

News Release (For Immediate Release)

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Current Business Trends

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PLATEAUING AT A SLOWER RATE OF GROWTH

Key Participant Comments for June:

"We're seeing signs of a softening automotive market. Sales remain good, but not great, and we're starting to see demand for some items falling a bit. Expense control focus is a must right now."

"Business is strong, but sales are slightly below expectations."

"We still need to hire more production employees. We can't fill all of the openings we have."

Although the pace of the West Michigan economy is slowing, there is still no evidence that we are about to fall off a cliff, at least for now. According to the data collected in mid-June, NEW ORDERS, our index of business improvement, rose to +10, up from May's +3. The PRODUCTION index remained steady at +11. Activity in the purchasing offices, the index of PURCHASES, rebounded sharply to +12, up from -2, indicating that the outlook for the next few months may be improving. Anecdotal comments from our survey participants continue to be mixed. Some firms are still posting record sales, while others are starting to feel less certain about the future.

The U.S. Economy. The June national industrial economy continued to flatten, according to the July 1 press release from the Institute for Supply Management, our parent organization. NEW ORDERS, ISM's index of business improvement, retreated to a single-digit reading of +5, down from May's +11. However, the PRODUCTION index rose to +12 from +6. ISM's overall index eased to 51.7 from 52.2, significantly below the reading of 58.4 reported a year ago.

A slightly different view of the U.S. economy comes from IHS Markit, the British international consulting firm. Markit.com's seasonally adjusted PMI of 50.6 for June came in marginally higher than May's ten-year low of 50.5. The overall report is characterized by "stagnation" but does not suggest that a general collapse is imminent. Chris Williamson, Chief Business Economist at IHS Markit, is a little less optimistic this month:

"U.S. manufacturers reported business conditions to have remained the toughest for nearly a decade in June. The past two months have seen the lowest readings since the height of the global financial crisis in 2009. The survey provides accurate advance indicators of comparable official data, and paints a worrying picture of marked declines in both output and jobs. The June survey sub-index readings are consistent with manufacturing output contracting at a quarterly rate of 0.7% and factory payrolls falling by 18,000. A major development in recent months has been the deteriorating performance of larger companies, where the last two months have seen the lowest PMI readings for a decade. After inventories rose sharply earlier in the year, large companies have moved to destocking in May and June amid a sharp slowing in new order inflows. Although business optimism about the future lifted slightly higher, it remained close to survey lows to indicate persistent low morale. Worries centred on signs of slowing demand both at home and internationally, weaker sales, and geopolitical uncertainty. Tariffs meanwhile continued to push up prices, but weak

demand often limited the ability of firms to pass higher prices onto customers, suggesting overall inflationary pressures have weakened compared to earlier in the year."

The World Economy. J.P. Morgan's Global Manufacturing Index, a compilation of the purchasing manager's report from 43 nations, slid to 49.4 in June, the lowest level since October 2012. China, Japan, Germany, the UK, Taiwan, South Korea, Italy, and Russia were some of the countries posting downturns. In contrast, the U.S., India, Brazil and Australia were among the larger industrial nations reporting expansion. JPM's Production index turned negative to 49.5, down from last month's precarious 50.1. David Hensley, Director of Global Economic Coordination at J.P. Morgan, further noted:

"The global manufacturing sector downshifted again at the end of the second quarter. The PMI surveys signalled that output stopped growing, as inflows of new business shrank at the fastest pace since September 2012. This impacted hiring and business optimism, with the latter at a series-record low. Conditions will need to stage a marked recovery if manufacturing is to revive later in the year."

Just as it has for many months, the potential impact of a "hard" Brexit continues to weigh on all of the European countries. The IHS Markit PMI manufacturing index for the eurozone came in at 47.6 for June, just slightly below last month's 47.7, and still well below the 50.0 break-even point. The PMIs for Ireland, Spain, and the Netherlands all fell to six-year lows reminiscent of the depth of the European debt crisis in 2013. Greece continues to dig its way out of the worst recession in modern history, but the Greek PMI eased significantly to 52.4, down sharply from May's 54.5 and April's 19-year high of 56.6. At 45.0, the PMI for Germany remains the weakest performer in the eurozone. Ongoing declines in New Orders and Production, continued deterioration in the European auto industry, escalating trade tensions, and anti-eurozone rhetoric have weighed on the economic future. One glimmer of hope comes from the index of Business Confidence, which remains weak but rose to a four-month high. Needless to say, U.S. sales to most of Europe are falling. Chris Williamson from Markit.com further commented:

