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News Release (For Immediate Release)

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Current Business Trends

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TARIFFS ARE BEGINNING TO HURT

Tariffs have been threated for many months. Now that they are now actually being imposed, the West Michigan economy is beginning to feel the pinch. After 18 months of solid growth, NEW ORDERS, our closely-watched index of business improvement, has turned modestly negative at -3, down VERY sharply from June's reading of +33. The West Michigan PRODUCTION index fared better, but eased to +23 from the robust +39 we reported last month. Activity in the purchasing offices, the index of PURCHASES, tapered to +13 from +27. A plethora of comments from our survey participants deal with the uncertainty brought on by the tariffs, and cite rising prices and shortages for some of their "big ticket" commodities. Although most firms still believe that the economy remains strong, the actual tariff language is adding another layer of confusion. Hence, some suppliers are using the tariffs as an unjustified excuse for raising prices.

Individual industries. Although our last report was quite strong, growth has slowed in almost every sector of the West Michigan economy. Business planners hate uncertainty, and many firms appear to be putting expansion plans on hold until they can see a clearer picture of where the trade war is taking us and exactly how much it will cost. With auto sales continuing to soften, this is especially true for our local auto parts suppliers. The local firms producing capital equipment are still benefitting from the recently-passed tax advantages for new capital investments, but rising costs are a major concern. Many of our industrial distributors reported flat business conditions for July, some of which may be seasonal.

The U.S. Economy. According to the Institute for Supply Management, our parent organization, the tariffs are finally starting to take a toll on the national economy. NEW ORDERS, ISM's index of business expansion, remained historically positive but backtracked to +18 from last month's +33. In a similar move, the PRODUCTION index edged down to +16 from +28. The EMPLOYMENT index came in positive for the twenty-second consecutive month, but eased modestly to +15 from +18.

A similar report on the U.S. economy comes from the British consulting firm of IHS Markit.com. The firm's overall PMI for June eased to a 2018 low of 55.3, down from 55.4. Although the current index is still very good by historical standards, the tone of the report continues to be more cautious. Chris Williamson, Chief Business Economist at IHS Markit, further noted:

> "The U.S. manufacturing sector continued to expand in July, but shows increasing signs of struggling against headwinds of supply shortages, rising prices and deteriorating exports. While a weakening of new export orders for a second successive month suggested foreign demand has waned compared to earlier in the year, the slowdown can be also in part attributed to increased difficulties in sourcing sufficient quantities of inputs. Suppliers' delivery delays were more widespread than at any time in the survey's history. Not surprisingly, with tariffs also kicking in, cost pressures spiked higher again. Average prices charged for goods consequently rose at the steepest rate for seven years, which is likely to feed through to higher consumer costs."

The World Economy. According to the July J.P. Morgan Monthly Global Manufacturing Report encompassing 43 nations, the world index of NEW ORDERS eased to 52.5 from 52.9, and PRODUCTION tapered to 53.0 from 53.2. The overall index eased to 52.7 from 53.0, a 12-month low. PMI readings for China, Japan, India, South Korea, Brazil, and Indonesia remain below the global average, although all of them are still ahead of the 50.0 break-even point for growth. Most European countries as well as the U.S. are still above the global average. The survey author further commented:

> "The July PMI data signaled a further slowdown in the rates of expansion of both output and new orders. The manufacturing upturn has lost sizeable momentum since the start of the year. However, with final demand growth having firmed in recent months and signs that an inventory drag is nearing an end, we think output gains will strengthen in coming months."

The IHS Market's press release for the eurozone's overall manufacturing index reported a modest uptick of 55.1 from 54.9. The Netherlands, Germany, and Austria are currently the strongest eurozone performers, offset by weaker performances by Spain and Italy. Since the last report, the tone has turned MUCH more cautious. Chris Williamson of HIS Markit, the survey author, further noted:

> "A marginal uptick in the PMI provides little cause for cheer given it is the second weakest number for more than one-and-a half years. The past two months have seen the most subdued spell of factory output growth since late 2016. Worse may be yet to come. Even this reduced rate of output growth continued to outpace order book growth, resulting in the smallest rise in order book backlogs for two years. The clear implication is that manufacturers may have to adjust production down in coming months unless demand revives. Clues to the current soft patch lie in the export growth trend, which has deteriorated dramatically since the start of the year across all member states to reach a near two-year low, with France and Austria seeing exports fall into decline in July. The survey responses indicate that the slowdown likely reflects worries about trade wars, tariffs and rising prices, as well as general uncertainty about the economic outlook. Optimism about the future remained at one of the lowest levels seen over the past two years."

