

News Release (For Immediate Release)

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Current Business Trends

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2018: OFF TO A GOOD START

For the West Michigan industrial economy, 2018 is starting on a positive note. According to the data collected in the last two weeks of January, NEW ORDERS, our index of business improvement, rose modestly to +23 from +19. In a similar move, the West Michigan PRODUCTION index edged up to +24 from +22. Activity in the purchasing offices, the index of PURCHASES, rose modestly to +18 from +16. Overall, the West Michigan industrial economy can still be described as slow growth, but January saw a modest uptick in the pace. Here are some additional specifics:

Individual industries. The automotive parts producers remain cautious about 2018 as questions continue about auto sales as the year unfolds. The market continues to shift away from sedans and in the direction of light trucks, crossovers, and SUVs. Hence, the specific product line that a given parts manufacturer is supporting becomes important. The office furniture business continues to show signs of topping out, but the current level is both high and profitable. The back-to-work attitudes of the post-holiday season resulted in some modest improvement for our industrial distributors. However, this month's big boom is centered on SOME of the manufacturers of capital equipment. Numerous firms were apparently waiting for the passage of the new tax law before making a firm commitment, so it is not a total surprise to find that a few local firms are swamped with orders.

The U.S. Economy. The February 1, 2018 press release from the Institute for Supply Management, our parent organization, remains bullish, although the pace of growth virtually plateaued. Although ISM's manufacturing index for NEW ORDERS slowed to +25 from +27, the PRODUCTION index rose to +18 from +13. ISM's EMPLOYMENT index, which has been in double-digits for the past eleven months, backtracked to +6 from +12. The PMI, ISM's overall manufacturing index, edged slightly lower to 59.1 from 59.3 but still fairly near a twenty-year high. In contrast, The IHS Market.com registered 55.5 in January, up from 55.1 in December. Improved performance for Markit.com's NEW ORDERS and PRODUCTION indexes were cited as the drivers behind the improvement. The survey author further noted:

"U.S. manufacturing started 2018 in fine fettle, with the PMI up to its highest level for nearly three years. Output growth accelerated in response to fuller order books, the latter buoyed by the twin drivers of robust domestic demand and rising exports. Factory payroll growth remained among the highest seen over the past three years, underscoring the bullish mood evident across the manufacturing sector. Pricing power is also returning as a result of strengthening demand, which should help bolster profit margins, but likely to also feed through to higher consumer prices."

The World Economy. J. P. Morgan's monthly Global Manufacturing Report continues to depict a positive view of the world economy, although the pace eased modestly. According to JPM's February 1 press release, JPM's NEW ORDERS index came in at 55.4, slightly below December's 55.9, but still well ahead of the 50.0 break-even threshold.

EMPLOYMENT held steady at 53.0, but PRICES edged up to 61.4 reflecting the strong worldwide demand for most major commodities. New export orders also rose to 54.1 from 53.9. The survey author further commented:

"The start of 2018 saw a continuation of the solid upturn in global manufacturing performance. With business confidence still robust and further job creation reported, the sector remains on course to sustain its current solid pace of expansion into the coming months."

In the IHS Markit Eurozone report, all of the major European economies are now on a roll. Even Greece posted a ten-year high PMI of 55.2, well ahead of December's 53.1. The Netherlands hit a record high of 62.5. Chris Williamson, Chief Business Economist at IHS Markit, further noted:

"The eurozone's manufacturing boom continued in full swing in January. Output grew at one of the fastest rates recorded over the survey's 20-year history, matched by a further near-record surge in NEW ORDERS. Employment likewise showed one of the largest gains yet recorded by the survey as firms expanded capacity in line with rising demand. The extent to which demand has surged in recent months nevertheless continued to run ahead of capacity, leading to near-record increases in both backlogs of uncompleted orders and supplier's delivery times. The hike in prices associated with the further shift to a sellers' market for many goods was accompanied by a steep rising in oil prices during the month, resulting in a further intensification of cost pressures, a warning signal for a potential rise in future consumer price inflation."

