

News Release (For Immediate Release)

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Current Business Trends

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2017 ENDS WITH SOLID GROWTH

Historically, the end of the year has sometimes been rough for the West Michigan economy. However, according to the data collected in the last two weeks of December, the local economy finished 2017 on a solid footing. NEW ORDERS, our closely watched index of business improvement, was virtually unchanged, but eased to +19 from +20. In contrast, the PRODUCTION index edged up to +22 from +17. At +15, the EMPLOYMENT index remained in double-digit growth for the eleventh continuous month. Activity in the purchasing offices, the index of PURCHASES, remained positive at +16, marginally slower than November's +18. Again, the West Michigan industrial economy remains on the track of slow growth, much as it has since the recovery from the Great Recession began in April 2009. Where do we go from here? Here are some thoughts:

The World Economy. According to the J. P. Morgan Global Manufacturing Report released on January 2, the world economy is the strongest it has been in seven years. JPM's Global Manufacturing PMI (Purchasing Manager's Index) rose to 54.5 from 54.1, driven by strong growth from the U.S. and the eurozone, and moderate improvement in most of the troubled economies such as Brazil, Russia, and China. The survey author further commented:

"The performance of the global manufacturing sector continued to strengthen at the end of the year, with growth of output, new orders, and employment reaching levels last achieved in early 2011. Improved inflows of new business, rising backlogs of work, and improved business optimism all point to this robust upswing in output growth being carried over into 2018."

Having apparently corrected many of the long-term debt and pension problems which were called into question following the sovereign debt meltdown in Greece, all of the major European economies are now on a roll. The IHS Markit.com December PMI for the eurozone came in at a twenty-year high of 60.6, up from 60.1 in the previous report. Even Greece posted a ten-year PMI high of 53.1. Chris Williamson, Chief Business Economist at IHS Markit, further noted:

"The eurozone manufacturing boom gained further momentum in December, rounding off the best year on record and setting the scene for a strong start to 2018. The average PMI reading for 2017 is the highest annual trend in the survey's two-decade history. New orders rose at a near-record pace, while purchasing growth hit a new peak as firms readied themselves for higher production."

The U.S. Economy. The January 2, 2018 press release from the Institute for Supply Management, our parent organization, reported that NEW ORDERS for ISM's manufacturing index edged up to +29 from +22. Probably because of the holiday season, the PRODUCTION index eased to +23 from +25. ISM's EMPLOYMENT index, which has been in double-digits for the past ten months, rose to +17 from +12. The PMI, ISM's overall manufacturing index, edged up to 59.7 from 58.2, fairly near a twenty-year high. Although not quite as strong, the IHS Market index for the U.S. posted an eleven-month high of 55.1. All of

this confirms that the U.S. economy is heading into the New Year on a positive note.

Unemployment. At +15, our local EMPLOYMENT index has been in double-digit growth since the beginning of the year. Although unemployment for West Michigan remains well below most of the rest of the state, additional improvement in the rates for most of our local reporting units appears to have stalled. The shortage of qualified workers in 2018 will continue to be a problem for West Michigan and the entire state. The seasonally adjusted unemployment rate of 3.7 percent for Michigan in July has edged up to an ominous 4.6 percent in November. Although part of the rise can probably be attributed to statistical variation, the absence of qualified works will remain a factor if changes are not made. Nationally, the November unemployment rate of 4.1 percent is now only a shadow away from the 20-year low of 3.8 percent. If all goes well, the "official" national rate should edge below 3.8 percent by the end of 2018. After the slowest recession recovery in history, the wage rates have finally started to rise faster than inflation. The trend toward higher wages should continue for most of 2018.