"Eurozone manufacturing remained stuck firmly in a steep downturn in June, continuing to contract at one of the steepest rates seen for over six years. The disappointing survey rounds off a second quarter in which the average PMI reading was the lowest since the opening months of 2013, consistent with the official measure of output falling at a quarterly rate of approximately 0.7% and acting as a major drag on GDP. In stark contrast to the steep rise in producers' costs and charges seen at the start of the year, raw material prices are now falling for the first time in three years and selling prices are barely rising. The downturn is also showing no signs of any imminent end. The survey's forward-looking indicators remained worryingly subdued in June, adding to concerns about the economy in the second half of the year."

Michigan Unemployment. According to the latest report from Michigan's Department of Technology, Management, and Budget, Michigan's "headline" unemployment rate for May (latest month available) edged up to 4.2 percent from 4.1 percent, the same as the 4.2 percent rate reported for May 2018. However, most of the unemployment uptick can be attributed to workers reentering the workforce. The total state-wide seasonally adjusted labor force grew by 49,000 workers between May 2018 and May 2019. However, about 4,000 of these 49,000

workers did not find work, resulting in a 0.1 percent increase in the unemployment rate. Just as last month, it is gratifying to see the Grand Rapids-Wyoming MSA add about 6,000 workers to the payrolls over the past calendar year.

West Michigan Unemployment. The June West Michigan index of EMPLOYMENT retreated to +5, down from May's +15. However, if the pace of new employment in West Michigan is falling, it will not be picked up by the state statistics until later in the summer. As before, most of our West Michigan counties continue to have the lowest unemployment rates in the state. According to the data released by Michigan's DTMB a few days ago, Ottawa County continues to report the lowest unemployment rate of 2.6 percent. Kent County ties for second at 2.7 percent. Fourth place goes to Allegan County at 2.8 percent, and Barry County claims fifth place at 2.9 percent. Kalamazoo County came in tenth with a rate of 3.1 percent. Needless to say, the remaining 73 counties in Michigan all had higher unemployment rates, ranging up to Alger County's unenviable rate of 7.8 percent.

Automotive. Although the news media continues to talk about the decline in auto sales, it is worth repeating that the decline so far has been very orderly and relatively modest. According to the July 1 report from Automotive News, sales for the industry dropped a scant 2.6 percent in June, but still left the industry's Seasonally Adjusted Annualized Rate (SAAR) with an equally modest decline to 17.3 million units, down from May's 17.4 million. For the industry as a whole, the incentives and discounts abound, and the bloated dealer inventories are starting to decline to more manageable levels.

For the Detroit Three, sales for Ford slipped 4.7 percent, and GM declined a modest 0.9 percent. Fiat-Chrysler gained 1.9 percent, largely because of a 45.4 percent boost in Ram truck sales. Among the other major nameplates on the down side, Honda dropped 7.3 percent, Mazda plunged 15.1, the Nissan Group plummeted 14.9 percent, and Toyota edged 3.5 percent lower. On the up side, beleaguered VW gained 5.9 percent, Subaru added 2.8 percent, Hyundai-Kia gained 1.9 percent, and sales for BMW edged higher by 3.9 percent. Jessica Caldwell, executive director of industry analysis at Edmunds, further commented:

"The summer sell-down is officially in full swing, and car shoppers are finally starting to find the price breaks they've been hoping for. While we're not talking about the dramatic discounts you could find just a few years ago, it's clear automakers are realizing if they want to sell new cars at record-high prices, they're going to have to do something to entice the average consumer."

Industrial Inflation. In our June report, the West Michigan index of PRICES dropped significantly to a ten-year low of -13, down from May's +6. The price increases for commodities driven by tariffs continue to be countered by fierce competition among suppliers. In confirmation, ISM's U.S. index of PRICES flipped back to negative at -4, down from +6. The June J.P. Morgan international Pricing index eased to 52.0 from 52.6. However,

Markit.com index of prices rose modestly, largely because of tariff pressures. Timothy Fiore, ISM's survey committee chair, further noted:

"Prices contracted in June for the first time since February, when the index registered 49.4 percent. Shortages and price increases remain in electronic components, and food ingredients, but are offset by copper, steel, energy and aluminum price declines."

