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News Release (For Immediate Release)

May 4, 2018

Current Business Trends

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STILL STRONG: SUMMER SHOULD BE GOOD

The stronger-than-usual performance for the West Michigan economy has continued into the opening of the second quarter of 2018, although the pace slowed to some extent. According to the data collected in the last two weeks of April, NEW ORDERS, our closely-watched index of business improvement, retreated to +28 from +34. In a similar move, the West Michigan PRODUCTION index edged lower to +28 from +31. Activity in the purchasing offices, the index of PURCHASES, came off a recent high and eased to +34 from +37. The EMPLOYMENT index rose to +23 from +19. Based on the comments for the survey participants, most firms remain reasonably confident about future economic conditions. However, pricing pressures for key commodities, such as most grades of plastic resins and all types of steel, are beginning to cut into the profitability for many firms. Personnel shortages continue to plague many firms, and there is no end in sight.

Individual industries. Just like in previous months, most capital equipment manufacturers continue to be positive, but there are some exceptions. Our local automotive parts producers are still modestly expanding despite the slight downturn for the industry as a whole. The office furniture is industry holding steady, but signs indicate that the peak for the current business cycle has been reached. Although there are a couple of exceptions, most industrial distributors reported a good month, much as they have since the beginning of the year.

The U.S. Economy. The May 2, 2018 survey report from the Institute for Supply Management, our parent organization, remained positive but slightly less robust in April. ISM's manufacturing index for NEW ORDERS came in virtually unchanged at +34.3, down only 0.4 from +34.7 in March. In a similar move, the PRODUCTION index edged lower to +25.6 from +27.9. In contrast, ISM's EMPLOYMENT index upticked modestly to +12.9 from +12.2. Because of statistical manipulation, ISM's overall index eased to 57.3 from 59.3, making the limited backtracking appear more severe than the fundamentals portray. A more accurate view of the U.S. economy may come from the IHS Market.com PMI, which rose to 56.5 in April from 55.6 in March. The survey author continues to voice a positive tone:

"April saw U.S. manufacturers reporting the strongest monthly improvement in business conditions since September 2014. The survey suggests the economy has started the second quarter on a solid footing and sends an encouraging signal for GDP growth to accelerate after the modest 2.3% rate of expansion seen in the first quarter. With inflows of new orders rising at an accelerated pace, greater input buying and business expectations regarding future production levels running at one of the highest levels seen over the past three years, there's plenty of evidence to suggest strong growth will persist through May."

The World Economy. For April, the J.P. Morgan Monthly Global Manufacturing Report yielded a "mild improvement" in the rate of expansion for the global economy. This month's survey of 32 nations posted a global PMI of 53.5, up slightly

from 53.3 in March. According to the May 2 press release, JPM's NEW ORDERS index came in at 53.9, up slightly from last month's 53.7, but still well ahead of the 50.0 break-even threshold. Worldwide EMPLOYMENT held steady at 52.3. Price pressures resumed escalation in April, and the index of PRICES rose to 60.1 from 59.9. The survey author further commented:

"April PMI data signaled a marginal pick-up in the rate of expansion of the global manufacturing sector, the first growth acceleration seen since the turn of the year. Forward-looking orders data point to solid output gains in coming months, constrained by a cooling in the inventory cycle."

The first month of the second quarter saw further slowing of the rate of growth in the eurozone manufacturing sector. Since hitting a record high in December, the April Markit Eurozone PMI eased to a 13-month low of 56.2. The Netherlands, Germany, and Austria continue to be the strongest performers, but even France, Italy and Greece are still modestly positive. Chris Williamson, Chief Business Economist at London-based IHS Markit, further noted:

"Although the April growth rate has slowed markedly compared to the start of the year, December had seen the best performance in over 20 years of survey data collection, with factory activity clearly surging at an unsustainable rate. Since then, supply constraints including raw material scarcities, supplier delivery delays, and skill shortages have constrained production. Some of these adverse factors are therefore likely to be reversed in coming months."

