



Institute for Supply Management,

Greater Grand Rapids, Inc.

P. O. Box 230621

Grand Rapids, MI 49523-0321

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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: Growth Slows for the Summer

Like many years in the past, the August rate of economic growth, which has already been slow, remained positive but came in a little slower. According to the data collected during the last two weeks of August, NEW ORDERS, our index of business improvement, eased to +9 from +18. The summer vacations and more relaxed work pattern of August mean that some major purchase decisions tend to be put off until September or October. The PRODUCTION index remained strong at +22, although slightly tapered to +22 from +25 in July. Because of the season, activity in the purchasing office, our index of PURCHASES, eased to +5 from +19. This month's pleasant surprise is the EMPLOYMENT index, which rose to a 16 month high of +26, up from +15. The index of LEAD TIMES remains high at +29, but slightly improved from last month's +32. The comments from survey participants remain positive, but some firms are now in a wait-and-see mode regarding the future direction of the economy.

For our individual industry groups, the automotive parts producers are in full swing for the 2015 model year, although a couple express reservations about production schedules for early 2015. The office furniture business remains positive, but just like last month, the smaller firms are outpacing the larger "integrated" firms. August is usually an off month for the industrial distributors, so it was good to see that most firms reported business to be fairly steady this year. The capital equipment industry is marking time until fall "decision" season kicks in. Overall, there is no single industry this month at is a superstar, which corresponds with the single digit growth rate in our NEW ORDERS index.

Our statistics for business optimism continue to show stabilization, although August resulted in a little shifting around. The SHORT TERM BUSINESS OUTLOOK index eased to +20, down from +27. However, the index for the LONG TERM BUSINESS outlook posted a modest increase to +42, up from +34. Unfortunately, the level of optimism for this index has retreated considerably in recent months, 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 a considerable improvement in manufacturing business conditions. ISM's index of NEW ORDERS jumped to +24, up considerably from last month's +15. The EMPLOYMENT index remained in double digit growth, but eased slightly to +13 from +14. ISM's seasonally adjusted Index of Manufacturing registered 59.0, an increase of 1.9 percentage points from July's reading of 57.1, indicating continued expansion in manufacturing. This month's index reflects the highest reading since March

2011. The ISM Nonmanufacturing Index also benefitted from statistical seasonal adjustments, and rose to 58.7 from 56.0, the highest the index has been since January of 2008. For the actual "unadjusted" numbers, the BUSINESS ACTIVITY, NEW ORDERS, and EMPLOYMENT indexes were all slightly lower.

The U.S. statistics from Markit.com, the British international economics consulting firm, also reported a strong performance for August. Markit's overall index jumped to a four year high of 57.9, up considerably from 55.8 in July, and slightly ahead of the 57.3 recorded in June. Despite plenty of trouble in Europe, Markit's index of NEW EXPORT ORDERS came in at a three year high. Writing from his London office, the survey author notes, "Impressive new business and output gains were matched by a solid rebound in employment growth. The latest survey points to the fastest upturn in payroll numbers for around a year and a half, highlighting that the manufacturing sector continues to have a positive impact on overall labor market condition."

At the international level, a mixed picture is evolving. J.P. Morgan's Global Manufacturing PMI edged up modestly to 52.6 from 52.4. However, the Eurozone manufacturing sector lost further growth momentum in August. Markit's Eurozone PMI hit a 13 month low of 50.7. The survey author notes, "Although some growth is better than no growth at all, the braking effect of rising economic and geopolitical uncertainties on manufacturers is becoming more visible." Ireland, Spain, and German remain positive, but other major economies such as France and Italy are pulling the averages toward the 50.0 break-even point. Growth in countries outside of Europe such as Taiwan, Canada, and the U.S. are helping to keep the world economy modestly positive. China continues to try to unwind a myriad of economic problems, but at a PMI of 50.2, business conditions are still slightly positive. However, the geopolitical uncertainty over the supply of natural gas from Russia will remain a damper on European growth until the political situation can be resolved.

