



## Institute for Supply Management,

Greater Grand Rapids, Inc.  
P. O. Box 230621  
Grand Rapids, MI 49523-0321

# News Release (For Immediate Release)

July 6, 2016

## Current Business Trends

By Brian G. Long, Ph.D., C.P.M.  
Director, Supply Chain Management Research  
Grand Valley State University (269) 323-2359

### A Modest Upturn

Back on track. That's the latest word on the West Michigan economy, according to the data and comments collected in the last two weeks of June 2016. NEW ORDERS, our index of business improvement, rose modestly to +6 from +0. In a similar move, the PRODUCTION index advanced to +11, up from +4. However, activity in the purchasing offices, the index of PURCHASES, edged lower to -1 from +7. Our inventory indexes representing both FINISHED GOODS and RAW MATERIALS continue to show inventory accumulations well above normal. The anecdotal comments from the survey participants indicate that many firms are still concerned about the economic situation over the next year or so but are continuing to move forward all the same.

Looking at local industrial groups, the office furniture business remains stable for the large establishments, and business appears to be especially good for a couple of the smaller firms. The local auto parts suppliers are still doing well, but with U.S. auto sales only up 1.4% for the first seven months of the year, there is a sense that the market is now starting to top out. Like most summer months, June sales for the industrial distributors came in mixed. Because of excess equipment being dumped on the world markets, capital equipment firms continue to report widely mixed results. The standard types of equipment are available in abundance, while some of the specialty tooling is in short supply.

Despite some guarded optimism resonating from this month's statistics, the business sentiment numbers from our local survey remain little changed. The SHORT TERM BUSINESS OUTLOOK, which asks about the perception of the next three to six months, edged higher to +26 from +24. The LONG TERM BUSINESS OUTLOOK for June, which depicts our outlook for the next three to five years, eased modestly to +35 from +42.

The June report from the Institute for Supply Management, our parent organization, remains positive and little changed from May. NEW ORDERS, ISM'S national index of business improvement, backtracked to +13, down from +15. The PRODUCTION index rose very modestly to +11 from +10. The EMPLOYMENT index remained unchanged at +2. Because of statistical weighting, ISM's overall index rose to 53.2 from 51.3, a notable gain.

The monthly survey conducted by Markit.com, the international economics consulting firm, came in slightly more optimistic than in previous months. Positive factors included a renewed rise in production volumes, a moderate expansion of payroll numbers, and the sharpest increase in NEW ORDERS since March. The final U.S. manufacturing PMI for June came in at 51.3, up from 50.7 in May. The survey author opined:

"Although the manufacturing PMI ticked higher in June, the latest reading rounds off the worst quarter for goods producers for six years. Producers are struggling in the face of the strong

dollar, the energy sector decline, and presidential election jitters. With companies craving certainty, heightened tensions between the U.K. and the European Union are likely to unsettle the global business environment further in coming months, and therefore risk dampening growth in the US and export markets. The data flow in the next two months will therefore be critical to policymakers in gauging the appropriate outlook for interest rates."

At the international level, the J.P. Morgan Global Manufacturing survey of 31 nations released on July 1, JPM's index of NEW ORDERS edged higher to 50.8 from 50.3. The PRODUCTION index rose to 50.5 from 50.0. Although both of these indexes are barely above the 50.0 break-even point, they are headed in the right direction—at least according to the data collected before the Brexit vote. J.P. Morgan's Global Composite Purchasing Manager's Index rose higher to 50.4, up from 50.0. The survey author and chief economist for Markit further noted:

"Euro area manufacturers enjoyed their strongest growth so far this year in June. An upturn in the rate of production growth signals factory output is expanding at a near 2% annual pace, which should help to drive further modest economic growth in the second quarter. NEW ORDERS and EXPORTS also rose at faster rates, prompting a welcome upturn in hiring. However, the data were collected prior to the U.K.-E.U. referendum result, so any Brexit impact is yet to be seen in the PMI."

