

News Release (For Immediate Release)

September 6, 2018

Current Business Trends

By Brian G. Long, Ph.D., C.P.M.

Director, Supply Chain Management Research
Grand Valley State University (269) 870-0428

GROWTH RETURNS TO NORMAL

After a modestly negative report last month, the West Michigan economy has returned to a normal pattern of slow growth. According to the data collected in the last two weeks of August, NEW ORDERS, our index of business improvement, came in at +21, up significantly from last month's report of -3. The West Michigan PRODUCTION index tapered to +16 from +23, probably because of last month's unexpected flat sales report. Activity in the purchasing offices, the index of PURCHASES, edged higher to +15 from +13. The comments from our survey participants continue to voice concern over the uncertainty brought on by the tariffs, but recent anecdotal progress in talks with both Mexico and Canada appear to have lessened the fear of a trade war.

Individual industries. After last month's lackluster report, slow growth has returned to most sectors in the West Michigan economy. At least some of the fears of the trade war have been moderated, and the automotive sector appears to be exempt from some of the tariffs. Auto sales continue to soften in the traditional sedan sector, but the light truck/SUV segments are doing well. So far, the market shift has been fairly orderly, and our local firms are adapting. The office furniture business continues to benefit from the new tax structure, so the outlook for most firms remains positive. The local firms producing capital equipment are also back on track after last month's hesitation. Business conditions for our industrial distributors remain seasonally flat.

The U.S. Economy. According to the September 3 press release from the Institute for Supply Management, our parent organization, the national economy resumed a pattern of stronger growth in August. NEW ORDERS, ISM's index of business expansion, advanced to +25 from +18. In a similar move, the PRODUCTION index edged rose to +25 from +16. The EMPLOYMENT index rose two percentage points to +17 from +15. ISM's overall index rose 3.2 percentage points to 61.3, a four-year high.

A less optimistic report on the U.S. economy comes from the British consulting firm of IHS Markit.com. The firm's seasonally adjusted PMI for August registered 54.7, down from 55.3. Although still strong, Markit's index of NEW ORDERS came in slightly lower. New EXPORT ORDERS also rose, perhaps because of the possibility of new tariffs being imposed in the near future. Chris Williamson, Chief Business Economist at IHS Markit, further noted:

"Exports remain the key source of weakness for producers, with foreign orders barely rising in August after two months of modest declines. The strongest growth is being seen in consumer-facing companies, reflecting robust domestic demand, in turn linked to the strong labour market and buoyant consumer confidence, though even here growth has slowed. However, at least some of the slowdown compared to earlier in the year reflects production being curbed by widespread shortages of inputs, haulers and labour, leading to a further build-up of backlogs of work. For producers of investment goods such as plant and machinery, order books are backing-up at a rate not exceeded in over ten years."

The World Economy. The J.P. Morgan Monthly Global Manufacturing Report encompassing 43 nations remained relatively subdued in August. JPM's index of NEW ORDERS tapered to 52.4 from 52.6, but the PRODUCTION statistic edged higher to 53.1 from 53.0. Although well ahead of the

break-even point of 50.0, the overall index eased to 52.5 from 52.8, a 21-month low. The PMI readings for Turkey, Russia, South Korea, and Thailand are currently negative. China, the world's second largest economy, remains marginally positive at 50.6. Most European countries as well as the U.S. are still above the global average. The survey author further commented:

"August PMI data signaled a slight firming in global manufacturing output growth to a solid pace at near 3% annualized. The survey suggests that the recent inventory drag has reached an end. However, we were disappointed to see the further decline in the New Orders PMI."

The eurozone's overall manufacturing index reported a modest downtick to 54.6 from July's 55.1, according to the eurozone PMI released on September 3 by IHS Markit. The Netherlands, Ireland, and Austria are currently the strongest eurozone performers, offset by weaker performances by Spain and Italy. However, the PMI reports for all of the major countries in the eurozone are still above the 50.0 break-even point. Even beleaguered Greece came in with a PMI of 53.9, a recent high. However, current estimates note that it may take Greece as long as twenty years to return to the pre-crisis economic output. Overall, the tone for the eurozone August report is cautiously optimistic. Chris Williamson of HIS Markit, the survey author, further noted:

"Eurozone factories reported a further solid production gain in August, but prospects dimmed further as growth of NEW ORDERS hit a two-year low and worries about the outlook deepened. Some of the slowdown in exports can be attributed to the appreciation of the euro since earlier in the year, but companies are also reporting signs of demand cooling and risk aversion intensifying. Worries about trade wars and the damaging impact of tariffs, as well as Brexit and other political worries, all contributed to a dampening of business optimism about the year ahead. Business expectations were the second lowest since November 2015. One positive was a cooling of price pressures, which fed through to the smallest rise in factory selling prices for a year and could help bring consumer inflation down in coming months."

