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## **News Release (For Immediate Release)**

### **January 6, 2017**

# **Current Business Trends**

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### **Seasonally Flat**

December is often a slow month for many industrial firms, and December 2016 was no exception. According to the latest survey conducted during the last two weeks of December, NEW ORDERS, our closely watched index of business improvement, came in at -5, considerably below our index of +23 posted as recently as September, but comparable to last year's equally reticent reading of -1. Most of our other key indexes were modestly positive. The PRODUCTION index eased to +3 from +4. Activity in the purchasing offices, the index of PURCHASES, remained positive but edged lower to +3 from +6. Unlike the inventory spikes we reported in August, the December indexes representing FINISHED GOODS INVENTORIES index continued to edge modestly lower to -7, down from -2. The RAW MATERIALS INVENTORIES returned to positive at +4, up from -12 in November. Hence, we conclude that the West Michigan economy for December was fairly flat. We can expect the January numbers to reflect the back-to-work mood of the New Year. But many of our industrial groups are showing signs of topping out, so growth for the first quarter will probably be modestly positive.

Looking at individual industrial groups, it is not surprising to see that many of our firms downshift to a slower pace in December. The auto parts suppliers continue to raise concern over the recent softening in auto sales. For two of our survey respondents, new quotation requests are down considerably. In the office furniture industry, most signs point toward sales topping out, although business conditions still remain positive. The bias for the capital equipment industry is now on the down side. Typical of most Decembers, performance for the industrial distributors was modestly lower.

The business sentiment numbers for December improved moderately. The SHORT TERM BUSINESS OUTLOOK, which asks local firms about the perception of the next three to six months, rose to +20 from +12. In a similar move, the LONG TERM BUSINESS OUTLOOK edged higher to +45 from +34. From the anecdotal comments, at least some respondents feel that the post-election mood has resulted in a more optimistic outlook for 2017. Changes proposed by the new administration will come much slower than implied by the pre-election rhetoric. Hence, the business environment will be reasonably stable. But the post-election mood has clearly changed from uncertainty to optimism.

At the national level, the December report from the Institute for Supply Management, our parent organization, turned in a decidedly positive direction. NEW ORDERS, ISM'S index of business improvement, came in at +12, up from +5 in November and +4 in October. The PRODUCTION index rose to +11 from +9. ISM's EMPLOYMENT index remained modestly positive at +3. ISM's overall index for December registered 54.7 percent, a significant increase of 1.5 percentage points from November. As we noted in several recent reports, about half of all the PMIs

worldwide are less than two points above the 50.0 break-even. The U.S. PMI is now above average.

An equally strong report comes from the survey of the U.S. economy conducted by Markit, the British economics consulting firm. Increases were reported in NEW ORDERS, EMPLOYMENT, and PURCHASES. The Markit PMI for the U.S. came in at 54.2, just a shade below the ISM's index of 54.7. Comments from Chris Williamson, the chief business economist at Markit, have clearly turned from bearish to bullish:

"U.S. manufacturing is enjoying a strong end to 2016, showing further signs of pulling out of the soft patch seen earlier in the year and putting the sector on the starting blocks ready for a further upturn as we move into 2017. The pace of growth signalled by the PMI in December was the strongest for almost two years. The combination of improving current demand and optimism for a further upturn in 2017 prompted companies to build inventory and boost capacity. The latter was reflected in the largest rise in factory payroll numbers for one and a half years."

The year-end assessment from the J.P. Morgan Global Manufacturing survey of 31 nations reported modest optimism for improvement in the world economy. JPM's index of NEW ORDERS once again edged higher to 53.8 from 53.1. The PRODUCTION index advanced to 53.8 from 53.4. The J.P. Morgan Global Composite Purchasing Manager's Index rose to 52.7, a 34-month high. Among the major economies of the world, the strongest PMI reports are coming from Germany (55.6), the U.K. (56.1), Spain (55.3), and the Netherlands (57.3). At 53.5, the PMI for France has now been positive for three successive months. The October PMI for China came in at 51.9, well above the break-even point of 50.0. However, Greece, Brazil, Turkey, and South Korea continue to be a drag on the world economy. David Hensley, the survey author further noted:

"With rates of expansion in production and new order volumes having gathered pace during the latter part of 2016, the sector will start 2017 on a solid footing with positive momentum building and job creation accelerating."

According to some reports in the business media, industrial inflation showed signs of recurring. JPM's December index of PRICES jumped to 61.0, a five-year high. Our local index of PRICES rose to +21, up from +11 in November. Most of the increases can be attributed to the recent increase in oil prices. In addition to fuel, many industrial products derived from oil, such as plastic resins, are now up about 10% since June. In addition, steel prices have been rising for the past three months, largely because of the decline in Chinese imports. The 266% tariff we imposed on some grades of Chinese steel are apparently having an impact.

