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Current Business Trends

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West Michigan: Continued Slow Growth

Much as it has been for the past five years, slow growth continues to be the current trend in the West Michigan economy. According to the data collected during the last two weeks of July, 2014, NEW ORDERS, our closely watched index of business improvement, eased to +18, slightly slower than the +23 we reported last month. In a similar move, the PRODUCTION index tapered to +25 from +30. Purchasing office activity, our index of PURCHASES, remained unchanged at +19. The EMPLOYMENT index continues to remain stable and in double digits at +15, unchanged from June. Because of shifting demand patterns around the world, the index of LEAD TIMES jumped to +32, up sharply from +13. The comments from survey participants remain positive, but some denote a little more caution about the future.

For our individual industry groups, the pattern established in 2009 as the recession recovery began remains virtually unchanged. The automotive parts producers continue to provide much of the drive behind the recent economic growth, although some firms have clearly done better than others. Several are continuing to expand, while others prefer maintaining their present size. The office furniture business remains positive, although some of the smaller firms are currently outpacing their larger counterparts. On the balance, the industrial distributors had a very good month. It is only the capital equipment industry that appeared to be having some difficulties, although there is no evidence at this time that the weakness demonstrated by some firms is the beginning of a downward trend.

Fortunately, our statistics for business optimism are showing signs of stabilization after last month's unexpected drop. The SHORT TERM BUSINESS OUTLOOK index rose to +27, up nicely from last month's +21. However, the index for the LONG TERM BUSINESS outlook edged lower to +34, down from +36. Again, the level of pessimism for this index has grown considerably, given the +64 we reported less than a year ago.

At the national level, the August 1, 2014 press release from the Institute for Supply Management, our parent organization, reported the same pattern of slow growth that we have seen for many months. For June, ISM's index of NEW ORDERS remained unchanged at +15. The PRODUCTION index eased to +16 from +19. However, ISM's EMPLOYMENT index returned to double digit growth of +14, up from +9. With statistical manipulation, ISM's seasonally adjusted Index of Manufacturing advanced to 57.1, up from 55.3. ISM's Nonmanufacturing index also benefitted from statistical seasonal adjustments, rising to 58.7 from 56.0. However, NEW ORDERS and EMPLOYMENT for

the non-manufacturing survey actually declined in July, making the gains more statistical than actual.

The U.S. statistics from Markit.com, the British international economics consulting firm, reported slightly different results. Markit's overall index registered 55.8 in July, down from a 49-month high of 57.3 in June. Overall, the smaller firms (1-99 employees) bucked the trend and posted their strongest rise in sales and production since April, 2010. Because any index above 50.0 is still considered positive, the survey author noted, "The buoyant manufacturing PMI survey raises hopes that we will see another quarter of strong economic growth in the third quarter."

At the international level, J.P. Morgan's Global Manufacturing PMI eased modestly to 52.5 from 52.6. Although countries like the U.S., the U.K., Canada, Ireland and Taiwan are posting acceptable levels of growth, laggards like France, Brazil, Greece, and Turkey continue to drag the averages down. Uncertainty over the supply of natural gas from Russia has caused many firms to hesitate regarding future expansion. Most of Europe has very little natural gas in storage, and even a small reduction in supply could create an economic panic.

China. Any significant decline in the world's second largest economy could easily spell trouble for the rest of the world. In the past months, we have kept a close watch on the softer numbers coming from several sectors of the Chinese economy. Although questions still remain about the status of housing loans speculating in the unregulated "shadow" banking system, the industrial sector has now returned to slow growth, at least according to the latest HSBC purchasing manager's report. Although the June PMI only came in at 51.7, June is the third successive month above the 50.0 break-even point. Fortunately, the economic gurus in China, most of whom were trained at Harvard, Stanford, and University of Chicago, have significant influence regarding government policy. Some of the stimulus programs appear to be working, and manipulation of the valuation of the currency has helped to keep exports competitive with the rest of the world. In fact, new export orders for June grew at the second best rate in four years. The China economic crisis may not be completely over, but the signs are clearly more positive than they were just a few months ago.

