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Current Business Trends

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Slower Growth Continues

Growing, but still slowing. That's the latest word on the West Michigan economy, according to the data and comments collected in the last two weeks of September 2015. NEW ORDERS, our index of business improvement, edged up to +13 from +5. In a similar move, the PRODUCTION index rose to +12 from +3. Activity in the purchasing offices, our index of PURCHASES, dropped to +0 from +12. Regrettably, for the first time since 2009, our index of EMPLOYMENT turned modestly negative at -3, down from +7 in August and down even more from the +25 we reported in July. As always, it is worth repeating that one month is never a trend. We know that the world and U.S. economies are continuing to slow, so it stands to reason that we can expect at least some flattening at the local level as well.

Despite many new types of firms now coming to West Michigan, we are still heavily dependent on automotive parts producers, office furniture, and aerospace for growth. All three of these industries reported stable conditions for September, although only a couple of respondents noted a significant uptick for the month. Some of our capital equipment firms are starting to feel the pinch from foreign competition and are no longer as optimistic. As a group, our industrial distributors reported business conditions for September to be the same as August.

Another note of caution comes from our data on business confidence. The SHORT TERM BUSINESS OUTLOOK index remained positive but backtracked to +11 from +16. Although the index is still slightly positive, this reading constitutes a two-year low. In contrast, our LONG TERM BUSINESS OUTLOOK index remained unchanged at +38. Just as last month, it appears that geopolitical events have continued to dampen the outlook for some respondents.

At the national level, the October press release from the Institute for Supply Management, our parent organization, has turned virtually flat for the first time in five years. ISM's index of NEW ORDERS retreated to -3 from +1. The PRODUCTION index eased to +1 from +5. The EMPLOYMENT index also flipped negative to -3, down from +1 in September. ISM's overall index eased to 50.2 from 51.1. The break-even point is 50.0.

Confirming the ISM statistics, the international economics consulting firm of Markit.com reported the second lowest level of activity since October 2013 for the U.S. Weaker export sales remained a drag on total new orders, and respondents reported another slowdown in employment growth during September. However, Markit's overall September index still came in at 53.1, well ahead of the diffusion index break-even point of 50.0 and well ahead of ISM's 50.2. The survey author further noted:

"The US manufacturing sector has seen a distinct loss of growth momentum in recent months, enduring the worst performance for two years during the third

quarter. Headwinds include the rising dollar, weak demand in global markets, a downturn in business investment and financial market jitters."

According to the October 1 press release for the J.P. Morgan Global Manufacturing Report, JPM's overall index came in at 50.6 in September, down from 50.7 in August. In addition to the U.S., the PMI for key countries like Ireland, Germany, Netherlands, Italy, and Spain are modestly positive. Mexico and Canada, our largest trading partners, are hovering flat. Other countries like Greece, Russia, France, China, Turkey, Brazil, Indonesia, and South Africa are pulling the numbers down.

"The global PMI indicates the manufacturing sector remained in very low gear in September, due to sluggish final demand and ongoing inventory adjustments. These impacts are also starting to crossover into the labor market, leading global employment PMI to fall below 50 for the first time in over two years."

Although the PMI indexes are now positive for all of the Eurozone countries except Greece, the prospect for the next few months is not overly optimistic.

"Despite unprecedented central bank stimulus and substantial currency depreciation, the Eurozone manufacturing sector is failing to achieve significant growth momentum and even risks stalling again. The pace of expansion has been range-bound since the uplift following the start of QE earlier in the year, remaining disappointingly modest and even slipping to a five-month low in September."

This month's unemployment update from the Michigan Department of Technology, Management and Budget (DTMB) continues to be optimistic. For the month of September, Michigan added about 8,000 new jobs, and the "official" number of unemployed workers fell to 242,000. This constitutes the smallest number of unemployed workers since 1996. However, it does not include the disenfranchised workers who have dropped out of the workforce, or those who that are working at part-time jobs who would like to move to full time. Most of the unemployment rates for our local counties are now well below the state and national averages. For instance, unemployment in Ottawa County is now at 3.2%, Kent County 3.4%, and Kalamazoo County 4.0%. However, with the ISM index of EMPLOYMENT now negative, as well as our local index now at its lowest level since 2009, we will need to watch the jobs reports more closely in coming weeks.

