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News Release (For Immediate Release)

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Current Business Trends

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West Michigan's Economy Shows a Little Summer Hesitation

Still up, but growing much slower. That's the latest word on the West Michigan economy, according to the data collected during the last two weeks of July, 2013. After three relatively strong months, business activity showed in July, primarily because of seasonal vacations, slower work schedules, and annual shutdowns in some key industries. NEW ORDERS, our index of business improvement, retreated to +7 from +34. The PRODUCTION index eased to +17 from +31. Posting less of a move, the closely-watched EMPLOYMENT index backtracked to +21 from +25. The pace in the purchasing offices, our index of PURCHASES, wound down to +7 from +30, again reflecting a slowing pace of major purchase decisions during the summer season. If it were not for the season and the good statistics from the other state and national reports, we could raise a question about the future. However, one month never makes a trend, and the slightly slower numbers in our local report are probably nothing more than a summer hesitation.

Turning to local industrial groups, it is no surprise to find that most firms plateaued for most of July. For most industries, July is just not the time of the year that major new orders are placed. During much of July, this turned out to be especially true for the office furniture industry, where business condition remained unchanged from the previous month. However, many of auto parts suppliers experienced no hiatus through the traditionally slow summer season. Conversely, a few automotive suppliers supporting certain lines of vehicles that are in oversupply did take a few days off for "model changeover." With the strong auto sales reported for July, production schedules for the major auto firms continue to be revised upward. For other industries, the local capital equipment firms posted some modest improvement. The majority of our industrial distributors came in a little lower than expected.

At the national level, the industrial economy remained modestly positive for July. The August 1 press release from the Institute for Supply Management, our parent organization, reported that NEW ORDERS for ISM's index edged a little lower to +7 from +9. However, the PRODUCTION index rose to +15 from +11. The best news came from the EMPLOYMENT index, which rose to +9 from +3. Similar to last month, all of these numbers are modestly positive. But with ISM's "seasonal adjustments," the overall index shot up to 55.4 from 50.9. The problem with all seasonal adjustments is that they are based on past history which may or may not be representative of today's situation. Hence, it is safe to conclude that the national economy is still modestly positive, but not as overly robust as the ISM 55.4 index implies. By contrast, Markit.com, the British economic firm, posted a U.S. industrial survey index of 53.7, up from 51.9. The survey author concluded that U.S. manufacturing "…suggests a solid improvement in overall manufacturing business conditions." Following broad stagnation in June, Markit's EMPLOYMENT index for the US "…rose solidly over the month."

Turning to the international level, the August 1, 2013 J. P Morgan International Manufacturing Report remained "lackluster." JPM's Global Manufacturing PMI edged up to 50.9 from 50.6. NEW ORDERS backtracked to 51.5 from 51.6. According to the author, "…the Asian region was the main drag on global manufacturing growth during July. Production volumes declined in China, India, Taiwan, South Korea, and Vietnam." By contrast, Easter Europe, Canada, the UK, and the US posted gains.

For Europe, the economy continues to show modest improvements. Markit.com's "Eurozone Manufacturing PMI" rose to a two year high of 50.3 in July, up from 48.8 in June and above the neutral 50.0 mark for the first time since July 2011. Ireland, the Netherlands, Germany, and (surprise) Italy posted positive manufacturing PMIs. Spain, France, and Austria are below 50.0 but by less than a point. Even the rate of decline in Greece has come back to 47.0, which is the best showing that index has made in almost four years. Since most of the European recession was caused by the sovereign debt crisis, this month's numbers imply that the countries in question are starting to get a handle on their long-term debt problems. For instance, the Irish 10 year bond rate is now at 3.88%, down from over 12% just two years ago. With the 2.60% US rate on the 10 year bond now only a little lower than Ireland's 3.88%, the financial markets are now indicating that fidelity is returning to the financial stability of Ireland. Throughout Europe, there is now a renewed faith that the austerity programs are working, that the general public now understands more about the problems of government debt, that more belt-tightening may be necessary, and that the Euro is now far less likely to collapse IF they stay the course.

