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Current Business Trends

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West Michigan: Best Economic Report in Two Years

Stronger. That's the latest word on the West Michigan economy, according to the data collected in the last two weeks of April, 2013. The upturn in February carried through into March, and April has turned out even better. NEW ORDERS, our closely watched index of business improvement, rose to +31 from +23, the highest the index has been since March of 2011. The PRODUCTION index also posted a nice gain to +34, up from +22. However, the EMPLOYMENT index backtracked to +22 from +26, probably because of the laggard effect of the softer sales and production numbers we posted in late 2012. Unemployment is always a laggard, so we should generally see some improvement in this index over the next few months. At the end of this report, the comments from the participants have turned more optimistic, although there are a couple of exceptions.

Reviewing the individual industrial groups, it sounds like a broken record to continue to say that the auto parts suppliers are still underwriting the strength of the Michigan economy, as well as our economy in West Michigan. Auto sales remain strong, resulting in production schedules continuing to be revised upward. Local firms are also having the good fortune in selling to the transplant firms, which speaks well of the price and quality being offered by our local firms. Most of our local capital equipment firms say they are busy, but getting potential buyers to actually buy continues to be difficult. Most of the industrial distributors flattened out this month. The office furniture firms are still stable at the current level, but some are hoping that the improving economy will result in stronger sales as the year goes along. Some of the smaller office furniture firms are already seeing an uptick.

The national industrial economy is still exhibiting slow growth, according to the May 1 press release from the Institute for Supply Management, our parent organization. ISM's index of NEW ORDERS remained steady at +14, but the PRODUCTION index rose modestly to +19 from +17. Another modest uptick came from the EMPLOYMENT index, which rose to +9, up from +8. When all of the statistics are added together and put into a seasonal adjustment formula, ISM's overall index eased to 50.7 from 51.3. Since 50.0 is the break-even point for an up versus down industrial economy, some economists are starting to worry about a slowdown, especially since the index

was as high as 54.2 just two months ago. Confirming the caution of a potential slowdown, Markit.com, the British economic firm, posted a U.S. industrial survey index of 52.1, down significantly from last month's 54.6, and the sharpest percentage decline since June of 2010. Markit's U.S. index of NEW ORDERS remained positive but fell sharply to 51.5 from 55.4. The survey author blamed weakness in the domestic market, even though the U.S. export index rose modestly for the month. He further noted that the indexes are all still above the break-even level of 50.0, but cautioned that a slowdown could be at hand.

At the international level, the May 1, 2013 J. P. Morgan international manufacturing report is still positive, but far from robust because of the ongoing problems of many key European countries. JPM's Global Manufacturing PMI edged slightly lower to 50.5 from 50.9. NEW ORDERS tapered down modestly to 50.9 from 52.0. Japan, South Korea, Indonesia, and Vietnam were the only nations to report a faster rate of improvement in operating conditions. Many of the Olive Belt countries in Europe continue to pull the statistics lower, and lower levels of employment were noted throughout Europe as well as China, Japan, and Russia.

Some of this month's good news came from the first quarter GDP report estimate. This number will be revised at least twice before it goes in the permanent file, but at 2.5% growth, 2013 clearly started the year better than the 0.4% growth for the fourth quarter of 2012. Stronger consumer spending and the recovery of the housing industry are credited with helping to improve the first quarter of 2013. However, the most recent IMF report still expects less than 2% growth for the U.S. for all of 2013.

Other good news for the month came from the auto industry. The year over year increase for April came in at 9%, considerably higher than expected. Most of the increase came from new models and large pickup trucks sold by Ford, Nissan, General Motors, and Chrysler. After single digit increases last month, Ford sales rose 18%, GM and Chrysler 11%, Nissan 23%, and Honda 7%. Toyota lost 1%, and Volkswagen fell 3%. The annualized sales rate, the SAAR, came in at 14.9 million, which was actually a little bit of a disappointment to some analysts. However, for West

Michigan, where many of our local auto parts supplies are supporting pickup production, the news can only be regarded as positive.

Case-Shiller. As little as five years ago, most business reports paid little attention to this report on housing prices which comes from the Standard and Poor's organization. In the report released on April 30 for the month of February (the index is always two months behind), home prices rose by 9.3% in February from a year ago, constituting the largest gain in the 20-city index in nearly seven years. This report constitutes the latest sign that the U.S. housing market has rebounded after home prices hit a bottom about a year ago. All of this is good for improving the psychology of the housing market throughout the nation, but is not much of a statistical indicator for West Michigan. In fact, most of the 9.1% increase came from the markets that experienced some of the most severe declines over the past seven years, namely regions such as Phoenix, Las Vegas, and Atlanta. A better picture for the local markets can be seen at Zillow.com, which posts a home value index for various zip codes and neighborhoods. It is gratifying to see that values in zip codes such as 49504, 49009, and 49546 are now within 10% of their all-time highs. It is equally disconcerting to see that zip code areas like 49007 and 49057 are 35% below their highs of less than ten years ago. Although the housing market is recovering, there will be geographical pockets that will suffer for many more years.