GDP. Imperfect as it may be, GDP continues to be the most widely reported measure of economic health for the state, nation, and world. On May 30, the Bureau of Economic Analysis announced that the GDP estimate for the first quarter of 2019 has been revised modestly downward to 3.1 percent from the previous estimate of 3.2 percent. On July 26, BEA will post the first official estimate of the U.S. GDP for the 2019 second quarter. Most of the forecasts are not optimistic and range from a low of 1.0 percent growth up to 2.2 percent. Our statistics tend to favor a rate closer to the higher estimates. However, these same statistics denote a slower GDP growth for the 2019 third quarter.

Business Confidence. Looking at last month's report, May's West Michigan index for the SHORT-TERM BUSINESS OUTLOOK, which asks local firms about the perception for the next three to six months, fell to a near all-time low of +5. For June, the index bounced back to +20, largely because of the optimism in the current news cycle. The index for the LONG-TERM BUSINESS OUTLOOK, which queries the perception for the next three to five years, remains more stable, but edged slightly lower to +24, down from +29.

Summary. The ongoing trade war with China continues to weigh on the U.S. economy, primarily impacting the farm exports to China and the rising cost of goods coming from China. Fortunately, in a brief meeting at the recent G20 summit, presidents Trump and Xi agreed to at least resume talks. Unfortunately, this implies that a full trade agreement may still be a long way off.

Other good news came from the BLS report of a jump in non-farm payrolls by 224,000 in June, well above market expectations of 165,000. However, one month's data does not constitute a trend, so it will take an equally strong report for July before we can confirm a change in direction. Wage growth was also reported to grow at 3.1% year over year, one-tenth of a point below market expectations. However, the current growth rate is a relief to workers who have waited a long time for the economic recovery to finally catch up with them.

Offsetting the good news is the continued flattening of the world economy, partially brought on by the trade wars, Brexit fears, and unstable politics in the Middle East. All of these factors weigh on business confidence around the world, as well as West Michigan. From the anecdotal comments we receive every month, it is obvious that the rapid growth we have experienced for the last few years may be over. However, these same comments imply that the current economic respite is manageable.

JUNE COMMENTS FROM SURVEY PARTICIPANTS

"Quoting is still good, but PO's have slowed."

"Capital equipment is still humming along. Feels flat, though. Sales may still equal last year and last year was a very good year."

"Electronic component market looks to be getting healthy."

"A good month, although it was the result of another part of the same windfall order we had last month. I'll take it."

"We're seeing signs of a softening automotive market. Sales remain good, not great, and we're starting to seed demand for some items falling a bit. Expense control focus is a must right now."

"We still need to hire more production employees. We can't fill all of the openings we have."

"Business remains strong, and the forecast for the next 2-3 months is also strong."

"Sales are slower this month, and we also have lower production as more vacation time is being taken. This summer will be slow unless some project work comes to the rescue."

"Our season is in full force at all levels and it is still being debated in Lansing as to how to fund additional road concerns in the future."

"Prices keep going up."

"There is significant seasonality with retail, and this is historically our slow season. But even for our slow season, our sales are slow."

"Business is strong but sales are slightly below expectations."

"We see a very uncertain picture."

"We are feeling the effect of tariffs on Chinese made chemicals and other raw materials."

"With the tool and die market in a lull, our steel suppliers have started to keep less inventory on hand. Lead times are now getting up to about eight weeks for some of our projects."

"Nothing of note outside of the tariff effect on Chinese produced goods."

"We are starting to see heavy discounting on machinery coming from overseas. This typically means that orders overseas are slowing, and inventory is being rerouted to NAFTA market."

"Goods from China are now cheaper as they seek to offset tariff impact."

JUNE Survey Statistics

	UP	SAME	DOWN	N/A	June Index	May Index	Apr. Index	25 Year Average
Sales (New Orders)	33%	42%	23%	2%	+10	+ 3	+13	+14
Production	22%	54%	11%	13%	+11	+11	+11	+14
Employment	18%	67%	13%	2%	+ 5	+15	+ 4	+ 8
Purchases	25%	60%	15%	0%	+12	- 2	+14	+ 7
Prices Paid (major commod.)	11%	65%	24%	0%	-13	+ 6	+10	+15
Lead Times (from suppliers)	16%	73%	11%	0%	+ 5	+14	+ 4	+11
Purchased Materials Inv. (Raw materials & supplies)	15%	63%	15%	7%	+ 0	+13	+16	- 4
Finished Goods Inventory	13%	60%	16%	11%	- 3	- 7	+ 8	- 8
Short Term Business Outlook (Next 3-6 months)	36%	48%	16%	0%	+20	+ 5	+19	-
Long Term Business Outlook (Next 3-5 years)	31%	57%	7%	5%	+24	+29	+28	-

Items in short supply: Skilled tradespeople, iron castings, some aluminum, salt, some aggregates, heavy construction equipment, qualified employees, UV absorber, some tool steel, plant-based foods, terminals, connectors, electrical components, steel bar.

