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## News Release (For Immediate Release)

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### Current Business Trends

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#### West Michigan: Growth Jumps Higher

September is always one of those back-to-work months, and this year was no exception. According to the data collected during the last two weeks of September, our closely watched index of NEW ORDERS jumped to +27, up convincingly from August's +9. The PRODUCTION index rose to +29 from +22, which also constitutes a respectable gain. Activity in the purchasing office, our index of PURCHASES, edged up to +14 from +5. However, the "star" of this month's report is the EMPLOYMENT index, which rose to a three year high of +34, up from +26. As noted among some of the comments from the survey participants, some of our firms are starting to beg for qualified workers. The index of LEAD TIMES moderated to +18, down considerably from +29, although several respondents still noted delivery difficulties with a few key commodities. The general comments from survey participants remain positive, and some respondents seemed a little more upbeat than in previous months.

Looking at our individual industry groups, it is worth noting that none of our industries are currently experiencing any significant difficulties. The automotive parts producers are still in full swing for the 2015 model year. The office furniture business remains positive, and actually showed a little more strength in September than in previous months. August was good for the industrial distributors, but so was September. For the capital equipment firms, the usual fall uptick appears to be taking hold.

Reflecting the stronger statistics, our indexes of business optimism improved modestly in September. After falling slightly last month, the SHORT TERM BUSINESS OUTLOOK index edged up to +26 from +20. However, the September index for the LONG TERM BUSINESS OUTLOOK posted another increase to +51, up from +42, which was up from +34 in July. We still have no real explanation for the summer slump in this index, or what all the factors are that resulted in the shift in perspective for these past two months. But better is better, and we hope the trend continues.

At the national level, the October 1, 2014 press release from the Institute for Supply Management, our parent organization, was not as strong. ISM's index of NEW ORDERS backtracked to +15, down from +24, which is somewhat atypical for "back to work" September. The same comment could be implied about the EMPLOYMENT index, which backtracked to +6 from +13. ISM's seasonally adjusted Index of Manufacturing came in at 56.6, down considerably from the lofty 59.0 registered last month. The Non-Manufacturing Index posted a smaller drop, falling to 58.6 from 59.6.

The U.S. statistics from Markit.com, the British international economics consulting firm, also reported moderation in September. Markit's overall index eased to 57.5, down slightly from 57.9. The PRODUCTION

index remained near a three year high. The EMPLOYMENT index jumped to a thirty month high and was picked up by some Wall Street economists as evidence that that the U.S. employment statistics should reflect the improvement. The survey author further notes, "Recent months have also seen a welcome revival in U.S. export growth, suggesting trade should also help boost the economy in the third quarter. GDP looks set to grow by at least 3.0% in the third quarter, with good momentum being sustained as we move into the final quarter of the year."

Other economic news over this past month has been zigzag. GDP for the second quarter was revised upward to 4.6%, but most of the gain from the second quarter is still regarded as an offset to the snow-bound negative first quarter. Consumer confidence fell. Durable goods orders were also much lower than the previous month, but most of the drop was attributed to a sharp drop in aircraft sales. The Dow Jones average slipped below its 50 moving average, but analysts were expecting a correction anyway, and are putting a positive spin on the self-correcting nature of the financial markets.

At the international level, J.P. Morgan's Global Manufacturing PMI for September edged slightly lower to 52.2 from 52.5. The Eurozone manufacturing sector continued to lose ground, and the overall index slipped to 50.3 from 50.7. Germany, Austria, and Greece fell back below the 50.0 neutral mark. Only the strong numbers from Ireland and the Netherlands prevented the Eurozone index from turning negative. The main problem, of course, is that there is no end in sight to the flattening European economy.

In a recent survey of 200 key economists around the nation, most are fairly confident about the continued recovery of the U.S. economy. Their overwhelming concerns are about the OTHER major economies around the world. However, our two largest trading partners, Canada and Mexico, are not perceived to be problems AT THIS TIME. In fact, exports to both of these countries are on the rise. The PMI for Canada came in at 53.5, and Mexico posted a respectable index of 52.6. The major concerns are therefore centered on Europe, Brazil, China, South Africa, Russia, Turkey, and any of the other countries recently in the news.

