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## **News Release (For Immediate Release)**

### **October 10, 2017**

# **Current Business Trends**

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### **Positive Growth Continues**

Yes, the West Michigan economy is still going strong. According to the West Michigan survey conducted during the last two weeks of September, NEW ORDERS, our closely-watched index of business improvement, rose quietly to +21 from +19. The PRODUCTION index remained positive but retreated modestly to +17 from +20. Activity in the purchasing offices, our index of PURCHASES, slowed to +14 from +24. The index of FINISHED GOODS INVENTORY remained unchanged. However, because of the recent hurricanes and otherwise strong business conditions, some classes of inventories are being drained across the entire country. Hence, the RAW MATERIALS INVENTORIES fell to +3 from +16. The index of LEAD TIMES remained stretched at +30, and no one expects relief any time soon.

Just as we have reported for most of the year, all of our individual industries still remain on track, although slightly less robust. Most auto parts suppliers have been concerned throughout the summer about the slower auto sales, so the September bounce in sales seems to have forestalled any immediate fear of an automotive recession lurking around the corner. The major office furniture firms still appear to be topping out at the present level, but the smaller firms are having a little more success. The capital equipment fabricators still have business coming in, but the pace has slowed for most firms. For the industrial distributors, the mood is stable.

Fortunately, business optimism still remains strong in West Michigan. Our September survey of the SHORT TERM BUSINESS OUTLOOK, which asks local firms about the perception for the next three to six months, remained unchanged at +30. Looking out three to five years, the LONG TERM BUSINESS OUTLOOK edged slightly higher to +45, up from +39. The anecdotal comments by the survey participants continue to be cautiously optimistic, although most firms clearly recognize that there may be little room for additional growth unless something like the long-promised tax cuts finally materialize.

At the national level, there is still a divergence of opinion regarding the direction of the economy. The October 2 press release from the Institute for Supply Management, our parent organization, came in even more bullish than last month. ISM's index of NEW ORDERS jumped to +26 from +18. The PRODUCTION index rose modestly to +21 from +20. The EMPLOYMENT index came off its five-year high of +19, easing marginally to +17. The expansion of INVENTORIES, which had jumped to +11 last month, eased to a more normal level of +5. After posting a six-year high of 58.8 percent last month, ISM's overall index for September jumped even higher to a thirteen-year high of 60.8. Needless to say, this index is nearing its highest level since the post-war recovery in 1948. This level of performance was certainly not expected or predicted.

Now for the confusion. IHS Markit.com, the British economics consulting firm, also surveyed industrial purchasing agents throughout the U.S. as well as the rest

of the world. Although the Markit report is still positive, the pace of expansion for NEW ORDERS retreated for the second month in a row. The PRODUCTION index remained unchanged at a positive but muted level. The IHS Markit PMI for the U.S. came in at 53.1, a little higher than last month's 52.8, but still very subdued when compared to the near-record report filed by ISM for the same time period. Although the headline for the report was still termed "improved," Chris Williamson, the chief business economist for Markit, struck a less optimistic tone:

"While the headline PMI remained resiliently elevated in September, despite disruption from hurricanes Harvey and Irma, the details of the survey are more worrying. Output growth was unchanged on August's 14-month low, and translates into stagnation at best in terms of the official manufacturing output data. Firms' expectations of future output growth also slipped to a four-month low. There was better news on the hiring front, with job creation perking up to a nine-month high. However, with employment rising faster than output, productivity may be slipping. Although the hurricanes appear to have made little overall impact on production, supply delays were widely reported and prices for many inputs rose, suggesting some near-term upward pressure on inflation."