Local Unemployment. According to the latest report from Michigan's Department of Technology, Michigan's unemployment rate edged down to 4.5 percent in June. By contrast, the national unemployment rate fell to 3.9 percent. It is worth repeating that the higher unemployment numbers in some localities are primarily the result of idle workers reentering the workforce. In Michigan, the June workforce grew by 38,000 workers compared to June 2017. About 24 percent of those new jobs were in Kent and Ottawa Counties alone. The local index of EMPLOYMENT for July eased to +21 from +32, reflecting the slower pace of the overall report. Of the 83 counties in Michigan, Ottawa and Kent County still boast the lowest unemployment rates in the state.

National Unemployment. The July unemployment rate for the entire U.S. now stands at 3.9 percent, down from June's 4.0 percent. Several projections call for the rate to fall as low as 3.5 percent by the end of the year, which would constitute a 50-year low. However, for this trend to continue, the economy will need to remain very strong.

Automotive. Auto sales for July declined modestly, although the overall health of the industry remains positive. The seasonally adjusted sales rate (SAAR) fell to 16.73 million in July, down from June's 17.47 million. Year-over-year sales declined by 3.7 percent. Looking at the Detroit Three, Ford lost 3.3 percent, and GM sales declined 3.0 percent. Because of a 15.2 percent bounce in Jeep sales, Fiat-Chrysler gained 5.8 percent. Of the other major brands, Toyota lost 6.0 percent, Honda eased by 8.2, and Nissan slid 15.2 percent. On the positive side, beleaguered VW group wrangled a gain of 7.9 percent. According to Tim Fleming from Kelley Blue Book:

> "Cars are expected to make up only 31 percent of July sales, down from 36 percent just one year ago, which is pushing transaction prices up as consumers opt for pricier SUVs and trucks. Prices also are likely to strengthen as the average days in inventory has begun to recede for the first time this decade, which is a sign that automakers are managing production well in the post-peak demand era."

Tariff Wars. According to Merriam-Webster, brinksmanship is defined as "…the art or practice of pushing a dangerous situation or confrontation to the limit of safety, especially to force a desired outcome." In politics, it also implies that the concept may be used to call immediate attention to a problem that has not heretofore been taken seriously. The U.S. currently levels a 2.5 percent tariff on a Mercedes built in Germany, but the European Union reciprocates by assessing a 10 percent tariff on an American-made car sold in Europe. Curiously, they assess no tariff on cars built in Mexico and shipped to any EU member. This lopsided situation has been going on for many years and has been MENTIONED by the last four presidents. Other than rhetoric, no one confronted the situation because we did not want to "offend" our trading partners. By imposing new tariffs, we finally have the attention of the European union, and it appears that we may have the FRAMEWORK of an agreement for the mutual reduction of tariffs. The Trump administration and European Commission President, Jean-Claude Juncker, announced on July 25 that they have agreed to work toward removing all trade barriers between the two sides. This is optimistic, and an actual agreement still needs to be reached. Hopefully, we will begin to see similar accords start to emerge from trade negotiations with other countries, especially China, Canada, and Mexico.

Industrial Inflation. Even without the tariffs, some key commodities like plastic resin, non-ferris metals, corrugated containers, and freight charges have been rapidly rising in price for several months. Add the tariffs on steel and aluminum, and the situation gets even worse. In this month's report, our local index of PRICES edged higher to +51 from +49. The West Michigan index of LEAD TIMES rose to a near-record level of +55, up from +49. At the national level, ISM's index of PRICES eased modestly to +47 from +54. In a similar move, JPM's worldwide index of "Input Prices" index eased to 61.5 from 62.2.

GDP. Needless to say, the biggest economic news in recent days is the announcement that the first estimate for GDP for the 2018 second quarter came in at 4.1 percent. Estimates from the major prognosticators posted on the eve of the official announcement ranged between 3.8 percent and 4.5 percent, so the current report was widely anticipated. In addition, the first quarter estimate was upgraded to 2.2 percent from 2.0 percent. Focus is now shifting to the third quarter, with the growth estimates ranging from 3.5 percent to 5.5 percent. If the trend continues into the fourth quarter, our 2018 GDP will be the highest it has been in 20 years.