Michigan Unemployment. According to the latest report from Michigan's Department of Technology, Management, and Budget, Michigan's "headline" unemployment rate for July edged down to 4.3 percent, slightly higher than the national unemployment rate of 3.9 percent. According to DTMB, the July workforce grew by 29,000 workers compared to July 2017. Although many of the new members of the workforce are recent graduates from schools and colleges, a significant percentage of these previously discouraged workers have been motivated by improving wages and job prospects to reenter the workforce. There are also some anecdotal stories of workers who left Michigan when the economy was bleak now returning to the state because of improved job prospects.

West Michigan Unemployment. Our August index of EMPLOYMENT came in at +21, unchanged from the previous month. According to the state statistics, Kent County, the largest county in our survey, reported a July labor force of 362,676. Of that number, about 13,093 workers are currently unemployed, bringing the official unemployment rate to 3.6 percent. Ten years earlier, 24,991 workers were unemployed,

and the official unemployment rate was 7.8 percent. During that ten-year period, the Kent County workforce grew from 321,852 to 362,676, an increase of 11.2 percent. Although Ottawa County is less than half the size of Kent, the ten-year growth rate in employment has been 18.3 percent. Needless to say, the employment growth has triggered a housing shortage. Although the improved West Michigan growth is favorable for the State of Michigan, it is also good to see some of the counties on the east side of the state returning to prosperity. For instance, the unemployment rate in Oakland County has now fallen to 3.9 percent, and the rate in near-by Livingston County is currently at 3.6 percent, tied for fourth lowest in the state.

Automotive. Auto sales for August edged slightly lower by a scant 0.2 percent, largely because the expanded sales for light truck and SUVs were offset by falling sales for sedans. The seasonally adjusted sales rate (SAAR) fell to 16.58 in August, down modestly from July's 6.73 reading. GM posted a decline of 12.8 percent, largely because of a decision to reduce some sales incentives. Fiat Chrysler gained 9.9 percent because of spectacular sales for both Jeep and Ram. Among the other major brands, Ford gained 4.1 percent, Hyundai-Kia added 3.5 percent, and Honda eked out a 1.3 percent gain. Toyota sales fell 2.0 percent, largely because of fewer truck models available to meet the current consumer demand. According to David Phillips at Automotive New:

"Truck-fueled advances by many automakers couldn't make up for plunging demand for passenger cars and an estimated double-digit drop at General Motors. High incentives and a healthy U.S. economy continue to support light-vehicle demand, which has risen 1.1 percent through the first eight months of the year. Most analysts expect sales to taper off in coming months and drag the industry to its second-straight annual decline by year end."

Industrial Inflation. Because of the tariff threats, steel and aluminum pricing continue to be volatile. However, the continued moderation in worldwide demand for many key industrial commodities has resulted in at least some price relief. Our local index of PRICES eased to +42 from last month's

torrid +51. ISM's national index of PRICES eased to +44 from +47. The J.P. Morgan international pricing index also registered slightly lower. However, one of the most unexpected higher costs to West Michigan industrial firms is coming from the trucking industry, where shortages of both trucks and drivers are driving up prices and triggering delivery delays.

GDP. Statistics from the government are frequently revised, and the estimated GDP growth for the second quarter has been adjusted upward to 4.2 percent from 4.1 percent. The focus now shifts to the third quarter, which is expected to be as good or better than the second quarter. The Atlanta Fed, which has usually been optimistic, is now estimating that the third quarter will be close to 4.4 percent. Other forecasts had been as high as 5.0 percent, but the dampening effects of the trade wars have tempered the latest assessments. An even bigger limiting factor may be the logistical challenges faced by the nationwide shortage of trucks and drivers. Hence, the fourth quarter GDP will probably be closer to the 3.5 percent range. Still good, but not great.