The unemployment numbers for some regions in West Michigan are improving as well. As the table of unemployment numbers show, the state unemployment rate has fallen since its recent high of

14.8% in July of 2009 to 8.8% in March. However, this is still a long way from the 3.1% we saw in August of 1999. Almost without exception, our various local statistics improved. Leading the way, the jobless rate in the Holland-Zeeland "High Productivity Corridor" fell to 2.8%, down from 3.1%. Good, but not as good as the 0.9% rate reported in October of 2000. Of the 83 counties in Michigan, the lowest unemployment is often in Washtenaw County, which came in first at 5.1%. However, close behind are MOST of the counties in West Michigan, including Barry (5.9%; number 2), Kent (5.9%; tied for number 2), Ottawa (6.2%; number 5), and Kalamazoo (6.3%; number 7). It is worth repeating that all of the unemployment rates are still excessively high. However, for those of us living in West Michigan, it is apparent that we are definitely doing better than many of the other areas of the state and nation.

Finally, what does all of this mean? For West Michigan, our economy should remain positive as long as auto sales stay at the present levels. However, auto sales that are *too good* can result in an industry bubble which could result in a correction at some future time. Because of the sovereign debt crisis, most of Europe will remain in a modest recession for most of 2013, limiting our exports to those markets. Although the crisis is still far from over, there are at least some positive signs that progress in the sovereign debt crisis is being made. Because of all of the marginal statistics that are now unfolding for the U.S. economy, growth in the second quarter of 2013 will probably be less than 1%. Some forecasts call for the second quarter to be slightly negative. The slow growth pattern will resume in the second half of the year, unless there are some new surprises from North Korea, the Middle East, or Washington.

April, 2013 COMMENTS FROM SURVEY PARTICIPANTS

"There's not a great deal of change since last month. Everyone is hopeful for a strong summer."

"Based on "Pulp and Papers" recent announcement about rising raw materials costs, we're now waiting for the corrugated suppliers to come out of the woodwork with the newest round of price increases."

"April and March sales are up. This means cautious optimism."

"Our business may be an anomaly, since much of it is generated from weather considerations, such as winter storms, tornadoes, and flooding, which increases business."

"Business continues at a strong pace. Steel prices continue to stay at lower levels even with price increase notices from the producing mills."

"It's a tough industry these days."

"Winter is over. We're getting ready for construction season. Look out for the orange barrels!"

"We are still doing quite well and expect to have another record breaking year in sales."

"We're experiencing a steady growth pattern with controlled cost."

"A lot of new launch activity is underway for 2014 programs."

"Business is holding at a strong level."

"Things are starting to turn south. I'm not sure what to expect."

"Despite two recently announced steel increase in the carbon steel industry, the market does not seem to be

able to support this. We still have short lead times and declining prices."

"Business remains strong."

"We are moving to a new, larger facility and spending a substantial amount of capital to upgrade our manufacturing systems."

"This is going to be a great year. Hopefully the lead times don't go out too far."

"We remain fairly busy, but are still down 10% compared to last year at this time."

"We've seen some slowdown in our market segment for the first quarter. While there is optimism, it's still on the cautious side. There are some positive signs that this will firm up a bit in the next quarter or so."

"Second quarter remains strong!"

"The Yo-Yo continues. February was down significantly from January, but March was back to the January level, making a very strong quarter. April is off to a good start."

"Quoting activity is very high. Even though new orders are a little down from last month so far, it looks like we will have a great second quarter."

"I have a huge number of quotations going now, due to the fact that manufacturers have learned to "do more with less." Customers are still holding back to a certain extent."

"We're seeing more sales of standard/MRO products with less project demand."

"We are seeing moderate growth through the first quarter."

April, 2013 Survey Statistics

	UP	SAME	DOWN	N/A	Apr. Index	Mar. Index	Feb. Index	20 Year Average
Sales (New Orders)	46%	35%	15%	4%	+31	+23	+16	+29
Production	41%	41%	7%	11%	+34	+22	+21	+13
Employment	31%	60%	9%		+22	+26	+22	+ 8
Purchases	46%	42%	11%	1%	+25	+18	+12	+ 7
Prices Paid (major commod.)	15%	72%	8%	5%	+ 7	+30	+23	+35
Lead Times (from suppliers)	11%	86%	3%		+ 8	+18	+10	+11
Purchased Materials Inv. (Raw materials & supplies)	22%	56%	11%	11%	+11	+13	+16	- 5
Finished Goods Inventory	22%	55%	11%	12%	+11	+ 0	+10	-10

Items in short supply: Gears, forgings, electrical components, capacity at some foundries.