Much as we have seen for the past few months, the economy for the rest of the world continues to improve. Canada and Mexico, our two largest trading partners, turned in strong reports for September. Whereas most of the major economies were improving over the summer, growth in September slowed in China, Japan, and the UK. J.P. Morgan's Global Manufacturing survey of 31 nations came in unchanged at 53.2. The survey author further noted:

"The global manufacturing sector continued to expand at a solid and stable clip in September, as output growth ticked higher and new orders continued to rise at one of the best rates over the past three years. The sector looks to have sufficient momentum to see growth continue through to year-end, even in the face of a recent revival in cost inflationary pressures."

For the European economy, the news continues to get better and better. The Purchasing Manager's Indexes (PMIs) for Germany, Netherlands, and Austria led the way at 60.6, 60.0, and 59.4, respectively. Even beleaguered France came in with a PMI of 56.1, a 77-month high. Greece continues to climb out of the economic abyss, and came in with a 111 month PMI high of 52.8. IHS Markit's chief economist commented:

"The Eurozone manufacturing boom kicked into an even higher gear in September, with the PMI rising to a level surpassed only once in the past 17 years. The recovery is also looking increasingly broad-based, with rising demand across the region lifting all boats. Surging order book growth has encouraged manufacturers to take on extra

staff at a rate never previously seen in the 20-year history of the PMI survey. Despite the expansion of capacity, backlogs of incomplete work built up at a faster rate, suggesting that the hiring upturn has plenty more room to run."

For auto sales, the September report reversed the negative pattern of the past six months and reported a significant sales gain. Although auto sales were due for a bounce, a large portion of this gain can be attributed to the estimated one or two million cars that were either damaged or destroyed by the Texas (and, to a lesser degree, Florida) hurricanes. Among the major brands, Ford sales gained 8.9 percent, GM rose 11.9 percent, Honda added 6.8 percent, and Toyota was a winner by 14.9 percent. At 21.4 percent, Volkswagen posted the biggest gain. However, a sales decline of 9.7 percent left Fiat Chrysler well behind the rest of the major brands. For the entire industry, sales were up 6.8 percent. However, it is wise to remember all of these year-over-year numbers that are quoted for automobiles sales are really for both cars and light trucks. Hence, the 6.8 percent sales gain actually breaks down to a 12.0 percent increase for light truck and SUV sales, offset by a 3.3 percent decline in car sales.

Needless to say, Hurricanes Harvey and Irma will be talked about for decades. After many years without natural disasters having a major lasting effect on the economy, these two storms coming back-to-back are definitely having an impact as far north as West Michigan. Hurricane Nate came close behind, but the devastation was far less. Much as we expected, the demand for plywood, roofing materials, and drywall have driven most material costs higher. Many of the plastic molding shops in West Michigan have been hit with higher costs for most types of plastic resins, even though the suppliers in the Texas-Louisiana area were only offline for a few days.

Because of tight inventories for many commodities, prices have been rising. After remaining relatively dormant for many months, inflation is again becoming a cause for concern. The hurricanes disrupted many of the supply chains, resulting in our local index of PRICES rising to +29 from +15. However, one of our survey respondents noted that the economic impact of the hurricanes for West Michigan could have been worse. ISM's index of

LEAD TIMES jumped to +28 from +14, and the tighter supply chains have been used as an excuse to raise prices. ISM's index of PRICES rocketed to +43, up from +24, and J.P. Morgan's international index of PRICES rose to a five-year high of 60.8. However, it is also the strengthening of the major economies around the globe that is coaxing many major commodities to edge up in price.

For September, there was more news about GDP. Although the Gross Domestic Product calculations were formulated back in the 1930's based on the assumptions of a much simpler world, no one as yet has formulated a new index to replace it. Hence, the reports for the quarterly GDP readings always make news. On September 28, the Commerce Department released a "final" report of a 3.1 percent GDP growth rate for the April-June quarter, the best report since the first quarter of 2015. The upward revision is marginally higher than the previous estimate of 3.0 percent growth, and considerably higher than the 1.2 percent growth rate for the first quarter of 2017. Estimates for the July-September period are now running about 2.2 percent, but spending resulting from the recent hurricanes are now forecasted to raise GDP above 3.0 percent for the fourth quarter. However, it should be noted that these forecasts have not been especially accurate in the past.

