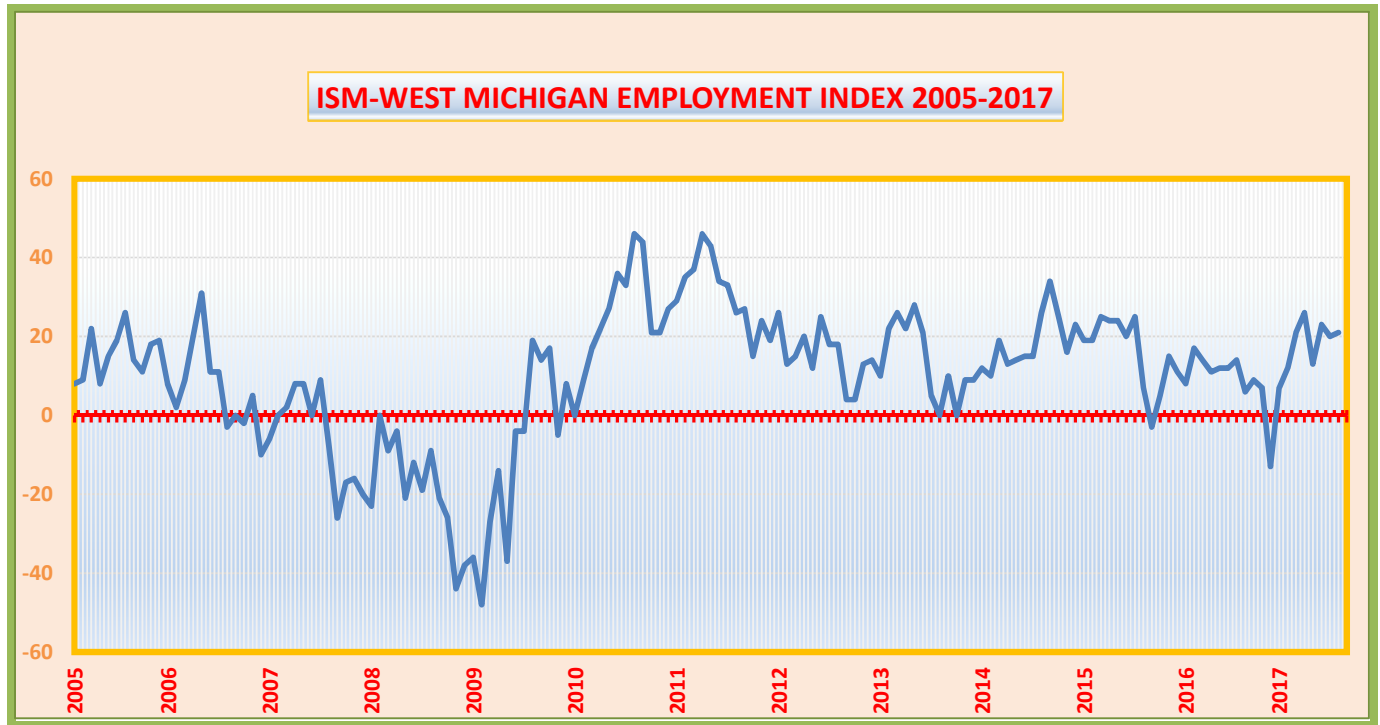


ISM-West Michigan Index of New Orders: 2005-2017 Only



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 measure 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.

