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Current Business Trends

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THE ECONOMY REMAINS STRONG

Because of problems with data collection for our monthly survey, we are unable to present statistics for the month of December 2018.

Hopefully, we will resume data collection in January and be able to bridge a statistical estimate for December. The scenario below reviews the other non-local statistics for December 2018.

The U.S. Economy. According to the January 3 press release from the Institute for Supply Management, our parent organization, the national industrial economy is softening. NEW ORDERS, ISM's index of business improvement, came in at +3, sharply below November's +17. In a similar move, the PRODUCTION index slid to +2 from +18. The EMPLOYMENT index dropped to +8 from +15. ISM's overall index shed 5.2 percentage points in December to close at 54.3 percent. Although still ahead of the 50.0 break-even point, the sudden drop is unsettling.

The British international consulting firm of IHS Markit.com offers a similar view of the U.S. economy. The seasonally adjusted PMI for November retreated to 53.8 from 55.3. A weaker reading for NEW ORDERS led to a drop in business confidence among many firms. The index of EMPLOYMENT softened to an 18-month low. Chris Williamson, Chief Business Economist at IHS Markit, further noted:

"Manufacturers reported a weakened pace of expansion at the end of 2018, and grew less upbeat about prospects for 2019. Output and order books grew at the slowest rates for over a year, and optimism about the outlook slumped to its gloomiest for over two years. The month rounds off a fourth quarter in which manufacturing production is indicated to have risen at only a modest annualised rate of about 1 percent. Some of the weakness is due to capacity constraints, with producers again reporting widespread difficulties in finding suitable staff and sourcing sufficient quantities of inputs. However, the survey also revealed signs of slower demand growth from customers, as well as rising concerns over the impact of tariffs. Just over two thirds of manufacturers reporting higher costs attributed the rise in prices to tariffs."

The World Economy. The J.P. Morgan Monthly Global Manufacturing index encompassing 43 nations fell to a 27-month low of 51.5, down from 52.0 in November. The indexes of NEW ORDERS, EMPLOYMENT, and PRODUCTION all deteriorated. The survey author sounded a cautionary note:

"The December PMI surveys signalled that the global manufacturing sector ended 2018 on a subdued footing.

Output growth remained stubbornly low, rates of increase in new orders and employment slowed, and international trade flows deteriorated. The outlook also remains relatively lacklustre, as business confidence dropped to its lowest level in the series history."

For December, the eurozone's overall manufacturing index eased to 51.4, down from 51.8. Unfortunately, the economic boom that the eurozone experienced in 2017 is now over, and current evidence points toward the economy continuing to soften. The PMI for Italy recovered slightly to 49.2 from November's four-year low of 48.6, but it is still below the critical 50.0 break-even point. The star of the eurozone continues to be the Netherlands PMI of 57.2, which is up nicely from November's 56.1. The survey author, Chris Williamson of IHS Markit, further noted:

"A disappointing December rounds off a year in which a manufacturing boom faded away to near-stagnation. The weakness of the recent survey data in fact raises the possibility that the goods producing sector could even act as a drag on the overall economy in the fourth quarter, representing a marked contrast to the growth surge seen this time last year. The last three months of 2018 saw manufacturers report the worst quarterly performance in terms of production since the second quarter of 2013. More encouragingly, some of the recent weakness could prove temporary, being the result of protests in France and the auto sector struggling to adjust to new emissions regulations. However, the undercurrent of weak demand and growing risk aversion evident across the surveys suggests that any rebound could prove modest at best, with Brexit representing a particularly worrying unknown for the outlook."

Michigan Unemployment. According to the latest report from Michigan's Department of Technology, Management, and Budget, Michigan's "headline" unemployment rate for November remained unchanged at 3.9 percent, well below the 4.7 percent reported for November 2017. Total state-wide non-farm employment grew by 50,000 workers compared to November 2017, and the number of people unemployed decreased by 40,000 workers.