Unemployment. The latest numbers reported by Michigan's Department of Technology, Management and Budget pegged Michigan's seasonally adjusted unemployment rate for March at 4.7 percent, up slightly from the 4.6 percent reported in March 2017. A major factor in the 0.1 percent increase was workers deciding to return to the workforce, offset by job gains for the entire state. From March 2017 to March 2018, payroll jobs in Michigan increased by 61,000 or 1.4 percent. For the major counties in West Michigan, the estimated unemployment rates range between 3.2 percent for Ottawa County to 4.2 percent in Barry County, all well below the state average. The current national unemployment rate for April rests at 3.9 percent, and analysts are still projecting the rate to fall slightly more by the end of the summer. The national U-6 unemployment rate, which includes various discouraged and marginally attached workers, has now fallen to a 17-year low of 7.8 percent.

Automotive. Just like the past fifteen months, the pattern of slightly slower sales resumed in April. So far, the decline has still been very orderly. Industry-wide sales for cars and light trucks posted a year-over-year loss of 4.8 percent, down from last month's gain of 6.4 percent. Of course, for many years these reports from Crain Communication's "Automotive News" have included cars AND light truck. With the advent of crossovers, the light truck category was expanded to include all non-sedan light vehicles. But it is the decline in sedan sales that are blamed for the overall industry retreat. Hence, the

Detroit manufacturers are continuing to drop various sedan nameplates in favor of expanding crossover and SUV offerings. Looking at April tallies, Ford sales were down 4.5 percent, but Fiat-Chrysler gained 4.5 percent because of the continued good sales for Jeep. GM is no longer posting monthly numbers, but industry analysts estimate an April decline of 2.7 percent. Of the other major brands, Toyota lost 4.7 percent, Honda eased 9.2 percent, Nissan slid 28.1 percent, but VW eked out a gain of 3.2 percent. "Despite sales beginning to cool off, the industry is still on pace for a record year," said Eric Lyman, TrueCar's chief industry sales analyst. "2015 delivered a 10-year high in August sales, so automakers faced a high hurdle to show year-over-year gains in August 2016." Other analysts, citing low gasoline prices, widely available credit, low financing costs, and employment gains believe sales still have room to grow.

Industrial Inflation. The upward pressure on prices continues. Locally, our index of PRICES jumped to +59 from +54. At the national level, ISM's index of PRICES pushed higher to +58.6 from +56.2. JPM's worldwide index of "Input Prices" index edged above last month's 80-month high to settle at 60.1, up slightly from 60.0. Fortunately, the West Michigan index of LEAD TIMES eased to +39 from +44, implying some relief in pricing pressure may be coming. Partially resulting from the recent tariff announcement, aluminum and steel are among the commodities rising in price. However, many of the aluminum and steel imports have already been exempt, and the actual tariffs still have not been imposed, although the deadline is near. As one survey respondent put it, prices still have not moved "all that drastically." The rise in pricing for most grades of plastic resins of has been driven by the rising cost of oil, which of course has nothing to do with tariffs. The cost of truck transportation is starting to escalate at a much more rapid rate than expected. The biggest complaint is the shortage of qualified drivers, despite the rather attractive compensation packages being offered.

GDP. The first estimate of economic growth for the first quarter of 2018 came in at 2.3 percent, a little disappointing for those who expected a bigger bounce from the tax recent cuts. The second quarter is now estimated to come in about 3.0 percent or so. As we have previously noted in this report, the expansion in the industrial market can take months to spill over into the GDP. Hence, the real impact of the tax cuts may not be seen until the third or even fourth quarter of this year. To offset the revenue lost by the tax cuts, economic growth will need to expand to about 4.0 percent for a considerable period of time. Many economists still estimate GDP growth for 2018 to be only about 3 percent, but 3.5 percent still seems possible. GDP for 2019 will therefore need to be at least 4.0 percent to offset the revenue lost by the tax cuts.

