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News Release (For Immediate Release)

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Current Business Trends

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Strengthening

A little stronger. That's the latest word on the West Michigan economy according to the data and comments collected in the last two weeks of July 2016. NEW ORDERS, our closely watched index of business improvement, rose modestly to +10, up from +6 in June, but well ahead of the +0 we reported in May. In a similar move, the PRODUCTION index advanced to +18, up from +11. The index of PURCHASES, which tracks activity in the purchasing offices, jumped to +14, up from -7. Perhaps in anticipation of higher prices, the inventory indexes representing both FINISHED GOODS and RAW MATERIALS continue to show inventory accumulations well above normal. Except for the industries impacted by lower oil prices, the anecdotal comments from the survey participants are generally optimistic.

For our local industrial groups, the office furniture business remains stable with no significant problems on the horizon. Most firms are approaching capacity, and others are booming. Although West Michigan's auto parts suppliers are still doing well, there is now considerable evidence that the market is topping out. Like most summer months, July sales for the industrial distributors came in mixed. For the capital equipment markets, July sales were also mixed. One respondent noted that the absence of used equipment coming to market has resulted in a newfound demand for new equipment. Because some equipment manufacturers did not survive the Great Recession, some specialty tooling is in short supply.

The business sentiment numbers from our local survey are still positive, although the pattern continues to zig-zag. The SHORT TERM BUSINESS OUTLOOK, which asks about the perception of the next three to six months, remained positive but edged lower to +16 from +26. The LONG TERM BUSINESS OUTLOOK for July, which depicts the outlook for the next three to five years, rose modestly to +39 from +35. Several participants noted that sales are at an all-time high.

The August 1 report from the Institute for Supply Management, our parent organization, remains little changed from June. NEW ORDERS, ISM'S index of business improvement, came in at +12, only a point lower than last month. The PRODUCTION index backtracked to +8 from +11. For the third consecutive month, ISM's anemic EMPLOYMENT index remained unchanged at +2. ISM's overall index edged lower to 52.6, down modestly from 53.2, but still ahead of the 50.0 break-even point. .

Markit.com, the international economics consulting firm, posted a slightly more positive view of the U.S. economy for July. NEW ORDERS came in at a nine-month high, and PRODUCTION, EMPLOYMENT, and PURCHASES all posted modest improvements. Markit's chief economist further noted:

> "The stronger manufacturing PMI survey data for July fuel hopes that the sector will act as less of a drag on the economy in the third quarter after a disappointing first half of the year. Having signalled (British for signaled) the sector's worst performance for over six years in the second quarter, and contributing to a sluggishness in the economy that was later seen in the soft GDP numbers, the improvement in July suggests that manufacturers and exporters will have helped lift the economy at the start of the third quarter. Job creation has also picked up, and hopefully, is a sign that producers are seeing a brighter picture, are successfully coping with a strong dollar, and have put the worst of the energy sector's restructuring behind them."

At the international level, the J.P. Morgan Global Manufacturing survey of 31 nations released on August 1 was again slightly more optimistic. JPM's index of NEW ORDERS edged higher to 51.4 from 50.7. The PRODUCTION index increased to 52.1 from 50.4. The J.P. Morgan's Global Composite Purchasing Manager's Index rose higher to 51.0, up from 50.4. The survey author and chief economist for Markit further noted:

> "Growth of output and new orders both accelerated in July, a sign that the sector is breaking out of the sluggish trend seen through the opening two quarters. Mild improvements in employment and new export orders following recent declines are also steps in the right direction."

If we can trust the numbers, the Chinese industrial economy, which has been negative for the past eighteen months, appears to be on the mend. The Caixin China General Manufacturing PMI came in at 50.6 for July, up significantly by 2.0 points from the reading for June, marking the first expansion since February 2015. If these data are correct, we can take China off the "worry list" for systemic problems that could upset the world economy. The survey author credits the government's proactive fiscal policy but notes that pressure on economic growth remains.

Turning attention to industrial inflation, over half of the world's steel is produced in China, and the producers are finally starting to take some of the capacity offline. In this month's report, nearly every grade and type of steel is still rising in price. Fortunately, prices for other key commodities like aluminum and copper have not followed suit. At +12, the West Michigan index of PRICES remains well below the 25-year average.

