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News Release (For Immediate Release)

June 6, 2016

Current Business Trends

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Back to Flat

Flat. That's the latest word on the West Michigan economy, according to the data and comments collected in the last two weeks of May 2016. NEW ORDERS, our closely watched index of business improvement, backtracked to +0, down from +7 in April. The PRODUCTION index remained positive but retreated to +4 from +20. Activity in the purchasing offices, the index of PURCHASES, gave back most of its previous gain to come in at +7. For May, it can be noted that the West Michigan economy for May came in flat. The report for West Michigan is slightly weaker than the performance of the national economy as well as the overall Michigan economy. However, one month never constitutes a trend, and we can hope for a rebound in June.

For our local industrial groups, even though the local auto parts suppliers are operating at full capacity, NEW ORDERS seem to be slow coming in. The office furniture business remains stable, and some of the smaller firms are setting records. The May sales for the industrial distributors came in mixed, with some firms very strong but others in an unexpected lull. Capital equipment firms continue to report widely mixed results, mostly based on the wide variety of products in this category.

Given the less positive NEW ORDERS and PRODUCTION statistics, it is no surprise that the business sentiment numbers from our local survey came in a little less upbeat. The index which asks about the perception of the next three to six months, the SHORT TERM BUSINESS OUTLOOK, edged down to +24 from +34. Although +24 is not a strong number, it is still much better than the +4 reported last October when the mood was much more pessimistic. The LONG TERM BUSINESS OUTLOOK for May, which depicts our outlook for the next three to five years, eased modestly to +42 from +49.

The May report from the Institute for Supply Management, our parent organization, remains positive, although less positive than April. NEW ORDERS, ISM'S index of business improvement, backtracked to +15, down from +20. The PRODUCTION index remained positive but tapered to +4 from +20. ISM's EMPLOYMENT index hung on to a +2 gain. Because of statistical weighting, ISM's overall index rose to 51.3 from 50.8, a modest gain.

Another view of the U.S. economy comes from the monthly survey conducted by Markit.com, the international economics consulting firm. Markit's index of NEW ORDERS continues to weaken, and inventory numbers keep reflecting more caution. The final U.S. manufacturing PMI aired at 50.7, marginally down from 50.8 in April but still ahead of the 50.0 break-even threshold. The survey author opined:

"The survey data indicate that factory output fell in May at its fastest rate since 2009, suggesting that manufacturing is acting as a severe drag on the economy in the second quarter. Payroll numbers are under pressure as factories worry about slower order book growth, in part linked to falling export demand but also as a result of growing uncertainty surrounding the presidential election. For those looking for a rebound in the economy after the lacklustre start to the year, the deteriorating trend in manufacturing is not going to provide any comfort."

At the international level, the world industrial economy now appears to be officially flat. According to the J.P. Morgan Global Manufacturing survey of 31 nations released on June 1, JPM's index of NEW ORDERS edged lower to 50.2, down from 50.3. The PRODUCTION index eased to 50.1 from 50.4. JPM's Global Composite Purchasing Manager's Index edged lower from April's 50.1 to the absolute break-even point of 50.0. The Eurozone PMI came in at 51.5, a very modest decline. The survey author and chief economist for Markit further noted:

"The May PMI data suggest that the global manufacturing sector remains in a low gear. Indices for output, new orders and the headline PMI were all at, or barely above the stagnation mark. The move up in the finished goods inventory index suggests manufacturers are still working to realign stocks with demand."

After many months of price relief, our local index of PRICES depicts a return to industrial inflation. For May, our index rose to +18, up significantly from May's +6. Almost every grade and type of steel is now substantially higher than just a few months ago, and the pundits are predicting more price increases over the next few months. The return of crude oil prices to nearly \$50 has resulted in most oil-related commodities going up in price. West Michigan is the home for many plastic extruders, and many of these firms are reporting most varieties of plastic raising in price. With the rise of diesel fuel, the respite of lower transportation costs has now run its course.

To most observers, auto sales appear to have hit a speed bump in May. According to the press release from Automotive News, overall sales fell by 6.1% compared to May of 2015. Although some of the drop can be attributed to fewer selling days, the fact remains that sales have only risen 1.1% for the first five months of 2016. Because of a shift in sales strategy away from fleet sales, GM posted an 18% decline. But other major brands recorded declines as well. Toyota dropped 9.6%, Ford lost 6.1%, and Honda tapered by 4.8%. For domestic brands, Fiat-Chrysler eked out a 0.9% gain, primarily because of several hot-selling Jeep lines.