Business Confidence. The tariff announcement definitely put a damper on the elation from earlier in the year. Although all of the numbers are still positive, the March West Michigan index for the SHORT-TERM BUSINESS OUTLOOK, which asks local firms about the perception for the next three to six months, eased to +35 from +42. In a similar move, the LONG-TERM BUSINESS OUTLOOK also retreated to +40 from last month's +44. Many businesses are still waiting to see the impact, if any, of the new tariffs. A trade war would be devastating to the relative tranquility of the current world economy, but the odds of such a war seem to be declining as the tariff negotiations continue to unfold.

Overall Economy. The stock market, which is now controlled by computers talking to computers, will probably continue to fluctuate with current news events until the threat of a possible trade war has passed. Our automotive parts suppliers should remain on sound footing, but the office furniture industry continues to show signs of topping out. Very little stands in the way of our local economy as we head into the summer season. Even the geopolitical situation shows signs of improving, although no one knows for sure what major event may be just around the corner.

APRIL COMMENTS FROM SURVEY PARTICIPANTS

"We are seeing increasing difficulty with scheduling common carrier trucking pickups. Drivers are in short supply and lead times for pickups are growing along with freight costs."

"We cannot find anyone to hire."

"Trump train has left the station and now the President is doing everything he can to derail the train. Tariffs are driving up prices, and healthcare is driving inflationary pressure on wages. Now you have oil/fuel on the rise for the trifecta."

"Business is steady. Stainless and galvanized steel pricing settled down after the initial shock of the tariffs. The prices really did not move up drastically."

"We still need more production workers."

"It seems like the prices of everything is going up."

"We are having a hard time getting summer help! We need around 40 part-time employees and are having a hard time getting them. We have increase the pay per hour but it has not helped."

"Business is slower than normal. Our office furniture business is not picking up as fast as it normally does this time of year."

"Electronics components have been in turmoil since last year. Let's see what tariffs add to an already poor market."

"We have finally caught up with the rest of the area. March was very strong and the end of quarter numbers are where we like them."

"We experienced a 10% drop in production for April. May looks like it is going to be back up to normal production requirements."

"We're waiting to find out full impact of steel tariffs on the industry."

"It's a very busy climate, and it's hard to find qualified workers."

"We're slow on new order intake and outgoing shipment. We have several large orders pending, which will help."

"We have opened a new production location in China. We are combining two locations into one address in Pennsylvania. Growing, growing, growing!"

"The first quarter of 2018 was strong!"

"Tax cuts created immediate strong growth in the capital equipment/OEM industries."

"Supply is starting to get tighter on steel, and lead times are pushing out."

"There's a lot of noise right now in regards to potential impacts from new steel tariff as well as proposed China import tariffs. I'm waiting to see how this all shakes out in regards to increases to fully landed costs from the supply base."

"We can't keep up on all of the price increase letters coming to us for plastic resins."

"We're seeing a slight slowdown, but no alarms are sounding yet."

APRIL 2018 Survey Statistics

	UP	SAME	DOWN	N/A	Apr. Index	Mar. Index	Feb. Index	25 Year Average
Sales (New Orders)	37%	52%	9%	2%	+28	+34	+32	+14
Production	37%	48%	9%	6%	+28	+31	+31	+14
Employment	32%	59%	9%		+23	+19	+16	+ 8
Purchases	41%	52%	7%		+34	+37	+22	+ 7
Prices Paid (major commod.)	61%	37%	2%		+59	+54	+51	+15
Lead Times (from suppliers)	41%	57%	2%		+39	+44	+42	+11
Purchased Materials Inv. (Raw materials & supplies)	35%	50%	9%	6%	+26	+35	+ 7	- 4
Finished Goods Inventory	15%	65%	15%	5%	+ 0	+ 6	- 2	- 8
Short Term Business Outlook (Next 3-6 months)	44%	47%	9%		+35	+42	+51	-
Long Term Business Outlook (Next 3-5 years)	44%	46%	4%	6%	+40	+44	+53	-

Items in short supply: Nickel carbonate, nickel chloride, Resorcinol, electronic components, freight haulers, steel, aluminum, passive electronic components, steel forgings, labor (all types).

Prices on the UP side: Steel products, fasteners, stampings, packaging materials, freight charges, refined nickel, plating anodes, carbon steel, acrylic process aids, engineered grade resins, corrugated boxes, aluminum, emulsions, bituminous asphalt, stainless steel, plastic components, freight, passive electronic components, scrap steel, logistics, plywood, most resin, brass, copper, corrugated boxes.

