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Current Business Trends

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Growth Returns

For the West Michigan industrial economy, 2016 has finally arrived. December is often a month of slower sales and reduced production, but it took until February for West Michigan to return to the same slow growth we have reported for most of the past seven years. Although our statistics for January were incrementally positive, the data and comments collected in the last two weeks of February reflect the back-to-work tone of a post-holiday season. NEW ORDERS, our closely-watched index of business improvement, rose to +14, up nicely from January's +4. The PRODUCTION index remained unchanged at +12. However, activity in the purchasing offices, our index of PURCHASES, remained below par at -3, only slightly lower than the -1 reported last month. Just as it has for the past six months, the West Michigan economy continues to outpace the national economy as well as the overall Michigan economy. Although some firms are continuing to feel the impact of global economic stagnation, many of our survey participants remain fairly optimistic about 2016—at least for the first two quarters.

On February 6, Mike Dunlap released his quarterly survey of the office furniture industry. The Dunlap Overall Index for January came in at 57.25, only a little below the record number of 59.72 recorded in July 2005. The Gross Shipments Index shot up to a record high, and the index of Raw Materials Costs came in at a record low. Unfortunately, the respondents to our local ISM survey are not as optimistic. One respondent noted that New Orders for the office furniture business are often slow in the Christmas season, but usually rebound in January. So far, that has not happened. Several of our office furniture firms are still waiting for new business to resume the upward trend. However, the market may have already hit its peak.

Looking at other industries, our survey's automotive parts producers turned in a mixed performance for February. Retail auto sales are still strong, and several of our local fabricators are still at full capacity. However, a couple others are waiting for new business to materialize. The capital equipment industry is also mixed, depending on the industrial segment being served. One respondent reported seeing a slowdown in machine tool purchases and hearing that large machine tool companies are starting layoffs. In contrast, another local firm in the capital equipment business reported a record year for 2015. Possibly because of the weather, the local industrial distributors had a weaker-than-usual February. Finally, aerospace, another one of our cyclical industries, is still optimistic that the aircraft building boom will continue.

For February, the Institute for Supply Management, our national parent organization, reports that the U.S. industrial economy is now modestly positive. Although somewhat anemic, ISM's index of NEW ORDERS rose to

+6 from January's +1. The ISM PRODUCTION index returned to positive, rising to +7 from -5. The EMPLOYMENT index remains negative, but the rate of decline retreated to -3 from January's double-digit report of -11. The index of NEW EXPORT ORDERS remains negative at -7, about the same as last month's -6. At 49.5, ISM's overall manufacturing index for February remains below the 50.0 break-even point for the fifth consecutive month. However, the index is significantly improved over January's 48.2, which has resulted in some pundits projecting that the index may soon return. By contrast, ISM's non-manufacturing index, currently at 53.4, has remained positive since the end of the Great Recession.

As always, a contrasting view comes from the U.S. survey conducted by Markit.com, the international economics consulting firm. For February 2016, Markit's PMI eased to 51.3, down from 52.4 but still higher than December's 51.2. Although all of Markit's indices are still positive, they still reflect the slowest rate of growth in the past three years. Even though positive is still positive, the survey author continues to voice a note of caution:

"The February data add to signs of distress in the US manufacturing economy. Production and order book growth continues to worsen, led by falling exports. Jobs are being added at a slower pace, and output prices are dropping at a rate not seen since mid-2012. The deterioration in the manufacturing sector's performance since mid-2014 has broadly tracked the dollar's rise, which makes US goods more expensive in overseas markets and leads US consumers to favour cheaper imported goods. With other headwinds including the downturn in the oil sector, heightened uncertainty due to financial market volatility, global growth worries, and growing concerns about the presidential election, it's no surprise that the manufacturing sector is facing its toughest period since the global financial crisis."

The world economy continues to flatten. According to the J.P. Morgan Global Manufacturing survey of 31 nations released on March 1, JPM's index of NEW ORDERS eased to 50.4, down from 51.4. In a similar move, the PRODUCTION index tapered to 50.2 from 51.5. The Global Purchasing Manager's Index flattened from 50.9 to 50.0, the exact break-even point between up and down. The Eurozone PMI fell to a 12-month low, and France and Germany hover "close to the stagnation mark." To no surprise, Greece has fallen back into contraction. The survey author further noted:

"The Global Manufacturing PMI posted at the stagnation mark in February, further highlighting the fragility of global industry at the start of the year. Inflows of new business

and production volumes barely rose, while the trend in international trade deteriorated. Market conditions will need to improve in the short run if global manufacturing is to avoid falling back into contraction."