In summary, the prices for petroleum and petroleum-related products are now returning to pre-hurricane levels, although Hurricane Nate may have lengthened the recovery period. The reconstruction efforts for the hurricanes have driven prices higher for a wide range of products. The world economy, and especially the economy in Western Europe, continues to strengthen, resulting in the prices rising for many industrial commodities such as steel, zinc, and brass. The European Central Bank is now talking about inflation returning to an unacceptable level, which probably means that interest rates will start to edge higher. The threat of an altercation with North Korea or other Middle Eastern countries continue to be ignored by the markets and the business community in general. Some simply call these uncertainties the "new norm." That said, the economic path ahead of us continues to be positive for the foreseeable future IF the geopolitical situation remains stable.

## SEPTEMBER COMMENTS FROM SURVEY PARTICIPANTS

"Hurricane effects were minimal on our supply chain from a supply standpoint. However, this event provided an opportunity for price increases from nearly all the major pieces of our supply chain."

"With summer about over, vacations done, kids back in school, it's time to get back to business! 'Let's go look at that machinery!'"

"August was one of our best months of the year, BUT it looks like we are paying for that in September. If things don't pick up the last two months, this may be the worst month of the year. It's certainly not the way we wanted to end the quarter."

"It's slow but steady on order intake."

"August was surprisingly robust."

"Our third quarter is finishing solid as expected. For the fourth quarter, we are seeing an uptick."

"Business is good and holding. The medical market is still hot."

"So far, given the damage in the Houston area, the supply disruptions are less than we expected."

"We are setting pretty good, even with the disruptions from the hurricanes. We are currently slow, but picking up as we go into the fourth quarter."

"Transportation funding remains strong for the next few months, but projections after the first of the year are questionable."

"Business is steady, however, we are seeing some product lines much slower than others. We should be busier."

"The fourth quarter will be very busy as usual. Business is solid."

"Continued cautious optimism. Controlled growth. Choosing customers and parts wisely."

"There is still lots of activity in the sales area."

"Sales have been trending up this month, but we're still unsure what impact the hurricane will have. We're seeing some signs that projects are starting to move again."

"Business is steady, but quoting for our customers has slowed."

"Recent hurricanes seem to be a supply factor for some items."

"Our business is steady."

"The chicken or the egg is going on here. Work is available to win, but will the bodies (workers) be available if the wins occur."

"Business outlook continues to look great!"

# September 2017 Survey Statistics

	UP	SAME	DOWN	N/A	Sept. Index	Aug. Index	July Index	25 Year Average
Sales (New Orders)	33%	53%	12%	2%	+21	+19	+ 8	+14
Production	30%	52%	13%	5%	+17	+20	+ 6	+14
Employment	22%	73%	5%		+17	+21	+20	+ 8
Purchases	28%	58%	14%		+14	+24	+12	+ 7
Prices Paid (major commod.)	29%	71%	0%		+29	+15	+21	+15
Lead Times (from suppliers)	33%	67%	0%		+30	+30	+20	+11
Purchased Materials Inv. (Raw materials & supplies)	18%	60%	15%	7%	+ 3	+16	+ 4	- 4
Finished Goods Inventory	13%	69%	13%	5%	+ 0	+ 2	+ 5	- 8
Short Term Business Outlook (Next 3-6 months)	37%	60%	3%		+30	+30	+33	-
Long Term Business Outlook (Next 3-5 years)	45%	52%	0%	4%	+45	+39	+50	-

**Items in short supply:** Electronic components, components from China, polypropylene (post Hurricane Harvey, heavy construction equipment, semi trucks to transport materials, operations labor, some long haul or specialty logistics services (due to the Hurricanes), metal parts from China, plastic, steel forgings, hurricane recovery related items for roofing and residential, hi lo drivers, labor.

