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## **News Release (For Immediate Release)**

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### **Current Business Trends**

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#### **Back to Flat**

After last month's sixteen-month high, the West Michigan industrial economy has again returned to a growth pattern that is almost flat. According to the latest survey conducted during the last two weeks of October, NEW ORDERS, our index of business improvement, retreated to an anemic reading of +1, considerably below our September index of +23. In a similar move, the PRODUCTION index eased to +4 from +24. Activity in the purchasing offices, the index of PURCHASES, returned to a negative reading of -3, down from +15. Unlike the inventor spikes we reported in August, the October indexes representing both FINISHED GOODS INVENTORIES index and RAW MATERIALS INVENTORIES remained almost unchanged. It should be noted that the West Michigan economy is still very slightly positive, but the sharp uptick we were blessed with in September has not continued.

Looking at individual industrial groups, it is not surprising to see that most groups flattened. Several of the auto parts suppliers raised concern over the recent softening in auto sales and noted that new quotation requests were down considerably. Just like last month, the office furniture industry continue to show evidence of topping out, although business conditions still remain positive—at least for now. The bias on the capital equipment industry is now on the down side. For October, performance for the industrial distributors was mixed.

The business sentiment numbers for October were little changed and remain positive. The SHORT TERM BUSINESS OUTLOOK, which asks local firms about the perception of the next three to six months, eased modestly to +22, down from +28. Conversely, the October index for LONG TERM BUSINESS OUTLOOK edged higher to +45 from +41. From the anecdotal comments, it is obvious that some respondents to this month's survey are concerned about the outcome of the election. Business planners do not like uncertainty, so at least some expansion plans have been put on hold until the actual outcome of the elections can be determined and the direction that the new administration will take.

At the national level, the October report from the Institute for Supply Management, our parent organization, remained in single digits. NEW ORDERS, ISM'S index of business improvement, came in at +4, down from +7. The PRODUCTION index rose modestly to +6 from +4. It was good to see ISM's EMPLOYMENT index return to positive at +2, up from -3. ISM's overall index edged up to 51.9 from 51.5. As we noted in last month's report, about half of all the PMIs worldwide are less than two points above the 50.0 break-even.

The November 1 press release from Markit.com, the British international economics consulting firm, depicts a more favorable view of the U.S. economy. NEW ORDERS, EMPLOYMENT, and PURCHASES were all positive, and the overall Purchasing Manager's Index (PMI) rose to a twelve-

month high of 53.4, up 1.9 from September. Chris Williamson, Markit's chief economist, further noted:

"October saw manufacturing enjoy its best performance for a year. Factories benefitted from rising domestic and export sales, driving output higher to mark an encouragingly strong start to the fourth quarter. "However, a widespread reticence to take on extra staff highlights lingering caution with respect to investing in capacity, at least until after the presidential election."

The November 1 press release for the J.P. Morgan Global Manufacturing survey of 31 nations reported some promising improvement in the world economy. JPM's index of NEW ORDERS remained well above the all-important 50.0 break-even point and edged higher to 52.8 from 51.4. The PRODUCTION index advanced to 53.6 from 51.9. The J.P. Morgan Global Composite Purchasing Manager's Index rose to 52.0 from 51.0. Among the major economies of the world, the strongest PMI reports are coming from Germany (55.0), the U.K (54.3) and the Netherlands (55.7). At 51.8, the PMI for France has now returned to positive. The October PMI for China came in at 51.2, up from September's break-even point of 50.0. However, Greece, Brazil, Turkey, and South Korea continue to be a drag on the world economy. David Hensley, the survey author further noted:

"October saw growth of the global manufacturing sector accelerate to a two-year high, as new order inflows strengthened and international trade volumes picked up pace. Firmer demand combined with rising backlogs of work and higher employment all point to this growth rebound being maintained though some cooling can be expected as inventory growth stabilizes."

For some of our October reports, industrial inflation showed signs of recurring. JPM's October index of PRICES jumped to 55.3, up considerably from 52.7. At the national level, ISM's index rose to +9 from +6. In contrast, our local index of PRICES fell to -5 from +0. Most of the recent price increases are coming from the manufacturers of various plastic resins, as well as a few other chemicals linked to the recent (but temporary) spike in oil prices. By most accounts, steel prices continue to stabilize in both the domestic and world markets.