Auto sales are still keeping the Michigan economy growing, so the February sales report from Automotive News was good news for our local parts fabricators. Historically, many of our local firms were tied into the Detroit Three, but several of them have made great strides in earning new contracts from firms like Toyota, Honda, Kia, and Nissan. The sales leaders for this month include Ford at a whopping 20.2%, followed by Fiat-Chrysler adding 11.8%. Both firms attributed the overall sales increase to upticks in light trucks and SUV sales and acknowledged that lower gasoline prices are helping the industry. Honda sales rose 12.8%, Nissan added 10.5%, and Toyota gained 4.1%. General Motors lost 1.5%, primarily because of a shift in sales strategy away from rental car sales.

Probably because of turmoil in the financial markets and the harsh political rhetoric, business optimism faded a little in this month's report. Our SHORT-TERM BUSINESS OUTLOOK index retreated to +19 from +24. For the LONG TERM BUSINESS OUTLOOK, the pullback was to +40 from +48. Although both indices are positive, neither is as strong as it was a few months ago.

In other economic news, the dismal GDP report for the fourth quarter of 2015 was revised upward to 1.0%, a little better than the 0.7% reported in the Commerce Department's initial estimate. Although the final estimate will not come until March 25, it is unlikely to vary too much from the present number. The third and final estimate for the third quarter of 2015 came in at

2.0% down modestly from 2.1%. If the fourth quarter estimate holds, the official GDP growth rate for 2015 will be etched in the record books as 2.4%, the same as 2014.

Where do we stand? Is another recession around the corner? All of the economists in the world have been trying to come up with a magic anti-recession vaccination for the past 200 years. Regrettably, the so-called "business cycle" has resulted in some kind of an economic downturn occurring about every six to eight years. We are now seven years into the anemic recovery from the Great Recession, and some people still believe that we are still not fully recovered. But recessions almost always have one or two main factors that trigger a bubble bursting. All eyes are still on China, but some of the news coming out of China has been slightly more positive. The severe slump in oil prices may have run its course, and the threat of a worldwide "oil recession" may have been averted. In a similar move, copper prices as well as prices for other nonferrous metals have recovered about 10% over the past two months. This is good news. Although the economy always seems to be going up or down, it is possible that what may be unfolding is a third alternative: An economy that simply drifts sideways with a slim margin of growth. Some economists refer to very slow growth as a "growth recession," implying that economic growth is marginally positive, but wages are stagnant and unemployment drifts higher. An annual GDP growth rate of 1% would probably fit this category. Several European countries experienced growth recession in the 1990's, and it is possible that the U.S. and the entire world could be headed for such a scenario. Either way, the present West Michigan economy still has enough positive momentum to carry forward for a few more months.

FEBRUARY 2016 COMMENTS FROM SURVEY PARTICIPANTS

"We see some signs of weakness, but a solid foundation continues to keep us optimistic."

"We have a large proposal in the pipeline."

"Status quo. We are busy, but remaining consistent."

"Our raw material purchases are up due to the purchasing of material for summer stocking."

"The truck and trailer market may be softening."

"Business is very strong, and quoting is very strong for this time of year."

"We're seeing the typical first part of the year slow down, but automotive is still relatively strong. There's a lot of new quoting activity."

"There are lots of new business opportunities. It looks like 2016 will be a much better year than 2015, and we have high hopes for 2017."

"New orders are up. However, many of them are further into the future. Business is slightly up over the same time period last year."

"The second half of 2015 was down, and the first quarter of 2016 will be down as well."

"Business is slow again, with no signs of improvement."

"Industrial inflation is still at zero. Steel prices showing modest percentage increases over bottom hit about three months ago, but prices are still solidly 33% lower than a year ago."

"Aerospace orders are holding steady, and we are not seeing same sharp order decline as in our industrial business units."

"At least here in Michigan, there is an increasing trend for companies headquartered to buy equipment and shipping to satellite in southern states, across the border, AND across the ocean."

"It's not too exciting!"

"Business continues to be strong."

"One more Fed hike, and the global economy will be completely trashed. The smart thing would be to raise 1/4 percent in the fourth quarter every year for next three years, assuming global environment allows for it, subject to change if warranted. That would balance out the markets and allow the true market and economies to show up."

"The mild winter has been good for our budget, so we are projecting a very busy spring."

"We have a strong start for the first quarter after slowing down toward the end of the year."

"Business is good, which is very usual for an election year."

