

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

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### **Current Business Trends**

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#### **West Michigan Returns to Slow Growth**

Growing very slowly, but growing. That's the latest word on the West Michigan economy, according to the data collected during the last two weeks of September, 2013. NEW ORDERS, our closely watched index of business improvement, flipped back to positive at +6, up from August's -4. The PRODUCTION index also turned positive at +2, up from -6. It was gratifying to see the EMPLOYMENT index jump to +10, depicting a continuation of the employment growth in West Michigan. Industrial inflation reported as our index of PRICES, retreated to +8 from +12. With both of our INVENTORY indexes nearly flat at +4 and +3 respectively, it appears that our local firms are doing a credible job of managing inventories. Barring economic disruptions at the national or international level, the current trend of slow growth should continue.

As we look at local industrial groups, some auto parts firms say that new business may not come to them until October or November when the major firms begin assessing the acceptance of their 2014 models and fine tune their forecasts for the winter and spring selling seasons. Others are at full capacity, and see no change coming in the immediate future. The office furniture business remains stable and profitable, the reports for September were mixed. Business conditions for the industrial distributors were also mixed, but the bias for September was to the up side. Because of the end of the vacation season and the back-to-work sentiment for many firms, the business reports from the capital equipment firms were generally positive. Many would-be buyers hold off major decisions until the summer is over.

At the national level, the October 1 press release from the Institute for Supply Management, our parent organization, reported that NEW ORDERS for ISM's manufacturing index remained relatively high at +17, down slightly from last month's +18, up from +7. The PRODUCTION index eased slightly to +15, down from +20. ISM's EMPLOYMENT index, which has been stuck in single digits for many months, eased to +6 from +7. Adding all of these numbers together, ISM's overall manufacturing index edging up to 56.2 from 55.7. At the same time, ISM's overall non-manufacturing index edging up to 58.6 from 56.0. All of these numbers depict an improvement in business conditions compared to a few months ago.

A contrasting view of the U.S. economy comes from Markit.com, the British economic forecasting firm. For September, Markit's manufacturing "PMI" or Purchasing Manager's Index, edged slightly lower to 52.8 from 53.1. Although still positive, Markit's index of NEW ORDERS eased to 53.2 from 55.7. The index of NEW EXPORT ORDERS flipped negative to 49.0 from 52.0. Overall, the Markit report concludes that the US economy is still modestly positive, but less robust than three months ago.

Turning to the international level, the October 1, 2013 press releases from SOME purchasing organizations around the world continued to show modest improvement. Keeping in mind that an index of 50.0 is the up/down dividing line, JP Morgan's "32 nation" Global

Manufacturing PMI edged up to 51.8 from 51.6. HSBC's China Manufacturing PMI rose to 50.2 from 50.1. For Brazil, HSBC's Manufacturing PMI rose to 49.9 from 49.4. One of the strongest reports came from Canada, where the Royal Bank of Canada's PMI bounced to 54.2 from 52.1 driven by sharply rising exports. However, the Markit Eurozone PMI eased to 51.1 from 51.4. Greece, which had come close to break-even last month at 48.7, dipped to 47.5. Russia, which had been modestly positive for the past two years, now seems stuck at the August and September index of 49.4. Recalling that the Markit.com September US index rests at 52.8, we are left with the unescapable conclusion that none of the countries that are positive are boasting booming economies. There are signs that the world economy is edging in a positive direction, but the improvement rate is still very slow.

In this month's survey we added two new questions relating to future business outlook. The first new question asked the survey participants about their view of business conditions for the next three to six months. For September, we recoded the index of SHORT TERM OUTLOOK to be a rather modest +12. The second new question asked about business conditions for the three to five years. It was gratifying and surprising to report our first LONG TERM OUTLOOK index to be a whopping +64. For the future of the West Michigan industrial economy, the perception looks very promising.

In Michigan, it is typical for the employment picture to improve slightly in August, and this year was no exception. The tourist season is at its peak, and the auto firms are cranking up full production for the new model year. The August unemployment report released by the Michigan Department of Technology, Management & Budget on September 26 noted that the state seasonally unadjusted unemployment rate fell a full percentage point to 8.7 from 9.7. Similar results were reported at the local level, as noted by Kent County's unemployment rate falling to 6.4% from 7.2%. In a parallel pattern, the rate in Kalamazoo County fell to 7.2% from 8.3%. The second lowest COUNTY rate in the state was reported for Barry County, which fell to 5.8% from 6.5%. There are 83 counties in Michigan, and coming in number two is very positive. The rate for Ottawa County came in at 6.6%. With so many of our unemployment numbers consistently landing WELL below the state and national rates, it is easy to claim that the West Michigan economy is doing better than most. One local businessperson suggested that West Michigan should secede from the rest of the state. Although that idea is impractical, it is not impractical to sell West Michigan as a good place to do business.