Business Confidence. So far, businesses are taking a wait-and-see attitude on the trade wars. The West Michigan index for the SHORT-TERM BUSINESS OUTLOOK for June, which asks local firms about the perception for the next three to six months, returned to the April level of +33, down from +41. But the LONG-TERM BUSINESS OUTLOOK, which queries the perception for the next three five years, actually upticked modestly to +33 from +31.

Summary. For the short term, the positive impact for the recent tax cuts along with the strong economic momentum will keep the economy growing though the third quarter and possibly into the fourth quarter of 2018. But we must soon begin to see some progress on the trade negations in order for the stimulus of the tax cuts to not be wiped out by retaliatory tariffs. Even if there are no further tariffs imposed, the uncertainty of the future will begin to weigh on future economic growth.

July COMMENTS FROM SURVEY PARTICIPANTS

"We are in a typical downturn for this time of year, and are now waiting for an increase in new orders."

"Section 232 and 301 tariffs are creating substantial increased cost to the supply chain. How long can we continue to pass these costs on to customers? The complexity and uncertainty of these tariffs will continue to hurt many, especially mid-sized and smaller American manufacturing companies."

"Plastic resin manufacturers are taking full advantage of the growing economy."

"Tariff concerns are causing anxiety among customers and suppliers. We are currently developing plans for the possible new tariffs in September."

"We are seeing a softening in the China auto market. Also, the tariff implementation has begun, and it has been an administrative nightmare!"

"Globally, suppliers are having a hard time keeping and finding people. This is causing higher labor pricing to keep or find employees."

It has been a struggle to get price increases passed along to customers."

"Capacity has become a little better for transportation. I attribute most of this to plant shutdowns/changeovers for auto suppliers."

"It's been a great summer so far..."

"Business is holding steady. We have many new projects we are working on that will result in new business next year. All suppliers are busy, and lead times are being stretched out. We are aggressively seeking alternate suppliers for components that we were purchasing from China."

"In late July we will start to see price increase coming from supply base from new tariffs."

"Section 232 tariffs are definitely having an impact; not a positive one for us."

"The impact of the 232 tariffs from Canada are just starting to hit. By mid-September we will have price increases on product that is made from imported steel."

"We are still very busy, and we currently have a significant backlog."

"Things just keep rolling with no signs of a downturn."

"July has been a very slow month due to shutdowns. August looks like it should pick up."

"Tariffs are hitting both directly on our imports, and indirectly in the prices of domestically sourced items."

"We have more work than we people and or contractors to do the work. I'm not sure if we will complete all of our projects this year. All construction companies are super-busy!"

"Lead times to schedule LTL and FTL shipments increasing. Lead times on shipping containers for international shipments are increasing."

"June was the weakest month of the quarter, but was still a good month. We had a very strong second quarter. The new tariffs on electric motors are going to be a problem. Most of the manufacturers we represent, have much of their product built in China. This is going to be a BIG problem. In addition, ALL the manufacturers we represent build motors from imported steel. I can see the manufacturers hitting us with the third price increase in a year."

"Business is a little slower than normal this month. We are busy, but not 'crazy busy' like we normally are this time of year."

"Tariffs are raising our costs. This means we will increase prices to our customers."

"Suppliers capacity and labor constraints continue to negatively impact on-time delivery performance."

"Tariffs on electronic components are greatly impacting us."

"Office furniture is booming. We are the busiest we have ever been."

JULY 2018 Survey Statistics

	UP	SAME	DOWN	N/A	July Index	June Index	May Index	25 Year Average
Sales (New Orders)	23%	49%	26%	2%	- 3	+33	+30	+14
Production	37%	43%	14%	6%	+23	+39	+37	+14
Employment	27%	67%	6%		+21	+32	+32	+ 8
Purchases	27%	59%	14%		+13	+27	+19	+ 7
Prices Paid (major commod.)	53%	45%	2%		+51	+49	+49	+15
Lead Times (from suppliers)	57%	41%	2%		+55	+49	+43	+11
Purchased Materials Inv. (Raw materials & supplies)	29%	53%	12%	6%	+17	+28	+26	- 4
Finished Goods Inventory	25%	53%	16%	6%	+ 9	- 1	- 1	- 8
Short Term Business Outlook (Next 3-6 months)	41%	51%	8%		+33	+41	+33	-
Long Term Business Outlook (Next 3-5 years)	45%	39%	12%	4%	+33	+31	+27	-

Items in short supply: Steel, transportation, linear bearings, linear rails, some steel products, trucks for shipping product, some types of carbon steel and stainless steel, skilled labor, construction equipment, commercial trucks, trucking services, asphalt products, skilled employees, electronic components, steel forgings, labor.