"January was a nice rebound from a dismal December. However, the big bump was mostly the renewal of a couple of blanket orders with future release dates. February is kind of flat for the first half. We'll see what the next two weeks bring."

"We have a lot of stability month over month."

"We started off the year with some great sales! Let's hope it continues for the rest of the year."

"Natural gas prices continue to decline. Business is holding steady!!!"

"Still steady, but we are slow on quoting."

"We are having a hard time finding people that want to work. We have to let people go because they have bad attendance."

"Rubber prices continue to fall, and the China market continues to fall."

"Lower cost are starting to be passed down from declining commodity prices."

"We are seeing a slowdown in machine tool purchases, and are hearing that large machine tool companies are starting to

February 2016 Survey Statistics

	UP	SAME	DOWN	N/A	Feb. Index	Jan. Index	Dec. Index	25 Year Average
Sales (New Orders)	38%	36%	24%	2%	+14	+ 4	- 1	+14
Production	33%	40%	21%	6%	+12	+12	- 4	+14
Employment	20%	77%	3%		+17	+ 8	+12	+ 8
Purchases	18%	61%	21%		- 3	- 1	- 4	+ 7
Prices Paid (major commod.)	3%	71%	23%	3%	-20	-18	- 6	+15
Lead Times (from suppliers)	8%	86%	6%		+ 2	- 5	- 2	+11
Purchased Materials Inv. (Raw materials & supplies)	15%	70%	9%	6%	+ 6	+ 2	- 6	- 4
Finished Goods Inventory	23%	63%	8%	6%	+15	- 5	-12	- 8
Short Term Business Outlook (Next 3-6 months)	33%	53%	14%		+19	+24	+26	-
Long Term Business Outlook (Next 3-5 years)	42%	54%	2%	2%	+40	+48	+49	-

Items in short supply: Steel, wire, labor, polysulfone, special automotive grades of aluminum, slag aggregate, heavy construction equipment, workers, gears, good laborers.

Prices on the UP side: Resins (which is counter-intuitive based on current oil market), steel, stainless steel, labor rates, PVC resin, some service suppliers, freight, paint suppliers, asphalt, heavy construction equipment, polypropylene.

Prices on the DOWN side: Carbon steel, stainless steel,* design specific items, aluminum, plasticizer, ESO, paraffinic oil, rubber, fuel based products, RMB currency, natural gas, CS steel, ABS plastic, hot rolled steel, cold rolled steel,* oil, HDPE, fuel.

Latest Unemployment Reports

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

	Dec. 2015	Dec. 2014	Aug. 2009	20 Year Low
State of Michigan (Adj.)	5.1%	6.4%	14.6%	3.2%
State of Michigan (Unadj.)	4.5%	5.6%	14.1%	2.9%
Kent County	2.7%	3.6%	11.9%	2.1%
Kalamazoo County	3.2%	4.2%	11.1%	2.1%
Calhoun County	3.9%	4.8%	12.8%	2.7%
Ottawa County	2.6%	3.5%	13.3%	1.8%
Barry County	3.3%	4.2%	10.9%	2.2%
Kalamazoo City	3.9%	5.2%	15.2%	3.2%
Portage City	2.9%	3.8%	8.7%	1.3%
Grand Rapids City	3.6%	4.8%	16.1%	3.0%
Kentwood City	2.5%	3.4%	10.7%	1.4%
Plainfield Twp.	2.0%	2.7%	8.0%	1.4%
U.S. Official Rate (Jan.)	4.9%	5.6%	9.6%	3.8%
U.S. Rate Unadjusted	4.8%	5.4%	9.6%	3.6%
U.S. U-6 Rate**	9.9%	11.2%	16.7%	8.0%

**U-6 for Michigan = 12.0% for Oct. 2014 to Sept. 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 +14 for the month of February, 2016