Some of the other economic news has raised some concerns. Since our last report, considerable attention has been given to the second quarter GDP drop in Europe. With considerable evidence that the financial crisis of a couple years ago is now abating, questions have been raised that the recovery has stalled. Germany's economy, Europe's largest growth engine, shrank for the first time in over a year. Growth for the other major player such as Italy and France continues to be flat with no significant sign of impending improvement. Some analysts have tried to attribute the economic softness to the weather, but most say that the biggest worries continue to relate to the ongoing Russian/Ukrainian conflict and the potential

consequences of additional escalation. Russian gas accounts for 37 percent of the usage in Germany and 16 percent in France. None of the European countries have any significant natural gas storage, meaning that Russia could create economic Armageddon by simply turning off the export valve.

Much as we expected, auto sales for August have continued to plateau. Among the major brands, Chrysler rose 20%, but Ford flattened to 0%, and GM was actually down by 1%. For the transplant companies, Toyota sales rose 6%, Nissan 12, and Hyundai 6%. Honda remained flat, but Volkswagen declined 2%. For the first eight months of this year, overall auto sales for the industry are up 5%. It is worth repeating that the plateauing of auto sales at the current level should be regarded as a positive trend. In a recent article in "Automotive News," the president of Honda blasted the current industry practices of excessive cash incentives, lowering lending standards and selling more cars to rental companies just to boost current sales. To quote Mr. Mendel, "You are not only pulling sales forward, you're probably pulling people out of used cars into a new car they can't afford." Hence, his message is starting to resonate. At the current level of sales, the major auto firms are all

profitable, as are the major automotive supplier. For West Michigan, a major portion of our economic recovery has been based on the revival of the auto industry. The obvious caution is that we cannot expect too much more dynamic growth from this segment of the economy, and need to focus attention on other industries for future growth.

Although there is no end in sight for continued positive growth in West Michigan, it is worth repeating what we have said for the past ten years: Should a significant terrorist attack occur on American soil, the confidence of our country would be so shaken that we would probably slide into a recession. Unfortunately, there has been a lot of buzz in the intelligence community that a major attack may soon be coming. Unlike other terrorist attacks like the shoe bomber or the Boston bomber, the next attack will probably be a coordinated at several locations. It could be subway bombers. It could Stinger missiles taking out airliners. Given that the former Soviet Union cannot account for about 15% of their atomic warheads, it could be a dirty bomb. Our power grid is **very** vulnerable. Although all of this is only cautionary at this time, it constitutes a considerable economic threat that cannot be disregarded.

August 2014 COMMENTS FROM SURVEY PARTICIPANT

"Sales have been equal to July, but behind our sales plan for August."

"Business is strong. We do not foresee a softening anytime soon."

"Industrial markets are slowing down considerably."

"Machine tool sales have gone up a little last month. We expect sales to go up a bit more next month as IMTS (International Manufacturing Technology Show) will be held in Chicago in September."

"Our business continues to be strong, especially in new Servo technology, because of its versatility."

"Lots of quoting activity, and future business looks good. We are currently booking for next year's work."

"Steady as she goes!"

"July was up from a great June. It looks like the weakest month of the summer will be August, but we still have a week to go."

"It's a relatively flat market for us. This is not necessarily a bad thing since we are busy. I don't anticipate an increase in business in the near term."

"A consistent, solid demand expected through October of this year."

"Optimism and growth continue. Managing steady and controlled growth will be the key."

"All is well."

"We will be hiring additional temp workers next month to keep up with the increasing sales and attrition of the workforce."

"We're working on the 2015 budget year, and with an election year, who knows where the transportation budget will end up?"

"For us, flat is the new norm."

"Business continues to be strong. We continue to work with incoming schedules reflecting small amount of growth in 2014."

"Michigan is back!"

"Polypropylene suppliers are increasing pricing outside of the index. I am hearing that the PP index could close very high this month."

"It's getting more difficult to find manufacturing help."

"We see no changes quarter over quarter."

"The market appears to be strong right now."

"Corrugated pricing has stayed very consistent for several months."

"We're still very busy, and opening a new facility. We're doing well."

"Business is still very strong."

"We are very busy, and things look like it will stay that way through the end of the year."

"So far this year we are just hanging on. New orders have leveled off, and they are not going up or down. If the Economy is booming, we are certainly not feeling it!"

"A slight lull in new orders is helping us to get caught up with our backlog."

"Sales are a little soft, but on track for budget."

"Lead times getting longer for some items."