As we have noted numerous time in previous reports, the sales statistics for automobiles fuel the growth for our numerous automotive parts suppliers in West Michigan. As a result of SOME auto firms pushing generous incentives, the December light vehicle sales rose by 3.4%. Ford posted a miniscule gain of 0.1%, followed by a 10.0% gain at General Motors. For the other major brands, Honda rose 6.4%, Nissan added 9.7%, Toyota edged up 2.0%, and Subaru gained 12.3%. Analysts attribute most of the gains to massive fleet orders as several manufacturers attempt to show record year-end sales. However, dealer inventories have now edged higher than normal, and without the aid of a few additional large fleet sales, most analysts believe that new car sales have topped out. As a result, the 2017 outlook for our local parts suppliers will relate to the specific lines of cars they are supporting. Over half the sales reported in December were for light truck and cross-over vehicles. Sales for regular cars and fuel efficient compacts have continued to decline, partially because of low cost gasoline.

Where does the economy go in 2017? That's the big question everyone is asking. At the beginning of 2016, we faced numerous statistics that pointed toward a downward trend for the economy. The stock market took a nasty hit, and it appeared that we could be in the early stage of another recession. But that was last year. For 2017, we have a whole host of positive factors that predict a strong first quarter. Some of these factors include:

- Consumer confidence has recently recovered to a 15 year high.
- Auto sales may taper off in 2017, but will still remain strong.
- Housing prices have finally recovered to the pre-crisis peak.
- The GDP gain for the third quarter of 2016 came in strong at 3.5%.

- The ISM national purchasing manager's index for December jumped 1.5 points 54.7. The index had been negative earlier in the year.
- The PMI for China rose to 51.9 from 50.9, which is now the third month of positive growth. Like the ISM, the index had been negative.
- Canada, our largest trading partner, has returned to positive growth and posted a PMI of 51.8.
- The global PMI, now at 52.7, is considerably improved over the past year.
- The stock market is now in record territory.
- Business confidence in our local survey as well as other surveys are generally positive.

On the down side, just like last year, external factors constitute the biggest risks to the U.S. economy. Many analysts still note that the Chinese economy has not been totally fixed. One major problem is a massive real estate bubble, not unlike the U.S. in 2007, which could result in a financial crisis as economists have warned for years. The U.S. would not be immune to these effects. On another note, a British magazine, the "Economist," warned all of our presidential candidates last March to be careful not to start a trade war. If the Trump administration improperly upends our trade with the rest of the world, we could be drawn into a Hawley-Smoot backlash like we received in 1930. Finally, every recession in recent history has had some kind of a trigger that "broke the bubble." Most recently, we saw this with the sudden collapse of mortgage loan markets as we slid into the Great Recession. In 2000, we saw the collapse of the ".com" euphoria. The 1990 recession was blamed on the savings and loan crisis. In 1973, the trigger was the Arab oil boycott. Today's question: What is the next bubble, and when?

## DECEMBER COMMENTS FROM SURVEY PARTICIPANTS

"Supply shortages have impacted production, and will require overtime to catch up."

"Most people are positive about the outcome of the election and are planning on expanding or growing in the next year."

"We have a typical yearend slowdown to reduce inventory levels prior to tax assessment."

"We see continued order softening from business jet customers."

"Orders are above forecast for the first time in the last 6 months. We are cautiously optimistic as long as energy prices don't fall again."

"We see no slowdown in automotive this holiday season!"

"A large percentage of OEM business has been shifted out of 2016 fourth quarter into 2017. This will affect our 2016 plan, but I am most interested in understanding if this is an OEM issue or tell tail for the future."

"We are starting to see some downward price movement on polypropylene."

"A particular resin supplier has caused significant supply disruption to our supply chain."

"Steel prices are seeing a huge increase. They look to be going up for the first half of 2017."

"We had a good 2016. 2017 should be better."

"Finishing our year-end, and pushing as much out the door as possible."

"We had a fairly busy holiday season compared to years past."

"Status quo."

"Increases in sales continue."

"Automotive has begun to slow down going into 2017."

2017." "We had a good 2016, and have a positive outlook for

"It's still very stable here."

"Steady and boring, which is good."

"Steel pricing is moving up very quickly. I don't see the demand or supply having a dramatic change to justify this quick increase. The steel mills seem very bullish to keep pushing prices up."

"Heading into winter, scrap steel continues to climb."

"After a very busy year, we have slowed down considerably as we got into late November and early December."