Automotive. We like to point to the success of many different industries in Michigan, yet the fact remains that West Michigan's recovery from the Great Recession has relied heavily on automotive strength. It was an especially good year for the hourly workers at the auto parts plants, given that their average paychecks rose 7.5 percent over the past year. In West Michigan, we are blessed with auto parts fabricators that can compete toe-to-toe with the rest of the world. However, the auto industry as a whole closed out the sales year with a 5.0 percent loss for December, and a 1.8 percent loss for the entire year. The split between cars and light truck continues to grow increasingly lopsided, with December sedan sales down 17.0 percent, partially offset by a 1.6 percent gain in light trucks. We can expect auto sales to continue with the same pattern of marginal monthly declines for most of 2018. However, unless there is another catastrophic economic event, the decline in auto sales **should** remain orderly. We cannot count on automotive to bring in very many more jobs, but the existing auto parts market in West Michigan appears to be stable and PROFITABLE at this time.

Industrial Inflation. Assuming that the Chinese economy stays on track and Western Europe continues to boom, the inflation rate for most commodities will continue to rise significantly throughout 2018. Locally, our index of PRICES edged up in December to +33 from +31. Barring some kind of a supply disruption, we do not anticipate any explosive price increases in 2018. Our local firms, as a group, are currently profitable, but rising prices may cut into profit margins as the year goes along.

Consumer Inflation. Although controversial, many economists believe that a nominal rate of inflation of about 2 percent is actually good for the economy. With the rate of economic growth starting to pick up, the odds are good that consumer inflation will probably start registering a little ahead of 2 percent by the end of the year. Barring the emergence of some kind of a trade war, an inflation rate above 2 percent poses little economic threat. However, higher inflation will

give the Federal Reserve license to raise short-term interest rates.

Interest Rates. The Federal Reserve has embarked on a policy of raising interest rates very slowly, and recent press releases indicate that they plan at least three more quarter point hikes in 2018. However, the recently-passed tax overhaul allows for billions of dollars to be repatriated. The large flow of money back into the domestic market could keep long-term rates low for the rest of 2018.

Business Confidence. The mood of the industrial economy is still improving, and it seems fairly likely that business confidence will continue to grow in 2018. In this month's report, the December West Michigan index for the SHORT-TERM BUSINESS OUTLOOK, which asks local firms about the perception for the next three to six months, tied the record high of +39 set a few months ago. The LONG-TERM BUSINESS OUTLOOK remained unchanged at +45. Small business optimism as reported by the National Federation of Independent Business is now back to the record level set thirteen years ago. Throughout 2017, we received cautiously optimistic comments from most of our survey participants. We expect this trend to continue in 2018.

Consumer Confidence. Despite the cantankerous atmosphere in Washington and the latent threat of war with North Korea, consumer confidence remains high, although not as high as the dot-com era of twenty years ago. Chances are good that consumer confidence will edge slightly higher as the year unfolds, barring catastrophic geo-political events.

Real Estate. Sales of existing homes have risen sharply in recent months, despite a severe and worsening shortage of homes actually available for sale. The oft-quoted statistics from the Case-Shiller national index of home prices posted a year-over-year 6.8 percent gain in the latest report. Locally, we noted that employment in Kent and Ottawa counties was up by 15 percent and 20 percent, respectively over the past ten years. The availability of homes for sale has not come close to

meeting the new demand. Hence, housing prices have skyrocketed in some areas of West Michigan.

GDP. Yes, the new tax bill will probably have a positive impact on the 2018 economy. The amount of the impact remains uncertain because we have no roadmap to predict how the people or businesses will react. For instance, if some of the major firms bring money back home to spend on raising stock dividends or stock buybacks, then the repatriation will be reviewed poorly. If the lower corporate tax rates result in domestic as well as foreign firms pouring new money into business expansion, then the tax program could result in an economic boom. Because of the cut in personal taxes, many Americans will notice a marginal jump in their February paychecks. If they spend the money at Walmart, many Chinese workers will be pleased. But if they spend it on new cars, houses, appliances, or even lawn mowers, we will see some additional growth in the domestic economy. On the balance, 2018 should see GDP growth of about 3.5 percent.