Germany, of course, remains the linchpin in the European economy, and now the PMI growth rate has slipped below the 50.0 mark and may turn even more negative in the next few months. What has gone wrong? Several things. First, the U.S. business community continues to underplay the tension between Russia and the Ukraine. No definitive agreement has been reached regarding how to further carve up the Ukraine to satisfy the Russians. In 25 years, German businesspeople are not that far removed

from the tensions of the cold war, and there are political segments in the old East Germany that would like to see the former Soviet Union return. For businesspeople, this is unsettling. A second factor relates to the sharply rising cost of electric power. To appease the Green Party, the government has permanently shut down eight of its 17 reactors and pledged to close the rest by the end of 2022. In 2010, about 22% of Germany's electric power WAS nuclear. About a quarter of Germany's power now comes from renewable sources. However, except for hydroelectric, none of these renewables come cheap. Furthermore, for MOST of Germany, the electricity still comes from coal, and the plan to build an additional 26 new coal-fired generation facilities is obviously controversial, given the desire to become "energy green." The bottom line: The cost of electric power is rising rapidly, and industries that require large amounts of electric power are now no longer competitive with the world marketplace.

Auto sales for September were 9% higher, and overall sales for the first nine months of 2014 have now

recorded a 6% gain. Among the major brands, Chrysler rose 19%, but Ford declined by 3%, and GM turned in one of its best months this year by gaining 19%. For the transplant companies, Toyota sales rose 2%, Nissan 19%, and Hyundai 4%. Honda had a good month, gaining 12%, but the troubled Volkswagen sales fell by 7%. For West Michigan, it is worth repeating that a major portion of our economic recovery has been based on the revival of the auto industry. We continue to hope that auto sales will plateau and not expand into a proverbial bubble.

There has been some stir about Ford Motor Company deciding to move the headquarters for the Lincoln Division to New York City. Although the move has raised some concerns, the economic impact for Michigan is virtually nil. We need to remember that Ford made a similar move in the late 1990s by moving Lincoln to Orange County in California, only to move back to Michigan a few years later. The bottom line is simple: The number of people actually moving to New York will total less than 75. For Michigan, such a move turns out to be more psychological than financial.

## September 2014 COMMENTS FROM SURVEY PARTICIPANT

““We are up approximately 5% over last month, though slightly behind our sales plan.”

“Business is steady and growing.”

“Polypro suppliers are trying to increase prices outside of the indexes. NOT GOOD!”

“We just attended the IMTS (International Manufacturing Technology Show) at Chicago's McCormick Place. The show was well attended and we won several orders. Things are picking up in the near term.”

“Business has been very good and certainly should remain solid for foreseeable future. Hiring is up significantly. We are thriving.”

“Despite the increased costs of fuel, materials and equipment and the lack of transportation funding, our organization strives to provide, to the best of our ability, a safe, reliable and efficient network.”

“Sales are less than forecast, inventories are up, and projected sales to end of year are expected to be softer than plan.”

“PEOPLE. We are continue to try to hire good, quality employees. It is a constant struggle. The upcoming Job Fair to hopefully identify new employees.”

“Sales have started to pick up after years of a slow decline. Hopefully this uptick in sales will last!”

“Business is generally steady. Labor (especially manual workers) are tough to find, but professionals are also difficult to find.”

“Metal markets are a bit volatile at the present, and are expected to be in the future. Thus, we have aggressive efforts by Supply Chain Team to 'lock down' contracts for the next year.”

“Business 101: Smaller order quantities drive higher prices.”

“Sales are very strong, but maintaining inventory levels on Finished Goods is a challenge.”

“Our year-end business is starting to hit.”

“We're now hiring some temporary workers.”

“Through negotiation and leveraging growth, we are decreasing raw material costs.”

“Carbon hot roll price increases from the mills are continuing to come through.”

“Business remains steady.”

“Business has been very steady for the last several months. Not extremely busy, but steady.”

“We are extremely busy, especially with newer, “high tech” item inquiry items.”

“A new MRP system is kicking our back sides at this time.”

“Durable goods orders are strong.”

“Business is good, but has slowed some from earlier this quarter.”

“Business this month has been a slight pause, but we see strong demand in the next quarter.”

“August was down 12% from July. It would appear that September will be on pace about equal to August. I detect a slight slowdown. We will end the third quarter down from the second. Business is still good.....just not AS good as May and June.”

“Industrial purchases are still very slow in delivery, with compressed lead times demanded as a result.”

“Quarter inch 6061 aluminum plate from mill has been hard to come by at least until the first quarter of next year.”