As reported by many news sources, the Commerce Department has revised the metrics for the calculation of GDP, our broadest measure of the size and growth of our economy. Even for most economists, GDP is a complex abstraction. But so far, it is the best measure we have, and so we watch it carefully. A few days ago, Commerce Department released a GDP estimate of 1.7% growth for the second quarter of 2013, and revised the first quarter up to 1.1%. They credited the slight upturn to improved capital investment and exports, but noted that trimming of inventories and more imports held the improvement to a modest level. Because of new revisions for the means of calculating GDP, there were downward revisions to the last three quarters of 2012. The reading for fourth quarter 2012 GDP was revised down to a 0.1% gain from the previously reported 0.4% rise. The reading for third quarter GDP was revised down to a 2.8% rise from the previously reported 3.1% gain. The reading for second quarter 2012 GDP was revised down slightly to a 1.2% rise from the previously reported 1.3%. The bottom line of all these numbers is simple: The US economy is growing at a very slow rate, and the modest 165,000 new jobs reported a few days ago will continue to keep the unemployment rate excessively high. Although the official unemployment rate fell to 7.4%, most of the drop can be attributed to the seasonal adjustment factor. And then there is the U-6 unemployment rate, which includes all of the people who are underemployed, working part time not by choice, plus what the government calls people who are "marginally attached" to the labor force. For July 2013, the U-6 measure of unemployment fell to 14.3% from the 14.6% reported in June. This compares with the 14.9% rate reported in July 2012. For a full year, 14.9% to 14.3% isn't much progress.

Strong auto sale continue to drive the Michigan economy. To almost everyone's surprise, US sales for July 2013 came in a whopping 14% higher, translating to a "seasonally adjusted annual rate" (SAAR) of 15.7 million vehicles. Most of the good fortune was attributed to increases in opposite ends of the product scale, namely light trucks which only get so-so mileage, and small cars that report 35-45 mpg. Of the major brands, Subaru posted the biggest gain at 43%, followed by Honda at 21% and Toyota at 17%. GM had a better than usual month with a 16% gain, and Ford and Chrysler were both up 11%. Ford indicated that sales would have been higher if it were not for slim inventories. All of this is good news, at least for the short term. There are also some optimistic predictions that the US will set a record for the number of domestically produced vehicles sold abroad. Over the long term, more auto exports could become a larger part of our economy, resulting in more Michigan jobs.

Looking at potential problems, our biggest concern from a world perspective is China. We know that the numbers from the government are at best distorted, and at worst, flat out fake. China is the second largest economy in the world, and if it were to tank, it would draw everyone else in with it. The recession recovery in Europe would turn backwards into an all-out recession, and the optimism about restructuring would vanish.

With most of the domestic news still positive, it is easy to forget about the looming battle over the debt ceiling. Because of recent strength in the economy, tax revenues have risen much more rapidly than previously predicted. In fact, a few periods have actually shown a budget surplus for the first time in years. Naively, these few weeks of positive result have caused SOME people on Capitol Hill to believe that the ENTIRE budget crisis is now over, and happy days are here again. This kind of thinking is roughly equivalent to the sailor on payday that thinks he is rich beyond words, only to find that after a one day spending binge that he is again broke. In short, the long-term budget crisis is far from over. The republican leadership when faced with the so-called nuclear option in the recent disagreement over presidential appointments decided to compromise. Simultaneously, they noted that they would NOT be so flexible when it came to raising the debt ceiling when the money does run out.

Finally, where do we stand? At lease for the short term, pretty darn good. Auto sales are rising. Home sales are rising. The office furniture market is stable. Property values in many places are rising. Home construction is up. Prices are stable. Long term, however, inattention to our domestic debt situation will destroy the American dream. But for now, we can enjoy the summer.