Overall Economy. Numerous problems could rapidly undue the economic progress of the past nine years. The renegotiation of NAFTA could degenerate into a trade war. North Korea could fire an unarmed ICBM at the West Coast just to prove the regime's capability. Some new conflict could break out in the Middle East resulting in destabilizing oil prices. Domestically, one major terrorist act on the scale of 911 could completely derail the confidence of consumers and businesses alike. All of these threats are possible, but chances are good that none of them will come to pass in 2018. Until something really bad actually happens, we will continue to take all of these threats in stride. One reminder: About 66 percent of all the dollars that are spent every day are spent by businesses, not by consumers. Even the respondents to our local business survey represent about \$15 billion in annual spending, although most of this money is spent for machines, steel, chemicals, plastic resin, and a bunch of things most of us never see. If the West Michigan businesses grow, so will the West Michigan economy. Have a great 2018!

DECEMBER COMMENTS FROM SURVEY PARTICIPANTS

"A thriving economy means aggressive price increase strategies are coming. I'm expecting a lot of upward price pressure in the first quarter of 2018."

"Most commodity metals and metal based chemicals are showing increases in price. Cobalt-based product in particular are going up, but nickel, copper, zinc and tin have all increased in prices as well."

"Certain forms of nickel metal anodes are in short supply due to Vale's Thompson plant shutdown."

The fourth quarter is looking pretty strong, and will finish out the year."

"Very busy with orders and quotes. Are we nuts ??"

"We are on the slippery slope of expediting."

"2018 should be a very interesting year for the GDP in the U.S."

"We're having great volume during the holiday season!"

"Overall, it has been a solid year for us."

"2017 was very busy, and 2018 is expected to be as busy as long as the funds are there as promised."

"Business is continuing at the expected pace. New business is becoming more difficult to land. We're still working at a good SAAR rate; less than last year but not a bad rate."

"2017 was a good year. 2018 is looking like more of the same."

"Quoting activity is very active for the first quarter of 2018."

"Economy appears to be healthy, and 2018 looks promising."

"Business outlook is strong going into 2018!!"

"We have longer lead times on international parts due to port congestion."

"We're getting hammered with price increases of 5% to 8%!"

"Our inventory levels purposely lower in December (end of the fiscal year). We still need more machine operators."

"We are looking forward to a strong 2018, but are cautious with the uncertainty for 2019."

"We've had great sales for the month for December, which is unusual."

"Overall, it has been a rough year for us. Sales growth has been flat at best. Hopefully our customers will have a larger budget to work with for 2018."

"We're closing out a record year of new business, which is more than double our original projection."

"Electronics market, especially passives, are in turmoil."

"Employment for our firm is down, even though sales are flat due to end of year belt tightening."

"2018 looks like another strong year with plenty of growth opportunity."

"Things are pretty flat. A lot of the "same-old, same-old" in November. But the numbers are pretty good. If we don't have a horrible December, we will end up with a good quarter."

"Things have wound down for the Holidays. Some customers are placing orders to take advantage of year-end financial structures."

"We have a rush to get parts out before the holidays. However, things look slow after that."

"Business is very robust."

"We are seeing machine tool pricing going up. Most manufacturing companies that we work with are very busy. It's getting tough to keep up."

December 2017 Survey Statistics

	UP	SAME	DOWN	N/A	Dec. Index	Nov. Index	Oct. Index	25 Year Average
Sales (New Orders)	35%	47%	16%	2%	+19	+20	+11	+14
Production	33%	51%	11%	5%	+22	+17	+20	+14
Employment	22%	71%	7%		+15	+13	+14	+ 8
Purchases	25%	66%	9%		+16	+18	+22	+ 7
Prices Paid (major commod.)	35%	63%	2%		+33	+31	+28	+15
Lead Times (from suppliers)	35%	63%	2%		+33	+28	+28	+11
Purchased Materials Inv. (Raw materials & supplies)	24%	56%	15%	5%	+ 9	+12	- 8	- 4
Finished Goods Inventory	11%	62%	22%	5%	-11	- 9	- 2	- 8
Short Term Business Outlook (Next 3-6 months)	44%	51%	5%		+39	+29	+28	-
Long Term Business Outlook (Next 3-5 years)	45%	51%	0%	4%	+45	+45	+49	-

Items in short supply: Castings, polyphenylene, polypropylene, SEBS resin, some aggregates, slag, experienced employees, good people, passive electronics, electrical components.

