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News Release (For Immediate Release)

November 4, 2015

Current Business Trends

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Slower Growth: Still Growing, But Slower

For what now seems like the 40th time, slow growth is still the best way to describe the West Michigan economy, according to the data and comments collected in the last two weeks of October 2015. Our closely watched index of NEW ORDERS remained positive but edged slightly lower to +9 from +13. The PRODUCTION index retreated to +3 from +12. Activity in the purchasing offices, our index of PURCHASES, rose modestly to +6 from +0. For the EMPLOYMENT index, it was gratifying to see the index flip back to positive at +5, up from -3. Even though the West Michigan economy has flattened, we are still modestly better off than the U.S. economy as a whole. As long as sales for auto parts, office furniture, and aerospace remain near record levels, the West Michigan economy should continue on the path of slow growth. One respondent noted that we are now at the top of our game, and there seems to be little room for upward expansion. In addition, most industrial businesses are as profitable as they have been in many years.

However, a note of caution comes from the data we collect for business confidence. The SHORT TERM BUSINESS OUTLOOK index is still positive but backtracked to +4 from +11, a two-year low. Geopolitical events have continued to dampen the outlook for some respondents. In contrast, our LONG TERM BUSINESS OUTLOOK index moved up to +44 from +38.

Looking as we always do at individual industries, not much has changed over the past several months. The automotive parts producers are still near full capacity, although the rate of plant expansion seems to have slowed. The office furniture business is still near an all-time high, and local firms are still finding new ways to grow. The aerospace industry is smaller than automotive parts and office furniture, but new orders remain driven by the major players in the industry like Boeing and Airbus. One weak spot that may be emerging is the capital equipment industry, where foreign competitors are discounting prices because of the softer sales in China and Western Europe. Our industrial distributors reported business conditions to remain on track, with no major problems.

At the national level, the November press release from the Institute for Supply Management, our parent organization, remained near flat. ISM's index of NEW ORDERS returned to positive at +1, up from -3. The PRODUCTION index rose infinitesimally to +2 from +1. The EMPLOYMENT index edged lower to -8, down from -3. ISM's overall index eased to 50.1 from 50.2. Comments from the respondents reflected concern over the high price of the dollar and the continuing low price of oil, mixed with cautious optimism. However, ISM's index of NEW EXPORT ORDERS came in at -5, slightly better than the -7 reported last month. The strong dollar makes U.S. goods more expensive to the rest of the world, but so far, the bottom is not falling out of the export market as some pundits predicted.

A contrasting view of the U.S. economy comes from the international economics consulting firm of Markit.com. For October, the report posted the sharpest improvement in overall business conditions since April. The survey authors note that stronger U.S. manufacturing performance is driven by faster rises in output, new orders, and employment levels. Markit's PMI rose to 54.1, up from 53.1 in September. This is well above the ISM's index of 50.1. The survey author further noted:

"Stronger manufacturing growth in October brings encouraging news after the sector saw the pace of expansion slump to a two-year low in the third quarter. Factory output growth accelerated, equivalent to around a 4% annualized rate of increase, as firms saw the largest monthly jump in new order inflows since March. Export growth has also revived, suggesting firms are managing to adapt to the stronger dollar, as job creation picked up after slowing in September."

Internationally, the November 2 press release for the J.P. Morgan Global Manufacturing Index came in at 51.4, up from 50.7 in October. Business conditions for a few key countries like Ireland, Germany, Netherlands, Italy, and Spain continue to post modest gains. Mexico, our second largest trading partner, reported a PMI of 53.0 for the month, up nicely from 52.1. After years of negative numbers, business conditions in France have finally flipped back to positive. The PMI for Canada, our largest trading partner, sank to 48.0, down from 48.6. Other countries like Greece, Russia, China, Turkey, Brazil, Indonesia, and South Africa are pulling the numbers down for the international average. The survey author further noted:

"Export orders showed the largest monthly gain for four months, which may help allay fears that weaker growth in China and other emerging markets is derailing the Eurozone's recovery. Upturns are starting to look tired in countries that were performing strongly earlier in the year, with rates of growth slowing in Ireland and Spain. Tepid growth in Germany and an ongoing near stagnation in France left Italy as a somewhat surprising star performer."