For automotive sales, we recall that the June report came in with a modest 2.4% gain after a 6.1% sales dip in May. The July report from Automotive News declared the anemic 0.5% industry sales growth to be "clear evidence that the industry is plateauing." For the Detroit manufacturers, Ford sales declined 3.0%, GM slipped 1.9%, but Fiat Chrysler eked out a 0.3% gain. For the other major brands, Toyota eased 1.4%, Nissan gained 1.2%, and

Honda had one of its best months of the year, rising 4.4%. Ford has now projected lower earnings for the rest of the year, and announced a cost-cutting program. Needless to say, firms supplying Ford will be "invited" to participate.

The employment picture for the West Michigan industrial economy remains positive. For the July survey, our index of EMPLOYMENT edged up to +14 from June's +12. Given that this index temporarily turned negative last September, the double-digit growth we have seen for the past few months is welcome news. Of the 83 Michigan counties, Ottawa County unemployment now stands at 3.3%, the second lowest in the state. Kent County took third place at 3.4%. Allegan County was sixth at 3.6%, and Kalamazoo County posted eleventh 3.9%. Compared to the rest of the state, these numbers are very good.

Last month's major story in economics was about the Brexit. Because of the surprise outcome, the stock market spiraled into a panic until wiser minds prevailed. After a few days, the reality set in that the present trade agreements will all remain in place for the next two full years, allowing plenty of time for readjustment. For most of Europe, the post-Brexit purchasing manager's surveys were unaffected. However, the U.K. composite index fell from 52.4 to 48.2, its lowest level since February 2013. In general, the panic is unwarranted, and the August report from the U.K. should recoup at least part of the loss.

The average annual postwar GDP growth has been about 3% per year, a level that has not been reached since 2008. In this month's economic news, the second quarter GDP came in at a lackluster 1.2%, and the first quarter was revised downward to 0.8%. Some say that this is evidence of a weakening economy, even though slow growth is clearly preferable to negative growth, i.e., a recession. The concept of GDP was developed about 1932 as a means of measuring the FINAL consumer and governmental consumption for any given reporting unit. Hence, a large component of GDP becomes the purchases made by the consumer market wherein the FINAL goods and services are consumed. The business sector may consume only about 13% of FINAL goods and services, but industrial spending on raw material and services constitute about 70% of the money changing hands. Hence, many economists no longer feel that GDP should be regarded as the primary indicator for economic health. Because of the complex flows of money among world financial institutions, measurement has become increasingly difficult. The U.S. economy is now deeply linked to the rest of the world by financial markets that can translate changes in milliseconds. The proliferation of multinational supply networks make it more difficult to measure which country should be credited for economic growth. Some economists now favor a "dashboard" of data for depicting economic conditions, but even these economists cannot agree on which factors should be included. At present, the Michigan economic dashboard displays 21 components, and more may soon be added. That's probably too many. Several European economists have suggested picking out about six measures to track activity. We'll see if the concept gets any traction.

In summary, the July reports from the local, national, and international purchasing surveys are all higher. The odds of sliding into a recession in the next few months have lessened considerably. However, worldwide economic growth has slowed to a crawl. For the major countries, none of the PMIs is especially strong. Canada and Mexico, our two largest trading partners, have PMIs of 50.6 and 51.8, respectively. Hence, it is possible that both the United States and the rest of the world may be in for a period of very slow growth. Unlike the slow growth of the past seven years, this growth pattern could be even slower.

JULY COMMENTS FROM SURVEY PARTICIPANTS

"Business is BOOMING here...every month is a new sales record."

"Some key program launches (automotive & office furniture) were delayed, which impacted sales. We continue to struggle to locate quality individuals for new employment opportunities."

"We are starting to see some life for new orders on the horizon."

"We really didn't see a slowdown in our automotive business this summer. We are very busy with new program launches."

"Business is flat right now."

"Our huge increase in business is for "new" capital equipment, which has been fueled by the extreme shortage of good quality "used" metal stamping equipment."

"Things are picking up."

"Orders are getting close to being back to planned levels."

"VAVE efforts are achieving our cost reduction goals."

"We are still slow, with no end in sight."

"We continue to be pretty busy."

"Business seems to be picking up. We still are not as busy as we would like to be, but all signs are that the rest of the year will be busy."

"We have now exceeded our sales goals for six quarters in a row!"

"Business remains strong in automotive."

"We are starting to see a slight softening in our production schedule."

"Machine tool sales have slowed significantly because of the summer season. Also, we are heading to the large machine tool show in September (IMTS)."

"We're very busy, and have been since the first quarter."