Prices on the UP side: Some specialty bags, films and foams used for packaging, nylon, calcium carbonate, aggregates, slag, emulsion, construction equipment, cold rolled and hot rolled steel, engineering resins, aluminum, passive electronics, copper, brass, electric motors, stainless steel, fuel, china steel products.

Prices on the DOWN side: Polypropylene*, PVC resin, carbon steel, aluminum*, rubber.

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

Latest Unemployment Reports

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

	Oct. 2017	Oct. 2016	Aug. 2009	20 Year Low
State of Michigan (Adj.)	4.5%	5.0%	14.6%	3.2%
State of Michigan (Unadj.)	4.2%	4.8%	14.1%	2.9%
Kent County	3.9%	3.8%	11.9%	2.1%
Kalamazoo County	3.9%	3.8%	11.1%	2.1%
Calhoun County	4.5%	4.5%	12.8%	2.7%
Ottawa County	3.2%	3.1%	13.3%	1.8%
Barry County	3.4%	3.5%	10.9%	2.2%
Kalamazoo City	4.9%	4.8%	15.2%	3.2%
Portage City	3.6%	3.5%	8.7%	1.3%
Grand Rapids City	4.4%	4.3%	16.1%	3.0%
Kentwood City	3.1%	3.1%	10.7%	1.4%
Plainfield Twp.	2.5%	2.5%	8.0%	1.4%
U.S. Official Rate (Oct.)	4.1%	4.8%	9.6%	3.8%
U.S. Rate (Unadjusted)	3.9%	4.7%	9.6%	3.6%
U.S. U-6 Rate**	7.9%	9.5%	16.7%	8.0%

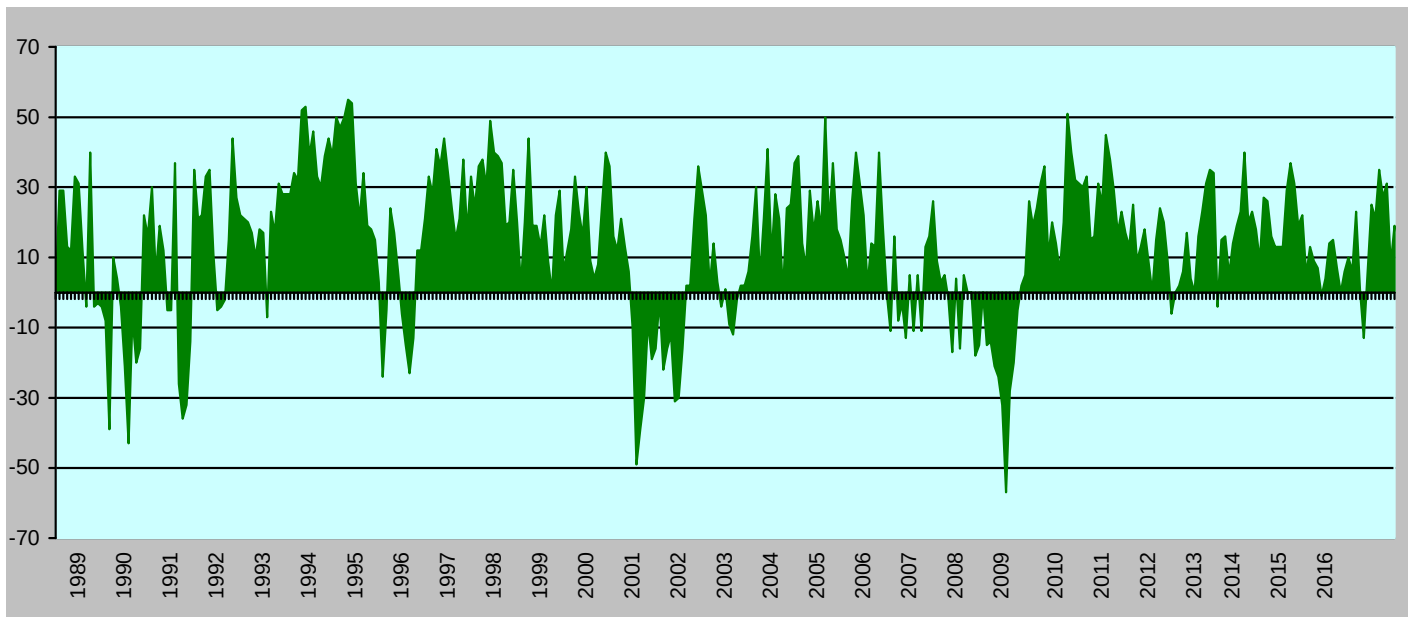
**U-6 for Michigan = 9.5% for 2016 - 2017

