

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

**September 9, 2013**

### **Current Business Trends**

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#### **West Michigan's Economy Shows a Little Summer Hesitation**

Very slightly negative. That's the latest word on the West Michigan economy, according to the data collected during the last two weeks of August, 2013. Just like July, business activity again slowed in August. NEW ORDERS, our index of business improvement, turned modestly negative at -4, down from last month's +7, but much slower than June's +34. The PRODUCTION index eased to -6 from +17. It was disappointing to see our closely-watched EMPLOYMENT index fall to +0 from +21, our lowest reading since January of 2010. Following the same pattern, the pace in the purchasing offices, our index of PURCHASES, came in at -2, down from +7. Once again, if not for the season AND the good statistics from the other state and national reports, we could raise doubts about the future. However, the proverbial rising tide floats all boats, and our number will probably flip back to positive in a month or two. For this survey, the recovery from the Great Recession began in April of 2009. The recovery remains slow, and there have been a few bumps in the road. This month has been one of them.

As we look at local industrial groups, the "plateauing" that we saw last month continues. Despite industry predictions to the contrary, 2013 is not turning out to be a boom year for the office furniture business. Most firms are stable and profitable. Not up, not down, but stable. By this time of year, automotive parts producers are near peak production for the new model year. They are also stable, and the recent strong auto sales reports bode well for the future. However, new business will probably not come to the auto parts industry until October or November when the major firms begin assessing the acceptance of their 2014 models. The capital equipment firms turned in a widely mixed performance, and firms with improved performance were offset by those that have gotten tied up in the summer slump. Probably because of the summer vacation season, many of our industrial distributors came in a little lower than expected. With September comes a back-to-work sentiment for many firms, so distributors will probably see business pick up for September.

Turning as we always do the national economy, the September 3 press release from the Institute for Supply Management, our parent organization, reported that NEW ORDERS for ISM's index rose significantly to +18, up from +7. The PRODUCTION index posted a more modest increase to +20, up from +15. However, the EMPLOYMENT index, which hasn't performed all that well in recent months, backtracked to +7 from +9. All of these numbers resulted in ISM's overall manufacturing index edging up to 55.7 from 55.4. Since the break-even point between up and down for a diffusion index is 50.0, we can say that the national economy is still modestly positive.

A slightly different view of the U.S. economy comes from Markit.com, the British economic forecasting firm, which compiles surveys for many industrial countries in the world. The manufacturing "PMI" or Purchasing

Manager's Index, edged slightly lower to 53.1 from 53.7, which "...signals a slower, but moderate, rate of manufacturing expansion." Markit's index of NEW ORDERS rose slightly to 55.7 from 55.5, which the survey author concludes bodes well for the future. However, Markit notes that there is still plenty of room for improvement.

At the international level, the September 3, 2013 from many purchasing managers around the world came in modestly positive. First and foremost, Markit.com's "Eurozone Manufacturing PMI" rose to another two year high of 51.5, up nicely from last month's 50.5. The index of NEW ORDERS hit a 27 month high. Of the larger European economies, Ireland, Germany, Spain, the Netherlands, and Italy posted positive manufacturing PMIs. Even the PMI for Greece, which has been negative for over four years, has come back to 48.7. Other observers have said that here is now evidence of capital starting to flow back into Greece because of the "fire sale" prices for what is left of the country's industrial capacity. Since the sovereign debt crisis began over four years ago, there is now a renewed faith that the austerity programs are working.

Looking at other countries around the world, many of the BRICS countries have not done as well in recent months. Indeed, part of the BRICS success was the result of a weak dollar and low interest rates among all of the reserve currencies. The inkling by the Federal Reserve that interest rates may soon start to edge up has had an especially negative impact on the Brazilian and Indian currencies, resulting in demands that the Federal Reserve keep the interest rates low, presumably for the foreseeable future. Softer demand for some commodities have restricted both the Russian and Australian economies. However, the August PMI for China, which had been falling for several months, came back to 50.1. Chinese raw material prices increased for the first time in six months. Since China is now the world's major consumer of lead, tin, nickel, steel, copper, coal, and practically every other major industrial commodity, this could soon mean higher commodity prices around the world if the trend continues into September.