Previous Month +4 for the month of January, 2016

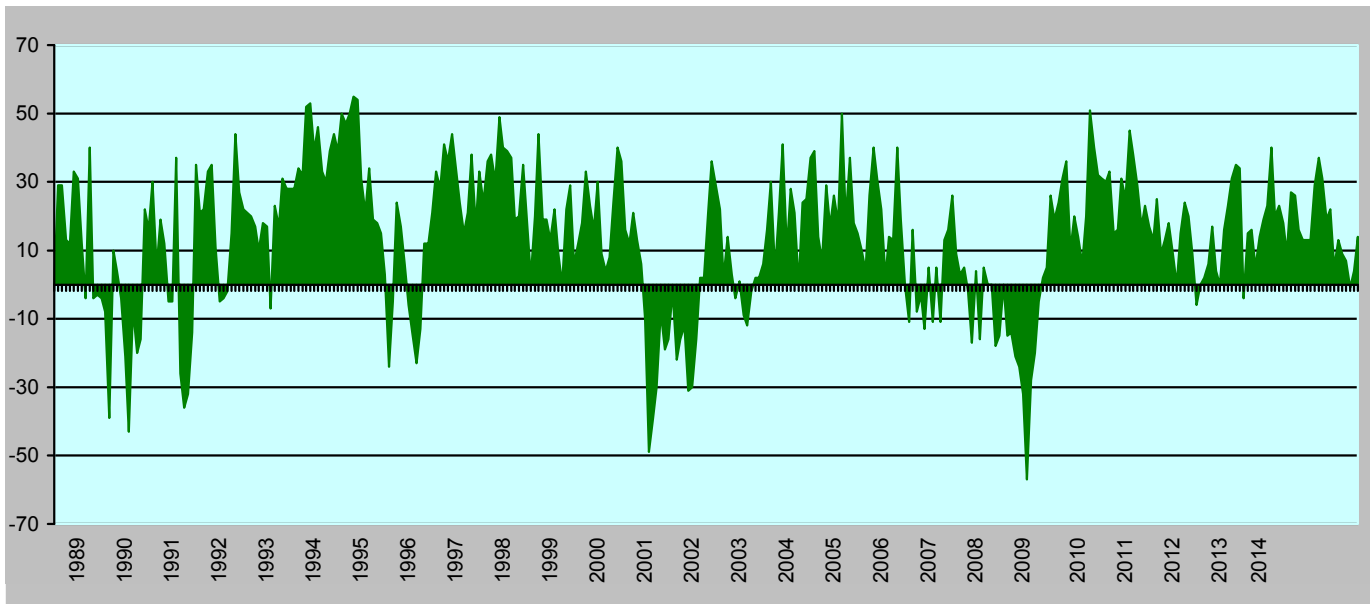
One Year Ago +13 for the month of February, 2015

Record Low - 57 for the month of December, 2008

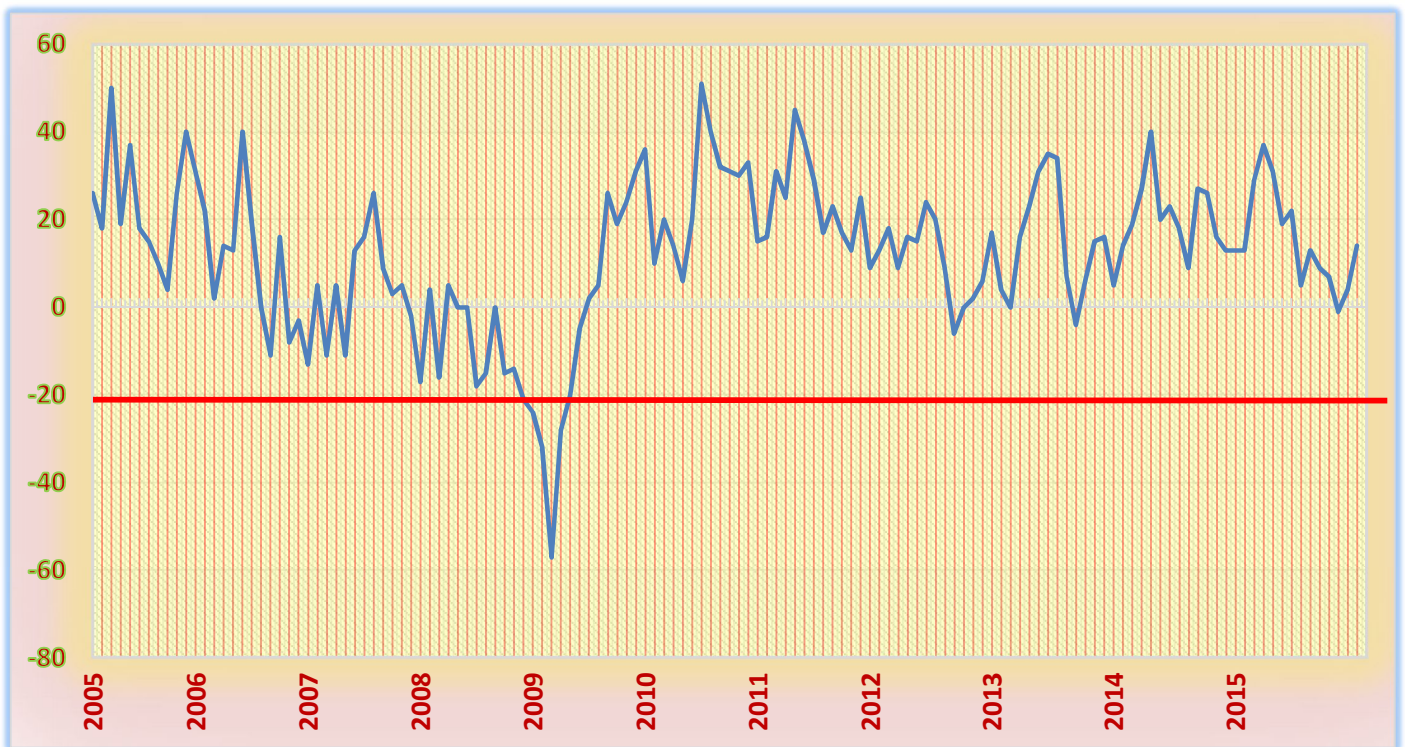
Record High + 55 for the month of September, 1994

