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# News Release (For Immediate Release)

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# Current Business Trends

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## WEST MICHIGAN GROWTH RATE SOFTENS

**Key Participant Comments for July:**

"We are still quite busy, but August looks like it may be tapering off."

"We are still holding our own. The economy continues to feel like it's getting softer."

"Tariffs continue to impact our bottom line and increase the cost of doing business with China. A majority of our efforts are focused on re-sourcing, or potentially re-shoring, a lot of our high dollar components."

Regrettably, the pace of the West Michigan industrial economy has now turned negative. According to the data collected in mid-July, NEW ORDERS, our closely-watched index of business improvement, dropped substantially to -13, down from +10. In a similar move, July's PRODUCTION index fell to -15 from June's +11. Activity in the purchasing offices fared a little better, but our index of PURCHASES still declined to -6 from +12. Just as last month, the anecdotal comments from our survey participants continue to be mixed. However, many firms are starting to feel less certain about the future.

**Office Furniture.** It is worth remembering that 14 percent of the world's office furniture is made here in West Michigan. Hence, the brightest spot in this month's West Michigan economy comes from Mike Dunlap's quarterly report on the health of the office furniture industry. Except for Capital Expenditures and Tool Expenditures, most of his indicators are up substantially from April's rather cautionary report. In particular, Gross Shipments jumped from 57.7 to 74.0, and Order Backlog rose to 71.5 from 55.0. Dunlap further commented:

> "We feel good about where the industry is currently. The effects of the next round of tariffs are still too early to predict, but it is reasonable to believe that it will dampen third and fourth quarter numbers. The overall economic growth will likely affect this industry. In spite of the first quarter declines, we believe that the industry remains very strong. The "Big Nine" are generally doing very well. However, it is the smaller "under $50.0 Million sales and fewer than 250 employees" companies that are driving this industry."

**The U.S. Economy.** According to the August 1 press release from the Institute for Supply Management, our parent organization, NEW ORDERS, ISM's index of business improvement, retreated to a negative reading of -2 for the first time in seven years. In a similar pattern, July's PRODUCTION index slipped to -1 from +12. ISM's overall index eased to 51.2 from 51.7.

As always, a slightly different view of the U.S. economy comes from IHS Markit, the British international consulting firm. Markit.com's seasonally adjusted July PMI of 50.4 came in marginally lower than June's 50.6. Although the margin continues to get thinner, any reading above 50.0 is still considered positive. Chris Williamson, Chief Business Economist at IHS Markit, continues to be very cautious:

> "U.S. manufacturing has entered into its sharpest downturn since 2009, suggesting the goods-producing sector is on course to act as a significant drag on the economy in the third quarter. The deterioration in the survey's output index is indicative of manufacturing production declining at an annualised rate in excess of 3%. Falling business spending at home and declining exports are the main drivers of the downturn, with firms also cutting back on input buying as the outlook grows gloomier. U.S. manufacturers' expectations of output in the year ahead has sunk to its lowest since comparable data were first available in 2012, with worries focused on the detrimental impact of escalating trade wars, fears of slower economic growth and rising geopolitical worries. Employment is now also falling for only the second time in almost ten years as factories pull back on hiring amid the growing uncertainty. More positively, new order inflows picked up for a second successive month. Although remaining worryingly subdued compared to the strong growth seen earlier in the year, the modest improvement will fuel hope that production growth could tick higher in August."

**The World Economy.** J.P. Morgan's July Global Manufacturing Index, a compilation of the purchasing manager's report from 43 nations, fell to a seven-year low of 49.3, down from 49.4 in June. Of the major industrial economies, China, Japan, Germany, South Korea, the U.K., Taiwan, Italy, and Russia were some of the countries reporting contractions. Although countries like Canada and the U.S. posted expansions, their respective July PMIs were only marginally above the 50.0 break-even point. David Hensley, Director of Global Economic Coordination at J.P. Morgan, further noted:

> "July PMI data signal that the global manufacturing sector remained on a weak footing at the start of the third quarter. The PMI implies no growth in global manufacturing output with the deteriorating trend in international trade flows weighing particularly heavily on performance. Market conditions will need to stage a solid recovery if the growth outlook is to improve during the coming months. However, firms are not expecting this with future output PMI continuing to trend lower through July."