Unemployment. January is often regarded as a back-to-work month, and this year was no exception. Our West Michigan index of EMPLOYMENT rose to +20 from +15, continuing the positive job growth we have now seen for almost a full year. However, the December seasonally-adjusted unemployment rate reported by Michigan's Department of Technology, Management and Budget rose to 5.1 percent, noticeably higher than the 4.5 percent rate we reported for December last year. In addition, the unemployment rate most of our local reporting units are now as much as a half percentage point higher than last year at the same time. Whereas we have declared West Michigan to finally be back at "full employment," the apparent backtracking has been unsettling. However, drilling down into the state's database reveals that much of the modest rebound is the result of workers reentering the workforce. Unfortunately, those people returning to the workforce are often not among the skilled, trained, or certified workers who are needed by employers. Hence, the participants in our survey continue to complain about the shortage of qualified workers.

Automotive. After a 5.0 percent loss in sales for December, 2017, January 2018 started on a slightly stronger footing. Overall sales for the industry rose 1.2 percent in January, although much of the strength can be attributed to only few a nameplates. Toyota led the way with a 16.8 percent sales gain,

followed by Nissan at 10.0 percent, VW at 6.7 percent, and a scant 1.3 percent advance at General Motors. Most of the other firms were losers. Fiat Chrysler lost 12.8 percent, followed by a 6.3 percent drop at Ford, and a 1.6 percent easing at Honda. At least some of the variations can be attributed to variations in incentives and policies toward fleet sales, although January is traditionally the slowest month of the year for showroom traffic. We can expect a small boost in sales from recently-enacted tax incentives and bonuses, but the slower sales pattern we saw throughout most of 2017 will probably resume. However, for our West Michigan auto parts producers, any slight slowing in auto sales may well be virtually unnoticed.

Industrial Inflation. Needless to say, the booming economy in Western Europe and the general strength of the world economy have resulted in the inflation rate for most industrial commodities rising. Locally, our index of PRICES jumped to +41 from +33. At the national level, ISM's index of PRICES pushed up to +45 from +37, a seven-year high. JPM's "Input Prices" index rose to an 80-month high of 61.4, which the survey author attributed to strong business conditions in most of the major industrial nations. Among the big-ticket commodities, many grades and types of steel are now edging up in price after a fairly quiet 2017. Aluminum and copper are now approaching four-year highs. Rising oil prices have escalated the price of diesel and gasoline, and when combined with rising demand, has propelled price increases from most plastic resins manufacturers as well.

Interest Rates. At some point, the current level of industrial inflation will spill over into the consumer market and drive the Consumer Price Index significantly higher. The Federal Reserve has already forecast three interest rate increases for 2018, but higher inflation could result in as many as six or even eight increases. The January 2018 jobs report of 200,000 was much better than expected, and the 2.9 percent annualized wage growth for 2017 was the best since 2009. GDP growth, which

has been slow for the past nine years, could have a couple of quarters in the five percent range in 2018.

Business Confidence. The mood of the industrial economy held steady in the first report for 2018. The January West Michigan index for the SHORT-TERM BUSINESS OUTLOOK, which asks local firms about the perception for the next three to six months, backed down to +38 from the record high of +39 set a few months ago. The LONG-TERM BUSINESS OUTLOOK also shed a single point to +44 from +45.

GDP. The first estimate for the fourth quarter GDP came in at a growth rate of 2.6 percent, slightly below most estimates as well as 0.4 points below the previous quarter of 3.2 percent. February paychecks will begin to reflect a slight increase in buying power for many sectors of the workforce, but the big boom will still come from the industrial sector. Of the industrialized nations of the western world, the tax rate in the United States is lower than any other country except Switzerland. However, financial impact of growth in the industrial market is usually delayed, so the first quarter of 2018 may experience growth in the 3.0 range, followed by a significant boom as high as 6.0 percent in the second quarter.

Overall Economy. Yes, the stock market, which is now largely controlled by computers talking to computers, was due for a setback. However, most experts note that the trigger has been the threat of higher interest rates as opposed to some new fundamental development. Corporate earnings remain positive, which should help to create a plateau after the sell-off. However, a more ominous fundamental disruption, like a trade war or military action from North Korea could put a significant damper on the stock market as well as the overall economy. The post-war record expansion partially resulted from the 1981 tax cuts and lasted for 10 years. The current expansion is now approaching nine years old, and will need to make it to June 2019 to be a record. Barring a catastrophic geopolitical event, there is a chance that the old record may be broken.

JANUARY 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."