"December has not slowed down at all."

"I wonder if the election will ever be behind us."

"It has been tough year for sales. That being said, we should be able to hit our 3% sales increase goal for the year. Hopefully, sales are better next year."

"Things are slowing for the holidays and the first quarter. That is usually our slow time anyway."

"2017 could be very challenging considering the recent trends in commodity pricing."

"Business has been strong during the last quarter."

"Now that the election is over, (also after the smoke settles), the end of the year comes and goes. Hopefully, we can get back to business."

"With current level of quoting, next year is going to have good potential."

"In middle of winter operations, we are spending approximately \$250K per snow event. Employees working around the clock."

"The 4th quarter of 2016 now officially stinks. October was slow, November was slower. Halfway through December, I see no change for the better. This appeared to be a pretty good year through the third quarter, but not as good as last year. I'm not sure, but this year will probably end up with sales equal to four or five years ago. But Trump is going to fix everything, right?"

# December 2016 Survey Statistics

	UP	SAME	DOWN	N/A	Dec. Index	Nov. Index	Oct. Index	25 Year Average
Sales (New Orders)	28%	37%	33%	2%	- 5	-13	+ 1	+14
Production	23%	51%	20%	6%	+ 3	+ 4	+ 4	+14
Employment	16%	75%	9%		+ 7	- 1	+ 7	+ 8
Purchases	22%	59%	19%	+1	+ 3	+ 6	- 3	+ 7
Prices Paid (major commod.)	23%	75%	2%		+21	+11	- 5	+15
Lead Times (from suppliers)	16%	79%	5%		+11	+ 3	+ 6	+11
Purchased Materials Inv. (Raw materials & supplies)	20%	58%	16%	6%	+ 4	-12	+ 2	- 4
Finished Goods Inventory	13%	59%	20%	8%	- 7	- 2	+ 0	- 8
Short Term Business Outlook (Next 3-6 months)	31%	58%	11%		+20	+12	+22	-
Long Term Business Outlook (Next 3-5 years)	50%	42%	5%	3%	+45	+34	+45	-

**Items in short supply:** Labor, some automotive grades of aluminum, sound castings, carbon steel, coated steel, Sabic resin.

**Prices on the UP side:** Corrugated, plasticizer, paraffinic oil, SEBS resin, steel, paper products, steel scrap, carbon steel, stainless steel, coated steel, copper, heavy duty trucks, liquid chlorides, sand, fuels, sodium hypophosphite, Chinese steel and wire rod, cold and hot rolled steel, glass.

**Prices on the DOWN side:** Polypropylene, carbon steel\*, stainless steel\*, chemicals, resins, oil, base metals (copper, nickel, tin & zinc), nylon, computers.

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

## Latest Unemployment Reports

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

	Nov. 2016	Nov. 2015	Aug. 2009	20 Year Low
State of Michigan (Adj.)	4.9%	5.1%	14.6%	3.2%
State of Michigan (Unadj.)	4.5%	4.2%	14.1%	2.9%
Kent County	3.1%	2.7%	11.9%	2.1%
Kalamazoo County	3.6%	3.1%	11.1%	2.1%
Calhoun County	4.1%	3.7%	12.8%	2.7%
Ottawa County	3.0%	2.7%	13.3%	1.8%
Barry County	3.3%	3.0%	10.9%	2.2%
Kalamazoo City	4.5%	3.9%	15.2%	3.2%
Portage City	3.3%	2.9%	8.7%	1.3%
Grand Rapids City	4.1%	3.6%	16.1%	3.0%
Kentwood City	2.3%	2.5%	10.7%	1.4%
Plainfield Twp.	2.3%	2.0%	8.0%	1.4%
U.S. Official Rate (June)	4.6%	5.0%	9.6%	3.8%
U.S. Rate Unadjusted	4.4%	4.8%	9.6%	3.6%
U.S. U-6 Rate**	9.3%	9.9%	16.7%	8.0%