“We anticipate a solid fourth quarter 2014.”

“We have lots of nice quoting opportunities taking place for future work.”

“We have capacity constraint due to a fabricator shortage.”

“A few key suppliers have experienced delivery delays. However, this appears to be 'supplier' related and not 'commodity' relate

# September 2014 Survey Statistics

	UP	SAME	DOWN	N/A	Sept. Index	Aug. Index	July Index	20 Year Average
Sales (New Orders)	41%	42%	14%	3%	+27	+ 9	+18	+29
Production	40%	42%	11%	7%	+29	+12	+25	+13
Employment	37%	60%	3%		+34	+25	+15	+ 8
Purchases	26%	61%	13%		+14	+ 5	+19	+ 7
Prices Paid (major commod.)	15%	78%	3%	4%	+12	+11	+17	+35
Lead Times (from suppliers)	19%	80%	1%		+18	+29	+32	+11
Purchased Materials Inv. (Raw materials & supplies)	14%	64%	15%	7%	- 1	+14	+11	- 5
Finished Goods Inventory	19%	56%	18%	7%	+ 1	- 5	+ 4	-10
Short Term Business Outlook (Next 3-6 months)	30%	66%	4%		+26	+20	+27	-
Long Term Business Outlook (Next 3-5 years)	55%	38%	4%	3%	+51	+42	+36	-

**Items in short supply:** Freight carriers for bulk liquids, freight costs, qualified welders, hot rolled carbon and stainless steel, salt, slag aggregate, labor, skilled CNC machinists and welders, RTDs/Termistors.

**Prices on the UP side:** Steel, foam, polypropylene, most aluminum products, solvents, HCl, caustic soda (Chlor-alkali), stainless steel, PVC resin, salt, sand, sodium chloride, bituminous, fabric.

**Prices on the DOWN side:** Copper, Chromic acid, steel\*, fuel, freight\*, paraffinic oil, gasoline and associated products, carbon steel\*, optics, direct IT.

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

## Latest Unemployment Reports

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

	Aug. 2014	July 2014	Aug. 2009	20 Year Low
State of Michigan	6.7%	8.6%	14.8%	3.1%
Kent County	4.6%	6.3%	11.9%	2.1%
Kalamazoo County	5.3%	6.9%	11.1%	2.1%
Calhoun County	5.5%	7.4%	12.8%	2.7%
Ottawa County	4.6%	6.4%	13.3%	1.8%
Barry County	4.8%	6.2%	10.9%	2.2%
Kalamazoo City	7.4%	9.6%	15.2%	3.2%
Portage City	4.1%	5.3%	8.7%	1.3%
Grand Rapids City	6.5%	8.8%	16.1%	3.0%
Kentwood City	4.2%	5.7%	10.7%	1.4%
Plainfield Twp.	3.0%	4.1%	8.0%	1.4%
Holland City/Allegan	2.0%	2.7%	3.7%	0.9%
U.S. National Official Rate	5.9%	6.2%	9.7%	3.6%
U.S. U-6 Rate*	12.0%	14.3%	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 +27 for the month of September, 2014