Prices on the UP side: Some "tariff price" increases, electronic components, plastic colorants, stainless steel, polypropylene, plastics, salt, aggregates, heavy construction equipment, labor intensive services, zinc.

Prices on the DOWN side: Most metals, some steel*, gasoline, aluminum*, hot and cold rolled steel, scrap steel, overseas steel*, oil related chemicals, copper, brass, mold components, scrap steel, polypropylene, pork, steel surcharges.

*Item reported as both up AND down in price.

Latest Unemployment Reports

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

	May 2019	May 2018	Aug. 2009	20 Year Low
State of Michigan (Adj.)	4.2%	4.2%	14.6%	3.2%
State of Michigan (Unadj.)	3.9%	3.5%	14.1%	2.9%
Kent County	2.7%	2.6%	11.9%	2.1%
Kalamazoo County	3.1%	3.1%	11.1%	2.1%
Calhoun County	3.8%	3.7%	12.8%	2.7%
Ottawa County	2.6%	2.5%	13.3%	1.8%
Barry County	2.9%	3.0%	10.9%	2.2%
Kalamazoo City	3.9%	3.8%	15.2%	3.2%
Portage City	2.9%	2.8%	8.7%	1.3%
Grand Rapids City	3.7%	3.5%	16.1%	3.0%
Kentwood City	2.6%	2.5%	10.7%	1.4%
Plainfield Twp.	2.1%	2.0%	8.0%	1.4%
U.S. Official Rate (May)	3.6%	3.8%	9.6%	3.8%
U.S. Rate (Unadjusted)	3.4%	3.6%	9.6%	3.6%
U.S. U-6 Rate (June)**	7.2%	7.8%	16.7%	8.0%

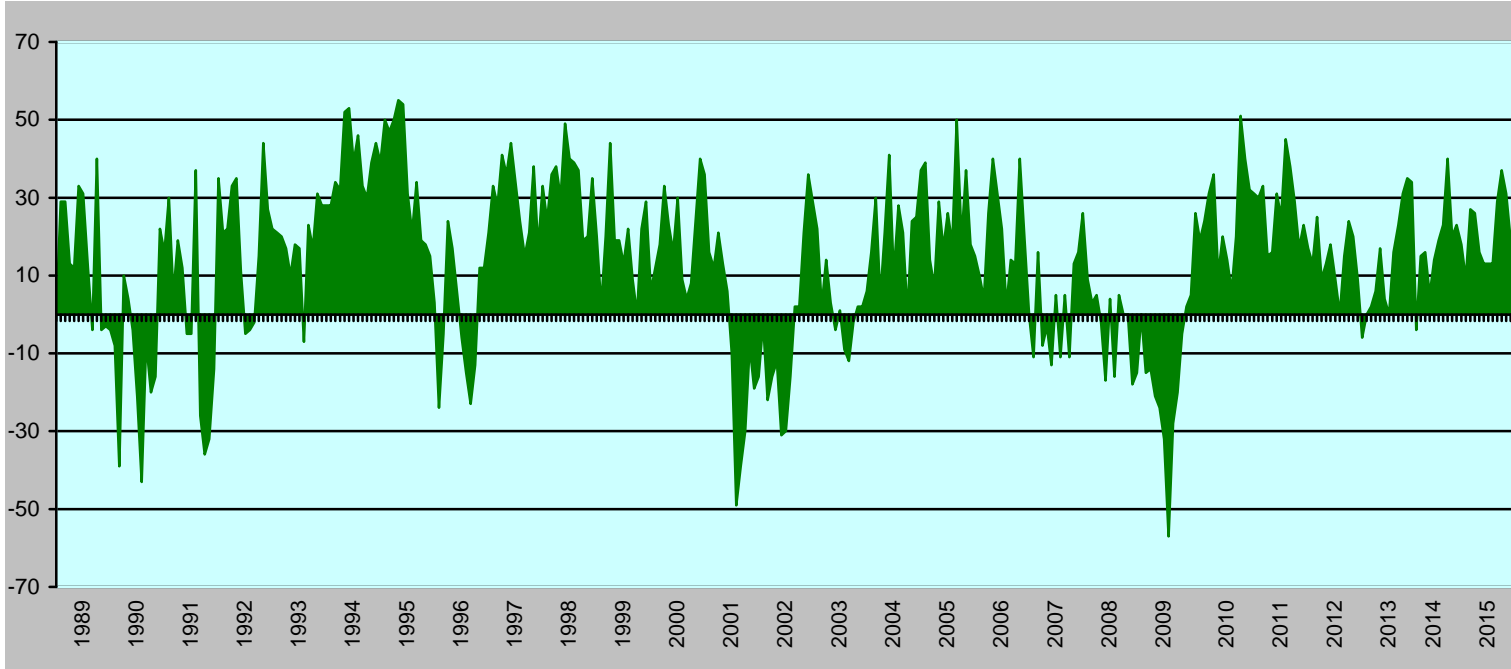
**U-6 for Michigan = 7.6% for April 2018 to March 2019