\*\*U-6 for Michigan = 10.4% for Q3 of 2016

## 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 - 5 for the month of December 2016

Previous Month - 13 for the month of November 2016

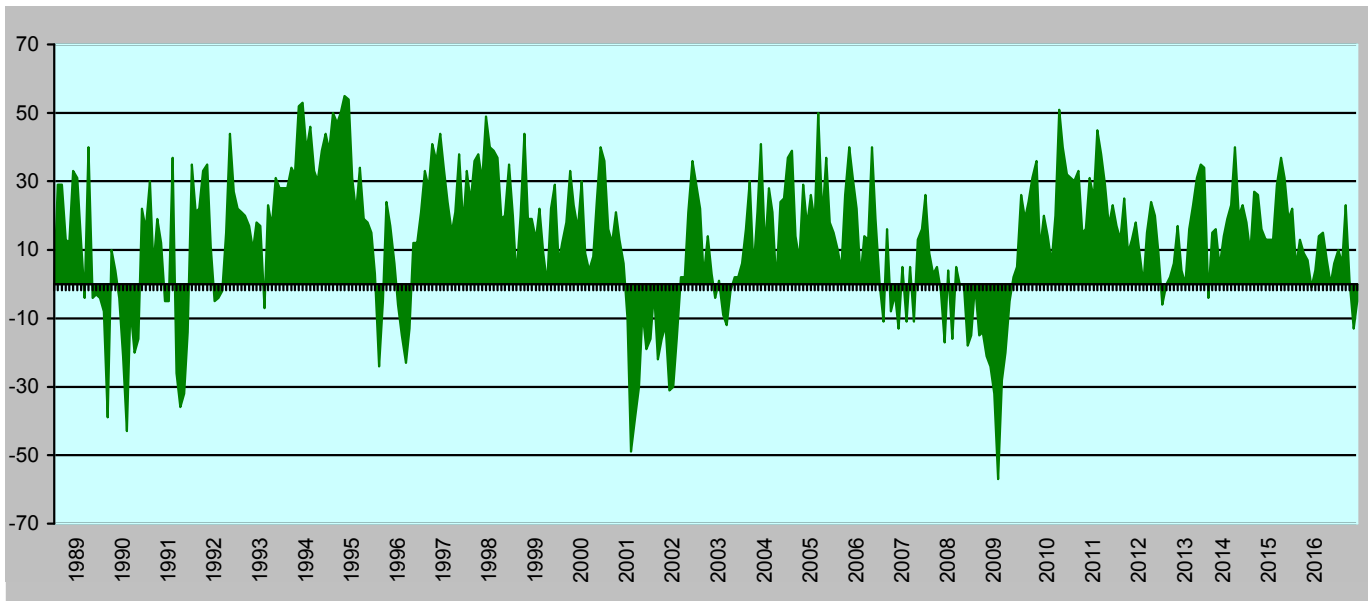
One Year Ago - 1 for the month of December 2015

Record Low - 57 for the month of December, 2008

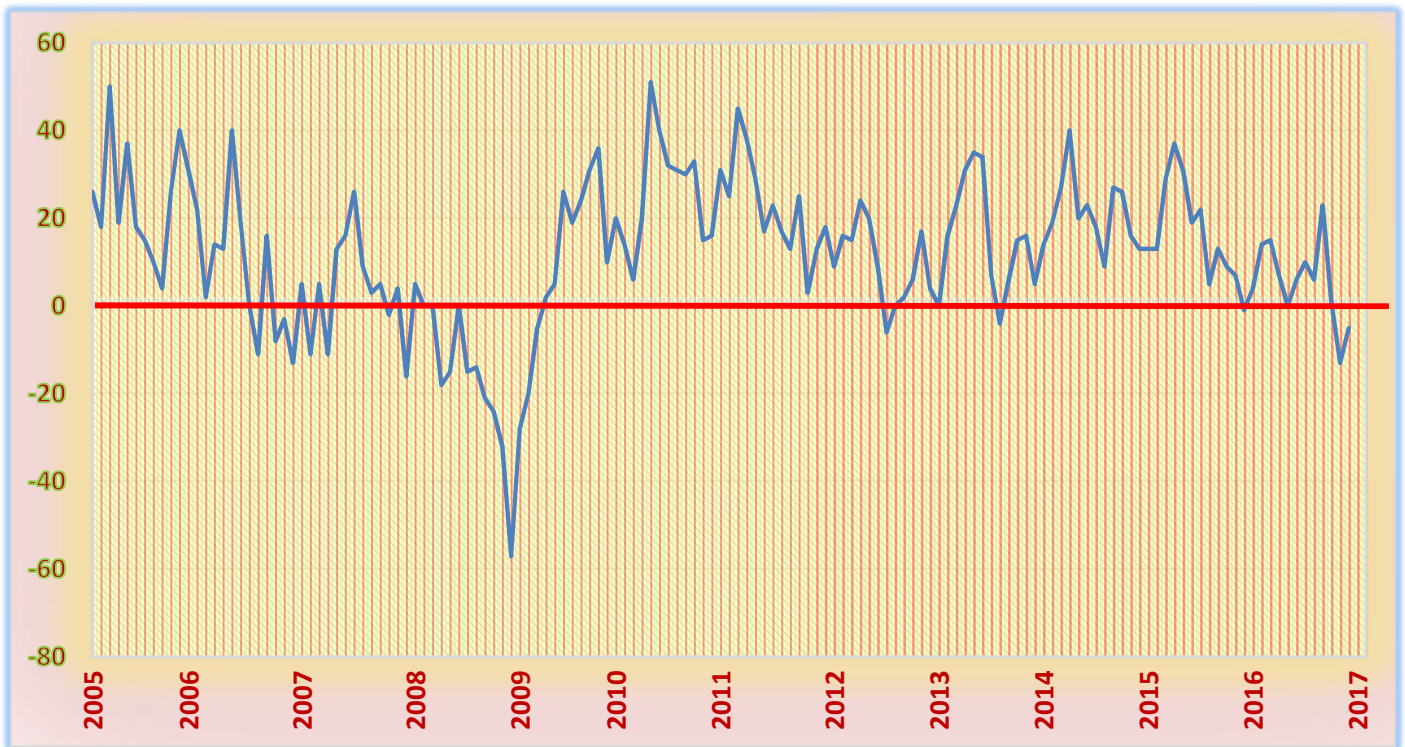
Record High + 55 for the month of September, 1994

