



## Institute for Supply Management,

Greater Grand Rapids, Inc.  
P. O. Box 230621  
Grand Rapids, MI 49523-0321

# News Release (For Immediate Release)

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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

### Growth: Still Positive, But A Little Slower

The West Michigan growth remains good, but the growth rate has moderated. That is the latest word on the local economy, according to the data and comments collected in the last two weeks of June 2015. NEW ORDERS, our index of business improvement, backtracked to +19 from +31. In a similar pattern, the June PRODUCTION index remained double digit positive but eased to +16 from +29. The EMPLOYMENT index came in at +20, only a little below the previous reading of +24. For some unknown reason, our index of PURCHASES bucked the trend and rose to +24 from +19. Overall, the West Michigan economy remains on a solid footing, but the growth rate has tapered off. Part of this variation is seasonal, since the summer months are often slower for many of our local industries. The comments from our survey participants have also taken on a tone of moderation. Although certain segments outside of the industrial market, such as new home construction, have picked up, the fact remains that many local industrial firms are at capacity and can only contribute to the economic expansion by adding capacity. Fortunately, that is exactly what some of them are doing. Hence, the expansions now unfolding by some of our local firms is the reason that our index of EMPLOYMENT has remained in double digits for the past 18 months.

Looking ahead, short-term business optimism has faded a little over the past month. Our LONG-TERM BUSINESS OUTLOOK index remained virtually unchanged at +44, down from +45. However, the SHORT-TERM BUSINESS OUTLOOK index remained positive, but backtracked significantly to +25 from +36. According to one survey respondent, the biggest reason for the drop in optimism may relate to the Greek and European credit crisis.

Just like previous reports, most of our industrial groups are positive, although some firms have moderated their outlook. The industry leaders are still our local auto parts producers and the office furniture industry which both are reporting business conditions to be stable or expanding. In the case of automotive, several firms are increasingly optimistic about the future. Business for the industrial distributors remains mixed, which is typical for the summer months. Just as last month, business conditions for capital equipment firms were spread across the entire spectrum. A couple of local firms are tied into the extractive industries, so it is not surprising to find that their business is off considerably.

At the national level, the July 1 press release from the Institute for Supply Management, our parent organization, continues to report the national growth rate slowing for a second month in a row. ISM's index of NEW ORDERS remained positive, but edged lower to +9, down from +15. The PRODUCTION index moderated to +7 from +16. However, because of statistical readjustments, ISM's overall index rose to 53.5, up from 52.8, up from in May.

The view from Markit.com, the international economics consulting firm, confirms the moderation of the U.S. economy. Markit's overall index eased modestly to 53.4 from 54.0. The survey author further noted:

"Purchasing managers are reporting the slowest rate of manufacturing expansion for over a year and a half, suggesting that the economy is slowing again. The slowdown is largely linked to a third consecutive monthly fall in exports..."

At the international level, it goes without saying that the Greek monetary situation has introduced a new element of uncertainty to the world economy. It is very difficult to forecast or predict the outcome of the crisis over the next few months, primarily because of the myriad of political personalities involved as well as the uncharted nature of the problem. One obvious fact is that Greece constitutes only 1.3% of the GDP of the European Community, and their continued participation in the euro is not nearly as important as it was a few years ago. Alan Greenspan recently termed the Greek withdrawal from the Eurozone as "inevitable," and noted that the other countries that were having economic difficulties just a few years ago may have turned around. From the standpoint of the industrial market, the PMI for previously troubled countries, like Ireland, now stand at 54.6, followed by 54.5 in Spain, and 54.1 in Italy. Otherwise, the international economy remains sluggish. According to the survey author for the J. P. Morgan Global Manufacturing Report, the Global PMI for June eased to 51.0 from 51.3. Again, 50.0 is considered to be the break-even threshold. Because of the recent drop in the Chinese stock market, new warnings have now been raised about the health of the Chinese economy. A few countries like Brazil, Russia, and Turkey are still struggling with political problems. The survey author further noted:

"The PMI surveys suggest the growth of international manufacturing output remained subdued during the second quarter, with the rates of increase in new business and output slipping to their lowest since the first half of 2013. Activity in Asia, aside from China, is especially weak. Signs of stronger final demand growth toward midyear point to a pickup in production growth in coming months depending on the extent of any inventory drag."