On June 3, BLS released one of the most pessimistic reports we have seen in many months. As many commentators have noted, the May report could be a statistical fluke. The monthly survey conducted by the Census Bureau only considers a person to be unemployed if they are *actively* looking for work. Although the standard unemployment rate (which BLS calls U-3) fell to 4.7% in May, only 38,000 new jobs were added. The entire report from BLS is based on a sophisticated sample of only 65,000 people for the entire nation, so next month's data could easily offset one bad month. The real surprise came from the 458,000 workers who dropped out of the workforce altogether. These people are not accounted for at all as far as unemployment numbers are concerned. As a result, the U-6 rate, which some people call the "real" unemployment rate, held steady at 9.7%. Although U-3 is the "official" unemployment rate that we have all heard for many years, U-6 includes the marginally attached workers (i.e., involuntary part time workers) as well as those who have gotten discouraged and stopped looking, but still want to work.

However, even U-6 does not include people who have dropped out of the workforce altogether. Some of these former workers are "baby boomers" who decided to retire early. Others are low wage earners who just can't make enough money at low wage jobs to pay for daycare and gasoline. Others are dual-income families who have decided to make do with one income. There are lots of reasons why the labor participation rate is now at 62.1% compared to around 66% before the Great Recession, but the fact remains that a significant portion of our "improved" unemployment numbers stem from people exiting the workforce—not from a better economy. In fact, even at 94.7, U of M's Index of Consumer Sentiment is still well below the levels we saw in the boom periods of the 1980s and late 1990s. The mood of many consumers is still funky.

From an employment perspective, West Michigan is still outpacing most of the rest of the state. Of the 83 Michigan counties, the Ottawa County unemployment rate fell to 2.7%, the lowest in the state. Close behind in fourth place came Kent County at 2.9%. Kalamazoo County posted fifth at 3.3%. Granted, because the data are not seasonally adjusted, the annual spring hiring season can be credited

for much of the gain from the previous month. But year over year, most of our reporting units are still better off by about 0.5% or so. For our survey, the index of EMPLOYMENT came in respectable at +12, up modestly from +11. Michigan still claims to have about 80,000 technical jobs that cannot be filled because of a lack of qualified applicants. Even for unskilled jobs, some employers offering as much as \$13 per hour are still having difficulty finding viable new employees.

Many U.S. economists, as well as most European economists, continue to worry that a trade war may be brewing. The U.S. has still not gotten much of a reaction to the 266% tariffs on Chinese steel imposed by our Department of Commerce a few weeks ago. We're waiting for that shoe to drop. In the meantime, Europe has imposed new tariffs on Chinese steel, and the Chinese ministry had retaliated with new tariffs on European steel imports. If the trade war involves only steel, it will be an economic irritant but not a catastrophe. However, if the trade war starts to expand beyond steel, there will be significant economic consequences.

As we enter the summer months, where do we stand? Many of the major economic forecasters continue to warn of a possible recession on the horizon, although the mood has recently turned less pessimistic because some of the stats for the spring have come in stronger than expected. Although bullish and bearish forecasters continue to make projections, it is still possible that the U.S. economy could slide into a pattern of very slow growth in the range of 1% and avoid an official recession. Besides Cleveland, the police departments in most major cities are gearing up for some ominous political demonstrations in the late summer months. If too many demonstrations turn violent, it will almost certainly have an impact on economic growth. According to the PMI reports from around the world, there are no major countries that are reporting exceptionally strong economic growth. In addition, countries like France, Brazil, China, Russia, South Africa, and Turkey are all reporting negative industrial PMI surveys. China, the second largest economy in the world, still bears the most scrutiny, but optimists note that the government still has plenty of leeway to halt a serious downturn.

MAY COMMENTS FROM SURVEY PARTICIPANTS

"We've seen some slight softening in orders from our customers. Many new projects in the launch phase are now pending."

"Hiring good manufacturing people is still a big problem."

"Business is inconsistent right now. We are headed into our busy season so we should see more and larger orders for the next few months."

"Business is slower than it has been for the last six years or so, but we are still holding our own."

"Business conditions are steady."

"My business is doing well and the next year also looks good."

"Automotive remains strong."

"Business has been down since December. Low oil prices are having an impact on our business, and I believe companies are holding up on capital purchases to see who the next president is."

"We're not sure what's going on. May was the slowest month for order entry in the last two years. Customers all say they have slowed down."

"Most vendors are asking for price increases."

"Our new business is strictly seasonally driven."

"Scrap steel / raw material surcharges seem to have bottomed out and are coming up."

