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News Release (For Immediate Release)

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Current Business Trends

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Economic Growth Returns to Normal

Growth returns to normal. That's the latest word on the local economy, according to the data and comments collected in the last two weeks of July 2015. NEW ORDERS, our index of business improvement, edged forward to +22, up from +19. The July PRODUCTION index resumed the pace of previous months and rose to +26 from +16. Our closely watched index of EMPLOYMENT continued the positive trend of the past 18 months and edged up to +25 from +20. The index of PURCHASES index remained positive but eased to +14 from +24. In part because of seasonality, the FINISHED GOODS INVENTORY index increased to +16 from +9. Overall, the six-year pattern of slow growth continues on track, although we have had a few minor adjustments along the way. Hence, the late summer economy for West Michigan should remain in the slow growth paradigm.

Looking at our industrial groups, most are positive, although some firms have moderated their outlook based on the slower pace of the rest of the county. A few firms with overseas customers have also noted some reduction in sales. Our local auto parts producers and the office furniture industry are still near full capacity and are reporting business conditions to be stable or expanding. The summer pattern for industrial distributors remains mixed. However, the capital equipment firms are generally flat compared to a few months ago. With the fall in oil and commodity prices, any firms tied to the extractive industries are having some difficulties.

Business optimism, which is a "gut level" impression of economic health, has again faded a little over the past month. Our LONG TERM BUSINESS OUTLOOK index eased to +40 from +44. The SHORT TERM BUSIESS OUTLOOK index remained positive but backtracked to +22 from +25. It appears that geopolitical events have dampened the outlook for some respondents, even though the local economic picture remains much more positive.

The August 3 press release from the Institute for Supply Management, our parent organization, portrays a slower picture of growth for the national economy. For a third month in a row, ISM's index of NEW ORDERS remained positive but edged lower to +5, down from +9. The PRODUCTION remained unchanged at +7. ISM's overall index eased to 52.7 from 53.5, although any reading over 50.0 is still considered positive.

Slow growth for the U.S. is also the view from Markit.com, the international economics consulting firm. Markit's overall index rose modestly to 53.8 from 53.6. The survey author further noted:

> "The PMI for the U.S. picked up in July but the sector continues to endure one of the slowest growth phases seen over the past year and a half. Companies reported that the strong dollar once again hurt export competiveness, exacerbating already weak demand in many countries, especially emerging markets and Asian economies."

According to the J.P. Morgan Global Manufacturing Report released on August 3, the international economy remains sluggish. Global PMI for July remained unchanged at a paltry 51.0. The numbers coming from countries like China, Indonesia, France, and Greece continue to be a drag on the world economy. The survey author further noted:

> "The most impressive growth rates are being seen in the Netherlands, Spain and Italy, the latter being notable in enjoying its strongest growth for over four years in July. Policymakers will be reassured by the robust growth rates seen in these countries and the resilience of the manufacturing sector as a whole, especially as growth is likely to pick up again now that Greece has jumped its latest hurdle in the ongoing debt crisis."

Over the past month, an accord has been reached between the Europeans and Greeks over restricting the debt and instituting new austerity measures. In the 2012 restructuring, the interest rates on a huge portion the Greek debt was reduced to a paltry 1.5%, which resulted in a 40% loss in the net present value of the money borrowed in the 2001-2006 time frame. In the bond business, this is referred to as a "haircut." The bondholders, most of whom were European citizens as well as European banks, were not happy, but it produced a long-term path out of the dilemma and an eventual recovery of the face value of the bonds. From an economic standpoint, the program seemed to be working. In the first three quarters of 2014, the Greek GDP grew at a rate of 2.3%, and forecasters estimated that 2015 GDP would rise about 3%. By late August 2014, interest rates had fallen to about 5.6%, still high compared to the rest of the world, but manageable.

As the economy headed toward apparent recovery, many Greeks apparently could not understand why the "austerity" was still necessary. As the left-wing Syriza party took control in January, retirement age was dropped back to 58, and pensions reset at 80%. But then the debt payments started to come due. After brutal negotiations over the past few months, a new agreement was reached in early July, and the markets seemed to breathe a sigh of relief.

However, the country has lost about 20% of its GDP, which will take many years to replace. The unemployment rates remain at 25%, but is now starting to edge up again. Many Greeks have already moved their savings out of the country, leaving the banks undercapitalized. The World Bank's estimate for 2015 GDP growth has gone from a positive 3% to a negative 3%.