Looking at industrial inflation, or in today's case, deflation, we have seen most of the major categories of industrial metals fall in price. Over the past two months, the prices for aluminum, copper, nickel, lead, and zinc have all declined about 15%. This is obviously good news for the buyers, but bad news for the producers. In addition, when prices get too low, some producers are permanently driven out of market,

resulting in shortages when normal demand returns. Although most standard grades of steel are now down about 35% over the past twelve months, there now appears to be evidence of prices stabilizing and edging slightly higher. We can hope that some form of stability will soon return to all of the commodity markets.

Two main factors constitute the reasons for the recent fall in commodity prices. First, the escalating value of the dollar, especially the dollar/euro ratio, has resulted in the prices for many key commodities rising in price simply because of valuation of the world's main currencies. The second factor relates to the slowing of the industrial sector in the Chinese economy. China's manufacturing economy, as measured by the HSBC Purchasing Manager's Index, posted at 49.4 in June. This was the fourth successive month that the PMI has registered a level below the 50.0 break-even point. However, the latest reading was up from 49.2 in May, and signaled that the situation is not getting radically worse. However, participants in the world industrial market for commodities are well aware that China is the world's largest consumer of steel, copper, lead, zinc, nickel, and almost every other major commodity. The slowdown in the Chinese economy has resulted in less demand for these commodities. Furthermore, the Chinese industrial firms, as well as the Chinese people themselves, are notorious hoarders of these commodities. The oversupply has resulted in a huge drop in demand. Therefore, it is little surprise that our local index of PRICES has come in at -14 for the past three months. At the national level, ISM's index of PRICES had been as low as -22 in March, but now has rebounded to -1.

## May 2015 COMMENTS FROM SURVEY PARTICIPANTS

"Sales has received a few purchases to help with the third and fourth quarter, but overall business is still down from last year."

"We had a record order entry for May. June is shaping up same way."

"Lead times from the West Coast port is almost back to normal."

"Things are moving along well."

"May saw a significant drop in sales (bookings) over April. June took off to a good strong start, but seems to be lagging as we get into the end of the month."

"Construction season has begun, and we have more work than we have time or employees to complete before Labor Day."

"No major changes month on month. Sales projections remain solid."

"We are starting to see things slow down a bit starting in June. We reduced our work force by 7%."

"Auto demand is still strong, but inventories are climbing. Will the demand continue?"

"We are holding our own, but orders are not coming in as easily as last year. Capital equipment is not selling as brisk as it was."

"Our short term outlook is down, but this is seasonal. We tend to slow a bit during the summer months. We expect things to tick back up in the fall."

Just like last month, the growth rate in auto sales continues to moderate, although many local auto parts firms continue to hire more staff. For the Detroit Three, Chrysler gained 8.1%, Ford edged up 1.5%, but General Motors lost 3%, primarily because of a decline in fleet sales. Of the other major nameplates, Honda gained 4.2%, Toyota added 3.7%, and Nissan gained 13.3%. At least some of variations in sales can be explained by variations in rebates among the major manufacturers. Some brands offer no rebates at all, but at least one of the Chrysler brands offers a manufacturer's rebate of \$7,000.

At first glance, in the June 25 press release from the Michigan Department of Technology, Management and Budget (DTMB) looks like bad news. The overall unemployment rate for Michigan edged up to 5.5% from 5.4%, but almost all of our local numbers posted a jump in unemployment. The primary reason for the jump: The data are NOT seasonally adjusted, and seasonality is the biggest reason for the jump. The June workforce always increases in June because of graduations from all of the schools and universities. When there are more graduations in June, this same trend will of course carry over. By July, the summer jobs start to kick in, and the unemployment rate should fall. Statistically, Michigan added about 4,000 jobs in May, but because of the aforementioned reasons, the total workforce went up by 10,000. There is also a trend of some people returning to the workforce after having been previously discouraged. Overall, we should expect to have a normal summer economy in West Michigan.

"We will possibly be implementing a second shift because of increased orders. We are having trouble finding hard working qualified employees for our production floor. Shortage of employees has increased our late shipments, which increases our inventory. In addition, we have already increased inventory from our overseas suppliers."

"We are working a major assist program right now."

"All of a sudden, our business is booming. My Michigan is waking up!"

"We are starting to get busier. It should be a very busy summer."

"Our employment numbers are down because a number of people have recently left the organization. With more and more job opportunities opening up in the GR area, people are looking for new and better jobs."

"We are steady on the quotes and orders."

"Business is still steady, but we are still not seeing the typical summer surge of work."