For the first time since May of 2011, the monthly report for automotive sales was not positive. Although a shift in the accounting period which gerrymandered a couple sales days to the previous month can account for some of the difference, the US sales rate fell a little more than expected from +17% to -4%. Bucking the trend, Ford led the way with a 6% increase, followed by Chrysler up a scant +1%. But the other big players were all down.

General Motors fell 11%, Honda slipped 10%, Nissan eased 6%, and Toyota tapered by 4%. The standardized rate of sales, the SAAR rate, came in at 15.3 million units, the weakest showing since April's 15.2 million rate. However, as we have reported in previous months, a SAAR rate of about 15 million units is about what the current market can absorb without creating an industry bubble. Having sales rates in the 16 or 17 SAAR may sound appealing, but such a rate is not sustainable. Hence, this month's automotive sales rate can be regarded as positive for the long term, even if it is a little lower. Excess auto sales could set us up for an unwelcome boom-bust cycle. Furthermore, at the present sales level, most of our local auto parts firms are still very profitable AND still hiring people. The Detroit Three auto firms are also profitable and expanding for the first time in many years. Since a record of over a million cars produced in the US were sold overseas in 2012, there is still room for expansion. Last but not least, many of our West Michigan auto parts suppliers now "world competitive" in terms of price, quality, and service. A few years ago, we couldn't make that claim.

Finally, when assessing the economy, we have to address the 500 pound gorilla in the room. With all of the issues, egos, scenarios, risks, hopes, and opinions, the outcome of the shutdown in Washington is almost impossible to predict. Obamacare began on October 1, and we are now beginning to get reports of the good, the bad, and the ugly. Proponents claim that the computer glitches and the numerous burdensome taxes are the price we have to pay for the new insurance program that will cover SOME of the uninsured. Opponents claim that the cost alone to the federal government could bankrupt the country and run our unemployment rate up to about 27% like Greece. The budget fight will probably not even be resolved before the second fight over the debt ceiling begins. Approximately one million "non-essential" federal workers are now on furlough. Budget hawks say that if they are truly non-essential, then they should be permanently furloughed. The reports on consumer confidence have turned very negative. For Michigan, we will probably see little economic impact UNLESS the shutdown lasts over a month. After that, one author many years ago suggested, "Run, don't walk, to the nearest desert island."

## September, 2013 COMMENTS FROM SURVEY PARTICIPANTS

"We're gearing up for a lot of new product launch activity. Employment is up and we continue to hire, but it is still difficult finding quality people."

"Business has been steady."

"We're seeing Obamacare Jitters."

"The machine tool world is running in a semi-normal cycle. Sales always pick up after summer vacations. Business owners get serious about purchasing equipment before the end of the year."

"While August ended below forecast, it seems that September is more on pace and outpacing the plan/forecast."

"General feeling by our reps is that we will be slow for next 6 months and then start to pick up."

"The economy seems to be picking up in spite of what the government is doing or not doing."

"Business continues to be steady as we are near our current capacity."

"The next 3-6 month outlook reflects our entry into our slow season. Our long range plan call for growth year over year."

"The short term is hopeful."

"The cost of doing business continues to edge upward while our budget remains stagnant."

"Lead time are going out. Everyone is busy, but not adding people. I think many are not because of Obamacare and the 2-1/2% federal tax added as of July 1 this year to help pay for Obamacare."

"We've seen softer sales than expected for August and September. We're concerned for the fourth quarter."

"New orders remain strong. Quoting activity also remains very high."

"Slow but steady growth continues. We are running near 80% capacity at 4 days per week."

"Business levels have dropped slightly, but the orders are still strong for the next several months."

"The current administration's philosophy of more oversight by the federal government has resulted in greater costs and longer delays with drug approvals. We are starting to feel the effects of these changes in the form of slower and restricted growth."

"We continue to do well with continued growth and an optimistic outlook for the future."

"Business is booming. 2014 is shaping up very nice."

"Obamacare (the Affordable Healthcare Act) has our customers VERY concerned."

"My forecast that August would be down from July was accurate. But the numbers are still strong, and we are headed for a very good year."

"The continuing surge in automotive in September is expected to last through mid-November. We are still hiring for open positions, but it is difficult to find qualified people."

"Business is good. Very good."

"Hopefully, our inquiry level will increase, now that the summer vacations are over."

"Business is still good, but looking softer from earlier this year."

"As volumes decline, prices are rising."

"It's fast and furious. New orders remain strong."

"We are seeing a slowdown in the fourth quarter."

"Business is continuing to be strong going into our new fiscal year."

"Sales a little lighter than hoped for this quarter but not doom and gloom. We're still moving forward with cautious optimism."

