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News Release (For Immediate Release)

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Current Business Trends

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SLIGHTLY NEGATIVE

Key Participant Comments for December:

"We're seeing our normal seasonal slowdown, and expect a rebound next month."

"There is some heavy discounting in the machine tool market. Many competitors are "buying" business with special discounts."

"The GM orders after the completing the strike have come back a little more slowly than anticipated, but the order rate is still very healthy."

Although the West Michigan industrial economy remains marginally soft, the statistics continue to recover from the depths of the G.M. strike. Our survey's index of NEW ORDERS edged up to -7 from November's -9 and October's much weaker -21 reading. In a similar move, the December PRODUCTION index rose to -7 from November's -9 and October's anemic -34. However, the December index of PURCHASES remained double-digit negative at -17, marginally better than November's -18. Comments from this month's participants are still mixed, although the number of firms expecting somewhat slower business conditions in 2020 increased considerably in December. Some firms are still strong, others are holding their own, but one reported the first layoff this survey has declared in almost ten years.

The U.S. Economy. According to the January 2, 2020 press release from the Institute for Supply Management, our parent organization, the U.S. economy continues to slacken. NEW ORDERS, ISM's index of business improvement, came in at -12, down modestly from last months' -11. December's PRODUCTION index took a much bigger hit, falling to -19 from -3. Although ISM's overall index fell to 47.2 from 48.1, the survey author nonetheless concludes that the U.S. economy is entering a period of slow growth, but not a recession.

A more optimistic view of the U.S. economy comes from IHS Markit.com, the British international consulting firm. Markit.com's seasonally adjusted December 2019 PMI posted at 52.4, down modestly from November's 52.6. The index of New Orders increased to the fastest pace since April, in part because of the acquisition of new clients and improved export orders. Chris Williamson, Chief Business Economist at IHS Markit, continues to be cautiously optimistic:

> "The U.S. manufacturing sector continued to recover from the soft-patch seen in the summer, ending 2019 with its best quarter since the early months of 2019. The overall rate of expansion nevertheless faltered somewhat in December and remains well below that seen this time last year, suggesting producers are starting 2020 on a softer footing than they had enjoyed heading into 2019. Business sentiment about the outlook remains especially subdued compared to a year ago, reflecting ongoing worries about geopolitics and trade wars, especially the impact of tariffs, as well as fears that political and economic uncertainty surrounding the 2020 elections could dampen demand. The impact of tariffs was clearly evident via higher prices, while the relatively subdued level of business confidence manifested itself in a pull-back in hiring, hinting at risk aversion and cost-cutting."

The World Economy. The Global Manufacturing Index released on January 2, which J.P. Morgan compiles from 42 purchasing manager's reports around the world, remains flat. For December, New Orders remained unchanged at 50.4, but Output (Production) eased to 50.4 from 51.0, and Employment sank below the critical break-even point of 50.0 to 49.6. JPM's overall index eased to 50.1 from 50.3. Among the major industrial countries expanding were India, the U.S., China, South Korea, and Brazil. The main depressors for the Global Manufacturing Index came from Germany, Austria, Japan, the UK, and Italy. Olya Borichevska, from Global Economic Research at J.P. Morgan, further noted:

> "The upward move in the global manufacturing PMI since July took a step back last month. In level terms, the December PMI still suggests a weak pace of growth in global output. The trend in new export orders will need to stage a revival if the upturn is to gather pace at the start of the new decade."

For the Eurozone, the December PMI posted at 46.3, six basis points below November's 46.9. Germany, Austria, Italy, and Spain are the main components holding the index down, although the December reading is still well ahead of September's 123-month low of 41.7. Chris Williamson from Markit.com further commented:

> "Eurozone manufacturers reported a dire end to 2019, with output falling at a rate not exceeded since 2012. The survey is indicative of production falling by 1.5% in the fourth quarter, acting as a severe drag on the wider economy. Although firms grew somewhat more optimistic about the year ahead, a return to growth remains a long way off given that new order inflows continued to fall at one of the fastest rates seen over the past seven years. Firms sought to reduce inventory levels and cut headcounts as a result, focusing on slashing capacity and lowering costs. Such cost cutting was again also evident in further steep falls in demand for machinery, equipment, and production-line inputs. Only households provided any source of improved demand in December, underscoring how the consumer sector has helped keep the economy out of recession in recent months. The ability of the wider economy to avoid sliding into a downturn in the face of such a steep manufacturing contraction remains a key challenge for the Eurozone as we head into 2020."