For Michigan, the strong auto sales report for August was the most important news. US sales rate came in 17% higher, and now stands 10% for the year to date. For some firms, it was their best month in over five years. Sales growth is still somewhat polarized between light trucks which only get so-so mileage and small cars that report 35-45 mpg. Of the major brands, Honda led the way with a 27% increase, follow closely by Toyota gaining 23%, and Nissan at 22%. Smaller foreign nameplates like Subaru posted a whopping gain of 45%. Domestically, GM gained 15%, Ford 12%, and Chrysler 12%.

A note of caution about automobile sales is worth repeating. Economists are always searching for an "equilibrium," a magical point where supply and demand

meet at a sustainable level, and there are no major ups and downs. Several articles have recently been published about the plateauing of the number of miles that motorists are driving. The beginning of the Great Recession marks the first time since the 1940's that the number of miles driven has NOT risen. Even in the automotive state of Michigan, driving is down 7% since 2005. Hence, the warning is simply this. Part of the high auto sales in recent months has been the unleashing of pent up demand for replacing aging vehicles, lower interest rates, and looser credit standards. Everyone also remarks that cars last longer, and almost no one trades a car just to make a fashion statement like they did in the 1960s. Hence, unless we start driving more or the cars start wearing out sooner, the current sales rate is higher than "equilibrium." In more contemporary terms, this level of sales constitute a slight bubble. If we run into another hitch in the economy, auto sales will fall until we again come back into balance.

A segment of the local press has recently raised the issue, "Is the recession over?" There is not a real easy answer to that question. Given the standard definition, the Great Recession was declared "over" in about June of 2009 when GDP turned back to positive. In actuality, this bottoming out is just the point when we start to climb out of the hole, and real "recovery" does not occur until the GDP number itself returns to the pre-recession level. In this same context, some will argue that the recession is not over until the unemployment rate returns to pre-recession levels. Many years ago, 3% was considered to be full employment. In more recent

years, 4% has become a more acceptable number. Anecdotal, certain SEGMENTS of the employment picture have clearly turned the corner, such as manufacturing and new home construction. But with Kent County unemployment now at 7.2% and Kalamazoo County at 8.3%, the unemployment numbers are four percentage points better than 2009 but far above the 2.1% reading of ten years ago. Also, we will soon hear a lot more about a little noticed statistic that BLS collects called U-6, which adds to the number of people looking for work things like (1) people working but underemployed for their skill set, (2) part time workers who are looking for long term employment, and (3) people discouraged and no longer actively looking for work but that would take work if it was offered. Nationally, this number in July came out to about 14%, which is down only about 3% since the pit of the Great Recession. Hence, FULL recovery from the Great Recession is still a long way off.

As we move into the late summer and early fall, the world geopolitical situation continues to be a major concern. Some kind of war action in Syria seems certain. Unfortunately, the results of this war are far from certain. With all of the issues, egos, scenarios, risks, hopes, and opinions, the outcome over the next few months is impossible to predict. Back in Washington, there is still a looming battle brewing over the debt ceiling and a potential government shutdown. Most everyone agrees that inattention to our domestic debt situation will destroy the American dream, but agreeing on a solution seems increasingly unattainable.

## August, 2013 COMMENTS FROM SURVEY PARTICIPANTS

"We're experiencing the anticipated August increase in automotive, and continuing to hire for open positions."

"Machine tool sales are traditionally slower in the summer months. This year is the same as other years."

"Business remains seasonally strong."

"The 'Conflict of Minerals' laws going into effect are causing lead times to increase in the supply chain as suppliers scramble to provide documentation never before required. This is causing great inefficiencies and adds no value to end consumer."

