



## Institute for Supply Management,

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## News Release (For Immediate Release)

November 6, 2020

## Current Business Trends

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### RECESSION RECOVERY: A "V" OR A "W"?

#### Key Participant Comments for October:

"Since selling almost zero during the height of the pandemic, our sales have come back strong. We hope to see this trend continue in the fourth quarter and beyond."

"Labor challenges persist throughout the entire supply chain."

"Freight costs are up significantly 25-50% compared to last year."

"Business is in the dumpster."

"We are still down 20%, and it appears we will not rebound in 2020."

Albeit slower than we would like the, West Michigan recovery from the 2020 Covid-19 recession continues on track and it therefore may be consistent with what is now being called a "V-shaped" recovery. According to the data collected in the third and fourth weeks of October, NEW ORDERS, our index of business improvement, came in at +16, virtually unchanged from last month's rate of +18. The PRODUCTION index, which is termed "output" by many economists, rebounded nicely to +29, up from September's +20. Activity in the purchasing offices, the index of PURCHASES, came in at +12, essentially unchanged from +14. Just like last month, the overall mood of our survey participants remains widely mixed. Like most recessions, both capital equipment and office furniture manufacturers activity are weak, but automotive parts producers appear to have turned the corner. Firms that were designated "essential" were never impacted by the recession. However, if our statistics turn negative in the next few months, the new economic dip may result in a "W-shaped" recovery.

**The U.S. Economy.** After sagging last month, the November 2ed press release from the Institute for Supply Management, our parent organization, posted a sharp uptick for October. ISM's index of NEW ORDERS rose to +30 from +16. In a more modest move, the ISM PRODUCTION index rose to +26 from +19. ISM's overall index rose to a two-year high of 59.3 from 55.4.

IHS Markit.com, the British international consulting firm that also surveys U.S. purchasing managers, continues to report positive growth, albeit at a slower pace. Markit.com's seasonally adjusted October PMI (Purchasing Manager's Index) posted at 53.4, very modestly higher than September's report of 53.2. Higher rates of Production and New Orders were cited as positive factors contributing to this modest growth. Chris Williamson, Chief Business Economist at IHS Markit, further commented:

"With clues being sought as to whether the economy can sustain its recovery after rebounding from lockdowns, the rise in the PMI in October is encouraging news. It's inevitable that the pace of economic expansion will weaken after the surge seen in the third quarter, but the strength of the PMI hints at a recovery for which the underlying trend continues to strengthen at the start of the fourth quarter. Producers of investment goods such as business equipment and machinery are leading the upturn in a welcome sign of rising business confidence and corporate investment, but it was

worrying to see consumer goods producers report weakened order book growth, reflecting rising virus-related worries. Going forward, much will naturally depend on the extent to which the economy can remain open and functioning in the face of rising virus case numbers."

**The World Economy.** Despite the current pandemic, the overall world economy appears to be gaining ground. The J.P. Morgan Global Manufacturing Index for October, which is composed of the purchasing manager's reports from 44 countries around the world, rose modestly to 53.0 from 52.4. This is not a strong report, but it is worth noting that this same index was below the 50.0 break-even point for much of 2019. The PMI for China came in at a ten-year high of 53.6. Olya Borichevska, from Global Economic Research at J.P. Morgan, further noted:

"The recovery in the global manufacturing sector continued early this quarter with the level in the PMI for output and new orders among the highest seen over the past two-and-a-half years. One risk to the goods sector recovery is the sharp increase in new virus cases which has resulted in activity restrictions across Europe."