Index of New Orders: West Michigan

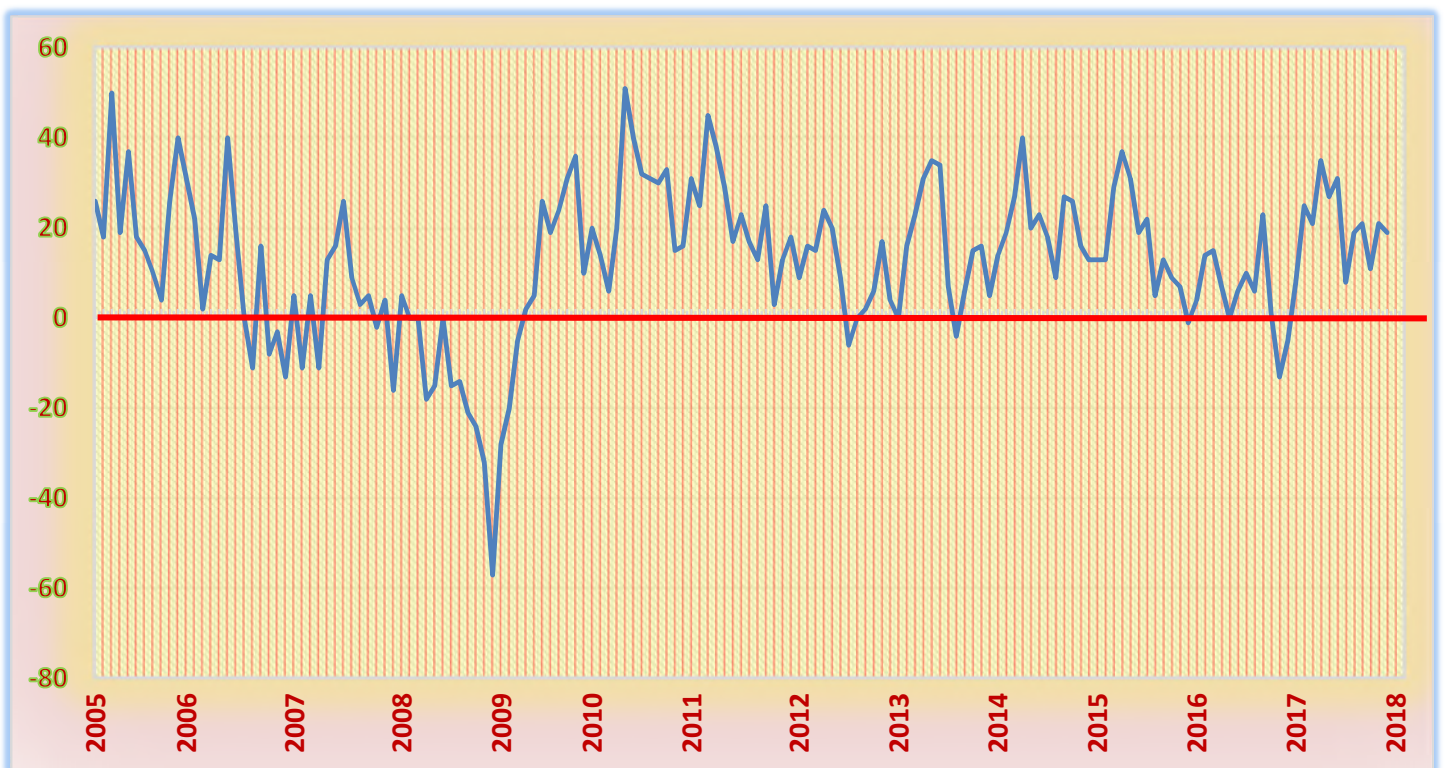
As the name implies, this index measures new business coming into the firm, and signifies business improvement or business decline. When this index is positive for an extended period of time, it implies that the firm or organization will soon need to purchase more raw materials and services, hire more 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	+19 for the month of December 2017
Previous Month	+20 for the month of November 2017
One Year Ago	+8 for the month of December 2016
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 - 2017

