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

News Release (For Immediate Release)

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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: Slightly Improved Slow Growth.

Sustainable slow growth. That's the latest word on the West Michigan economy, according to the data collected during the last two weeks of January, 2014. Our closely watched index of business improvement, which we call NEW ORDERS, gained strength by rising to +14 from +5. However, the PRODUCTION index eased modestly to +7 from +10. The EMPLOYMENT index returned to double digits at +12, up from +9. Activity in the purchasing offices remained subdued at +6, virtually unchanged from +7. Some industries are traditionally plagued with annual price increases in January, so it was not surprising to see our index of PRICES rise to +19 from +15. Because of optimistic forecasts for growth in 2014, firms added to their raw material inventories, so it stands to reason that our RAW MATERIALS INVENTORIES index turned positive at +6, up from -4.

Taking a look at local industrial groups, the furniture industry is quite positive in Mike Dunlop's January 31 press release for the "Furniture Industry Index. Specifically, the report says that, "The industry remains on a very steady, but improving trend line." However, our survey respondents reported a little softness in January orders, possibly because of orders that were strategically placed back in November and December to expend funds before the end of the budge year. Another positive for the office furniture industry is the recent rise in construction of new office space. New offices usually prefer new furniture. The auto parts firms turned in a mixed performance for January, but the bias was still to the up side. January is usually a slow month for capital equipment firms, but several of our local respondents reported very positive sales. For industrial distributors, it was "steady as she goes." Overall, we have numerous local factories at full capacity, and we still have firms looking for qualified people to fill positions.

Turning as we always do to the national economy, the February 3 press release from the Institute for Supply Management, our parent organization, reported that NEW ORDERS for ISM's manufacturing index remained positive, but retreated to a six month low of +8, down considerably from last month's +20. The PRODUCTION index retreated to a less robust +8 from +12. ISM's anemic EMPLOYMENT index fell to +2 from +6, indicating that job growth in the US industrial sector has slowed to a trickle. The most unsettling news came for ISM's overall manufacturing index, which remained positive but retreated to 51.3, down from 56.5. Since Wall Street was expecting a consensus reading of 56.0, the press release triggered a major selloff among the major stock exchanges around the world.

The British economic forecasting firm of Markit posted a less severe drop for the US manufacturing. Markit's "PMI" or Purchasing Manager's Index, edged slightly lower to 53.7 from 55.0. Following the trend set by ISM, Markit's index of NEW ORDERS remained positive but eased to 53.9 from 56.1. The index of NEW EXPORT ORDERS flipped negative to 48.4 from 51.4.

At the international level, the February 3, 2014 press releases from SOME purchasing organizations around the world continued to show modest improvement, while others posted modest declines. Keeping in mind that an index of 50.0 is the up/down dividing line, JP Morgan's "32 nation" Global Manufacturing PMI was virtually unchanged at 52.9, down from 53.0. At 56.7, the UK PMI topped the list of the major world economies, followed closely by Japan at 56.6. Germany remains strong at 56.5, followed by the Netherlands at 54.8. It was gratifying to see the Greek PMI turn positive for the first time in 65 months. Losers for January included China, Indonesia, Russia, and France. Taking a lead from the US, the Canadian PMI eased to 51.7 from 53.5.

In our survey's two new categories relating to the short and long term business outlook, the greatest improvement in our five-month history has come from the "short term" category. For January, the index we call the SHORT TERM OUTLOOK edged up to +32 from +27. This is almost three times as strong as the index of +12 we recorded in November when the threat of an extended government shutdown put many business planners on edge. For the LONG TERM OUTLOOK, the index rose to +60 from +53. All of these numbers are consistent with "comments" section in our report, namely that many firms ended 2013 with record sales and expect 2014 to be very positive as well.

Over the past few weeks, the financial markets have been rattled by several events in the news. First, the Federal Reserve has announced that it will continue to reduce purchases under what is now the third wave of Quantitative Easing, also known as QE III. In the weeks since the "tapering" began, various short term rates have edge higher. For instance, the 30-year fixed mortgage rate has now risen to about 4.5% from 3.5% eight months ago. In accordance with standard economic principles, this has resulted in SOME money managers moving out of stock market equities into fixed rate notes and bonds. The predictable net result is that bond yields rise and stocks go down.