The October PMI for the Eurozone is somewhat stronger. Markit.com's composite index came in at 54.8, up nicely from September's 53.7 and August's 51.7. After languishing for months, the German PMI hit a 31-month high of 58.2. However, the PMI for beleaguered Greece slid back below the 50.0 break-even point to 48.7. Chris Williamson from Markit.com further commented:

"Eurozone manufacturing boomed in October, with output and order books growing at rates rarely exceeded over the past two decades. However, while the data bode well for production during the fourth quarter, the expansion is worryingly uneven. While orders for autos, business equipment, and machinery have surged as the global economy has revived after lockdowns, benefitting German producers in particular, new orders for consumer goods came close to stalling in October, with exports even showing a renewed decline, blamed on rising COVID-19 infection rates, weakened labour markets, and subdued consumer sentiment. The renewed weakness of consumer-facing businesses serves as a reminder that, while manufacturing as a whole may be booming for now, the sustainability of the recovery will depend on household behaviour returning to normal and labour markets strengthening. Given second waves of virus infections, this still looks some way off."

**Automotive.** The good news for the West Michigan economy is that the recovery for the automotive industry remains on track, even though the recovery path has been erratic. Automotive News reports that October year-over-year sales for sedans at Ford were down an astounding 45 percent, but SUV sales rose by 9.4 percent. Many other nameplates have continued the practice of doing only quarterly releases. However, Cox Automotive estimates that the Seasonally Adjusted Annualized Rate of sales (SAAR) in October to be 15.7 million to 16.4 million units. Hence, despite recurring parts shortages at many assembly plants, the worst may be over. For the firms still reporting monthly data, Toyota sales rose 8.8 percent, Subaru added 10.6 percent, Hyundai-Kia gained 5.1 percent, but sales at Honda fell by 3.4

percent. Eric Lyman, chief industry analyst for ALG further commented:

"The auto industry recovery is absolutely striking. We clawed back more new car sales each month since sales bottomed out in April and are now seeing year-over-year new car retail sales growth for two consecutive months. This is a phenomenal outcome for the industry, as inventory is starting to rebound and demand remains high. There are positive signals that the recovery will sustain."

**West Michigan Unemployment.** Although most industrial firms have now reopened by observing various combinations of face masks and "social distancing," the unemployment rate for most of Michigan remains at about twice the level of two years ago. Paradoxically, some firms have announced layoffs while others are again begging for qualified people to fill open positions. For the West Michigan October survey, our index of EMPLOYMENT retreated to -2 from +9. At the state level, Michigan's DTMB October 22nd unemployment report for September reported that the seasonally adjusted state-wide unemployment rate fell modestly to 8.5 percent from 8.7 percent. Of the 83 counties in Michigan, the estimated unemployment rates ranged from a low of 4.2 percent in Mackinac County to a high of 12.5 percent in beleaguered Wayne County. Looking at some of the major West Michigan counties, unemployment for Ottawa County came in at 5.4 percent, Kent County 6.6 percent, Kalamazoo County 6.7 percent, and Calhoun County 8.6 percent. The national unemployment rate declined to 7.9 percent in September, which is still more than twice the level of September 2019.

**Industrial Inflation.** Ordinarily, the recent uptick in industrial inflation would be regarded by some analysts as a sign that the industrial economy was recovering from the recession. However, our index of LEAD TIMES came in at a 16-year high of +44, up sharply from September's +25. As many segments of the industrial economy continue to reestablish continuity in their supply chains, some shortages have driven prices higher for a few key commodities such as steel, paper, corrugated, and aluminum. At the international level, the JPM index of PRICES edged marginally higher to 55.2 from 54.7. For West Michigan, the most recent index of PRICES came in at +16, only slightly below September's +18. The ISM national index of PRICES rose to +31 from +25. Timothy Fiore, ISM's survey committee chair, further commented:

"The Prices index experienced its highest level of expansion since October 2018, when the index registered 72 percent. Aluminum, copper, steel, transportation costs, corrugated, food products and plastics all recorded price increases."