Business Confidence. Although the fear of a recession is always present, the mood of our local industrial firms remains cautiously positive. The West Michigan index for the SHORT-TERM BUSINESS OUTLOOK for August, which asks local firms about the perception for the next three to six months, ticked lower to +32 from +33. In a similar move, the LONG-TERM BUSINESS OUTLOOK, which queries the perception for the next three to five years, also registered +33. Although these readings are lackluster, they still do not indicate any significant level of pessimism about the current economy.

Summary. The current economic momentum will keep the economy growing well into the fourth quarter and possibly into early 2019. Hopefully, we will begin to see some progress in trade talks between Mexico and Canada. It is worth remembering that these countries are still our largest trading partners. The trade relationship with China is more complex, and forming a new agreement will be more difficult. The tax cuts will continue to move the U.S. economy in a positive direction, but uncertainty about the trade talks will limit future economic growth.

AUGUST COMMENTS FROM SURVEY PARTICIPANTS

"Aluminum foil and other related flexible packaging has seen a minimum 8-10% cost increase."

"The labor market is beginning to be problematic."

"Overall, we continue to remain very busy, and automotive is plugging ahead. Sales are good, but margins are shrinking a bit."

"It will be curious to see the outcome of the NAFTA negotiations."

"Not seeing many changes since July. We're struggling a little to get rolls of paper. Our raw material inventory is down slightly due to that."

"Business is strong, but the suppliers of imported wire and steel are going after price increases due to tariffs."

"Costs for freight are hard to manage with the shortage of drivers."

"The trend is typical for this time of year."

"Price increases for raw materials are continuing. We have no choice but to pass it on to customers."

"A slowdown has begun. July was down from June slightly, and August looks like it will be the worst month of the year. Hopefully, it doesn't get worse."

"It will be a challenge to complete all the construction and road projects this budget year. There's not enough employees and contractors to do the work!"

"There is no foreseen end of electronic market lead time and price increases."

"Tariffs are affecting raw material prices."

"We're still doing quite well, and expect 2018 to close with another banner year for us."

"Tariffs are causing headaches, and how to pass on the costs to our customers is a big question."

"Production is on the rise for us, especially on the automation and fixtures side of our business. Both our tool and die and automation and fixtures companies are booked out for months at the moment."

"Business is good with new projects coming on board for future business."

"Carbon steel prices continue to be a financial burden on the organization. It looks like pricing is leveling out. Could we have peaked?"

"We have a very robust outlook."

"We are starting to see orders fall off for August and September."

"Lead times seem to be increasing for offshore plywood and wood panel goods as well as offshore aluminum extrusions."

"Polypropylene resin in a tighter supply constraint than normal."

"Carbon steel bar pricing continues to rise nearly once a quarter. Stainless is not including in the 232 tariff. This is adding between 18% and 25% to any material pricing originating from the EU. Anything below 25% is actually finished domestically."

"We're still spending a lot of time and resources preparing for the tariffs, and preparing for a very large impact if the next 25% hits."

"Our inventory up because we are stockpiling materials in ahead of potential tariffs on China goods."

"Tariffs have opened Pandora's box on price increases."

"If the next round of China tariffs are increased from 10% to 25%, it is going to hit us hard."

"Tariffs are scaring prices upward."

"Sales are starting to pick up. An unusually long downturn this year seems to be coming to an end."

AUGUST 2018 Survey Statistics

	UP	SAME	DOWN	N/A	Aug. Index	July Index	June Index	25 Year Average
Sales (New Orders)	37%	46%	16%	2%	+21	- 3	+33	+14
Production	30%	49%	14%	7%	+16	+23	+39	+14
Employment	28%	65%	7%		+21	+21	+30	+ 8
Purchases	33%	49%	18%		+15	+13	+27	+ 7
Prices Paid (major commod.)	42%	58%	0%		+42	+51	+49	+15
Lead Times (from suppliers)	51%	47%	2%		+49	+55	+49	+11
Purchased Materials Inv. (Raw materials & supplies)	30%	51%	10%	9%	+20	+17	+28	- 4
Finished Goods Inventory	19%	58%	16%	7%	+ 3	+ 9	- 1	- 8
Short Term Business Outlook (Next 3-6 months)	37%	58%	5%		+32	+33	+41	-
Long Term Business Outlook (Next 3-5 years)	37%	54%	5%	4%	+32	+33	+31	-

Items in short supply: Steel, sheet steel, cold rolled steel, some steel plate, forgings, some aluminum, transportation, trucking, freight, part-time and full-time employees, electronic components, passive components, beryllium free copper, labor.