Automotive. If and when West Michigan falls victim to another recession, it will be our automotive parts producers that will be first to decline. Fortunately, auto sales for the U.S. ended the year on a fairly positive note. For the Detroit Three, annual sales, i.e., sales for all of 2019, declined by 3.5 percent at Ford, 1.4 percent at Fiat-Chrysler, and 2.3 percent at General Motors. For the other major nameplates, annual sales at Honda gained a scant 0.30 percent, Hyundai-Kia was up 4.6 percent, BMW added 4.4 percent, and beleaguered Volkswagen improved by 2.4 percent. On the down side, Toyota finished 2019 with a loss of 1.8 percent, while the Nissan Group finished the year with a sharp loss of 9.9 percent. Most forecasters are modestly positive about the prospects for the auto industry in 2020. According to Jeremy Acevedo, senior manager of industry insights at Edmunds:

> "When there's been such a long streak of strong sales, it's natural to wonder when the other shoe will drop, but we don't see that happening anytime soon. Financing conditions are already looking much better than they did at the start of 2019, unemployment is at an all-time low, uncertainties around tariffs seem to be somewhat alleviated thanks to the new USMCA agreement, and we're about

to head into an election year, which historically yields stronger sales. Automakers have many reasons to be optimistic heading into the new year."

Industrial Inflation. Even though the world economy continues to slow, the December J.P. Morgan international Pricing index edged up to 51.3 from 50.4. Historically, moderately rising prices tend to indicate that no recession is pending. Locally, the West Michigan index of PRICES recovered to -6 from -18. For the ISM survey, the U.S. index of PRICES rose modestly to 3.5 percent, up from -7 from -9. Timothy Fiore, ISM's survey committee chair, further noted:

> "Prices increased in December, supported by steel, copper and aluminum price growth, as manufacturers placed orders for 2020 demand. Prices registered their highest level since May 2019, when the index recorded 53.2 percent."

GDP. U.S. Bureau of Economic Analysis always posts an estimated GDP for each quarter, follows up with a revised estimate, and then a third and final reading. On December 20, BEA announced a final reading of 2.1 percent growth for 2019's third quarter, a slight uptick from the previous estimate of 2.0 percent. Looking forward, the Atlanta Fed's "GDP Now" estimate for fourth quarter currently estimates the U.S. GDP growth rate to be about 2.1 percent, unchanged from the third quarter. The Philadelphia Fed estimates the 2020 GDP to range between 1.7 and 1.9 percent, and the unemployment rate to average about 3.7 percent, up slightly from the current rate of 3.5 percent. In short, most of the credible economic growth estimates call for growth to slow in 2020, but none is calling for a recession.

Business and Consumer Confidence. West Michigan's SHORT-TERM BUSINESS OUTLOOK for December, which asks local firms about the perception for the next three to six months, retreated to +0 from +11. Our index for the LONG-TERM BUSINESS OUTLOOK, which queries the perception for the next three to five years, eased modestly to +33 from +35. As the details from the apparent progress in the trade talks with China leak out, the business community remains lukewarm. Some of the tariffs on imported materials may be reduced or eliminated, which will help with the reduction in the purchase price for some commodities and materials. The main beneficiaries on the selling side will be the producers of farm commodities. Although there is talk of a Phase II trade agreement with China, it is doubtful that very much progress will be made before the November election.

On the domestic side, consumer confidence remains fairly strong, even though the reading from The Conference Board came in marginally lower for December. In contrast, University of Michigan's index of Consumer Sentiment edged up by 2.5 to 99.3. Both indices remain at or near their 2001 levels, and both surveys noted that the tariff wars had an almost negligible importance to domestic consumers. Lynn Franco, director of economic indicators at The Conference Board, commented:

> "Consumer confidence declined marginally in December, following a slight improvement in November. While consumers' assessment of current conditions improved, their expectations declined, driven primarily by a softening in their short-term outlook regarding jobs and financial prospects. While the economy hasn't shown signs of further weakening, there is little to suggest that growth, and in particular consumer spending, will gain momentum in early 2020."