Regrettably, the economic situation in the Eurozone continues to worsen at a rate not seen since the European debt crisis in 2012 and 2013.The July IHS Markit PMI manufacturing index for the Eurozone came in at 46.5, down from 47.6 in June, well below the 50.0 break-even point. Although the PMIs for France, Ireland, Spain, and Italy are only modestly negative, Germany, the largest economy in the region, slid sharply to 43.2 from 45.0 in June. After leading the Eurozone in growth for numerous months, the Netherlands PMI is only modestly positive at 50.7. As the recovery from the 2009 economic collapse continues, the Greek PMI rose nicely to 54.6. However, Greece continues to be a small part of the European economy and cannot offset the weakness of the other European economies.

Ongoing declines in Markit.com's indexes of New Orders, Production, and Business Confidence continue to weigh on Europe's economic future. Aside from at least some rekindling of fears over another debt crisis, the main culprit continues to be the probability of the U.K.'s so-called hard Brexit, i.e., dropping out of the union with no new agreement in place. Aside from the uncertainty that would fall on the U.K. and European trade relationship, an even greater fear may surface that other countries might also decide to drop out. Needless to say, there is a movement within Germany to do just that. At best, a hard Brexit would slow the economy of the rest of the world even further. At worst, a collapse of the Euro could generate a worldwide recession. Chris Williamson from Markit.com further commented:

> "The Eurozone PMI dashboard is a sea of red, with all lights warning on the deteriorating health of the region's manufacturers. July saw

production and jobs being cut at the fastest rates for over six years as order books continued to decline sharply. Prices fell at the sharpest rate for over three years as firms increasingly competed via discounting to help limit the scale of sales losses. Forward indicators also deteriorated. Input buying fell to an extent not seen since 2012 as firms prepared for weaker production in the short term, and expectations for the year ahead likewise fell to the lowest in over six-and-a-half years. The downturn is being led by Germany, reflective of further worsening conditions in the auto sector and falling global demand for business equipment. Rising geopolitical concerns, including trade wars and Brexit, and worries about slower economic growth both domestically and internationally were all widely reported as having subdued current demand and hit confidence in the outlook. The concern is that, while policymakers have become increasingly alarmed at the deteriorating conditions, there may be little that monetary policy can do to address these headwinds."

**Automotive.** According to the August 1 report from Automotive News, sales for the industry dropped a scant 1.1 percent in July, but still left the industry's Seasonally Adjusted Annualized Rate (SAAR) with an estimate of 16.6 million units, down from July's 17.3 million. However, the Detroit Three have all decided to quit posting monthly sales figures and will now only report quarterly. Sales for Ford, GM, and Fiat-Chrysler have generally fallen at a rate faster than the rest of the industry, allowing these firms to average out their sales irregularities by only reporting quarterly. Among the firms still reporting monthly, the major nameplates on the down side were Mazda at 3.5 percent and the Nissan Group shedding 9.1 percent. On the up side, Subaru added 7.9 percent, Hyundai-Kia gained 7.1, Honda added 2.5 percent, and Toyota edged up a scant 0.40 percent. Jeff Schuster, head of global vehicle forecasts at LMC Automotive, further noted:

"There are signals that auto sales in the second half of 2019 are poised to outperform expectations. While trade risk remains a threat, transaction prices continue to rise and economic growth is moderating, sales in the second half of the year could outperform expectations consistent with strength in the previous five years."

