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Current Business Trends

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WEST MICHIGAN ECONOMY: A TRAIN WRECK IN SLOW MOTION

Key Participant Comments for March:

"Once in a lifetime (hopefully) global event."

"This Coronavirus is wreaking havoc all over the world. Times are uncertain. It's scary right now."

"Our company has instituted a work from home policy for all non-essential staff, and we continuing at an operations level only to support our customers. We are very unsure of the coming 3-6 months."

"We are extremely busy trying to fill orders related to Covid-19."

In the forty-year history of this survey, the economic situation in West Michigan has seldom looked this grim. Although negative, much of our data collected in the third and fourth weeks of March do not begin to reflect the impact of recent events. NEW ORDERS slipped to -21 from +7, and the PRODUCTION index eased to -16 from +2. Unfortunately, both of these indices are now poised to set record lows when the data are posed for April. The March index for PURCHASES, which measures activity in the purchasing offices, plunged to -30 from +9. With many purchasing offices closed altogether, we can look for another record low in April.

The U.S. Economy. According to the April 1 press release from the Institute for Supply Management, our parent organization, NEW ORDERS, ISM's index of business improvement, fell to -9 from +7. However, just like our local survey, most of these data were collected before the full depth of the crisis had come to light. March's PRODUCTION index eased to -3 from +6. Again, the calm before the storm.

An equally pessimistic reading for the U.S. economy comes from IHS Markit.com, the British international consulting firm. Markit.com's seasonally adjusted March 2020 PMI posted at 48.5, down from February's 50.7. It is no surprise that the slightly softer numbers were attributed to the Coronavirus. Chris Williamson, Chief Business Economist at IHS Markit, further commented:

"The final PMI data for March are even worse than the initial flash estimate, with manufacturing output slumping to the greatest extent since the height of the global financial crisis in 2009. Growing numbers of company closures and lockdowns as the nation fights the COVID-19 outbreak mean business levels have collapsed. While some producers reported being busier as a result of stockpiling and anti-virus activities, notably in the food and healthcare sectors, these are very much the minority, and most sectors reported a rapid deterioration in demand and production. Orders for capital equipment have deteriorated at a rate not seen since data were first available in 2009 as firms stopped investing in machinery. Companies have meanwhile reined in spending on inputs and households have pulled back sharply on many forms of spending, especially for non-essential and big-ticket items. With export sales also sliding, factories are facing a broad-based slide in demand which is already resulting in the largest job losses recorded since the global financial crisis. Worse is likely to come as consumer spending falls further in coming months as lockdowns intensify and unemployment spikes higher."

The World Economy. At first glance, it is a little surprising to see the March J.P. Morgan Global Manufacturing Index post a modest improvement to 47.6 from February's 47.2. However, among the 42 nations in the survey, China is the second largest component, and the Caixin Composite Index flipped back across the break-even point to 50.1 point. China has reopened at least some of the production capacity that had been curtailed, and we can assume some improvement would be possible. Questions remain whether the authorities moved too soon to resume a degree of normality. Other serious questions remain about the potential bias of any of the statistics that China is broadcasting to the rest of the world. For the world statistics, Olya Borichevska, from Global Economic Research at J.P. Morgan, further noted:

"Manufacturing production continued to fall at a substantial pace in March. Only China among the nations covered by the survey reported an increase in output, and even here this only represented a stabilization from a severe downturn in February. New order intakes contracted at the steepest pace since early-2009, with none of the nations covered seeing an increase. The trend in international trade flows was also substantially impaired, with new export business falling at the quickest pace in almost 11 years."

For the Eurozone, the March PMI posted at 44.5, down considerably from February's 49.2. Of the major countries in the Eurozone, only the Netherlands managed to eke out a positive PMI index. Business confidence, which had been modestly improving in recent months, nosedived as the virus crisis expanded. Just like our other statistics, a significant portion of the data were collected earlier in the month before the news situation worsened. Chris Williamson from Markit.com further commented:

