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News Release (For Immediate Release)

June 5, 2014

Current Business Trends

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West Michigan: Growth Returns to a Slower Pace

Back to slow growth. That's the latest word on the West Michigan economy, according to the data collected during the last two weeks of May, 2014. Our index of business improvement, which we call "NEW ORDERS," retreated to a slower growth pace of +20 in May, down from +40 in April. In a similar move, the PRODUCTION index eased to +16 from +28. The EMPLOYMENT index fared a little better and rose to +14 from +13. Activity in the purchasing offices, our index of PURCHASES, eased to +9 from +13. The index of FINISHED GOODS INVENTORY returned to growth at +1, up from -7. The RAW MATERIALS inventory index tapered to +0 from +8, reflecting stability of inventory policy. Business optimism remained about the same, although our SHORT TERM OUTLOOK index eased to +32 from +35, but the LONG TERM OUTLOOK index rose to +49 from +44.

Looking at individual industry group, the local industrial distributors reported a strong month, although there were exceptions. The same held true for the automotive parts suppliers. Many are at full capacity and gaining strength, but a couple of automotive parts firms are not currently sharing in the success. The "integrated" office furniture companies turned in mixed performance for the month. The capital equipment firms are well into the "decision" season, and most are reporting good business conditions.

The national economy remains in a slow growth mode. The June 2, 2014 press release from the Institute for Supply Management, our parent organization, reported that ISM's index of NEW ORDERS eased to +21 from +25. The PRODUCTION index edged lower to +26 from +27. ISM's EMPLOYMENT index remained in double digits, but retreated from +18 to +12. When all factors are combined, ISM's overall manufacturing index rose to 55.4 up from 54.9. Adjusted for seasonal influences, the U.S. manufacturing PMI from Markit.com, the British economics firm, posted an uptick to 56.4 from 55.4. In the service sector, the ISM non-manufacturing index rose to 56.3 from 55.2. In confirmation, Markit's non-manufacturing index came in substantially higher at 58.1, up sharply from 55.0. The chief economist for Markit further notes, "...this is not simply a weather related rebound. Companies are reporting that their customers are feeling more confident, restocking, expanding, and investing."

The results for the world economy are still much more marginal. According to J.P. Morgan's June 3, 2014 press release, world manufacturing activity rose modestly to 52.4, up from last month's six month low of 51.9. The report cited the U.S., the U.K., and the Czech Republic as bright spots, but noted that Japan,

China, South Korea, Indonesia, Brazil, and Russia continue drag the worldwide statistics lower. The Eurozone registered a modest slowdown in May, resulting in the overall PMI easing to 52.2 from 53.4. Analysts in Europe note that the American seem to have been quicker to forget the new Russian threat to the Ukraine, probably because we are "across the pond." The European are not so fortunate.

Although still modest by historical standards, industrial inflation pressures picked up in May. Our local index of PRICES edged up to +16 from +7, reflecting an uptick in demand for many key commodities around the world. ISM's index of PRICES shot up +20 from +13. JPM's world index of PRICES jumped to 53.0 from 51.2. Given the increased (and some say unfair) level of foreign competition, steel will probably taper lower in price over the next few months.

Reviewing the employment numbers, there is more good news for West Michigan. Among the unemployment rates in the 83 Michigan counties, Kent County tied for first place as the county with the lowest unemployment in the state at 4.8%. Ottawa County again came in at number three. Kalamazoo County eased to sixth place, but at 5.6%, is still far better off than the rest of the state and nation. For the State of Michigan, the unadjusted rate fell to 7.3% from 8.0%. The *seasonally adjusted* rate is now 7.4%, which is still the lowest Michigan's unemployment has been early in 2008.

This month's big economic news comes from Lansing in the form of the passage of a new minimum wage law. Historically, the minimum wage reached its peak in 1968 at \$1.60 per hour. That's \$10.61 in today's dollars. With the new legislation, the rate will raise from the current \$7.40 per hour to \$8.15 on September 1, and ratchet to \$8.50 in 2016, \$8.90 in 2017, and \$9.25 in 2018. Critics properly note that the increase will result in fewer people being hired and some workers in marginal industries simply being let go. The laws of economics cannot be defied. ANY increase in wages or salaries results in SOME increase in unemployment. However, it is nearly impossible to calculate the actual AMOUNT of the joblessness. For fast food workers in large chains, the impact will be negligible, because the added wage cost can be added the Big Mac with few customers even noticing the difference. It is the small, independent firms that operate on slim margins that will feel the biggest pinch. In a better economy even these firms can absorb and/or pass along the increase. Hence, with near record low unemployment rates in 2007, minimum wage increase passed that year had very little impact on unemployment. Today, our unemployment is

already high by historical standards, and the unemployment rate among the 18-25 age group is especially high. This is the group that will feel the biggest impact, both good and bad. The new wage rate will benefit some workers at the expense of others. One more rub for the minimum wage worker will come at tax time. The amount of the "earned income credit" will be reduced, and the tax refunds will be correspondingly smaller.