"June ended up ok, but the second quarter saw a slowdown. July is off to a good start, so maybe we'll be more optimistic next month. "

"It is more and more difficult to secure labor. We are having to increase wage offers to get any interest."

"We have a few new projects that were recently awarded. New capital purchases have been made, and short and long term sales outlook is good. Automotive remains strong. "

"We are seeing lower order volumes because of the typical summer slowdown as customers shut production lines down for maintenance and adjust for production staff vacation schedules."

"Salt prices are down around 24% this year due to last year's mild winter."

"Orders from the trucking industry continue to stay down."

July 2016 Survey Statistics

	UP	SAME	DOWN	N/A	July Index	June Index	May Index	25 Year Average
Sales (New Orders)	34%	40%	24%	2%	+10	+ 6	+ 0	+14
Production	34%	44%	16%	6%	+18	+11	+ 4	+14
Employment	24%	66%	10%		+14	+12	+12	+ 8
Purchases	32%	50%	18%		+14	- 7	+ 7	+ 7
Prices Paid (major commod.)	15%	82%	3%		+12	+15	+18	+15
Lead Times (from suppliers)	11%	81%	8%		+ 3	+10	+ 8	+11
Purchased Materials Inv. (Raw materials & supplies)	24%	57%	13%	6%	+11	+11	+ 9	- 4
Finished Goods Inventory	24%	53%	15%	8%	+ 9	+10	+18	- 8
Short Term Business Outlook (Next 3-6 months)	32%	52%	16%		+16	+26	+24	-
Long Term Business Outlook (Next 3-5 years)	44%	48%	5%	3%	+39	+35	+42	-

Items in short supply: Construction equipment, gravel, sand, cold rolled steel, labor.

Prices on the UP side: Steel, stainless steel, cold rolled steel, hot rolled steel, raw steel, paraffinic oils, PVC resin, construction equipment, gravel, wages, overseas steel, labor costs.

Prices on the DOWN side: Polypropylene, poplar and ash, road salt, scrap steel, oil, plastics, rubber, carbon and stainless bar stock.

Latest Unemployment Reports

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

	June 2016	June 2015	Aug. 2009	20 Year Low
State of Michigan (Adj.)	4.6%	5.3%	14.6%	3.2%
State of Michigan (Unadj.)	4.9%	5.8%	14.1%	2.9%
Kent County	3.4%	4.1%	11.9%	2.1%
Kalamazoo County	3.9%	4.7%	11.1%	2.1%
Calhoun County	4.4%	5.3%	12.8%	2.7%
Ottawa County	3.3%	4.0%	13.3%	1.8%
Barry County	3.6%	4.3%	10.9%	2.2%
Kalamazoo City	4.9%	5.8%	15.2%	3.2%
Portage City	3.6%	4.3%	8.7%	1.3%
Grand Rapids City	4.5%	5.4%	16.1%	3.0%
Kentwood City	3.2%	3.8%	10.7%	1.4%
Plainfield Twp.	2.5%	3.1%	8.0%	1.4%
U.S. Official Rate (June)	4.9%	5.3%	9.6%	3.8%
U.S. Rate Unadjusted	5.1%	5.5%	9.6%	3.6%
U.S. U-6 Rate**	9.6%	10.5%	16.7%	8.0%