"Even the slide in the PMI to a seven-and-a-half-year low masks the severity of the slump in manufacturing as it includes a measure of supply chain delays, which boosted the index. Supply delays are normally seen as a sign of rising demand, but at the moment near-record delays are an indication of global supply chains being decimated by factory closures around the world. We need to look at the survey's output and new orders gauges to get a better understanding of the scale of the likely hit to the economy that will come from the manufacturing sector's collapse, and these indices hint at production falling at the sharpest rate since 2009, dropping an annualised rate approaching double digits. The concern is that we are still some way off peak-decline for manufacturing. Besides the hit to output from many factories simply closing their doors, the coming weeks will likely see both business and consumer spending on goods decline markedly as measures to contain the coronavirus result in dramatically reduced orders at those factories still operating. Company closures, lockdowns and rising unemployment are likely to have an unprecedented impact on expenditures around the world, crushing demand for a wide array of products. Exceptions will be food manufacturing and pharmaceuticals, but elsewhere large swathes of manufacturing could see downturns of the likes not seen before."

Automotive. The Detroit Three automakers made good on their promise to report only 2020 quarterly sales, which of course reflect the aggregate of positive sales months of January and February and the negative month of March. Even then, sales were off considerably. First

quarter sales for Ford slipped 12 percent, Fiat-Chrysler slid 10 percent, and GM eased 7 percent. However, the major firms that ARE still reporting monthly sales paint a very grim picture for the next few months. March sales at Hyundai-Kia fell 31 percent, Toyota dropped 37 percent, and Honda sales were off an astounding 48 percent. Keeping in mind that the early part of March was still viable, we can expect April sales for the entire industry to be extremely weak. For our local auto parts suppliers, layoffs and some plant closures are all but inevitable. Assembly lines are shut down, showrooms are closed, and dealers are already loaded with hefty inventories. According to Cox Automotive Senior Economist Charlie Chesbrough:

“As the pandemic rolls across America, consumer interest in big ticket purchases like vehicles has all but disappeared. April is likely to see further historic declines, driven largely by a lack of consumer confidence and substantial increases in unemployment. And that trend will likely continue into early summer, at best. The second quarter will be the real measure of COVID-19’s impact on the economy and the auto industry.”

Industrial Inflation. For West Michigan, the March index of PRICES dropped to -18 from February’s +3. For the ISM national survey, the index of Prices dropped more significantly to -37 from -8. At the international level, the JPM index of PRICES eased to 50.1 from 51.9. However, just like all of our other statistics, the readings reflect business conditions before the entire impact of the pandemic had hit. Timothy Fiore, ISM’s survey committee chair, further commented:

“Prices contracted in March, driven primarily by scrap steel, aluminum, corrugate, copper, heating oil and other energy sources. Prices contracted to their lowest level since January 2016, when the index registered 34 percent.”

GDP. The first quarter of 2020 has just ended, and the current estimates are that GDP will come in at about 2.0 percent. The results for the first quarter are almost irrelevant given that the third quarter will be extremely weak. About 70 percent of the GDP computation comes from the consumer sector. Hence, with major portions of the retail outlets shut down, many analysts believe that the GDP for the second quarter of 2020 may come in with the biggest drop in the 90-year history of the index.

Business Confidence. It is hardly a surprise that West Michigan’s SHORT-TERM BUSINESS OUTLOOK for March, which asks local firms about the perception for the next three to six months, plunged to -46, down from +11. The April reading will probably be even worse. The index for the LONG-TERM BUSINESS OUTLOOK, which queries the perception for the next three to five years, remained positive but edged lower to +22 from +32. In a similar vein, CEIC Data Corporation’s monthly survey of U.S. Business confidence dropped 11 points to its lowest level in over ten years. The survey author also projected the next reading to be MUCH worse.

Coronavirus. In recent days, consensus has grown that we have two significant unrecognized problems. First, unlike other viruses, the COVID-19 lives on various surfaces FAR, FAR longer than most viruses. Second, those infected by the virus show a huge range of symptoms. Some victims experience life-threatening pneumonia, some only a bad cough, while others show NO symptoms whatsoever. Somewhere in between are victims that carry and transmit the virus but show no symptoms for many days. However, the asymptomatic carriers continue to infect people with whom they have contact.