July, 2013 COMMENTS FROM SURVEY PARTICIPANTS

"Business is picking up after the Fourth of July holiday. We are starting to get very busy."

"We are doing OK, but the huge growth spurt has subsided for now."

"Things are very busy. We continue to struggle to find skilled labor. We would be growing faster if we could find more people."

"Business is continuing to look great."

"Things are slowing down. We're not having a good summer."

"We're seeing a typical slow down this time of year in the auto industry. The second half forecast looks strong."

"We're fairly strong this July (historically speaking) for automotive."

"Business is still holding strong."

"We're starting to see some employee movement to other companies. As the local economy improve, some employees (usually the good ones) are pursuing other opportunities."

"We have just begun a 40,000 sq. ft. addition. It will be nice to get the extra space for production and materials storage."

"We continue to run at reduced levels with production four days a week."

"Busy, but not like last year. Orders keep getting pushed out."

"Solvent prices continue to be volatile as they hinge on crude and natural gas production."

"Orders are up, and quotes are definitely up. We have good times right now."

"The construction season is here and there is more work than we will have money and/or time to complete before bad weather."

"We're seeing a slowing economy."

"We are increasing inventory in preparation for anticipated August ramp up in Automotive."

"Sales continue to be poor. All opportunity is through competitive bids on products."

"It's pretty ho-hum right now, but not in a bad way. Our numbers for June were almost exactly the same as May. We ended the second quarter with a strong year going."

"Our die shop remains busy, specifically building customer tools we did not forecast in this year's sales, which is a good indication that our sales for September until the end of the year should be stronger than expected."

"July is a very slow month, coming off a record month in June."

"Incoming orders are still soft. We're hoping the project work starts to pick up."

"Steel likely will go up in price through November and then back down. Globally steel prices are not up. In the US, they are up due to supply constraints and depressed stock values of US companies. Once supply constraints are eliminated, price should flatten or possibly fall. It is now cheaper to buy globally than in USA."

"Business is steady."

"Business is still going strong and the yearend looks good, despite expansion and implementing a new ERP system. Let's hope it keeps going."

"Finding the time to deal with everything is becoming increasingly difficult. It is getting "BUSY."

"Commodity prices continue to be weak, and cost reductions are being incurred."

"We've been busy, but some of it has been caused by a string of weather patterns for us that started in the fall of 2012."

"Status quo. Sales are a little slow at beginning of second half as is often the case." We're proceeding with cautious optimism."

"Business continues to grow. We have been working overtime as we continually try to keep our personnel growth in line with our sales/production growth."

"Business is very strong, and quoting activity is very high. The automotive forecast continue to look strong over the next 3 to 6 months."

July, 2013 Survey Statistics

	UP	SAME	DOWN	N/A	July Index	June Index	May Index	20 Year Average
Sales (New Orders)	32%	40%	25%	3%	+ 7	+34	+35	+29
Production	30%	45%	13%	12%	+17	+31	+35	+13
Employment	28%	65%	7%		+21	+25	+28	+ 8
Purchases	25%	57%	18%		+ 7	+30	+30	+ 7
Prices Paid (major commod.)	16%	75%	4%	5%	+12	+15	+ 8	+35
Lead Times (from suppliers)	17%	79%	3%	1%	+14	+14	+14	+11
Purchased Materials Inv. (Raw materials & supplies)	20%	58%	13%	9%	+ 7	+12	+12	- 5
Finished Goods Inventory	21%	54%	12%	13%	+ 9	+ 4	+11	-10

Items in short supply: Castings, polypropylene, limestone aggregate, slag, MDF particle board, die casting service, rental equipment, wood veneer, time.

Prices on the UP side: Some steel grades, sheet steel, freight, cutting tools, machinery, packaging, linerboard, HDPE Resin, LDPE Resin, PVC resin, polypropylene resin, carbon steel, molded plywood, scrap steel, methanol, corrugate, fuels, limestone aggregate, slag, concrete, steel, safety clothing/equipment, industrial gases, linerboard (esp. 42#), OSB 1/2" & 3/8," wood veneer.