Had it not been for the Brexit vote, the ominous June PMI report from China may have received more attention. The Chinese manufacturers reported the sharpest deterioration in operating condition for the last four months. PRODUCTION is falling at the greatest rate since February, and NEW ORDERS dropped to a five month low. Adjusted for seasonal factors, China's PMI fell to 48.6 in June, down from 49.2 in May. Needless to say, the government has plenty of money to alter fiscal policy to help fill the gap, but past programs, like building cities where there are no people, raise the question of the probability for success.

Turning attention to industrial inflation, our local index of PRICES backtracked to +15, a little less than the +18 we reported last month. The recent gyrations in oil prices are at least minimizing the price increases of plastic resins and fuels. Almost every grade and type of steel is still going up in price. Given the importance of steel to the industrial market, the cost implications are significant. However, the pundits are now starting to predict that most prices may soon begin to stabilize. Over half of the world's steel is produced in China, and the producers are finally starting to take some of the capacity offline.

After a 6.1% dip in auto sales for the month of May, it was good to see the June report come in with a modest

2.4% gain. Overall sales for all of 2016 are now up 1.4%, and there is still no sign of any sustained weakness in the market. However, much of the recent success for the industry has been propelled by lower oil prices, more subprime loans, and record incentive levels. History tells us that all of this will one day change. Several of the manufacturers have also pushed low-cost leases as a means of boosting sales. Of the major brands, Nissan posted a 13.1% year-over-year increase because of the success of several new lines of crossovers, SUVs, and trucks. Ford sales rose 6.4%, and Fiat Chrysler edged up 6.5% because of strong truck and SUV sales. Of course, a 17.1% increase for Jeep helped significantly. Sales at General Motors slipped 1.6% primarily because of an 8.6% drop for the GMC brand and a 5.5% decline at Buick.

We continue to see that employment growth for West Michigan outpacing most of the rest of the state and the nation. For the June survey, our index of EMPLOYMENT again came in +12, well above the long term average. Comparing year to year, the unemployment rates for most reporting units are still improved by about a full percentage point or so. Of the 83 Michigan counties, the Ottawa County unemployment rate fell to 3.0%, the lowest in the state. Kent County took second place at 3.1%. Allegan County was fourth at 3.4%, and Kalamazoo County posted seventh at 3.6%. Although these unemployment numbers are well below the state and national averages, there is still room for improvement. For instance, Kent county unemployment was as low as 2.1% in late 1998. In addition, our workforce is now a little smaller than it was in 1998, so some of the improvement is statistical.

Needless to say, this month's biggest story in economics is about the Brexit. In reality, it will take armies of economist many months to sort out the impact. Fortunately for West Michigan, there will be NO immediate impact regardless of where all the chips fall. Even for Europe, the present agreement remains in place for the next two years, allowing plenty of time for readjustment. But some investors have already panicked. From a pure economic standpoint, there is really no cause

## JUNE COMMENTS FROM SURVEY PARTICIPANTS

"Business has picked up slightly, but it still down from last year. We do have new programs coming on board during the fourth quarter."

"We had a stronger than expected second quarter."

"We have more work to do than we have people or time to do it!"

"The auto products market has been slower for the last 30-60 days for us."

"Things seem to be slowing down in automotive."

"Business is steady and strong. It's been a good year so far."

"We are starting to see some softening in orders which is typical this time of year in the auto industry."

"Orders are ok, and quotes are up right now. We hope to have a strong third and fourth quarter."

"Orders are steady, and the outlook is good for 2017."

"May was slower than April and looked pretty bad until late in the month. A slew of orders late in the month brought the total up substantially, but not enough to make it better than April. Many customers are reporting a slowdown."

"Business is still relatively stable."

"The year started off great for us. The second half of the year looks like we are going to slow down a bit."

"Sales are down, resulting in a slippage in our shipments. We are looking for an uptick soon."

"We're nervous about the EU and the ripple effect."

