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News Release (For Immediate Release)

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Current Business Trends

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MARGINAL GROWTH CONTINUES

Key Participant Comments for September:

"The auto business appears to be slowing. Sales have leveled off a bit, but we're still hopeful for solid Q4 for 2019."

"Prices are up on everything, mostly on goods from China. Every supplier is increasing prices to cover their tariff cost. These costs are trickling down to everyone in the supply chain."

"Wages are all time high due to the competition in the market for talents. "

Although our West Michigan statistics dipped in July, the August report returned to what we termed, "very modest growth." For September, the growth rate improved again. According to the data collected in mid-September, NEW ORDERS, our index of business improvement, edged up to +6 from +3. September's PRODUCTION index moved down to +6 from +9. However, activity in the purchasing offices, our index of PURCHASES, edged lower to -6 from +2. The September comments from some of our survey participants continue to be cautious, although others are still reporting business conditions to be at an all-time high.

The U.S. Economy. The pessimistic press release on October 1 from the Institute for Supply Management, our parent organization, sent the Dow-Jones industrial average down 800 points over two days. NEW ORDERS, ISM's index of business improvement, came in at -7, little changed from August's -8. September's PRODUCTION index eased to -7 from -1. ISM's overall index came in at 47.8, down from 49.1. For a diffusion index, any reading below 50.0 is considered negative. Although the 1.3-point drop seemed to elicit a lot of reaction from the financial news services, it is worth remembering that this same index was at 48.0 as recently as January 2016 and subsequently returned to modest growth. If the same pattern holds, ISM's index will recover slightly in the October report.

A very different view of the U.S. economy comes from IHS Markit, the British international consulting firm. Markit.com's seasonally adjusted September PMI came in at a five-month high of 51.1, up from August's reading of 50.3, and well ahead of the 50.0 break-even point. The survey's index of Optimism remained subdued but rose to a three-month high. Chris Williamson, Chief Business Economist at IHS Markit, continues to be very cautious:

"News of the PMI hitting a five-month high brings a sigh of relief, but manufacturing is not out of the woods yet. The September improvement fails to prevent U.S. goods producers from having endured their worst quarter for a decade. Given these PMI numbers, the manufacturing recession appears to have extended into its third quarter. It's also far from clear that the trend will improve in the fourth quarter. Inflows of new work remain worryingly subdued, to the extent that current production growth is having to be supported by firms increasingly eating into order book backlogs. Business sentiment about the year ahead is also stuck at gloomy levels. The current situation contrasts markedly with earlier in the year, when companies were struggling to keep up with demand. Now, spare capacity appears to be developing, which is causing firms to curb their hiring compared to earlier in 2019 and become more cautious about costs and spending."

The World Economy. J.P. Morgan's August Global Manufacturing Index for September, a compilation of purchasing manager's reports from 43 nations, remained marginally negative at 49.7, a slight uptick from 49.5. Although still below the 50.0 break-even point, the report is described as "…highest reading since May." The survey's national PMI data signaled deteriorations in overall business conditions in 15 of the countries covered. Marginally positive results from China and the U.S. have helped the statistics from sinking further. Needless to say, the Brexit threat and the multi-dimensional trade wars around the globe are hurting exports for many countries. Business optimism was unchanged from August's series-record low in September. Olya Borichevska, from Global Economic Research at J.P. Morgan, further noted:

"The global manufacturing PMI sent a message of stability in September. The output index near 50.0 is broadly unchanged from its level in May and consistent with very modest growth in IP. Away from the output PMI, other components also stabilized though at depressed levels. For now, the PMI is consistent with our rest-of-the-year outlook in which we expect modest growth in global manufacturing output. Conditions will need to revive if manufacturing is to show a substantial recovery in the coming months."

