



**Institute for Supply Management,**  
Greater Grand Rapids, Inc.  
P. O. Box 230621  
Grand Rapids, MI 49523-0321

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

**January 8, 2014**

### **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: Seasonally Slow Growth**

Continued modest growth. That's the word on the West Michigan economy, according to the data collected for the month of December, 2013. NEW ORDERS, our closely watched index of business improvement eased to +5 from +16. There are no surprises here as the retrenchment is partially seasonal, given that December is a holiday month. The PRODUCTION index also retreated, but at +10, is still in line with other Decembers in the past. The EMPLOYMENT index, which had dropped to +0 as recently as October, remained positive at +9.

For our "outlook" statistics, there was little change. The SHORT TERM BUSINESS OUTLOOK index eased to +27 from +29, and the LONG TERM BUSINESS OUTLOOK index remained unchanged at +53. It is also affirming that the majority of our "Comments" at the end of this report are generally positive.

Locally, we are moving along fine. Nationally, the report is actually a little stronger. The January 2, 2014 press release from the Institute for Supply Management, our parent organization, reported that NEW ORDERS for ISM's manufacturing index edged up to +20 from +18. Again, probably because of the holiday season, the PRODUCTION index eased to +12 from +19. ISM's EMPLOYMENT index remained unchanged at +6. The PMI, ISM's overall manufacturing index, eased to 57.0 from 57.3, but is still near a seven month high.

At the international level, the J. P Morgan international manufacturing report turned in the best performance since February of 2011, according to the January 2 press release. JPM's Global Manufacturing PMI (purchasing manager's index) rose to 53.3, up from 53.1, while for Eurozone, business conditions continued to improve in all of the major economies except Greece and France. With a PMI of 57.0, the Netherlands turned in the best performance. The uptick also accelerated in Germany, Spain, Austria, and Ireland. The PMIs for the troubled economies of Spain and Italy flipped back to positive. For other major countries around the world, the December results were modestly positive. These indicators portend that the modest growth of the world economy will likely continue for the first half of 2014.

Just as we do every year, it is time to look ahead at the factors that will define the 2014 economy:

**Automotive.** We like to point to the success of many different industries, yet the fact remains that Michigan's recovery from the Great Recession has still heavily relied on automotive strength, just as West Michigan profits from the firms that produce automobile parts. The past year turned out to be stronger than industry projections, although much of the gain was again attributed to "pent up demand." Sooner or later, supply will catch up with demand, and the industry should then stabilize at a SAAR rate of about 15 million cars per year. The December sales for the industry slowed down more than expected. Even if auto sales would flatten at the present level, most firms are now comfortably profitable. In addition, we should not underestimate the improved potential for exporting North American vehicles worldwide, thus

increasing overall production within the industry. Because of the improved price and quality of components produced by some of our local auto parts fabricators, prospects are growing for more business with the transplant companies and with other auto manufacturers around the world. West Michigan auto firms could possibly outpace the rest of the industry.

**Industrial Inflation.** With the Chinese economy modestly improving and Western Europe just barely positive, the world demand for most commodities is still quite low. However, if the worldwide economy edges up, so will commodity prices. Therefore, there is a high probability that most commodity prices will probably end the year higher than today. We would not anticipate any wild increases unless there is some kind of supply disruption.

**Consumer Inflation.** With the continued slow rate of economic growth, consumer inflation is unlikely to be a problem in 2014. In fact, most economists concede that a nominal rate of inflation of about 2% is actually good for the economy. The current rate of 1.2% is well below average, and shows no sign of running away in 2014.

**Interest Rates.** For 2014, rates will still be held artificially low by Federal Reserve policy, although it appears that the FED is now trying to taper down the policy of quantitative easing—and not spook the financial markets. Rates have already risen from their historic lows, and it now appears that they will slowly edge up as the year goes along. Chances are that the same marginal increases will prevail into 2015 and beyond. It is worth remembering that as long as the world financial markets continue to accept low rates for more and more U.S. government bonds, we have nothing to fear. However, there are lessons to be learned. When the Greeks saw their 2007 interest rates go from about 3% to 18% in a matter of a few months, the financial world was suddenly struck with the conclusion that they would never be able to pay back their debt or even the interest on their debt if they continued spending far more money than the treasury took in. And so, we see this as the real "fiscal cliff" that we will have to face some day if we do not change course.