Previous Month +9 for the month of August, 2014

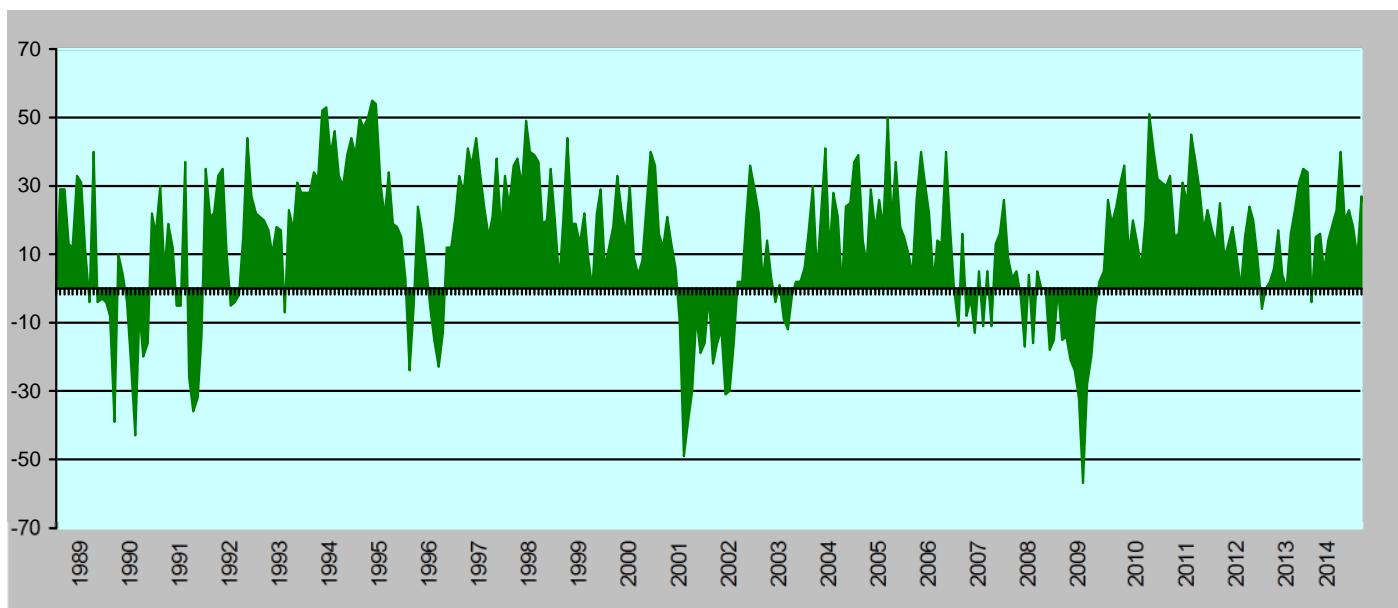
One Year Ago +6 for the month of September, 2013

Record Low -57 for the month of December, 2008

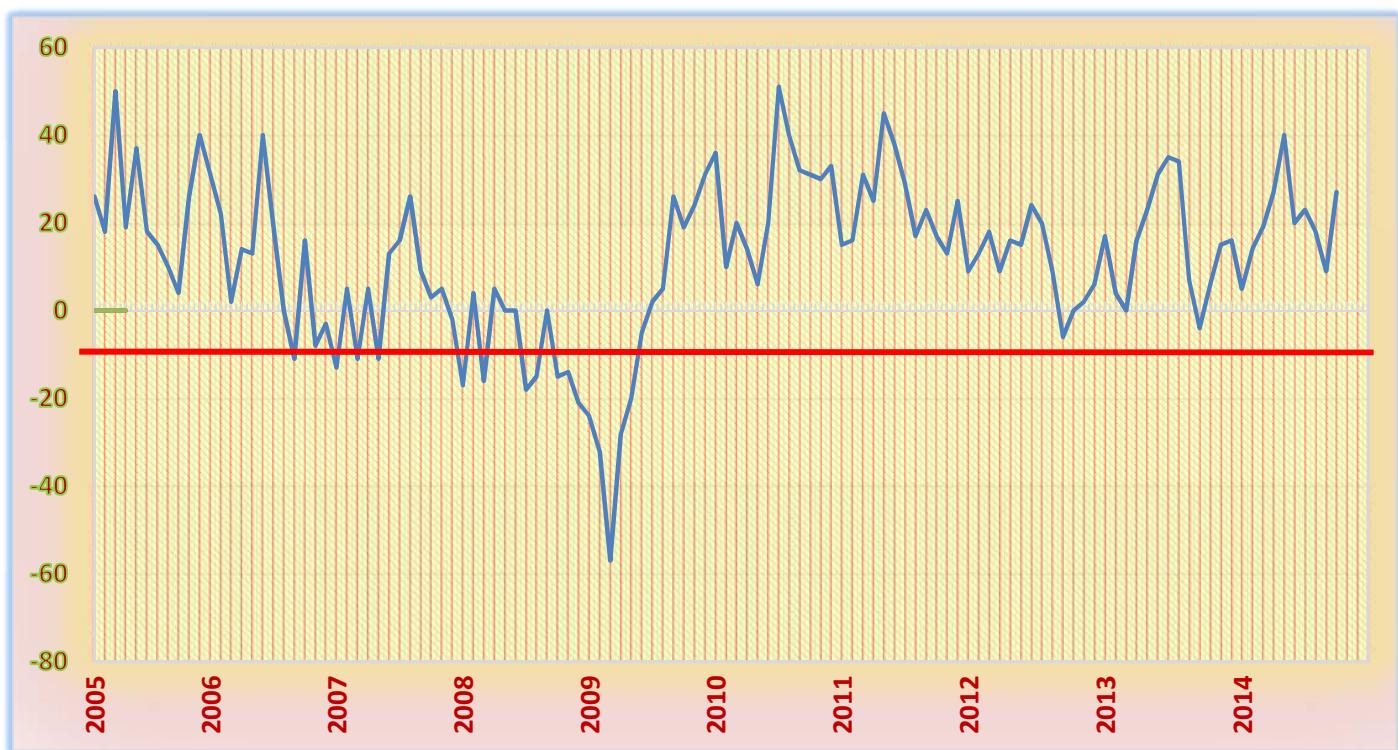
Record High +55 for the month of September, 1994