Index of New Orders: West Michigan

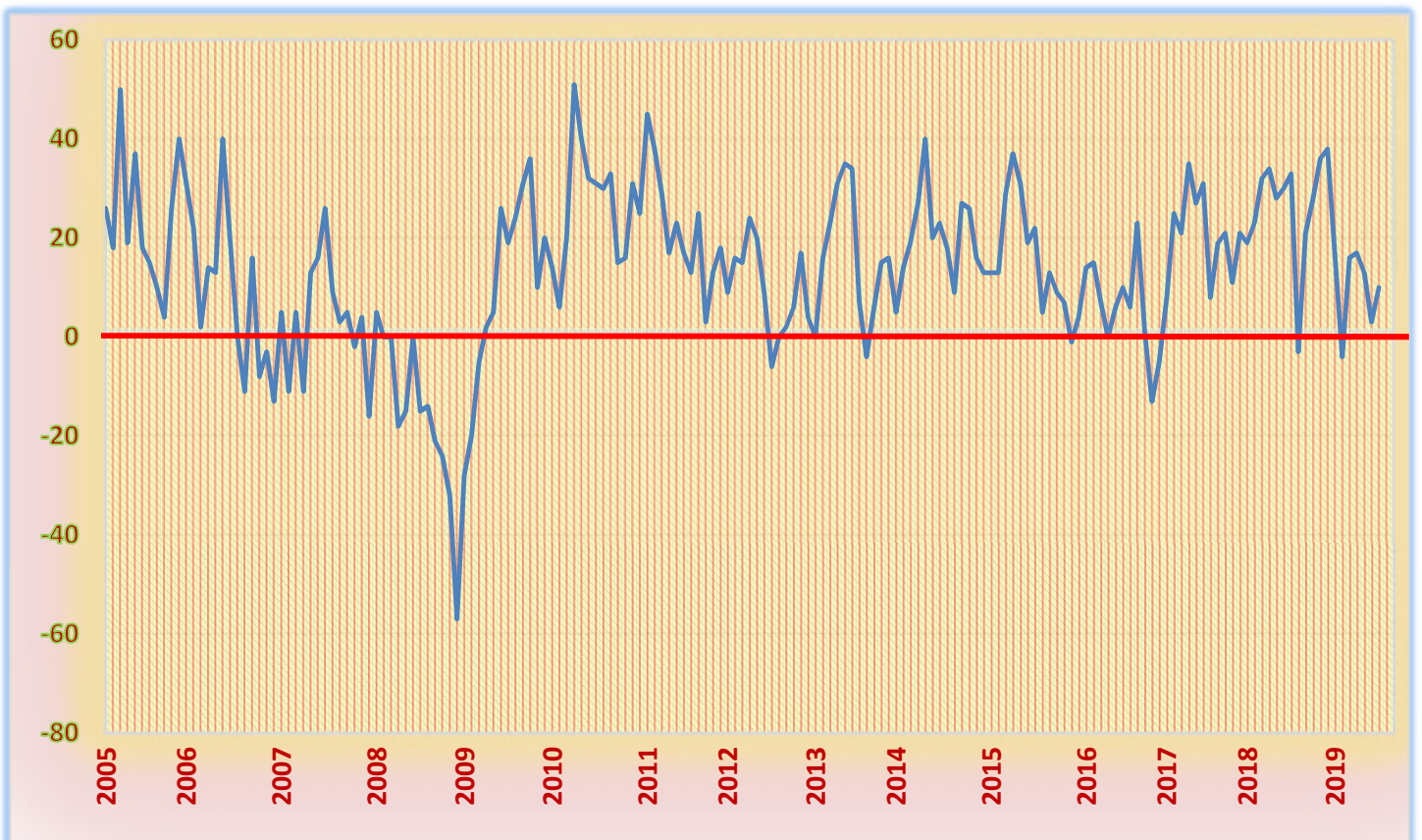
As the name implies, this index measures new business coming into the firm, and signifies business improvement or business decline. When this index is positive for an extended period of time, it implies that the firm or organization will soon need to purchase more raw materials and services, hire more 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	10 for the month of June 2019
Previous Month	+ 3 for the month of May 2019
One Year Ago	+ 36 for the month of June 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