Prices on the UP side: Paperboard - both virgin and recycled grades, corrugated, lumber, plastic, linerboard (esp. 42 lb.) , plywood, grass trimmers, health insurance, concrete ready mix, bituminous asphalt, all plastic resins, SEBS resin, paraffinic oil, poplar lumber, polypropylene, HDPE, steel- coils & sheets, solvents.

Prices on the DOWN side: Steel,* polypropylene,* copper, brass, gasoline, fuels, injection molding, lenses, thin film optics, carbon steel, oil based products , plasticizers, scrap steel, aluminum, fuel, plastics.*

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

Latest Unemployment Reports

(Note: Data are NOT seasonally adjusted)

	Mar. 2013	Feb. 2013	Aug. 2009	20 Year Low
State of Michigan	8.8%	9.3%	14.8%	3.1%
Kent County	5.9%	6.3%	11.8%	2.1%
Kalamazoo County	6.3%	6.7%	11.1%	2.1%
Calhoun County	6.8%	7.3%	12.8%	7.2%
Ottawa County	6.2%	6.7%	13.3%	1.8%
Barry County	5.9%	6.3%	10.9%	2.2%
Kalamazoo City	8.8%	9.1%	15.2%	3.2%
Portage City	4.9%	5.1%	8.7%	1.3%
Grand Rapids City	8.3%	8.7%	16.1%	3.0%
Kentwood City	5.3%	5.7%	10.7%	1.4%
Plainfield Twp.	3.9%	4.2%	8.0%	1.4%
Holland City/Allegan	2.8%	3.1%	3.7%	0.9%
U.S. National Rate	7.6%	8.1%	9.7%	3.6%

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 +31 for the month of April, 2013

Previous Month +23 for the month of March, 2013

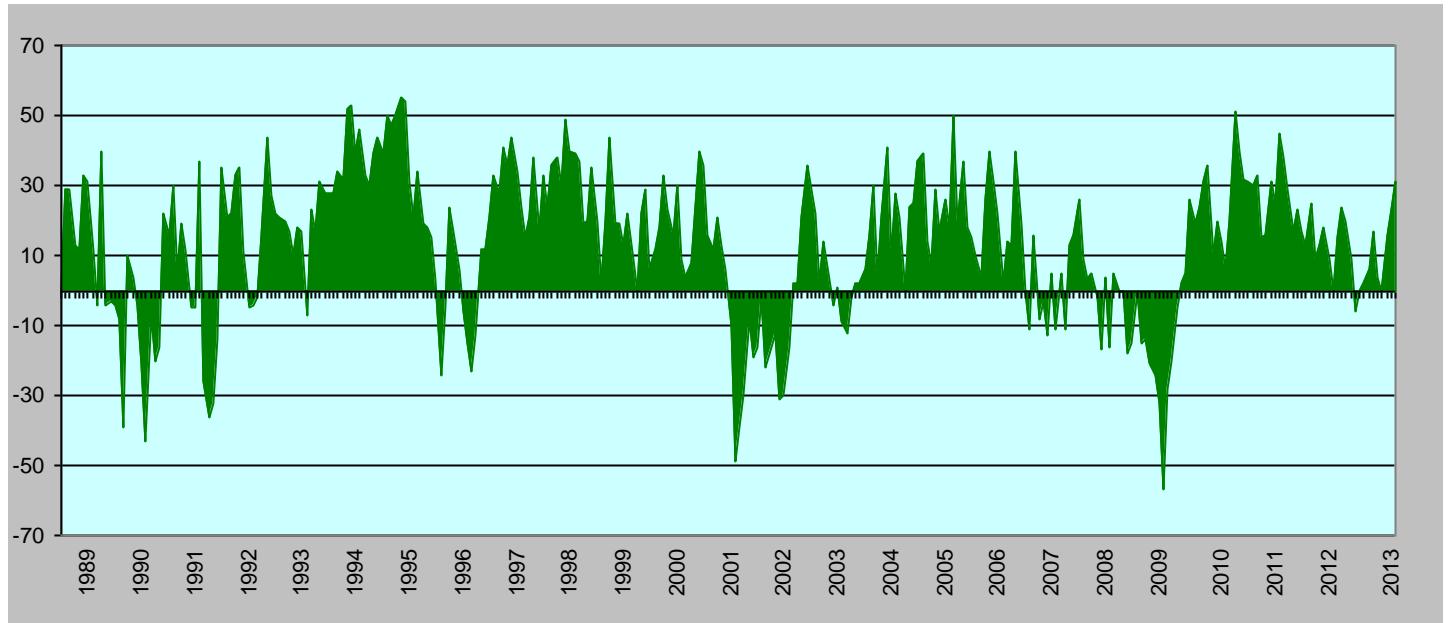
One Year Ago +15 for the month of April, 2012

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

Index of New Orders 1988 - 2013



Index of New Orders 2005 - 2013 Only

