



**Institute for Supply Management,**  
Greater Grand Rapids, Inc.  
P. O. Box 230621  
Grand Rapids, MI 49523-0321

## **News Release (For Immediate Release)**

**May 6, 2020**

### **Current Business Trends**

By Brian G. Long, Ph.D., C.P.M.  
Director, Supply Chain Management Research  
Grand Valley State University (269) 870-0428

#### **DOWN SHARPLY, BUT NOT AS BAD AS EXPECTED**

##### **Key Participant Comments for April:**

“Our company is currently shut down due to Covid-19 and the state mandate.”

“Employment is the same, but we have a lot of absentee employees with the COVID-19 stay-home order.”

“We have a horrible near-term business outlook, and will be down 50%.”

“This has been a crazy month already. We were about to shut down for the stay-at-home order, but then we received a large package of tools for the medical battle against COVID-19. So, we are still open and operating at full strength to help in this fight.”

We expected our West Michigan April statistics to be negative, and this report is one of the weakest we have filed in our 40-year history. However, the data we collected in the third and fourth weeks of April did not turn out to be a record low. NEW ORDERS, which had already fallen to -21 in late March, fell further to -45 in April. However, at the onset of the Great Recession, this index fell to -59 in December 2008. Granted, this recession is still in the early stages and could fall further in our next report. However, with some of our businesses beginning to reopen, we can hope that we have hit the bottom and can begin the slow process of recovery. As expected, the index for PRODUCTION came in at -48, down from -16. The March index for PURCHASES, which measures activity in the purchasing offices, fell to -44 from -30. Thanks to modern technology, a considerable number of our survey respondents are now comfortably working from home. At least some work is still getting done, which is a good sign.

**The U.S. Economy.** As expected, the May 1 press release from the Institute for Supply Management, our parent organization, came in weak. NEW ORDERS for April, ISM’s index of business improvement, fell to -42 from -9. It could have been worse. ISM’s record low for this index was reported in December 2008 as -57. In a similar move, ISM’s April PRODUCTION index tanked to -43 from -3. Again, it is somewhat gratifying to see that ISM’s current PRODUCTION index is at least slightly ahead of the reading of -53 posted in December 2008. ISM’s overall index fell to 41.5, down sharply from March’s 49.1.

A similar view of the U.S. economy comes from IHS Markit.com, the British international consulting firm. Markit.com’s seasonally adjusted April 2020 PMI posted at 36.1, down sharply from March’s 48.5, but still ahead of the record low reading of 31.8 recorded in December 2008. Just as last month, declining numbers were attributed to the Coronavirus. Chris Williamson, Chief Business Economist at IHS Markit, further commented:

“April saw the manufacturing sector struck hard by the COVID-19 pandemic, with output falling to an extent surpassing that seen even at the height of the global financial crisis. With orders collapsing at a rate not seen for over a decade, supply chains disrupted to a record degree and pessimism about the outlook hitting a new survey high, rising numbers of firms are culling payroll numbers. Consumer-facing businesses are being hit by slumping demand from

households as April saw widespread lockdowns, but business spending on inputs and equipment has also tumbled as companies slash production and investment. Smaller firms are being hit the hardest, and also reporting the highest job losses, but large firms are also seeing the sharpest downturn on record. With infection curves showing signs of flattening, it is naturally hoped that the economic downturn will also bottom out. As restrictions are lifted, demand should gradually revive, but the trade-off between risking a second wave of infections and bringing the economy back to life looks set to be one of the greatest challenges faced by policy/lawmakers in recent history. The process will inevitably be led by caution, meaning recovery will also be frustratingly slow.”

**The World Economy.** It is no surprise that the April J.P. Morgan Global Manufacturing Index posted a record low of 39.8, down from 47.3. Marginal strength in China’s PMI, the world’s second largest economy, kept the index from falling further. As recent news reports have noted, China has reopened at least some of its production capacity. However, 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:

“The continued impact of the global COVID-19 pandemic caused significant disruption to industrial activity during April. Output and new orders contracted at near survey-record rates as demand, international trade flows and economic sentiment were all constrained by restrictions to stop the virus spreading, company closures and shortages of material and labour. Only time will tell how permanent the damage to global supply chains is, although moves in many nations to loosen lockdowns may provide a guide over the coming weeks and months.”