The West Michigan economy is still dependent on auto sales to fuel growth for our numerous automotive parts suppliers. For October, industry light vehicle sales fell by 0.7%, partially fueled by declines from the Detroit Three. Ford posted a decline of 8.1%, followed by a 3.6% drop at General Motors. Because of a 9.7% increase at Jeep and 11.2% jump for Ram, Fiat-Chrysler eked out an overall gain of 2.1%. For the other major brands, Honda sales fell 4.2%, Nissan slipped 2.2%, and Toyota skidded 8.7%. According to Automotive News:

"Analysts and automakers say sales to individual customers have peaked after six consecutive years of growth and that higher industry volume will only be supported by additional fleet deliveries. As retail demand slips, automakers are counting on low interest rates, widespread credit availability and modest economic growth to support volumes well into 2017."

The October EMPLOYMENT index for West Michigan remained positive but eased to +7 from +9. Of the 83 Michigan counties detailed in the State of Michigan unemployment report, Ottawa County's unemployment rate of 2.7% is the lowest in the state. Allegan and Kent Counties tied for second place at 2.9%. The unemployment picture for West Michigan continues to improve, but the changes are now very small. In general, most of the rest of the state is envious of our local unemployment numbers. At long last, wages are starting to show significant improvement for the first time in over seven years. Michigan still has about 80,000 jobs that cannot be filled because of a shortage of qualified workers. Unfortunately, the education system is currently doing little to close this gap.

In other economic news, the Department of Commerce released a GDP estimate of 2.9% growth for the third quarter of 2016. If this number holds, it will be the strongest GDP reading in over two years. However, the Department of Commerce emphasizes that 2.9% is just an estimate, and we will have to wait until November 29 for a more permanent reading of third quarter GDP. The previous readings of 0.8% and 1.4% growth for the first two quarters remained unchanged.

In terms of GDP, we are often reminded that the industrial sector only contributes about 20% to the net

GDP reading. Of course, this is because GDP represents FINAL sales of goods and services. The purchase of raw materials and components as well as outside services like chrome plating do not count in the GDP tabulation. Hence the industrial spending on final goods and services may only contribute 20% to GDP but about 75% of the total momentum of dollars is encompassed in the industrial sector.

Historically, the accumulation of excess industrial inventories because of fears of rising prices or shortages have resulted in artificial bubbles. Exhaustion of these inventories have resulted in economic downturns. Locally, our survey respondents and their respective companies represent about \$15 billion in spending. Even though all of that money is not spent locally, it still seems obvious that a shift in spending by even a few percentage points will be felt.

Where is the recession that was being so widely predicted earlier in the year? It is obvious from this report that we currently have no evidence to suggest we are about to drop off a cliff. In fact, both the aforementioned JPM and Markit.com reports were actually up for October. Unless the Chinese economy were to suddenly collapse, there is not very much risk of being drawn into a world recession. Domestically, our biggest risk may be related to a perceived unfavorable outcome to the presidential elections. Locally, our biggest risks relate to downturns in the auto and office furniture industries. The auto industry in particular is overbought and will someday have to balance supply with demand. With the aerospace and capital equipment industries already softening, it would not take much to push us over the edge. Hence, the odds of sliding into another recession over the next twelve months are currently about 50%.

## OCTOBER COMMENTS FROM SURVEY PARTICIPANTS

"We will be busy up until the holidays. However, overall sales are down from the same time last year."

"Automotive remains strong."

"Sales below forecast so far this month. We are holding tight on hiring and capital expenditures until we see a sustained increase in orders."

"I'm still seeing quite a fluctuation in aluminum and steel pricing; although, both are down compared to this time last year."

"What the heck happened? We were on an upswing for 3 months in a row, and September was, way, way down. Now it appears October is worse. Who hit the brakes?????"

"Our sales forecast is reduced for the next quarter due to a major customer slowing down."

"I am concerned over the softening in the auto sector."

"Business continues to be very strong. If only we could find more people that wanted to work."

"It feels like this year will end good, but next year will be softer, at least in the first quarter. I sure hope Trump can pull off the win. We need a good businessman in office."

"Business is currently up, but the overall economy is not justifying calling this a long-term up swing."

"We're having some challenges with several key resins. I'm hearing of potential paper (packaging) increase in the market."

"We're still pretty conservative on order intake. Come on election!"

"Orders are not as strong as they were last year."

"We've had a strong start to the fourth quarter."

"Ford has some vehicle lines down due to high inventories. It has caused a short term down time effect on some of our plants."

"September and October were very good with construction and maintenance road projects!"

"We are starting to see more activity and programs are actually launching. Business looks good through the end of the year."

"It's an excellent fourth quarter and year in general."

"Pretty much, it's the status quo."

"It was a good summer."