Summary. The grim reality is that this crisis will not be completely over until we have a vaccine. Social distancing and social lock-down will help, but grocery deliveries would need to be left in your garage untouched for 14 days to be safe from any transmission. In the shorter term, the impact can POTENTIALLY be mitigated by the use of various anti-viral medications like Favipiravir and Chloroquine. The worst-case scenario is called “herd immunity,” which is generally how the 1918 pandemic ended in 1920. For any virus, after about 50-70 percent of the population either recovers from the disease or is immunized, the infected hosts are disbursed enough that further contagion is eventually eliminated.

At this early stage, assessing the economic impact of this pandemic is almost impossible, except to say that we are now in a historical collapse. If, by some miracle, we were to have a viable vaccine in the next few months that could be widely distributed, the economy would quickly begin to recover. However, some marginal businesses have already been forced to close, and there will surely be more to follow. Unfortunately, this crisis is still just beginning.

MARCH COMMENTS FROM SURVEY PARTICIPANTS

“It is a very weird time with this virus around.”

“February was business as usual preparing for the 2020 construction season.... all to come to a drastic change in March.”

“We’re seeing building orders go up. Builders are pulling ahead orders to get open contracts complete before buyers cancel, but customers in states shutting down are still running.”

“Sales are ok, today but an inevitable slowing is expected. The hope is it will be manageable and not a cliff drop.”

“We expect a weak 3-6 months.”

“We are steady at this point and have not seen any order cancellations, but we are not seeing a lot of new orders. We build capital equipment, so I would anticipate companies halting capital expenditures in the short term.”

“Once in a lifetime (hopefully) global event.”

“Still too early to know the extent of issues COVID will cause. Global teams all reporting the same thing: no issues yet, but changing soon.”

“It’s getting rather spooky out there now.”

“Our company has instituted a work from home policy for all non-essential staff, and we continuing at an operations level only to support our customers. We are very unsure of the coming 3-6 months.”

“There is a great deal of uncertainty due to the unknown impact of the Corona Virus.”

“The Covid 19 worldwide crisis is having a negative effect on the supply chain as well as on short term sales.”

“Very slow. Everybody is using caution in their investment of capital equipment.”

“The Coronavirus is impacting lead times and product availability.”

“Everything maintains the illusion of normal sales/parts going out the door. However, the question is when will the demand slow and for how long, based on Covid-19 issues.”

“Time will tell what becomes of business with the COVID virus.”

“The spread of the virus and media/government responses have brought capital expenditures for manufacturing to wait & see. We are starting to see companies cancel open houses and trade shows.”

“March is a busy month but April and May look slower. Will be interesting to see how the coronavirus situation impacts manufacturing.”

“We are extremely busy trying to fill orders related to Covid-19.”

“COVID 19 has only begun to wreak havoc.”

“So far, the Covid-19 hasn’t had a negative impact on our business, but I believe it’s the calm before the storm.”

“This Coronavirus is wreaking havoc all over the world. Times are uncertain. It’s scary right now.”

March Survey Statistics

	UP	SAME	DOWN	N/A	Mar. Index	Feb. Index	Jan. Index	25 Year Average
Sales (New Orders)	25%	27%	46%	2%	-21	+ 7	- 9	+14
Production	23%	31%	39%	7%	-16	+ 2	- 2	+14
Employment	5%	66%	30%	0%	-25	+ 9	- 7	+ 8
Purchases	18%	34%	48%	0%	-30	+ 9	- 6	+ 7
Prices Paid (major commod.)	2%	78%	20%	0%	-18	+ 3	+15	+15
Lead Times (from suppliers)	27%	66%	7%	0%	+20	+ 5	+ 4	+11
Purchased Materials Inv. (Raw materials & supplies)	25%	57%	18%	5%	+ 7	+ 0	+ 4	- 4
Finished Goods Inventory	30%	43%	18%	9%	+12	+ 3	-15	- 8
Short Term Business Outlook (Next 3-6 months)	14%	20%	66%	0%	-46	+11	+13	-
Long Term Business Outlook (Next 3-5 years)	27%	57%	5%	11%	+22	+32	+25	-

Items in short supply: Safety supplies, some aggregates, cleaning supplies, Covid 19 protection items, sanitizers, Clorox wipes, some castings from Europe, medical supplies, toilet paper.

Prices on the UP side: Aggregates, gravel, isopropyl alcohol, chrome finishing.

