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News Release (For Immediate Release)

August 4, 2017

Current Business Trends

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Slower Growth

After six months of disappointing car sales, the impact on our local auto parts suppliers is finally being felt by the West Michigan economy. It's not a collapse, just a modest tapering of the growth rate. And growth is still growth. According to the survey conducted during the last two weeks of July, NEW ORDERS, our closely watch index of business improvement, came in at +8, considerably below last months' robust +31. A little less of a drop was felt by the PRODUCTION index, which eased to +6 from +26. Activity in the purchasing offices, the index of PURCHASES, tapered to +12 from +22. Inventories remained stable and well managed, with our index of FINISHED GOODS rising to +5 from +0, and the RAW MATERIALS INVENTORIES index edging lower to +4 from +11.

Looking at individual industries in West Michigan, the business conditions for the auto parts suppliers has turned mixed, primarily based on the specific car or truck lines that the survey respondents firm is supporting. Some firms are still very strong, but others have been forced to cut production because of slow vehicle sales. The office furniture industry is still stable, and the bias remains on the up side. The capital equipment market remains mixed, and the slowdown in the auto parts industry has resulted in the cancellation of further expansion by some firms. For the industrial distributors, the bias is to the up side largely because of summer maintenance schedules. Most of the comments from our survey participants remain positive. For non-industrial firms, many segments of the West Michigan tourist industry are poised to have a record year, and the agricultural industry will have a good year as well, assuming the weather for the remainder of the season cooperates.

Fortunately, our survey of business optimism upticked in July. The West Michigan index of the SHORT TERM BUSINESS OUTLOOK, which asks local firms about the perception for the next three to six months, remained virtually unchanged at +33. However, the LONG TERM BUSINESS OUTLOOK bounced to +50 from +37, our best reading in almost three years. So far, the local economy appears to be shrugging off the slower auto sales, perhaps because the impact has still not been noticed by our local auto parts suppliers.

The August 1 report from the Institute for Supply Management, our parent organization, remained strong, but ISM's index of NEW ORDERS backtracked to +21 from +30. The PRODUCTION index also eased to +20 from +27. Following the same pattern, the EMPLOYMENT index remained firmly in double digits, but slowed modestly to +14 from +17. ISM's index of INVENTORIES came in flat at +0, which generally depicts the anticipation of market stability.

The monthly survey conducted by IHS Markit.com, the British economics consulting firm, reported some significant improvement over last month's report. NEW ORDERS grew at a solid pace, bouncing off a nine-month low. Markit's indexes of PRODUCTION and PURCHASES also posted increases. The HIS Markit PMI for the U.S. came in at 53.3, a considerable improvement over the nine-month low of 52.0 reported last month. Chris Williamson, the chief business economist for Markit, sounded a note of guarded optimism:

> "The second half of the year got off to a good start for US manufacturers, with the health of the sector improving at the fastest rate in four months. However, although rising, the survey indices remain consistent with only very modest increases in comparable official data such as manufacturing output, durable goods orders, and payroll numbers. Clearly the manufacturing sector remains stuck in a low gear, though it is at least gaining momentum and will hopefully shift up a gear as we move through the second half of the year if demand continues to improve. IHS Markit expects GDP growth to accelerate to a near 3% annualised rate in the third quarter, fueled by gains in consumer spending and business investment, which should benefit manufacturing."

Looking at the economy for the rest of the world, J.P. Morgan's Global Manufacturing survey of 31 nations remained mixed for July. About half of the Asian nations covered by the survey posted a contraction, including India, South Korea, Indonesia, Malaysia, Thailand and Myanmar. Growth remained positive but slower in China, Japan, Vietnam and the Philippines. NEW ORDERS rose to 53.6 from 53.3. JPM's international PMI edged slightly higher to 52.7 from 52.6. As a reminder, 50.0 is considered the break-even point for these types of "diffusion" indexes. The survey author further noted:

> "The global manufacturing sector achieved further solid and steady growth during July. Although the rate of output expansion eased slightly, stronger inflows of new business and rising workforce numbers suggest that the current pace of increase should be broadly sustained going forward."