Prices on the DOWN side: Plasticizers.

Latest Unemployment Reports

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

	Mar. 2018	Mar. 2017	Aug. 2009	20 Year Low
State of Michigan (Adj.)	4.7%	4.6%	14.6%	3.2%
State of Michigan (Unadj.)	4.6%	4.7%	14.1%	2.9%
Kent County	3.4%	3.3%	11.9%	2.1%
Kalamazoo County	3.9%	3.8%	11.1%	2.1%
Calhoun County	4.9%	4.8%	12.8%	2.7%
Ottawa County	3.2%	3.1%	13.3%	1.8%
Barry County	4.2%	4.1%	10.9%	2.2%
Kalamazoo City	4.9%	4.7%	15.2%	3.2%
Portage City	3.6%	3.4%	8.7%	1.3%
Grand Rapids City	4.5%	4.4%	16.1%	3.0%
Kentwood City	3.2%	3.1%	10.7%	1.4%
Plainfield Twp.	2.5%	2.5%	8.0%	1.4%
U.S. Official Rate (Feb.)	4.1%	4.5%	9.6%	3.8%
U.S. Rate (Unadjusted)	4.1%	4.6%	9.6%	3.6%
U.S. U-6 Rate**	8.0%	8.8%	16.7%	8.0%

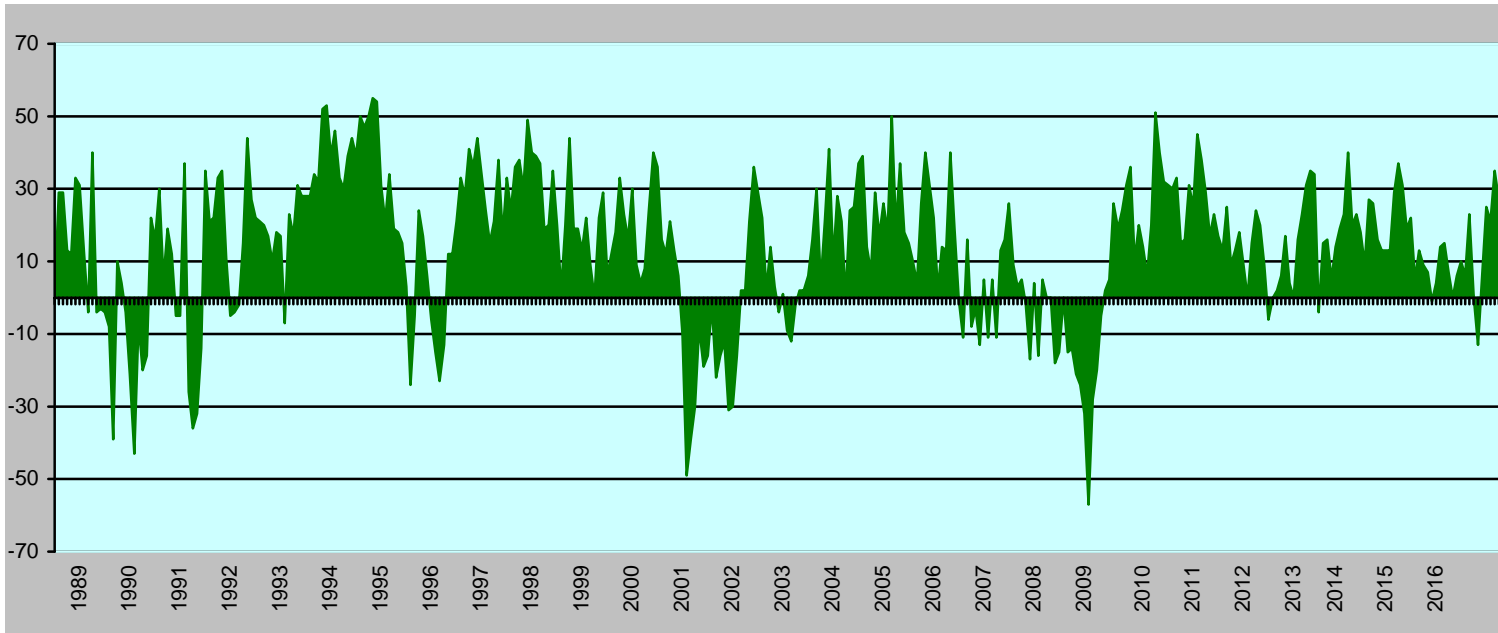
**U-6 for Michigan = 9.1% for all of 2017