For the Eurozone, the April PMI posted a record low of 33.4, down considerably from March’s 44.5 and February’s 49.2. Although none of the countries in the survey were expected to report a PMI above the critical break-even point of 50.0, it was sad to see Greece slide to a new series low of 29.5. About a quarter of the Greek economy is based on tourism, and the lockdown from the pandemic along with the closure of almost all of the visitor venues has added a huge strain to an economy that was finally beginning to recover from the worst economic disaster in recent Greek history. The PMIs for Italy, Austria, France, and Spain also posted record or near-record lows. Furthermore, almost none of the reports voiced optimism that there would be any form of recovery for many months. Chris Williamson from Markit.com further commented:

“Euro area manufacturing output plunged to an extent greatly exceeding any decline previously seen in the near 23-year history of the PMI survey in April, reflecting a combination of factors including widespread factory closures, slumping demand and supply shortages, all linked to the COVID-19 outbreak. All countries suffered record falls in factory output, with Italy reporting the sharpest decline, as measures to contain the coronavirus intensified during the month. With virus curves flattening and talk now moving to lifting some of the pandemic restrictions, April will have

hopefully represented the eye of the storm in terms of the virus impact on the economy, meaning the rate of decline will now likely start to moderate, barring any second wave of infections. However, the PMI is indicating an industrial sector that has collapsed at a quarterly rate of decline measured in double digits, and any recovery will be frustratingly slow. Steps needed to keep workers safe will mean even businesses that are able to restart production will generally be running at low capacity. 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. 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.** Had it not been for internet purchases, auto sales would have been virtually non-existent. Automakers and dealers have countered many of the lockdown measures with remote and online sales, but U.S. light-vehicle deliveries were expected to fall 50 to 55 percent in April, based on estimates from ALG, Edmunds, and Cox Automotive. Although the Detroit Three are now posting only quarterly reports, the major firms still posting sales are confirming the forecasts. Subaru sales for April were down 47 percent, Hyundai-Kia fell 39 percent, Toyota dropped 54 percent, and Honda slipped 54 percent. Looking ahead, Steven Center, vice president of Automobile Sales at American Honda Motor, struck a more positive note:

"There will be challenging days ahead as this very serious public health crisis continues, but with consumer traffic beginning to increase online and at Honda and Acura dealerships, we are approaching the coming weeks with guarded optimism."

**Industrial Inflation.** Despite the weakening economy, the decline in West Michigan index of PRICES for April was less severe than anticipated. Because of a few apparent industrial shortages, some prices are still holding up, although the index dropped to -24 from -18. For the ISM national survey, the index of Prices dropped marginally lower to -30 from -25. In short, at least some prices in the industrial market are still holding up despite the pressure of worldwide economic weakness. At the international level, the JPM index of PRICES eased modestly to 47.4 from 50.1. Timothy Fiore, ISM's survey committee chair, further commented:

"Prices contracted in April, driven primarily by scrap steel, other steels, aluminum, copper, corn, distillates and other energy sources. Prices contracted to their lowest level since January 2016."

**GDP.** On April 29, the U.S. Bureau of Economic Analysis released the official "first estimate" of the first quarter GDP for 2020 at -4.8 percent,

far lower than what was expected by most estimates. However, the BEA cautions that this quarter's data were difficult to collect because of the unusual anomalies brought on by the sudden shutdown of many economic sectors that normally provide information. Attention is now turning to estimates for the second quarter, wherein the prognostications from seemingly reputable sources are all over the proverbial map. From the Atlanta Fed's "GDPNow," the 2020 second quarter is estimated to drop by 16.1 percent. The New York Fed's latest "Nowcast" Q2 estimate anticipates a decline of 9.1 percent. Morgan Stanley forecasts a 34 percent drop. Pacific Investment Management Co (PIMCO) predicts a second quarter drop of 30 percent. Goldman-Sachs has worsened its Q2 estimate to a negative 34 percent. Even Janet Yellen, former Fed chair, expects a 30 percent drop for Q2. Although all of these predictions come from credible sources, the level of confusion is obvious.