Few, if any, observers think that the Greek crisis is over. This month's PMI from Greece came in at 30.2, the lowest of any PMI for any country in the last 75 years. A short term solution has been reached, but more money is flowing out of the country in anticipation of another crisis. Granted, SOME money is coming in to the country to buy up land at "fire sale " prices, but without new capital investment, the crisis will continue. On the other hand, there is still a slim hope that the new austerity measures will revive growth enough in 2017 and 2018 to lessen the impact of the next crisis.

In other recent economic news, the number of Americans filing new applications for unemployment benefits dropped to a seasonally adjusted 255,000 for the week ended July 18, its lowest level in more than 41 years. Part of the drop was attributed to the seasonal adjustment factors, which have assumed a significant number of workers filing because of annual "model changeover" in the auto industry. In today's world, most auto assembly lines continue running through the summer with no significant break. Another reason for the drop in filings is a drop to a 38 year low for the worker participation rate. At 62.6%, the worker participation in the U.S. has fallen far below other industrialized countries like Japan (74.9%), Switzerland (83.3%), Sweden (80.9%), and Germany (78.1%). Workers who have dropped out of the workforce don't file for unemployment.

The July 25 press release from the Michigan Department of Technology, Management and Budget (DTMB) confirms our survey statistics. For the past 18 months, our index of EMPLOYMENT has posted double-digit gains, despite the fact that the recovery from the Great Recession is now well over six years old. In terms of job growth over the past six months, Kent County has added about 13,000 new jobs, Ottawa County 6,000, and Kalamazoo County about 3,000. During the January to June period, the State of Michigan added 114,000 jobs. However, the total "official" number of unemployed workers for June rests at 261,000, well ahead of the 30 year record low of 167,000 recorded in March 2000. The survey respondents continue to imply that the unemployment rates would be even lower if they could find enough trained people to hire.

Locally, almost all of our unemployment rates are below the current state level of 5.5%. West Michigan counties like Ottawa, Kent, Allegan, and Barry continue to parade unemployment rates in the 4.0% to 4.5% range – well below the state and national averages. Kalamazoo County came in slightly higher at 4.8%, as did Calhoun County at 5.4%. Van Buren County, still trying to recover from several significant job losses, remains high at 6.3%, even though the rate is 1.5% lower than July 2014.

Other economic news for the month came from the Department of Commerce. After twice reporting that GDP for the U.S. fell in the first quarter, the latest (but not final) revision pegs the growth rate at a positive 0.6%. For the second quarter, the first estimate is that GDP grew at a rate of 2.3. There will obviously be more revisions to come, but the pattern of slow growth is projected to continue.

Looking forward, West Michigan remains stable and growing, but manufacturing in the rest of the country is being impacted by the strong dollar and declining exports. If the trend continues, our local statistics will be pulled a little lower. The Puerto Rico default will hurt the bond market, but have little impact on the industrial market. If world commodity prices continue to fall, the result will be more mine closures and losses in various metal portfolios around the world. With the Chinese PMI now falling, China could be the opaque enigma which draws the world into a global recession if the economy collapses. Again, we just don't know. But if the Chinese economy simply slows or turns flat, the U.S. should have enough momentum to stay out of a recession.

July 2015 COMMENTS FROM SURVEY PARTICIPANTS

"Business is very good, and we are about to add manufacturing space."

"Scrap prices were up slightly over the past month but will be receding once again starting next month."

"We are seeing machine tool prices come down as the manufacturing sector slows, with heavy competition from Japanese competitors."

"Steel seems to have bottomed out."

"Busy!"

"July and August look to be our busiest months YTD."

"We are seeing overall softness in most industrial and consumer business segments, except automotive."

"Suppliers not reducing prices commensurate with lower commodity prices."

"Quotes are slowing down for the first time in years."

"We're so busy right now, with more work to do than we have money or people to do it!"

"Business is strong. We continue to struggle with enough production time to meet demand."

"Business is a little slower than we were expecting for this time of year. The medical industry seems to be slower than usual."

"Busy season!"

"Energy market still way down on the demand side."

"Our business has seen a significant slowdown, and the forecast for the remainder of 2015 does not look very promising."

"We are holding our own, but not lighting the world on fire. Machinery orders have tapered off this year compared to 2014."

"I don't have time to go into a lengthy discussion. I'm too busy trying to catch up! This is GOOD (I think)!"

"Business remains steady and at previous levels."

"June was up about 10% over May. We are on track for a good July if we keep this pace the rest of the month."

"Bombardier Global Express announced a production rate reduction with a significant volume reduction."