Index of New Orders: West Michigan

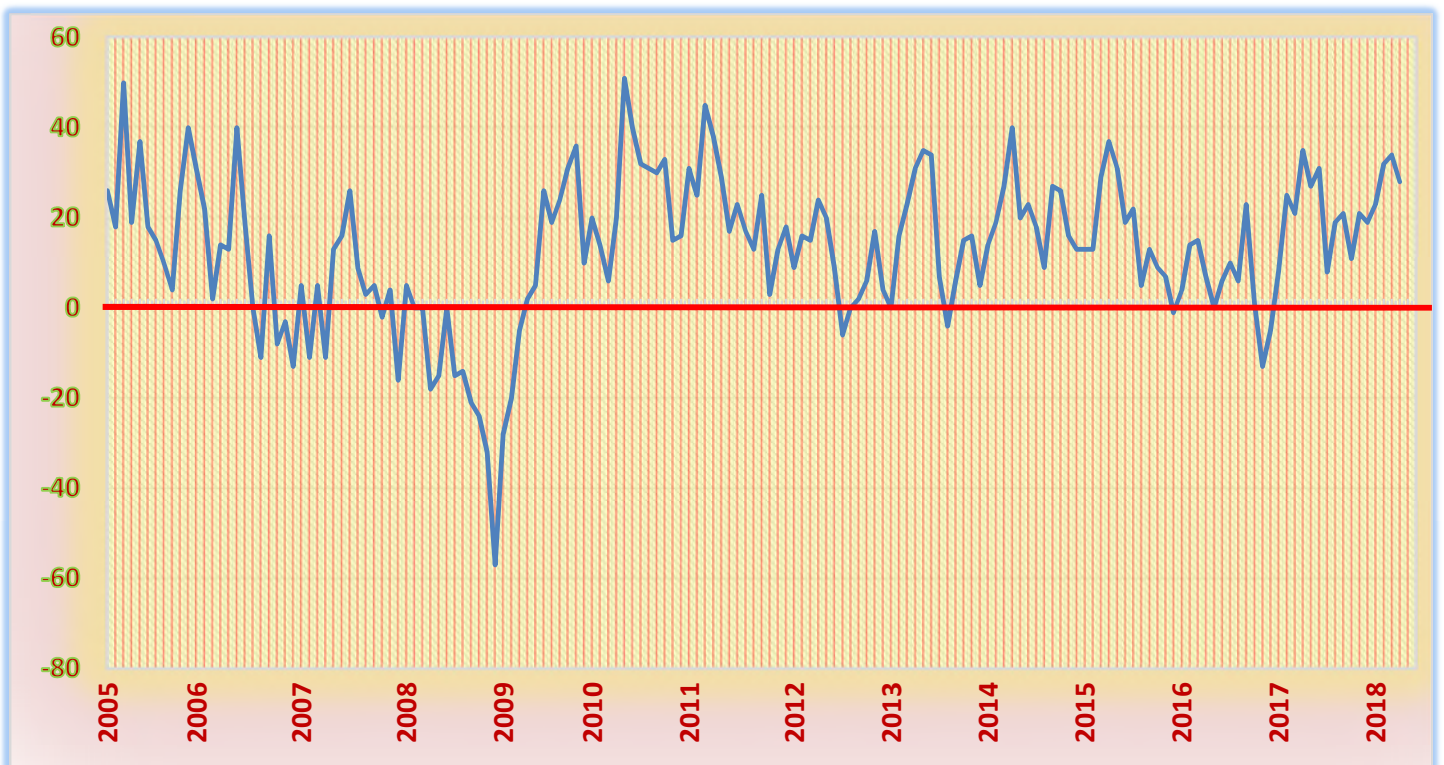
As the name implies, this index measures new business coming into the firm, and signifies business improvement or business decline. When this index is positive for an extended period of time, it implies that the firm or organization will soon need to purchase more raw materials and services, hire more 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	+28 for the month of April 2018
Previous Month	+34 for the month of March 2018
One Year Ago	+35 for the month of April 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

