

News Release (For Immediate Release)

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Current Business Trends

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West Michigan: Slow Growth Accelerating

Growth accelerates. That's the latest word on the West Michigan economy, according to the data collected during the last two weeks of March, 2014. Our closely watched index of business improvement, which we call NEW ORDERS, advanced to +27, up from +19. The PRODUCTION index posted a more modest gain and rose to +20 from +18. The EMPLOYMENT index, which is a reflection of local industrial growth and optimism, jumped to +19 from +10. Activity in the purchasing offices was modestly higher, and the index of PURCHASES advanced to +19 from +16. Industrial inflation showed signs of moderating after a plethora of small increases in January and February, resulting in the index of PRICES easing to +15 from +18. The index of FINISHED GOODS INVENTORY remained almost unchanged at +8, but the RAW MATERIALS inventory index rose to +13 from +8. We are still hoping that the spring thaw will soon result in more sales and help reduce these inventories.

Looking at local industrial groups, the "integrated" office furniture companies turned in a mixed performance in March. Some firms posted modest incentives in late 2013 and felt that the orders placed back in November and December may have caused slower sales for early 2014. By contrast, other firms, including some of the specialty manufacturers, are seeing sales rebound. In a repeat of the past several months, the auto parts manufacturers turned in a mixed performance, but the bias still pulled to the up side. Although some capital equipment firms will probably have to wait a month or two before seeing much improvement, several are already starting to see the annual spring rebound in sales. Industrial distributors generally remained steady. The mood in the comment section of the survey reflects a slight upswing, despite the fact that winter snows continued into late March when these survey reports were filed. A steady appearance of spring should help next month's survey to continue on an upward path.

At the national level, the April 1 press release from the Institute for Supply Management, our parent organization, reported that NEW ORDERS for ISM's manufacturing index edged up to +22 from +19. However, the PRODUCTION index bounced to +22, up from +8. Job growth in the industrial sector at the national level is still stuck in single digits, and ISM's EMPLOYMENT index eased to +6 from +7. ISM's overall manufacturing index rose modestly to 53.7 from 53.2. The ISM non-manufacturing index fared a little better and rose to 53.1 from 51.6. Just as a reminder, any reading above 50.0 is considered positive growth for a diffusion index.

The U.S. report from the international economic forecasting firm of Markit retreated a little after last month's surprising jump. Markit's "PMI" or Purchasing Manager's Index came in at 55.5, down from 57.1, but still stronger than the aforementioned index from ISM. The NEW ORDERS index eased to 58.1 from 59.6. Markit's index of NEW EXPORT ORDERS remained positive, but eased to 51.1 from 51.6. ORDER BACKLOGS also remained positive, but eased to 54.5 from 57.9. Overall, Markit's view of the U.S. is "... the March data indicate that the U.S. manufacturing sector remains on a solid growth footing."

Taking a world view, the April 1 press release from JP Morgan's "32 nation" Global Manufacturing PMI came in slightly lower than last month at 52.4, down from 53.3. Average input costs, primarily labor and raw materials, slowed to a nine month low in March, while manufacturers' selling prices fell for the first time since July last year. The Eurozone Manufacturing PMI eased to 53.0 from 53.2, with Greece sliding back below the 50.0 breakeven point to 49.7. To no one's surprise, the Russian PMI fell to 48.3. However, the recovery in Ireland brought the PMI up to 55.5. It is no secret that Ireland has been using its low corporate tax rate to scour Europe for firms interested in moving, and has had considerable success.

Last month we noted that China is the country to watch. March growth in the Chinese industrial sector remained slightly negative. The HSBC PMI index eased to 48.0, down from 48.5 in February and 49.5 in January. Last month an 18% drop in exports scared everyone. Fortunately, the March report came back stronger, although the year over year increase of 8.9% only makes up for part of the difference. The value of the Yuan continued to rise in early March, making Chinese exports less attractive to foreign customers. With manufacturing activity moderating and in some cases falling, the Chinese government has decided to offset the difference by exporting larger quantities of tin, a metal which China has in abundance. Higher labor costs and a higher Yuan exchange rate mean higher prices, and new orders for manufactured goods from the US and Europe are still down considerably. Chinese government sources have privately admitted that they do not expect business that has been "re-shored" to the United States to ever come back soon. The uncertainties of China's "shadow banking" system are an ongoing concern, given that a large number of defaults would drag the whole economy down, not unlike the 2007 banking fiasco in our country.