Unfortunately, rising interest rates have had a significant impact on a group of third world countries known as the "Fragile Five." This new name identifies Turkey, Brazil, India, South Africa and Indonesia as economies that have become too dependent on skittish foreign investment to finance their growth ambitions. The negative consequences are simple: When interest rates in the major countries were artificially pushed down to record low levels, several emerging economies found that they could now borrow money on the world market for as low as 4%, which was far below the 12-15% they would have paid just a few years ago. Hence, with the US and Europe are now rising their interest rates, these countries are seeing their cost of borrowing rise very rapidly. Therefore, the “Fragile Five” are now threatened with serious recessions as monies flow out of these countries. Fortunately, the US does not have a major exposure to the Fragile Five, so it is unlikely that they could spawn another US recession. However, the European countries are not so lucky. Furthermore, worldwide demand for commodities, goods, and services will be noticeably curtailed if two or more of these five countries encounter major fiscal difficulties. This will inhibit but not stop the US economy.

Another small shock came to the financial markets on January 23 when the Chinese Purchasing Manager’s Index (PMI) reported by HSBC fell *barely* below the break-even point of 50.0 to 49.6. In the final report dated January 30, the index eased a little farther to 49.5. Of course, the Chinese government’s official (but phony) statistics are still positive. Worries persist over China’s shaky bank loans, some of which are off the books in an opaque financial system called “shadow banking.” Although China is half a world away, a sharp downturn would severely reduce exports to our third best customer. It is also now the second largest economy in the world. Furthermore, a Chinese recession would draw the shaky and fragile third world economies into another worldwide recession which the US would find very difficult to avoid.

Jobs. In an election year, there is scarcely a politician from township trustee to US Senator that can give a speech and not use the word “jobs” at least six times. “Jobs” is of course a magic word for “employment,” and more jobs generally mean lower unemployment. In our local area, the December unemployment level in Kent County fell to 5.4%, and in Kalamazoo County to 6.2%. This is about half the unemployment level of about four years ago, but almost three times the 20-year low for both counties of 2.1%. Of course, other entities like City of Portage can recall a 20-year unemployment low of 1.3%, City of Kentwood, 1.4%, and the City of Holland part of Allegan County, a low of 0.9%. A few other entities in the state show 20-year lows that are actually better than 0.9%. At the present rate of job growth, it is now estimated that it will be 2019 before we return to a normal level of unemployment. It is worth repeating that automotive and the industrial sector as a whole can go just so far in pulling us out of the Great Recession.

One final note: PRAY for a safe Olympics.

January, 2014 COMMENTS FROM SURVEY PARTICIPANTS

“2013 was a very good year, and January starting out strong with new orders exceeding last year at this time.”

“We are expecting significant cost reduction in 2014.”

“Customers still want to purchase. They are looking to bundle requirements for a lower cost.”

“Business remains steady. Finding qualified long term workers is hardest challenge. Packing house industry always faces this challenge, but it has continued this year. Mostly other jobs are opening up and workers are choosing either better pay or better work.”

“A solid 2014 shaping up.”

“Carbon steel lead times are getting longer, and some orders are being pushed out.”

“We are thriving, and 2014 looks even better than 2013!”

“The weather in early January caused problems for delivery and freight. We are playing catch up but expect January to meet expectations.”

“Slow holiday season but things are clearly picking up.”

“It’s the office furniture slow season, but overall business is good.”

“Automotive continues to be strong. 2014 looks about the same as 2013 with slow growth.”

“The harsh winter and shaking off the New Year blues are making it tough to get the New Year off on the right foot.”

“2013 was no big change from end of 2012.”

“We’re seeing encouraging sales in January. Trend or long term?”

“December sales were lower, as expected. January has seen a solid, expected upturn. Rumblings of increased raw material pricing have occurred, but have yet to be implemented.”

“Business is very strong for January.”

“Some suppliers are looking for increases to help pay their people more. We cannot pay more.”

“We are still very busy, and are adding to our supply base as needed.’

“Business is up and finally at a comfortable level.”

“December was a better month than November, but finished a bit lower than I would have liked. All in all, 2013 was a good year with sales up 9% over 2012. This was a true 9% increase since prices were held steady from previous year.”

“We are seeing some increases in prices from cutting tool manufacturers and manufacturers of machinery. The prices seem to be smaller increases than we saw last year, but they are still going up.

“We are experiencing a typical annual business cycle, but order entry a little stronger than last year at this time.”

“Generally, prices increases are being held to no more than 4%.”

“We are still waiting to see on Obamacare. Our cost when up $100 per person per month. I can't wait to see next year’s increase, and I hear this from other companies as well.”

“Business is good, but some of that is weather related.”

“Business is very robust !!”