**Industrial Inflation.** For July, the West Michigan index of PRICES came in at -2, somewhat better than June's report of -13. At the national level, ISM's U.S. index of PRICES dropped to -10 from June's -4. The Markit.com index of U.S. prices remained above the break-even point of 50.0 but eased to a two-year low. As the world economy continues to slow, J.P. Morgan's international PRICING index edged lower to 50.9 from 52.0. Timothy Fiore, ISM's survey committee chair, further noted:

"Raw materials prices decreased for the second month in a row, as respondents reported a large-scale decrease in prices for aluminum, copper, corrugate, computer memory and steel products. Four of the 18 industries we survey reported paying increased prices for raw materials. Conversely, 10 industries reporting a decrease in prices for raw materials in July."

**GDP.** On July 26, the Bureau of Economic Analysis announced that the GDP "first estimate" for the second quarter of 2019 came in at an annual rate of 2.1 percent, well above most estimates. The forecasters are now turning their attention to the third quarter. The Atlanta Fed's "GDP Now" calculates a third quarter average estimate for the top ten forecasters to be between 1.5 percent and 2.4 percent. Our statistics tend to favor a rate closer to the lower estimates, and the projections for the fourth quarter are also in a similar range.

**Business Confidence.** For July, West Michigan's SHORT-TERM BUSINESS OUTLOOK, which asks local firms about the perception for the next three to six months, retreated to a near all-time low of +6, down from June's +20. The index for the LONG-TERM BUSINESS OUTLOOK, which queries the perception for the next three to five years, remains more stable and edged slightly higher to +28 from June's +24. Both of these indices are heavily influenced by the current news cycle, which has been fairly negative for the past few weeks.

**Trade Wars.** Although the trade war with China began in March 2018, most businesspeople on both sides of the Pacific believed that it was a temporary bump in trade relations between the two countries. Just a few months ago, President Trump erroneously announced that a major trade agreement was about to be signed. The Chinese capitalized on this premature announcement by pulling the rug out from under the negotiators, and the trade war has begun to escalate ever since. Many Chinese firms did not want to lose the business relationships that had been built over the past 20 or 30 years, so they dropped their prices to offset the tariff costs. In addition, the Chinese government pushed the Yuan lower to help offset the tariff cost as well. Again, major buyers like Walmart and their Chinese manufacturers assumed that the trade war would soon be over and normal relations would resume. Although there could be a surprise agreement coming out of the current talks, almost no one is now expecting a quick and easy solution.

**Summary.** At minimum, we are headed for a worldwide slowdown. At worst, we are drifting into a worldwide recession. As evidenced by the July gain in Consumer Confidence, the weakening industrial market is still being offset by a strong consumer economy. Trade wars, Brexit fears, and unstable politics in the Middle East continue to weigh on business confidence around the world, and West Michigan is not immune. We can continue to hope that wiser minds will prevail in trade talks between China, the U.S., Britain, and Europe, but conditions may have to get worse before they can get better.

## JULY COMMENTS FROM SURVEY PARTICIPANTS

"We have been lucky, and have not had many items in short supply. I believe this is because all mold shops are slow at the moment, so suppliers have proper stock levels of items."

"Absence of plating capacity has lead to a lengthy (52 week) lead times."

"Transportation costs continue to increase, and drivers are becoming hard to find."

"The price of nickel is on the 'up' side compared to most of June, from an average of $5.43 to $5.88.'

"Tariffs continue to impact our bottom line and increase the cost of doing business with China. A majority of our efforts are focused on re-sourcing, or potentially re-shoring, a lot of our high dollar components. "

"We are still quite busy, but August looks like it may be tapering off."

"We are still holding our own. The economy continues to feel like it's getting softer."

"Finding enough production workers is still a challenge."

"June was down from a really strong May. May was biased by some windfall orders. June was more 'normal.'"

"July looks like a vacation month. Orders are coming in mighty slowly."

"Things are heating up."

"We are recording record sales and profits. Business is very strong with a positive outlook. Labor remains the biggest challenge for us and our suppliers."

"Business is still strong, but there is concern about some slowing forecasts from our customers."