"A strong June helped make up for some of the soft sales early in the year."

"Second half sales and production will make up for a relatively flat first half. Things are good; not great."

"We are still having trouble getting and keeping production workers."

"Equipment orders are starting to come together, and quote activity is doing well also.

"We will not hit forecast for July. Petroleum projects are being delayed, likely due to low oil prices."

July 2015 Survey Statistics

	UP	SAME	DOWN	N/A	July Index	June Index	May Index	20 Year Average
Sales (New Orders)	44%	32%	22%	2%	+22	+19	+31	+29
Production	39%	42%	13%	6%	+26	+16	+29	+13
Employment	31%	63%	6%		+25	+20	+24	+ 8
Purchases	27%	60%	13%		+14	+24	+19	+ 7
Prices Paid (major commod.)	6%	78%	13%	3%	-14	-14	-14	+35
Lead Times (from suppliers)	14%	83%	3%		+11	+ 8	+18	+11
Purchased Materials Inv. (Raw materials & supplies)	20%	61%	12%	6%	+ 8	+10	+15	- 5
Finished Goods Inventory	22%	66%	6%	6%	+16	+ 9	+ 5	-10
Short Term Business Outlook (Next 3-6 months)	36%	50%	14%		+22	+25	+36	-
Long Term Business Outlook (Next 3-5 years)	43%	52%	3%	3%	+40	+44	+45	-

Items in short supply: Unskilled, skilled and professional labor, aggregate, asphalt, contractors, construction equipment, heavy truck equipment and attachments, skilled trades, aerospace electrical components, employees, copper.

Prices on the UP side: Asphalt, construction equipment, heavy truck equipment, wages, oil related products, paraffinic oil, PVC resin, polypropylene, carbon steel, carbon steel scrap, copper, stainless steel.

Prices on the DOWN side: Steel, aluminum, metal and metal based chemicals, copper*, nickel, polypropylene, recycled asphalt, steel scrap*, metal scrap, resin, petroleum based products, raw carbon steel*, hot rolled and cold rolled steel, gasoline.

*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)

	June 2015	June 2014	Aug. 2009	20 Year Low
State of Michigan (Adj.)	5.5%	7.1%	14.6%	3.2%
State of Michigan (Unadj.)	5.8%	7.7%	14.1%	2.9%
Kent County	4.1%	5.3%	11.9%	2.1%
Kalamazoo County	4.8%	6.1%	11.1%	2.1%
Calhoun County	5.5%	6.6%	12.8%	2.7%
Ottawa County	4.0%	5.2%	13.3%	1.8%
Barry County	4.4%	5.6%	10.9%	2.2%
Kalamazoo City	6.0%	7.6%	15.2%	3.2%
Portage City	4.4%	5.6%	8.7%	1.3%
Grand Rapids City	5.4%	7.1%	16.1%	3.0%
Kentwood City	3.9%	5.0%	10.7%	1.4%
Plainfield Twp.	3.1%	4.1%	8.0%	1.4%
U.S. National Official Rate	5.3%	6.3%	9.6%	3.8%
U.S. Rate Unadjusted	5.1%	6.1%	9.6%	3.6%
U.S. U-6 Rate**	10.8%	12.1%	16.7%	8.0%