“I've heard several small customers tell me that they want to hold off on capital purchases for a while until they know the real effects of Obamacare. Many file as Sub-chapter S Corps and believe they will see higher prices. One manufacturer told me that the tax on the health care plan is 40%- almost $50,000. That doesn't include any increase in premiums. He was going to purchase a new piece of equipment to make him more efficient, but will now hold off.”

“Scrap has probably peaked and will now start a downward trend. January has been a strong month but moving forward things are back to slow but steady.”

“We are busy as all get out with new ERP system and business in general.”

“Maintenance items are starting to show signs of running low, and usage is constantly being monitored.”

“January looks to be a little better than December, however, the first quarter is usually our slowest period.”

“We’re entering our slow season, but indications are good long term.”

"Sales picked up slightly helping to bring inventory levels down."

"Normally, the month of January is slow every year. It started out as usual, but has started to show new life in the middle of the month. We will see."

January, 2014 Survey Statistics

	UP	SAME	DOWN	N/A	Jan. Index	Dec. Index	Nov. Index	20 Year Average
Sales (New Orders)	38%	35%	24%	3%	+14	+ 5	+16	+29
Production	34%	32%	27%	7%	+ 7	+10	+13	+13
Employment	23%	66%	11%		+12	+ 9	+ 9	+ 8
Purchases	24%	56%	18%	2%	+ 6	+ 7	+ 9	+ 7
Prices Paid (major commod.)	23%	70%	4%	3%	+19	+15	+10	+35
Lead Times (from suppliers)	15%	79%	6%		+ 9	+14	+12	+11
Purchased Materials Inv. (Raw materials & supplies)	24%	49%	18%	9%	+ 6	- 4	- 5	- 5
Finished Goods Inventory	21%	50%	21%	8%	+ 0	+ 1	+ 6	-10
Short Term Business Outlook (Next 3-6 months)	40%	52%	8%		+32	+27	+29	-
Long Term Business Outlook (Next 3-5 years)	63%	30%	3%	4%	+60	+53	+53	-

Items in short supply: Construction equipment, grader blades, rock salt, cattle, tool and die service, carbon steel, castings, aerosol component, people.

Prices on the UP side: Wood pallets, polypropylene, scrap steel, oxygen, some resin, paper, rock salt, construction equipment, polystyrenes, polypropylene, steel, aluminum, stainless steel, electronic components, hardware, scrap metal, wire, PVC resin, plasticizer, SEBS resin, specialty raw chemicals.

Prices on the DOWN side: Fuel surcharges, nylon, emulsion, chlorides, injection molded plastics, machined parts, membrane switches, stainless steel,* steel.*