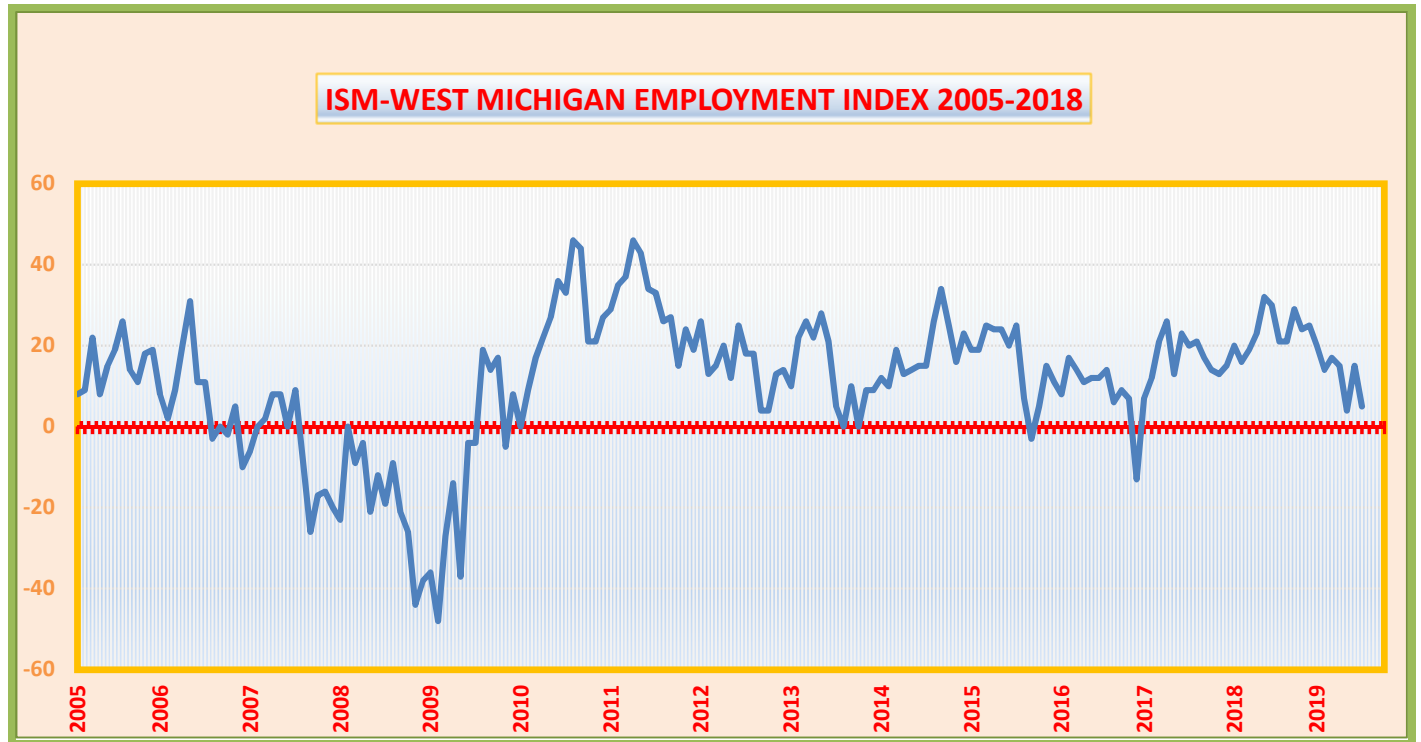


ISM-West Michigan Index of New Orders: 2005-2019 Only



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.