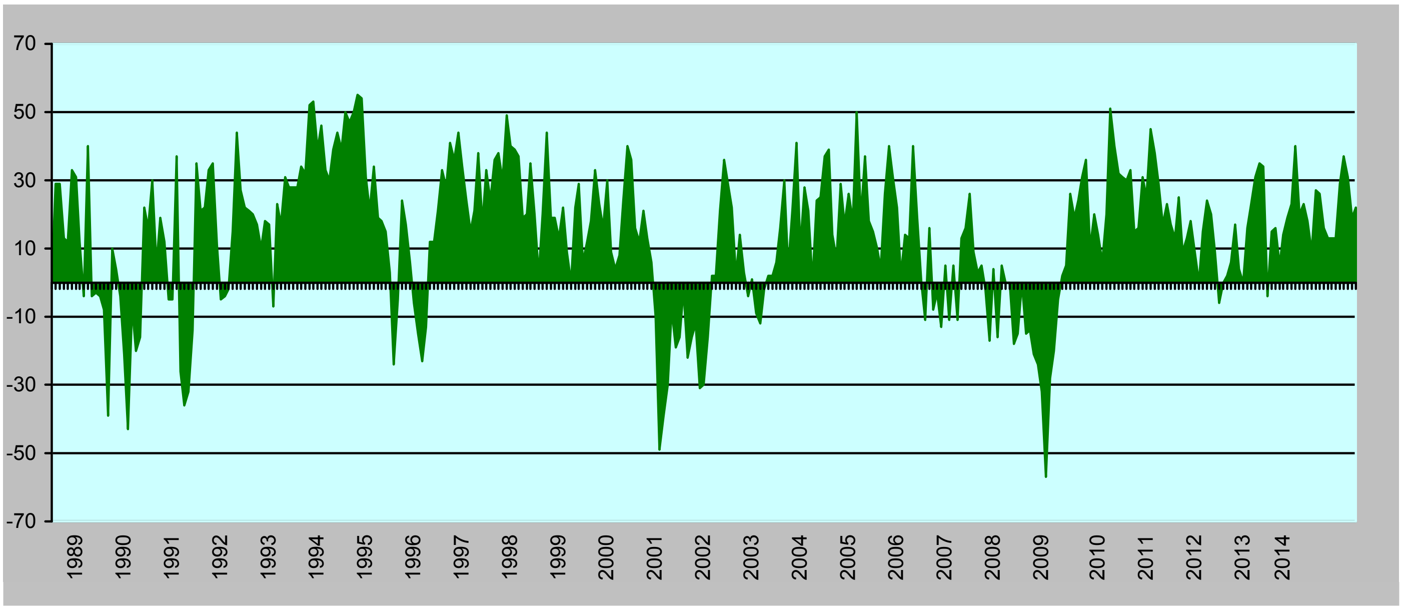
**U-6 for Michigan = 10.5% for June 2014 to May 2015

Index of New Orders: West Michigan

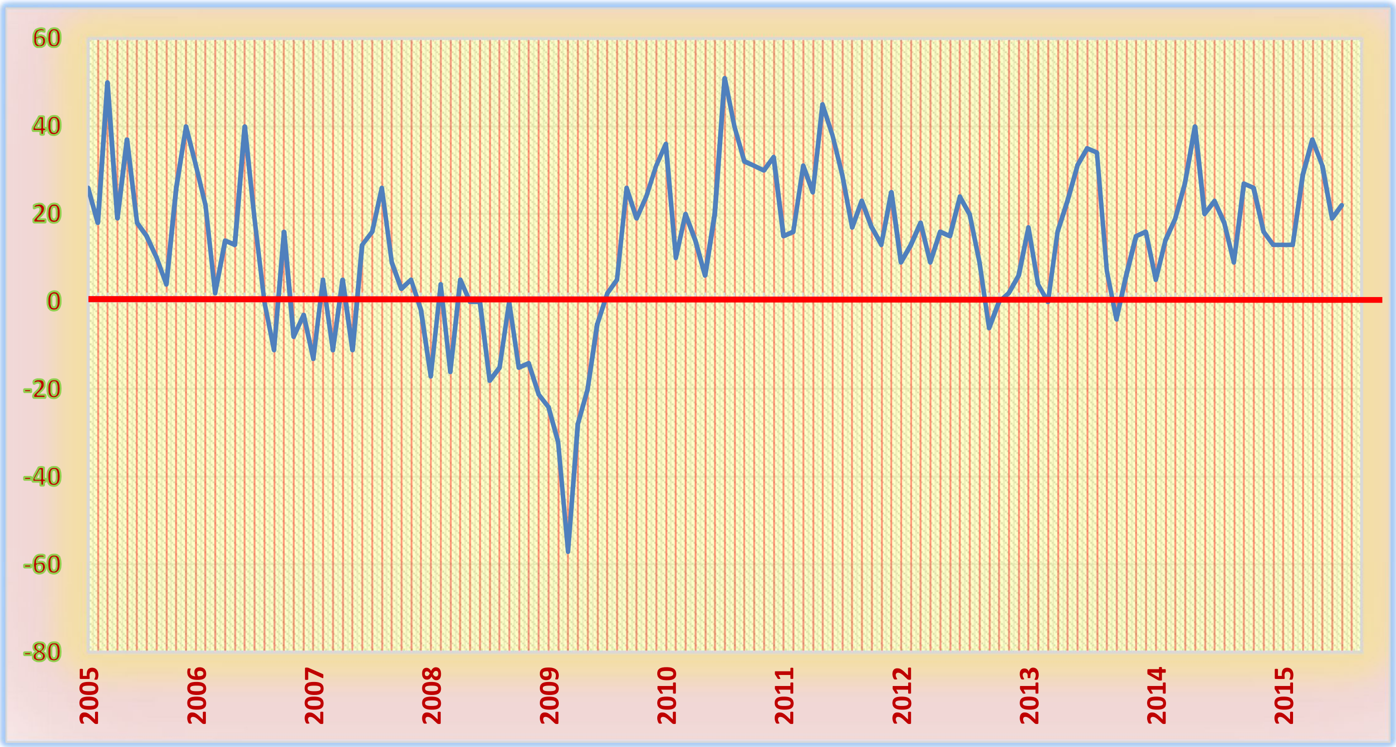
As the name implies, this index measures new business coming into the firm, and signifies business improvement or business decline. When this index is positive for an extended period of time, it implies that the firm or organization will soon need to purchase more raw materials and services, hire more 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	+22 for the month of July, 2015
Previous Month	+19 for the month of June, 2015
One Year Ago	+18 for the month of July, 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