West Michigan Unemployment. The unemployment rate for most of our reporting units continues to approach record lows. At 2.4 percent, Ottawa County took the honors for the lowest unemployment rate among Michigan's 83 counties. Kent County came in second place at 2.5 percent. Kalamazoo County's rate of 2.9 percent is still well below the statewide average of 3.9 percent. Because of the shortage of qualified workers, many firms continue to complain that they are unable to expand. Hence, it is unlikely that the unemployment numbers will improve beyond the present level. It is worth repeating that almost all employment statistics are laggards, and we are usually well into a recession before the unemployment statistics start to turn negative.

Automotive. December sales can often be slow, but this December surprised everyone with a 2.2 percent gain. The seasonally adjusted SAAR came in at 17.33 million cars, the strongest report for the year. Analysts cited generous rebates and tax consideration for

the surprise uptick. For instance, J.D. Power estimates the average December 2018 rebate to be about \$4,098 compared to the \$164 average rebate for the December 2017 sales period. For the Detroit Three, Fiat-Chrysler lead the way with a gain of 14.0 percent. However, Ford retreated 8.8 percent, and GM lost 1.6 percent. Among the other major brands, Nissan rose 7.6 percent, Honda added 3.9 percent, and Hyundai-Kia gained 6.1 percent. Losers included Toyota, down 0.9 percent, VW shed 3.9 percent, and Mercedes, losing 8.0 percent. Some analysts fear that both the tax incentives and generous rebates have pulled sales forward, resulting in pessimism for January 2019 sales. One estimate calls for a whopping 10 percent January drop, which would be an eye-opener if it were to happen. Because of the strong December sales, the auto industry eked out an annual gain for all of 2018 of 0.6 percent. According to Jonathan Smoke, Cox Automotive's chief economist:

"New vehicle sales were surprisingly strong in 2018 despite late cycle headwinds from higher interest rates and more nearly-new competition in the used market. The key positive factor was stimulated demand from tax reform, which strengthened retail demand as the year progressed and also enabled strong gains in fleet sales. Generous discounts and steady economic growth fueled new-vehicle sales throughout the year. U.S. consumers also appeared to shrug off slumping stock prices in December."

Industrial Inflation. ISM's national index of PRICES dropped significantly to +10 from +21 in November and +43 in October. In a similar move, the J.P. Morgan international pricing index eased to 55.6, down from 58.6 in November and 61.1 for October. At least some key industrial commodities like aluminum, caustic soda, gasoline, and some grades of steel are now slowly falling in price. However, many electronic components, some chemicals, natural gas, and any of the plastic resins derived from natural gas are rising in price. Some sellers have used any of the commodities impacted by the tariff wars as leverage for price increases, whether they are justified or not.

GDP. With 2018 now complete, attention is now turning to the computation of estimates for the fourth quarter GDP. Because of the apparent slowing of both the domestic and international economies, current credible fourth quarter estimates range between 2.4 percent and 3.0 percent. However, because of the strong Christmas retail season and the strong industrial market, some analysts have projected a growth number as high as 3.2 percent. We look forward to the BLS press release on January 30. Projections for all of the quarters in 2019 are now running below 3.0 percent.

Summary. A few economic headwinds are now upon us. The world economy is slowing, dampening the entire world economy. Some countries like Italy are still in financial trouble, risking contagion for the European economy. It is noteworthy that many recessions in recent history were preceded by rapidly rising interest rates, and the Fed still plans to raise interest rates, albeit at a slower pace. Of course, there is still the unresolved trade war with China, which could easily create significant problems for both economies if a resolution is not reached soon. As always, a major terrorist act could completely and severely upset economic tranquility.

The good news is that the 2017 tax cuts are still the wind at our back, although the major surge is now behind us. The theory behind the tax cuts stems from "supply side" economics, which suggests that reduction in taxes should **MORE THAN** pay for themselves because of the economic stimulus generated by business expansion and more personal spending. And they may. However, I will stick with my previous estimate that it will take numerous quarters of GDP growth at 4 percent or higher to cover the cost of the lost revenue. Right now, 4 percent growth for 2019 looks highly unlikely.