January 2018 Survey Statistics

	UP	SAME	DOWN	N/A	Jan. Index	Dec. Index	Nov. Index	25 Year Average
Sales (New Orders)	38%	45%	15%	2%	+23	+19	+20	+14
Production	33%	50%	11%	9%	+24	+22	+17	+14
Employment	31%	58%	11%		+20	+15	+13	+ 8
Purchases	35%	48%	17%		+18	+16	+18	+ 7
Prices Paid (major commod.)	41%	59%			+41	+33	+31	+15
Lead Times (from suppliers)	31%	69%			+31	+33	+28	+11
Purchased Materials Inv. (Raw materials & supplies)	28%	56%	10%	5%	+18	+ 9	+12	- 4
Finished Goods Inventory	17%	53%	21%	9%	- 3	-11	- 9	- 8
Short Term Business Outlook (Next 3-6 months)	45%	48%	7%		+38	+39	+29	-
Long Term Business Outlook (Next 3-5 years)	46%	48%	2%	4%	+44	+45	+45	-

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)

	Dec. 2017	Dec. 2016	Aug. 2009	20 Year Low
State of Michigan (Adj.)	5.1%	4.5%	14.6%	3.2%
State of Michigan (Unadj.)	4.4%	4.8%	14.1%	2.9%
Kent County	3.4%	2.9%	11.9%	2.1%
Kalamazoo County	3.9%	3.8%	11.1%	2.1%
Calhoun County	4.8%	4.4%	12.8%	2.7%
Ottawa County	3.2%	2.8%	13.3%	1.8%
Barry County	4.0%	3.5%	10.9%	2.2%
Kalamazoo City	4.8%	4.3%	15.2%	3.2%
Portage City	3.5%	3.2%	8.7%	1.3%
Grand Rapids City	4.5%	3.9%	16.1%	3.0%
Kentwood City	3.2%	2.8%	10.7%	1.4%
Plainfield Twp.	2.5%	2.2%	8.0%	1.4%
U.S. Official Rate (Oct.)	4.1%	4.7%	9.6%	3.8%
U.S. Rate (Unadjusted)	3.9%	4.5%	9.6%	3.6%
U.S. U-6 Rate**	8.1%	9.1%	16.7%	8.0%

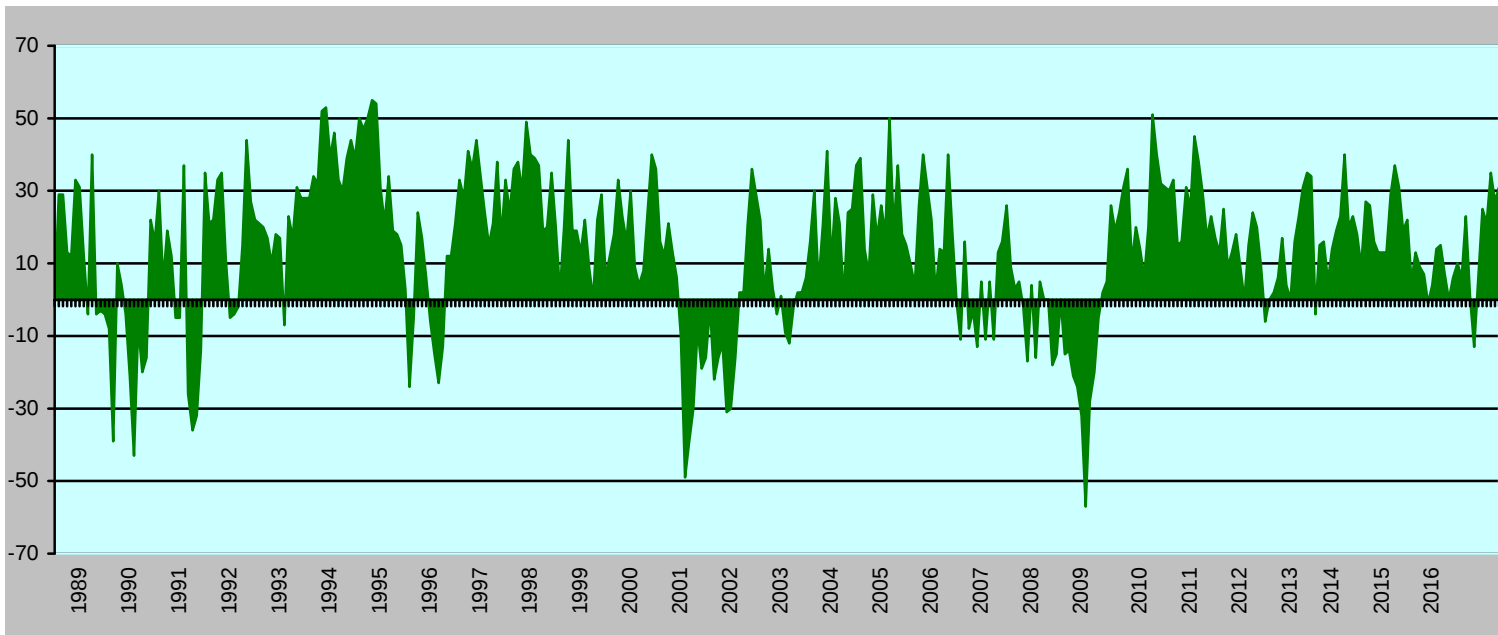
**U-6 for Michigan = 9.1% for all of 2017