August 2014 Survey Statistics

	UP	SAME	DOWN	N/A	Aug. Index	July Index	June Index	20 Year Average
Sales (New Orders)	29%	48%	20%	3%	+ 9	+18	+23	+29
Production	26%	51%	14%	9%	+12	+25	+30	+13
Employment	29%	67%	4%		+25	+15	+15	+ 8
Purchases	19%	67%	14%		+ 5	+19	+19	+ 7
Prices Paid (major commod.)	14%	80%	3%	5%	+11	+17	+ 6	+35
Lead Times (from suppliers)	30%	69%	1%		+29	+32	+13	+11
Purchased Materials Inv. (Raw materials & supplies)	23%	62%	9%	6%	+14	+11	+14	- 5
Finished Goods Inventory	14%	58%	19%	9%	- 5	+ 4	+ 1	-10
Short Term Business Outlook (Next 3-6 months)	29%	63%	9%		+20	+27	+21	-
Long Term Business Outlook (Next 3-5 years)	44%	52%	1%	3%	+43	+36	+49	-

Items in short supply: Hot rolled steel, glass, salt, construction contractors, truck load shipments, manual labor , employees, versatile indicators/meters, some greases, electronic components, molded plastic parts, skilled CNC machinists and welders.

Prices on the UP side: Steel (hot rolled, cold drawn, and carbon), packaging, resins, polypropylene, plasticizer, PVC resin, stainless steel, salt, bituminous, sand, chlorides, aluminum, specialty grease, steel sheets, stainless steel sheets, aluminum sheets.

Prices on the DOWN side: Copper, cable, paraffinic oil, fuel, powder paint, resin.*

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

Latest Unemployment Reports

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

	July 2014	June 2014	Aug. 2009	20 Year Low
State of Michigan	8.6%	7.5%	14.8%	3.1%
Kent County	6.3%	5.6%	11.9%	2.1%
Kalamazoo County	6.9%	6.5%	11.1%	2.1%
Calhoun County	7.4%	6.7%	12.8%	2.7%
Ottawa County	6.4%	5.8%	13.3%	1.8%
Barry County	6.2%	5.5%	10.9%	2.2%
Kalamazoo City	9.6%	9.0%	15.2%	3.2%
Portage City	5.3%	5.0%	8.7%	1.3%
Grand Rapids City	8.8%	7.8%	16.1%	3.0%
Kentwood City	5.7%	5.0%	10.7%	1.4%
Plainfield Twp.	4.1%	3.7%	8.0%	1.4%
Holland City/Allegan	2.7%	2.4%	3.7%	0.9%
U.S. National Official Rate	6.2%	6.1%	9.7%	3.6%
U.S. U-6 Rate*	14.3%	12.6%	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 +9 for the month of August, 2014

Previous Month +18 for the month of July, 2014

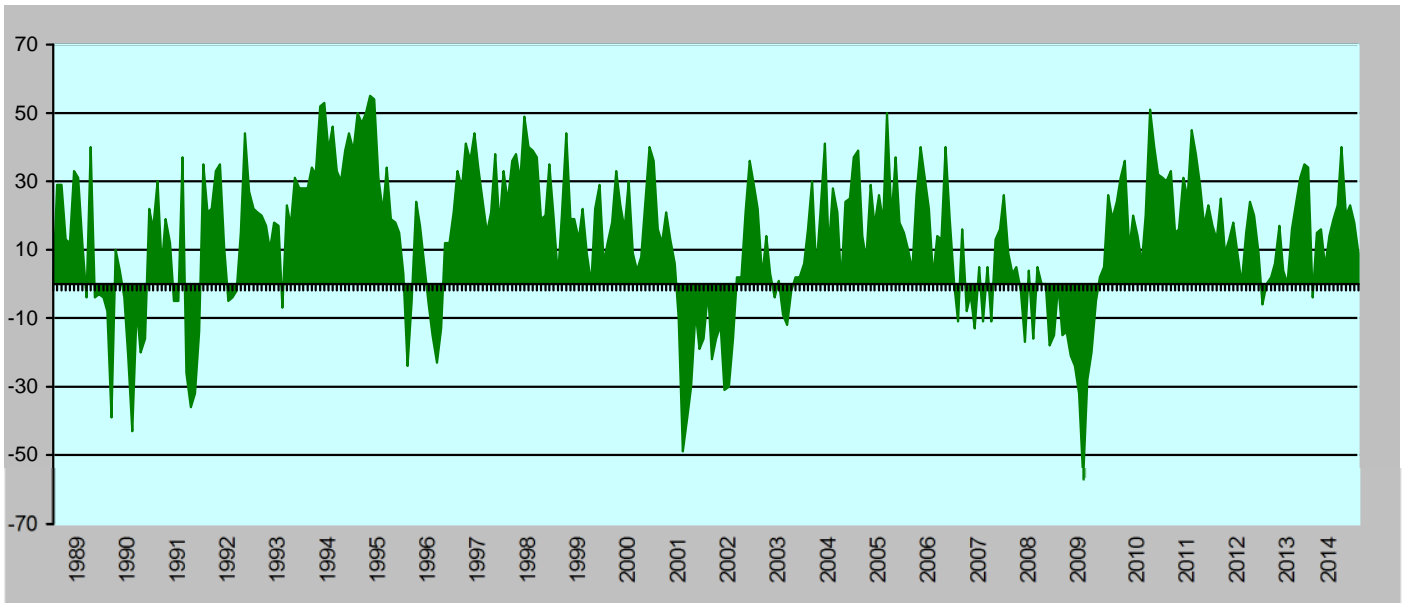
One Year Ago - 4 for the month of August, 2013