"Orders are very strong. We continue to struggle keeping up with demand and filling open technical and general labor positions."

"We are trying to land the plane softly. Getting e-mails that suppliers have capacity or have let their sales people go."

"We have slowed down considerably the last two months. November is filling in, but at below expected levels."

"We are finally able to address some service issues by the hiring and training of some quality service techs. SERVICE SELLS!"

"We are discounting machines to keep them moving!"

"Business is steady and good."

"Steel prices have peaked and have been holding. Refrigerant prices continue to go up as well as motor prices due to new government regulations."

# October 2016 Survey Statistics

	UP	SAME	DOWN	N/A	Oct. Index	Sept. Index	Aug. Index	25 Year Average
Sales (New Orders)	25%	49%	24%	2%	+ 1	+23	+ 6	+14
Production	21%	56%	17%	6%	+ 4	+24	+ 6	+14
Employment	25%	57%	18%		+ 7	+ 9	+ 6	+ 8
Purchases	21%	54%	24%	+1	- 3	+15	- 3	+ 7
Prices Paid (major commod.)	6%	83%	11%		- 5	+ 0	+ 2	+15
Lead Times (from suppliers)	14%	78%	8%		+ 6	+10	+ 5	+11
Purchased Materials Inv. (Raw materials & supplies)	18%	60%	16%	6%	+ 2	+ 6	+12	- 4
Finished Goods Inventory	19%	54%	19%	8%	+ 0	+ 3	+20	- 8
Short Term Business Outlook (Next 3-6 months)	38%	46%	16%		+22	+28	+15	-
Long Term Business Outlook (Next 3-5 years)	48%	48%	3%	1%	+45	+41	+46	-

**Items in short supply:** Copper from China, construction equipment components, dump boxes, etc., trucking services, quality factory employees, direct labor, castings, electronic components, production workers, labor.

**Prices on the UP side:** Polypropylene resin, nylon resin, trucking services, liquid chlorides, caustic soda, hydrochloric acid, solvents, surfactants, LTL freight, steel, stainless steel, aluminum, plasticizer, PVC resin, SEBS resin, polypropylene, process aids (acrylics), corrugated, natural gas.

**Prices on the DOWN side:** Steel\*, salt, ammonium chloride, steel components, fuel, carbon steel, industrial textiles, scrap steel.

\*These items are reported as both up AND down in price.

## Latest Unemployment Reports

(Except as noted, data are **NOT** seasonally adjusted)

	Sept 2016	Sept 2015	Aug. 2009	20 Year Low
State of Michigan (Adj.)	4.6%	5.1%	14.6%	3.2%
State of Michigan (Unadj.)	4.4%	4.6%	14.1%	2.9%
Kent County	2.9%	3.0%	11.9%	2.1%
Kalamazoo County	3.4%	3.5%	11.1%	2.1%
Calhoun County	3.9%	4.0%	12.8%	2.7%
Ottawa County	2.7%	2.9%	13.3%	1.8%
Barry County	3.1%	3.2%	10.9%	2.2%
Kalamazoo City	4.2%	4.4%	15.2%	3.2%
Portage City	3.1%	3.2%	8.7%	1.3%
Grand Rapids City	3.9%	3.9%	16.1%	3.0%
Kentwood City	2.7%	2.3%	10.7%	1.4%
Plainfield Twp.	2.2%	2.3%	8.0%	1.4%
U.S. Official Rate (June)	4.9%	4.8%	9.6%	3.8%
U.S. Rate Unadjusted	5.1%	5.0%	9.6%	3.6%
U.S. U-6 Rate**	9.7%	10.0%	16.7%	8.0%