In our survey's two categories relating to the short and long-term business outlook, both indexes picked up. SHORT-TERM OUTLOOK index rose to +34 from +28, but the LONG-TERM OUTLOOK index regained most of what it lost last month by rising to +58 from +43. Some analysts are still blaming the bad winter weather for the weak results in many statistics from February. However, the tensions in Washington as well as Eastern Europe may have been factors as well. Either way, business confidence appears to be improving, which is always a good sign.

The EMPLOYMENT index for this month's survey provides another source of optimism. In March, our index rose to +19, the highest it has been since last summer. Part of the increase can be attributed to the recent increases in NEW ORDERS, especially for those firms that are running enterprise (ERP) software. Another factor relates to the new investments several of our local firms have made. However, smaller firms are still not participating in the expansion, resulting in the local unemployment numbers still being higher than satisfactory. West Michigan is still faring MUCH better than the rest of the state. Among the unemployment rates in the 83 Michigan counties, Kent County is second lowest, followed by Ottawa at number three, and Kalamazoo County in fourth place.

Auto sales continue to be the driving force behind the Michigan recovery, and the March report from Autoneus is positive in several ways. First, sales for the industry were up 6 percent, although car sales were only 1% and light trucks made up 11 percent of the total. Some local dealers have noted that (surprise) a lot of those truck sales were four wheel

drive models. For the major firms, Chrysler led the way with a 13 percent increase, followed by Nissan at 8 percent. Toyota chalked up a 5 percent gain, GM added 4 percent, and Ford advanced by a modest 3 percent. American Honda posted a modest loss of 2 percent. If this trend continues over the next several months, there is cause to believe that the industry will stabilize at or near the present level. We continue to believe that the impact of auto sales on the Michigan economy is very positive, especially with the continued profitability of most of the auto manufacturers and the auto parts producers. However, overproduction would create another bubble, and turn a positive into a negative.

In summary, despite many problems in Michigan, the U.S., the Ukraine, and all over the world, business managers seem to be climbing the wall of worry and moving ahead at a cautious pace. As long as the governments, at all levels, continue to work through their financial problems and stick to their plans, then the world economy should continue to show modest improvement for 2014. In Michigan, as noted above, we are optimistic that auto sales will stabilize at or near the current level. The west side of the state has numerous new economic expansion projects in the works, although it may take several years before the firms actually set up shop and start contributing to job growth and expansion of the tax base. Of course, caution cannot be overstated when international events could disrupt the current growth patterns at any given time. For instance, if Putin decides to invade the southern Ukraine, all bets are off.

March, 2014 COMMENTS FROM SURVEY PARTICIPANTS

"We will see what happens when we get two to three weeks of commutable weather. We will really not know the business outlook until then."

"Things are perking up."

"We've had a slow start to the new year. February was down from January, and unless something significant happens in the next week, March will be WAY down from February. This is not the first quarter I was hoping for."

"The economy appears to be picking up. Steel mill lead times are going out, and they are pushing for price hikes."

"Business is remaining steady."

"New business is growing. We are very busy."

"We continue to capture market share and are continuing to do well."

"We just make the parts."

"We hope to see an increase in demand as we emerge from our slow period shortly."

"Sales have leveled off to down slightly in the last few weeks, but we have some very big opportunities. I'm concerned about capacity on some of our equipment."

"Future business looks strong and sustainable for near and long term."

"Business is picking up in March. This typical for machine tools. We are up in November and December, down in January and February, and then pick up in March."

"Spring maintenance products have been secured and ready to get started as soon as the weather breaks. We're working to replenish all those inventories that were exhausted due to the hard winter, and also looking to secure major products such as salt for the 2014-2015 winter season."

"We're have steady growth as anticipated."

"We are starting to see a slight increase in business for March and April. Hopefully, sales will continue to get stronger."

"Right now, business is 'brisk.'"

"We are busy, steady, and moderately optimistic. And we're hiring."

"Things have slowed down a little over the last few weeks. However, we are still having a very strong first quarter."

"Sales are still strong. Quote volume also remains high."

"Quoting and bid activity is up significantly. I believe a busy summer is coming."

"We have achieved significant cost reductions on commodity and commodity based products."
"We are still in our annual shutdown."