Another news item that received little attention comes from the recent elections in India. By 2028, India will be the largest country in the world by population, and as a result of the current political shift, may also become the country with the second or third largest economy. For the first time since 1948, a new political party has come to power that promises to change the way the country does business at all levels. If the potential reforms are successful, this could be the point at which India pivots toward a better business environment resulting in industrial expansion and more foreign investment. This could be as big as the 1984 revisions that unleashed the Chinese industrial capacity on the world markets. We'll see over the next few months and years where these revisions take the Indian economy.

Auto sales for May continue to be the driving force behind the Michigan recovery. According to the May report from AutoNews, car and light truck sales were up 11% for the month, partially because of pent-up demand because of the harsh winter, but primarily because of some strong incentive program during the Memorial Day time period to clear excess inventories.

Year to date, the industry sales are now up 5%, which is in line with expectations. For the Detroit Three, Chrysler gained of 1%, GM rose 13%, and Ford edged up by 3%. For the other major firms, Toyota gained 17%, Nissan rose 19%, and Honda edged up 9%. At least for right now, one of our local auto parts firms said that, "...there is no end in sight."

GDP and the way it is calculated gives us a broad average of the health of the economy. Like any average number, it can easily be as overly generalized. For instance, if there were such a thing as a weather index, it would take the form of averaging the current temperature, current precipitation, current wind speed, current UV coming from the sun, and perhaps the current humidity in order to make a single numerical statement about the current quality of the weather. It would make little sense. In this context, there has been a little stir in the economics community over this past month about the downward revision of the 2014 first quarter GDP. The reading of minus 1% is the lowest since a similar dip in the first quarter of 2011. Almost everyone agrees that the first quarter was heavily influenced by unusually bad weather for most of the nation, but not everyone agrees by how much. In our local survey of business conditions, given our positive numbers, we found the impact of the harsh winter to be fairly minimal for most firms. With the winter now past, the next three quarter of 2014 will be positive, but NOT at the annualized rate of 3.5% that some are forecasting. As our current data indicate, we are still in a pattern of SLOW growth.

May, 2014 COMMENTS FROM SURVEY PARTICIPANTS

"Finding good help is proving to be difficult."

"We're holding fairly steady, and waiting for some large orders to come to fruition."

"Business is steady, but not as good as the first quarter."

"The expected increase in auto demand has not materialized. Therefore, finished goods inventory is rising for us."

"We expect business to start to experience its traditional summer upswing in the coming months."

"Our capacity is constrained."

"Sales are up slightly. We are still trying to bring inventory levels down, so we are not increasing production or purchases."

"Business is up from the same time last year. However, the second quarter is not as busy as the first."

"Finally, a month with an uptick. Order entry for January, February, and March were all within a couple percent of each other. April finally shows an upturn. One large customer finally seems to have hit their stride for the year. Our number two customer is now reporting record orders on their books, which translates to higher order entry for us. They should remain strong through the summer."

"We are already starting to feel the effects of the annual summer boom."

"It is so busy out there that I am afraid that working with limited and over worked vendors is going to start taking a toll."

"Business is quite steady. We're not setting the world on fire, but staying busy."

"We're very busy, and it looks like it will stay that way."

"Steel prices have been up because of supply restraint, but will now likely will start a slow, slight decline due to falling iron ore cost. Chinese imports and the world price are lower than the US prices, largely because the economy is stronger in USA. Steel mills may file trade suits, but the outcome unknown if they do."

"Demand remains fairly steady for beef, but supplies are tight."

"Machine tool sales seemed to slow in the last few months. We are seeing discounts on machines as competition heats up."

"Our business is very stable at this point."

"The outlook for 2014 is very strong."

"We're meeting plan for 2014!!!"

"Work is available. We just have to win it."

"There's an interesting trend with large companies changing their headquarters to overseas locations to reduce taxes."