"We will incur $1 million in tariffs this year."

"One large, unexpected project saved our month. Otherwise, it has been slower than expected."

"Funding is always an issue with public road services, but currently this is not an issue. More money than can be spent in a construction season. Funding is and continues to be a discussion for the future!"

"Business appears to be strong yet unstable."

"As stated previously, the tariffs are creating an immense impact on how we do business. At the moment many of our Chinese suppliers are working with us to share the tariff burden. However, we are actively looking for opportunities with other countries as well as within the United States."

"We're very busy right now."

"Tariffs have actually helped with new business. Customers want their product pulled out of China, allowing us to have new opportunities elsewhere."

"Automotive is slow. Our new projects and current sales mix are showing lower than projected sales and profit, but remain optimistic with new projects coming and more diversification within the industry."

# JULY Survey Statistics

| | UP | SAME | DOWN | N/A | July Index | June Index | May Index | 25 Year Average |
|---|---|---|---|---|---|---|---|---|
| Sales (New Orders) | 21% | 43% | 34% | 2% | -13 | +10 | + 3 | +14 |
| Production | 17% | 43% | 32% | 8% | -15 | +11 | +11 | +14 |
| Employment | 16% | 67% | 17% | 0% | - 1 | + 5 | +15 | + 8 |
| Purchases | 15% | 62% | 21% | 2% | - 6 | +12 | - 2 | + 7 |
| Prices Paid (major commod.) | 11% | 76% | 13% | 0% | - 2 | -13 | + 6 | +15 |
| Lead Times (from suppliers) | 13% | 76% | 11% | 0% | + 2 | + 5 | +14 | +11 |
| Purchased Materials Inv. (Raw materials & supplies) | 23% | 58% | 11% | 8% | +12 | + 0 | +13 | - 4 |
| Finished Goods Inventory | 19% | 57% | 15% | 9% | + 4 | - 3 | - 7 | - 8 |
| Short Term Business Outlook (Next 3-6 months) | 21% | 64% | 15% | 0% | + 6 | +20 | + 5 | - |
| Long Term Business Outlook (Next 3-5 years) | 34% | 54% | 6% | 6% | +28 | +24 | +29 | - |

**Items in short supply**: General labor, some aluminum, some coated steel coil, salt, aggregate products, trucking, qualified labor, anything electronic (circuit boards, connectors, etc., plating capacity.

**Prices on the UP side:** Tariff related import items, China imports, electrical components, wages, transportation costs, tariff charges, salt, aggregates, trucking, grader blades, asphalt products, oil, resin, nickel, Korean imports, steel*, stamping parts, plating services.

**Prices on the DOWN side:** Scrap steel, steel*, stainless steel, corrugated containers, enamel, chemicals, zinc, copper, benzene, SEBS resin, aluminum extrusions, copper, polypropylene, steel surcharges.

*Item reported as both up AND down in price.

## Latest Unemployment Reports

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

| | June 2019 | June 2018 | Aug. 2009 | 20 Year Low |
|---|---|---|---|---|
| State of Michigan (Adj.) | 4.2% | 4.2% | 14.6% | 3.2% |
| State of Michigan (Unadj.) | 3.9% | 3.5% | 14.1% | 2.9% |
| Kent County | 3.3% | 3.2% | 11.9% | 2.1% |
| Kalamazoo County | 3.7% | 3.8% | 11.1% | 2.1% |
| Calhoun County | 4.5% | 4.5% | 12.8% | 2.7% |
| Ottawa County | 3.2% | 3.1% | 13.3% | 1.8% |
| Barry County | 3.5% | 3.5% | 10.9% | 2.2% |
| Kalamazoo City | 3.9% | 3.8% | 15.2% | 3.2% |
| Portage City | 2.9% | 2.8% | 8.7% | 1.3% |
| Grand Rapids City | 3.7% | 3.5% | 16.1% | 3.0% |
| Kentwood City | 2.6% | 2.5% | 10.7% | 1.4% |
| Plainfield Twp. | 2.1% | 2.0% | 8.0% | 1.4% |
| U.S. Official Rate (June) | 3.7% | 4.0% | 9.6% | 3.8% |
| U.S. Rate (Unadjusted) | 3.8% | 4.2% | 9.6% | 3.6% |
| U.S. U-6 Rate (July)** | 7.0% | 7.5% | 16.7% | 8.0% |