March, 2014 Survey Statistics

	UP	SAME	DOWN	N/A	Mar. Index	Feb. Index	Jan. Index	20 Year Average
Sales (New Orders)	40%	44%	13%	3%	+27	+19	+14	+29
Production	33%	48%	13%	6%	+20	+18	+ 7	+13
Employment	26%	67%	7%		+19	+10	+12	+ 8
Purchases	33%	52%	14%	1%	+19	+16	+ 6	+ 7
Prices Paid (major commod.)	19%	73%	4%	4%	+15	+18	+19	+35
Lead Times (from suppliers)	19%	80%	1%		+18	+ 9	+ 9	+11
Purchased Materials Inv. (Raw materials & supplies)	23%	60%	10%	7%	+13	+ 8	+ 6	- 5
Finished Goods Inventory	19%	57%	11%	13%	+ 8	+ 9	+ 0	-10
Short Term Business Outlook (Next 3-6 months)	43%	49%	9%		+34	+28	+32	-
Long Term Business Outlook (Next 3-5 years)	59%	39%	1%	1%	+58	+43	+60	-

Items in short supply: Some cold rolled steel, LP gas, lumber, helium, beef cattle, rock salt, slag aggregate, heat treating service, plating service, machined plastic components, 1020-25 hot rolled steel heave plate, xylene, time.

Prices on the UP side: Polypropylene, plastic resins, some oil based products, PVC resin, SEBS resin, process aids/acrylics, LP gas, skids/wood products, stainless steels, plastics, poplar and ash lumber, rock salt, mowing equipment, limestone, aggregates, hot rolled steel, cold drawn steel, carbon steel, fuel, freight, aluminum sheets, some packaging, xylene, high density polyethylene.

Prices on the DOWN side: Corrugated, copper, plasticizer, paraffinic oil, polypropylene*, steel*, steel scrap, chlorides, steel sheets*, plastic injection molding, metal fabrication, machined item, warehouse aluminum, plastics, Chinese Yuan.

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

Latest Unemployment Reports

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

	Feb. 2014	Dec. 2013	Aug. 2009	20 Year Low
State of Michigan	8.5%	7.7%	14.8%	3.1%
Kent County	5.8%	5.4%	11.9%	2.1%
Kalamazoo County	6.5%	6.2%	11.1%	2.1%
Calhoun County	7.3%	6.8%	12.8%	2.7%
Ottawa County	6.2%	5.9%	13.3%	1.8%
Barry County	7.1%	5.2%	10.9%	2.2%
Kalamazoo City	9.0%	8.6%	15.2%	3.2%
Portage City	5.0%	4.8%	8.7%	1.3%
Grand Rapids City	8.1%	7.6%	16.1%	3.0%
Kentwood City	5.2%	4.9%	10.7%	1.4%
Plainfield Twp.	3.8%	3.6%	8.0%	1.4%
Holland City/Allegan	2.9%	2.7%	3.7%	0.9%
U.S. National Official Rate	6.8%	6.5%	9.7%	3.6%
U.S. U-6 Rate	12.8%	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 +23 for the month of March, 2014

Previous Month +19 for the month of February, 2014

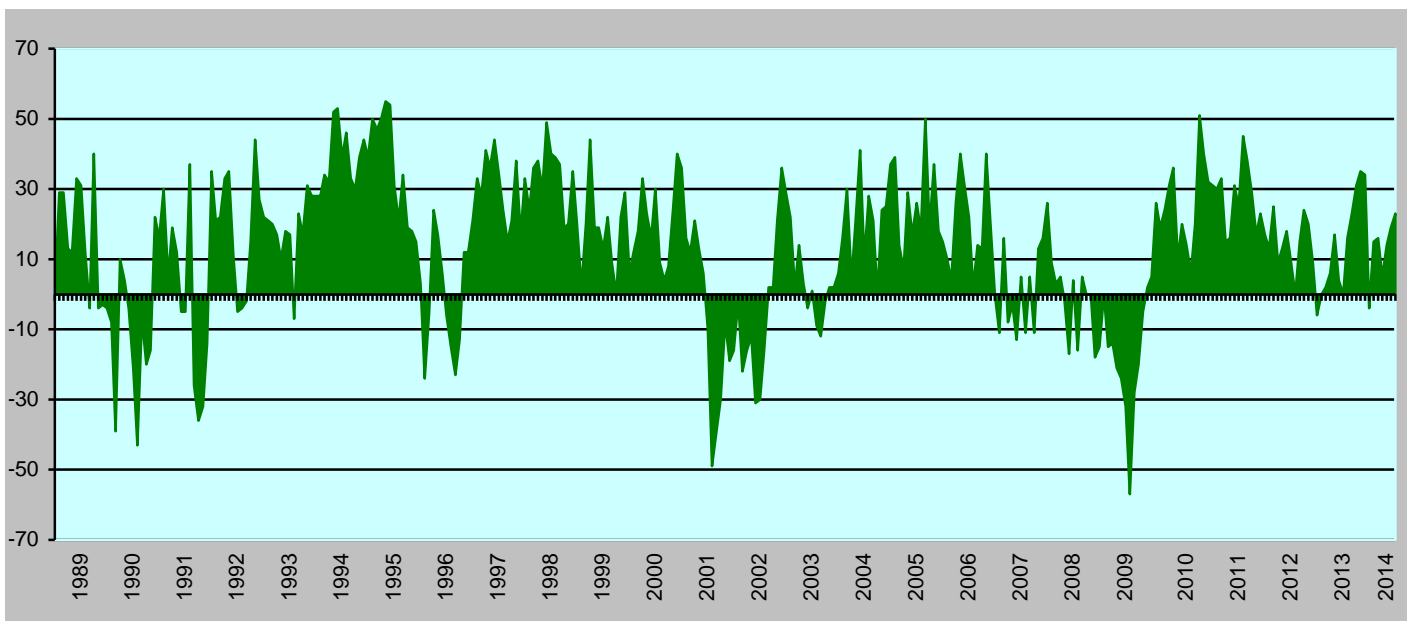
One Year Ago +16 for the month of March, 2013

