



## Institute for Supply Management,

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## News Release (For Immediate Release)

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## Current Business Trends

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### Growth Rate Improves for West Michigan

The Growth rate improves! That's the latest word on the West Michigan economy, according to the data and comments collected in the last two weeks of March 2015. Our closely watched index of business improvement, which we call NEW ORDERS, bounced to +29, up significantly from +13. The PRODUCTION index posted a respectable gain, rising from +18 to +35. The EMPLOYMENT index rose to +25 from +19. Activity in the purchasing offices, our index of PURCHASES, came in at +35, up nicely from last month's +16. Overall, this report is the best we have filed in about a year. Not only has spring arrived, but the veiled pessimism that tainted last month's reports has generally dissipated.

Given the improved statistics, it was not surprising to find that most of our industrial groups are seeing improvement. Despite auto sales showing signs of topping out, our local auto parts producers continue to attract additional business. The office furniture business is starting to come out of its seasonally slow period, and the improvement in rental of new office space in some of the big cities has helped to boost demand. As a group, the industrial distributors had a very good month, although there were a couple of firms that are still waiting for spring to arrive. The only significant drag on this month's report came from the capital equipment firms, several of which appear to have encountered a soft spot in the marketplace.

The April 1, 2015 press release from the Institute for Supply Management, our parent organization, posted a stable report in business activity for March. ISM's index of NEW ORDERS remained virtually unchanged at +12, up from +11. The PRODUCTION index also edged up to +14 from +11. Because of the newfound strength of the American dollar, NEW EXPORT ORDERS declined to -5 from -3. ISM's EMPLOYMENT slowed to +2, the lowest the index has been in over a year. ISM's BACKLOG OF ORDERS index flipped back to negative at -1, down from +3 in February.

By confirmation, Markit.com, the international consulting firm, reported a respectable upturn in the U.S. economy for the month of March. Markit's "Purchasing Managers' Index" or PMI rose to 55.7, up modestly from 55.1. The survey author notes:

"The U.S. manufacturing sector is clearly regaining momentum after a slow start to 2015. Stronger NEW ORDER growth and rising input buying in March should help set the scene for improving production trends into the second quarter of the year. Moreover, job creation has remained resilient in recent months, and falling raw material costs continue to support operating margins. Improving domestic economic conditions remain the key growth driver for U.S. manufacturers, with consumer goods producers recording an especially robust upturn in March."

At the international level, the April 1, 2015 J.P. Morgan report on Global Manufacturing remains flat.

JPM's index of NEW ORDERS declined a very modest 0.1 to 52.2. The PRODUCTION index rose to 53.4 from 53.2. The overall index eased to 51.8 from 51.9. For individual countries, Canada continues to suffer from falling commodity prices, especially oil. The China PMI flipped back to negative, repeating the pattern of flat manufacturing conditions which have typified the Chinese PMI reports for the past two years. However, China is still showing no signs of sliding into a recession, which would hurt sales to our third best customer in the world. Other laggard countries include Greece, France, and Austria. By contrast, the PMI for key economies like Germany picked up to 52.8, Spain jumped to 54.3, and Ireland remained stable at 56.8. Mexico, our second best customer, posted a PMI of 53.8, down slightly from February's 54.4, but still well ahead of the traditional 50.0 break-even point for the diffusion index.

Even though the West Coast dock strike ended on February 23, several of our survey participants are still recovering from the massive disruption in the supply chain. With luck, operations for most of our local firms will soon return to normal. If nothing else, the crisis called attention to the necessity for comprehensive management of the supply chain.