**Real Estate.** The oft-quoted reports on the Case-Shiller index of home prices has now been positive for 17 consecutive months. Home prices in most of the major markets rose considerably for 2013, which contributes to a more positive fiscal outlook by most homeowners. However, mortgage rates are starting to rise, and much of the pent-up demand has now been satisfied. The shortage of newer home for sale will continue to fuel more housing starts, especially in West Michigan. Because the wave of foreclosures and bankruptcies continues, the housing market recovery for existing homes will remain geographically spotty, even down to the street by street level. This means that pockets of Detroit-style tracts of abandoned houses will plague our older cities and towns.

**Unemployment.** It appears very likely that the unemployment rates for the US, Michigan, and West Michigan will continue to slowly decline in 2014. The tendency for small businesses to freeze hiring and avoid expansion will keep the unemployment levels much higher than they should be. Shortages will continue for trained technicians in many fields. Unemployment for the 18-24 year olds and the unskilled workers will remain excessively high.

**Obamacare.** Will Obamacare derail the 2014 economy? Politically, it is one of the worst messes in recent history. However, even if rhetoric grows louder, most of the economic fallout will be seen in declining consumer confidence and more caution from small businesses. Large firms have already figured out how they will respond as the mandates unfold, but small businesses are far less certain. Hence, the AFA will be the inhibiting factor for what could have been one of our best economic years in a long time. In the final analysis, Obamacare WILL NOT drive us into a recession unless the political situation grows much worse. The reason is simple: Except for hospitals, drug companies, and other medical firms, the health care law DOES NOT impact the supply chains of most companies.

**Overall Economy.** Current economic realities are such that we can be reasonably assured of the economic outlook for 2014. The cantankerous atmosphere in Washington will keep everyone on edge, resulting in little

getting done as the election approaches. Housing prices will continue to rise, but at a slower pace than 2013. Since homes often represent an individual's largest asset, consumer confidence may improve. Growth in residential and commercial construction will help the employment situation. Other local industries, like aerospace and office furniture, appear to be poised for modest growth. Worldwide, the economy will continue to improve slowly, as long as a major war or political upheaval doesn't get in the way. The European debt situation is still a problem, but as long as no political faction upsets the various austerity programs than some countries set in place, Europe should look forward to an improved 2014. Warnings have been issued about the precarious debt situation in China, but as long as the Chinese PMI from HSBC remains positive, 2014 should not be the year that the country comes unglued. At the current pace, China should remain our third best customer. However, an economic collapse in China would take the United States and the rest of the world into another recession. For 2014, new firms moving into the area will add to the growth for West Michigan. All of our local economic development offices have *numerous* new projects waiting in the wings. Some could add hundreds of new jobs. Even if 30% of these come to fruition, 2014 could be a year to remember. Being prudent, we shouldn't count the proverbial chickens before they hatch. Bottom line: Slow, steady growth should continue in 2014 for most of West Michigan.

## December, 2013 COMMENTS FROM SURVEY PARTICIPANTS

"Machine tool sales go up at the end of the year as companies buy capital goods for tax purposes. Typically, sales will drop off in January."

"We're taking advantage of our slowest season to recharge and reset our inventories. Business outlook is very optimistic."

"We are doing quite well, thank you."

"Some Isolated suppliers trying for increases to mitigate their internal cost, but they are not justified by raw material cost."

"Steel firms are trying to increase prices, but I'm not sure they will stick."

"Business is steady, even at year end. Long term business looks promising with steady sales growth."

"Business is good. We are seeing a very big push at year end."

"Many projects are going through right now, so we are busy as ever."

"Sales orders are up slightly, so we hope to reduce inventory this month. Project activity is picking up, but it is still a few months before it is likely to be released."

"December has been slower as expected, but we are continuing to hire for hourly positions with an increase in business expected in January."

"I see that a lot of suppliers are busy but do not know why. Many think it will turn down in the next 6 months."

"We are going through a seasonal downturn. Next year is looking like it could be a record year."

"This is a short month as we are taking two weeks off for Christmas shutdown. January looks a little stronger."

"Automotive schedule is still very strong. Forecast is still reflecting the expected demand."

"Weather is having greater impact. Each snow storm delays incoming shipments and dampens demand."

"Carbon steel surcharges in November and December are up considerably from the trailing 8-10 months."

"The economy appears to be improving slightly. However, there are still the ups, downs, and lack of confidence long term."

"2014 is alright, but 2015 is not shaping up to be such a good year."

"We had an end of a record year, and over 17 new launches are coming in 2014. A very busy year is ahead."

"The 2013 season was busier than expected with some projects being carried over into 2014. We could be a busy in 2014 as long as the funds are available."

"Happy Holidays! We're trying to keep things tight for year end, but will still finish the year with double digit growth again this year!"

"Business outlook for the near term is very favorable. Defense, oil/gas, and rail are strong. Coal mining is dead."

"We're in a seasonal slowdown."