**GDP.** According to the October 29th press release from the U.S. Bureau of Economic Analysis, the third quarter GDP grew at an estimated rate of 33.1 percent, the highest growth rate ever recorded since the current measurement system was established in 1937. The survey of economists by Bloomberg had anticipated a growth rate of 32.0 percent, so the markets responded well to the better-than-expected number. Looking ahead to 2020's last quarter, the Atlanta

Fed's "GDPNow" fourth quarter rolling estimate projects an increase of 2.2 percent, which would confirm the "V shaped" recovery predicted by some economists. The projection by Kiplinger is modestly higher at 2.5 percent growth. The October 30th New York Fed's "Nowcast" estimate of fourth quarter growth is slightly more optimistic at 3.2 percent. Even though the Conference Board's Q4 estimate is only 1.5 percent, all of the foregoing estimates project a fourth quarter that roughly reflects many of the pre-Covid quarters for the past five years or so.

**Business Confidence.** As parts of the economy continue to reopen, confidence in business growth around the world continues to improve, at least for now. In the JPM October survey, business confidence remained positive for a fifth successive month with Italian and German manufacturers leading the way. At the national level, the National Federation of Independent Business Optimism Index rose 3.8 points to 104.0 in September, the highest reading since February, and considerably higher than the seven-year low of 90.9 reported in April. The Conference Board Consumer Confidence Index declined slightly in October to 100.9 after increasing sharply in September. Our local SHORT-TERM BUSINESS OUTLOOK index for October, which asks local firms about the business perception for the next three to six months, retreated modestly to +14 from +20. The LONG-TERM BUSINESS OUTLOOK index, which queries the perception for the next three to five years, remained virtually unchanged at +37, up slightly from +36.

**Summary.** According to the forecasts from the various Federal Reserve banks, the national economy appears to be on its way to a "V-shaped" recovery. The aforementioned GDP forecasts are positive for the fourth quarter as well as for all four quarters of 2021. However, for West Michigan, a lopsided "W-shaped" recovery looks more likely. In any market economy, jobs are always being lost, and jobs are always being gained. The term "frictional unemployment" refers to the time lag between workers moving from one job to the next. We know that the Covid-19 recession has resulted in job losses, some of which are involuntary and permanent. We also know that some workers did not return to work because of day care issues brought on by schools that are still closed. For those displaced workers now seeking work, we know from our survey respondents that there are at least some job openings that may absorb some of these frictionally unemployed workers. This is especially true for our automotive parts producers. However, it is doubtful that the West Michigan industrial economy can soon absorb ALL of the recently-unemployed workers. Hence, a lopsided "W-shaped" recovery is most likely. In addition to industrial unemployment, significant West Michigan unemployment has come from the recreation and hospitality industries. It is doubtful that all of these jobs will come back anytime soon. The same is true for the food service industry. Many restaurants have been forced to permanently close, but many fast-food outlets are setting sales records. America is not going on a diet, so it will take time for the supply chains to shift to hire workers to meet the new demand. For West Michigan, all of this will take time.

## OCTOBER COMMENTS FROM SURVEY PARTICIPANTS

"Freight costs are up significantly 25-50% compared to last year."

"We are still doing relatively well considering the current economic environment."

"Sales are up modestly. We have a lot of attrition due to retirements and people leaving for other jobs. We're going to have to hire soon."

"Business is good, but we are having difficulty filling open positions. The supply chain is starting to not meet expectations because firms are still not fully staffed from the recovery from COVID shutdown."

"We are trying to run inventory lean and remain nimble in this uncertain economic environment."

"Labor challenges persist throughout the entire supply chain."

"Orders from customers are WAY up this month, we believe to "right size" their inventories and to build up inventory now to reduce their year-end inventories."

"Sales for July and August trended the right way, but September stalled. Things are not getting better as soon as I would have liked."

"We are still down 20%, and it appears we will not rebound in 2020."

"Sales for Covid-related products are back on the uptick, but manageable right now."

"Let see what happens in the election. It could be good or very bad."

"Since selling almost zero during the height of the pandemic, our sales have come back strong. We hope to see this trend continue in the fourth quarter and beyond."