It is no secret that the European economy looked fairly grim just a few years ago, and the Eurodollar was teetering on the brink of falling apart. Today, the European economy is clearly outpacing the rest of the world. At long last, all countries in the Eurozone are now positive. Austria, Germany, and the Netherlands contine to report the strongest growth. Countries such asFrance and Italy that were weak for many years have now begun reporting modest growth. Although Greece's index of 50.5 is still not strong, it may indicate that the long-awaited recovery may have begun. IHS Markit's chief economist commented:

> "The survey indicates that manufacturing output was growing at an annual rate of approximately 4% at the start of the third quarter, sustaining the best growth spell that the region has seen for six years. Germany clearly remains a major driver of the upturn, with only neighbouring Austria and

the Netherlands enjoying faster rates of expansion. But this is a broad-based revival nonetheless, with even Greece enjoying its first back-to-back monthly improvement in manufacturing conditions for three years."

The Commerce Department release the estimate for the second quarter GDP with little fanfare, perhaps because this first statistic is always referred to as an "advanced estimate." At an estimated growth rate of 2.6 percent, the economy for the April-June time period reflects general consensus of slow but steady economic progress. The final number for the first quarter of 2017 was revised to 1.2 percent, which reflects the pattern we have seen for the past seven years. Of course, the usefulness of GDP, a measure developed in the 1930s to try to reduce the health of the economy to a single number is arguably less significant than in past years when the economy was far less complicated.

Looking at some of the good news, the West Michigan employment picture is still very positive. Locally, our index of EMPLOYMENT came in at +20, well in line with the double-digit upticks we have seen throughout 2017. The latest data from Michigan's Department of Technology Management and Budget shows the estimated unemployment rate for June, the latest month available, at 3.2 percent from Kent County, 3.7 percent in Kalamazoo County, 3.0 percent in Ottawa County, and 3.8 percent for the entire state. Because these numbers are not seasonally adjusted, the influx of high school and college graduates bumps the numbers higher than those reported in May. However, compared with a year ago, the unemployment rate for most reporting units in West Michigan have improved by about a half percentage point. Of course, critics note that the "standard" unemployment numbers that we report, formally known as U-3, do not reflect discouraged and underemployed worker, or U-6 and the Census bureau reports those numbers. Furthermore, the typical "employment" report does not reflect the earnings of the workers, some of which have been forced into new jobs during the recession recovery which pays considerably less. But the scream from many industrial firms grows louder every month that industrial America cannot find enough workers at almost every level. In general, the reason for the exorbitant high unemployment among the 18-25 age group is the failure of the education system to prepare them for today's economy. Sadly, there is no end in sight for this problem.

For the sixth straight month, auto sales for July are lower. The 6.9 percent drop is the largest so far this year, although most of the decline came from a 15% drop in the sale of sedans (regular cars) verses a 1.9 percent drop in light trucks and SUVs. With the production of 2017 models now over, analysts are still worried about the bloated dealer inventories which are now much higher than they were before the Great Recession. Compounding the problem is the large number of vehicles coming off lease. From a consumer standpoint, retired lease vehicles are about half the price of a new vehicle, usually have fairly low mileage, and are still under warranty. This obviously dents new car sales, but also brings down the prices in the entire used car market. Looking at the sales numbers reported for July, GM sales led the race to the bottom dropping 15.4 percent, followed by Fiat-Chrysler falling 10.5 percent, and down Ford 7.4 percent. Among the major foreign nameplates, Nissan fell 3.2 percent, VW 5.8 percent, and Honda eased 1.2%. Only Toyota managed a gain of 3.6 percent.