"It's going to be interesting to see what havoc the upcoming elections cause."

"Our sales increases are due to seasonality."

"We had to scale back our workforce by 7% due to decreased activity level and the need to preserve cash."

for a major upheaval. The U.K. still needs to buy products from Europe, and Europe has no replacements for products and services coming across the English Channel. However, it is the psychological implications that are the most difficult to figure out, complicated by the egos and personalities of the people involved. Britain's prime minister has resigned, and we don't know who will be taking the lead. Angela Merkel stands almost no chance of reelection next year. Right wing factions in both the Netherlands and Germany want to hold their own Brexit-style vote. No one can predict the final outcome with any degree of accuracy at this time, but if all of the politicians start throwing stones at each other, Europe could generate its own recession.

As we roll into the lazy, hazy days of summer, one of our economic risks falls in the broad category of "unrest." We expect numerous political demonstrations in cities like Cleveland, and the severity of these demonstrations could shake confidence in our stability as a country. So far, the major ISIS-directed attacks have fallen outside of the U.S. A significant attack at a U.S. airport or shopping mall could put business conditions at all airports and malls in jeopardy. This kind of event would probably carry over into the rest of the economy. So far, our intelligence community has thwarted many attempted attacks. Let's hope that their proficiency endures.

It is true that our country has experienced some form of a recession every seven years or so for the past hundred years. Statistically, we are over seven years into the current recovery, and we are statistically or anecdotally "due." But from an economic standpoint, there is still no evidence that we are about to enter an economic downturn. In fact, our local and national PMI numbers for June indicate a modest improvement in several critical areas. However, it is also noteworthy that many countries around the world have slid into recessions, and no countries are boasting an especially strong economy. The possibility of a relatively flat worldwide economy looks increasingly possible.

"Longer lead times on aluminum are causing production issues."

"Summer is typically slow for us,"

"Business has been very strong in 2016 for automotive."

"We are seeing a weakening in the forecasts for 2017."

"The month started a little slow, but things are heating up now. It will be a busy summer."

"In general, aluminum is up a bit. This is our busy season, so everything is up."

"Business is still a little slow."

"We are busy, and very steady."

"With the rising gas prices, I am worried about what the resin market will do."

"We are very busy quoting new business, and just purchased more machines for delivery in November."

"Business has leveled off. I can't tell if the coming trend will be down or up, but I fear the former. I also notice more companies are sending out advertisements and having "sale" items featured."

"There is still no turnaround in sight. With oil up, we hope to see some projects cut loose."

"We are seeing continued normal, steady growth."

"We purchased a customer last month and have doubled our business! This is good news for our West Michigan clients. We expect our business to start growing due to synergy of products offered. We want to be a one stop shop."

"We are working seven days a week and still can't keep up with the automotive demand."

"Many new jobs being awarded. We are making large capital investments for business in 2017 and 2018."

## June 2016 Survey Statistics

	UP	SAME	DOWN	N/A	June Index	May Index	Apr. Index	25 Year Average
<b>Sales (New Orders)</b>	34%	36%	28%	2%	+ 6	+ 0	+ 7	+14
<b>Production</b>	30%	45%	19%	6%	+11	+ 4	+20	+14
<b>Employment</b>	32%	58%	10%		+12	+12	+11	+ 8
<b>Purchases</b>	22%	55%	23%		- 1	+ 7	+14	+ 7
<b>Prices Paid (major commod.)</b>	21%	73%	6%		+15	+18	+ 6	+15
<b>Lead Times (from suppliers)</b>	13%	84%	3%		+10	+ 8	+ 6	+11
<b>Purchased Materials Inv. (Raw materials &amp; supplies)</b>	18%	64%	7%	9%	+11	+ 9	+ 5	- 4
<b>Finished Goods Inventory</b>	22%	58%	12%	8%	+10	+18	+ 8	- 8
<b>Short Term Business Outlook (Next 3-6 months)</b>	39%	48%	13%		+26	+24	+34	-
<b>Long Term Business Outlook (Next 3-5 years)</b>	43%	46%	8%	3%	+35	+42	+49	-

**Items in short supply:** Ultem, sheet steel, stainless steel sheets, fabricated plastics, electrical components, hydraulic components, carbon steel, copper, polysulfone, good machine operators.