**Business Confidence.** As expected, West Michigan's SHORT-TERM BUSINESS OUTLOOK for April, which asks local firms about the perception for the next three to six months, came in at -47, virtually unchanged from last month's -46. However, the LONG-TERM BUSINESS OUTLOOK index, which queries the perception for the next three to five years, remained positive but edged slightly lower to +15, down from +22. In confirmation, U of M's index of Consumer Sentiment fell from 89.1 to 71.0, the largest drop in the history of the survey. Consumer Confidence, a similar index from the Conference Board, fell from 118.8 to 86.9, also a record drop for one month.

**COVID-19.** Although it is worth repeating that this crisis will not be completely over until we have a vaccine, we need to be thankful that at least some of our economy is still functioning, albeit under restraint. The continued program of social distancing and social lock-down will help, and many firms may find it necessary to provide masks, gowns, gloves, and even glass partitions to many of their workers. In the shorter term, we of course hope that some of the therapeutic drugs now being tested will help mitigate the mortality rate of the virus. Expanded testing will help to reduce the spread of the virus. Also, there are predictions (or wishful thinking) that a credible vaccine might be available sooner than the original 18-month estimate. Sooner or later, this crisis will pass, and we will continue to hear more talk about "herd immunity," which is generally how the 1918 pandemic ended in 1920. For any virus, herd immunity occurs after about 50-70 percent of the population either recovers from the disease or is immunized.

**Summary.** Is the worst over? With some businesses starting to reopen, we can hope that next month's statistics will be less negative. However, it is worth remembering that it took 18 months (October 2007 to April 2009) for our survey to finally turn back to positive in the Great Recession. As the economy slowly reopens, we will be closely monitoring the confidence levels of both retail and industrial consumers, both of which have been hit very hard. Like any recession, despite the efforts of the federal stimulus payments, many firms will not survive. At this early stage, assessing the survivors and losers is difficult.

## APRIL COMMENTS FROM SURVEY PARTICIPANTS

"Our company is currently shut down due to Covid-19 and the state mandate."

"Quoting is still strong. Order are about 60-70% of normal."

"We have increased inventory due to the uncertainty of supply base restrictions. So far, most vendors continue to run, and only a handful shut down. Our sales department is expecting a 20% decline for rest of calendar year. This seems optimistic."

"This has been a crazy month already. We were about to shut down for the stay-at-home order, but then we received a large package of tools for the medical battle against COVID-19. So, we are still open and operating at full strength to help in this fight."

"Employment is the same, but we have a lot of absentee employees with the COVID-19 stay-home order."

"Our organization is part of the essential work force and are doing what we can do while exercising social distancing along with a remote work force. Many construction projects will be delayed or on hold until such a time that it will be safe."

"We are shutdown since 3/23 per the governor's executive order."

"Our purchase prices have all been lowered because we are working on only medical molds for the COVID-19 outbreak."

"It's hard to gauge the industry right now with so many businesses down. We are looking forward to getting back to work and getting our manufacturing facilities up and running at full capacity."

"Sales are down for all business segments with the exception of medical. It is a bit of a challenge getting timely answers from suppliers with the amount of people working remotely, but we are not facing any critical supply issues. We have not laid off any workers but we do have a high amount of absences on a daily basis and overtime has been cut."

"Very odd times. We are an essential company, but our sales are down 20%. We are working to determine the impact to economy and company, but the variables are far reaching."

"It's going to be a difficult time for a while."

“We have a horrible near-term business outlook, and will be down 50%.”

“We are completely shut down until 5/4/2020.”