**Prices on the UP side:** Electronic components, stainless steel surcharges, lithium, cobalt, polypropylene compounds, heavy construction equipment, trucks, trucking, steel, stainless steel, aluminum, plastic components, powder paint, plasticizer, PVC resin, SEBS resin, ESO, polypropylene, polyethylene, lumber, resin, plastic drums and pails, fuel and fuel surcharges, cold drawn carbon steel, corrugated, finishing and packaging materials, brass, zinc die castings, all steel and alloy, petroleum related products, wood panel products, paper, hurricane recovery related items, wages.

**Prices on the DOWN side:** Salt, paraffinic oil, ocean freight.

## Latest Unemployment Reports

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

	Aug. 2017	Aug. 2016	Aug. 2009	20 Year Low
State of Michigan (Adj.)	3.9%	4.9%	14.6%	3.2%
State of Michigan (Unadj.)	4.6%	5.2%	14.1%	2.9%
Kent County	3.8%	3.6%	11.9%	2.1%
Kalamazoo County	4.4%	4.1%	11.1%	2.1%
Calhoun County	5.1%	4.8%	12.8%	2.7%
Ottawa County	3.6%	3.3%	13.3%	1.8%
Barry County	4.2%	3.9%	10.9%	2.2%
Kalamazoo City	5.5%	5.2%	15.2%	3.2%
Portage City	4.1%	3.8%	8.7%	1.3%
Grand Rapids City	5.0%	4.8%	16.1%	3.0%
Kentwood City	3.6%	3.4%	10.7%	1.4%
Plainfield Twp.	2.9%	2.7%	8.0%	1.4%
U.S. Official Rate (Aug.)	4.4%	4.9%	9.6%	3.8%
U.S. Rate Unadjusted	4.5%	5.0%	9.6%	3.6%
U.S. U-6 Rate**	8.6%	9.7%	16.7%	8.0%

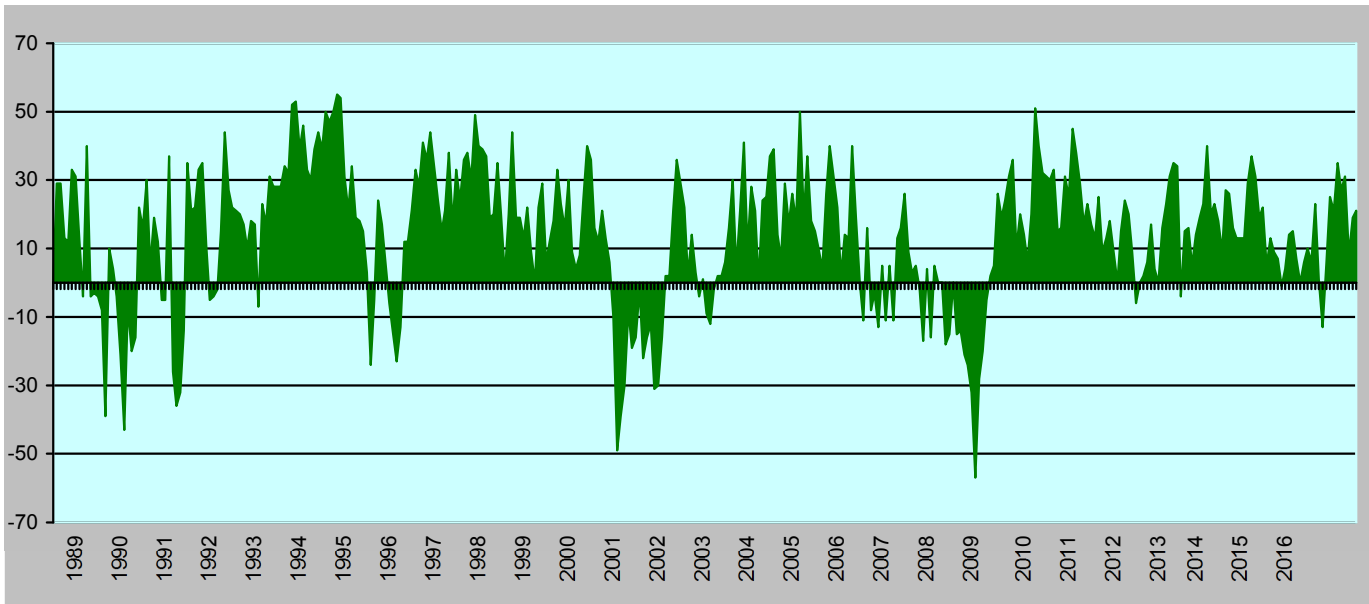
\*\*U-6 for Michigan = 9.5% for 2016 - 2017