GDP is back in the news again. According to the "advance" estimate released by the Bureau of Economic Analysis, the Gross Domestic Product -- the output of goods and services produced by labor and property located in the United States -- increased at an annual rate of 4.0 percent in the second quarter of

2014. For the first quarter of 2014, the Federal Reserve posted another one of its infamous revisions, and reported that the drop in GDP has been revised to minus 2.1 percent, up from minus 2.9 percent, but down from the earlier estimate of minus 1.0% and considerably below the first estimate of a positive 0.1 percent. All of these recalculation, revisions, and adjustments, when the variations are this great, undermine the credibility of GDP as a premiere measure of economic activity.

On July 30, Mike Dunlap released his quarterly survey of the office furniture industry. He noted that, "The industry continues to move on a very steady and improving trend line." The Overall Survey Index came in at 55.62, up considerably from the 54.6 index reported for the previous quarter. In the survey's ten year history, the highest recorded Index was 59.72 in July 2005 during the economic boom, and the lowest 41.45 in April 2009, the pit of the Great Recession. Just like the diffusion index used in our report, the break-even point is 50.0. Hence, the survey also depicts slow, steady growth. Mike Dunlap further commented, "We are confident that the industry is still on course to achieve its best year in more than a decade."

U.S. auto sales for June rose 9%, about what prognosticators had forecast. Relaxation of lending standards and the rise in consumer confidence were cited as reasons for the strong performance. For the first seven months of 2014, sales are up 5%, which also

corresponds with projections posted at the end of 2013. The SAAR rate, a.k.a., the Standardized Adjusted Annual Rate, eased to 16.5 million cars, down from the 17.0 million reported last month. As always, a rise in SUV sales is often driven by a drop in the price of gasoline. About 14% of this month's gain came from the sale of light trucks, SUVs, and crossovers, while car sales rose a more modest 5%. Among the major brands, Chrysler rose 20%, Ford 10%, GM 9%, Toyota 12%, and Nissan 11%. Honda declined by 4%, as did Volkswagen by 6%. For West Michigan, all of these numbers bode well for our numerous auto parts suppliers, and several are reporting that parts production for the 2015 model year is now in full swing.

As August and the third quarter of 2014 unfolds, most of our anxiety continues to be focused on the world's geopolitical uncertainties. An expanded war in Israel or an escalation of the Russian invasion into the Ukraine could reverse most of the economic gains we have made in the last few years. The rise of ISIS in Iraq may soon result in the overthrow of the Iraqi government, and the resulting disruption to the world's oil supply could jack up the cost of energy. We are naive if we think that any of these problems are out of the realm of possibilities. Meanwhile, slow growth continues in West Michigan. But then, growth is still growth.

JUNE 2014 COMMENTS FROM SURVEY PARTICIPANTS

"We're busy."

"Our industrial business, specifically machine tool operations, is slowing down significantly."

"We are living in interesting times."

"We are very busy. It looks like this will continue into the fall."

"We are expecting lower sales projections for the third and fourth quarter."

"Auto business is a bit soft now along with furniture, but both expect positive growth in the second half."

"The automotive industry is amazingly strong."

"We are BUSY!"

"Hiring new staff starting to become a challenge."

"We are steady on quotes and orders. Lead times on machining are starting to move out."

"We continue to do well and expect more of the same for the continued near future."

"We had an approximate 5% sales increase over last month, with increasing new orders. Our typical automotive August ramp-up is apparently a few weeks early this year."

"Internationally sourced purchase items are being delayed in transit due to the possible strike on the West Coast leading to longer lead times."

"I'm holding my breath waiting to see how the resin market will react to the record high benzene prices."

"Busy trying to get everything done before the snow files."

"Business continues to be strong."

"We had a very strong June, but July has softened by 20%. We're hoping to rebound in August!"

"Very busy, with lots of activity in sales. We're currently booking the first quarter of 2015."

"We now have a streak going. June was awesome. After a 16% rise in May, we had a 20% rise in June, for a very strong quarter. July, as usual, looks down, but not terrible."

"Our company recently completed a reorganization."