**Prices on the UP side:** Polypropylene, stainless steel, carbon steel, cold rolled steel, sheet steel, heavy steel plate, bar steel, hot rolled steel, scrap steel, fuel, refrigerants, PVC resin, paraffinic oil, SEBS resin, machining, labor rates, lithium.

**Prices on the DOWN side:** Rubber, scrap steel\*, nylon resin, polypropylene\*, copper\*, salt, freight, fasteners.

\*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.)	4.7%	5.5%	14.6%	3.2%
State of Michigan (Unadj.)	4.5%	5.9%	14.1%	2.9%
Kent County	3.1%	4.2%	11.9%	2.1%
Kalamazoo County	3.6%	4.5%	11.1%	2.1%
Calhoun County	4.2%	5.5%	12.8%	2.7%
Ottawa County	3.0%	4.0%	13.3%	1.8%
Barry County	3.5%	4.5%	10.9%	2.2%
Kalamazoo City	4.5%	6.0%	15.2%	3.2%
Portage City	3.3%	4.4%	8.7%	1.3%
Grand Rapids City	4.2%	5.5%	16.1%	3.0%
Kentwood City	2.9%	3.9%	10.7%	1.4%
Plainfield Twp.	2.4%	3.1%	8.0%	1.4%
U.S. Official Rate (Apr.)	4.7%	5.5%	9.6%	3.8%
U.S. Rate Unadjusted	4.5%	5.3%	9.6%	3.6%
U.S. U-6 Rate**	9.7%	10.7%	16.7%	8.0%

### 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 + 6 for the month of June, 2016

Previous Month + 0 for the month of May, 2016

One Year Ago +19 for the month of June, 2015

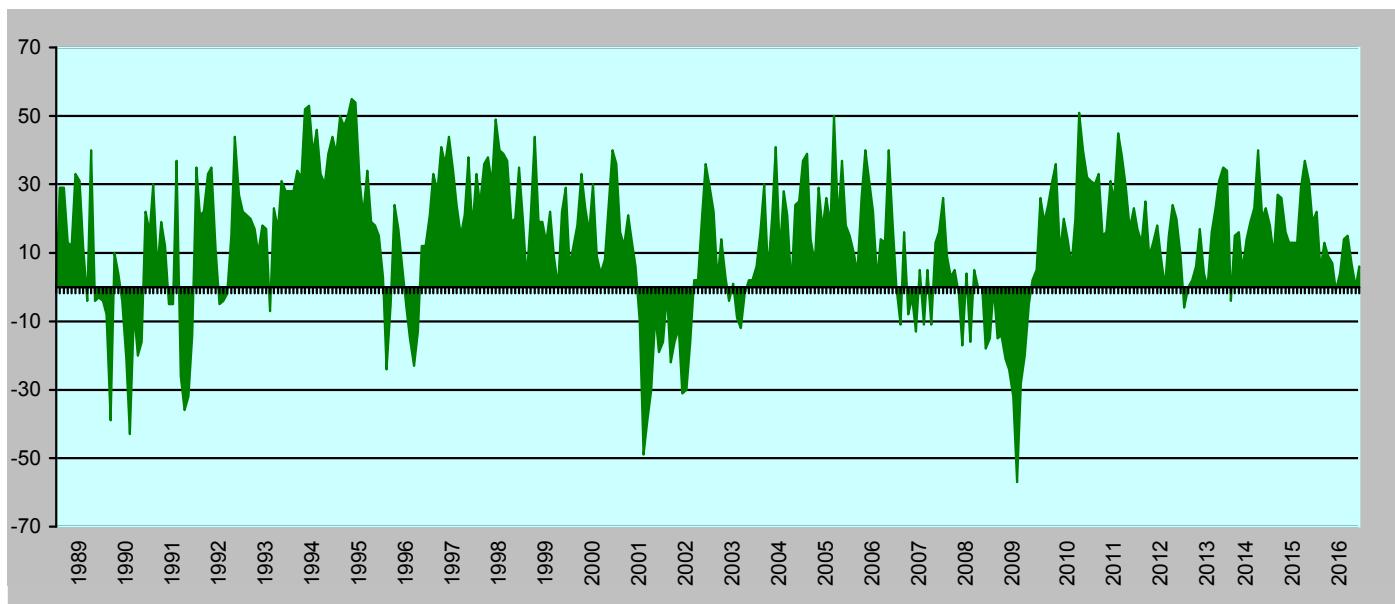
Record Low - 57 for the month of December, 2008