"The year is starting out fairly well."

"Business is as usual for this time of year."

"Backlogs are strong through end of July. Working overtime versus hiring has uncertainty looking out further."

"Automotive continues to be a strong market for 2016."

"FY 2016 revenues are up about 7% over last year, but with the continued price increases, there may be little if any effect on the year-end."

"If the Fed raises interest rates in June, all bets off. China is pushing back on steel duties."

"We've seen a sudden increase in Q2 sales. Our forecasted is the same as 2015."

"Business continues to be robust, and quoting activity is good."

"Business has slowed down all of a sudden. There is too much uncertainty in the market right now!"

"Until the energy sector picks back up, we will continue to be down."

"We're still waiting for the orders to pick up."

May 2016 Survey Statistics

	UP	SAME	DOWN	N/A	May Index	Apr. Index	Mar. Index	25 Year Average
Sales (New Orders)	26%	47%	26%	1%	+ 0	+ 7	+15	+14
Production	21%	56%	17%	6%	+ 4	+20	+16	+14
Employment	18%	76%	6%		+12	+11	+14	+ 8
Purchases	24%	59%	17%		+ 7	+14	+ 3	+ 7
Prices Paid (major commod.)	23%	72%	5%		+18	+ 6	+11	+15
Lead Times (from suppliers)	11%	86%	3%		+ 8	+ 6	+ 4	+11
Purchased Materials Inv. (Raw materials & supplies)	17%	69%	8%	6%	+ 9	+05	+10	- 4
Finished Goods Inventory	23%	64%	5%	8%	+18	+ 8	+ 4	- 8
Short Term Business Outlook (Next 3-6 months)	38%	48%	14%		+24	+34	+37	-
Long Term Business Outlook (Next 3-5 years)	45%	50%	3%	2%	+42	+49	+44	-

Items in short supply: Some steel and steel sheets, electronic components, fabricated plastic parts, Ultem, some stainless orders, electrical components from China, labor (white and blue collar), heavy equipment, construction contractors.

Prices on the UP side: Domestic & overseas metal pricing, steel, hot rolled steel coil, cold rolled steel, stainless steel, PVC resin, titanium dioxide, SEBS resin, paraffinic oil, nitrile rubber, carbon steel, scrap steel, raw material surcharges, wages, natural gas, aluminum, resins, heavy equipment, construction services, fuel, petroleum based products, health care.

Prices on the DOWN side: Rubber, some metals, polypropylene, oil, gas, custom produced items, thin film filters/optics, steel,* wire rod.

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

Latest Unemployment Reports

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

	Apr. 2016	Apr. 2015	Aug. 2009	20 Year Low
State of Michigan (Adj.)	4.8%	5.6%	14.6%	3.2%
State of Michigan (Unadj.)	4.3%	5.1%	14.1%	2.9%
Kent County	2.9%	3.4%	11.9%	2.1%
Kalamazoo County	3.2%	3.9%	11.1%	2.1%
Calhoun County	4.1%	4.7%	12.8%	2.7%
Ottawa County	2.7%	3.2%	13.3%	1.8%
Barry County	3.4%	3.9%	10.9%	2.2%
Kalamazoo City	4.2%	4.9%	15.2%	3.2%
Portage City	3.0%	3.6%	8.7%	1.3%
Grand Rapids City	3.9%	4.6%	16.1%	3.0%
Kentwood City	2.7%	3.2%	10.7%	1.4%
Plainfield Twp.	2.2%	2.6%	8.0%	1.4%
U.S. Official Rate (Apr.)	5.0%	5.4%	9.6%	3.8%
U.S. Rate Unadjusted	4.7%	5.1%	9.6%	3.6%
U.S. U-6 Rate**	9.7%	10.8%	16.7%	8.0%

**U-6 for Michigan = 11.4% for all of 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 + 0 for the month of May, 2016