"Customer schedules have softened a bit, but forecasts are expecting to reverse that trend."

"How long will this last?"

"Our organization is very busy trying to wrap up all the construction projects and maintenance issues before the snow flies."

"We are still trying to hire machinists, and not having much luck getting qualified people."

"We're seeing things slow in the office furniture industry."

"We're continuing growth across the company."

"Our growth is approximately 5% for this year."

"Business is good. However, it is down a little from last month. Overall, things are busy."

"Our order entry hit a wall this month."

"Steady."

"Fiscal 2013 is booked and done, and the first quarter of 2014 is looking very good as well. Quoting and sales continue to be steady."

"Next year feels promising."

"We're having another strong summer seasonal period. Lead times from customers are half of what we customarily see for projects. This means pressure on supply base to meet demand."

"Our tactic has changed from part centric to paperwork centric."

"July was AWESOME, but it looks like we might pay for it a bit in August; this month seems slower. All in all, I remain positive."

"We continue to see a steady rise in business. We have been running close to capacity even while we are at the beginning of what we would call the 'busy season'."

"Looks like another great year, and we anticipate double digit growth!"

"We're expecting strong sales for the remainder of the year."

"Material and resource alignment is downward as we move out of our peak/green season and toward our slow season."

"Things have started to slow down."

"Things seem to be weakening a bit in the appliance industry."

"This month's a drop in sales due to inventory build-up of Class 8 trucks and increased service part purchases in June and July. A market softening in second half is very possible."

"Sales are a little slow, so our finished goods inventory is up slightly. We're looking forward to a strong September."

"We are still doing very well."

"Business continues to be about the same."

"Sales are strong, and our automotive work and some office furniture sales are also above budget volume. Quoting is solid, but new awards are currently below goal."

"Things are moving right along."

"Automotive continues to strong, but the economy still seems to be very uncertain and reacts to the government issues whether they are good or bad."

"Slow but steady is still our slogan!"

"We're slow again this month."

"We are seeing a slight slowdown for the first time in several months."

# August, 2013 Survey Statistics

|  | UP  | SAME | DOWN | N/A | Aug.<br>Index | July<br>Index | June<br>Index | 20 Year<br>Average |
|--|-----|------|------|-----|---------------|---------------|---------------|--------------------|
| Sales (New Orders)                                     | 26% | 41%  | 30%  | 3%  | - 4           | + 7           | +34           | +29                |
| Production   | 18% | 46%  | 24%  | 12% | - 6           | +17           | +31           | +13                |
| Employment   | 18% | 64%  | 18%  |     | + 0           | +21           | +25           | + 8                |
| Purchases  | 19% | 59%  | 22%  |     | - 3           | + 7           | +30           | + 7                |
| Prices Paid (major commod.)                            | 14% | 82%  | 0%   | 4%  | +14           | +12           | +15           | +35                |
| Lead Times (from suppliers)                            | 17% | 80%  | 1%   | 1%  | +16           | +14           | +14           | +11                |
| Purchased Materials Inv.<br>(Raw materials & supplies) | 12% | 57%  | 19%  | 12% | + 7           | + 7           | +12           | - 5                |
| Finished Goods Inventory                               | 14% | 57%  | 14%  | 15% | + 9           | + 9           | + 4           | -10                |

**Items in short supply:** Particle board, core grade veneer, customer directed and engineering directed sources.

**Prices on the UP side:** Polypropylene, polyurethane, fiberboard/cardboard, steel, plasticizer, PVC resin, aluminum ingot, packaging, scrap steel, wood core, HDPE, LDPE, copper, limestone aggregate, slag, salt, particle board, fuel, stainless steel, oil based products, carpet, veneer.