Prices on the UP side: Steel, aluminum, transportation and freight, pumps and compressors (due to the Chinese tariffs), UV absorber, plasticizer, SEBS resin, carbon steel, freight, wire, weld wire, steel, aluminum, product made from imported steel, anything made of metal, construction equipment, asphalt products, salt, magnesium, copper, SS bar, and carbon steel bar, engineering resins, wood, electric motors (because of tariffs), powder paint, hardware, polypropylene, color master batch, acetal, nylon, electronic components, wages.

Prices on the DOWN side: Aluminum*, rubber synthetic.

*Item reported as both up AND down in price.

Latest Unemployment Reports

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

	June 2018	June 2017	Aug. 2009	20 Year Low
State of Michigan (Adj.)	4.5%	4.4%	14.6%	3.2%
State of Michigan (Unadj.)	4.3%	4.5%	14.1%	2.9%
Kent County	3.3%	3.6%	11.9%	2.1%
Kalamazoo County	3.4%	4.2%	11.1%	2.1%
Calhoun County	4.5%	5.1%	12.8%	2.7%
Ottawa County	3.1%	3.4%	13.3%	1.8%
Barry County	3.6%	4.0%	10.9%	2.2%
Kalamazoo City	4.8%	5.3%	15.2%	3.2%
Portage City	3.5%	3.9%	8.7%	1.3%
Grand Rapids City	4.4%	4.8%	16.1%	3.0%
Kentwood City	3.1%	3.4%	10.7%	1.4%
Plainfield Twp.	2.5%	2.7%	8.0%	1.4%
U.S. Official Rate (July)	3.9%	4.3%	9.6%	3.8%
U.S. Rate (Unadjusted)	4.2%	4.6%	9.6%	3.6%
U.S. U-6 Rate (July)**	7.5%	8.5%	16.7%	8.0%

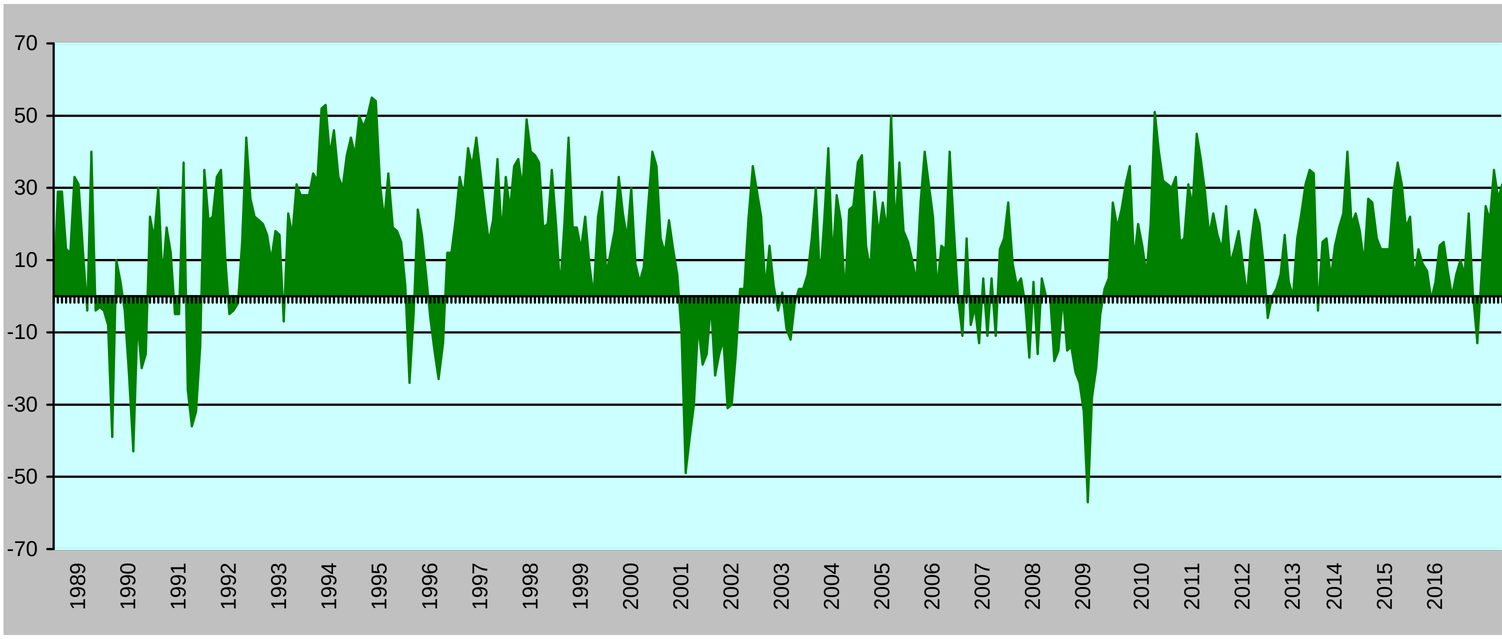
**U-6 for Michigan = 8.9% for July 2017 to June 2018