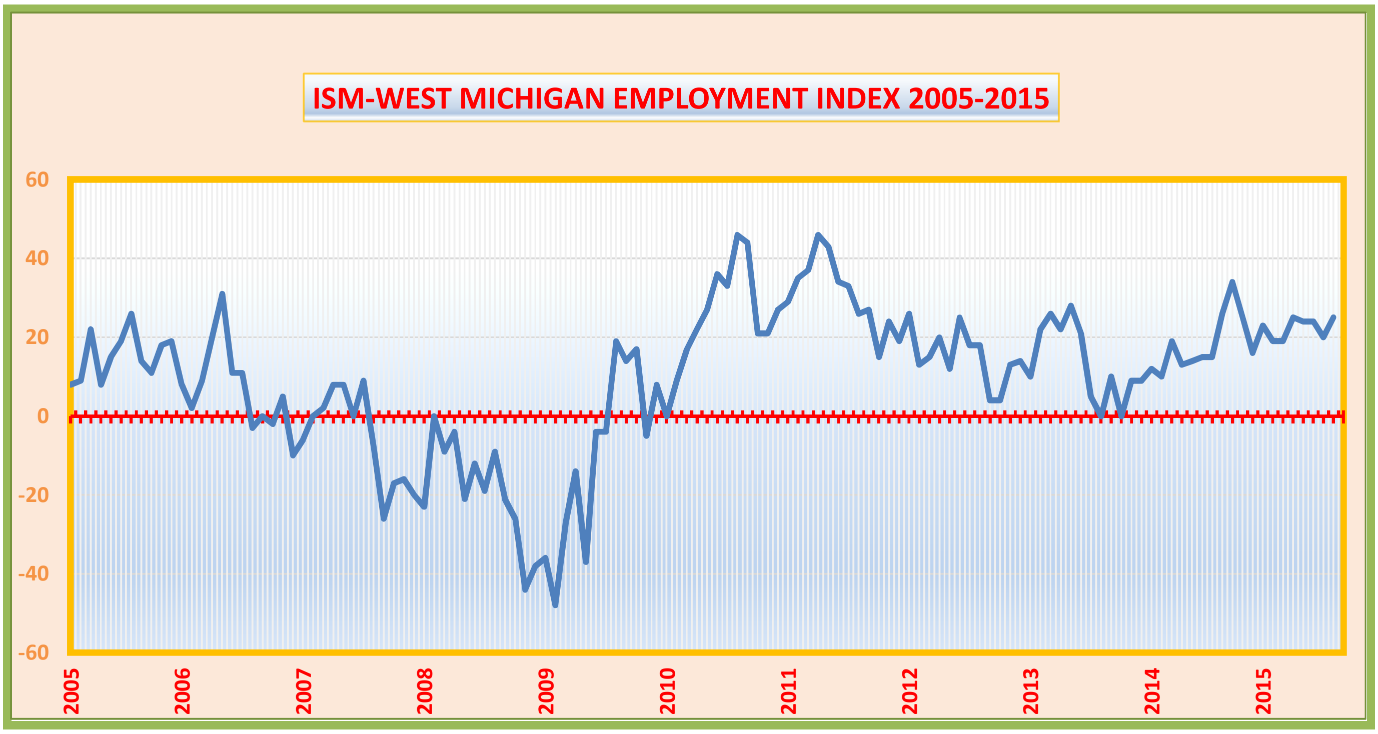


ISM-West Michigan Index of New Orders: 2005-2015 Only



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 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.



ISM-West Michigan Future Business Outlook

The indexes of LONG TERM BUSINESS OUTLOOK and SHORT TERM BUSIESS 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 event 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.