For September, the PMI numbers from the Eurozone continued to slide. The September IHS Markit PMI manufacturing index for the Eurozone came in at 45.7, down considerably from August's 47.0. A major portion of the drop was attributed to a declining index of NEW ORDERS. The PMIs for Greece, France, and the Netherlands remain marginally positive. In contrast, Germany, the Eurozone's largest economy, posted a near-record low PMI of 41.7. Chris Williamson from Markit.com further commented:

"The health of the eurozone manufacturing sector went from bad to worse in September, with the PMI survey indicating the steepest downturn for nearly seven years and sending increasingly grim signals for the fourth quarter. The September PMI points to manufacturing output falling at a quarterly rate in excess of 1%, representing a severe drag on GDP in the third quarter. Germany is leading the downturn, with the PMI down to levels not seen since 2009, but Italy and Spain are also in deepening downturns, whilst France's manufacturing sector has stalled. There's likely worse to come, with forward-looking indicators (such as the orders to-inventory ratio) deteriorating further during the month. Businesses also remain downbeat about the year ahead, with optimism around a seven-year low amid trade war worries, signs of slowing global economic growth and geopolitical concerns, including heightened anxiety over a disruptive Brexit. Adding to the gloom, jobs are now being cut at the fastest rate since early 2013, which is not only a sign of manufacturers bracing themselves for more trouble ahead, but also adds to the risk that a deteriorating labour market will hit households and the service sector."

Automotive. Although many firms reported unusually strong sales in August, the September 2 edition of Automotive News reported a sharp drop in sales. Honda fell 14.1 percent, and both Toyota and the Nissan Group dropped 16.5 percent. Although the Detroit Three have all quit posting monthly sales figures, estimates are that September sales for General Motors were down 10.4 percent, Ford lost 11.8 percent, and Fiat-Chrysler shed 10.2 percent. Although sales for the industry were down 12.0 percent for the month, David Phillips, the Managing Editor for Automotive News, was quick to point out that the decline in industry sales for the first nine months of the year is still only 1.6 percent. He further commented:

> "Even though 2019 has been marked by six monthly U.S. sales declines, the toll on the industry had been relatively small, with demand slipping less than a percentage point through August. That changed in a big way in September, as the biggest Asian automakers recorded double-digit sales declines and estimates for the Detroit Three showed double-digit drops as well. Still, the seasonally adjusted annual sales rate came in at a robust 17.16 million."

Industrial Inflation. The West Michigan index of PRICES edged up to +5 from August's +4. Although the world economy continues to slow, J.P. Morgan's international Pricing index rose higher in September to 51.0 from 50.2. In most cases, the higher costs are blamed on either Brexit or the U.S. trade war with China. For the ISM survey, the U.S. index of PRICES recovered to -1 from -8. Timothy Fiore, ISM's survey committee chair, further noted:

> "Prices contracted in September, but at a slower rate compared to August. Respondents reported decreases in prices for aluminum, corrugate, oil, plastics, wood pulp and steel products. The panel also reported price growth in natural gas and electronic components."

GDP. The Bureau of Economic Analysis announced on September 26 that the third and final estimate for the second quarter of 2019 came in at an annual rate of 2.0 percent, exactly the same as the second estimate and slightly lower than the 2.1 initial estimate. Looking forward to the third quarter just ended, the Atlanta Fed's "GDP Now" is reporting a third quarter average growth estimate for the top ten forecasters to be between 1.6 percent and 2.5 percent. The Atlanta Fed's own estimate has now risen to 2.1 percent, a considerable improvement over the 1.5 percent growth estimate posted a few weeks ago. Part of the optimism is based on the recent decision by the Fed to reduce interest rates in the hopes of mediating the apparent softness in our current statistics. Based on various business indicators and our own statistics, it appears to be fairly certain that the GDP numbers for the next few quarters will continue to soften but MAY remain modestly positive for some time.

Business Confidence. For September, West Michigan's SHORT-TERM BUSINESS OUTLOOK, which asks local firms about the perception for the next three to six months, fell from +10 to an all-time low of +0. The September index for the LONG-TERM BUSINESS OUTLOOK, which queries the perception for the next three to five years, remained more stable but edged slightly lower to +19 from +25. Almost all measures of "confidence" or "sentiment" are heavily influenced by the daily news cycle. Most recently, the stagnation of the trade talks with China have begun to take a toll on the world economic outlook, given that there is no immediate end in sight.