Prices on the DOWN side: Copper, brass, petroleum products, fuel, gasoline, steel, paper, aluminum, resin, sodium hydroxide, scrap steel, natural gas, discrete electronics, plastics.

*Item reported as both up AND down in price.

Latest Unemployment Reports

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

	Jan. 2020	Jan. 2019	Aug. 2009	20 Year Low
State of Michigan (Jan.)	3.6%	4.2%	14.6%	3.2%
State of Michigan (Unadj.)	3.6%	4.5%	14.1%	2.9%
Kent County	2.8%	3.3%	11.9%	2.1%
Kalamazoo County	3.2%	3.7%	11.1%	2.1%
Calhoun County	4.1%	4.8%	12.8%	2.7%
Ottawa County	2.7%	3.2%	13.3%	1.8%
Barry County	3.6%	4.1%	10.9%	2.2%
Kalamazoo City	4.0%	4.6%	15.2%	3.2%
Portage City	2.9%	3.4%	8.7%	1.3%
Grand Rapids City	3.8%	4.4%	16.1%	3.0%
Kentwood City	2.2%	2.7%	10.7%	1.4%
Plainfield Twp.	2.1%	2.5%	8.0%	1.4%
U.S. Official Rate (Feb.)	3.5%	3.8%	9.6%	3.5%
U.S. Rate (Unadjusted)	3.8%	4.1%	9.6%	3.4%
U.S. U-6 Rate (Feb.)**	7.0%	7.2%	16.7%	8.0%

**U-6 for Michigan = 7.5% for all of 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 -21 for the month of Mar. 2020

Previous Month - 9 for the month of Feb. 2020

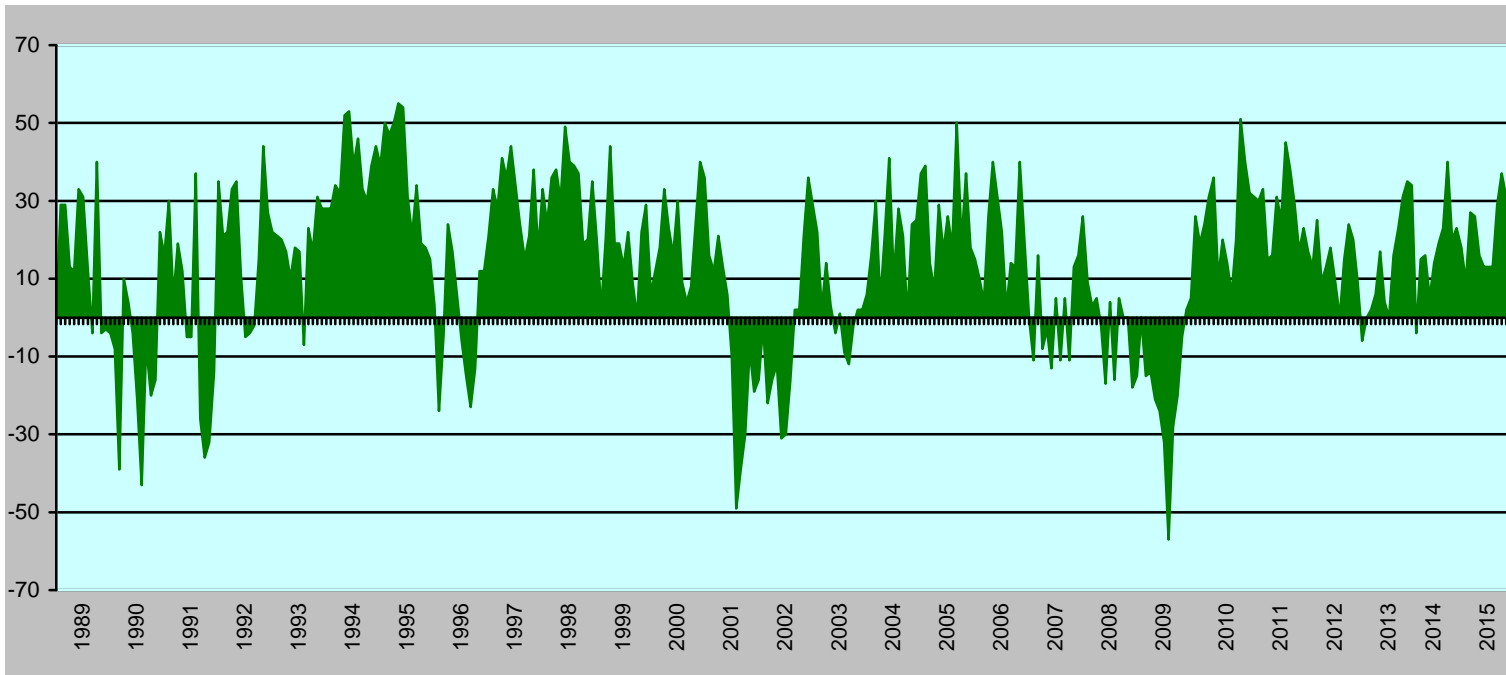
One Year Ago +16 for the month of Mar. 2019