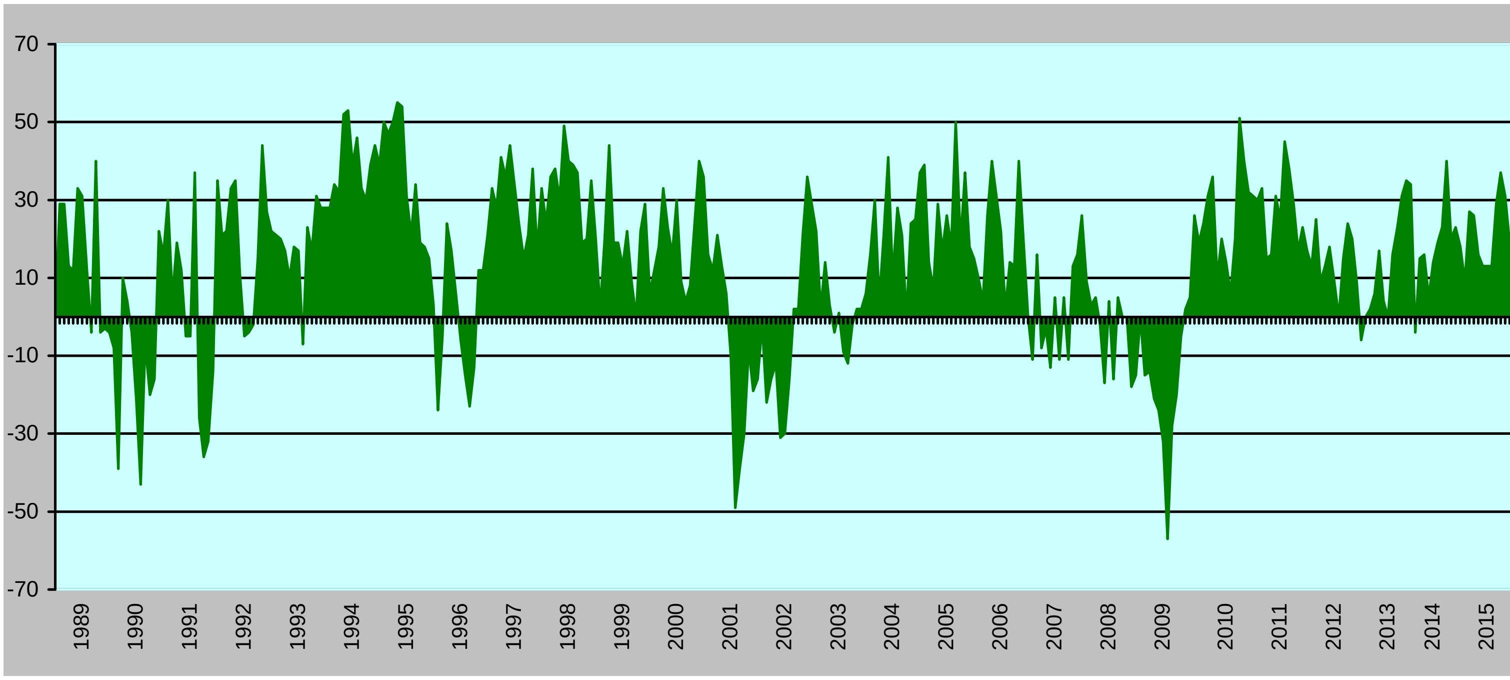
**U-6 for Michigan = 7.6% for April 2018 to March 2019