Record High + 55 for the month of September, 1994

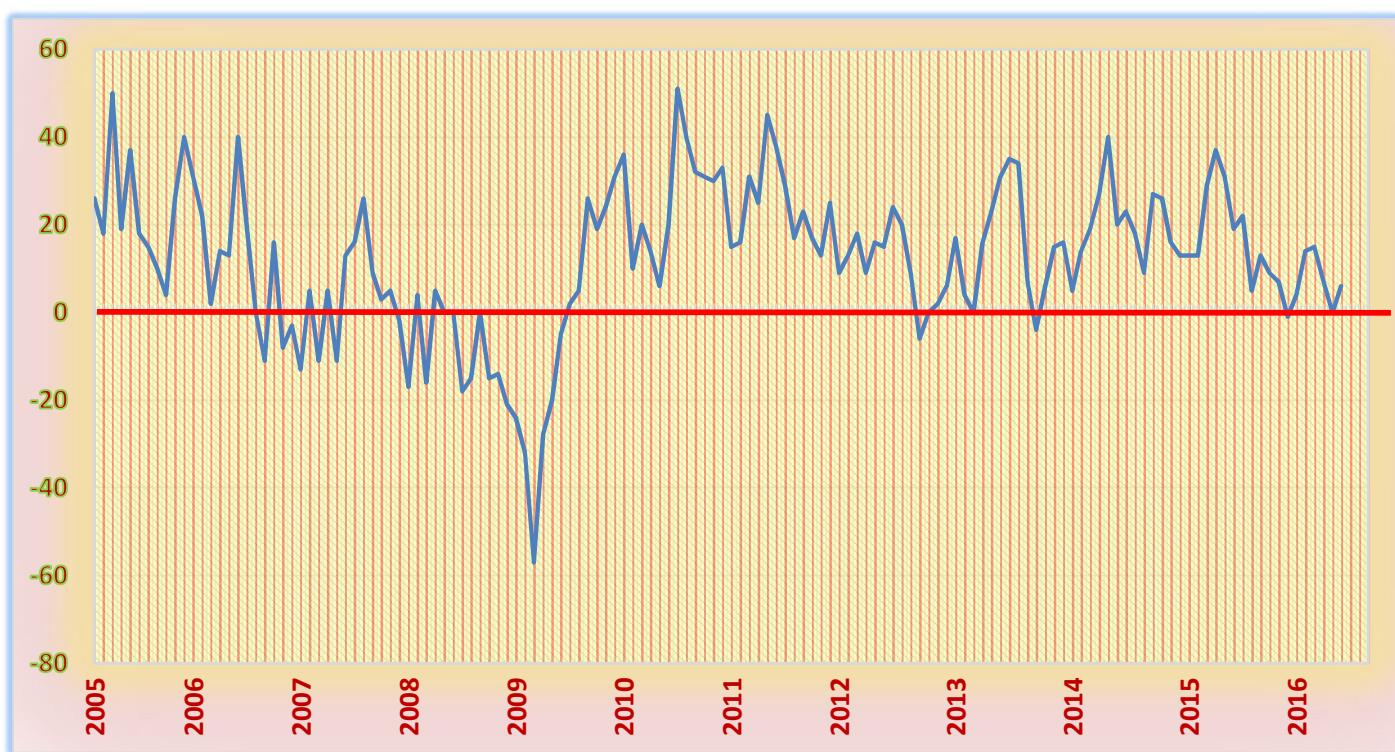
First Recovery + 3 in April of 2009 and forward