May, 2014 Survey Statistics

	UP	SAME	DOWN	N/A	May. Index	Apr. Index	Mar. Index	20 Year Average
Sales (New Orders)	27%	53%	7%	3%	+20	+40	+27	+29
Production	27%	53%	11%	9%	+16	+29	+20	+13
Employment	21%	72%	7%		+14	+13	+19	+ 8
Purchases	27%	53%	18%	2%	+ 9	+13	+19	+ 7
Prices Paid (major commod.)	18%	75%	2%	5%	+16	+ 7	+15	+35
Lead Times (from suppliers)	14%	85%		1%	+14	+20	+18	+11
Purchased Materials Inv. (Raw materials & supplies)	16%	58%	16%	10%	+ 0	+ 8	+13	- 5
Finished Goods Inventory	15%	62%	14%	9%	+ 1	- 7	+ 8	-10
Short Term Business Outlook (Next 3-6 months)	40%	52%	8%		+32	+35	+34	-
Long Term Business Outlook (Next 3-5 years)	52%	41%	3%	4%	+49	+44	+58	-

Items in short supply: Some steel, stampings, fabricated parts, salt, slag, stainless steel coil, stainless steel sheets, plastic components, responses from vendors.

Prices on the UP side: Steel, polypropylene, paraffinic oil, paper, hardwood for pallets, stainless steel, slag, salt, poplar & ash lumber, wood, wood panels, hardwoods, aluminum, freight, electronic components, hardware, nickel, carbon steel, steel sheet, resins, construction costs, 6061 stainless steel plate, instrumentation and measuring devices.

Prices on the DOWN side: Injection molded plastic, aluminum castings, plasticizer, polypropylene*, copper, imports from India, copper wire.

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

Latest Unemployment Reports

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

	Apr. 2014	Mar. 2014	Aug. 2009	20 Year Low
State of Michigan	7.3%	8.0%	14.8%	3.1%
Kent County	4.8%	5.6%	11.9%	2.1%
Kalamazoo County	5.6%	6.3%	11.1%	2.1%
Calhoun County	6.0%	7.0%	12.8%	2.7%
Ottawa County	6.0%	6.0%	13.3%	1.8%
Barry County	5.7%	7.0%	10.9%	2.2%
Kalamazoo City	7.8%	8.8%	15.2%	3.2%
Portage City	4.3%	4.9%	8.7%	1.3%
Grand Rapids City	6.8%	7.8%	16.1%	3.0%
Kentwood City	4.4%	5.1%	10.7%	1.4%
Plainfield Twp.	3.2%	3.7%	8.0%	1.4%
Holland City/Allegan	2.5%	2.8%	3.7%	0.9%
U.S. National Official Rate	6.3%	6.7%	9.7%	3.6%
U.S. U-6 Rate*	11.8%	12.8%	16.7%	8.0%

*U-6 for Michigan = 15.2% for first quarter of 2014

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 +20 for the month of May, 2014

Previous Month +40 for the month of April, 2014

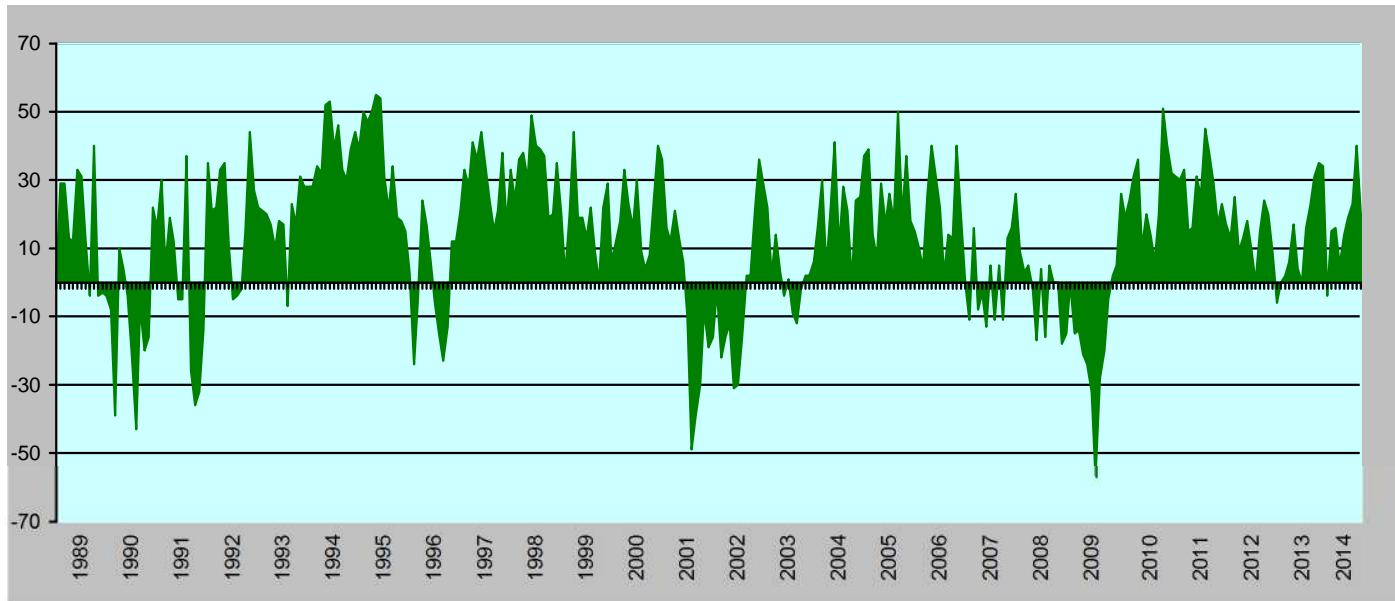
One Year Ago +35 for the month of May, 2013