Although the October survey numbers are not spectacular, 2015 has been a very good year for West Michigan. Because Economics 101 tells us that employment is an economic laggard, it is not surprising to see that this month's unemployment update from the Michigan Department of Technology, Management and Budget (DTMB) continues to improve. For the month of October, Michigan added another 10,000 new jobs. The "official" number of unemployed workers fell to 235,000. For West Michigan, most of the unemployment rates continue to stay well below the state rate of 5.0%. Ottawa County is still our best

performer at 3.0% unemployment, followed by Kent County at 3.1% and Kalamazoo County at 3.7%.

No matter how the unemployment rate is calculated, the results are still just estimates. The 5.0% unemployment rate for Michigan is the so-called "official" rate, but it is intended to be a guide, not an absolute number. For the BLS, this "official" statistic is labeled U-3, and constitutes the percentage of the labor force that is currently unemployed and actively looking for work. The broader measure, entitled U-6, is the "...total unemployed, plus all persons marginally attached to the labor force, plus total employed part time for economic reasons, as a percent of the civilian labor force, plus all persons marginally attached to the labor force." For some proponents, this can be called the "real unemployment rate." As of September 2015, that U-6 number stands at 12.0% in Michigan, which is also a 12-year low. In other words, both U-3 and U-6 have been falling at approximately the same rate.

One of the important things to look at is the trend. One year ago, Michigan's official rate was 5.9%. Because the methodology for calculating unemployment has not changed, it is safe to conclude that the overall unemployment situation is improving. Because the methodology is the same for the entire state, comparisons can be made between various geographical governmental units based on the residency of the persons surveyed. Here's the confusion: A person living in Kentwood (unemployment 2.9%) may work in Grand Rapids (unemployment 4.1%). Hence, residency and job location are two different things.

Another factor that is much more unsettling is the number of people who have simply dropped out of the

labor force. If these people had not dropped out, all of our unemployment numbers would be MUCH higher.

Auto sales for October came in at a SAAR rate of 18.2 million units, one of the strongest months in history. For the Detroit Three, GM gained 15.9%, Ford 13.4%, and Chrysler 14.6%. For other major brands, Toyota added 13.0%, Honda 8.6%, Nissan 12.5%, and Volkswagen 5.4%. Truecar estimates that financial incentives rose 14% to 3,104 per vehicle last month compared to October 2014. Besides generous incentives, lower gasoline prices and record-low finance rates were also cited as reasons for the strong performance. Just like most of 2015, the gains for many automakers were primarily centered on light trucks and SUVs.

In summary, the world economy still remains the greatest threat to the U.S. economy, although October saw many of the worldwide statistics begin to moderate, and some statistics improved considerably. Low commodity prices continue to be a two-edged sword, resulting in the extractive economies of countries like Canada and Australia softening, but industrial nations like Japan and Germany benefitting from the lower costs. The U.S. economy is both industrial and extractive, so we are caught in the middle. As always, there remains the risk of a surprise that we don't see, such as a terrorist act. It is also worth remembering that the Federal Reserve minutes up until three months before the Lehman Brothers collapse concluded that the economy was still on a strong footing. The economists on the Fed Board are supposed to be among the best and the brightest, and even they were blindsided. Let's hope that it doesn't happen again.

OCTOBER 2015 COMMENTS FROM SURVEY PARTICIPANTS

"We are seeing some strengthening in pricing for metals, but this will likely be short lived because the fundamentals have not changed."

"Price stagnation still rules."

"We anticipate steel prices will start to increase soon."