"Sales are strong on both the domestic and international sides of the business."

"The energy sector is still struggling."

"Sales are softer than forecast, so we are trying to pull ahead everything we can to finish our fiscal year strong."

"We are starting to head into our busy season."

## June 2015 Survey Statistics

	UP	SAME	DOWN	N/A	June Index	May Index	Apr. Index	20 Year Average
<b>Sales (New Orders)</b>	37%	44%	18%	1%	+19	+31	+37	+29
<b>Production</b>	31%	48%	15%	6%	+16	+29	+28	+13
<b>Employment</b>	29%	62%	9%		+20	+24	+24	+ 8
<b>Purchases</b>	27%	60%	13%		+24	+19	+32	+ 7
<b>Prices Paid (major commod.)</b>	4%	75%	18%	3%	-14	-14	-14	+35
<b>Lead Times (from suppliers)</b>	12%	84%	4%		+ 8	+18	+11	+11
<b>Purchased Materials Inv. (Raw materials &amp; supplies)</b>	22%	60%	12%	6%	+10	+15	+19	- 5
<b>Finished Goods Inventory</b>	18%	64%	9%	9%	+ 9	+ 5	+ 8	-10
<b>Short Term Business Outlook (Next 3-6 months)</b>	34%	57%	9%		+25	+36	+32	-
<b>Long Term Business Outlook (Next 3-5 years)</b>	47%	47%	3%	3%	+44	+45	+42	-

**Items in short supply:** Good circuit board manufacturers, construction contractors, labor, machine hours, customer directed items, electrical cables, castings, aluminum plate (long lead times), electronics, skilled and unskilled labor.

**Prices on the UP side:** Fuel, resin, oil, some steel, some corrugated, intermediates, sand, aggregate, petroleum based products, scrap steel, aluminum, aluminum extrusions, electrical components, PVC resin, paraffinic oil, polypropylene.

**Prices on the DOWN side:** Scrap metals\*, steel\*, carbon steel, aluminum\*, carbon steel\*, stainless steel surcharges, resins\*, polypropylene, rubber, oil\*, copper.

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

### Latest Unemployment Reports

(Except as noted, data are NOT seasonally adjusted)

	May 2015	Apr. 2015	Aug. 2009	20 Year Low
State of Michigan (Adj.)	5.5%	5.4%	14.6%	3.2%
State of Michigan (Unadj.)	5.9%	4.8%	14.1%	2.9%
Kent County	4.1%	3.3%	11.9%	2.1%
Kalamazoo County	4.8%	3.8%	11.1%	2.1%
Calhoun County	5.4%	4.5%	12.8%	2.7%
Ottawa County	4.0%	3.1%	13.3%	1.8%
Barry County	4.4%	3.7%	10.9%	2.2%
Kalamazoo City	4.8%	4.7%	15.2%	3.2%
Portage City	4.4%	3.5%	8.7%	1.3%
Grand Rapids City	4.4%	4.4%	16.1%	3.0%
Kentwood City	3.9%	3.1%	10.7%	1.4%
Plainfield Twp.	3.1%	2.5%	8.0%	1.4%
U.S. National Official Rate	5.3%	5.4%	9.6%	3.8%
U.S. Rate Unadjusted	5.1%	5.1%	9.6%	3.6%
U.S. U-6 Rate**	10.4%	10.8%	16.7%	8.0%