Prices on the UP side: Steel, aluminum, transportation and freight, packaging, plastic resins, polypropylene resin, tin plate, color pigment, solvents, engineering grade resins, electric motors (because of Chinese tariffs), asphalt, steel products, chloride products, transportation costs, trucking, construction equipment, trucks, plasticizer, textiles, product coming from China due to tariffs, finish metal products, Midwest aluminum, wood packaging.

Prices on the DOWN side: Polypropylene*, SEBS resin, paraffinic oil, gasoline, some oil prices, rubber, plastics, LME Aluminum, copper*

*Item reported as both up AND down in price.

Latest Unemployment Reports

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

	July 2018	July 2017	Aug. 2009	20 Year Low
State of Michigan (Adj.)	4.3%	4.5%	14.6%	3.2%
State of Michigan (Unadj.)	4.8%	5.4%	14.1%	2.9%
Kent County	3.6%	4.6%	11.9%	2.1%
Kalamazoo County	4.2%	5.2%	11.1%	2.1%
Calhoun County	4.8%	6.1%	12.8%	2.7%
Ottawa County	3.4%	4.2%	13.3%	1.8%
Barry County	3.9%	4.9%	10.9%	2.2%
Kalamazoo City	5.2%	6.5%	15.2%	3.2%
Portage City	3.8%	4.8%	8.7%	1.3%
Grand Rapids City	4.8%	6.1%	16.1%	3.0%
Kentwood City	3.4%	4.3%	10.7%	1.4%
Plainfield Twp.	2.7%	3.5%	8.0%	1.4%
U.S. Official Rate (July)	3.9%	4.3%	9.6%	3.8%
U.S. Rate (Unadjusted)	4.1%	4.6%	9.6%	3.6%
U.S. U-6 Rate (July)**	7.5%	8.5%	16.7%	8.0%

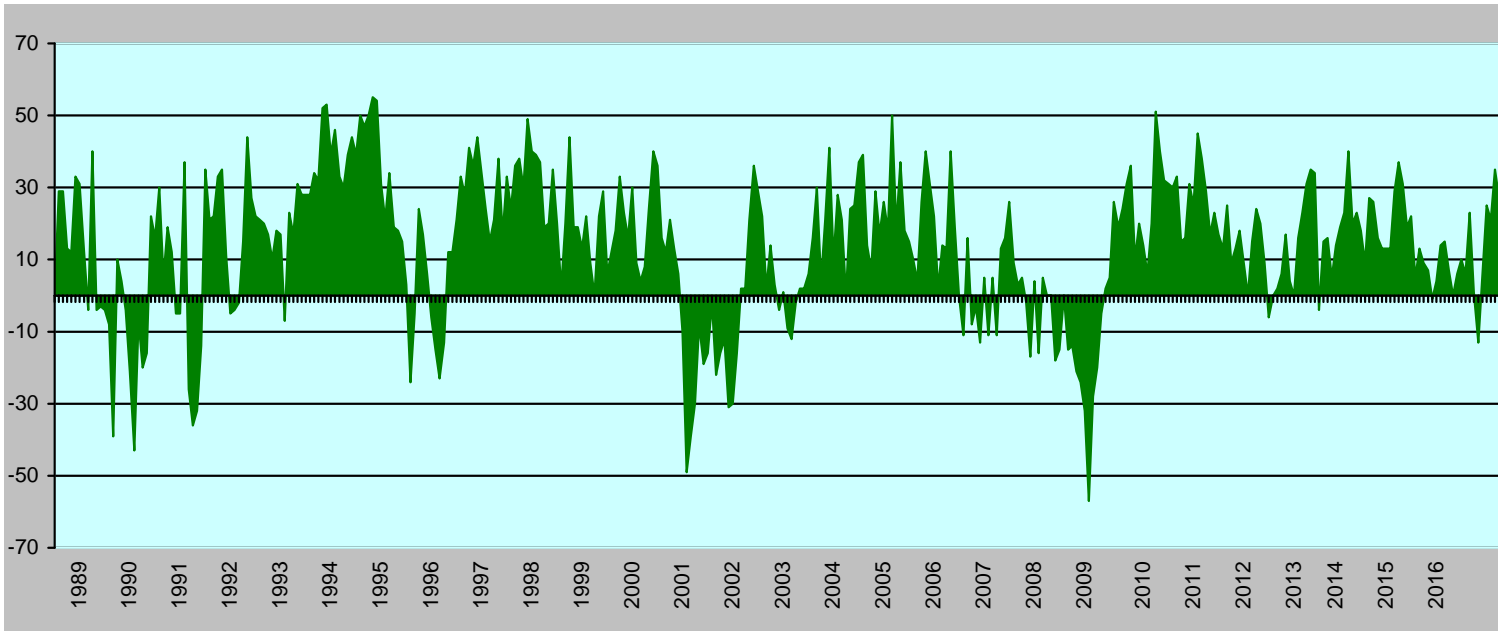
**U-6 for Michigan = 8.9% for July 2017 to June 2018