West Michigan Unemployment. After three months of pessimism, a note of encouragement comes from September's local index of EMPLOYMENT, which edged up to +8 from +1. Numerous recent headlines proclaimed that the national unemployment rate fell to 3.5 percent in September, a 50-year low. Even U-6, the broad-based unemployment statistic that includes marginally attached workers and discouraged job seekers, has fallen to 7.0 percent. However, the UAW strike and the apparent softening auto market has brought Michigan's August (latest month available) unemployment rate up to 4.2 percent from 3.9 percent in August 2018. The cities where the GM plants are located are feeling most of the heat from the UAW strike, although we will possibly begin to see layoffs from a few local firms selling to GM if the strike continues into November. Just like most months for the past ten years, the unemployment rate in West Michigan continues to outperform the rest of the state, although the rates for most of our local reporting units are starting to edge up. Of the 83 counties in Michigan, Lansing's DTMB reports that Ottawa County has the lowest unemployment rate of 2.9 percent. At 3.1 percent, Kent and Allegan Counties along with three other counties share the second-place honors. The only silver lining of marginally higher unemployment is that SOME firms are starting to find the shortage of qualified job applicants beginning to ease.

Summary. The news is full of economic trouble spots all over the world. The Brexit problem is still not resolved. There are violent demonstrations in Hong Kong, which could escalate to an all-out civil war. Argentina is in danger of defaulting on its bonds—again. The Chinese firms have loaded up on a precarious amount of debt. There are anti-government demonstrations in Egypt. However, just as last month, there is still no obvious event that could trigger a recession at this time, EXCEPT if the China/U.S. trade war gets out of hand. Throughout the industrialized world, the purchasing manager's indexes continue to stagnate near the break-even point of 50.0. So far, Germany is still the only country where the PMI has tanked. Although the industrial markets are squirming because of falling exports and tariff-related price increases, the current signs still point more toward stagnation rather than a recession. A sudden announcement that the U.S. and China have reached a long-term trade deal could spark a new round of growth, but speculation continues to build that the Chinese might be are holding out until after the 2020 election for a better deal.

SEPTEMBER COMMENTS FROM SURVEY PARTICIPANTS

"Another slow month, after some very nice ones. Hoping to finish the year strong."

"Vendors have stocked up on most components, so lead times have dropped quite a bit. This has been very helpful for repair jobs."

"It feels like the economy is softening, although, we are still doing well."

"Raw material prices have remained steady over the summer."

"Auto business appears to be slowing. Sales have leveled off a bit, but still hopeful for solid Q4 for 2019."

"The GM strike creates too many unknowns at this time to plan in the near term. However, sales have been rising to Q1 levels. We will see…"

"We had a record year of construction and road projects, and are already working on the 2020 construction season."

"At this point it appears we will finish the year in double digit growth for our manufacturing business unit."

"Right now, the market is flourishing with plenty of supply. There is a huge improvement in the supply for things such as plating lead time which the industry was struggling with. Raw material availability has also improved."

"Prices are up on everything, mostly on goods from China. Every supplier is increasing prices to cover their tariff cost. These costs are trickling down to everyone in the supply chain."

"Wages are all time high due to the competition in the market for talents. "

SEPTEMBER Survey Statistics

	UP	SAME	DOWN	N/A	Sept. Index	Aug. Index	July Index	25 Year Average
Sales (New Orders)	31%	42%	25%	2%	+ 6	+ 3	-13	+14
Production	23%	48%	17%	12%	+ 6	+ 9	-15	+14
Employment	23%	62%	15%	0%	+ 8	+ 1	- 1	+ 8
Purchases	17%	60%	23%	0%	- 6	+ 2	- 6	+ 7
Prices Paid (major commod.)	13%	79%	8%	0%	+ 5	+ 4	- 2	+15
Lead Times (from suppliers)	15%	73%	12%	0%	+ 3	+ 8	+ 2	+11
Purchased Materials Inv. (Raw materials & supplies)	15%	67%	10%	8%	+ 5	+ 4	+12	- 4
Finished Goods Inventory	10%	61%	21%	8%	+ 2	+ 2	+ 4	- 8
Short Term Business Outlook (Next 3-6 months)	23%	54%	23%	0%	+ 0	+15	+ 6	-
Long Term Business Outlook (Next 3-5 years)	27%	61%	8%	4%	+19	+25	+28	-

Items in short supply: Good qualified labor, larger sizes of steel blocks, helium, truck drivers, construction contractors, citrus, beets, skilled labor.

Prices on the UP side: Imported products, products from China, 300 stainless surcharges, CNC tooling (4%), transportation, fuel, nickel and anodizing services, salt, sand, aggregate, heavy equipment, cheese, wheat.