Index of New Orders: West Michigan

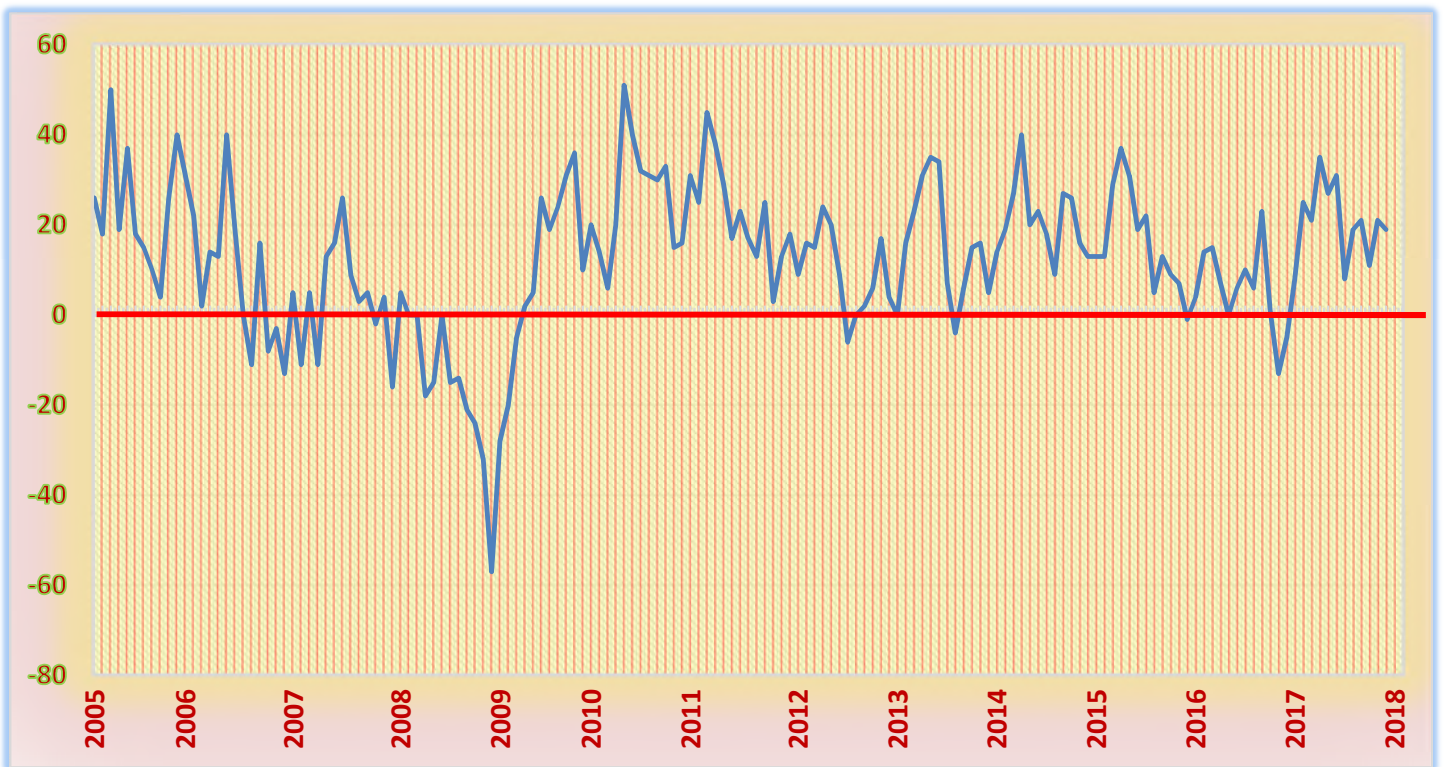
As the name implies, this index measures new business coming into the firm, and signifies business improvement or business decline. When this index is positive for an extended period of time, it implies that the firm or organization will soon need to purchase more raw materials and services, hire more 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	+23 for the month of December 2017
Previous Month	+19 for the month of November 2017
One Year Ago	+25 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