"We had a better than expected Q3, with an expectation of a better than plan Q4."

"Items with prices heavily influenced by the cost of steel are rising in price, although this effects a very limited amount of products that I see. An example would be shelving for our company-owned stores. There may be more, but pricing is generally handled by a different department. I only see shelving price changes because these vendors work very differently than our 'hard parts' vendors."

"We are starting to see increased lead times from components coming from Europe. Business has picked up over the past month, and our order book is starting to grow for the first time since March."

"Business is in the dumpster."

"We have settled into the new normal. Covid presents challenges for sure, but team navigating and employee health remains top concern. Sales are down, but so far, we've settled into a new baseline. With the upcoming anticipated Covid surge, there are some obvious concern about sales sustainability."

"The election in 3 weeks has several capital projects on hold until the prospect learns who wins and sees if they will pay more in taxes or if depreciation credits are taken away."

### Statistical Note:

Because of the current economic emergency, many of our survey participants are working from home or other remote locations and do not have regular access to their company computers. Hence, with the response rate is below normal, statistics herein presented may not represent the West Michigan economy as accurately as we would like. As firms gradually reopen over the next few weeks, hopefully our response rate will return to normal.

## October Survey Statistics

	UP	SAME	DOWN	N/A	Oct. Index	Sept. Index	Aug. Index	25 Year Average
Sales (New Orders)	38%	40%	22%	0%	+16	+18	+19	+14
Production	40%	40%	11%	9%	+29	+20	+13	+14
Employment	16%	66%	18%	0%	- 2	+ 9	+13	+ 8
Purchases	27%	58%	15%	0%	+12	+14	+10	+ 7
Prices Paid (major commod.)	18%	78%	4%	0%	+16	+18	+ 9	+15
Lead Times (from suppliers)	44%	54%	2%	0%	+42	+25	+30	+11
Purchased Materials Inv. (Raw materials & supplies)	29%	48%	16%	7%	+13	+ 5	-13	- 4
Finished Goods Inventory	18%	48%	27%	7%	- 9	- 7	-13	- 8
Short Term Business Outlook (Next 3-6 months)	36%	42%	22%	0%	+14	+20	+ 0	-
Long Term Business Outlook (Next 3-5 years)	44%	45%	7%	4%	+37	+36	+14	-

**Items in short supply:** Aluminum cans, some Marathon motors, some Goyen valves, delivery trucks, polypropylene, some resins, LBI resins, industrial level cleaner, nitrile gloves, lab coats, vinyl gloves, aluminum extrusions, glass/glass products, isocyanate, products from China (logistics delays), entry level labor, other labor.

**Prices on the UP side:** Ocean freight, land freight, import freight, Fx rates, transportation, base metals, steel, carbon steel, coil steel, wire rod, paper, corrugated, finished goods, aluminum, copper, resin, oil, polypropylene, ABS.

**Prices on the DOWN side:** Stainless steel, fuel, magnesium, aluminum\*.

\*Item reported as both up AND down in price.

## Latest Unemployment Reports

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

	Sept. 2020	Sept. 2019	Aug. 2009	20 Year Low
State of Michigan (Sept.)	8.5%	3.9%	14.6%	3.2%
State of Michigan (Unadj.)	8.2%	3.5%	14.1%	2.9%
Kent County	6.6%	2.6%	11.9%	2.1%
Kalamazoo County	6.7%	3.0%	11.1%	2.1%
Calhoun County	8.6%	3.6%	12.8%	2.7%
Ottawa County	5.4%	2.5%	13.3%	1.8%
Barry County	5.8%	2.6%	10.9%	2.2%
Kalamazoo City	8.3%	3.7%	15.2%	3.2%
Portage City	6.1%	2.7%	8.7%	1.3%
Grand Rapids City	8.7%	3.4%	16.1%	3.0%
Kentwood City	6.3%	2.4%	10.7%	1.4%
Plainfield Twp.	5.0%	1.9%	8.0%	1.4%
U.S. Official Rate (Sept.)	7.9%	3.5%	9.6%	3.5%
U.S. Rate (Unadjusted)	7.7%	3.3%	9.6%	3.4%
U.S. U-6 Rate (Sept.)**	12.4%	7.2%	16.7%	8.0%