First Recovery +3 in April of 2009 and forward

## ISM-West Michigan Index of New Orders 1988 - 2014

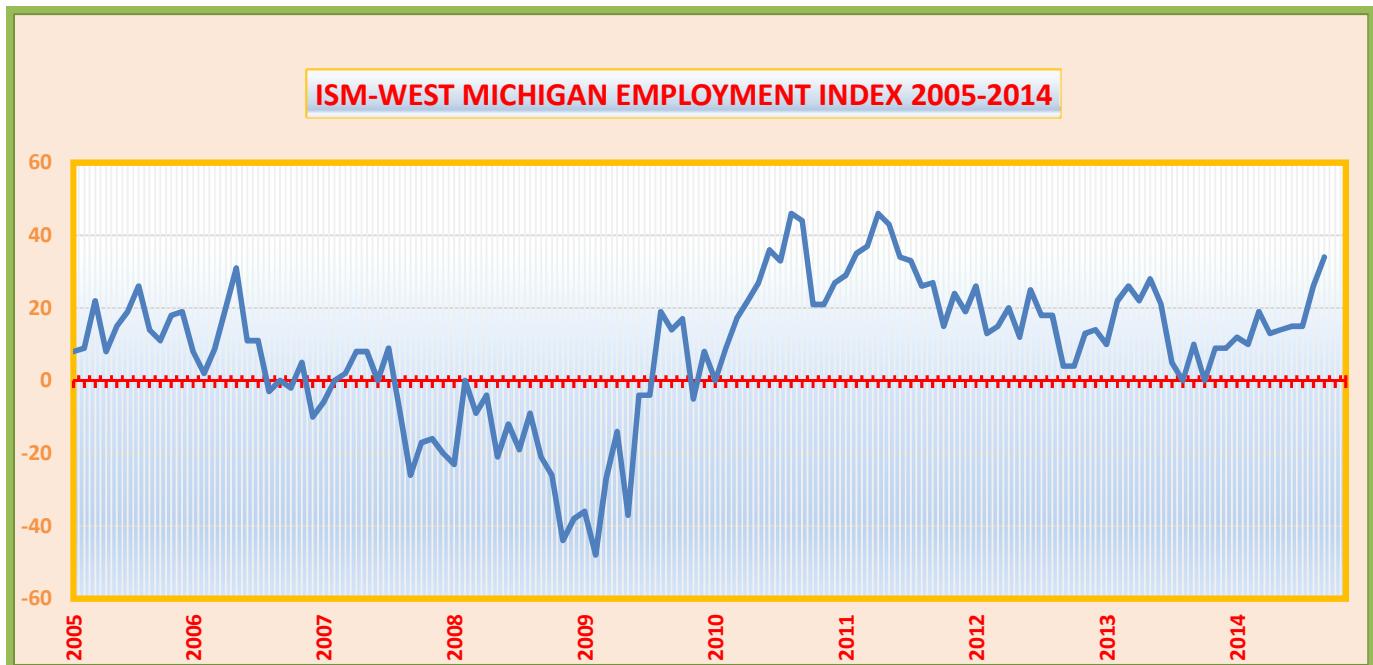


## ISM-West Michigan Index of New Orders: 2005-2014 Only



## 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 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.



## ISM-West Michigan Future Business Outlook

The indexes of **LONG TERM BUSINESS OUTLOOK** and **SHORT TERM BUSINESS OUTLOOK** provide a glimpse at current and future attitudes of the business community. Traditionally, most businesses are more optimistic about the long term, although current events can result in perceptions changing very rapidly. Both short and long term attitudes reflect current business conditions, and are usually higher when sales, production, and employment are positive.