For auto sales, the industry posted one of the strongest months in history, bringing the seasonally adjusted rate to over 17 million vehicles. For the Detroit Three, GM gained 12.5%, Ford 23.3%, and Chrysler 13.6%. For other major brands, Toyota gained 16.2%, Subaru 27.8%, Honda 13.1%, and beleaguered Volkswagen 7.3%. With incentives now approaching all-time highs, the president of Honda continues to rail against his colleagues for "pulling sales forward" at a

time when enticements are not necessary. Most observers outside of the industry do not believe that sales at this level can be sustained indefinitely.

In other economic news, the Department of Commerce revised the GDP growth estimate for the second quarter of 2015 upward to 3.9% from 3.7%. No revisions were made to the first quarter estimate, so it is safe to say that the economic history books will permanently report it as a slow growth rate of 0.6%. Most observers expect the last two quarters to average about 2.5%, but even the best and brightest economist now have a wide range of opinions about how 2015 will end.

In summary, much of the latent economic pessimism comes from the slowing of the world economy and other geopolitical events. The national economy

continues to slow, but still remains positive by a very slim margin. Our survey participants associated with exports and firms tied to the extractive industries are beginning to retreat. For West Michigan, we are fortunate that not very many manufacturing firms are directly tied to these industries. Some participant comments are still upbeat, while others are sounding a modest note of caution. Some of our statistics remain positive, but much of the buoyancy for West Michigan is still based on near-record automobile sales and continued strength in the office furniture market. Both of these industries are notoriously cyclical, and we are currently at or near the peak. However, West Michigan is still outpacing the nation as a whole as well as outperforming East Michigan by a considerable margin. This momentum should be sufficient to carry us well into 2016, although the pattern of slow growth is the most we can hope for.

SEPTEMBER 2015 COMMENTS FROM SURVEY PARTICIPANTS

"Steady as she goes."

"It seems like orders for capital goods are slowing dramatically."

"Are we having fun yet?"

"Reshoring is consuming capacity and creating problems within our supply base."

"Business is steady at this point. We have bailed out of a backlog situation, therefore reducing overtime costs. We do have new project opportunities coming in."

"Orders are strong, and we are still having trouble meeting demand."

"We had a softer ending to Q3 than hoped, but we have lots of new potential business and sales on the horizon."

"With the next model year of cars starting, we are very busy."

"We have very strong sales, and business is looking favorable for the near future."

"After a stagnant Q3, Q4 is showing a bit of promise."

"Business is really starting to pick up."

"We continue to experience a slowdown with most of our customers that are not automotive related."

"Business is flat. It is hard to tell which way things will go in 2016. We are holding our own, though. We continue to expect prosperity."

"Oil and gas exploration is down. Contract manufacturing for this sector will be negatively affected through 2016."

"The short term business outlook is down due to seasonality of business."

"Orders are still strong in the automotive industry."

"Machine tool prices are still dropping. We are seeing overseas competitors bring inventory to the U.S. to sell because the Chinese market is cooling off."

"We just implemented a second shift to keep up with new orders and to catch up on late orders."

"All of a sudden, my inquiry level has doubled. Also, customers with startup facilities in China are planning to increase capacity there. Looks good to me!"

"Carbon steel continues to be cheaper and even seems to be trending lower yet."

"July and August were very strong, but the remainder of the year is looking soft."

"Many large projects are on hold due to lower oil prices. After two bad months, we will be reducing our forecast for the remainder of the year."

"We're seeing a little slowdown as we end the third quarter. We might still catch up to last month if we have a few good days, but phones, fax, and email activity is down."

"We are steady on orders, but slower on quotes."

"I'm not sure what is happening. Is business is going to take off, or fall off a cliff?"

"September has been very busy for our organization by helping out other agencies spend their money before the end of budget year!"

"All in all things remain steady as well as pricing."

"We're slowing down as we approach the end of the year after a rather busy summer."

"While Q3 was softer than plan, we expect Q4 to be solid."

"Polypropylene manufacturers are still demanding increases outside of the established index."