Record Low - 57 for the month of December 2008

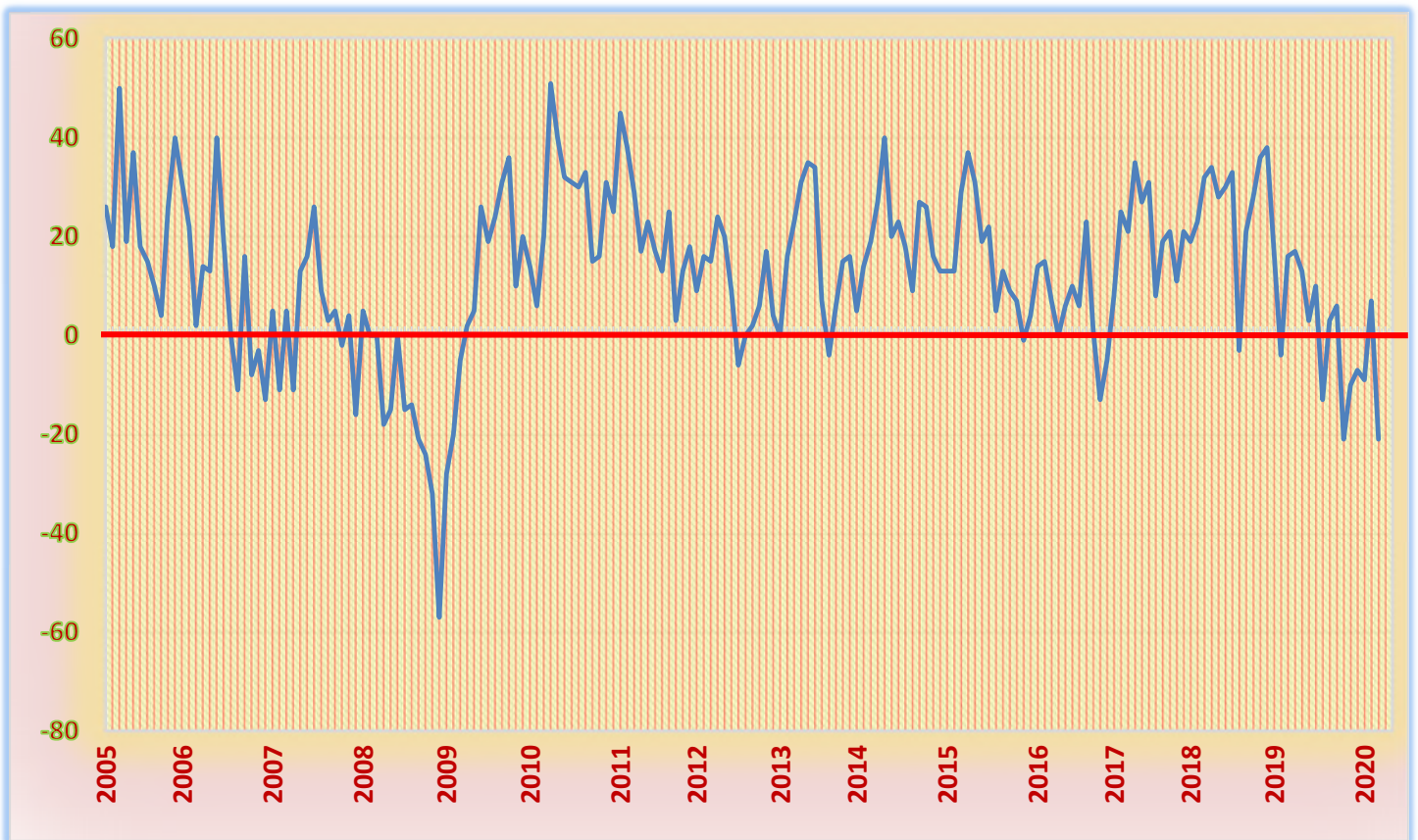
Record High + 55 for the month of September 1994