Index of New Orders: West Michigan

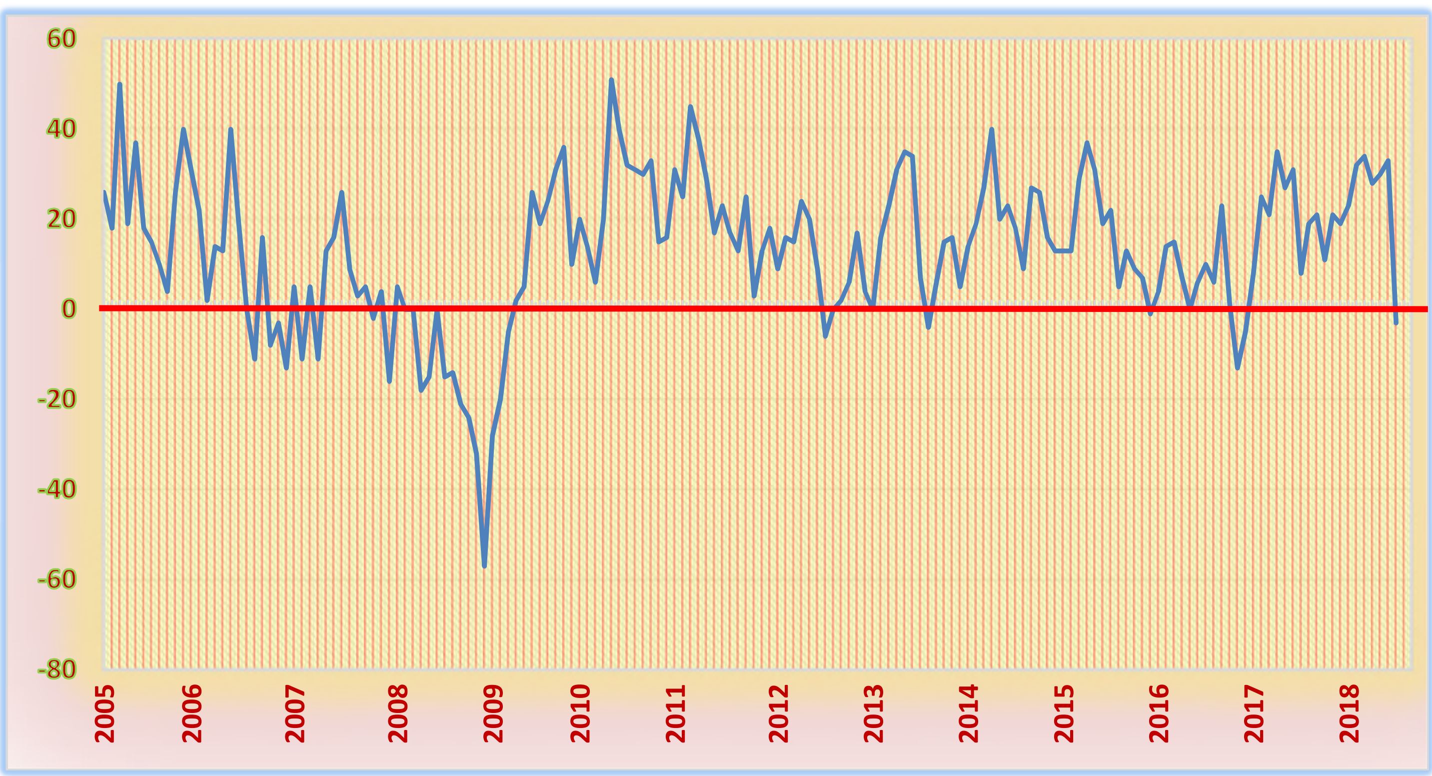
As the name implies, this index measures new business coming into the firm, and signifies business improvement or business decline. When this index is positive for an extended period of time, it implies that the firm or organization will soon need to purchase more raw materials and services, hire more 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	- 3 for the month of July 2018
Previous Month	+ 33 for the month of June 2018
One Year Ago	+ 8 for the month of June 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