First Recovery + 3 in April of 2009 and forward

ISM-West Michigan Index of New Orders 1988 - 2015

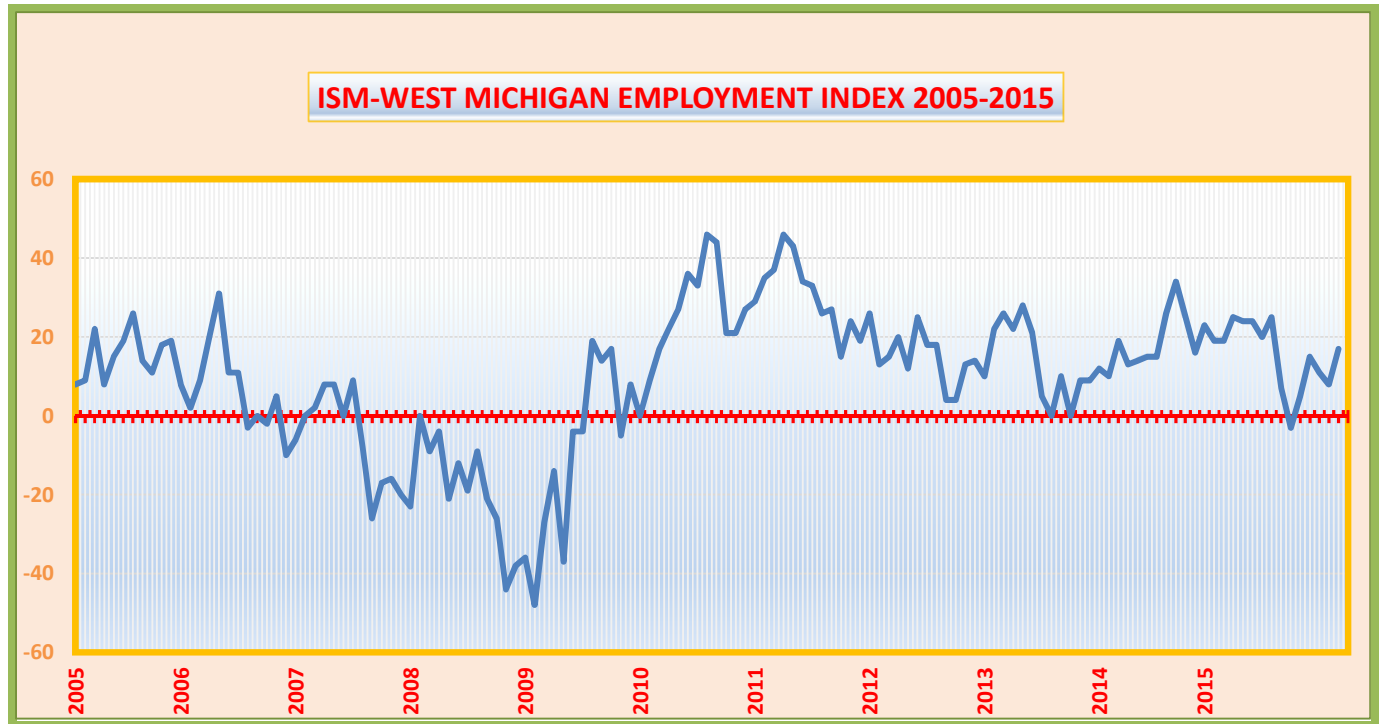


ISM-West Michigan Index of New Orders: 2005-2015 Only



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.