"Machine tools companies continue to be very competitive and are dropping prices."

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Fuel, scrap carbon steel, scrap stainless steel, PVC resin, acrylic process aids, cold rolled steel, natural gas, copper, brass, wire, aluminum, fuel, stainless steel, all scrap metal.

"Durable goods orders demand seems to be flailing."

"We're seeing a typical fourth quarter slowdown for class 8 truck market. Long-term outlook still solid."

"How much longer until the election? Oh, that's right. Over a year yet."

"Stable, but sales are bit slower than we would like."

"Our sales forecast is dropping off due to softening of aftermarket sales."

"Things are picking up a great deal."

"Business is picking up, but it still seems very volatile."

"Order activity has hit a wall. The last couple weeks is unusually slow."

"We are very busy. Business is good in the office furniture world right now."

"Sales were ok this summer. We are going into fall, and things look a little weaker."

"We continue to see a retraction of orders, and this has resulted in a reduction of our workforce. We do not anticipate any change in the next few months."

"We will end the year and start the New Year very strong. Business still looks very promising for both the short & long term outlook."

"Automotive shipments are up, possibly building inventory because of contract negotiations with the UAW."

"Looking ahead several years, it looks like our China business will shift to Mexico as it becomes more expensive to produce in China."

"We are trending toward a strong fourth quarter."

"It is rough going in gas and oil business,"

"We are reducing forecast for the year, and we won't make up the shortfalls from the last two months."

"It's been a great year so far!"

"We will finish the year 2015 strong, and currently 2016 looks very promising. But an election year I am cautiously optimistic."

"Our medical device packaging and related business has been up for several months. Our future is bright."

"The very busy lead time for us is out 16-18 weeks"

"We are still trying to catch up on back orders. We are still having trouble hiring/keeping production workers."

"Projects are busy, but sales orders are not."

"It has been a very busy the last couple of months wrapping up projects before winter."

"Business is starting to slow."

"The end of September perked up a bit, but not enough to save it from being a down month compared to August. September was 20% below July. The arrow is trending down as we start the third quarter. It would be nice to turn this around, but activity seems slow."

"Even with the automotive sector being as strong as it is, it is not enough to offset the steel industries overcapacity issues. The steel industry is in for a rocky road."

"The end of the year is slowing down, but projections still look good for next year."

October 2015 Survey Statistics

	UP	SAME	DOWN	N/A	Oct. Index	Sept. Index	Aug. Index	25 Year Average
Sales (New Orders)	31%	46%	22%	1%	+ 9	+13	+ 5	+14
Production	25%	47%	22%	6%	+ 3	+12	+ 3	+14
Employment	15%	75%	10%		+ 5	- 3	+ 7	+ 8
Purchases	25%	56%	19%		+ 6	+ 0	+12	+ 7
Prices Paid (major commod.)	7%	72%	19%		-12	-17	-12	+15
Lead Times (from suppliers)	12%	76%	12%		+ 0	+ 6	+10	+11
Purchased Materials Inv. (Raw materials & supplies)	9%	65%	19%	7%	-10	+ 0	+ 8	- 4
Finished Goods Inventory	10%	67%	16%	7%	- 6	+ 6	+ 4	- 8
Short Term Business Outlook (Next 3-6 months)	26%	52%	20%		+ 4	+11	+16	-
Long Term Business Outlook (Next 3-5 years)	47%	46%	4%	3%	+44	+38	+38	-

Items in short supply: Plasticizers, polypropylene, stainless steel, slag aggregate, construction equipment, specialty aluminum sheets, labor.

Prices on the UP side: Aluminum, plastics, polypropylene, slag aggregate, 2ns sand, sodium chloride, heavy duty dump trucks, labor.

Prices on the DOWN side: Fuel, scrap carbon steel, scrap stainless steel, PVC resin, acrylic process aids, cold rolled steel, natural gas, copper, brass, wire, aluminum,* stainless steel, all scrap metal.