Prices on the DOWN side: Electronic components, copper, aluminum, transportation cost*, some steel prices, steel scrap, aluminum, CR steel, HR steel, soybeans, poultry.

*Item reported as both up AND down in price.

Latest Unemployment Reports

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

	Aug. 2019	Aug. 2018	Aug. 2009	20 Year Low
State of Michigan (Adj.)	4.2%	3.9%	14.6%	3.2%
State of Michigan (Unadj.)	4.2%	4.1%	14.1%	2.9%
Kent County	3.1%	2.9%	11.9%	2.1%
Kalamazoo County	3.7%	3.3%	11.1%	2.1%
Calhoun County	4.5%	4.0%	12.8%	2.7%
Ottawa County	2.9%	2.7%	13.3%	1.8%
Barry County	3.3%	3.1%	10.9%	2.2%
Kalamazoo City	4.6%	4.2%	15.2%	3.2%
Portage City	3.3%	3.0%	8.7%	1.3%
Grand Rapids City	4.2%	3.8%	16.1%	3.0%
Kentwood City	3.0%	2.7%	10.7%	1.4%
Plainfield Twp.	2.4%	2.2%	8.0%	1.4%
U.S. Official Rate (Sept.)	3.5%	3.7%	9.6%	3.5%
U.S. Rate (Unadjusted)	3.3%	3.6%	9.6%	3.4%
U.S. U-6 Rate (Sept.)**	7.0%	7.3%	16.7%	8.0%

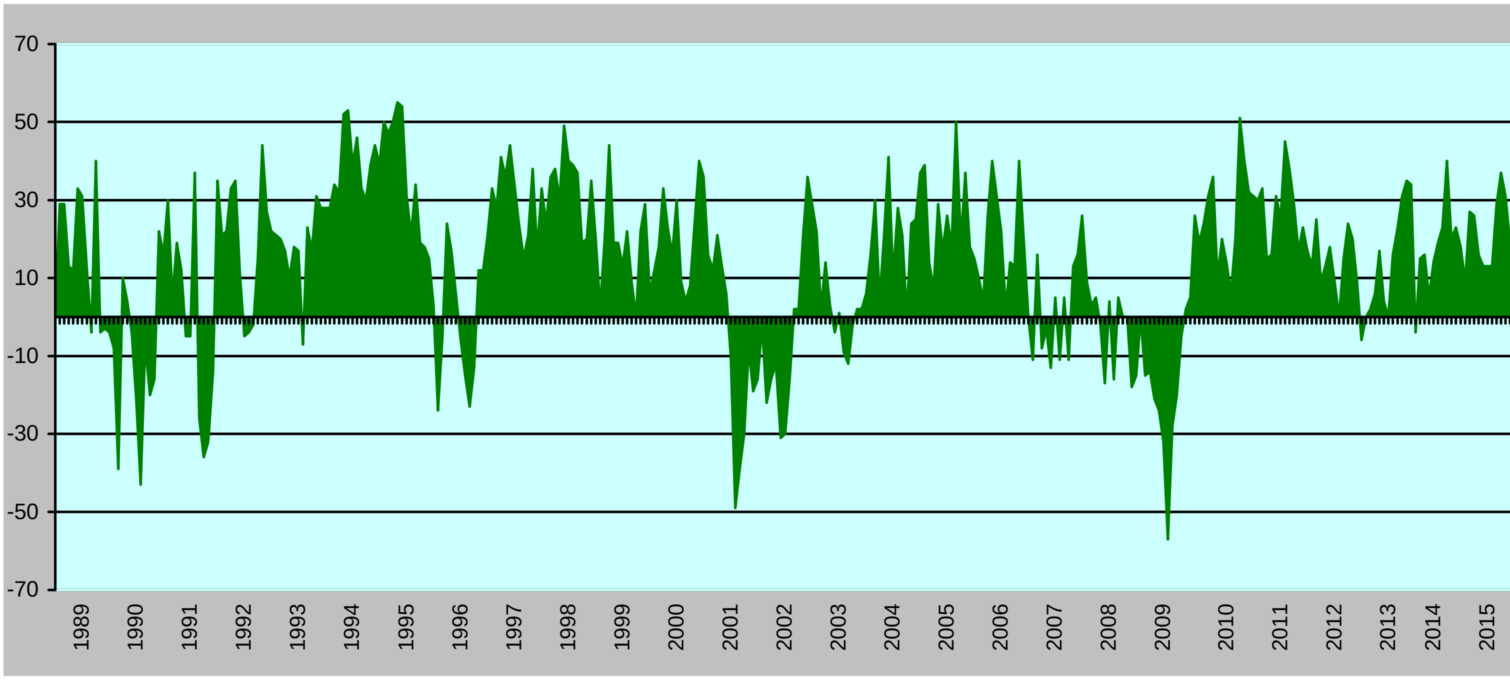
**U-6 for Michigan = 7.6% for July 2018 to June 2019