July 2014 Survey Statistics

	UP	SAME	DOWN	N/A	July Index	June Index	May Index	20 Year Average
Sales (New Orders)	36%	42%	18%	4%	+18	+23	+20	+29
Production	36%	45%	11%	8%	+25	+30	+16	+13
Employment	23%	69%	8%		+15	+15	+14	+ 8
Purchases	30%	56%	11%	3%	+19	+19	+ 9	+ 7
Prices Paid (major commod.)	21%	70%	4%	5%	+17	+ 6	+16	+35
Lead Times (from suppliers)	33%	66%	1%		+32	+13	+14	+11
Purchased Materials Inv. (Raw materials & supplies)	22%	62%	11%	5%	+11	+14	+ 0	- 5
Finished Goods Inventory	16%	66%	12%	6%	+ 4	+ 0	+ 1	-10
Short Term Business Outlook (Next 3-6 months)	36%	55%	9%		+27	+21	+32	-
Long Term Business Outlook (Next 3-5 years)	40%	52%	6%	3%	+34	+36	+49	-

Items in short supply: Nickel based products, .190 6061 sheet and .250 6061 plate, labor, surfactants, hydrochloric acid, some steel, nickel metal anodes, nickel metal powder, stainless steel sheets, electronic components, pallets, corrugated, salt, qualified contractors, funding, casted parts, electrical transducers, good platers.

Prices on the UP side: Steel, stainless steel, polypropylene, nickel based products, 6061 aluminum, aluminum, PET resin, paper, film, hydrochloric acid, PVC resin, polypropylene, raw materials, oils, lubricants, soaps, hardware, aluminum extrusions, electronic components, freight costs, lumber (ash, maple, poplar), pallets, commodity related components, carbon steel (5-8%), salt, asphalt, Chinese parts (due to currency).

Prices on the DOWN side: Lumber*, caustic soda, copper, sodium hypophosphite, paper*, steel (slightly),* foam, computers, monitors, DC motors, gasoline, wages, carbon steel*, scrap steel, fuel, uniform services.

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

Latest Unemployment Reports

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

	June 2014	May 2014	Aug. 2009	20 Year Low
State of Michigan	7.5%	7.3%	14.8%	3.1%
Kent County	5.6%	5.2%	11.9%	2.1%
Kalamazoo County	6.5%	6.1%	11.1%	2.1%
Calhoun County	6.7%	6.3%	12.8%	2.7%
Ottawa County	5.8%	5.3%	13.3%	1.8%
Barry County	5.5%	5.3%	10.9%	2.2%
Kalamazoo City	9.0%	8.5%	15.2%	3.2%
Portage City	5.0%	4.7%	8.7%	1.3%
Grand Rapids City	7.8%	7.3%	16.1%	3.0%
Kentwood City	5.0%	4.7%	10.7%	1.4%
Plainfield Twp.	3.7%	3.4%	8.0%	1.4%
Holland City/Allegan	2.4%	2.3%	3.7%	0.9%
U.S. National Official Rate	6.1%	6.3%	9.7%	3.6%
U.S. U-6 Rate*	12.6%	11.8%	16.7%	8.0%

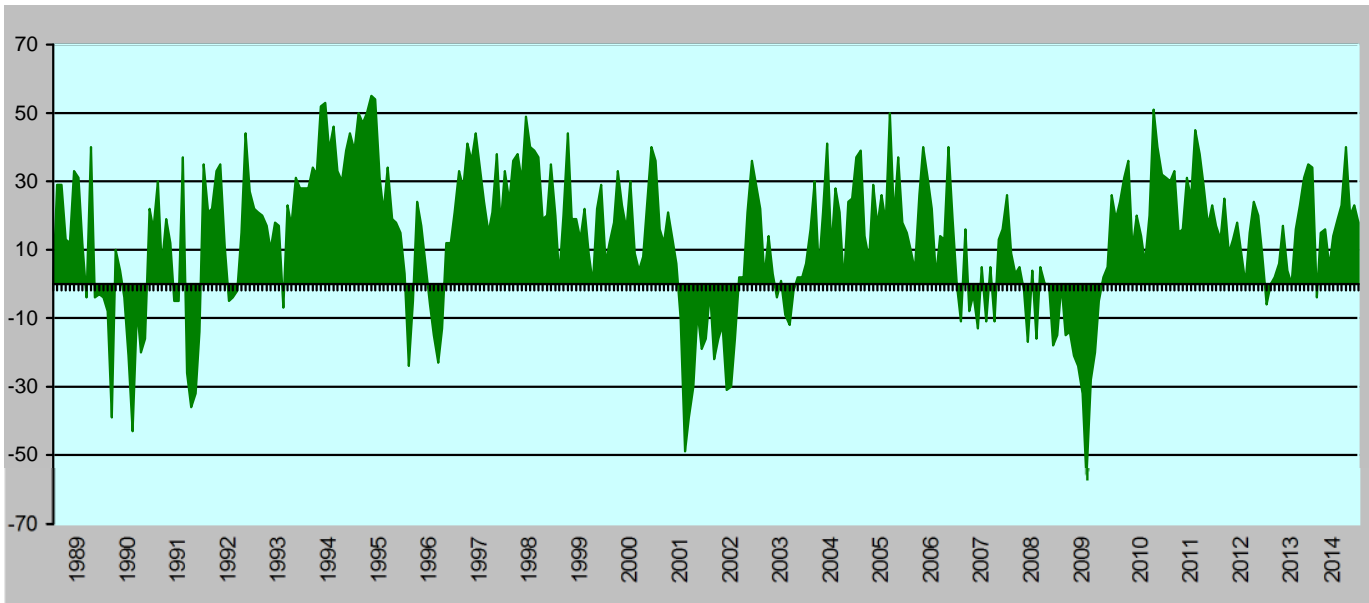
*U-6 for Michigan = 14.7% for second quarter of 2014