Record Low -57 for the month of December, 2008

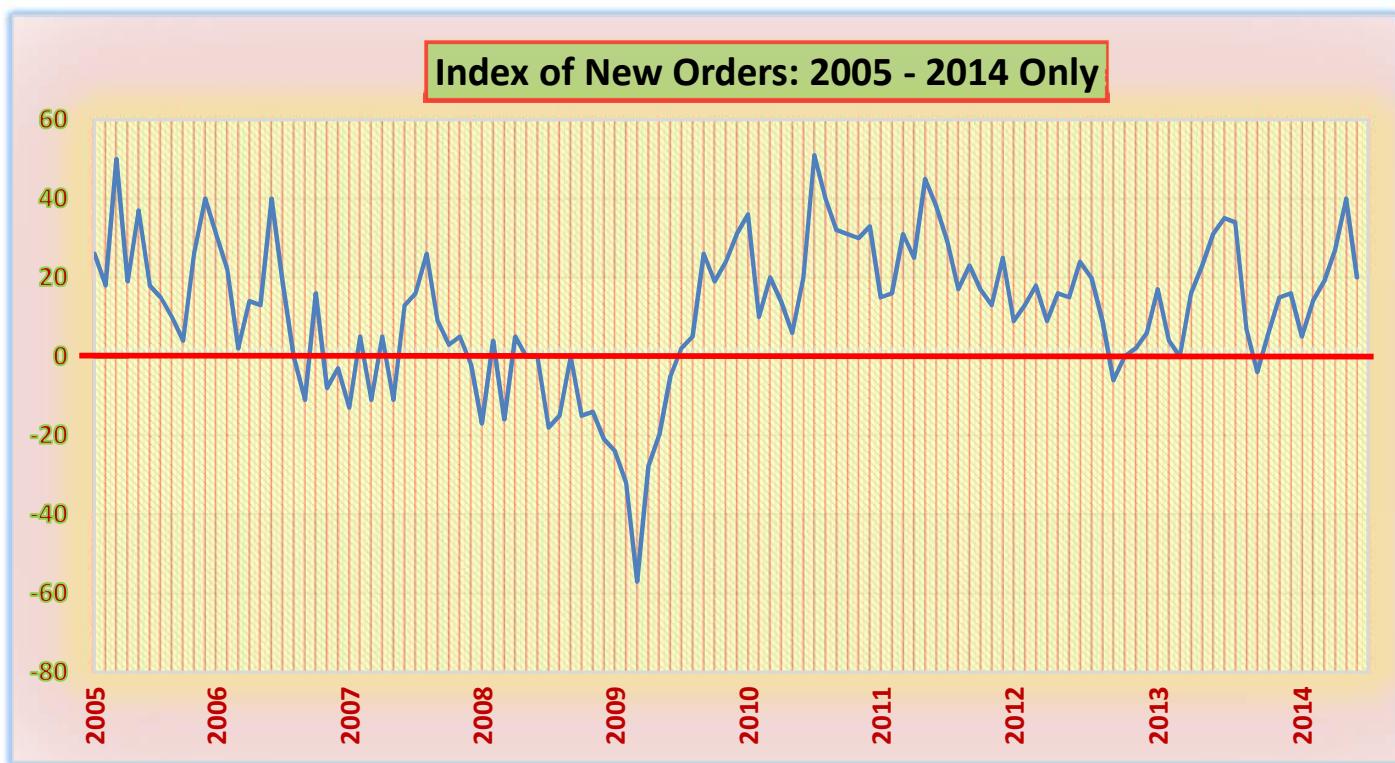
Record High +55 for the month of September, 1994

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 measures 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.