Prices on the DOWN side: All metals, HR steel, aluminum, copper, copper wire, zinc, nickel, tin, lumber, ferromoly,

Latest Unemployment Reports

(Note: Data are NOT seasonally adjusted)

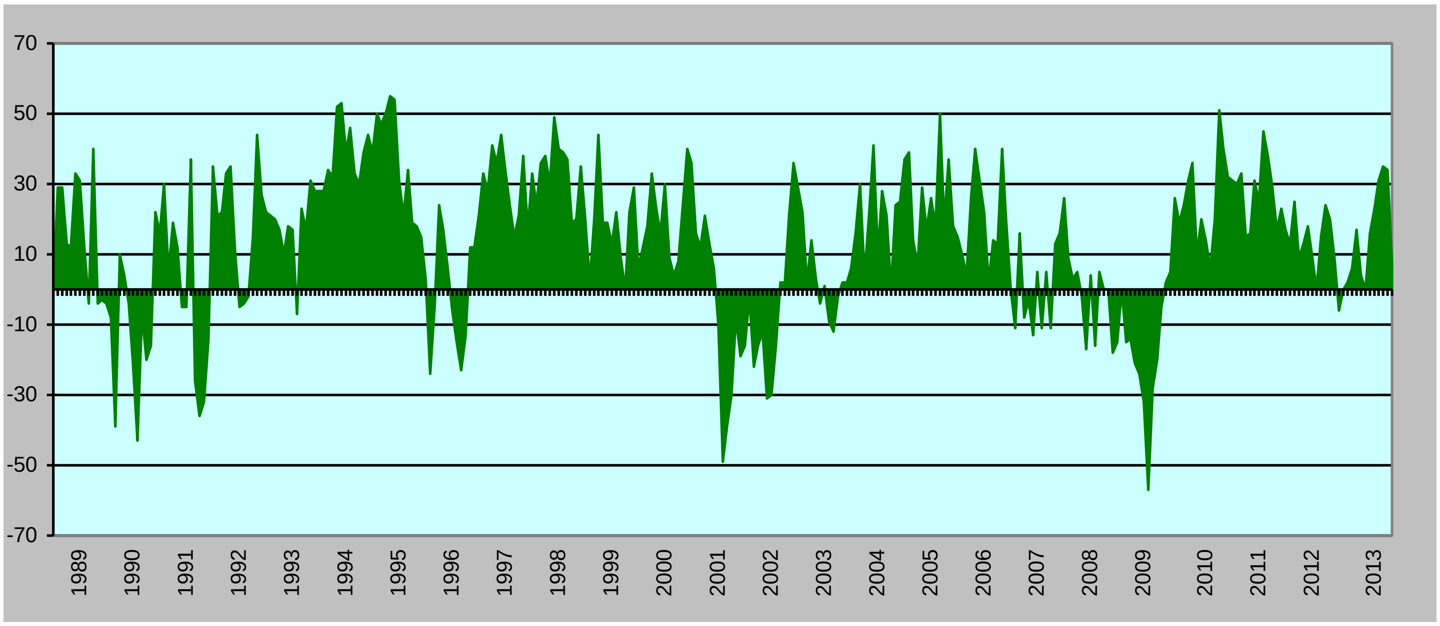
	June 2013	May 2013	Aug. 2009	20 Year Low
State of Michigan	9.4%	8.4%	14.8%	3.1%
Kent County	6.9%	6.4%	11.8%	2.1%
Kalamazoo County	7.1%	6.2%	11.1%	2.1%
Calhoun County	8.0%	7.3%	12.8%	7.2%
Ottawa County	7.2%	6.6%	13.3%	1.8%
Barry County	6.2%	5.6%	10.9%	2.2%
Kalamazoo City	10.6%	9.9%	15.2%	3.2%
Portage City	6.0%	5.5%	8.7%	1.3%
Grand Rapids City	9.7%	8.9%	16.1%	3.0%
Kentwood City	6.3%	5.7%	10.7%	1.4%
Plainfield Twp.	4.6%	4.2%	8.0%	1.4%
Holland City/Allegan	3.0%	2.8%	3.7%	0.9%
U.S. National Rate	7.8%	7.3%	9.7%	3.6%