\*\*U-6 for Michigan = 12.0% for Q3 2019 thru Q2 2020

## 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 + 16 for the month of October 2020

Previous Month +18 for the month of September 2020

One Year Ago + 6 for the month of October 2019

Record Low - 57 for the month of December 2008

Record High + 55 for the month of September 1994

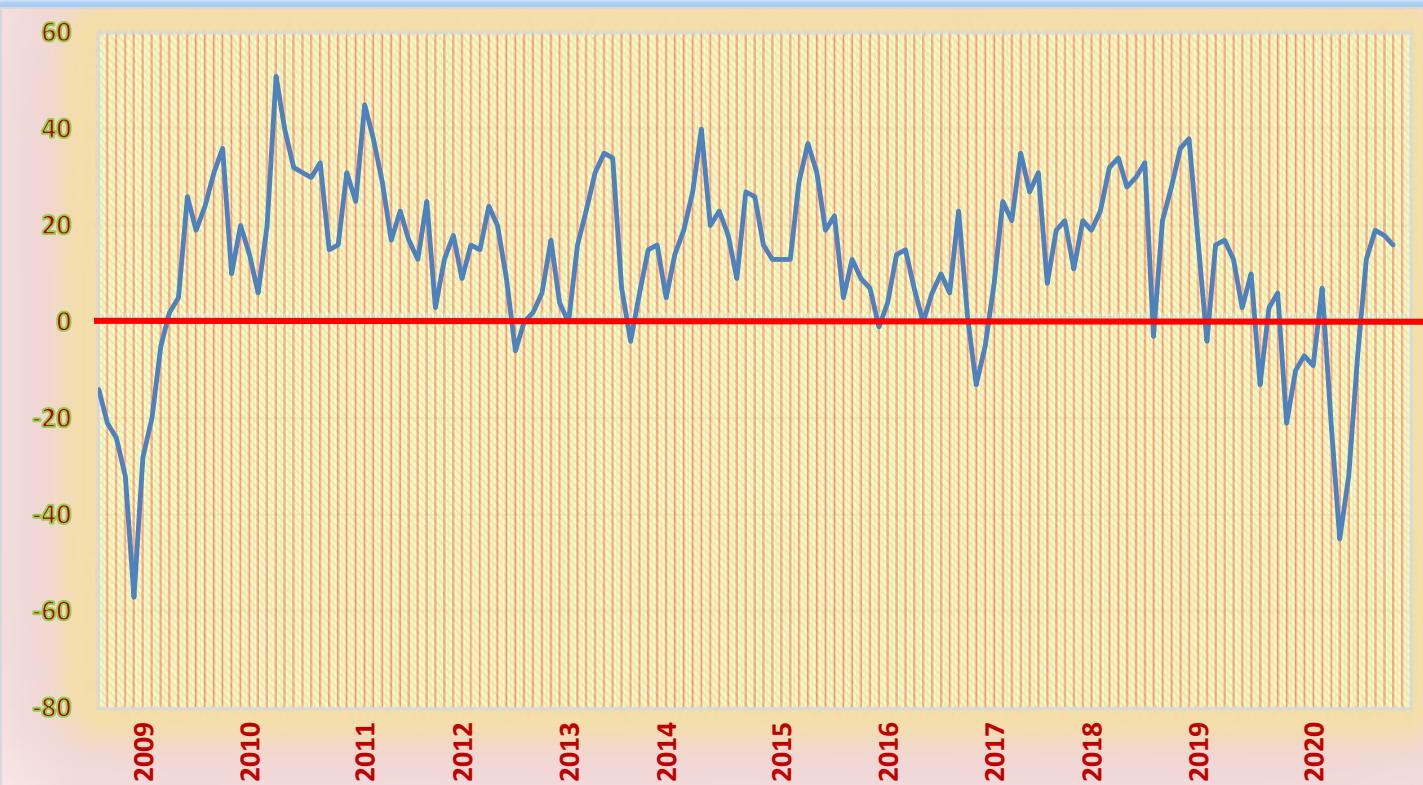
Great Recession

First Recovery + 3 in April of 2009

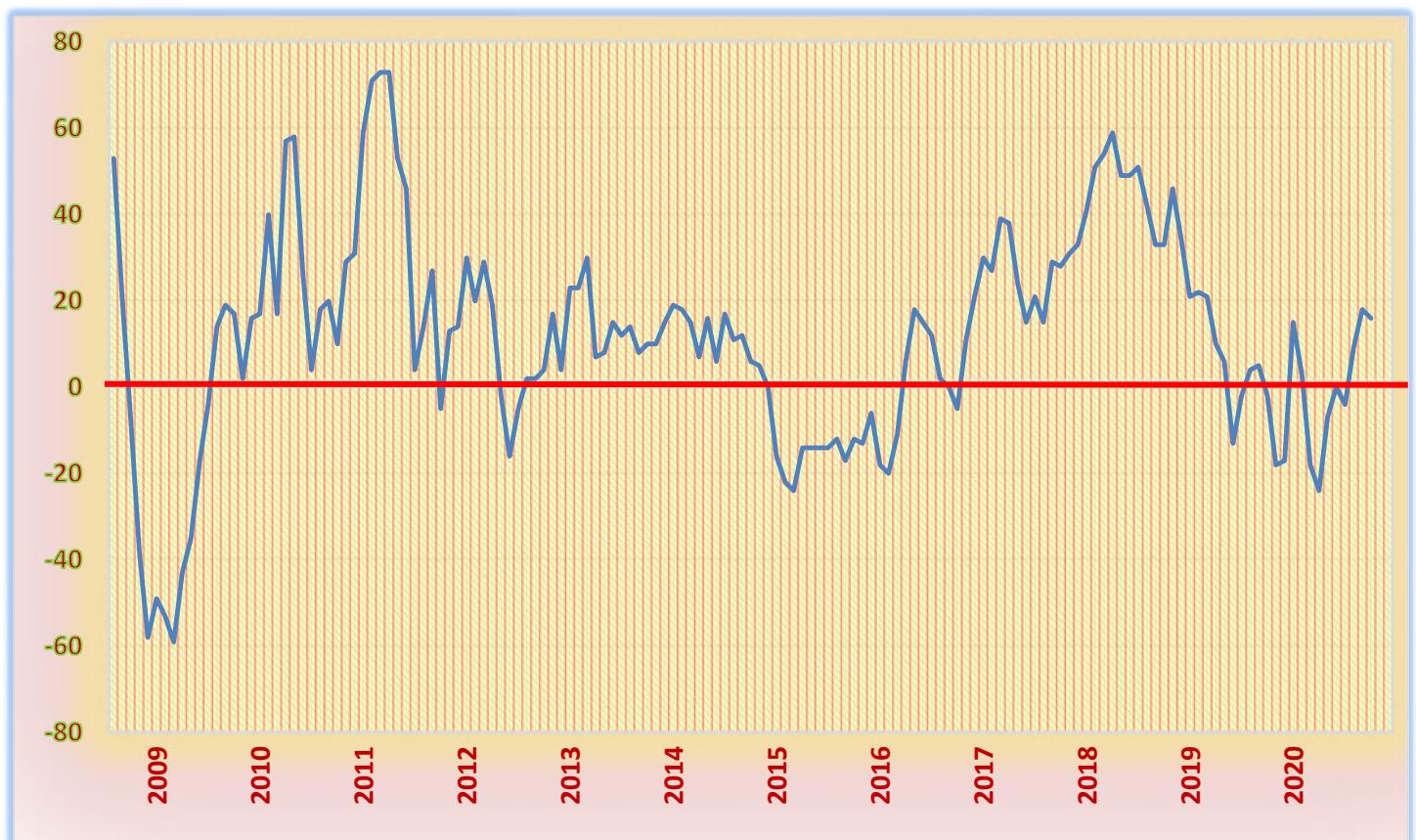
Covid-19 Recession

First Recovery +12 in July 2020