In summary, despite North Korea's missiles tests and dysfunction in Washington, the Conference Board's July Index of Consumer Confidence still managed to hit a 16-year high. Locally, the index we call the LONG TERM BUSINESS OUTLOOK came in strong, posting a three-year high. The decline in auto sales justifiably concerns our local auto parts suppliers, but so far, the decline remains fairly orderly. At least some local firms have been cushioned by new business obtained from the transplant companies. Furthermore, any slump in the auto parts business by itself will slow the West Michigan economy but not push us into a recession.

JULY COMMENTS FROM SURVEY PARTICIPANTS

"We expect supply of various forms of refined nickel and chemicals will tighten as we approach the end of 2017 and into 2018. This is driven by increasing demand for to produce batteries for the EV and plug in hybrid automobile market and reduction in the supply of some forms."

"We just cannot quite turn the corner."

"We believe our business will see a little bit of a slowdown due to excessive car inventories."

"We are still in good shape."

"There was really no movement on anything this month."

"The see-saw continues. May was up nicely, but June was down by the same amount. It's hard to say where July will come out. It may be somewhere in between."

"We are still very busy and really struggling to find skilled labor to fill our open positions."

"HR is still having trouble finding people to fill positions on the production floor. Office staff have been on the production floor part time 1-2 days a week, and have been asked to volunteer to help work on weekends."

"Last month was very busy. However, we have slowed down for the first two weeks of July. It looks like things will pick up for the last two weeks of July and all of August."

"Still flat. We're hoping for projects to start breaking loose at the end of the calendar year."

"Staffing up to support business growth is restricted by availability of labor pool."

"Things have slowed through the month of July but not much more than expected. We're still looking for good candidates in some of the trades and technical positions."

"We had a better than expected second quarter."

"This years' automotive shut-downs have not been as impactful as expected."

"We have now had two months straight of declining sales orders, but are looking to break loose soon."

"We experienced a 10% drop in our orders through the month compared to what our initial forecast was. We will see what August brings."

"It's been a good year so far. Orders are steady."

"We are seeing the typical dip between auto show seasons."

"Business remains steady."

"Business remains very strong in 2017, but 2018 and beyond are starting to become questionable."

"We still can't find enough people for general labor. We currently have more than 25 openings to fill."

"Recent automotive comments regarding a 'leveling off' of business have caused some of my customers to drag their feet on major capital outlays for a while."

"Contractors are having a hard time scheduling all their projects in order to complete by October 1. We're having a busy July with preparations being made for winter operations."

July 2017 Survey Statistics

	UP	SAME	DOWN	N/A	July Index	June Index	May Index	25 Year Average
Sales (New Orders)	29%	48%	21%	2%	+ 8	+31	+27	+14
Production	21%	60%	13%	6%	+ 6	+26	+19	+14
Employment	26%	68%	6%		+20	+23	+13	+ 8
Purchases	23%	66%	11%		+12	+22	+24	+ 7
Prices Paid (major commod.)	21%	79%	0%		+21	+15	+24	+15
Lead Times (from suppliers)	23%	74%	3%		+20	+26	+20	+11
Purchased Materials Inv. (Raw materials & supplies)	19%	55%	15%	11%	+ 4	+11	+19	- 4
Finished Goods Inventory	13%	63%	18%	6%	+ 5	+ 0	+ 8	- 8
Short Term Business Outlook (Next 3-6 months)	39%	55%	6%		+33	+34	+33	-
Long Term Business Outlook (Next 3-5 years)	53%	41%	3%	3%	+50	+37	+46	-

Items in short supply: Lithium, cobalt, electronic components, iron castings, some coated steel, quality labor.

Prices on the UP side: Polypropylene, packaging materials, brass and copper wire, electronic components, plastic resin, corrugated boxes, plastic bags, zinc, off-the-shelf nuts and washers, steel, stainless steel, alloy steel, sheet aluminum, aluminum extrusions, corrugated packaging, shrink wrap, wages, rubber products, computer memory, copper, resins, engineering resins, hot rolled steel, foam, paving asphalt, construction contractors.