An unfortunate feature of the capitalistic free market system is the business cycle. As previously noted, a recession is usually triggered by the collapse of some form of a major speculative bubble, followed by the collapse of numerous mini-bubbles. That said, there is no apparent major bubble about to break. Numerous mini-bubbles have already started to break, and more may follow. The longer the supply chain, the greater the impact. Some of these mini-bubbles are very small, such as the retailer that opens one too many new branches or the metal stamping company that installs one too many new presses. However, the collective collapse is what we call a recession.

Latest Unemployment Reports

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

	Nov. 2018	Nov. 2017	Aug. 2009	20 Year Low
State of Michigan (Adj.)	3.9%	4.7%	14.6%	3.2%
State of Michigan (Unadj.)	3.6%	4.1%	14.1%	2.9%
Kent County	2.5%	3.3%	11.9%	2.1%
Kalamazoo County	2.9%	3.8%	11.1%	2.1%
Calhoun County	3.5%	4.5%	12.8%	2.7%
Ottawa County	2.4%	3.2%	13.3%	1.8%
Barry County	2.7%	3.5%	10.9%	2.2%
Kalamazoo City	3.7%	4.7%	15.2%	3.2%
Portage City	2.7%	3.5%	8.7%	1.3%
Grand Rapids City	3.3%	4.4%	16.1%	3.0%
Kentwood City	2.3%	3.1%	10.7%	1.4%
Plainfield Twp.	1.9%	2.5%	8.0%	1.4%
U.S. Official Rate (Oct.)	3.7%	4.2%	9.6%	3.8%
U.S. Rate (Unadjusted)	3.5%	3.9%	9.6%	3.6%
U.S. U-6 Rate (Oct.)**	7.6%	8.1%	16.7%	8.0%

**U-6 for Michigan = 8.2% for Oct. 2017 to Sept. 2018

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 **N/A**

Previous Month + 38 for the month of November 2018

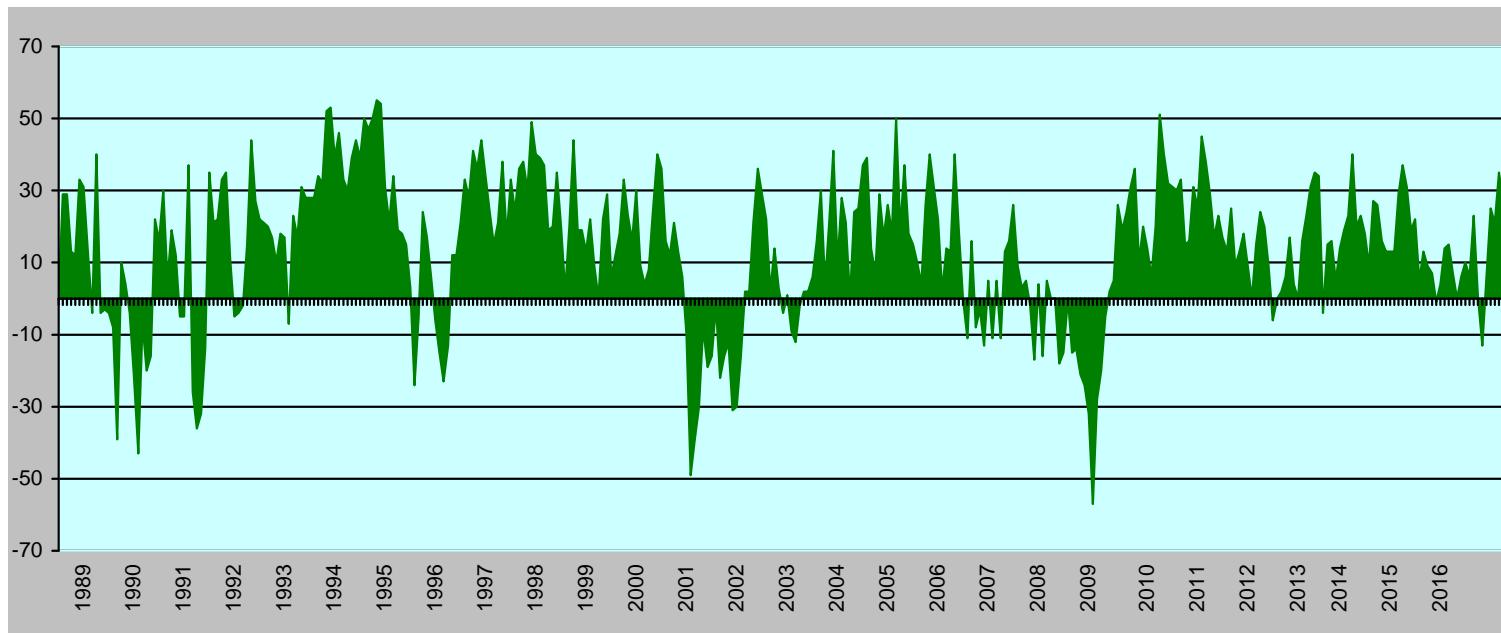
One Year Ago + 19 for the month of December 2017