Auto sales continue to drive the Michigan economy, so the positive reports from Automotive News posted on April 1 confirmed what our local parts suppliers have been saying. Although monthly sales for cars and light trucks were only up 0.5% this year over last year, the annualized rate climbed to 17.1 million units. Given that sales for the Detroit nameplates retreated, it is good to hear that some of our local firms are successfully developing new business with the Korean and Japanese transplant companies. By the numbers, sales at GM were down by 2.4%, and Ford lost 3.5%. Chrysler eked out a 1.7% gain, primarily driven by a 23.5% uptick at Jeep. Of the other major brands, Toyota gained 4.9%, and Hyundai added 9.9%. Nissan slipped 2.7%, and Honda lost 5.3%, partially because of management's refusal to participate in sharp discounting. Despite new promotion efforts, troubled Volkswagen lost 18.2%.

Industrial deflation continues to be a concern. Our local index of PRICES for March slipped a little further to -24, down from -22. The ISM index of PRICES remained historically negative, but the rate of decline eased to -22 from -30. As noted in previous reports, an orderly decline in the prices for key commodities is usually good for the buyers, and can translate to higher profits. However, when prices drop too far too fast, the long term supply chain can be severely damaged. In the case of the steel industry, prices are falling dramatically, and some of the mills are starting to permanently shut down mills. The larger firms can weather the storm, but smaller firms will have a more difficult time. Mills that are permanently shut will result in steel shortages when the market turns around. Steel service centers, especially those that are sitting

on too much high priced inventory, have raised the concern of at least one survey participant. Centers that are overleveraged could go under.

For March, we recorded a considerable uptick in business optimism. Our SHORT TERM BUSINESS OUTLOOK index bounced to +32, up sharply from February's +18. The LONG TERM BUSINESS OUTLOOK index posted a more modest gain, rising to +46 from +41. More importantly the comments from our participants were considerably more upbeat for March. It may have just been the fatigue of winter finally wearing off, although the same uptick in optimism may also be found at the national and international economic levels.

Our EMPLOYMENT index for March continues to show promise, rising to +25, up from +19. By contrast, the March national survey from ISM came in at +2, down from +4. As we have noted in previous reports, West Michigan is still faring MUCH better than the rest of the state. In fact, of the 281,000 people on Michigan's official February unemployment rolls, 11% reside in the City of Detroit alone.

February's unemployment statistics (just released) from DTMB, the Michigan Department of Technology, Management and Budget, have all been modified by the Department of Commerce. Every ten years, all of the boundary lines for the reporting units are reevaluated and adjusted to reflect population shifts

name changes, and new demographic factors, although most of the changes are minor. Among the unemployment rates in the 83 Michigan counties, Ottawa County has the second lowest rate of 3.7%, followed by third place Kent County coming in at 3.8%. Kalamazoo County took fourth place at 4.3%, and both Allegan and Barry counties posted a jobless rate of 4.7%. Because these data are NOT seasonally adjusted, all of these rates are higher than those reported for December, when seasonal employment is always higher than the rest of the year.

As we head through the spring season, the geopolitical problems in Libya, Yemen, the Ukraine, and other places around the world are generally being pushed further back by the financial markets. Although the world economy remains stagnant, the recent numbers indicate that there is still no sign of any kind of a world recession. A few key economies like Germany have returned to a slow growth mode, and some countries like Spain are finally showing signs of improvement. Although most of the BRICS countries have flattened, the positive numbers from countries like the United States, Britain, and Ireland, are able to offset the weakness in other parts of the world – so far. As we head toward the summer months, the future looks fairly secure. In West Michigan, we have shaken the winter blues. We can hope that the Greeks, the Russians, the Iranians, or ISIS don't upset the current fragile order.

## MARCH 2015 COMMENTS FROM SURVEY PARTICIPANTS

"2015, in my opinion, has started a little slow. February was way off from January (also down), but March is showing a nice increase."

"Production has slowed, but sales dollars are about the same as last month. We are trying to sell off some finished goods inventory."

"We have heard of a large machine tool competitor that lost an order in China that they have already built machines for. They are now selling about 400 machines at a discount, causing us to discount our machines."

"The end of the first quarter is getting busier, but the first month and a half was slow."

"I'm curious to see how the falling commodity markets will impact the economy..."

"The steel pricing decline has been dramatic! I'm starting to have concerns about the financial strength of some of the steel service centers."