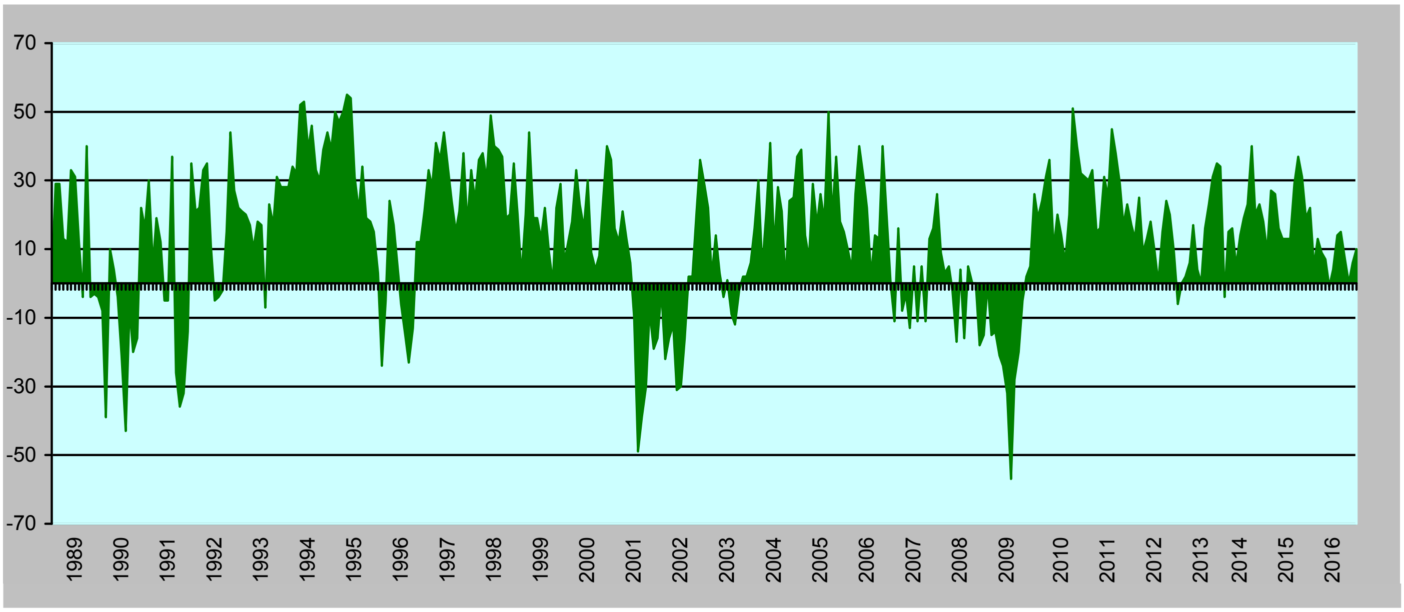
**U-6 for Michigan = 10.8% for Q2 of 2016

Index of New Orders: West Michigan

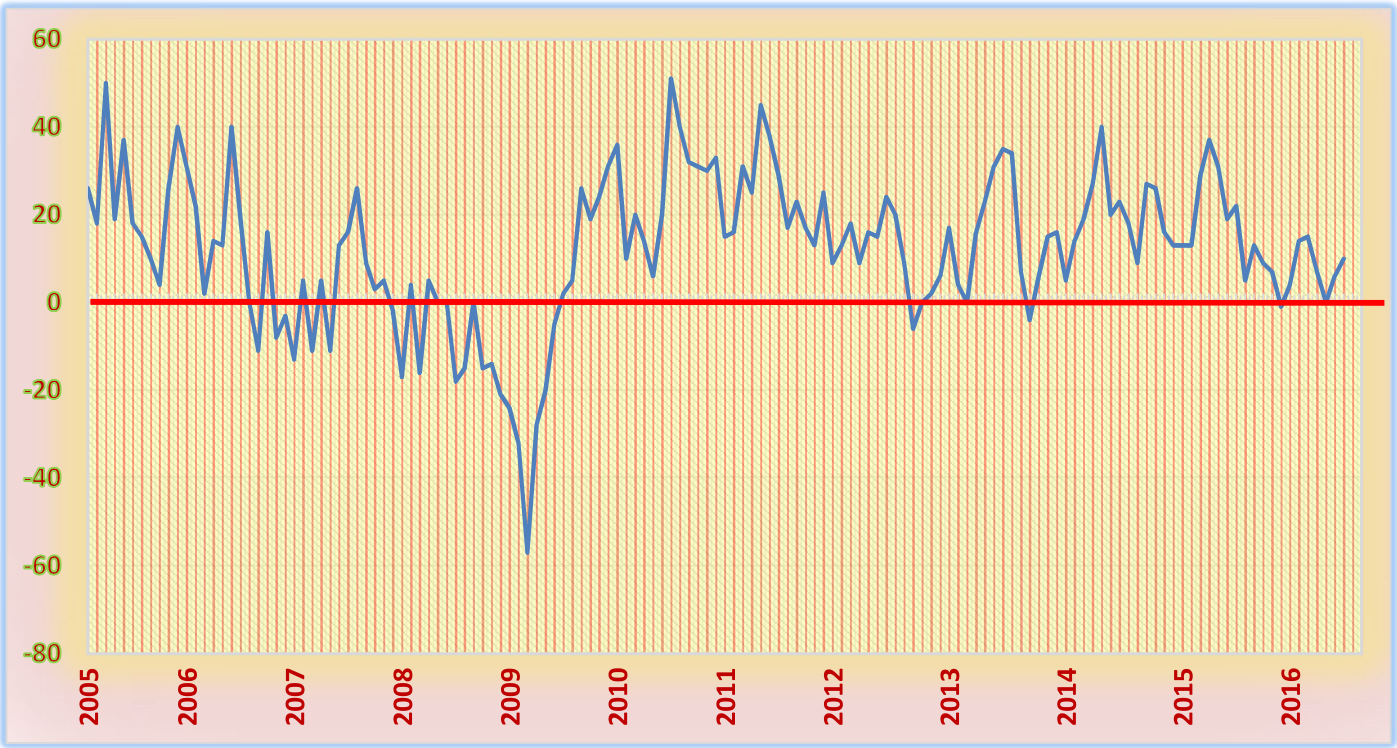
As the name implies, this index measures new business coming into the firm, and signifies business improvement or business decline. When this index is positive for an extended period of time, it implies that the firm or organization will soon need to purchase more raw materials and services, hire more 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	+10 for the month of July, 2016
Previous Month	+6 for the month of June, 2016
One Year Ago	+22 for the month of July, 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