*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)

	Sept. 2015	Sept. 2014	Aug. 2009	20 Year Low
State of Michigan (Adj.)	5.0%	5.9%	14.6%	3.2%
State of Michigan (Unadj.)	4.7%	5.7%	14.1%	2.9%
Kent County	3.1%	4.3%	11.9%	2.1%
Kalamazoo County	3.7%	5.1%	11.1%	2.1%
Calhoun County	4.2%	5.6%	12.8%	2.7%
Ottawa County	3.0%	4.1%	13.3%	1.8%
Barry County	3.4%	4.7%	10.9%	2.2%
Kalamazoo City	4.6%	6.3%	15.2%	3.2%
Portage City	3.4%	4.6%	8.7%	1.3%
Grand Rapids City	4.1%	5.8%	16.1%	3.0%
Kentwood City	2.9%	4.1%	10.7%	1.4%
Plainfield Twp.	2.5%	3.7%	8.0%	1.4%
U.S. Official Rate (Sept.)	5.1%	5.9%	9.6%	3.8%
U.S. Rate Unadjusted	4.9%	5.7%	9.6%	3.6%
U.S. U-6 Rate**	10.0%	11.7%	16.7%	8.0%

**U-6 for Michigan = 12.6% for July 2014 to June 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 +9 for the month of October, 2015

Previous Month +5 for the month of September, 2015

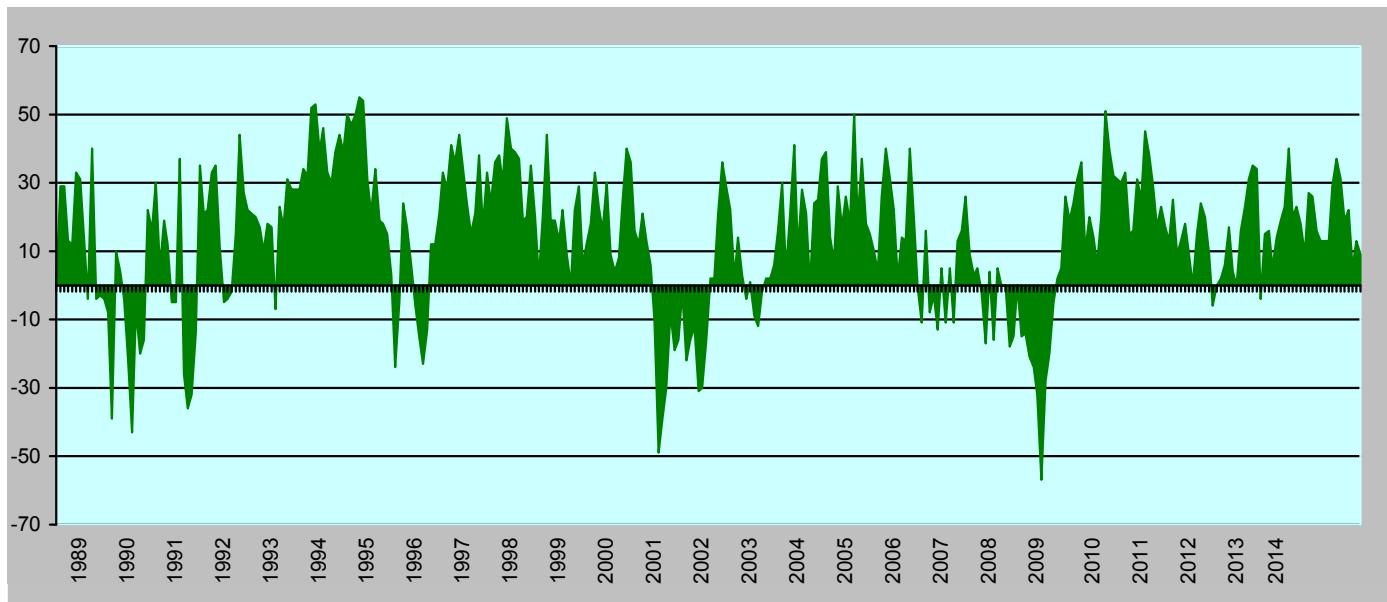
One Year Ago +26 for the month of October, 2014