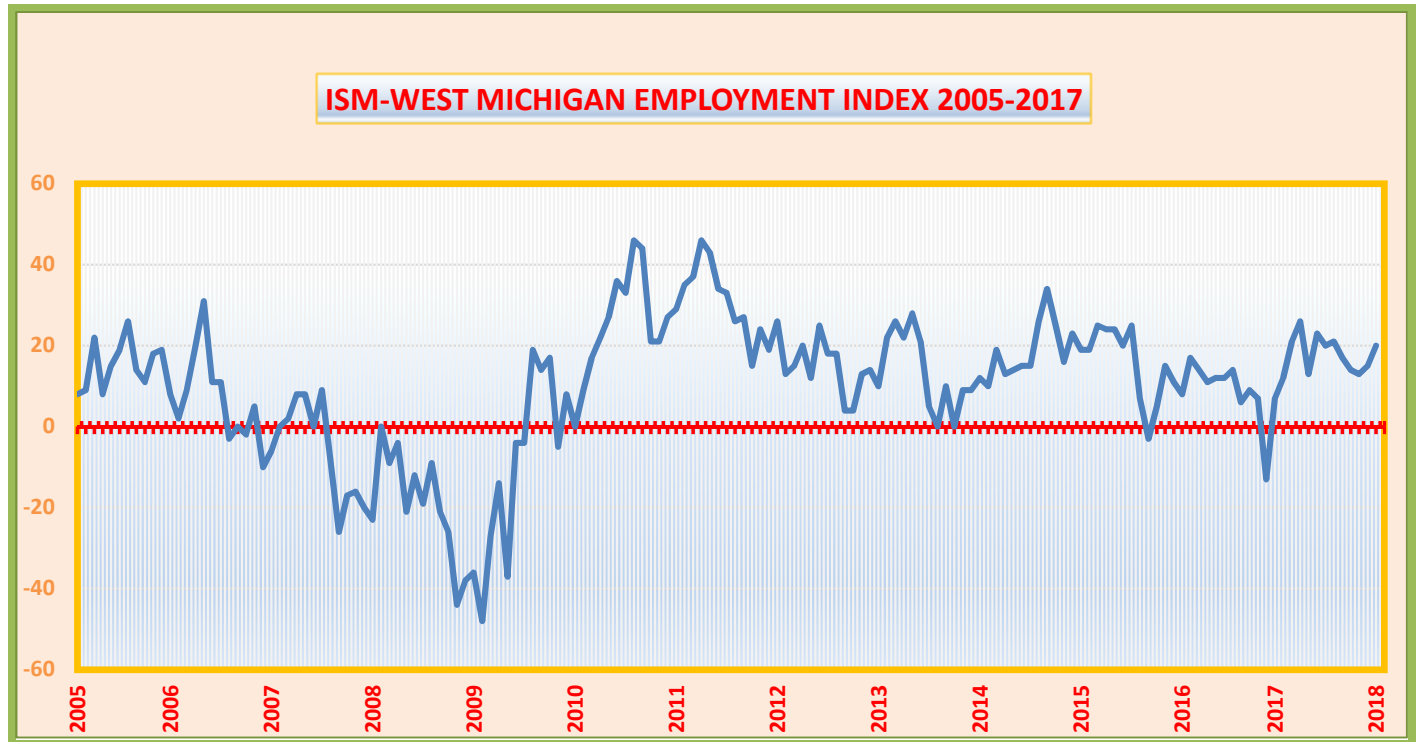


ISM-West Michigan Index of New Orders: 2005-2017 Only



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.