"We're getting ready for a busy construction season!"

"Business is good and steady."

"Port issues have become very expensive and time consuming."

"We continue to try to pad inventory to protect against delays in West Coast ports."

"Opportunities continue with customers wanting to 're-shore' products from overseas suppliers."

"It appears that our customers think that we have gotten too lean."

"Short term sales bookings are softening, driving a hiring freeze."

"Our industry is stable, business is stable, and profits are stable."

"Business is still very strong. Our industry is busy, depending upon your customer base. Firms reliant upon mining, gas, or oil are not doing well."

"We are expecting double digit growth in the second quarter."

"Current sales are equal to last month, but new orders coming in are way down from last month. We are aggressively taking short lead time orders."

"Business is very good, and orders and quotes are very strong."

"Capital equipment orders are softening, but we still expect a solid year in 2015."

"The downturn in oil pricing is causing layoffs in the energy industry and slowing exploratory production."

"We are still in our slow season, however, business is picking up. It looks like we will be getting very busy soon."

"Orders are beginning to trend toward green season levels. We are within two weeks of entering our busiest season."

"We are looking for more machining suppliers to help offload our over-capacity machines."

"The port strike is over, but we are still waiting for freight caught in the backlog. March has the potential to be highest dollar sales month ever."

"We're seeing improvement of freight coming in from west coast since dock worker labor agreement."

"My customers' needs remain strong. The demand for new equipment is increasing due to the lack of decent used equipment."

"Quoting is high, but PO's are low. Foreign competition is very heavy."

"We're still dealing with West Coast port issues."

"West Coast port slowdowns have added approximately an additional 4-6 week lead time for our parts to be delivered."

"Scrap prices continue to tumble. We may have reached the bottom in March."

"There are not as many price cuts as there should be. Suppliers slower to decrease prices than they are to raise them."

# March 2015 Survey Statistics

	UP	SAME	DOWN	N/A	Mar. Index	Feb. Index	Jan. Index	20 Year Average
<b>Sales (New Orders)</b>	<b>45%</b>	<b>38%</b>	<b>16%</b>	<b>1%</b>	<b>+29</b>	<b>+13</b>	<b>+13</b>	<b>+29</b>
<b>Production</b>	<b>44%</b>	<b>41%</b>	<b>9%</b>	<b>6%</b>	<b>+35</b>	<b>+18</b>	<b>+13</b>	<b>+13</b>
<b>Employment</b>	<b>28%</b>	<b>69%</b>	<b>3%</b>		<b>+25</b>	<b>+19</b>	<b>+19</b>	<b>+ 8</b>
<b>Purchases</b>	<b>41%</b>	<b>53%</b>	<b>6%</b>		<b>+35</b>	<b>+16</b>	<b>+17</b>	<b>+ 7</b>
<b>Prices Paid (major commod.)</b>	<b>4%</b>	<b>65%</b>	<b>28%</b>	<b>3%</b>	<b>-24</b>	<b>-22</b>	<b>-16</b>	<b>+35</b>
<b>Lead Times (from suppliers)</b>	<b>17%</b>	<b>73%</b>	<b>10%</b>		<b>+ 7</b>	<b>+30</b>	<b>+12</b>	<b>+11</b>
<b>Purchased Materials Inv. (Raw materials &amp; supplies)</b>	<b>23%</b>	<b>61%</b>	<b>10%</b>	<b>6%</b>	<b>+13</b>	<b>+14</b>	<b>+15</b>	<b>- 5</b>
<b>Finished Goods Inventory</b>	<b>12%</b>	<b>65%</b>	<b>9%</b>	<b>4%</b>	<b>+ 3</b>	<b>+ 3</b>	<b>- 7</b>	<b>-10</b>
<b>Short Term Business Outlook (Next 3-6 months)</b>	<b>42%</b>	<b>47%</b>	<b>10%</b>	<b>1%</b>	<b>+32</b>	<b>+18</b>	<b>+20</b>	<b>-</b>
<b>Long Term Business Outlook (Next 3-5 years)</b>	<b>46%</b>	<b>48%</b>	<b>0%</b>	<b>6%</b>	<b>+46</b>	<b>+41</b>	<b>+35</b>	<b>-</b>

**Items in short supply:** Products from overseas because of the west coast port delays, road equipment, pinnacle material, skilled trades, skilled labor, unskilled labor.