## Index of New Orders: West Michigan

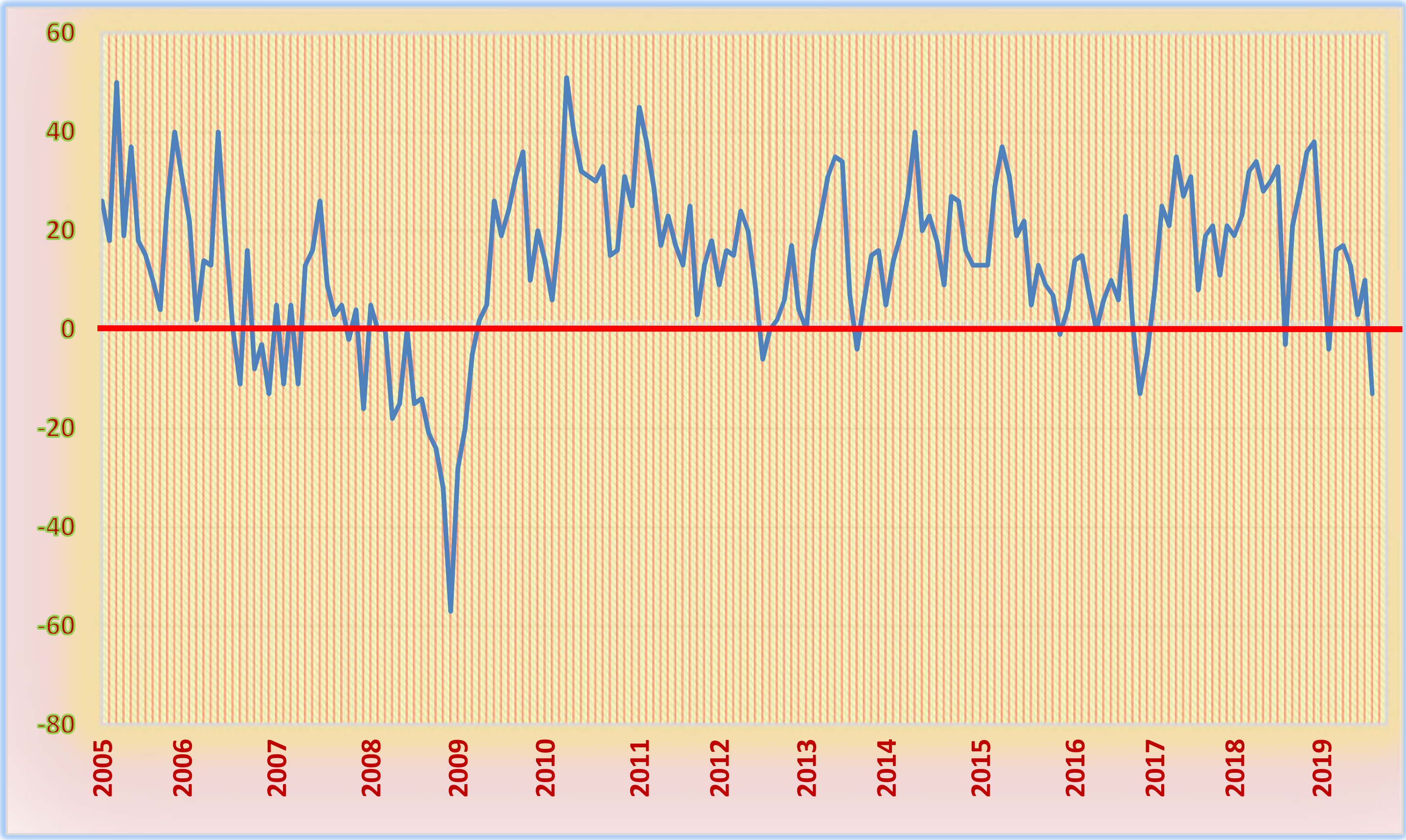
As the name implies, this index measures new business coming into the firm, and signifies business improvement or business decline. When this index is positive for an extended period of time, it implies that the firm or organization will soon need to purchase more raw materials and services, hire more 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 2019 |
| Previous Month | +10 for the month of June 2019 |
| One Year Ago | + 38 for the month of July 2018 |
| 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 - 2019