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

Latest Unemployment Reports

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

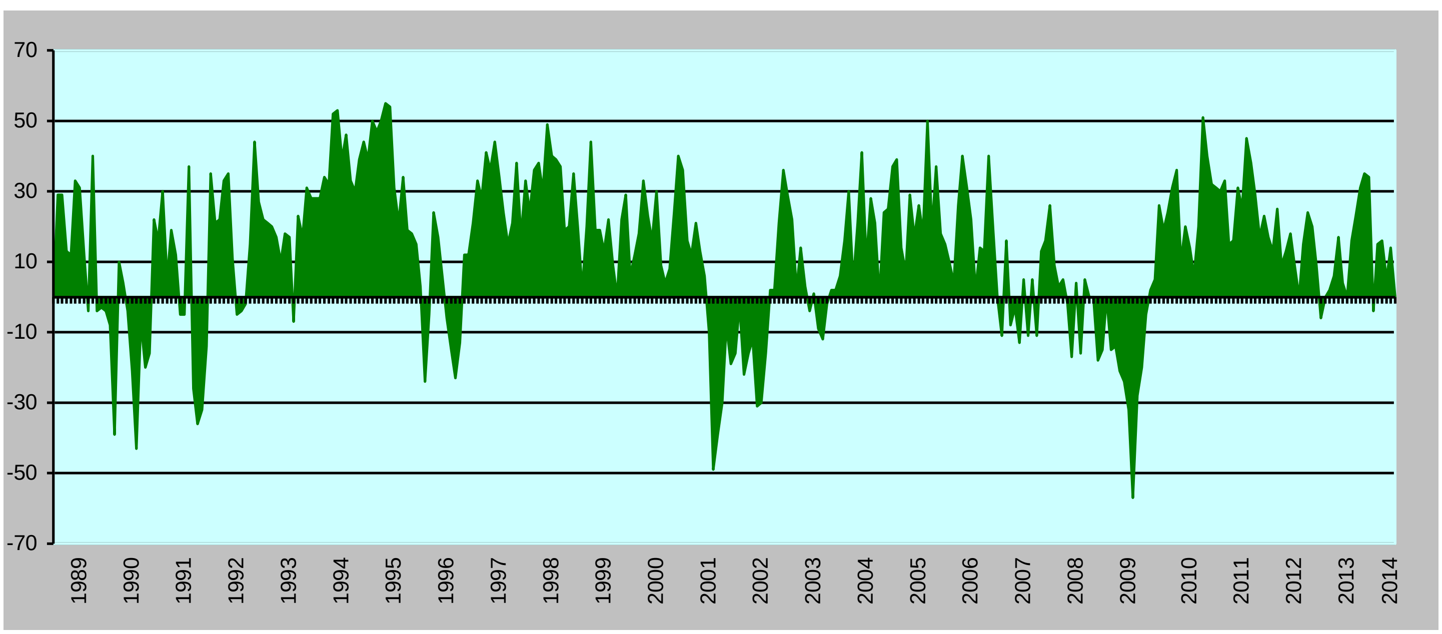
	Dec. 2013	Nov. 2013	Aug. 2009	20 Year Low
State of Michigan	7.7%	7.8%	14.8%	3.1%
Kent County	5.4%	5.5%	11.9%	2.1%
Kalamazoo County	6.2%	6.3%	11.1%	2.1%
Calhoun County	5.5%	6.5%	12.8%	7.2%
Ottawa County	5.9%	5.8%	13.3%	1.8%
Barry County	5.2%	5.2%	10.9%	2.2%
Kalamazoo City	8.6%	8.7%	15.2%	3.2%
Portage City	4.8%	4.8%	8.7%	1.3%
Grand Rapids City	7.6%	7.7%	16.1%	3.0%
Kentwood City	4.9%	5.0%	10.7%	1.4%
Plainfield Twp.	3.6%	3.6%	8.0%	1.4%
Holland City/Allegan	2.7%	2.5%	3.7%	0.9%
U.S. National Official Rate	6.5%	6.6%	9.7%	3.6%
U.S. U-6 Rate	13.0%	13.1%	16.7%	8.0%