Index of New Orders: West Michigan

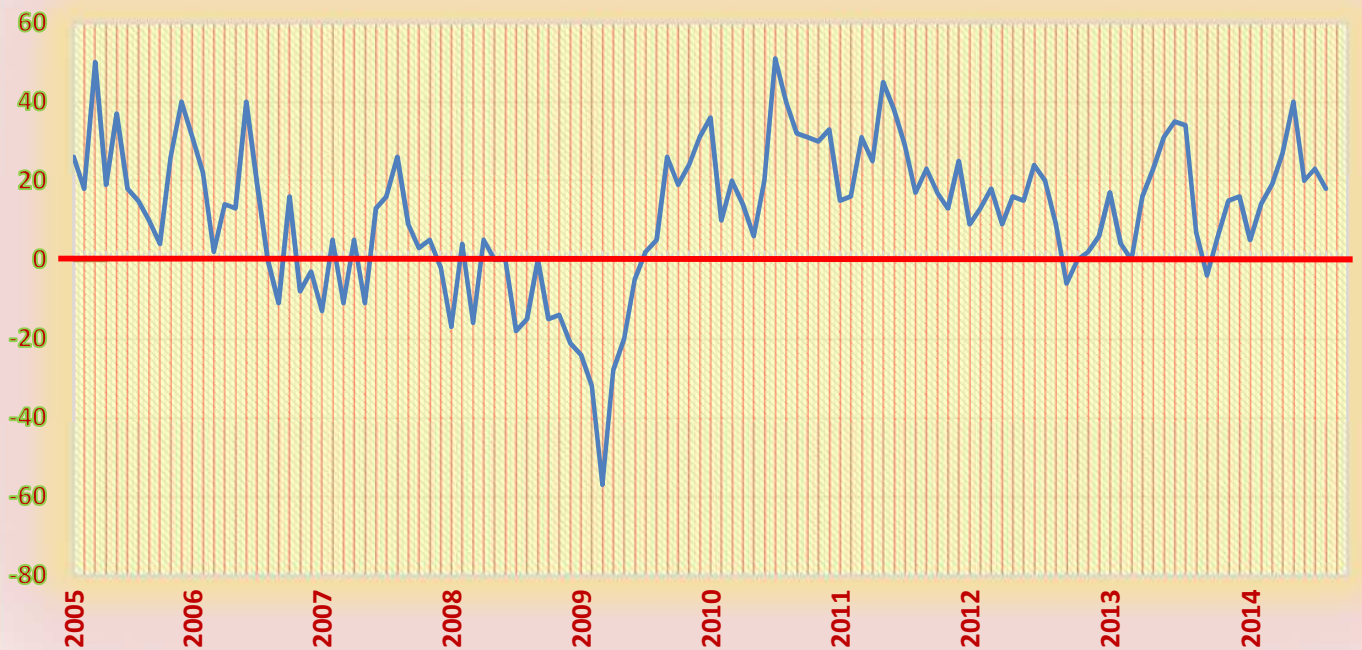
As the name implies, this index measures new business coming into the firm, and signifies business improvement or business decline. When this index is positive for an extended period of time, it implies that the firm or organization will soon need to purchase more raw materials and services, hire more 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	+18 for the month of July, 2014
Previous Month	+23 for the month of June, 2014
One Year Ago	+ 7 for the month of July, 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

ISM-West Michigan Index of New Orders 1988 - 2014



ISM-West Michigan Index of New Orders: 2005 - 2014 Only



ISM-West Michigan Index of Employment:

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.