\*\*U-6 for Michigan = 13.1% for Apr. 2014 to Mar. 2015

### 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 +19 for the month of June, 2015

Previous Month +31 for the month of May, 2015

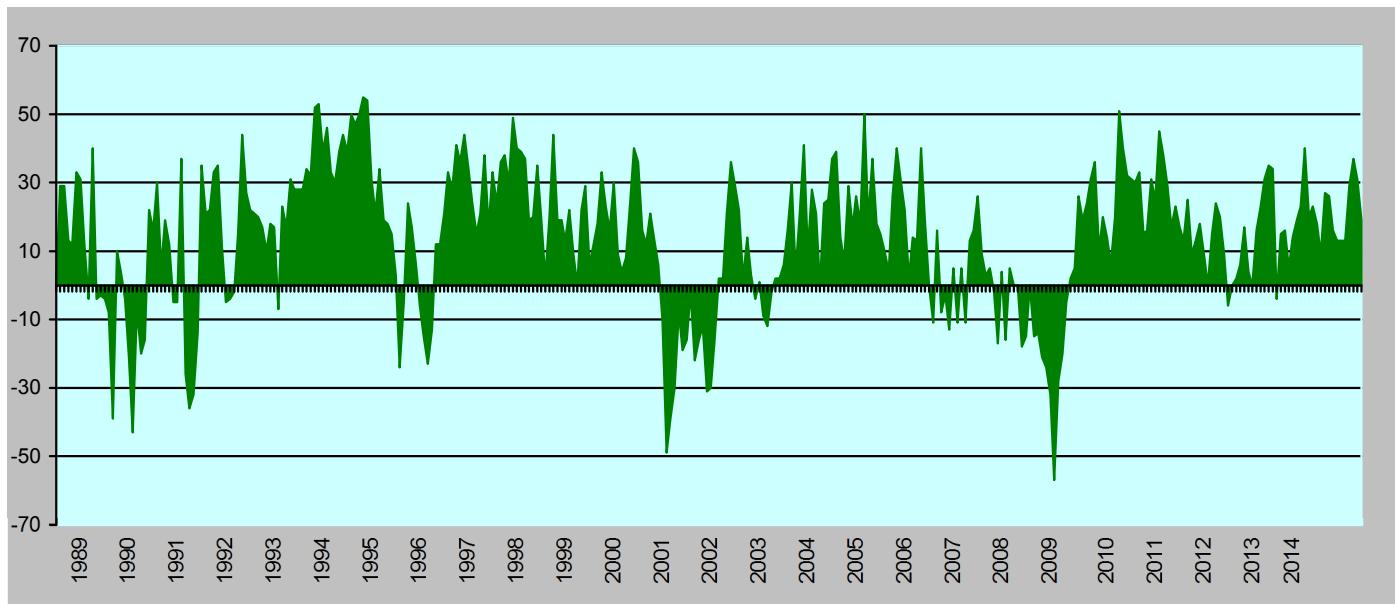
One Year Ago +23 for the month of June, 2014

Record Low -57 for the month of December, 2008

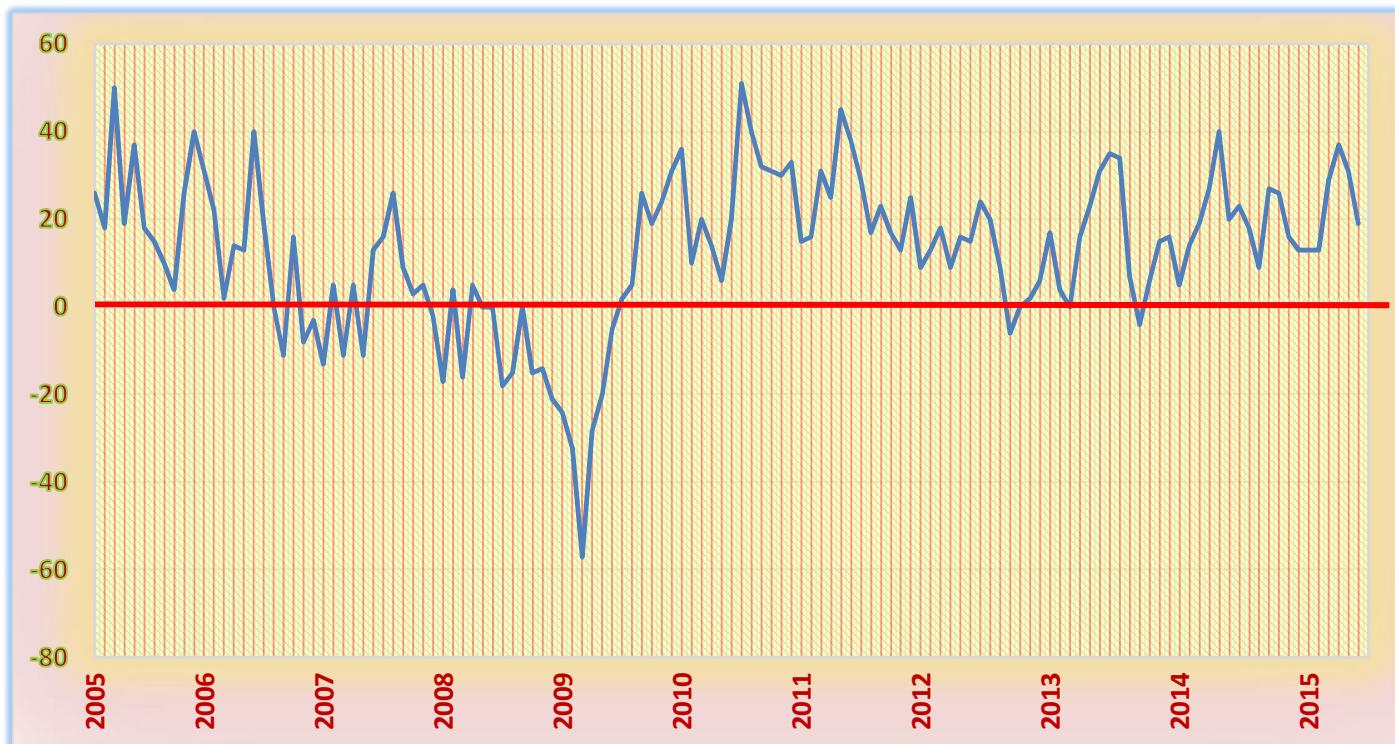
Record High +55 for the month of September, 1994