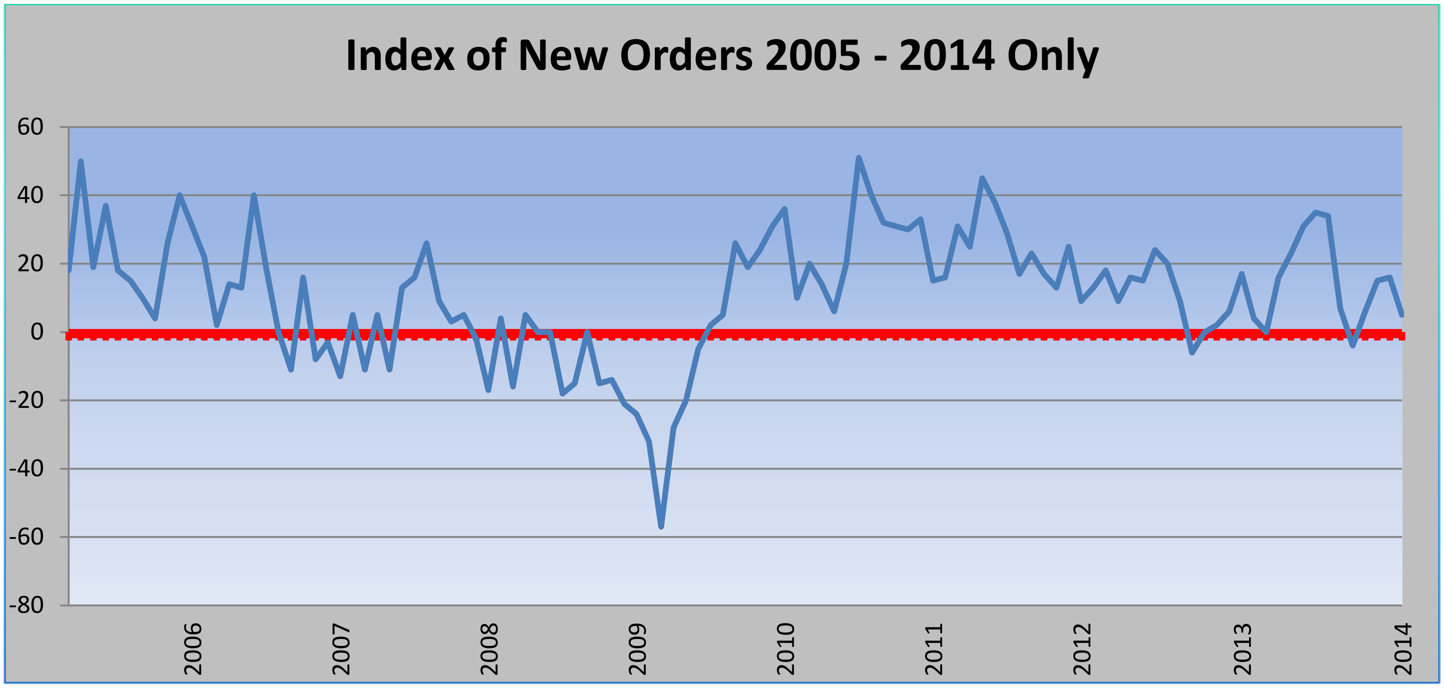
Index of New Orders: West Michigan

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	+14 for the month of January, 2014
Previous Month	+ 5 for the month of December, 2013
One Year Ago	+17 for the month of January, 2013
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

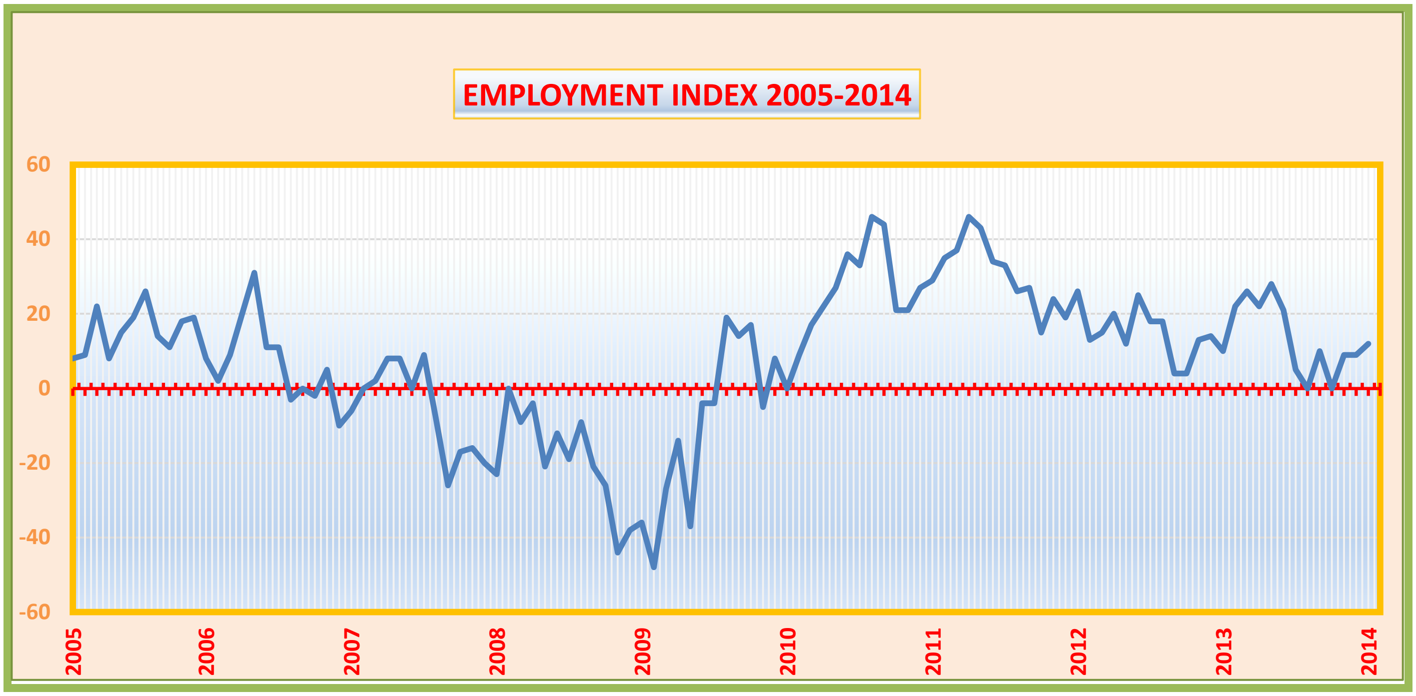
Index of New Orders 1988 - 2014





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.



EMPLOYMENT INDEX 2005-2014
60
40
20
0
-20
-40
-60
2005
2006
2007
2008
2009
2010
2011
2012
2013
2014