**Prices on the DOWN side:** SEBS resin, natural gas, ethanol, corn, sugar, PET, polypropylene\*, aluminum\*.

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

## Latest Unemployment Reports

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

|                             | July<br>2013 | June<br>2013 | Aug.<br>2009 | 20 Year<br>Low |
|-----------------------------|--------------|--------------|--------------|----------------|
| State of Michigan           | 9.7%         | 9.4%         | 14.8%        | 3.1%           |
| Kent County                 | 7.2%         | 6.9%         | 11.9%        | 2.1%           |
| Kalamazoo County            | 8.3%         | 7.1%         | 11.1%        | 2.1%           |
| Calhoun County              | 8.5%         | 8.0%         | 12.8%        | 7.2%           |
| Ottawa County               | 7.7%         | 7.2%         | 13.3%        | 1.8%           |
| Barry County                | 6.5%         | 6.2%         | 10.9%        | 2.2%           |
| Kalamazoo City              | 11.4%        | 10.6%        | 15.2%        | 3.2%           |
| Portage City                | 6.4%         | 6.0%         | 8.7%         | 1.3%           |
| Grand Rapids City           | 9.7%         | 9.7%         | 16.1%        | 3.0%           |
| Kentwood City               | 6.5%         | 6.3%         | 10.7%        | 1.4%           |
| Plainfield Twp.             | 4.8%         | 4.6%         | 8.0%         | 1.4%           |
| Holland City/Allegan        | 3.1%         | 3.0%         | 3.7%         | 0.9%           |
| U.S. National Official Rate | 7.7%         | 7.8%         | 9.7%         | 3.6%           |
| U.S. U-6 Rate               | 14.0%        | 14.3%        | 16.7%        | 8.0%           |

## 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 - 4 for the month of August, 2013

Previous Month + 7 for the month of July, 2013

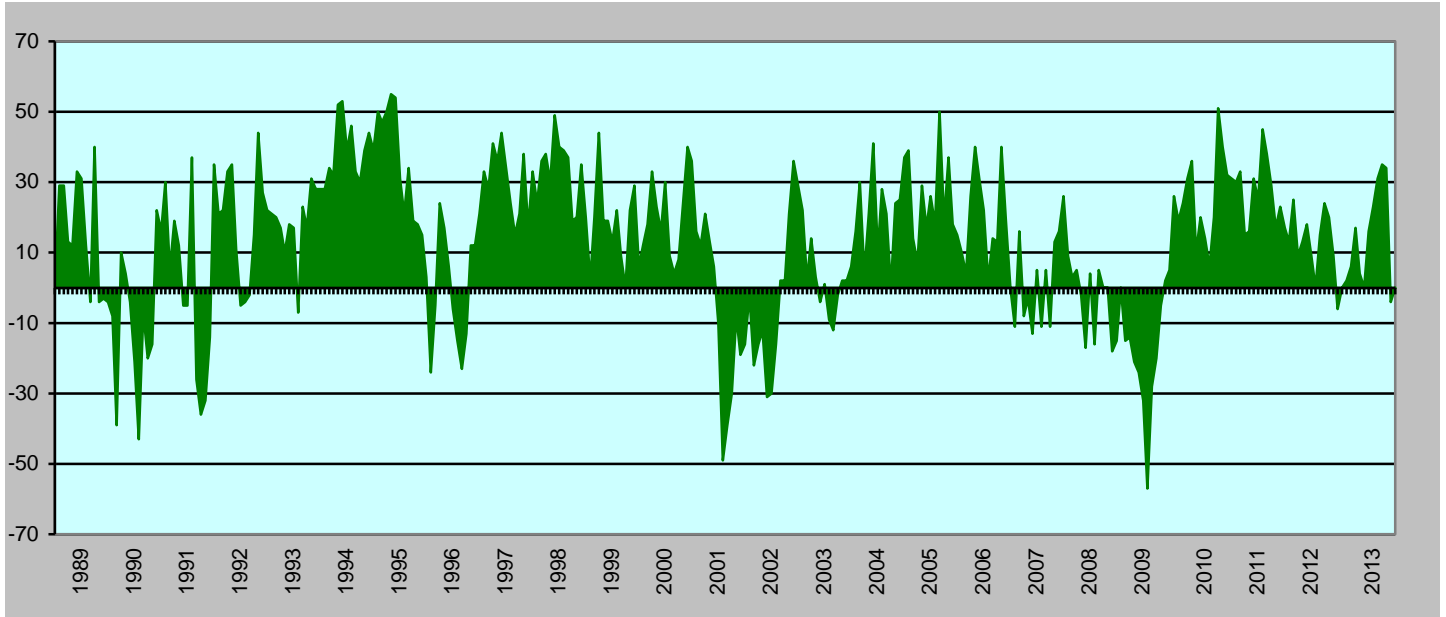
One Year Ago + 0 for the month of August, 2012