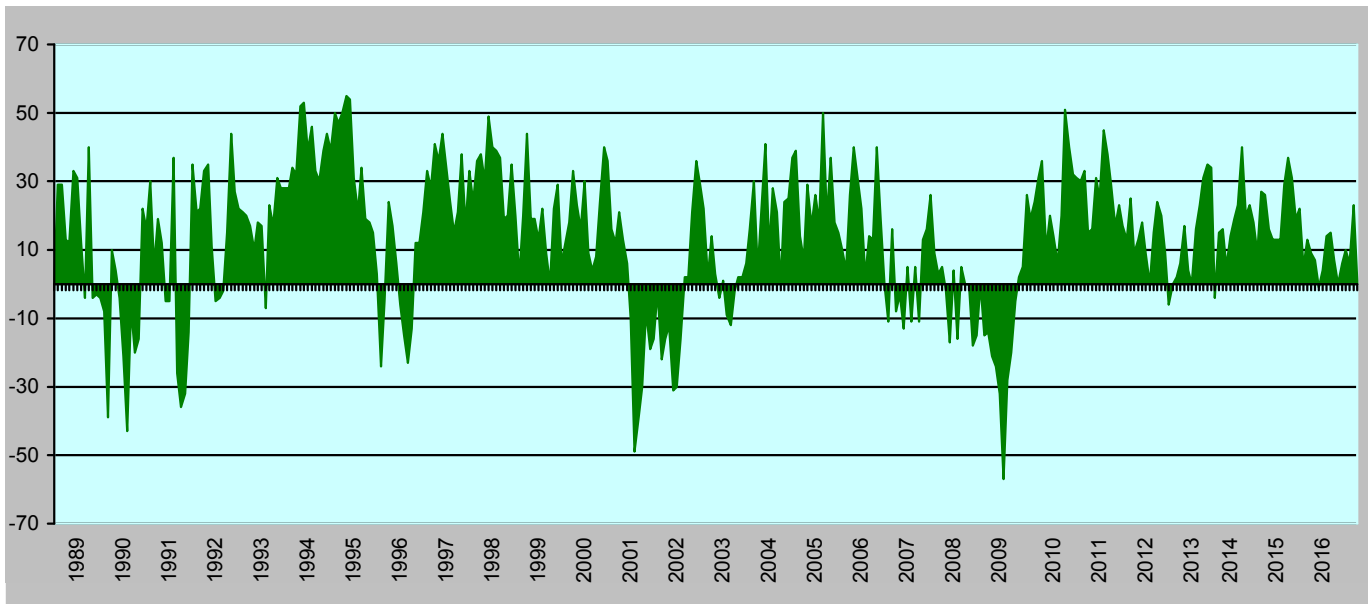
\*\*U-6 for Michigan = 10.8% for Q2 of 2016

## Index of New Orders: West Michigan

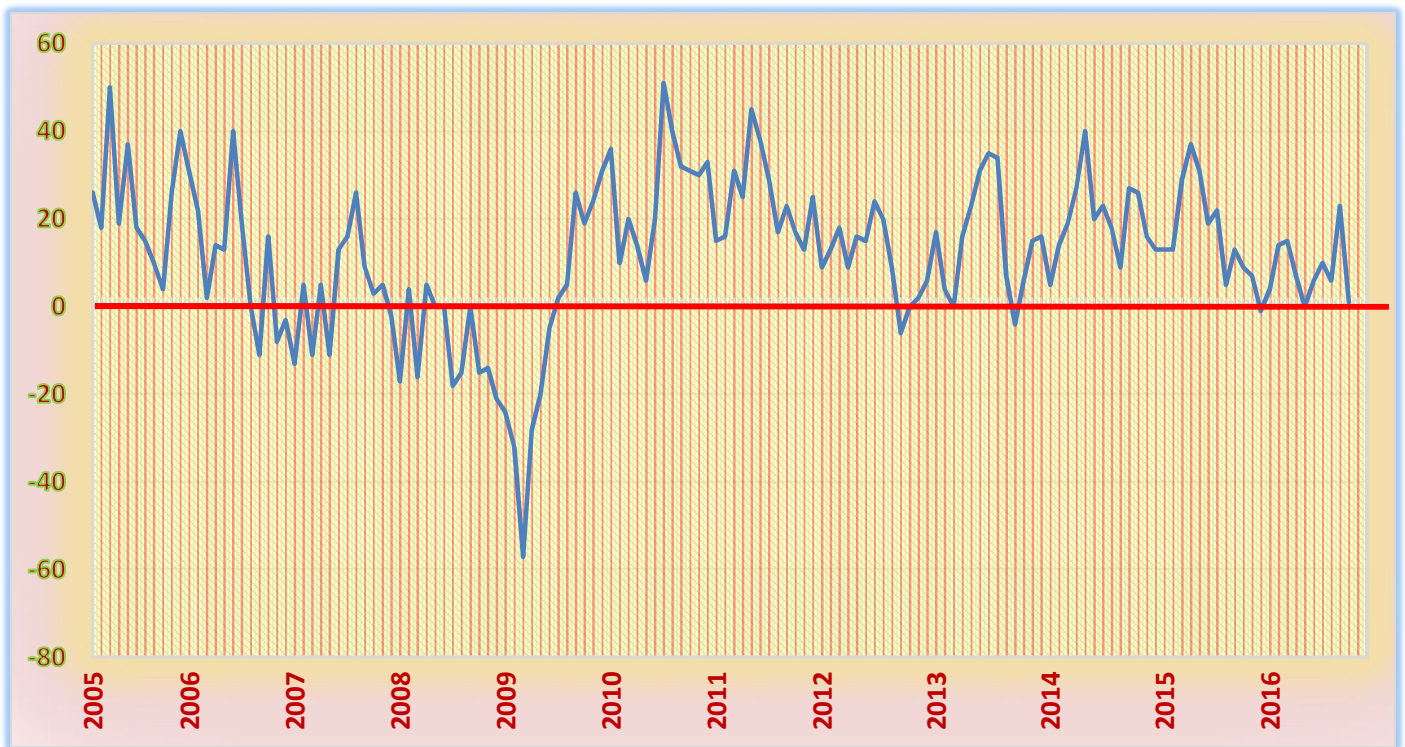
As the name implies, this index measures new business coming into the firm, and signifies business improvement or business decline. When this index is positive for an extended period of time, it implies that the firm or organization will soon need to purchase more raw materials and services, hire more 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	+ 1 for the month of October 2016
Previous Month	+23 for the month of September 2016
One Year Ago	+ 9 for the month of October 2015
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 - 2016