# September, 2013 Survey Statistics

	UP	SAME	DOWN	N/A	Sept. Index	Aug. Index	July Index	20 Year Average
Sales (New Orders)	30%	42%	24%	4%	+ 6	- 4	+ 7	+29
Production	22%	49%	20%	9%	+ 2	- 6	+17	+13
Employment	21%	68%	11%		+10	+ 0	+21	+ 8
Purchases	28%	48%	24%		+ 4	- 3	+ 7	+ 7
Prices Paid (major commod.)	13%	75%	7%	5%	+ 8	+12	+12	+35
Lead Times (from suppliers)	7%	87%	5%	1%	+ 2	+16	+14	+11
Purchased Materials Inv. (Raw materials & supplies)	20%	53%	16%	11%	+ 4	+ 7	+ 7	- 5
Finished Goods Inventory	21%	49%	18%	12%	+ 3	+ 9	+ 9	-10
Short Term Business Outlook (Next 3-6 months)	36%	40%	24%		+12	-	-	-
Long Term Business Outlook (Next 3-5 years)	67%	27%	3%	3%	+64	-	-	-

**Items in short supply:** Some cold rolled steel, everything metal and aluminum, cattle (slowly improving), helium, versatile indicators, specialty bearings, certain resin types, core grade veneer, good employees.

**Prices on the UP side:** Polypropylene, wood pallets (especially in the South), gravel, sand, grader blades, heavy equipment, salt, steel, wood core, repairs of electronic components, carbon steel, fuel, polypropylene resins, corrugate, flat glass, steel components, copper wire, custom plastic resin, rare earths, ethylene products (HDPE, LDPE, LLDPE), core grade veneer.

**Prices on the DOWN side:** Steel\*, natural gas, natural gas products (methanol), corrugated\*, paper, aluminum\*, copper\*, tin, silicon, paint, powder paint, metal machining & fabrication, PET, HDPE\*.

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

## Latest Unemployment Reports

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

	Aug. 2013	July 2013	Aug. 2009	20 Year Low
State of Michigan	8.7%	9.7%	14.8%	3.1%
Kent County	6.4%	7.2%	11.9%	2.1%
Kalamazoo County	7.2%	8.3%	11.1%	2.1%
Calhoun County	7.4%	8.5%	12.8%	7.2%
Ottawa County	6.5%	7.7%	13.3%	1.8%
Barry County	5.8%	6.5%	10.9%	2.2%
Kalamazoo City	9.9%	11.4%	15.2%	3.2%
Portage City	5.5%	6.4%	8.7%	1.3%
Grand Rapids City	8.9%	9.7%	16.1%	3.0%
Kentwood City	5.7%	6.5%	10.7%	1.4%
Plainfield Twp.	4.2%	4.8%	8.0%	1.4%
Holland City/Allegan	2.7%	3.1%	3.7%	0.9%
U.S. National Official Rate	7.3%	7.7%	9.7%	3.6%
U.S. U-6 Rate	13.6%	14.0%	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 +6 for the month of September, 2013

Previous Month + 4 for the month of August, 2013

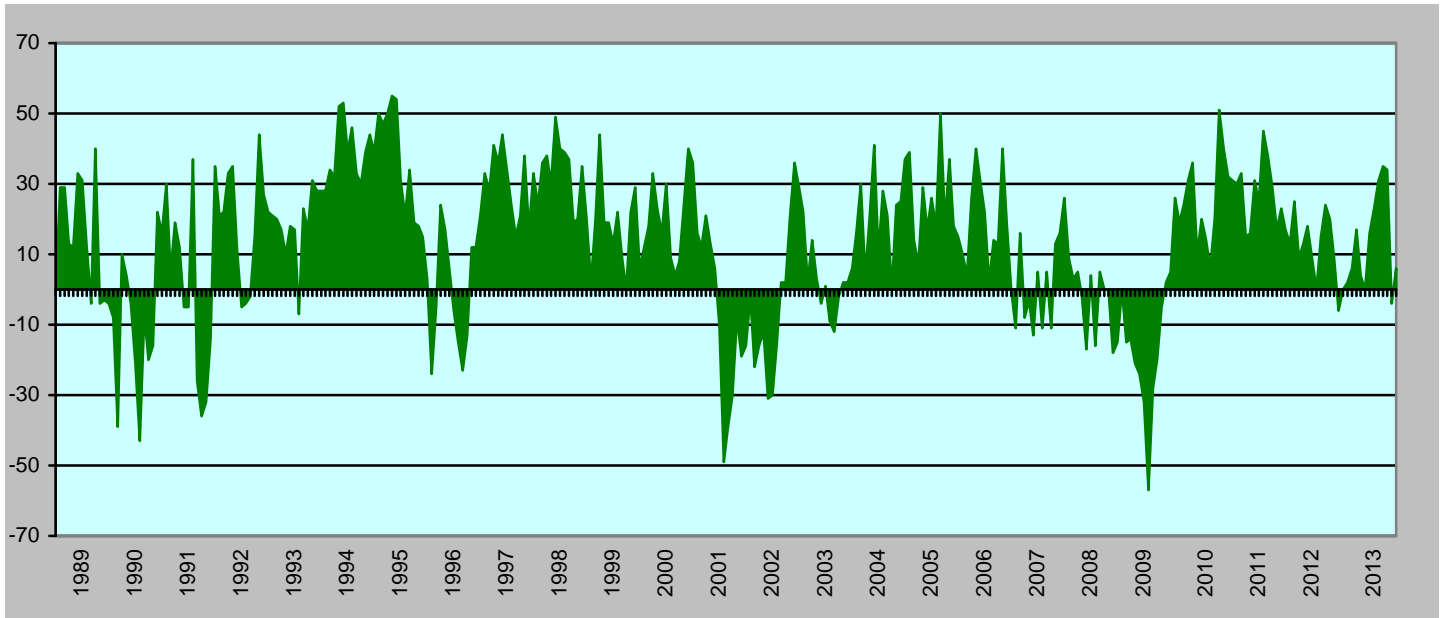
One Year Ago - 2 for the month of September, 2012