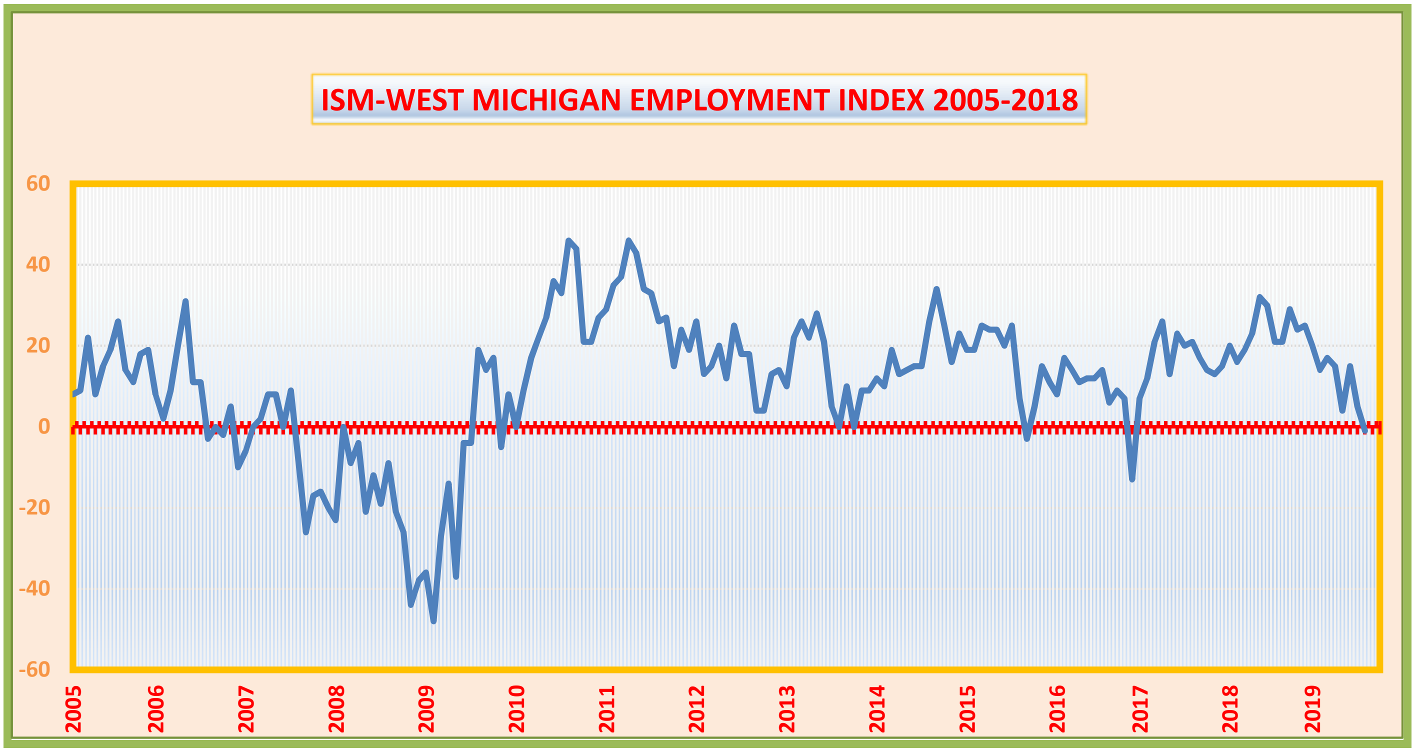



## ISM-West Michigan Index of New Orders: 2005-2019 Only



# 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.