Prices on the DOWN side: Scrap metals, SEBS resin, polypropylene*, rock salt for roads.

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

Latest Unemployment Reports

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

	June 2017	June 2016	Aug. 2009	20 Year Low
State of Michigan (Adj.)	3.8%	4.8%	14.6%	3.2%
State of Michigan (Unadj.)	4.0%	5.2%	14.1%	2.9%
Kent County	3.2%	3.7%	11.9%	2.1%
Kalamazoo County	3.7%	4.3%	11.1%	2.1%
Calhoun County	4.4%	4.8%	12.8%	2.7%
Ottawa County	3.0%	3.6%	13.3%	1.8%
Barry County	3.5%	4.0%	10.9%	2.2%
Kalamazoo City	4.7%	5.4%	15.2%	3.2%
Portage City	3.4%	3.9%	8.7%	1.3%
Grand Rapids City	4.2%	4.9%	16.1%	3.0%
Kentwood City	3.0%	3.5%	10.7%	1.4%
Plainfield Twp.	2.4%	2.8%	8.0%	1.4%
U.S. Official Rate (June)	4.4%	4.9%	9.6%	3.8%
U.S. Rate Unadjusted	4.5%	5.1%	9.6%	3.6%
U.S. U-6 Rate**	8.6%	9.6%	16.7%	8.0%

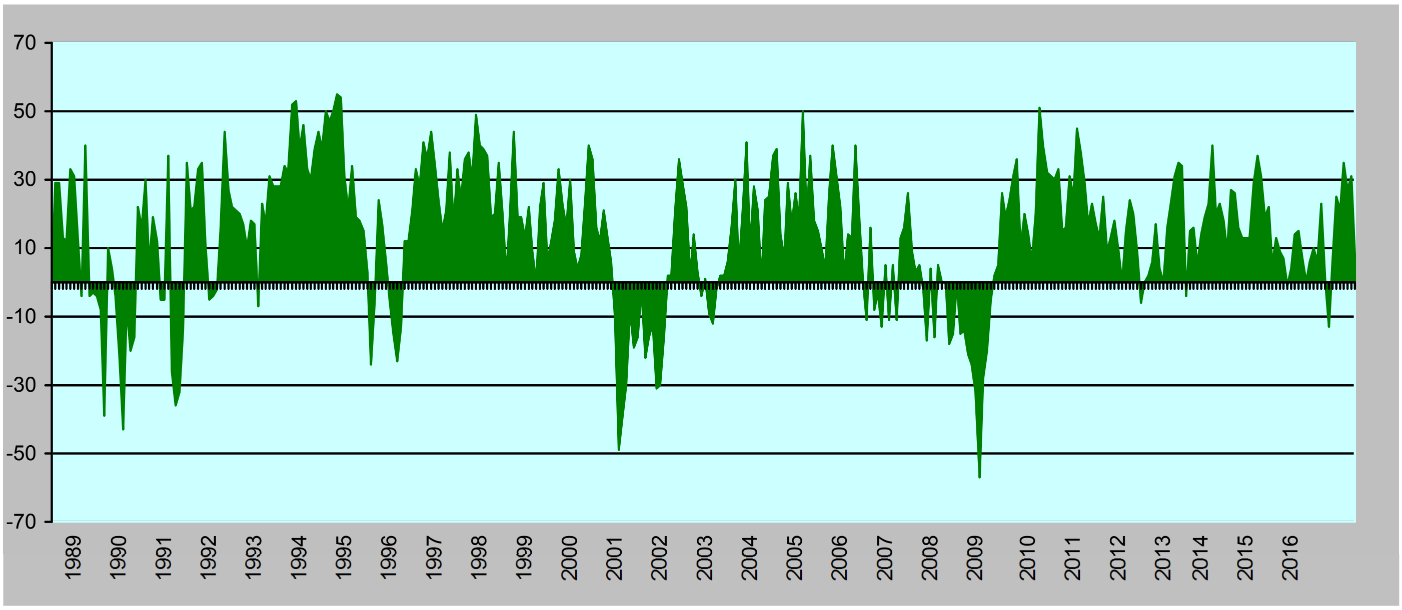
**U-6 for Michigan = 9.5% for 2016 - 2017