Index of New Orders: West Michigan

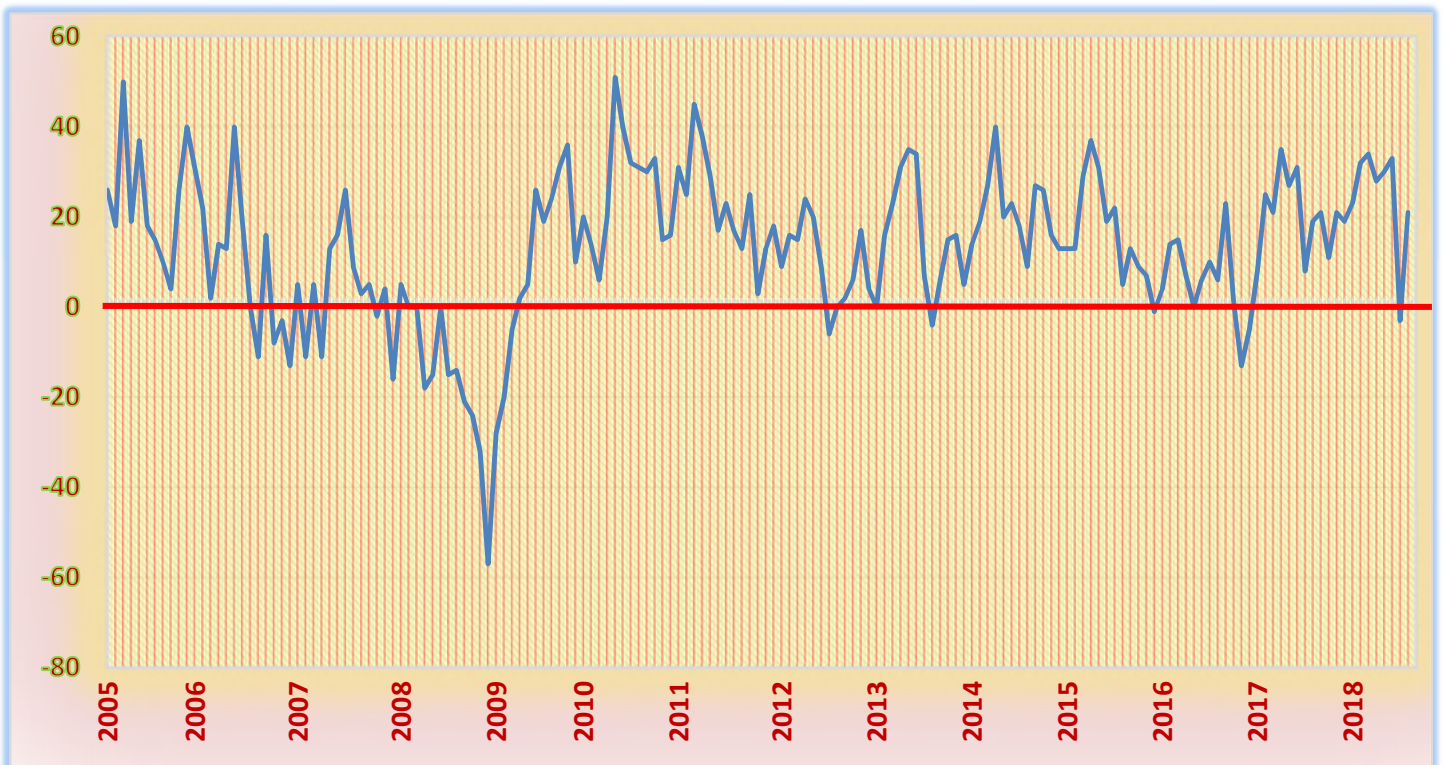
As the name implies, this index measures new business coming into the firm, and signifies business improvement or business decline. When this index is positive for an extended period of time, it implies that the firm or organization will soon need to purchase more raw materials and services, hire more 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	+ 21 for the month of August 2018
Previous Month	- 3 for the month of July 2018
One Year Ago	+ 19 for the month of August 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