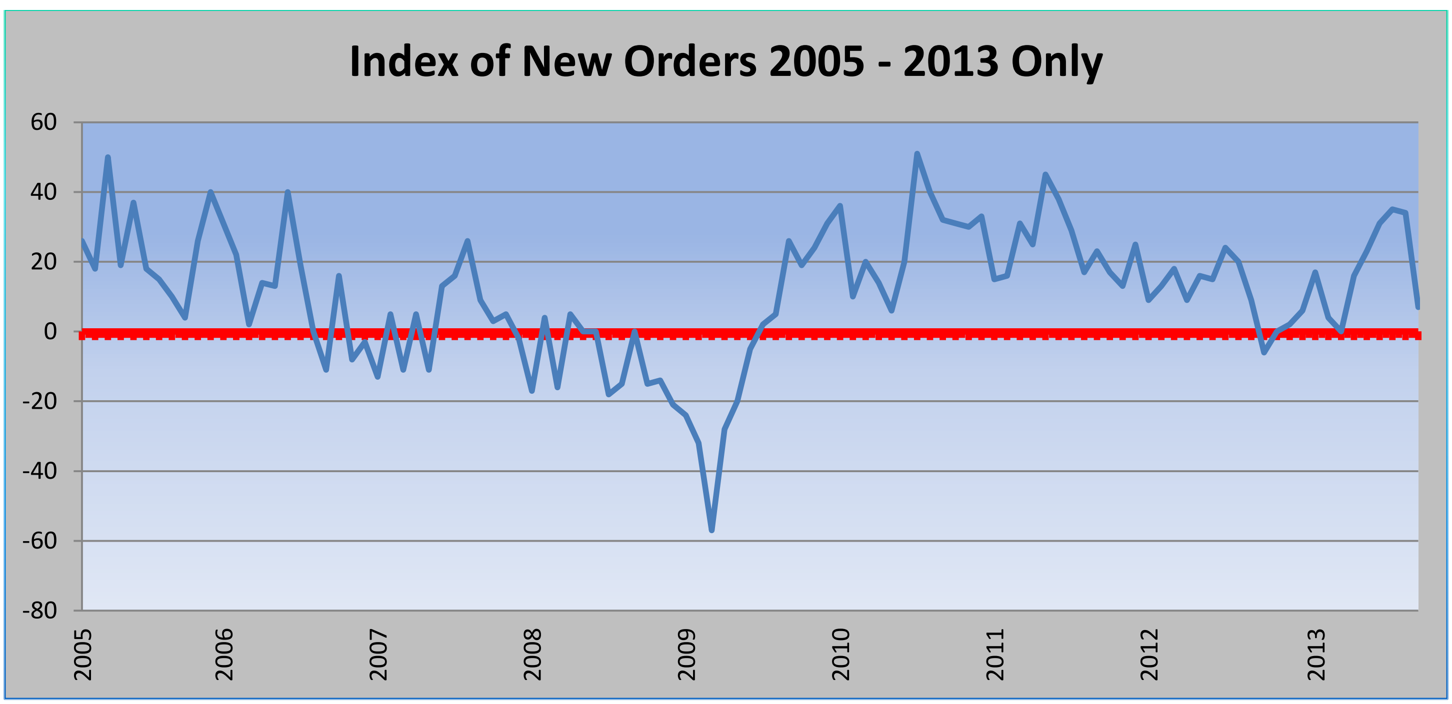
Index of New Orders: West Michigan

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	+ 7 for the month of July, 2013
Previous Month	+34 for the month of July, 2013
One Year Ago	+ 9 for the month of July, 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 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.