“Half the company is working remotely, and the other half is on site working in production-related capacities. Let’s hope the economy starts to get back on track in early May. Otherwise, it’s anyone’s guess on what will happen to our way of life in the U.S. and abroad. I think we’ll be “OK,” just different.”

“Times are very tight in the automotive market. We are hoping to see a rebound once things open back up in May....hopefully.”

“We have seen some customers purchase equipment that are involved with the fight against COVID-19. Customers that are not involved with the fight (ventilators, hospital beds, etc) are very slow and pushing off purchases. Most believe the economy will recover. Most have strong balance sheets.”

“We are preparing for 10-20% of our customer base to close shop. We will not be able to collect on past orders and will have a difficult year.”

“Our cash position is relatively good. We will weather the storm, and maintain our current staff.”

“This is bad. We have been deemed part of the critical supply chain infrastructure, but not a lot of our customers have. Business is VERY bad, and we are off at least 50% of normal.”

“We are not having any issues getting components. We did have a supplier that was producing components for us in Italy, but they moved that production to another plant in Brazil. We are doing much better than our sister plant in Germany.”

“We are getting what we need to complete our machinery. Most all of my suppliers are considered at least ‘essential’ and are open.”

“Most machine tool builders are discounting heavily in order to keep factories running.”

“Steel is the big thing down in price. We have great suppliers wanting to do their part during this crisis and they are giving us rock bottom pricing for any steel we buy for medical molds for COVID-19.”

“We still have all employees working, but they are all on reduced hours.”

“COVID-19 has certainly impacted manufacturing. We are fortunate that we are an essential supplier and are still working, but certainly less volume.”

“Gasoline prices for raw steel products are going downward. I suspect a lot of things will start going down in price soon.”

“For our firm, demand is up due to Covid-19.”

## April Survey Statistics

	UP	SAME	DOWN	N/A	Apr. Index	Mar. Index	Feb. Index	25 Year Average
Sales (New Orders)	17%	16%	62%	5%	-45	-21	+ 7	+14
Production	14%	10%	62%	14%	-48	-16	+ 2	+14
Employment	7%	45%	48%	0%	-41	-25	+ 9	+ 8
Purchases	19%	15%	64%	2%	-44	-30	+ 9	+ 7
Prices Paid (major commod.)	2%	62%	26%	0%	-24	-18	+ 3	+15
Lead Times (from suppliers)	45%	35%	10%	10%	+35	+20	+ 5	+11
Purchased Materials Inv. (Raw materials & supplies)	26%	22%	38%	14%	-12	+ 7	+ 0	- 4
Finished Goods Inventory	41%	19%	26%	14%	+15	+12	+ 3	- 8
Short Term Business Outlook (Next 3-6 months)	14%	14%	67%	5%	-47	-46	+11	-
Long Term Business Outlook (Next 3-5 years)	29%	43%	14%	14%	+15	+22	+32	-

**Items in short supply:** Cleaning and disinfecting supplies, anything from India, metric mold component parts, face masks, disinfectants, anything that is related to Personal Protective Equipment (PPE's), isopropyl alcohol, ethanol alcohol, N95 masks, paper, electronic components.

**Prices on the UP side:** PPE masks, gloves, plastic packaging.

**Prices on the DOWN side:** Steel, transportation (primarily due to lower fuel surcharges), fuel, energy related commodities, polypropylene, ABS plastic, metal fab, gasoline, raw steel products, aluminum, copper, oil, scrap steel.



## Latest Unemployment Reports

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

	Feb. 2020	Feb. 2019	Aug. 2009	20 Year Low
State of Michigan (Feb.)	3.6%	4.2%	14.6%	3.2%
State of Michigan (Unadj.)	3.6%	4.5%	14.1%	2.9%
Kent County	2.4%	3.1%	11.9%	2.1%
Kalamazoo County	2.7%	3.5%	11.1%	2.1%
Calhoun County	3.6%	4.5%	12.8%	2.7%
Ottawa County	2.3%	3.0%	13.3%	1.8%
Barry County	3.1%	3.8%	10.9%	2.2%
Kalamazoo City	3.4%	4.3%	15.2%	3.2%
Portage City	2.5%	3.2%	8.7%	1.3%
Grand Rapids City	3.2%	4.1%	16.1%	3.0%
Kentwood City	2.2%	2.9%	10.7%	1.4%
Plainfield Twp.	1.8%	2.3%	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 -45 for the month of Apr. 2020