Index of New Orders: West Michigan

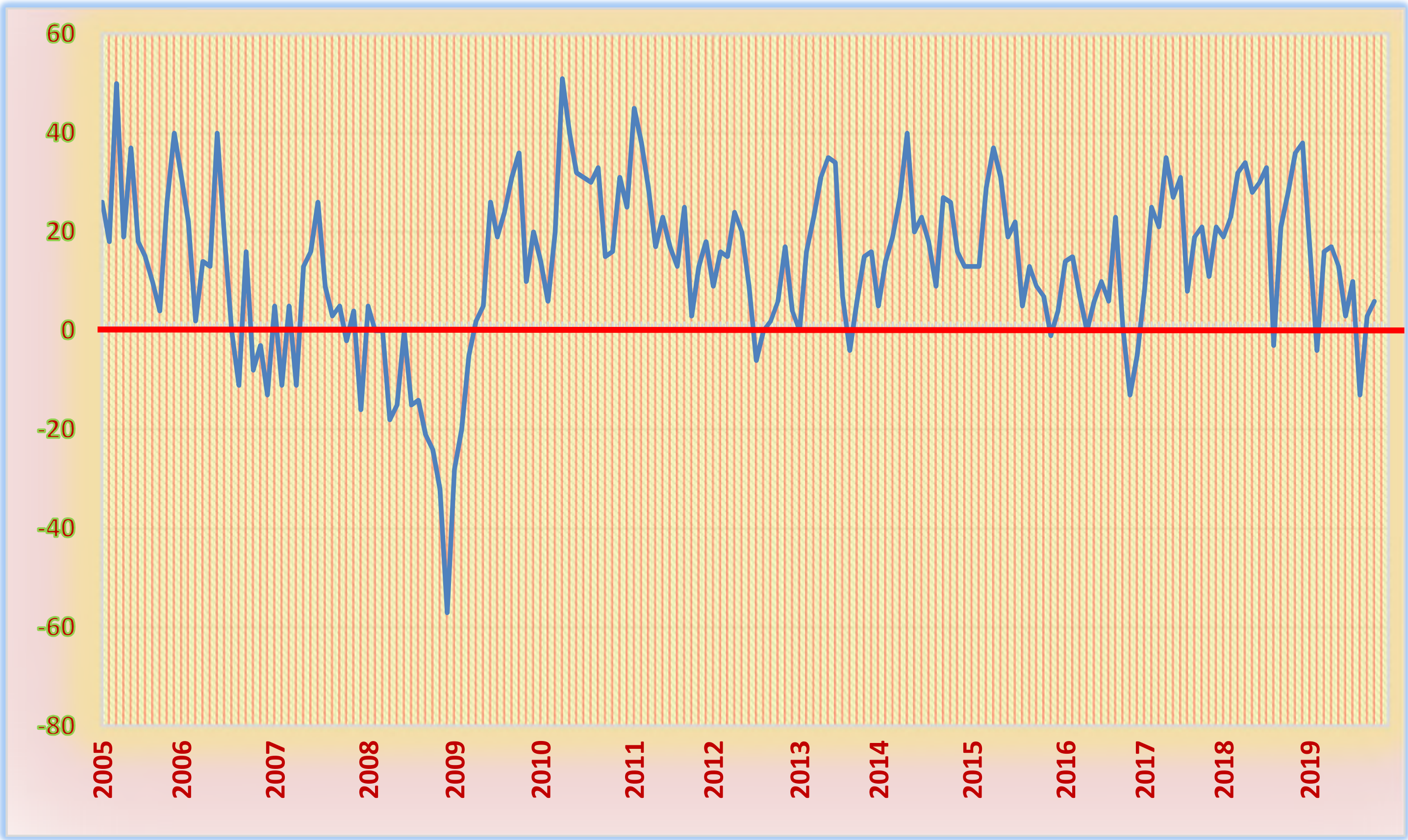
As the name implies, this index measures new business coming into the firm, and signifies business improvement or business decline. When this index is positive for an extended period of time, it implies that the firm or organization will soon need to purchase more raw materials and services, hire more 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 Sept. 2019
Previous Month	+ 3 for the month of August 2019
One Year Ago	+ 13 for the month of Sept. 2018
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 - 2019