Record Low -57 for the month of December, 2008

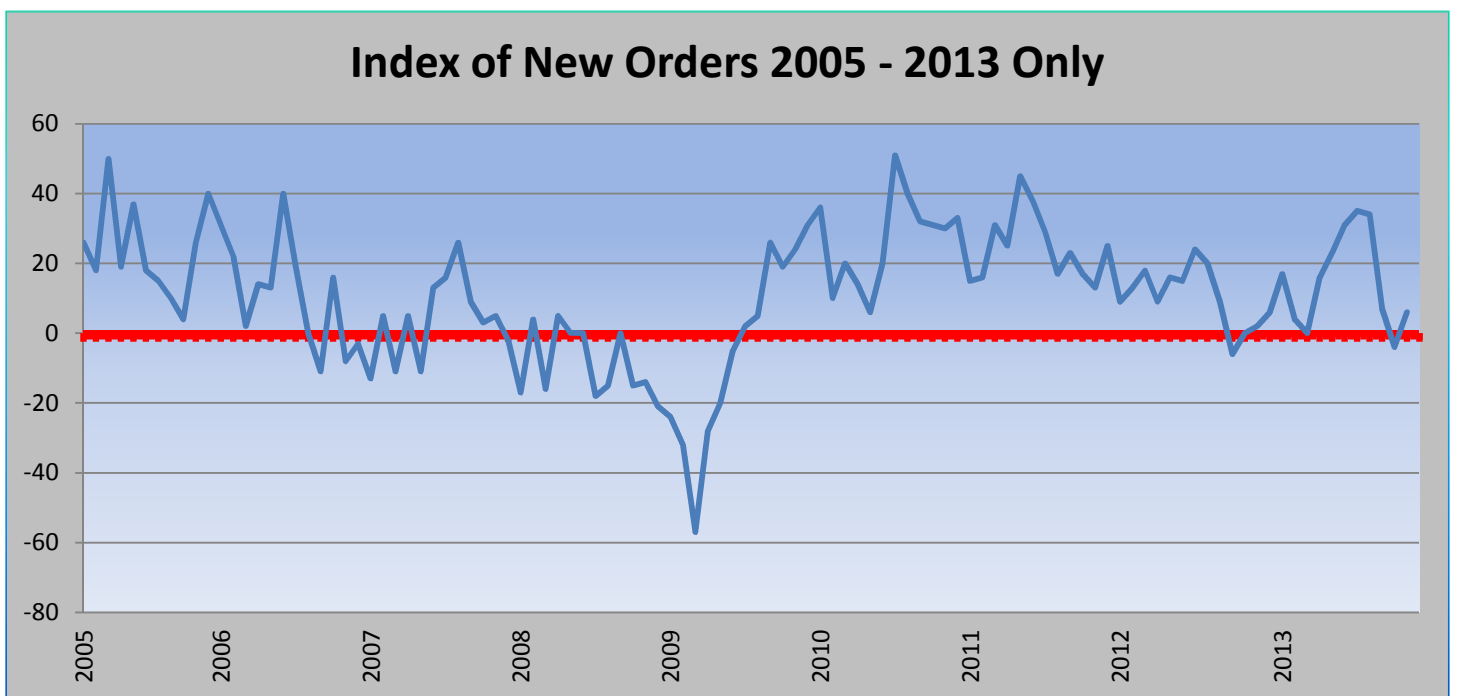
Record High +55 for the month of September, 1994

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.