"Things are slowing up for the holidays. 2013 has been a good year and it looks as if 2014 will be also. Everyone, have a safe, relaxing, enjoyable and Happy Holiday season!"

"Business is stronger than normal for this time of year, however, the first quarter is usually our slowest time."

"November was down. Deer Season always puts a crimp on things. It wasn't terrible, but not as good as October."

"Business is looking good and we are continuing to see new items come in along with hiring manufacturing employees."

"2014 should be a decent year."

"Thing just keep booming. 2014 is looking very good."

"Everyone is or going to have a price increase the first of the year. Some have had price increases already."

# December, 2013 Survey Statistics

	UP	SAME	DOWN	N/A	Dec. Index	Nov. Index	Oct. Index	20 Year Average
Sales (New Orders)	30%	42%	25%	3%	+ 5	+16	+15	+29
Production	23%	56%	13%	8%	+10	+13	+13	+13
Employment	23%	63%	14%		+ 9	+ 9	+ 0	+ 8
Purchases	28%	49%	21%	2%	+ 7	+ 9	+13	+ 7
Prices Paid (major commod.)	18%	73%	3%	6%	+15	+10	+10	+35
Lead Times (from suppliers)	18%	78%	4%		+14	+12	+19	+11
Purchased Materials Inv. (Raw materials & supplies)	14%	61%	18%	7%	- 4	- 5	- 1	- 5
Finished Goods Inventory	17%	57%	16%	10%	+ 1	- 6	+10	-10
Short Term Business Outlook (Next 3-6 months)	34%	59%	7%		+27	+29	+17	-
Long Term Business Outlook (Next 3-5 years)	56%	34%	3%	7%	+53	+53	+46	-

**Items in short supply:** Some resin types, some poly, slag aggregate, some electrical components, cattle will continue to be in short supply.

**Prices on the UP side:** Plasticizers, polypropylene, corrugated, insulation, carbon steel, wood veneer, some steel, fuel, paper, slag aggregate, sand, salt, industrial gases, steel plate, many grades of scrap, stainless steel, packaging, polypropylene, methanol, formaldehyde, typical new year increases of 3-5%.

**Prices on the DOWN side:** Nickel, stainless steel\*, SEBS resin, emulsions, chlorides, aluminum.  
\*These items are reported as both up AND down in price.

## Latest Unemployment Reports

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

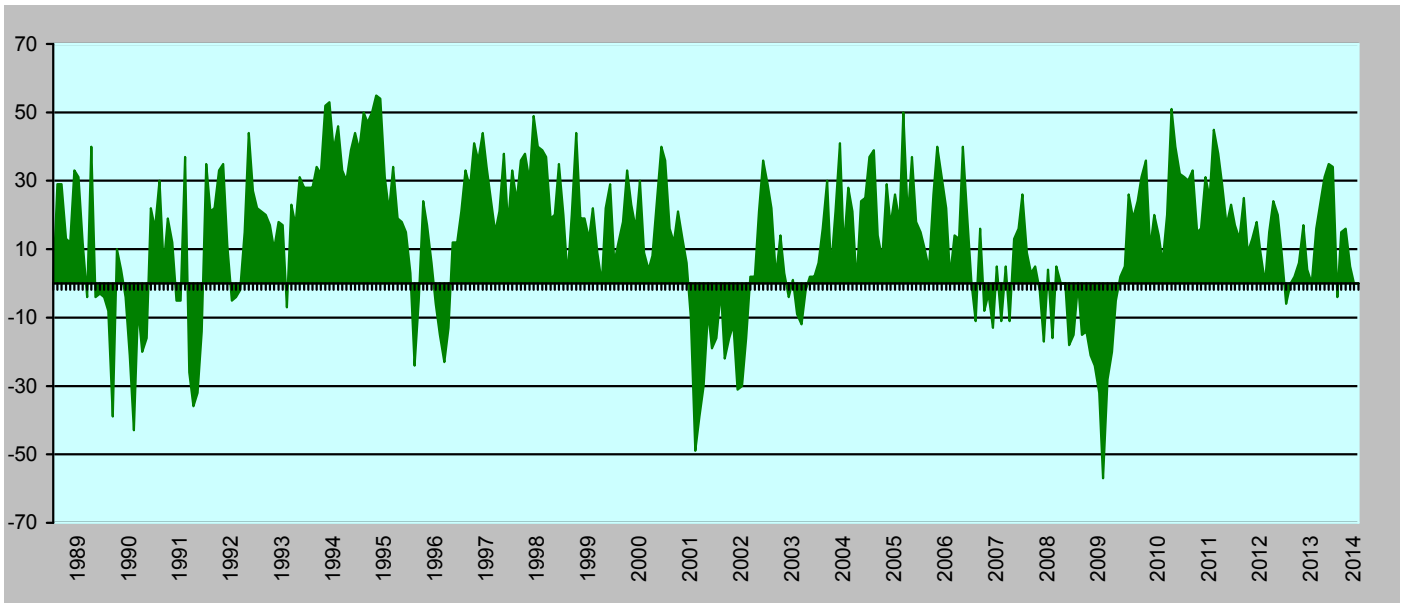
	Nov. 2013	Oct. 2013	Aug. 2009	20 Year Low
State of Michigan	7.8%	8.3%	14.8%	3.1%
Kent County	5.5%	6.2%	11.9%	2.1%
Kalamazoo County	6.3%	7.2%	11.1%	2.1%
Calhoun County	6.5%	7.2%	12.8%	7.2%
Ottawa County	5.8%	6.4%	13.3%	1.8%
Barry County	5.2%	5.6%	10.9%	2.2%
Kalamazoo City	8.7%	10.3%	15.2%	3.2%
Portage City	4.8%	5.6%	8.7%	1.3%
Grand Rapids City	7.7%	8.7%	16.1%	3.0%
Kentwood City	5.0%	5.6%	10.7%	1.4%
Plainfield Twp.	3.6%	4.1%	8.0%	1.4%
Holland City/Allegan	2.5%	2.7%	3.7%	0.9%
U.S. National Official Rate	6.6%	7.0%	9.7%	3.6%
U.S. U-6 Rate	13.9%	13.2%	16.7%	8.0%