Previous Month - 21 for the month of Mar. 2020

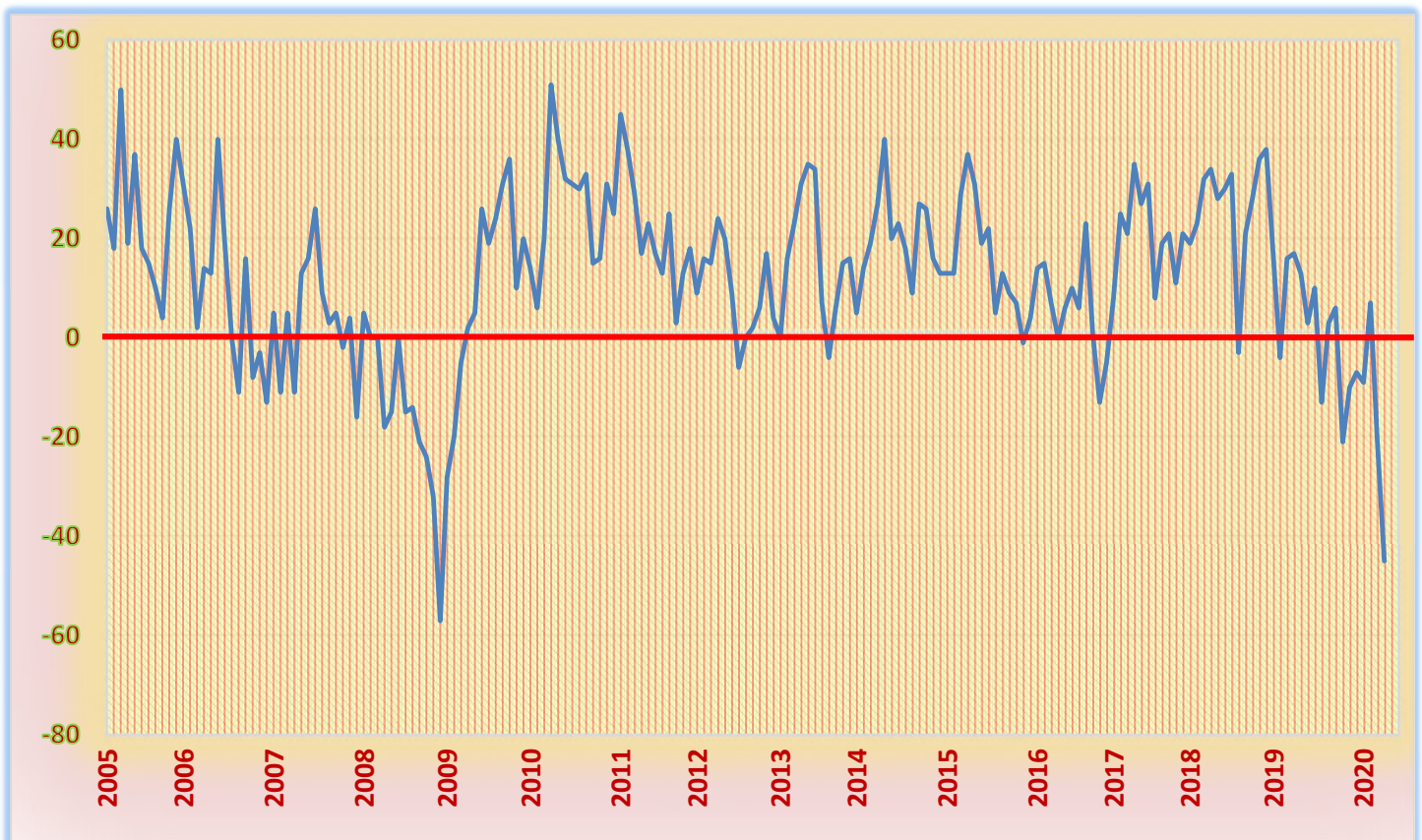
One Year Ago +17 for the month of Apr. 2019