First Recovery + 3 in April of 2009 and forward

## ISM-West Michigan Index of New Orders 1988 - 2016



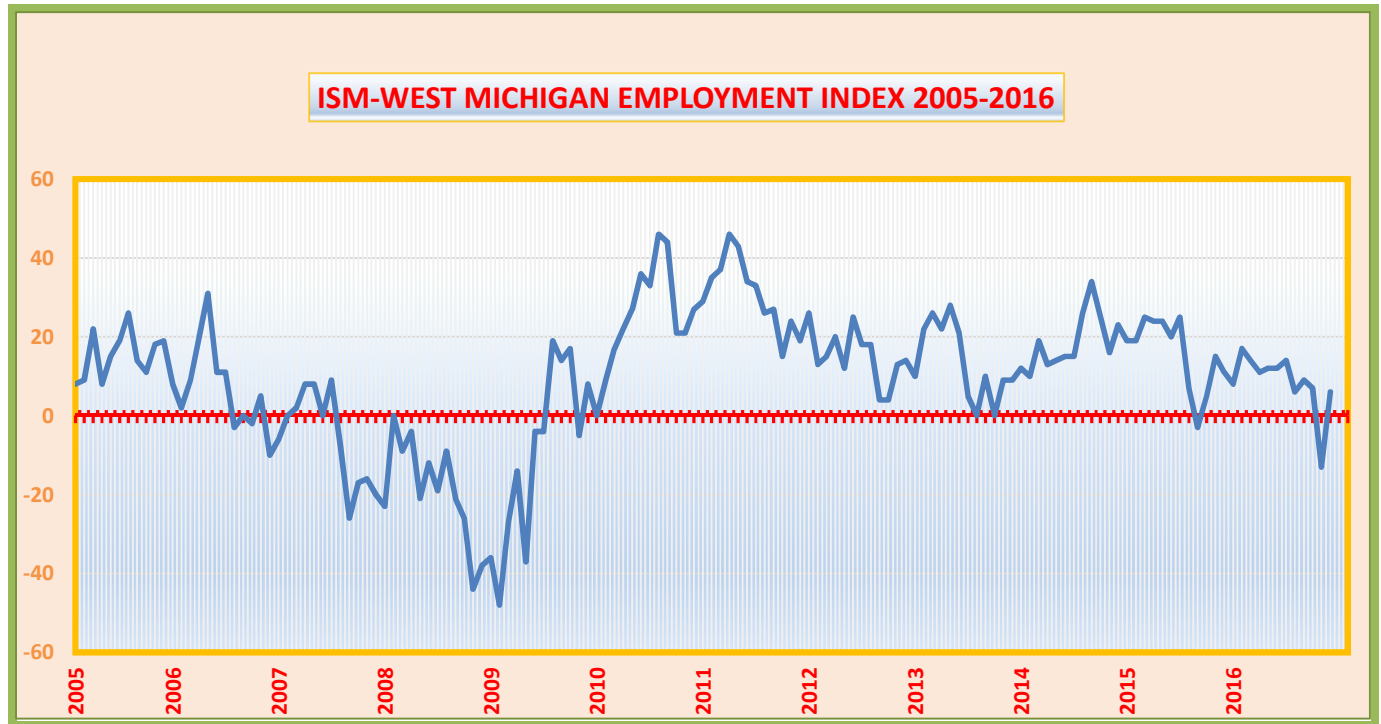
## ISM-West Michigan Index of New Orders: 2005-2016 Only





## 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.