First Recovery + 3 in April of 2009 and forward

ISM-West Michigan Index of New Orders 1988 - 2020

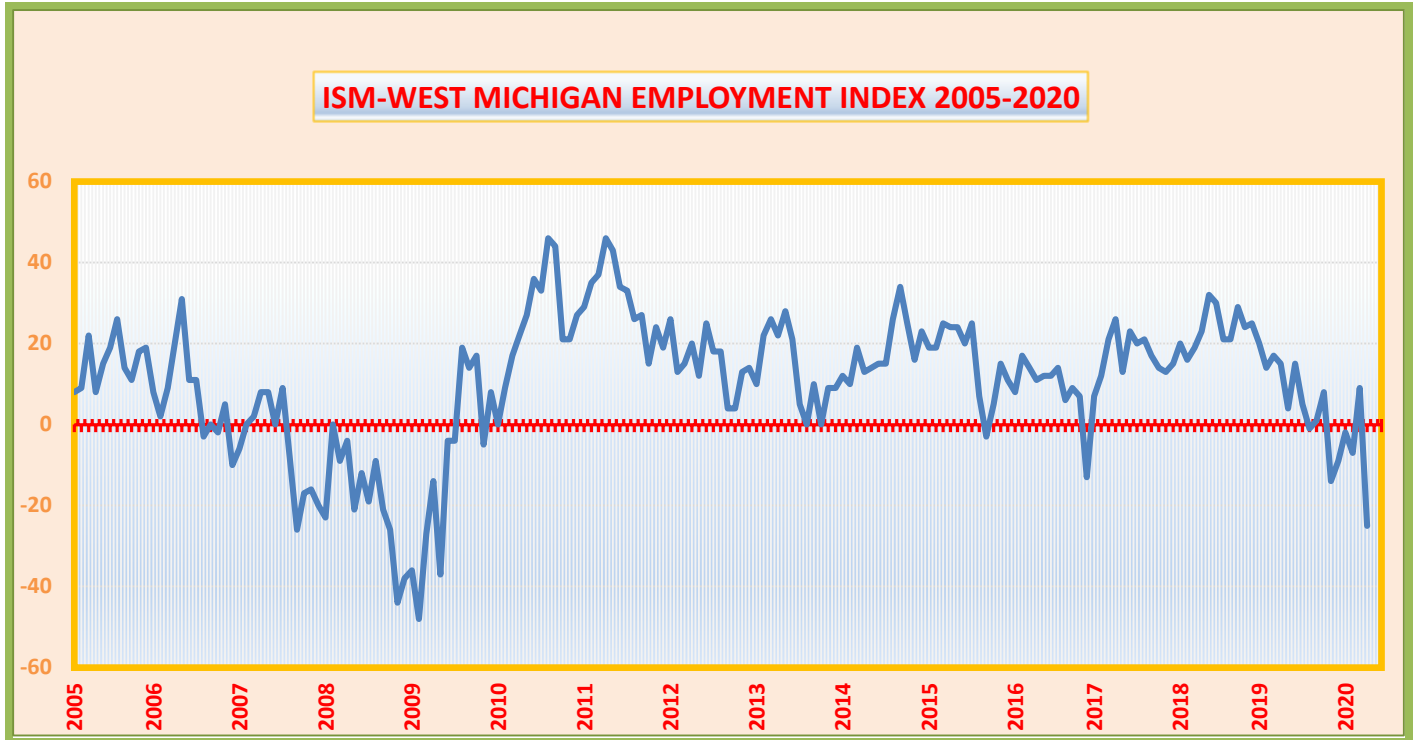


ISM-West Michigan Index of New Orders: 2005-2020 Only



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.