September 2015 Survey Statistics

	UP	SAME	DOWN	N/A	Sept. Index	Aug. Index	July Index	20 Year Average
Sales (New Orders)	27%	50%	22%	1%	+13	+ 5	+22	+29
Production	24%	49%	21%	6%	+12	+ 3	+26	+13
Employment	16%	75%	9%		- 3	+ 7	+25	+ 8
Purchases	26%	59%	14%		+ 0	+12	+14	+ 7
Prices Paid (major commod.)	4%	80%	16%		-17	-12	-14	+35
Lead Times (from suppliers)	13%	84%	3%		+ 6	+10	+11	+11
Purchased Materials Inv. (Raw materials & supplies)	21%	60%	13%	6%	+ 0	+ 8	+ 8	- 5
Finished Goods Inventory	21%	56%	17%	6%	+ 6	+ 4	+16	-10
Short Term Business Outlook (Next 3-6 months)	30%	56%	14%		+11	+16	+22	-
Long Term Business Outlook (Next 3-5 years)	41%	53%	3%	3%	+38	+38	+40	-

Items in short supply: OSB panels, electronics, labor and factory workers, cold rolled steel because of mill quality issues.

Prices on the UP side: Castings, labor rates, pricing holding, paraffinic oil, sand, sodium chloride, trucking, heavy duty truck parts, aluminum.

Prices on the DOWN side: Metals, carbon and stainless steel, natural gas, fuel, scrap steel, pig iron, alloys (copper and moly), plastics, cold rolled steel, hot rolled steel, steel plate, PVC resin, titanium dioxide, polycarbonate, ABS, nylon, aluminum*, components from China, India, and Europe.

*Note: 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)

	Aug. 2015	Aug. 2014	Aug. 2009	20 Year Low
State of Michigan (Adj.)	5.1%	6.8%	14.6%	3.2%
State of Michigan (Unadj.)	5.2%	7.3%	14.1%	2.9%
Kent County	3.4%	4.9%	11.9%	2.1%
Kalamazoo County	4.0%	5.6%	11.1%	2.1%
Calhoun County	4.6%	6.1%	12.8%	2.7%
Ottawa County	3.2%	4.6%	13.3%	1.8%
Barry County	3.6%	5.2%	10.9%	2.2%
Kalamazoo City	5.0%	6.2%	15.2%	3.2%
Portage City	3.6%	5.1%	8.7%	1.3%
Grand Rapids City	4.5%	6.5%	16.1%	3.0%
Kentwood City	3.2%	4.6%	10.7%	1.4%
Plainfield Twp.	2.5%	3.7%	8.0%	1.4%
U.S. Official Rate (Aug.)	5.1%	6.1%	9.6%	3.8%
U.S. Rate Unadjusted	5.2%	6.3%	9.6%	3.6%
U.S. U-6 Rate**	10.3%	12.0%	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 +13 for the month of September, 2015