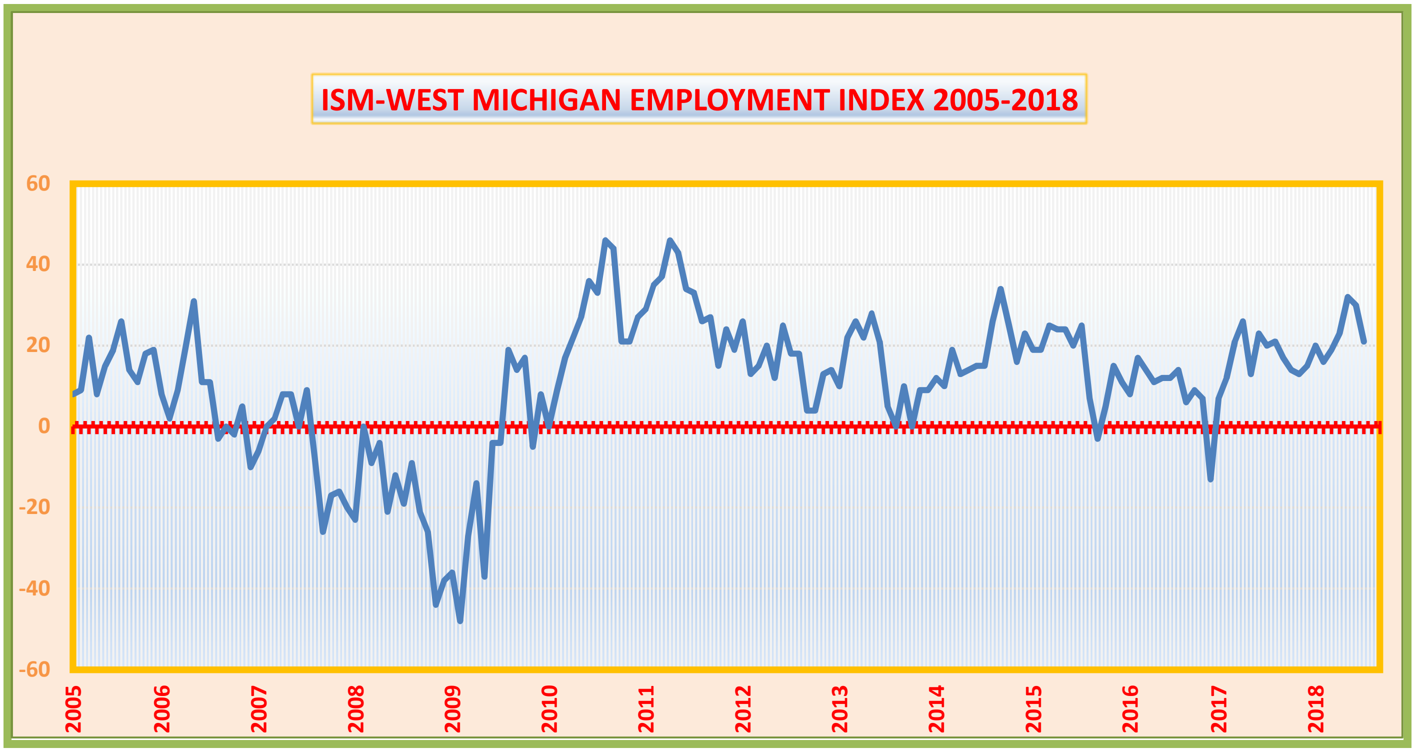


ISM-West Michigan Index of New Orders: 2005-2018 Only



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 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.