Record Low -57 for the month of December, 2008

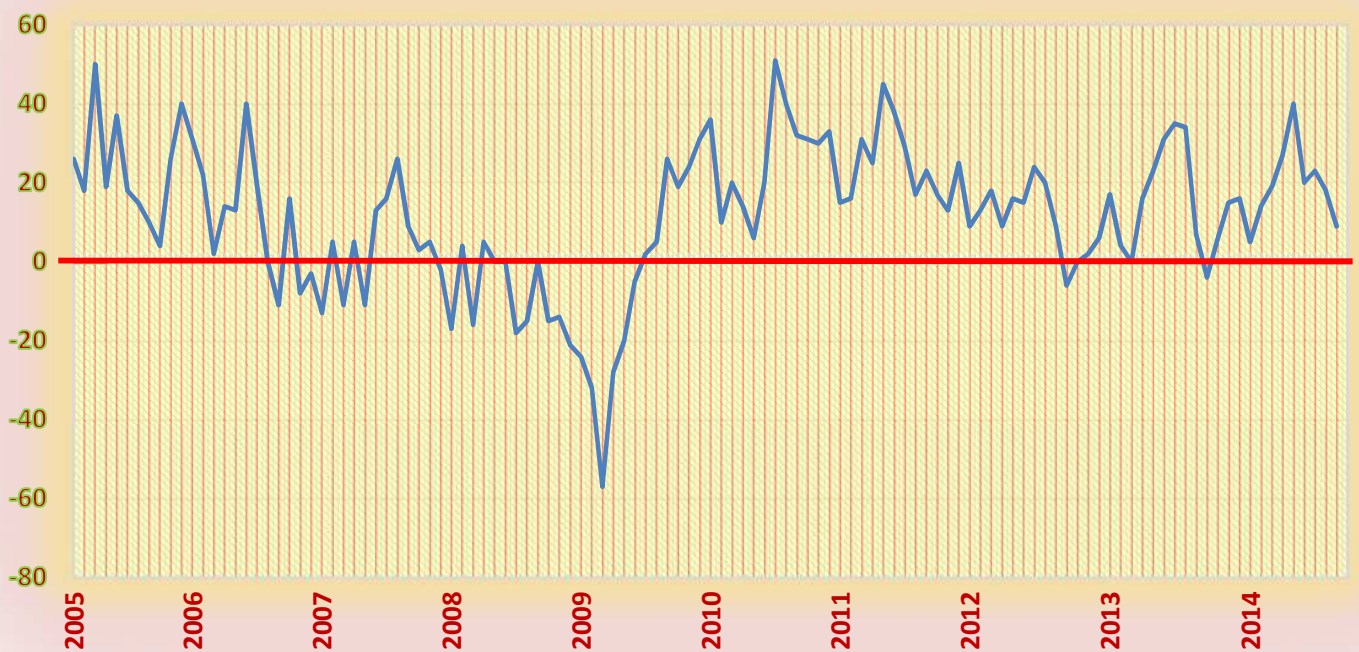
Record High +55 for the month of September, 1994

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.