**Prices on the UP side:** Bituminous paving, concrete, fuel, some corrugated, some steel, polypropylene, plastic extrusions.

**Prices on the DOWN side:** Plastic resins, prices on major machines, petroleum based products, steel\*, steel components, fuel, emulsions, copper, polypropylene\*, plasticizer, carbon steel, scrap steel, aluminum, aluminum machined parts, electronic components, freight, brass, international sourced items.

\*Note: All items marked with an asterisk are reported as BOTH up AND down by different survey participants.

## Latest Unemployment Reports

(Note: Data are NOT seasonally adjusted)

	Feb. 2015	Dec. 2014	Aug. 2009	20 Year Low
State of Michigan	5.8%	5.6%	14.8%	3.1%
Kent County	3.8%	3.4%	11.9%	2.1%
Kalamazoo County	4.3%	3.9%	11.1%	2.1%
Calhoun County	5.9%	4.6%	12.8%	2.7%
Ottawa County	3.7%	3.6%	13.3%	1.8%
Barry County	4.7%	4.1%	10.9%	2.2%
Kalamazoo City*	6.1%	5.5%	15.2%	3.2%
Portage City*	4.5%	3.1%	8.7%	1.3%
Grand Rapids City*	5.7%	4.8%	16.1%	3.0%
Kentwood City*	4.1%	3.1%	10.7%	1.4%
Plainfield Twp.	3.7%	2.2%	8.0%	1.4%
U.S. National Official Rate	5.5%	5.6%	9.7%	3.6%
U.S. U-6 Rate**	11.4%	11.2%	16.7%	8.0%

\* January Data. February not available.

\*\*U-6 for Michigan = 13.9% for all 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 +29 for the month of March, 2015

Previous Month +13 for the month of February, 2015

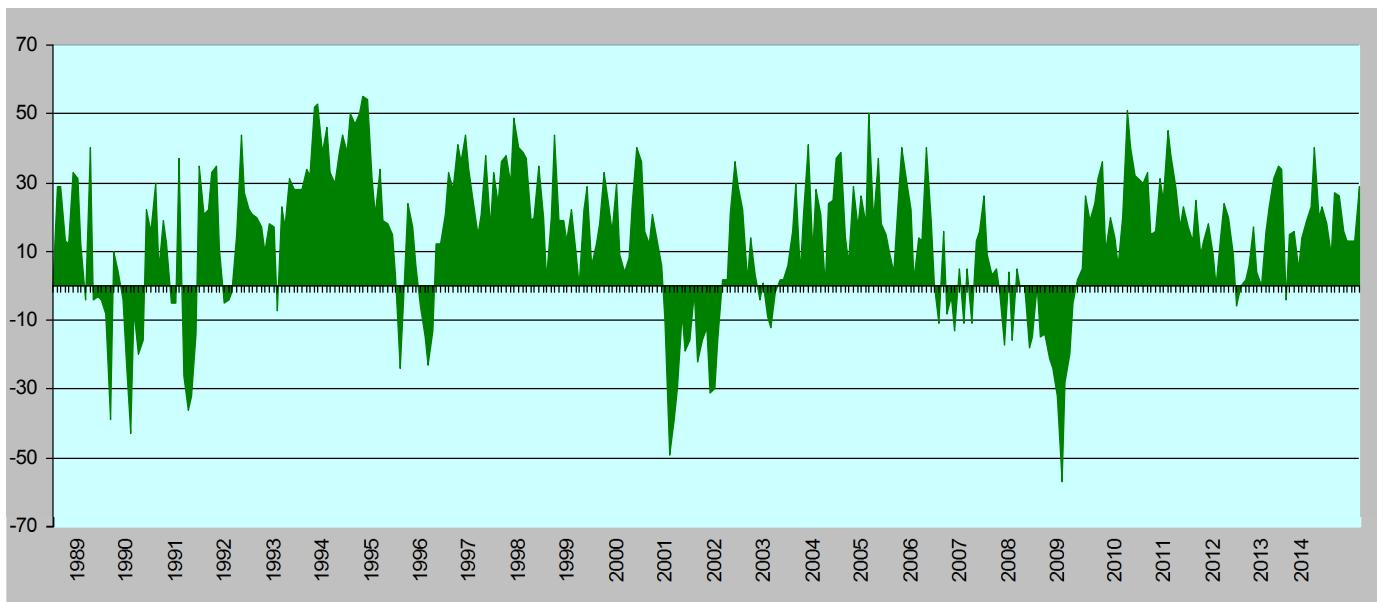
One Year Ago +27 for the month of March, 2014

