

News Release (For Immediate Release)

July 8, 2013

Current Business Trends

By Brian G. Long, Ph.D., C.P.M.
Director, Supply Chain Management Research
Grand Valley State University (269) 323-2359

West Michigan's Economy Continues to Improve

Still gaining strength. That's the latest word on the West Michigan economy, according to the data collected in the last two weeks of June, 2013. As reported last month, March, April and May posted considerable economic improvement in West Michigan. The results for June are also strong, although a few indexes came in slightly lower than expected. NEW ORDERS, our closely watched index of business improvement, fell insignificantly to +34 from +35. The PRODUCTION index eased to +31 from +35. In a similar move, the EMPLOYMENT index backtracked to +25 from +28. Activity in the purchasing offices, our index of PURCHASES, remained unchanged at +30. In general, the mood of the survey participants remains optimistic.

Looking as we always do at industrial groups, the auto parts suppliers continue to cruise through the traditionally slow summer season with almost no down time for "model changeover." The exceptions come from firms supplying General Motors feeling the effects of shutting down a few lines for a couple of weeks to help trim dealer inventories. Because of strong automotive sales, production schedules continuing to be revised upward. The office furniture firms are seeing stronger sales. The local capital equipment firms continue to show modest improvement, and the majority of our industrial distributors had a good June.

At the national level, the industrial economy is still far less robust. The July 1 press release from the Institute for Supply Management, our parent organization, noted that ISM's index of NEW ORDERS edged up to +9 from +6. In a similar move, the PRODUCTION index rose to +11 from +9. The EMPLOYMENT index eased to +3 from an already anemic +4. All of these numbers are modestly positive, and ISM's "seasonally adjusted" overall index bounced back to 50.9, up from 49.0. Since 50.0 is the break-even point for an up versus down industrial economy, the national industrial economy is now judged to be growing at a very modest pace. By contrast, Markit.com, the British economic firm, posted a U.S. industrial survey index of 51.9, down modestly from 52.3. The survey author concluded that U.S. manufacturing "...clearly down-shifted a gear between the first and second quarters, and is at risk of losing further momentum as we head into the second half of the year." He further notes that falling export orders will dampen the outlook in the early fall. Other bad news comes from Markit's index of EMPLOYMENT, which came in at a 42 month low.

At the international level, the July 1, 2013 J. P. Morgan International Manufacturing Report remained very flat. JPM's Global Manufacturing PMI remained unchanged at 50.6. NEW ORDERS rose to 51.5 from 51.4. Japan, Russia, the US and the UK all reported modestly improved business conditions. In the 17 national Eurozone, both Ireland and Germany posted a modestly positive report, and all of the other countries in Europe continue to post negative statistics.

Last month, we raised concern about the true economic health of China. Questions arise when the Chinese government provides numbers that depict nothing more than a slowdown, yet the HSBC survey of purchasing managers came in at 48.2, down from 49.2 in May. New export orders fell to the lowest level since March 2009. Inventories are rising, which bodes poorly for future expansion. The survey author further notes that "...the ongoing slowdown is likely to continue in coming months." Because of shadow banking loans similar to the subprime loans issued by the U.S. banks six years ago, Gordon Chang, the author of "The Coming Collapse of China" told CNBC a few days ago that the credit crunch is a serious problem and could lead to a "catastrophic failure" in the banking system in the next six months. Needless to say, with China's status as the second largest economy in the world and their role as the third largest customer for the U.S., this situation needs to be monitored closely. One thing we don't need right now is another economic surprise.

Although our local index of EMPLOYMENT backtracked modestly to +25 from +28, it is obvious that many area firms are still adding staff. Because the local data from the Michigan Department of Labor are not seasonally adjusted, June normally results in unemployment rates edging up because of the new wave of workers from colleges, high schools, and trade schools entering the workforce. The most recent state unemployment rate remained unchanged at 8.4%, but Kent County grew to 6.4% from 5.6%. , Kalamazoo county rose to 7.1% from 6.2%, and Barry County edged up to 5.6% from 5.4%. Even the Holland-Zeeland "High Productivity Corridor" rose modestly to 2.8% from 2.6%. In a similar seasonal move, the unadjusted national unemployment rate rose to 7.3% from 7.1%. Overall, West Michigan continues to report better unemployment rates than the state or nation.

The local automotive parts suppliers continue to be optimists, largely because of the booming auto sales. Sales for June 2013 posted a 9% gain over a year earlier, and an 8% increase for the first half of the

year. The Detroit Three, Ford, GM, and Chrysler, posted respective gains of 13%, 7%, and 8%. Stronger performances came from the transplant firms, including Toyota and Honda, both up 10%, Nissan, up 13%, Subaru, up 42%, and BMW, up 26%. Fortunately, many of our local auto suppliers have made significant inroads in selling to the Japanese and Korean nameplates.