Tariff Wars. The most recent news declares that a partial trade agreement has been reached between China and the U.S. which has been tag named "Phase I." Although the terms are somewhat vague, China has promised to increase purchases of U.S. agricultural products and boost intellectual property protections, while the U.S. rolls back some of the recently-imposed tariffs. Bigger issues, such as China's governmental subsidies for certain firms, will need to wait for a possible second agreement later in the year, which is being called "Phase II." In a tepid response to the apparent agreement, soybean futures have gained approximately 10% over the past month or so. This agreement would obviously be a positive move toward reducing our massive trade deficit with the Chinese. However, past performance has demonstrated that the Chinese don't necessarily perform according to the terms of any agreement unless it is "convenient."

Summary. It sounds redundant, but there is still no evidence on the immediate horizon pointing to a recession. The formal definition of a recession is, "…two consecutive quarters of negative economic growth as measured by a country's Gross Domestic Product." An economic slowdown, however, is usually regarded as a period of growth limited to one or two percent growth. Unlike other countries around the world, the U.S. has had few back-to-back quarters of "slow" GDP growth. It's generally been either boom or bust. However, for 2020, the possibility remains that we could have a period of growth limited to one or two percent. However, with the advent of a major geo-political war or terrorist event, all bets are off.

DECEMBER COMMENTS FROM SURVEY PARTICIPANTS

"Pricing has either stayed the same or has gone up a little bit. Sadly, nothing on the decline as of now."

"There is some heavy discounting in the machine tool market. Many competitors are "buying" business with special discounts."

"With the end of the year coming a lot of business has slowed down and waiting to ramp back up in the new year."

"Overall the chemical market is flat, and projected to stay flat for the next 12 months. To combat this, we are focusing on decreasing costs wherever possible while battling headwinds from IMO 2020."

"We're seeing our normal seasonal slowdown, and expect rebound next month."

"Business is very slow."

"We're ending the year sort of flat without the typical Q4 uptick in business volume. "

"We had a light start to December orders, but things are picking up."

"Although automotive is lower than prior year, it is still very strong and stable. We now focus on expense reduction and getting new customers. Part sales are paramount, and we are winning many new jobs that will really hit in 2021 and 2022.

"We are still doing well."

"I am starting to see a lot of price increases on supplies along with a lag in delivery."

"Overall, it has been a really good year."

"November started well, but as usual in Michigan, once deer season started, it was pretty quiet. December started slow and hasn't picked up."

"A slowdown looks inevitable for next quarter. We will be watching inventories closely and scaling back overtime.

"We've seen a little softening in sales, but we're still optimistic for long term growth."

"We continue to see a softening in our business."

"We are glad that GM is back and running! Our plants are now trying to catch up!"

"November and December have been better than planned, but still unsure of 2020 as a full year of tariffs, if still in place, will be a large burden to our business."

"Quoting is still doing well, but PO's are still slow in coming right now."

"The GM orders after the completing the strike have come back a little more slowly than anticipated, but the order rate is still very healthy."

"We were extremely overstaffed, and had to let go of 37 employees at the end of November."

December Survey Statistics

	UP	SAME	DOWN	N/A	Dec. Index	Nov. Index	Oct. Index	25 Year Average
Sales (New Orders)	22%	47%	29%	2%	- 7	-10	-21	+14
Production	16%	53%	23%	8%	- 7	- 9	-34	+14
Employment	12%	74%	14%	0%	- 2	- 9	-14	+ 8
Purchases	12%	55%	29%	4%	-17	-18	-21	+ 7
Prices Paid (major commod.)	6%	78%	12%	4%	- 6	-18	- 2	+15
Lead Times (from suppliers)	14%	71%	12%	2%	+ 2	+ 0	+ 0	+11
Purchased Materials Inv. (Raw materials & supplies)	8%	64%	20%	8%	-12	-16	-19	- 4
Finished Goods Inventory	8%	57%	27%	8%	-19	-14	-11	- 8
Short Term Business Outlook (Next 3-6 months)	22%	56%	22%	0%	+ 0	+11	- 2	-
Long Term Business Outlook (Next 3-5 years)	41%	47%	8%	4%	+33	+35	+25	-

Items in short supply: Electronic wiring components, labor, some dual phase and aluminum materials.