Record Low -57 for the month of December, 2008

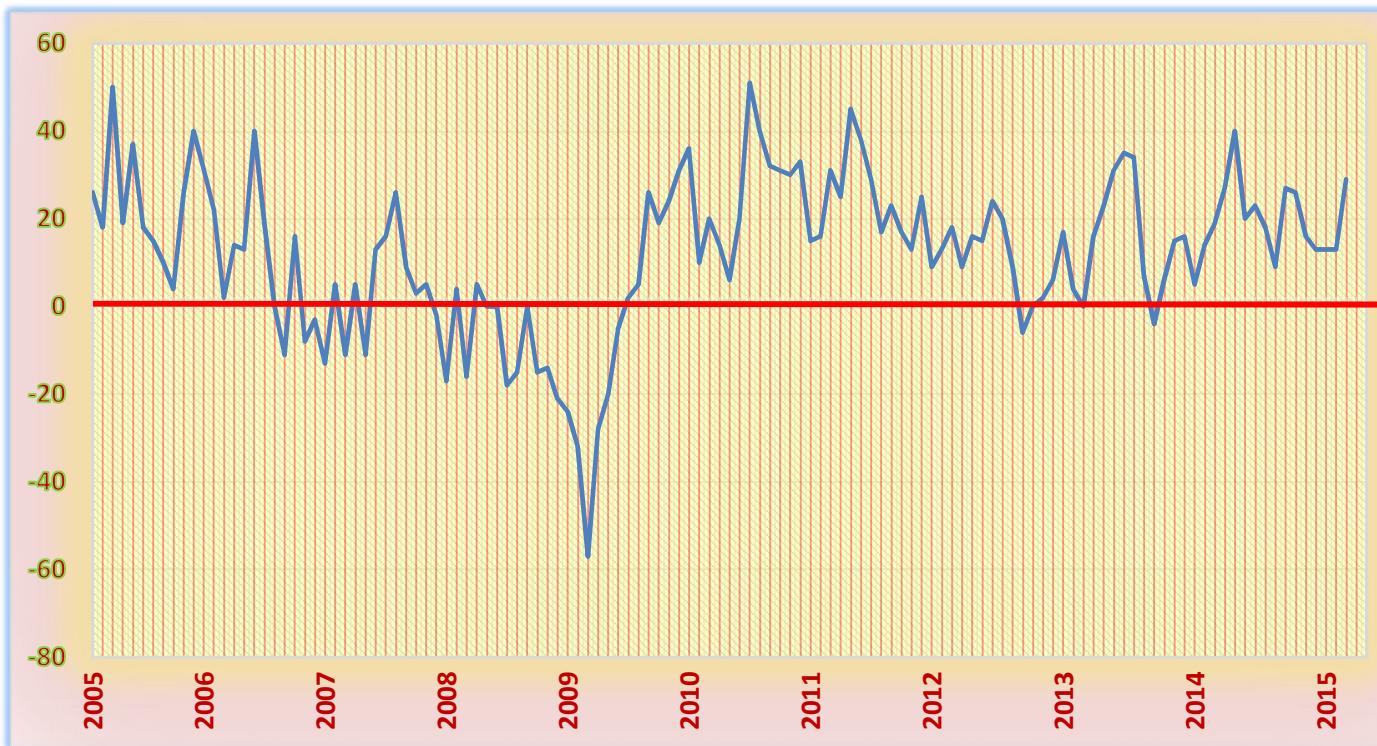
Record High +55 for the month of September, 1994