Although the current automotive SAAR sales rate is not sustainable in the domestic market, the current level of production IS sustainable if the excess number of cars produced can be exported. For the Detroit Three, the quality levels have improved significantly in the past few years, elevating the image of American-made cars in the world marketplace. Because of the perceived better reliability, innovative design, and improved currency exchange rates, the export of American made cars is booming. In 2012, over a million units produced in the U.S. were sold offshore. It is too early to tell how far this trend will go, because the world economy is not overly strong at this time. However, for the sake of Michigan, we are hoping that this trend will continue.

As many news sources have noted lately, part of the recent economic growth can be attributed to the continued recovery of the housing market. A few of the manufacturing firms and distributors who respond to our survey are directly or indirectly tied in to the recovery of the residential and commercial construction business. Needless to say, having weathered the worst housing recession since the Great Depression, these firms are now booming. In certain areas of Kalamazoo and Grand Rapids, housing values have risen by a whopping 12%-13% in just the past calendar year. For many households, the home is the biggest segment of the household's net worth. This recovery of home values in turn fuels a recovery

in consumer confidence. Higher consumer confidence results in more consumer spending, which especially helps the auto industry. Because of the record low number of houses being listed on the market and higher consumer confidence, residential construction is rising sharply. In short, the whole economic system functions as a unit and is interrelated and interdependent.

Industrial inflation still appears to be subdued, with the possible exception of steel. As noted by previous reports, one problem associated with the Fed's policy of low interest rates is that it encourages speculation on all of the commodity markets. The policy of low inventories can create buying panics when supplies are threatened. In that last few days, this tendency can be seen in steel prices for hot rolled steel shooting up about 10% because of blast furnace outages in Ohio and Brazil, and a work lockout in Ontario. Among other "big ticket" commodities like tin, copper, aluminum, and PVC resin, prices are retreating because of the lackluster world demand for most industrial commodities.

As we roll into the summer months, the outlook for West Michigan remains positive, even though the national economy may be slowing. So far, the national slowdown has not resulted in any slowdown in auto sales, and the resulting auto production boom continues to keep our local economic numbers very positive. The sales picture for other key industries such as office furniture is improving, as are the markets for our local firms associated with aerospace. When all of these industries are doing well, so are the industrial distributors that support them. Although regionally we still have a few pockets of weakness in the form of individual firms, the West Michigan economy is currently on a positive track.

May, 2013 COMMENTS FROM SURVEY PARTICIPANTS

"Business is very good. It looks like we are going to have a very busy summer."

"We are in the midst of negotiations for various commodities in order to drive prices down and reflect today's market."

"For some reason, my business seems to lag the rest of the industry. In retrospect, my downturns also lag. Business is good now."

"The construction season is in full force, and we are busy helping the State spend their excess money."

"We continue to see the majority of our non-automotive customers running at reduced production levels."

"There is a contraction in supply of available trucking out of Chicago area."

"Prices are on the rise due to declining order quantities."

"The paper companies jacked up the price of linerboard with no justification other than greed. What a bunch of pigs."

"This is the first month of the year that I feel business has slowed down. I have reported some months down from previous, but we still seemed busy. This month has definitely been slower. Quotations and shipments have decreased."

"A slowdown in June will keep us from record fiscal year. Backlog is lowest it has been in several years."

"We're starting to see an uptick in orders after a falling May."

"New customer prospects for potential third and fourth quarter sales may improve upon the forecasts we set for this year."

"I hear rumblings about a polyurethane foam decrease on the horizon."

"Some the steel price increase announcements have established the floor on falling pricing. The pricing is up slightly."

"Business is steady."

"Automotive quoting activity is up."

"Business is extremely good, and we do not see a slowdown in sight."

"We're remaining up over last year, but are still cautiously optimistic."

"We are ahead of our goals, and anticipate finishing the year up."

"We're flat, but still good for us."

"We're at a nice pace going into automotive's historic slow month."

"Surprisingly, business is still good."

"The summer pickup is slow to materialize."

"Our production is strong in what has historically been a slower time of year."

"We're seeing a slowing of large order placement by major customers. We're processing quick turn smaller orders, and seeing good quoting activity. There is inventory surplus throughout supply chain."

"We are having a great year for order intake so far."

"Our business is still going strong, but wondering if we will see the normal summer 'slowdown' that we typically see when the auto makers have their holiday shutdowns."

"Business is still strong but sales increases have leveled off."