First Recovery +3 in April of 2009 and forward

## ISM-West Michigan Index of New Orders 1988 - 2015

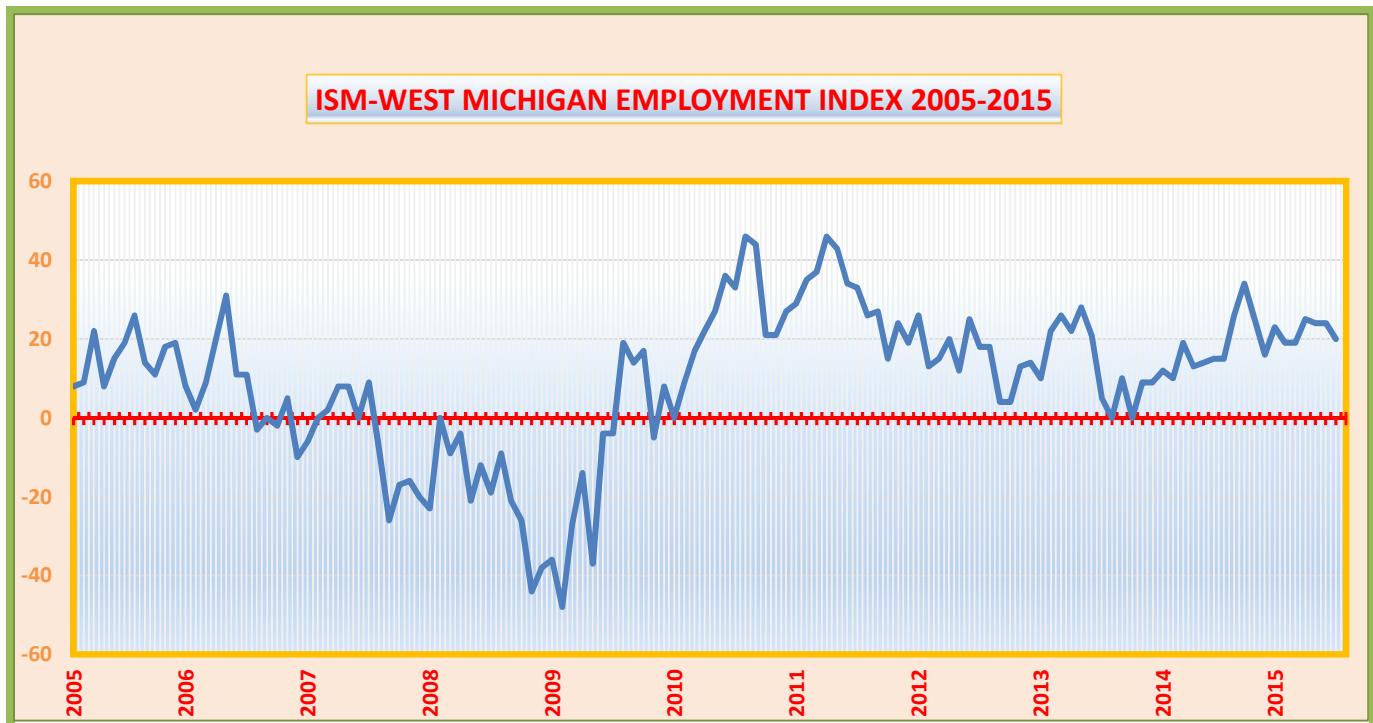


## ISM-West Michigan Index of New Orders: 2005-2015 Only



## 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.