Prices on the UP side: Steel, scrap steel, brass, stabilizer, custom made goods, furniture.

Prices on the DOWN side: Freight cost, polypropylene, plasticizer, SEBS resin, scrap carbon steel, aluminum, copper, Asian steel.

Latest Unemployment Reports

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

	Oct. 2019	Oct. 2018	Aug. 2009	20 Year Low
State of Michigan (Oct.)	4.1%	4.0%	14.6%	3.2%
State of Michigan (Unadj.)	3.5%	3.7%	14.1%	2.9%
Kent County	2.5%	2.5%	11.9%	2.1%
Kalamazoo County	3.0%	2.9%	11.1%	2.1%
Calhoun County	3.5%	3.5%	12.8%	2.7%
Ottawa County	2.3%	2.4%	13.3%	1.8%
Barry County	2.6%	2.7%	10.9%	2.2%
Kalamazoo City	3.7%	3.6%	15.2%	3.2%
Portage City	2.7%	2.6%	8.7%	1.3%
Grand Rapids City	3.3%	3.4%	16.1%	3.0%
Kentwood City	2.3%	2.4%	10.7%	1.4%
Plainfield Twp.	1.9%	1.9%	8.0%	1.4%
U.S. Official Rate (Nov.)	3.5%	3.7%	9.6%	3.5%
U.S. Rate (Unadjusted)	3.5%	3.5%	9.6%	3.4%
U.S. U-6 Rate (Nov.)**	6.9%	7.6%	16.7%	8.0%

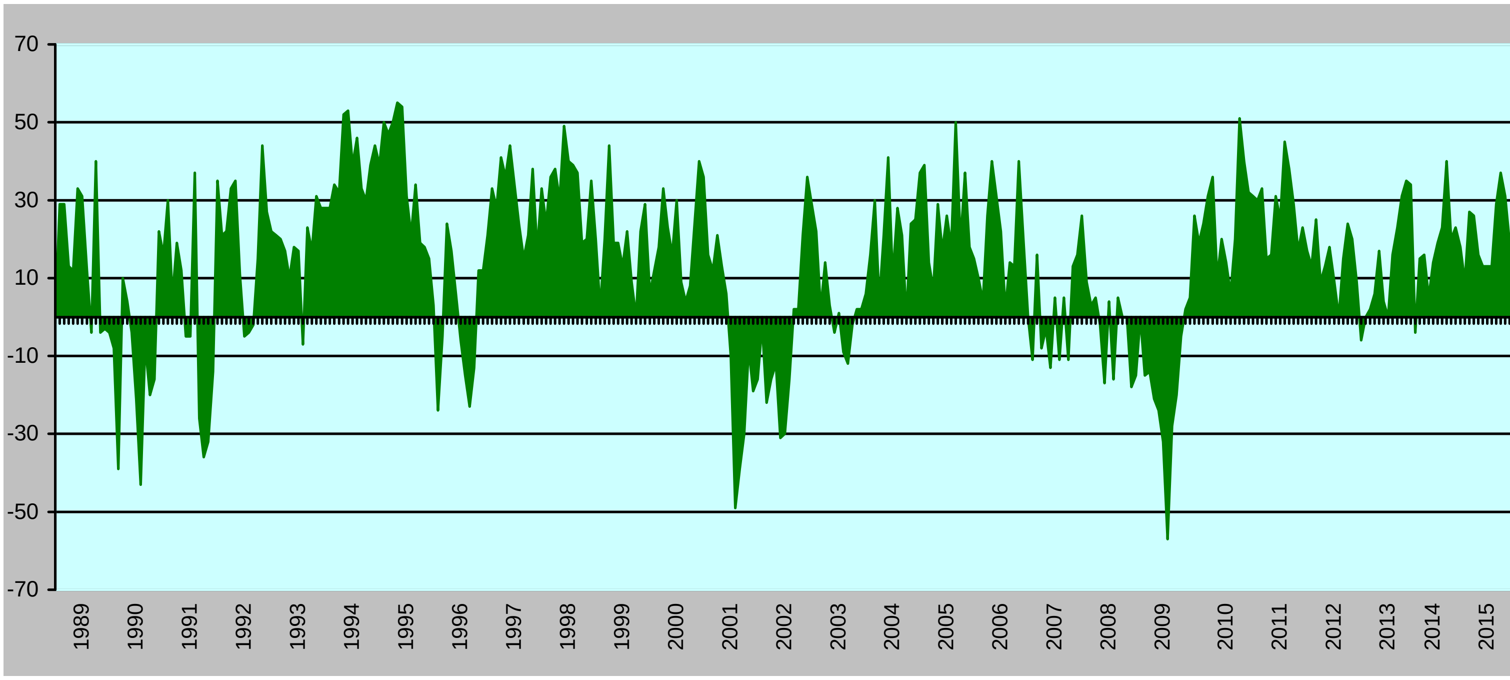
**U-6 for Michigan = 7.6% for Oct. 2018 to Sept. 2019