June, 2013 Survey Statistics

	UP	SAME	DOWN	N/A	June Index	May Index	Apr. Index	20 Year Average
Sales (New Orders)	46%	39%	12%	3%	+34	+35	+31	+29
Production	38%	44%	7%	11%	+31	+35	+34	+13
Employment	31%	63%	6%		+25	+28	+22	+ 8
Purchases	38%	54%	8%		+30	+30	+25	+ 7
Prices Paid (major commod.)	19%	72%	4%	5%	+15	+ 8	+ 7	+35
Lead Times (from suppliers)	18%	79%	3%		+14	+14	+ 8	+11
Purchased Materials Inv. (Raw materials & supplies)	23%	54%	11%	12%	+12	+12	+11	- 5
Finished Goods Inventory	16%	56%	12%	16%	+ 4	+11	+11	-10

Items in short supply: Fasteners, good used machinery, solvents, waxes, trucks, MDF particle board, fabrications, stainless steel motors, employees.

Prices on the UP side: Adhesives, rolled board stock, some plastic, fasteners, steel, monomers, corrugated, polypropylene, gasoline, fuels, linerboard (42 lb.), industrial gases, carbon steel, guardrails, salt, petroleum products, solvents, waxes, HDPE bottles, particle board, steel, MDF, plastics, paper products.

Prices on the DOWN side: Cold rolled steel, aluminum, aluminum ingot, PVC resin, brass, scrap steel, plate steel, stainless steel, copper, barium, computerized items, office equipment, ferrosilicon, tin, paper, copper wire.

Latest Unemployment Reports

(Note: Data are **NOT** seasonally adjusted)

	May 2013	Apr. 2013	Aug. 2009	20 Year Low
State of Michigan	8.4%	8.4%	14.8%	3.1%
Kent County	6.4%	5.6%	11.8%	2.1%
Kalamazoo County	7.1%	6.2%	11.1%	2.1%
Calhoun County	7.3%	6.6%	12.8%	7.2%
Ottawa County	6.6%	5.9%	13.3%	1.8%
Barry County	5.6%	5.4%	10.9%	2.2%
Kalamazoo City	9.9%	8.6%	15.2%	3.2%
Portage City	5.5%	4.8%	8.7%	1.3%
Grand Rapids City	8.9%	7.9%	16.1%	3.0%
Kentwood City	5.7%	5.1%	10.7%	1.4%
Plainfield Twp.	4.2%	3.7%	8.0%	1.4%
Holland City/Allegan	2.8%	2.6%	3.7%	0.9%
U.S. National Rate	7.3%	7.1%	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 +34 for the month of June, 2013

Previous Month +35 for the month of May, 2013

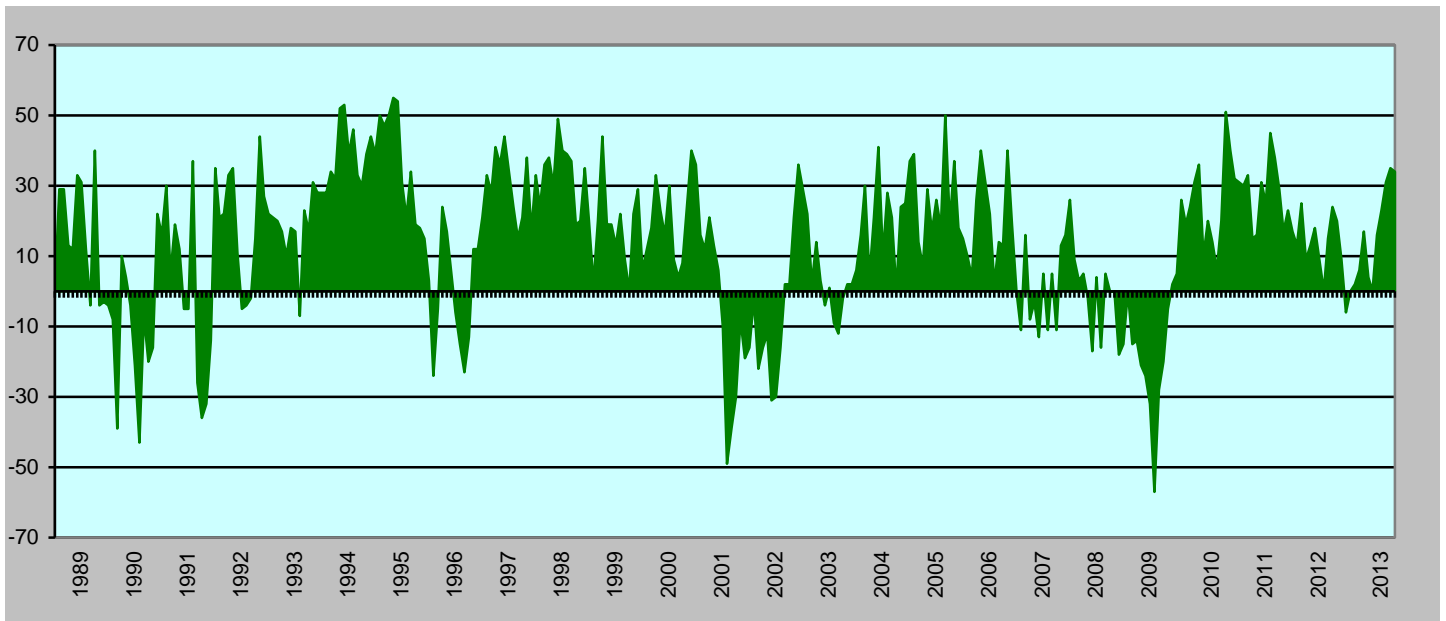
One Year Ago +20 for the month of June, 2012