Index of New Orders: West Michigan

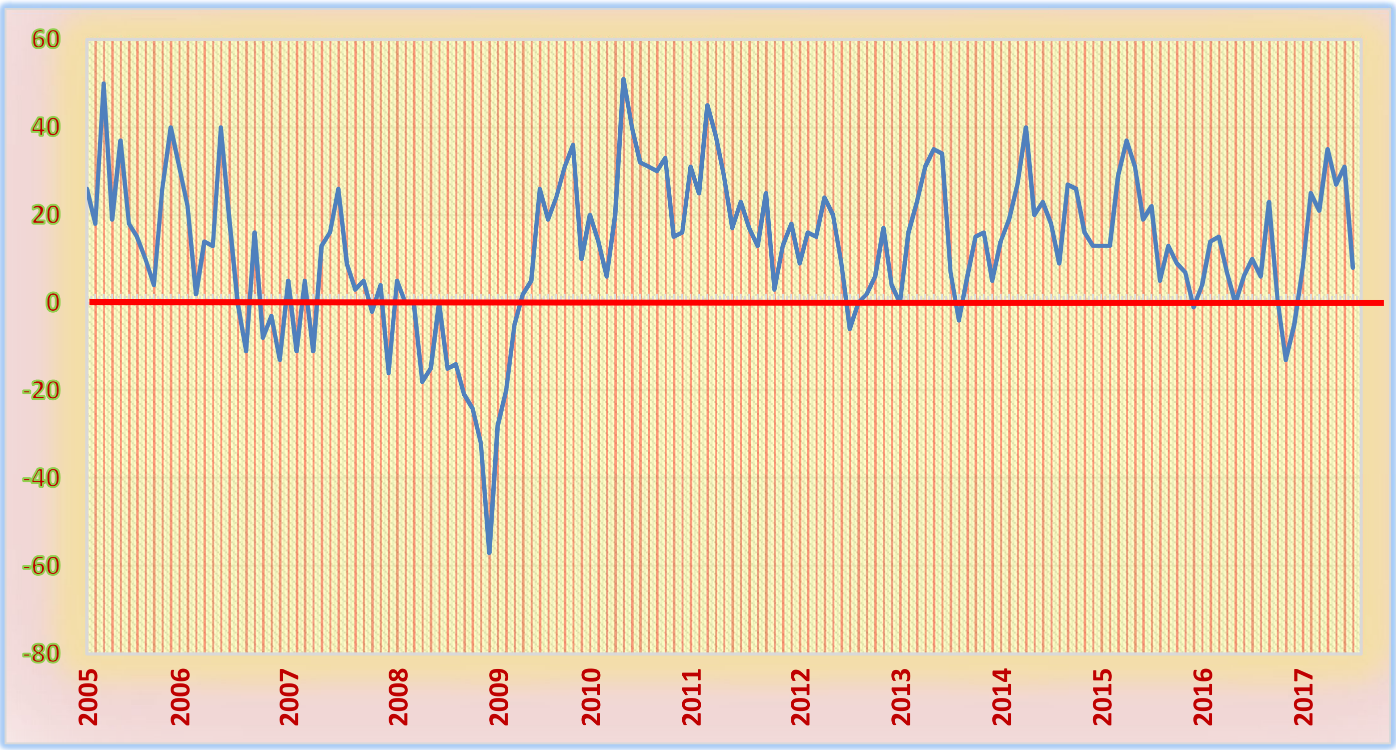
As the name implies, this index measures new business coming into the firm, and signifies business improvement or business decline. When this index is positive for an extended period of time, it implies that the firm or organization will soon need to purchase more raw materials and services, hire more 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	+ 8 for the month of July 2017
Previous Month	+ 31 for the month of June 2017
One Year Ago	+ 6 for the month of July 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