Record Low - 57 for the month of December, 2008

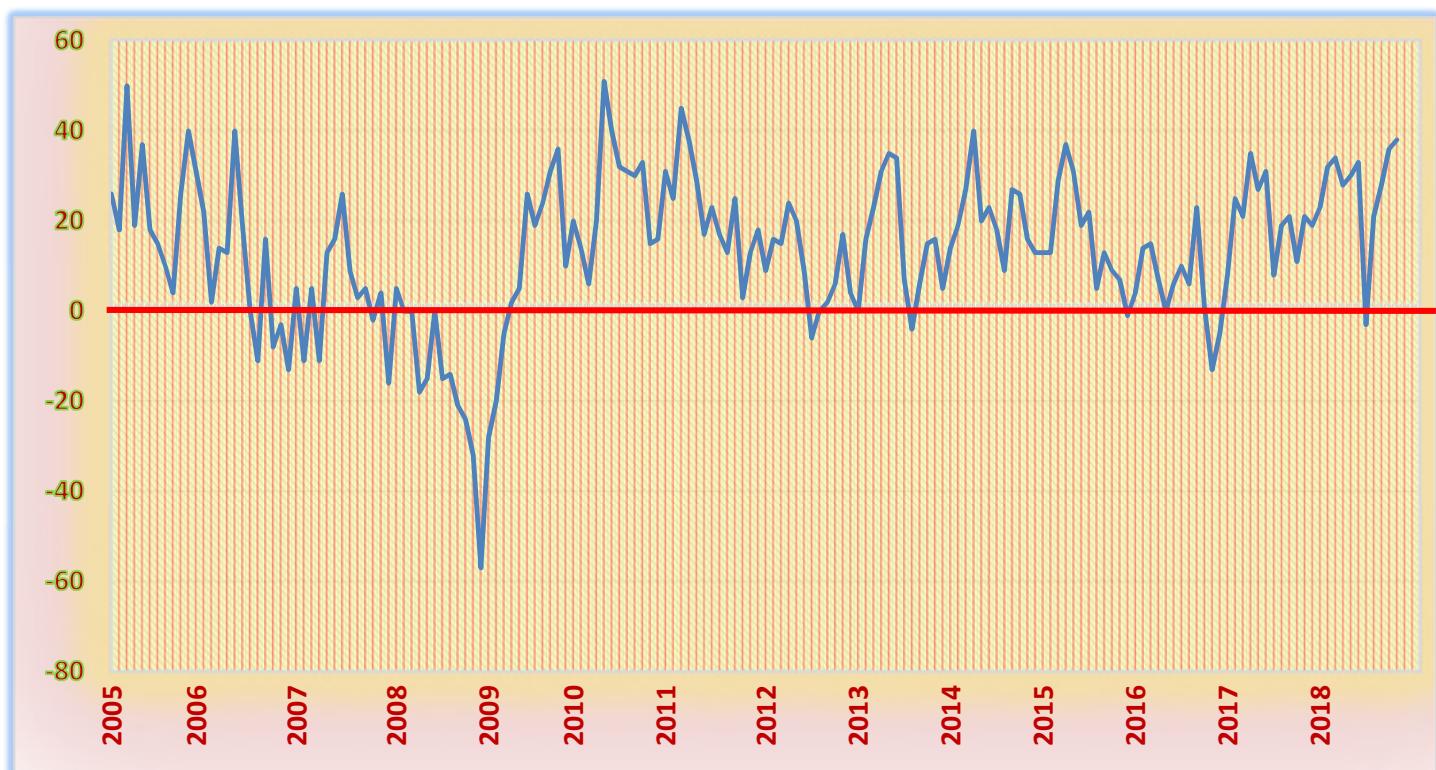
Record High + 55 for the month of September 1994