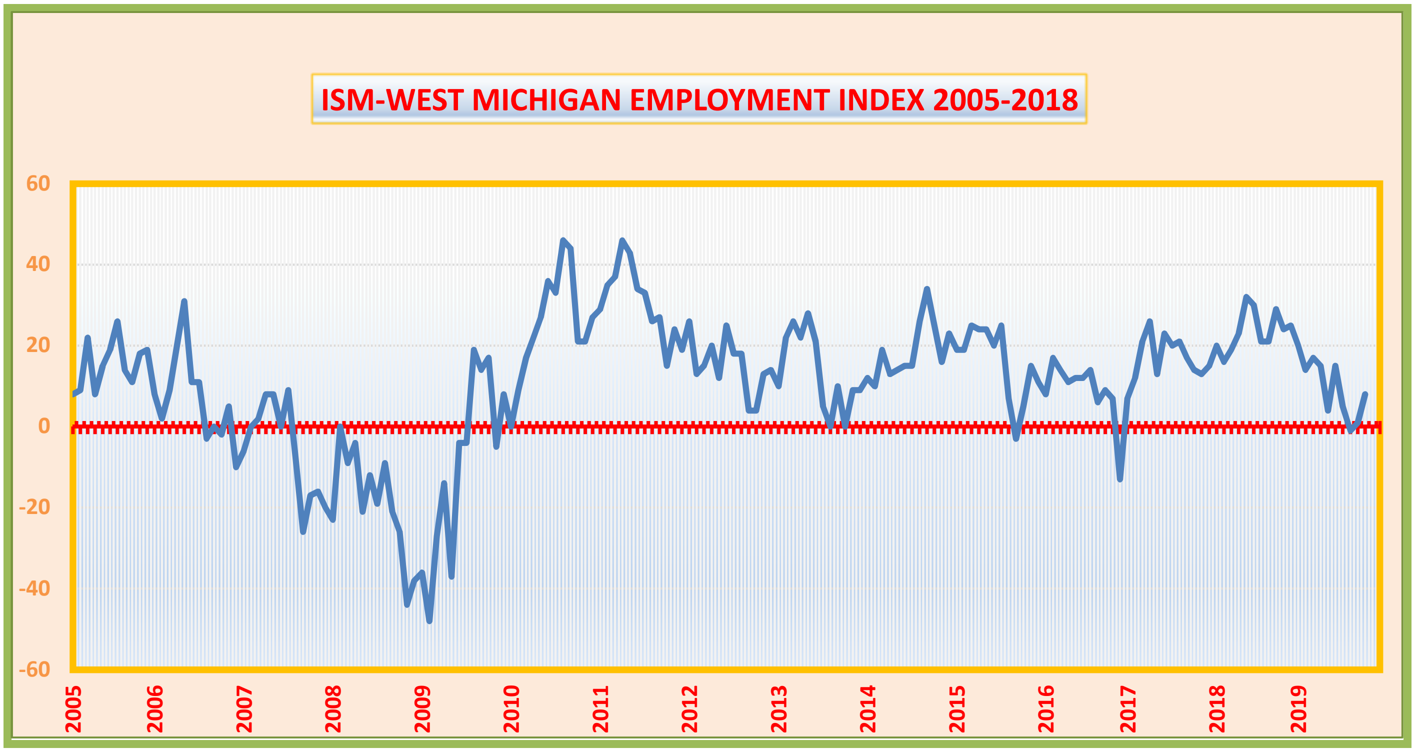


ISM-West Michigan Index of New Orders: 2005-2019 Only



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 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.