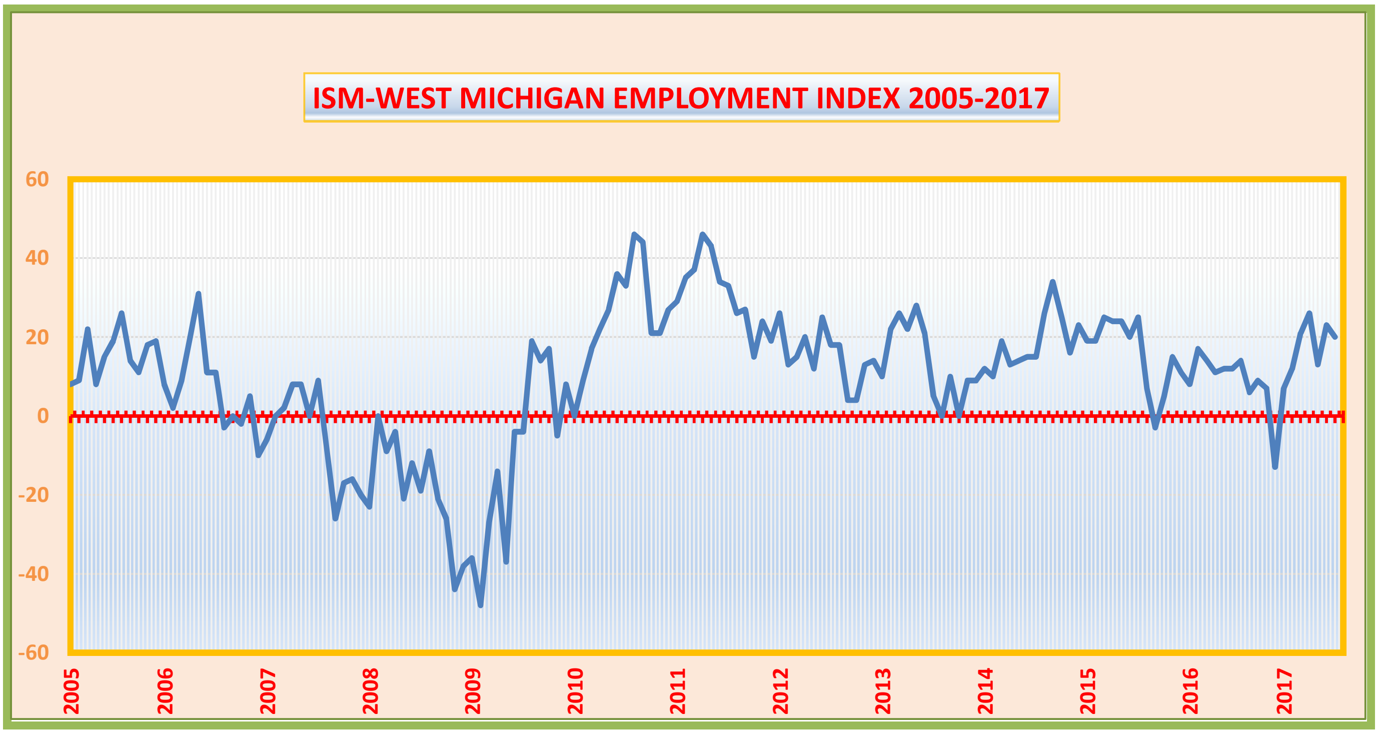


ISM-West Michigan Index of New Orders: 2005-2017 Only



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 measure 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.