First Recovery + 3 in April of 2009 and forward

ISM-West Michigan Index of New Orders 1988 - 2018

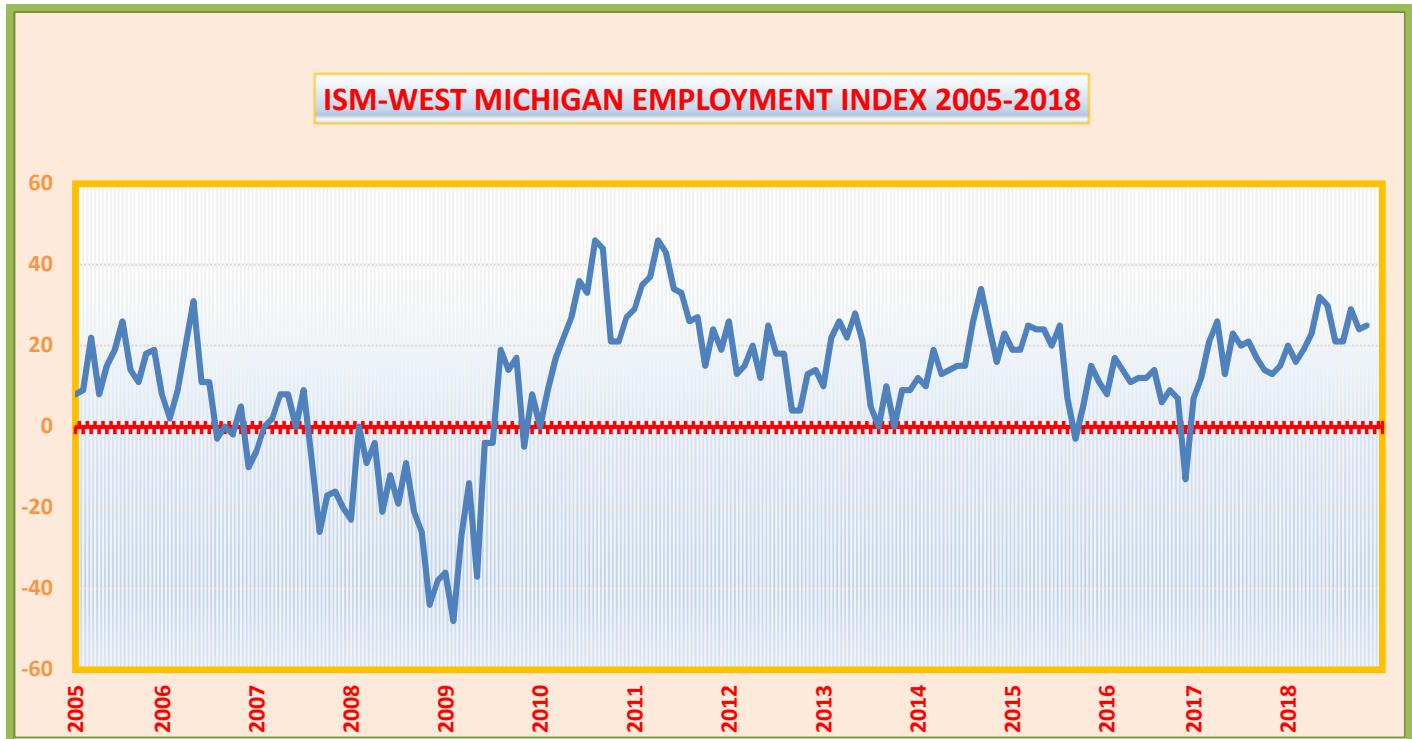


ISM-West Michigan Index of New Orders: 2005-2018 Only



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.