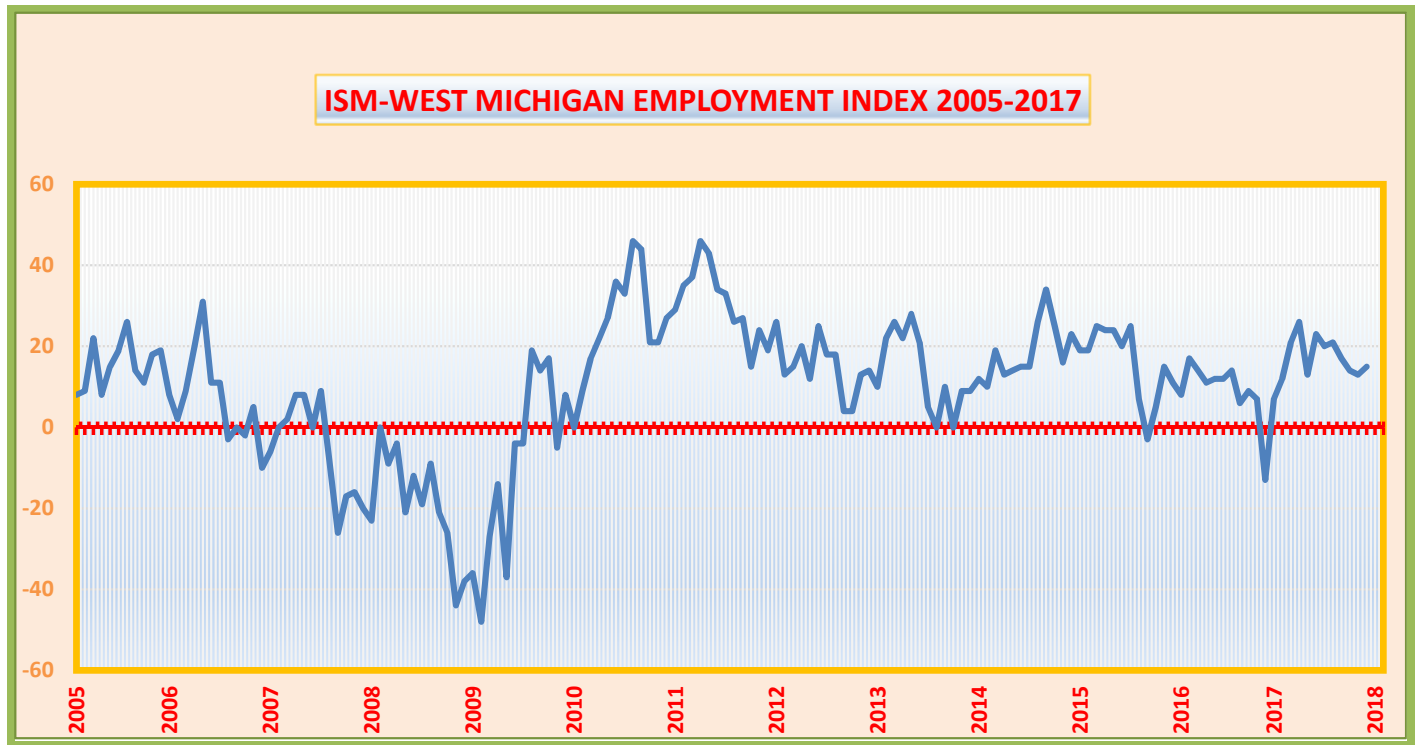


ISM-West Michigan Index of New Orders: 2005-2017 Only



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 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.