Record Low -57 for the month of December, 2008

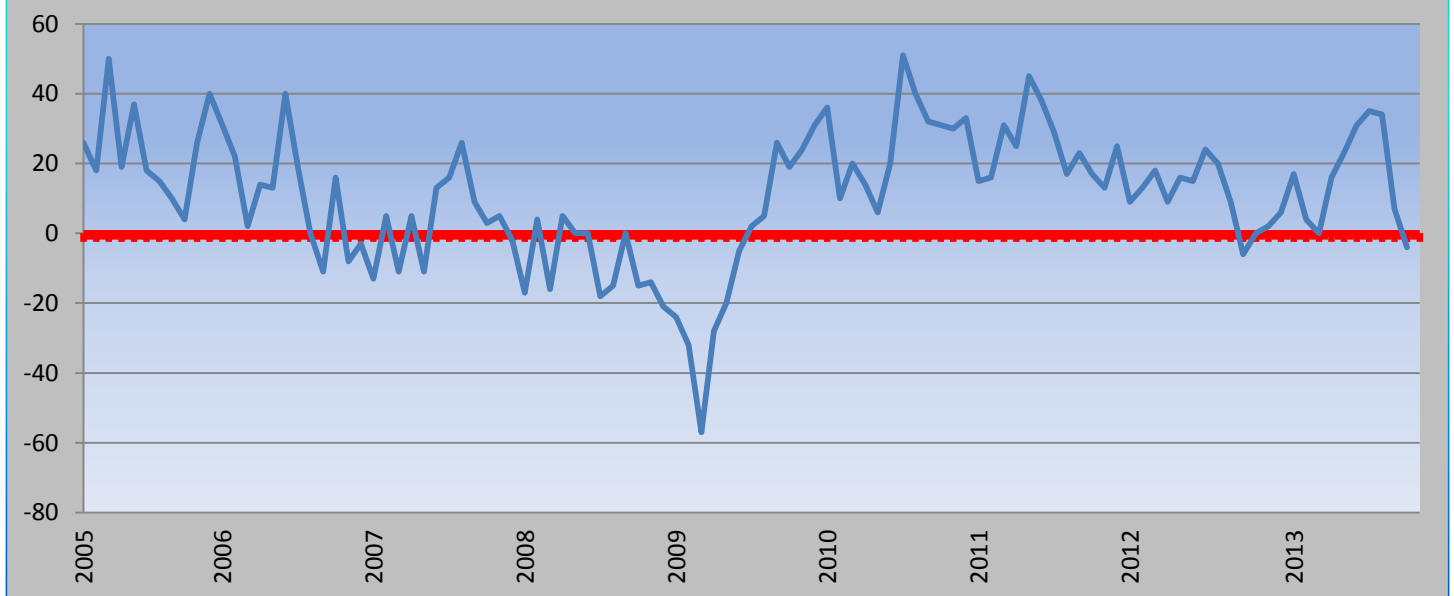
Record High +55 for the month of September, 1994

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.