Record Low -57 for the month of December, 2008

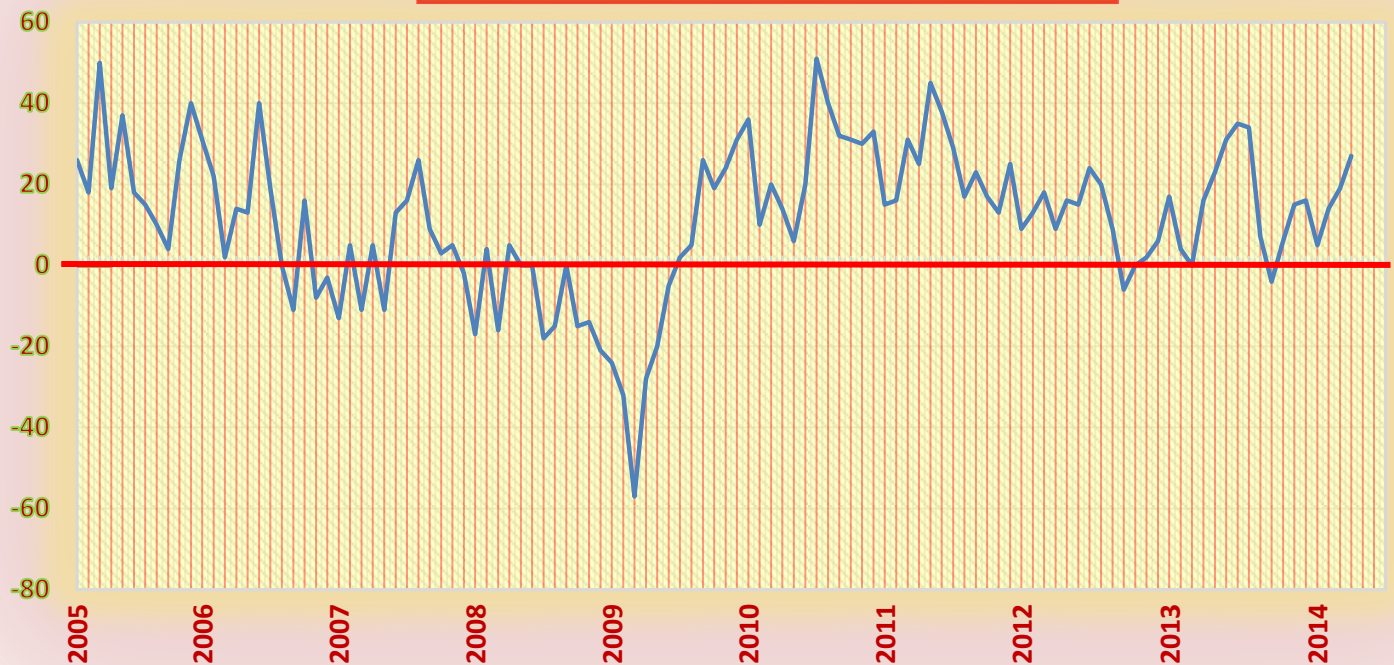
Record High +55 for the month of September, 1994

First Recovery +3 in April of 2009 and forward

Index of New Orders 1988 - 2014



Index of New Orders: 2005 - 2014 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.

EMPLOYMENT INDEX 2005-2014