\*\*U-6 for Michigan = 11.2% for Q1 of 2016

## ISM-West Michigan Index of New Orders 1988 - 2016

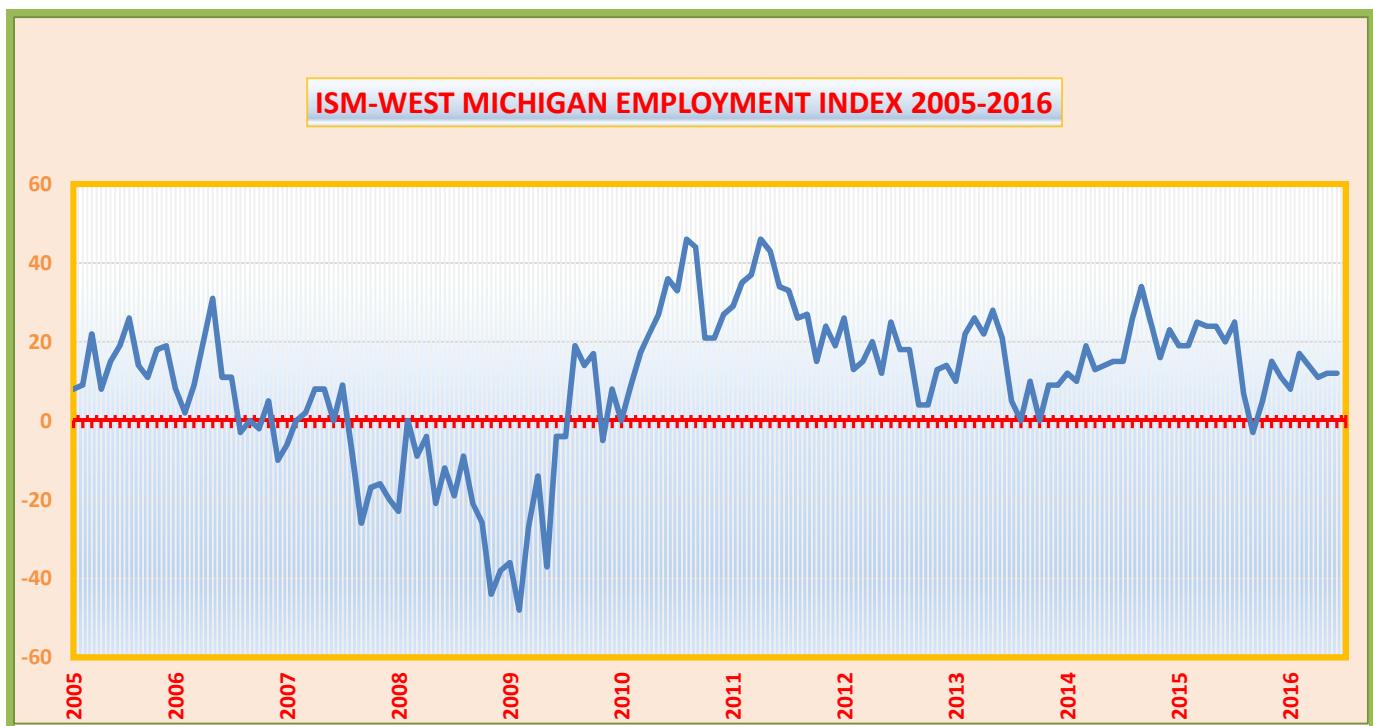


## ISM-West Michigan Index of New Orders: 2005-2016 Only



## 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 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.