## Index of New Orders: West Michigan

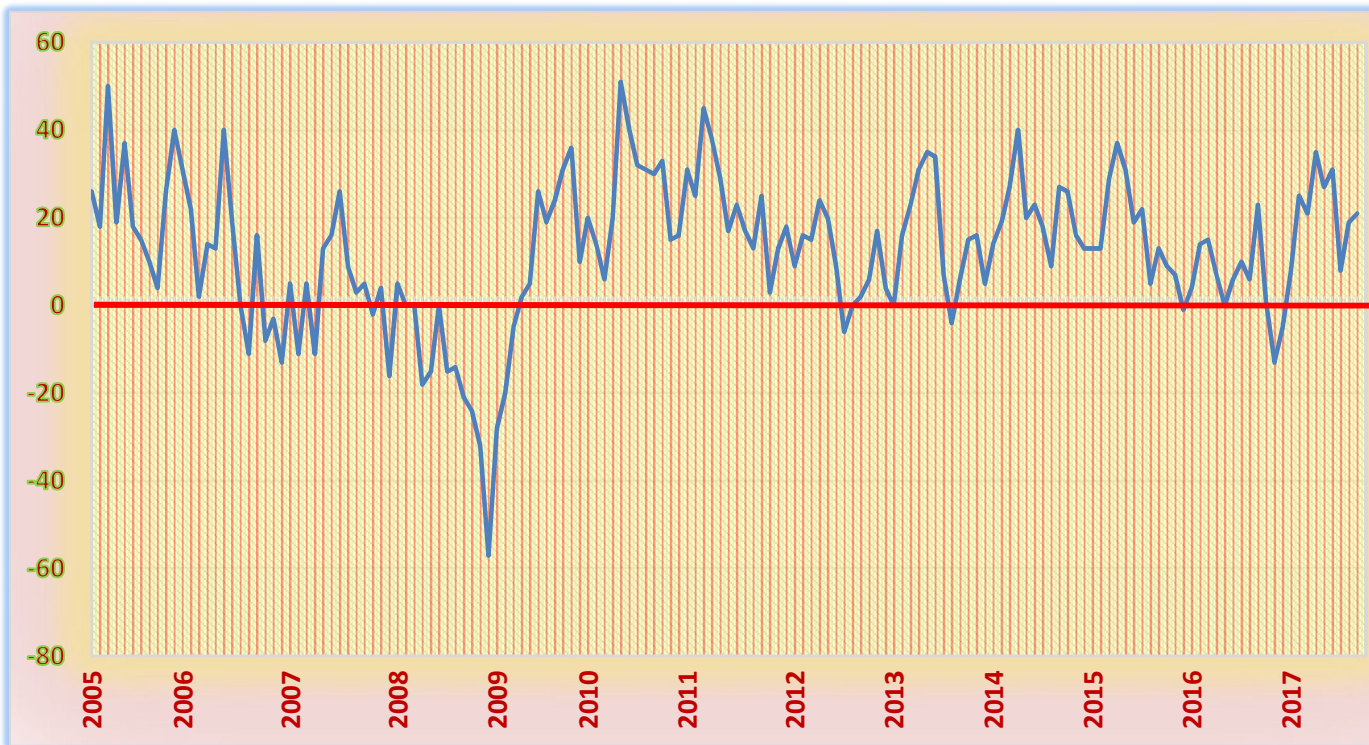
As the name implies, this index measures new business coming into the firm, and signifies business improvement or business decline. When this index is positive for an extended period of time, it implies that the firm or organization will soon need to purchase more raw materials and services, hire more 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	+21 for the month of September 2017
Previous Month	+19 for the month of August 2017
One Year Ago	+ 1 for the month of September 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