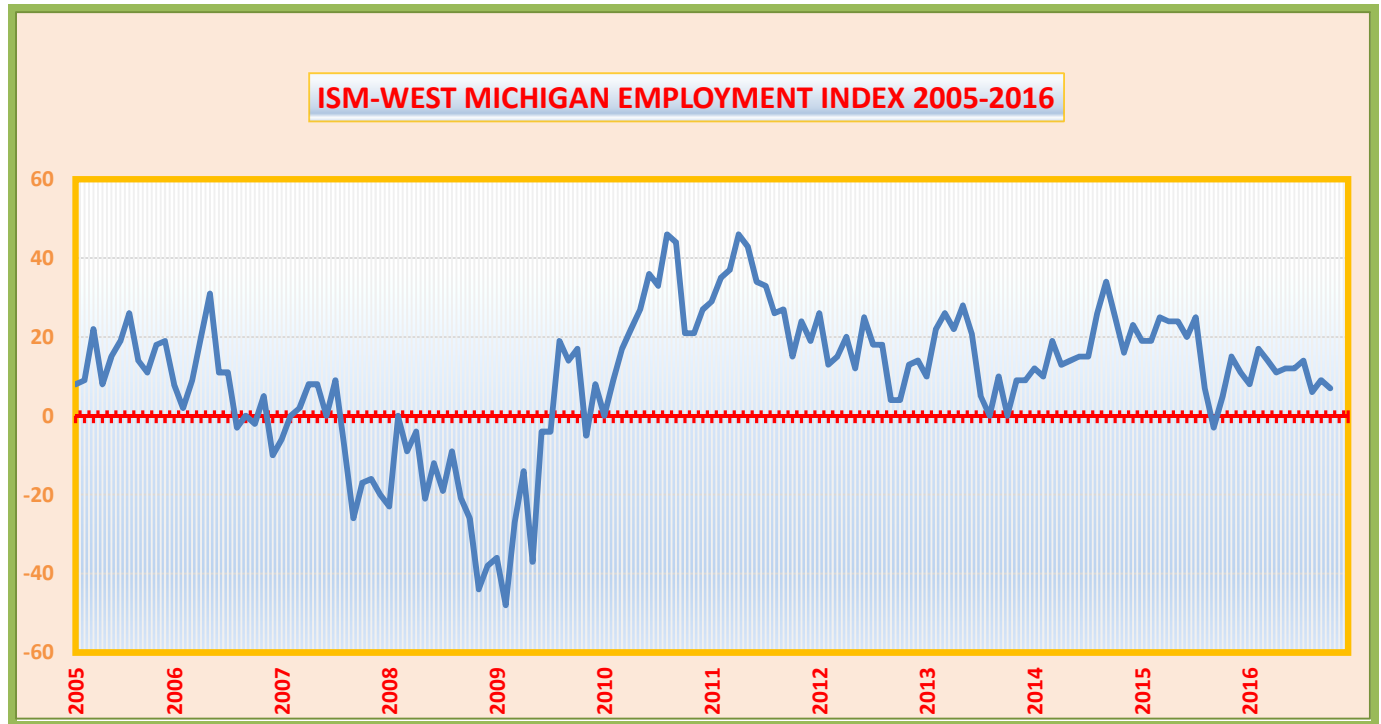


## ISM-West Michigan Index of New Orders: 2005-2016 Only



## 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.