Previous Month + 7 for the month of April, 2016

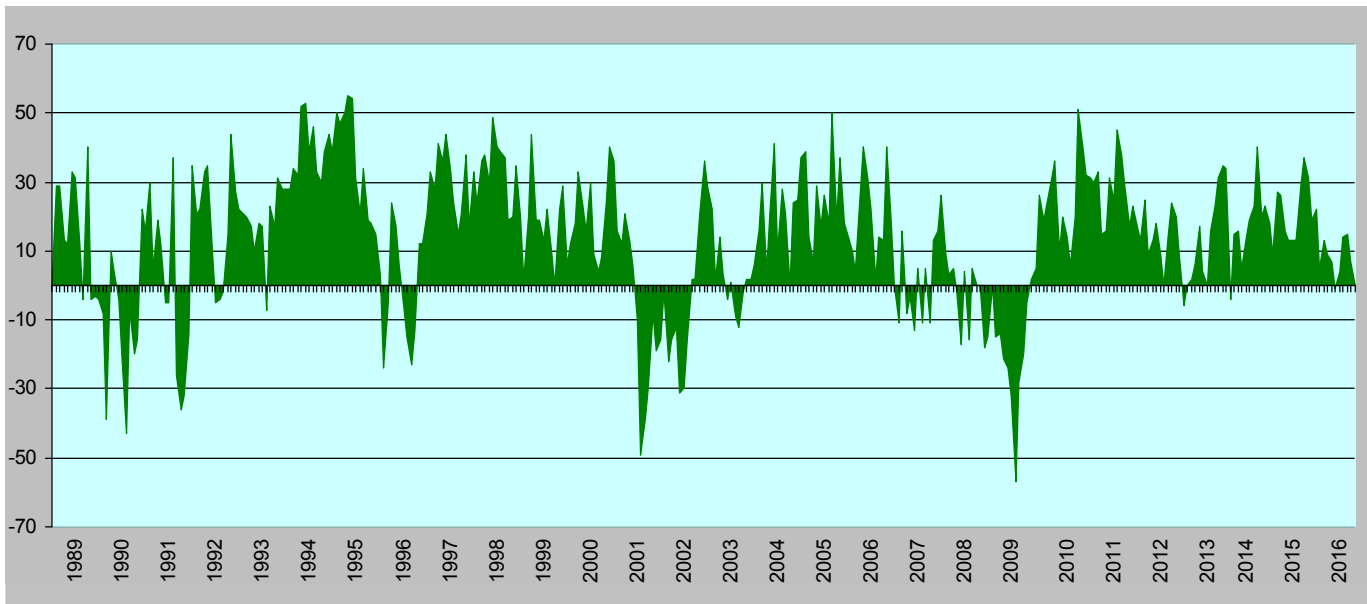
One Year Ago +31 for the month of May, 2015

Record Low - 57 for the month of December, 2008

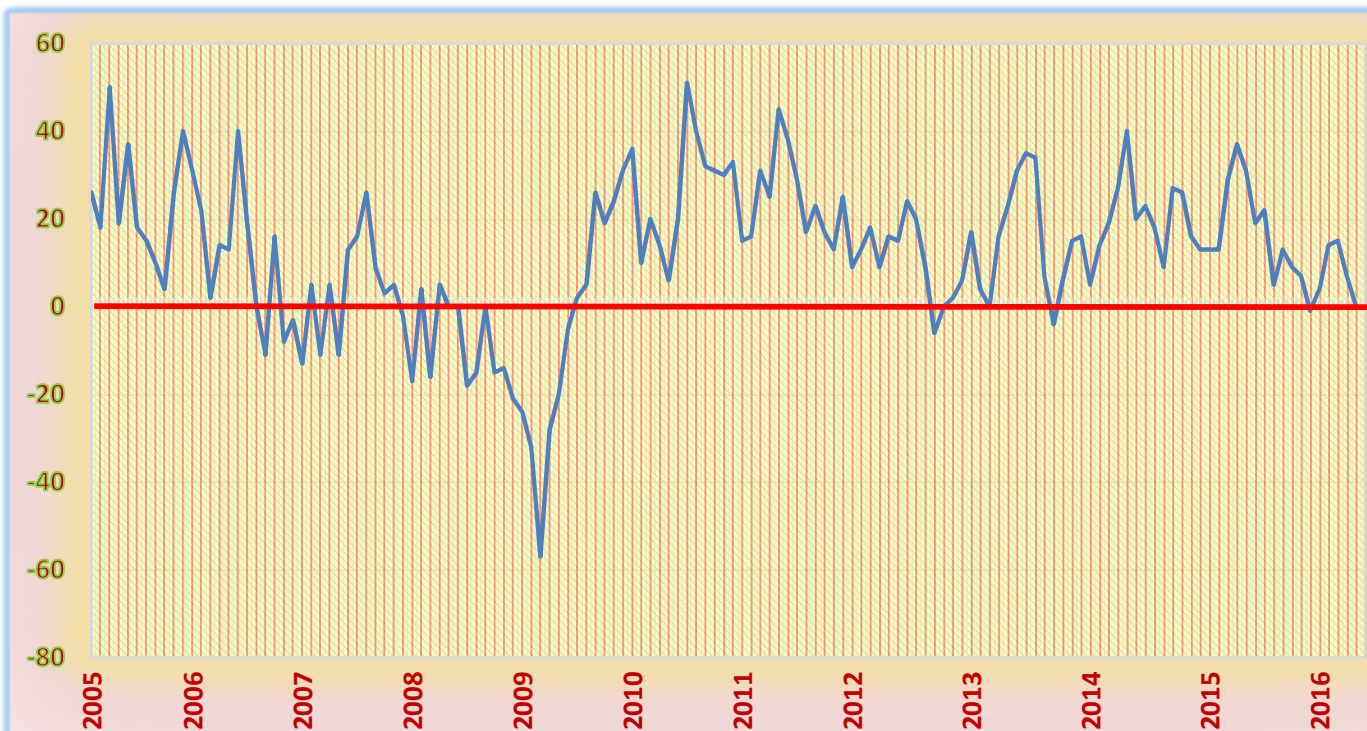
Record High + 55 for the month of September, 1994