Previous Month + 5 for the month of August, 2015

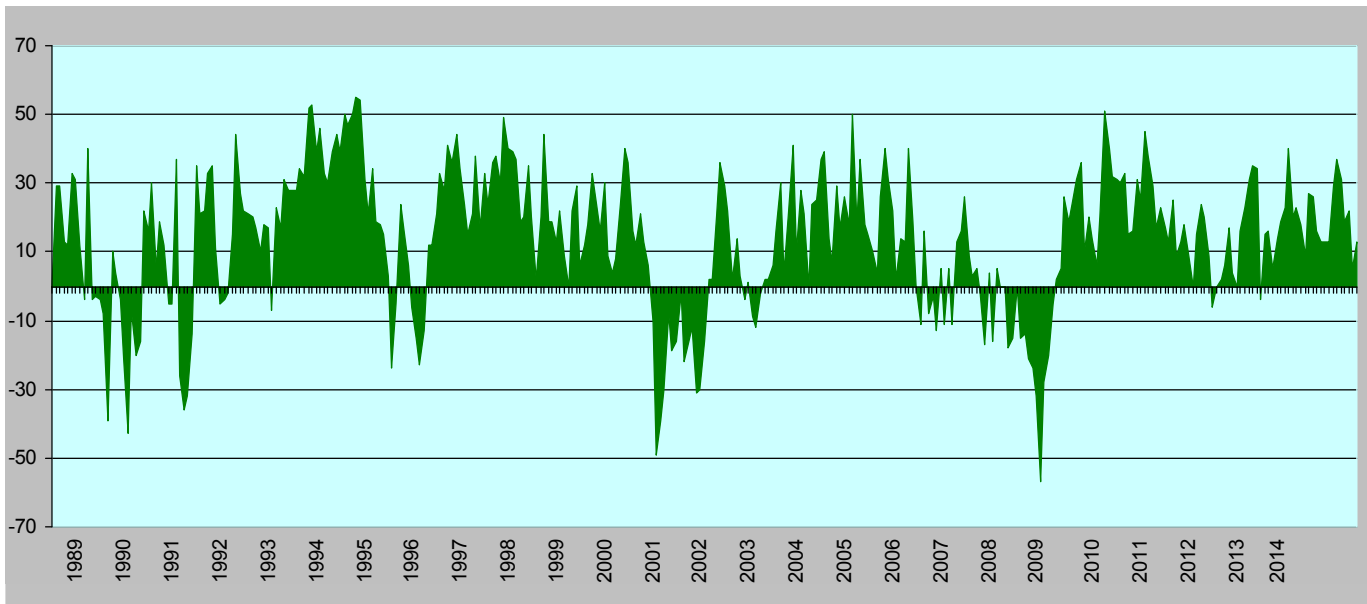
One Year Ago +27 for the month of September, 2014

Record Low - 57 for the month of December, 2008

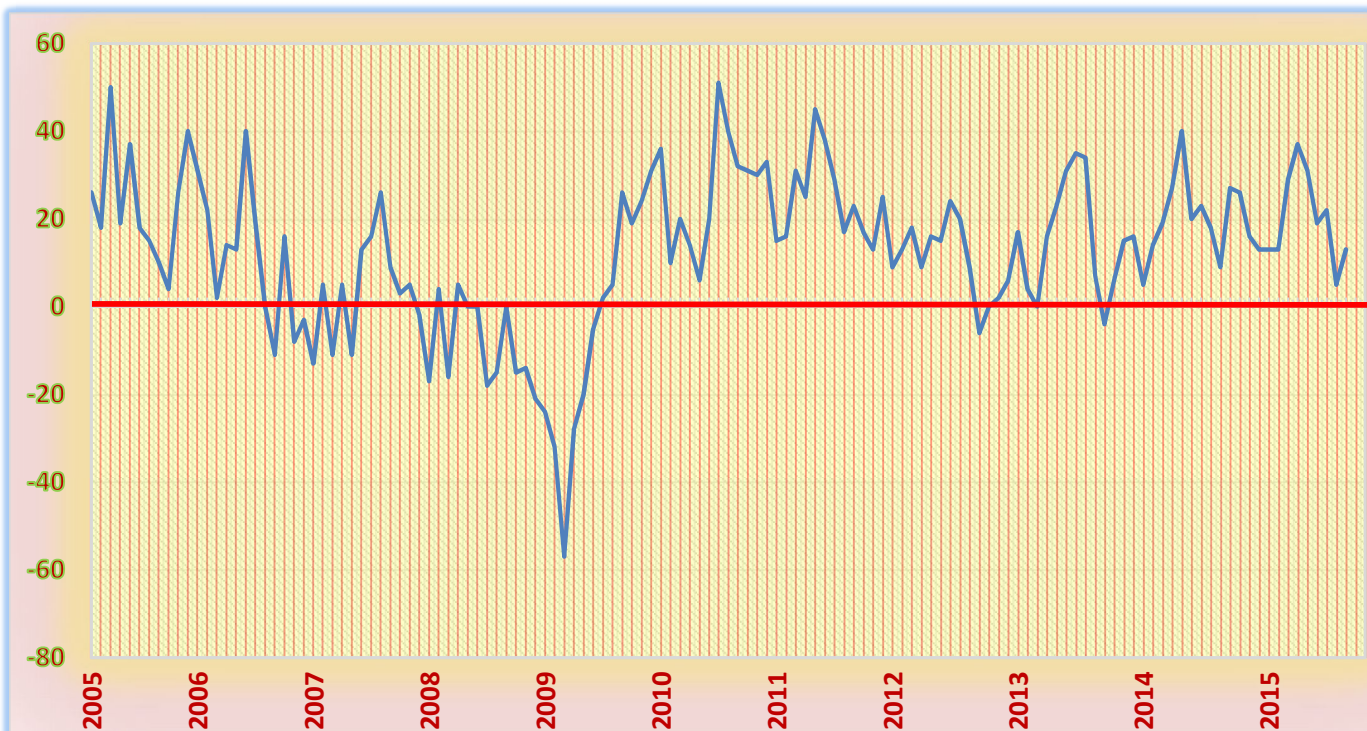
Record High + 55 for the month of September, 1994