Record Low - 57 for the month of December 2008

Record High + 55 for the month of September 1994

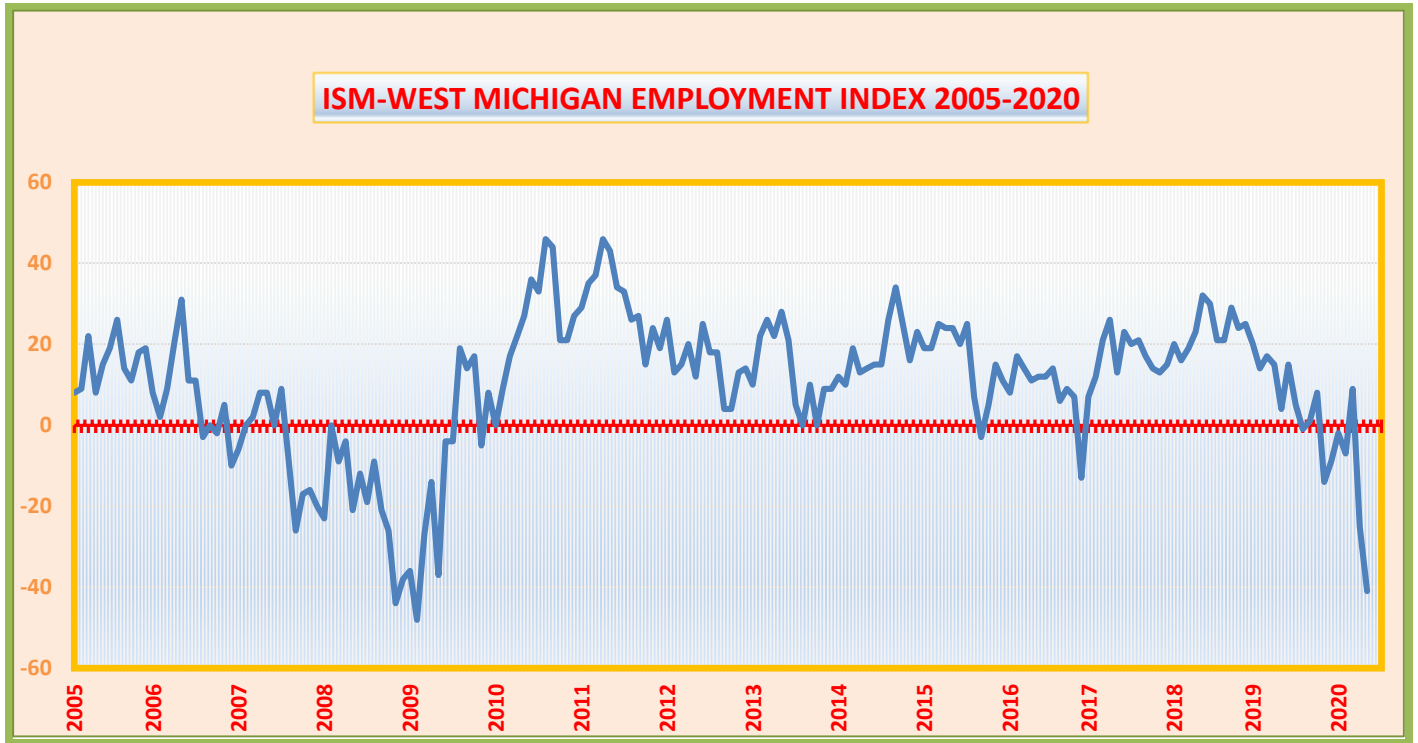
First Recovery + 3 in April of 2009 and forward

## ISM-West Michigan Index of New Orders: 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.