Index of New Orders: West Michigan

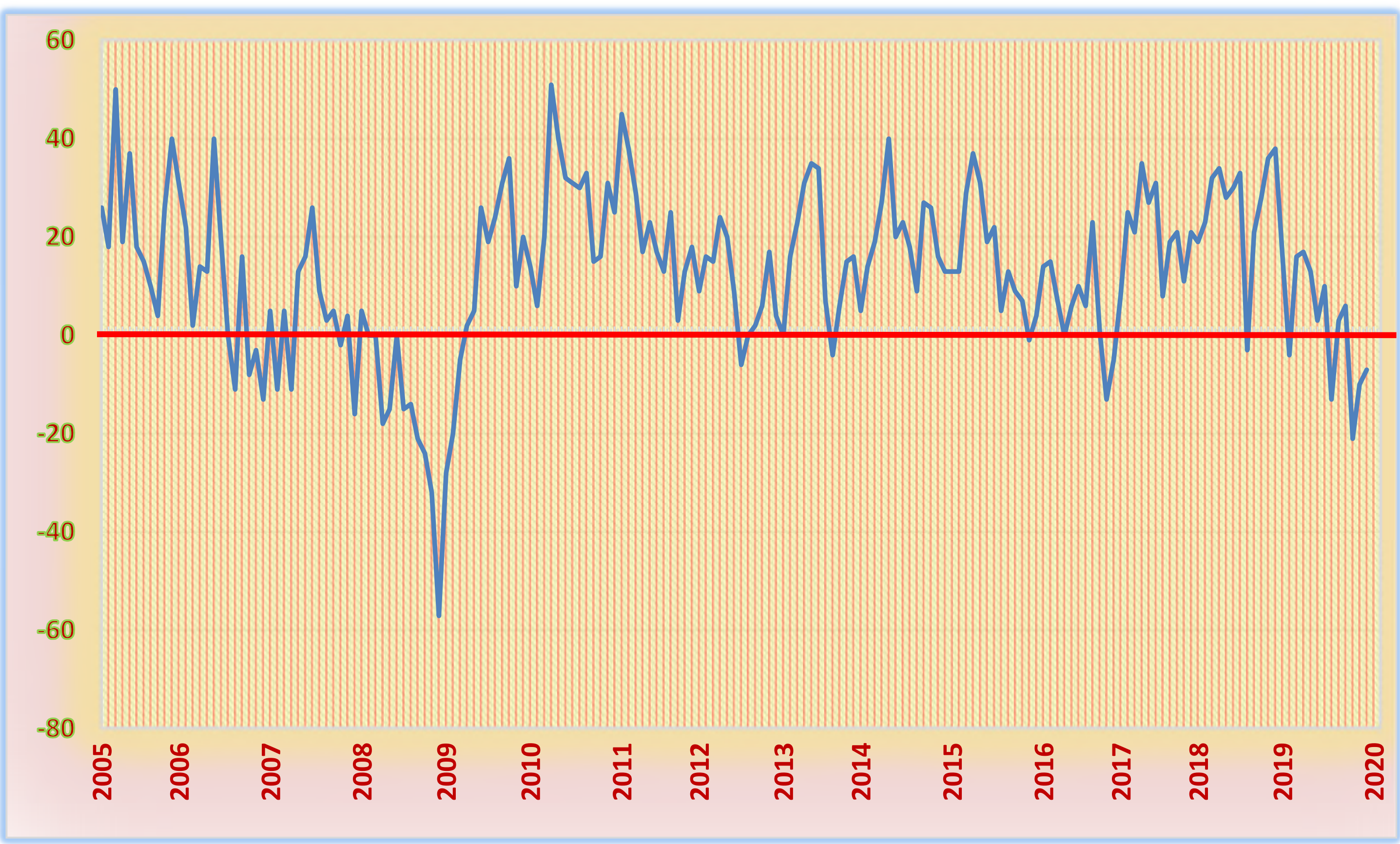
As the name implies, this index measures new business coming into the firm, and signifies business improvement or business decline. When this index is positive for an extended period of time, it implies that the firm or organization will soon need to purchase more raw materials and services, hire more 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	- 7 for the month of Dec. 2019
Previous Month	-10 for the month of Nov. 2019
One Year Ago	+ 19 for the month of Dec. 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