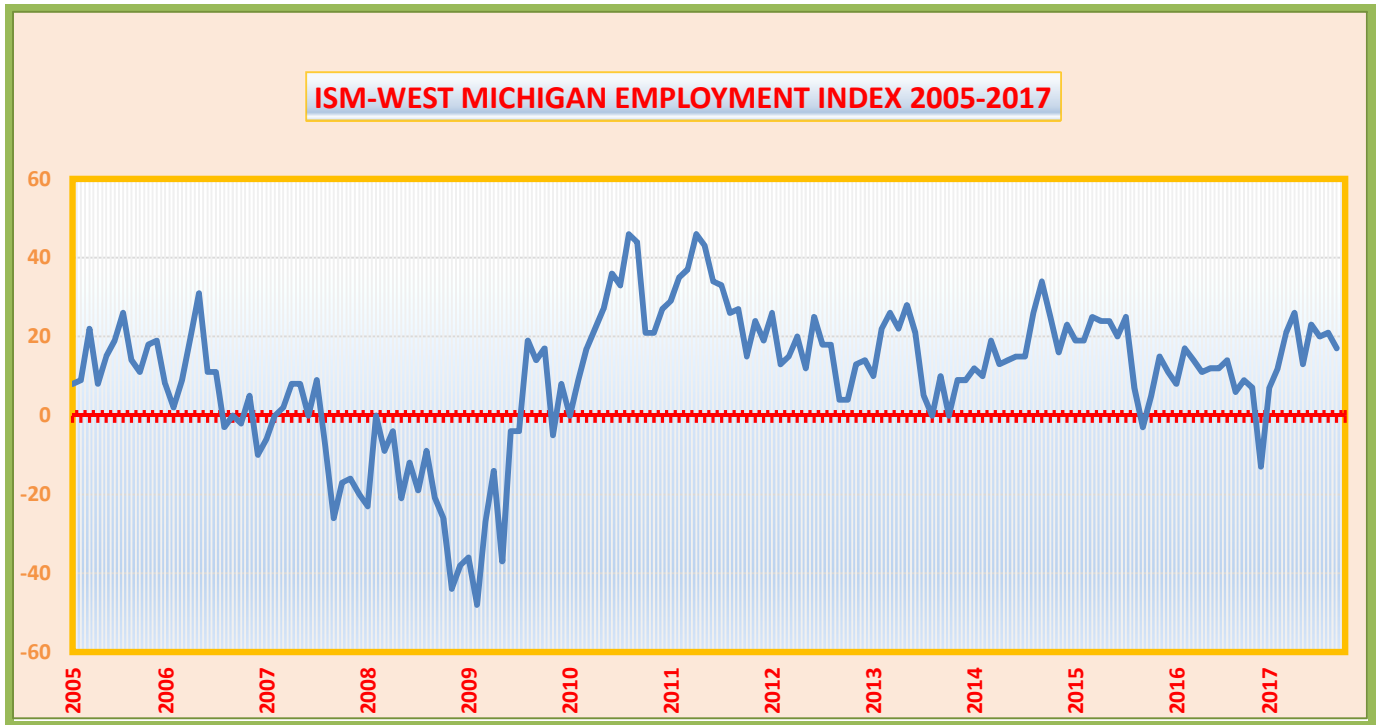


## ISM-West Michigan Index of New Orders: 2005-2017 Only



## 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 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.