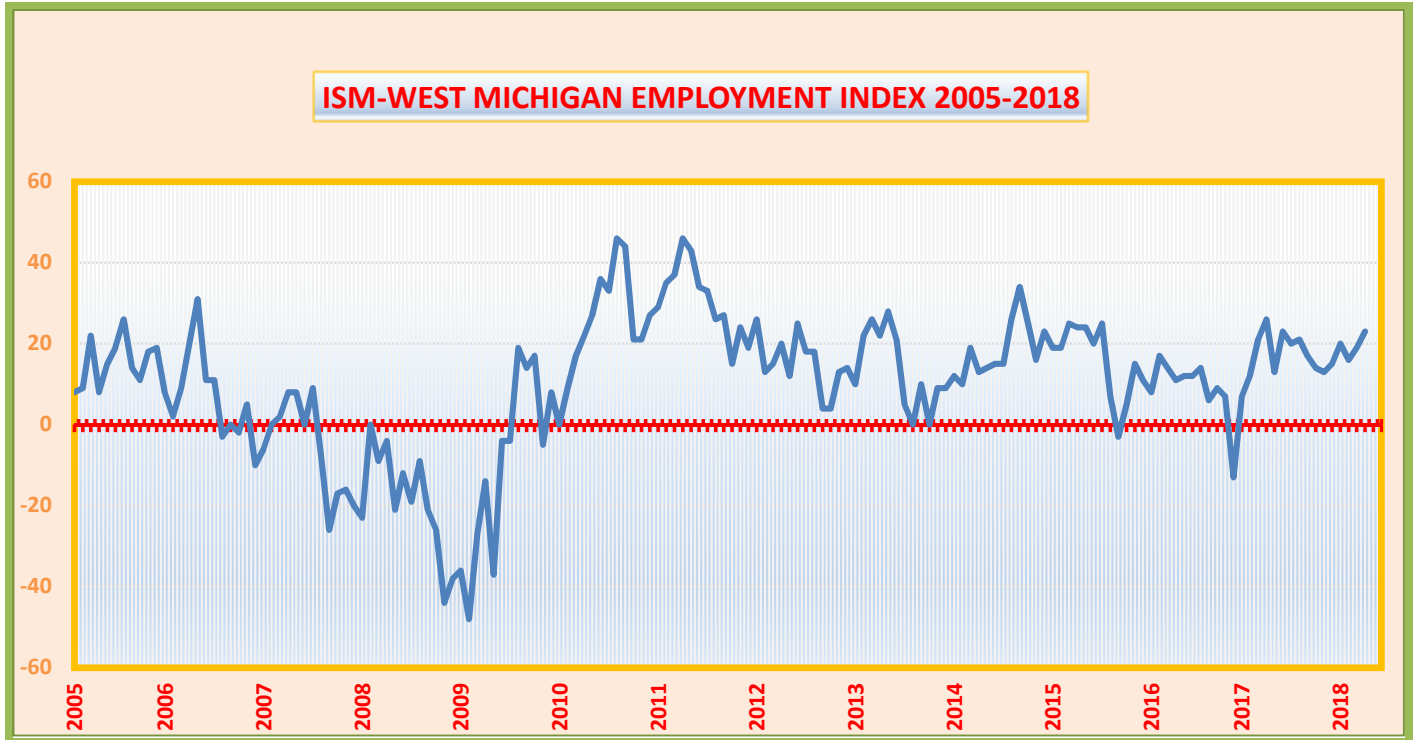


ISM-West Michigan Index of New Orders: 2005-2018 Only



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 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.