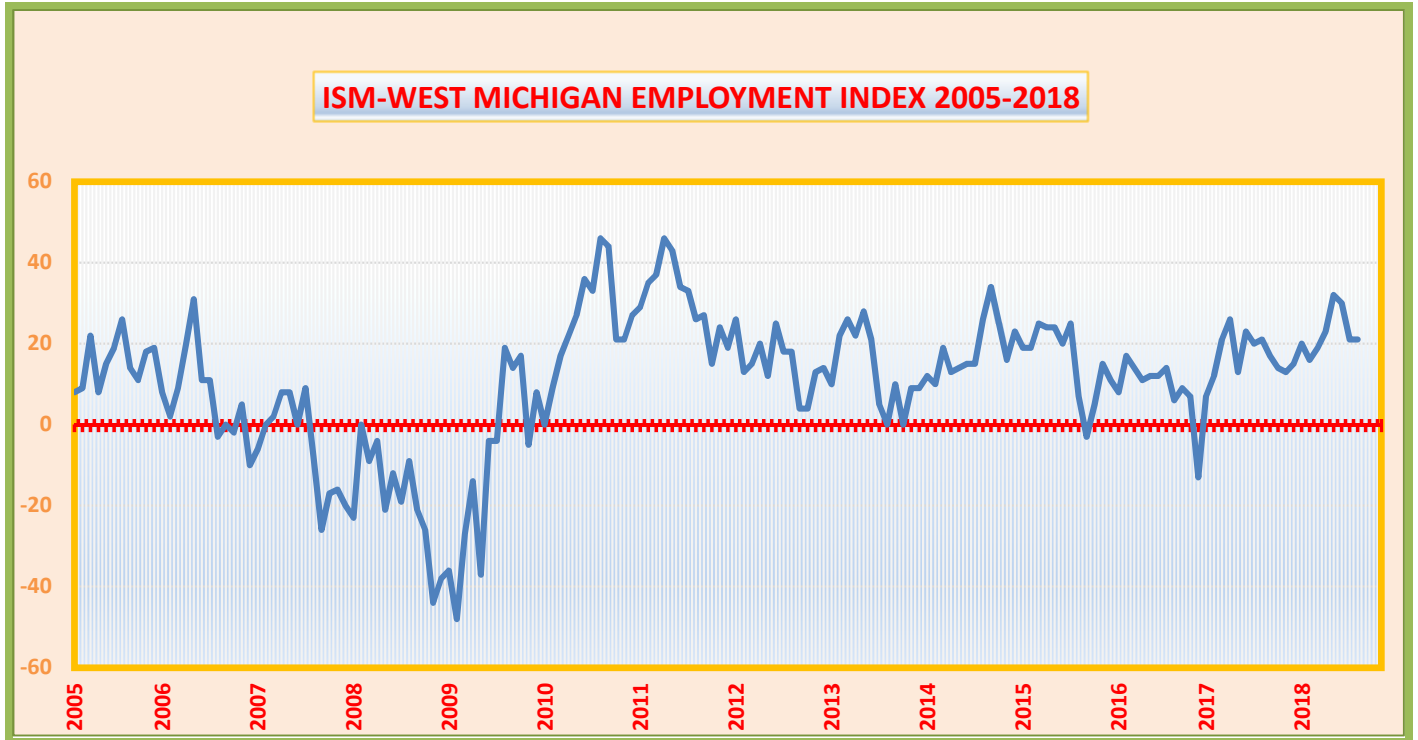


ISM-West Michigan Index of New Orders: 2005-2018 Only



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.