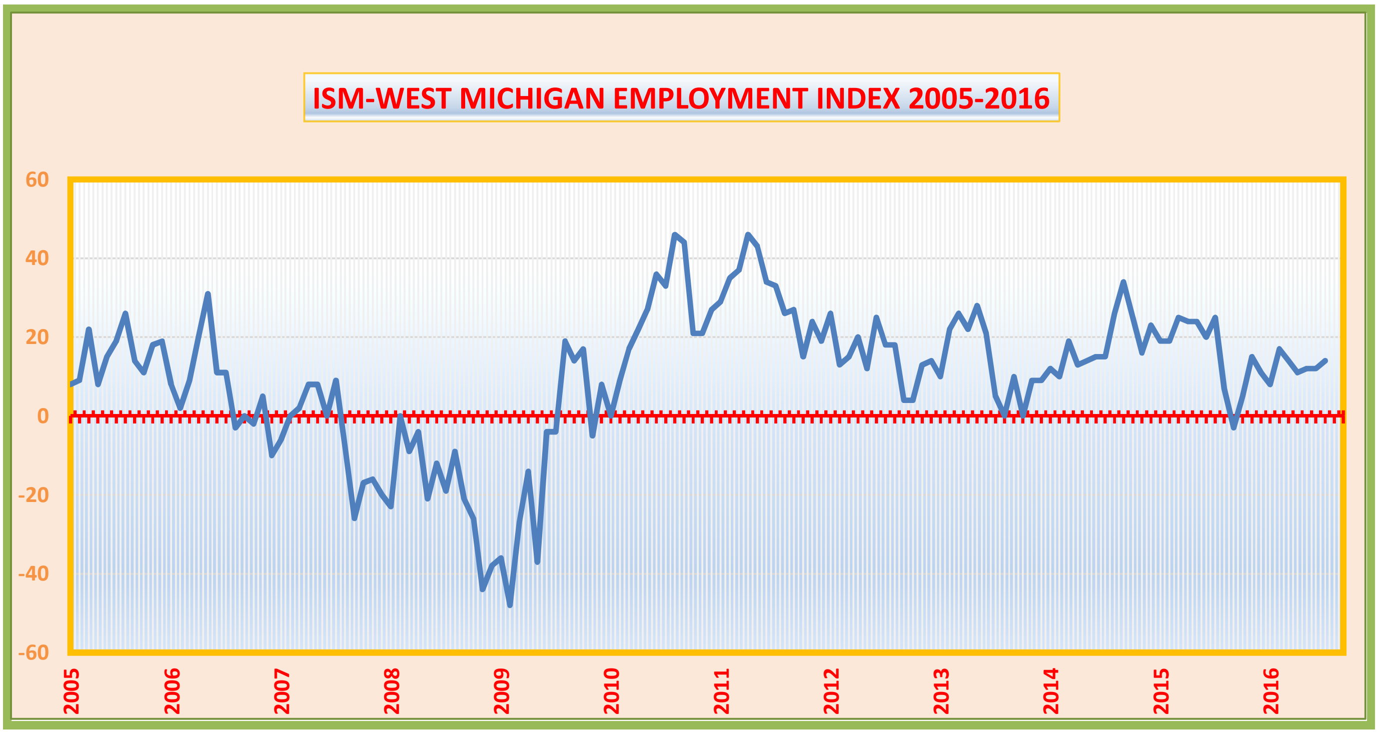


ISM-West Michigan Index of New Orders: 2005-2016 Only



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 BUSIESS 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.