First Recovery +3 in April of 2009 and forward

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

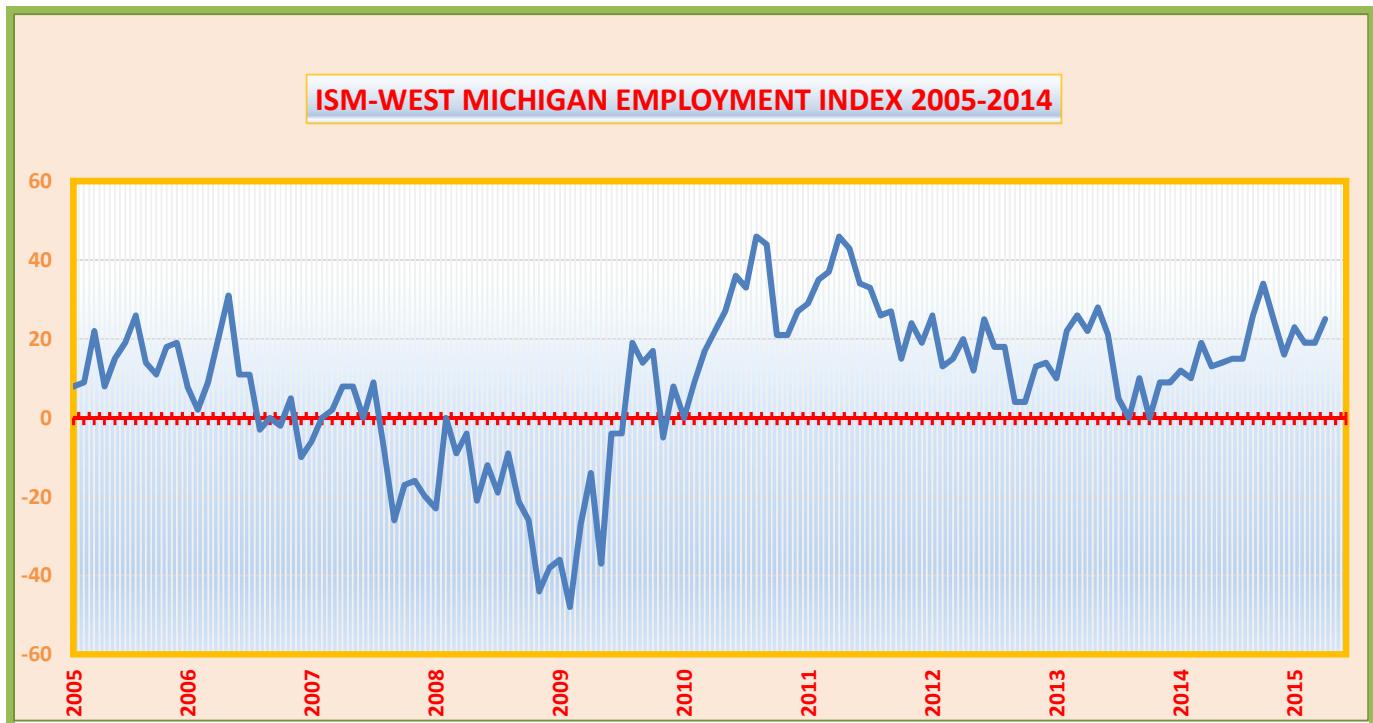


## ISM-West Michigan Index of New Orders: 2005-2014 Only



## 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.