First Recovery + 3 in April of 2009 and forward

ISM-West Michigan Index of New Orders 1988 - 2015

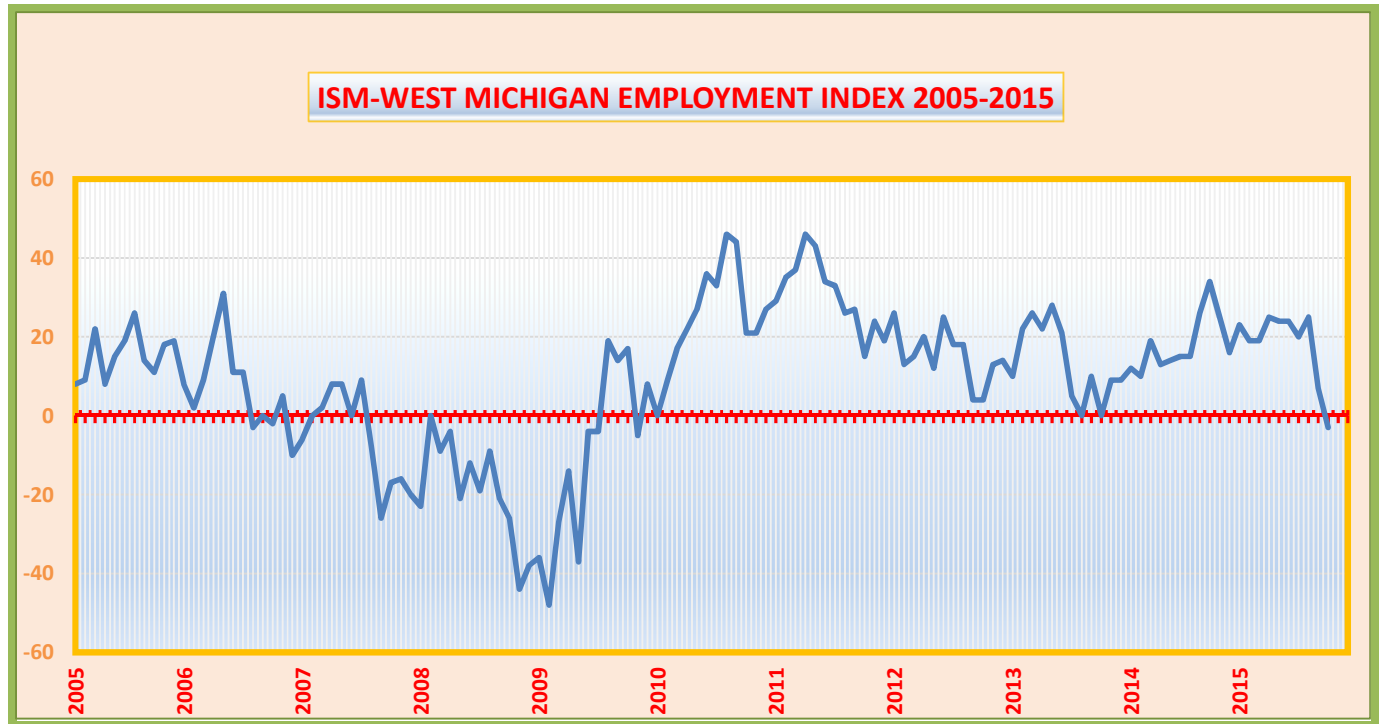


ISM-West Michigan Index of New Orders: 2005-2015 Only



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 reduction in industrial unemployment for West Michigan. Normally, there is about a month or two in lag time between this report and the payroll numbers being reflected 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 laying 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 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.