Record Low -57 for the month of December, 2008

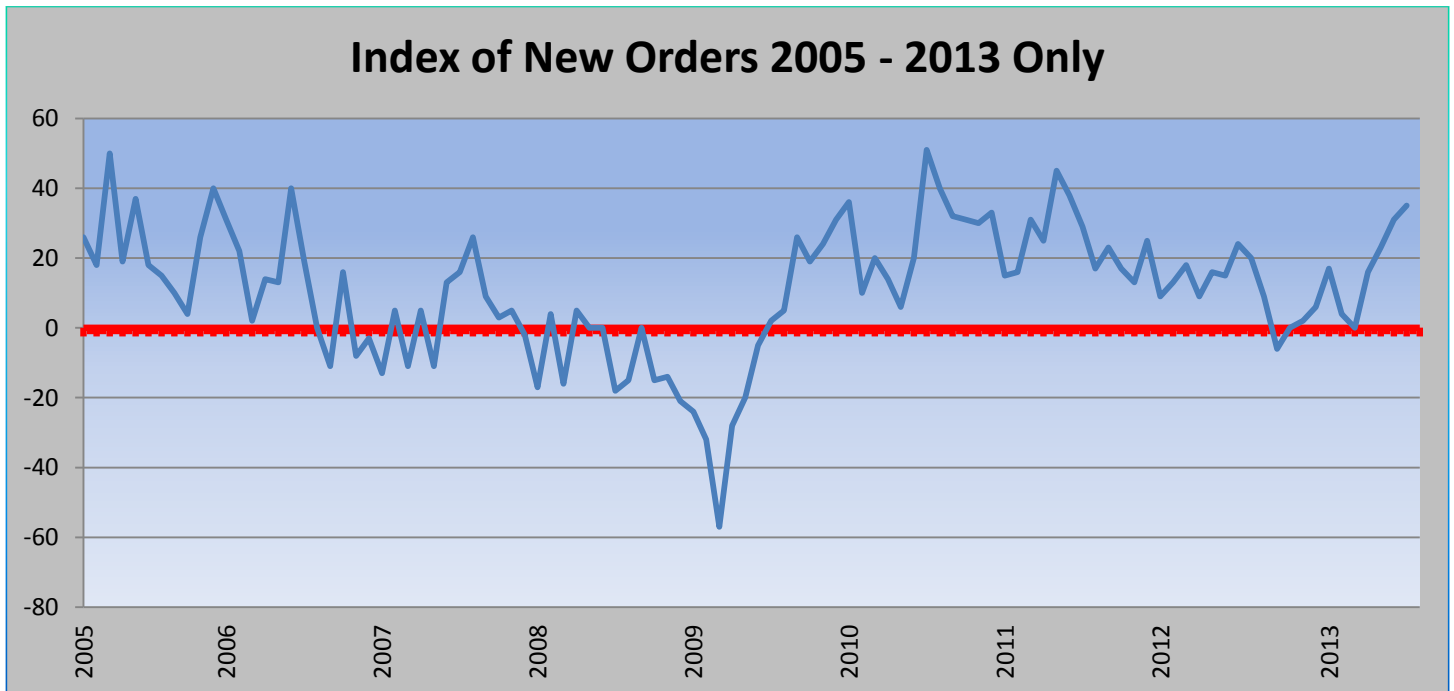
Record High +55 for the month of September, 1994

First Recovery +3 in April of 2009 and forward

Index of New Orders 1988 - 2013



Index of New Orders 2005 - 2013 Only



Index of Employment: West Michigan

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 downturn in industrial unemployment for West Michigan. Normally, there is about a month in lag time between this report and the payroll numbers being picked up 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 lay off staff only after a downturn in orders appears to be certain for the foreseeable future.