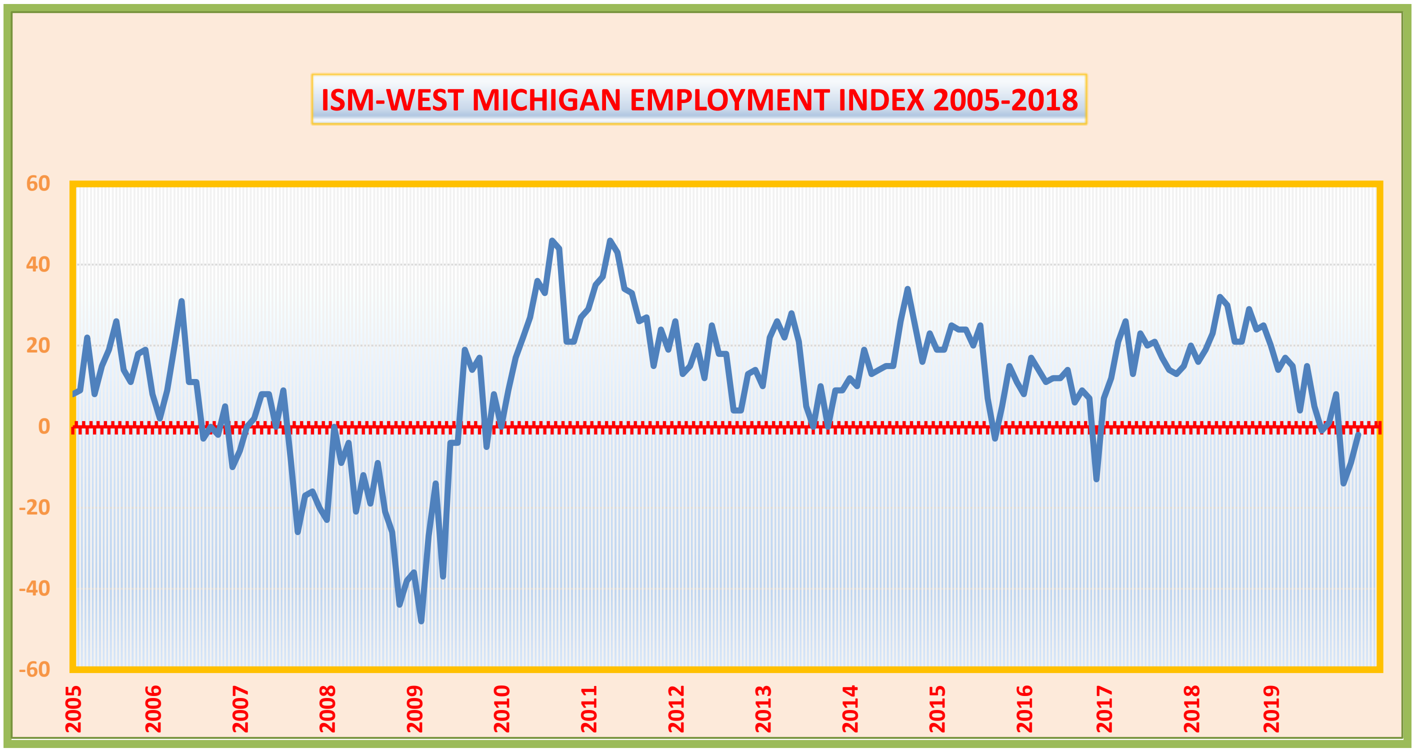


ISM-West Michigan Index of New Orders: 2005-2019 Only



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.