First Recovery + 3 in April of 2009 and forward

ISM-West Michigan Index of New Orders 1988 - 2016

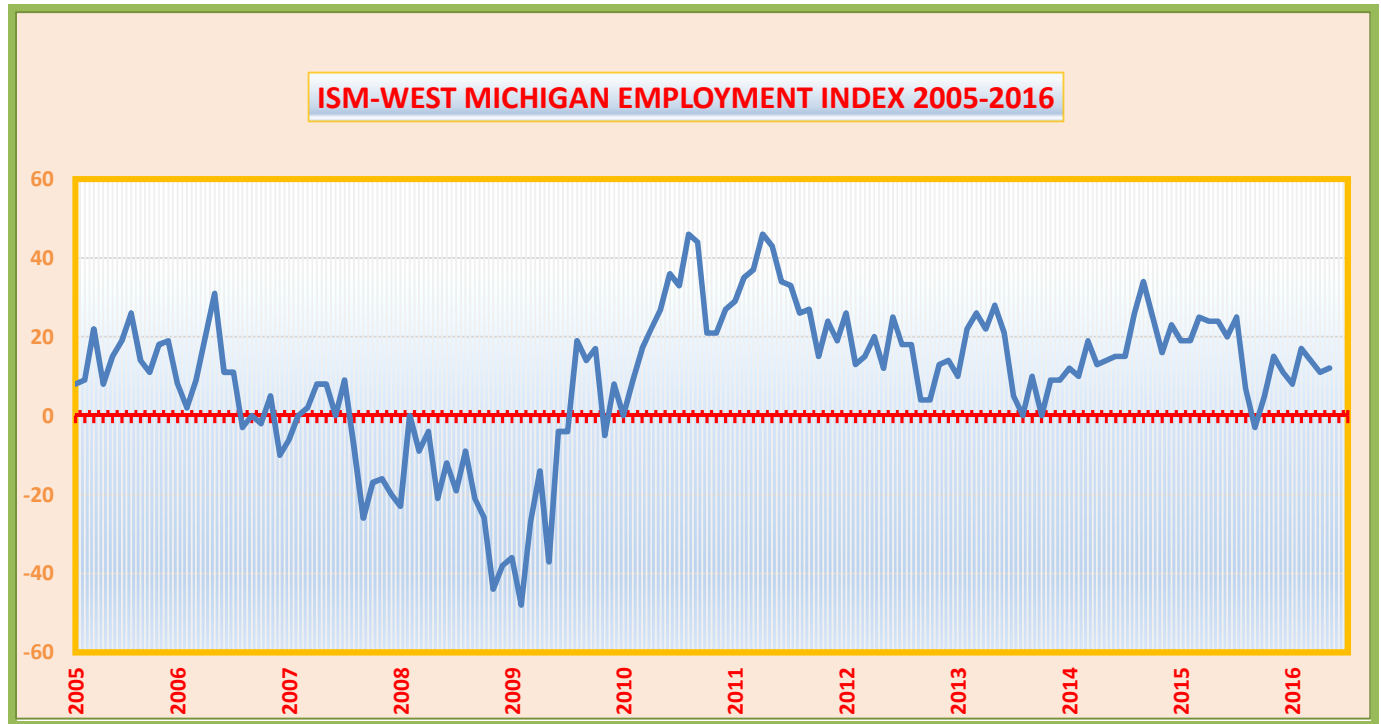


ISM-West Michigan Index of New Orders: 2005-2016 Only



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.