Record Low - 57 for the month of December, 2008

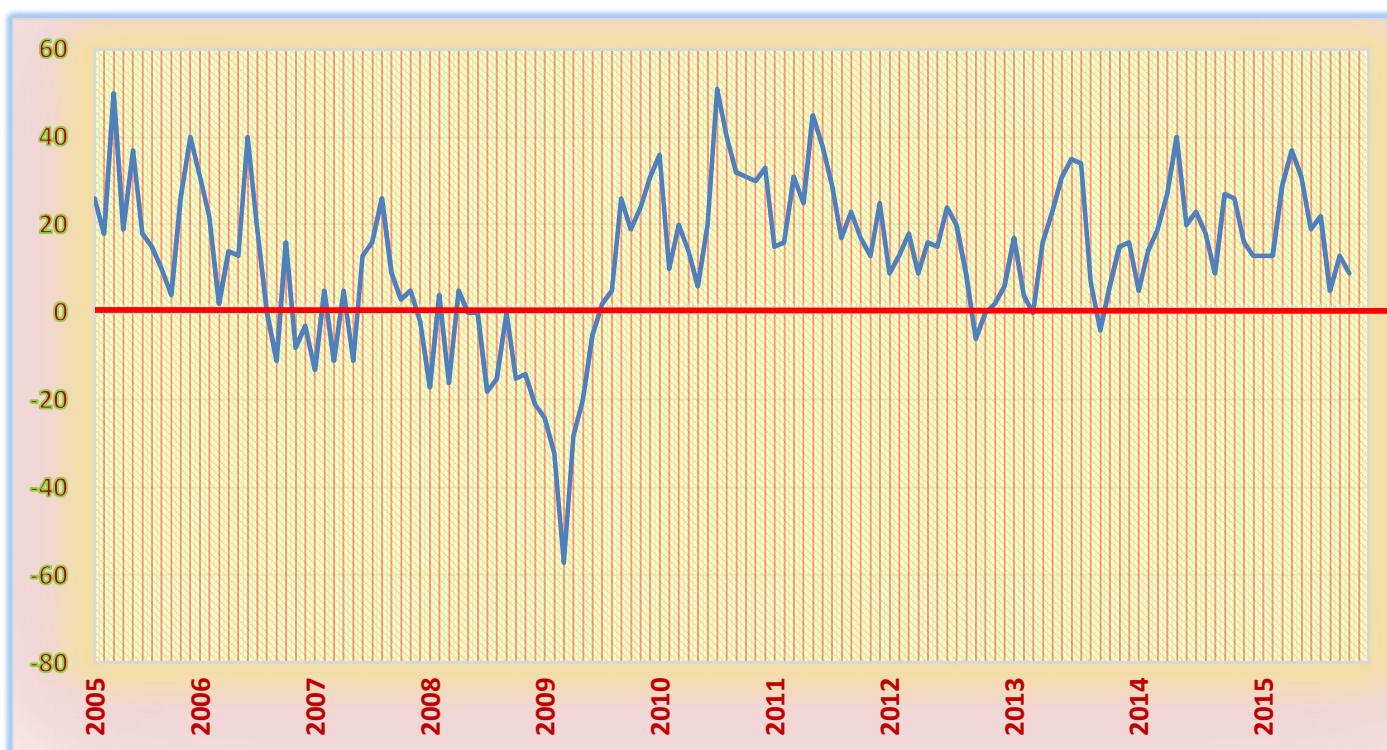
Record High + 55 for the month of September, 1994

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 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 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.