## Index of New Orders: West Michigan

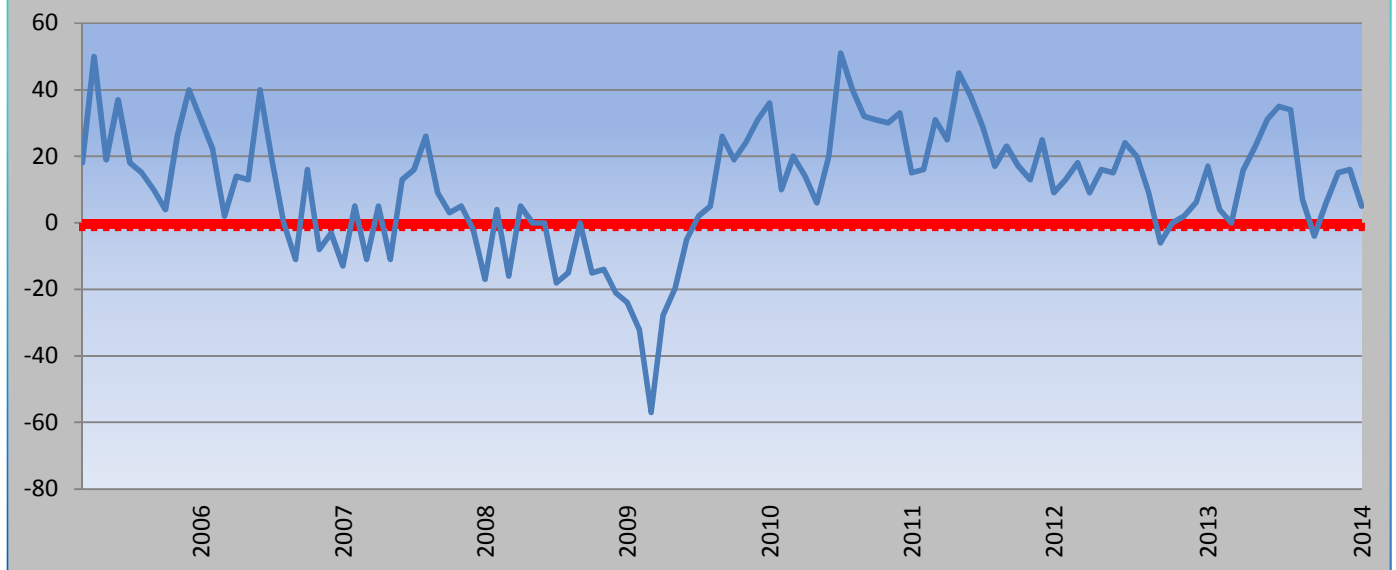
As the name implies, this index measures new business coming into the firm, and signifies business improvement or business decline. When this index is positive for an extended period of time, it implies that the firm or organization will soon need to purchase more raw materials and services, hire more 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	+ 5 for the month of December, 2013
Previous Month	+16 for the month of November, 2013
One Year Ago	+17 for the month of December, 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.