## ISM-West Michigan Index of New Orders: 2008-2020



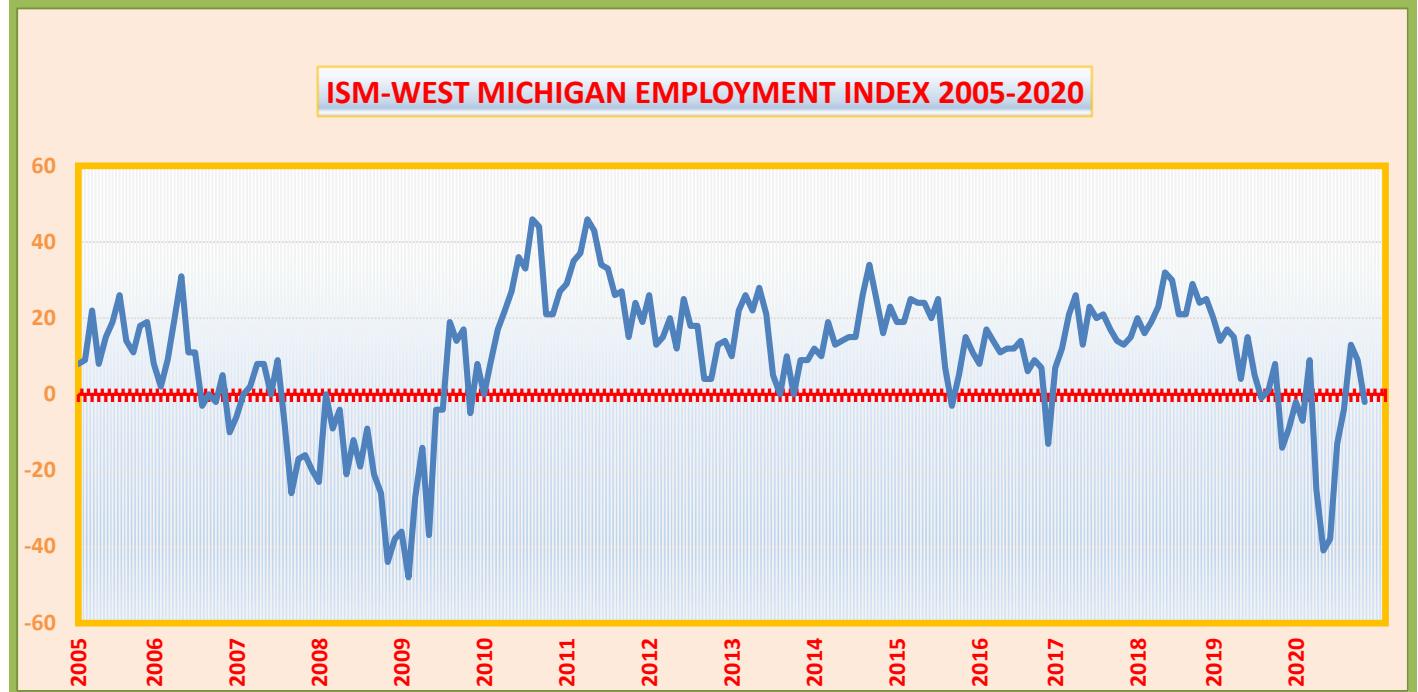
## ISM-West Michigan Index of PRICES: 2008-2020



## 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 EMPLOYMENT INDEX 2005-2020



## 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.

