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Current Business Trends

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A SLOW RECOVERY BEGINS

Key Participant Comments for May:

"We are expecting the second quarter to be down 35% - 40%, and the third quarter down 20%."

"Business is up 2x from last year at this time due to the supply of COVID related sales."

"We are now seeing our customers slowing down. Our forecast is down 25% for June."

"Current automotive OEM orders are very low because they are just restarting after the late March shutdown due to COVID-19. The forecasts were strong while on shutdown, but now they have been reduced. We are preparing for orders to start to increase in the next 4-6 weeks."

Although our West Michigan statistics for May are still negative, it now appears that the worst is over and the recovery has begun. According to the data collected in the third and fourth weeks of May, NEW ORDERS, our index of business improvement, edged up to -32 from -45. In a similar move, the PRODUCTION index recovered to -35 from -48. The May index of PURCHASES, which measures activity in the purchasing offices, reduced its loss rate to -32 from -44. Just as last month, many of our survey participants are still working from home or working on a reduced office-sharing schedule. It seems obvious that many of our supply chains have been shaken, and restarting production will not always be easy. As business around West Michigan continue to reopen, we can expect next month's statistics to continue to slowly improve.

The U.S. Economy. According to the June 1 press release from the Institute for Supply Management, our parent organization, April was probably the bottom of the current recession and a slow recovery apparently began in May. NEW ORDERS, ISM's index of business improvement, recovered to -32 from April's -42. ISM's May PRODUCTION index fared about the same, and recovered to -31 from -43. Keep in mind that the 30-year low for ISM's PRODUCTION index was recorded in December 2008 at -57. After adjusting for seasonal variation, ISM's overall index recovered modestly to 43.1 from 41.5.

IHS Markit.com, the British international consulting firm that also surveys U.S. purchasing managers, reported that May's data represented a "slightly softer, but nonetheless severe, contraction in U.S. manufacturing output." Markit.com's seasonally adjusted May 2020 PMI posted at 39.8, up from April's 36.1, but still ahead of the record low reading of 31.8 recorded in December 2008. The modest increase was attributed to the economy beginning to slowly reopen. Furthermore, it was noted that a least some firms that were deemed "essential" remained in full-scale operation. Chris Williamson, Chief Business Economist at IHS Markit, further commented:

> "Manufacturing remained in a deep downturn in May, as measures taken to contain the spread of COVID-19 continued to cause production losses, disrupt supply chains and hit demand. Job losses meanwhile continued to run at one of the highest rates in over a decade, and pricing power has collapsed. With increasing numbers of companies restarting production, we should see some improvements in the output trend in coming months, and it was reassuring to see signs of the downturn already starting to ease in May, suggesting April was the eye of the storm as far as the production collapse is concerned. There remains a high risk that any recovery will be frustratingly slow as ongoing social distancing measures, high unemployment, job insecurity and damaged balance sheets constrain consumer and business spending. The recovery will of course also fade quickly if virus infections start to rise again. For now, however, we focus on the good news that we may be past the worst in terms of the economic decline."

The World Economy. Much like our other statistics, the J.P. Morgan Global Manufacturing Index for May recovered to 42.4, up from 39.6, but still well below the 50.0 break-even threshold for expansion. The PMI for China, the world's second largest economy, flipped back to positive growth at 50.7, up from April's 49.4. However, the efficacy of the China PMI report from Caixin, China's state-run news media, have been called into question. As recent news reports have noted, China has reopened most of its production capacity. However, with the rest of the world economy still in shambles, at least some of China's export business has been permanently damaged. Olya Borichevska, from Global Economic Research at J.P. Morgan, further noted:

> "Global manufacturing production fell for the fourth straight month in May. The downturn remained widespread, with substantial decreases across the consumer, intermediate and investment goods sub-industries. Of the 28 nations for which May data were available, all except China (where growth was the highest since January 2011) saw manufacturing output contract. That said, only two (Japan and Australia) saw their rates of decline accelerate over the month. Despite easing since April, the rate of contraction in new order intakes was the second-fastest since the 2008/09 global financial crisis. Disruption to international trade flows also remained. Among the world's major industrial regions, marked rates of reduction were seen in the U.S., the euro area, India, South Korea, Brazil and the UK. Japan and China only registered marginal job cuts."

The PMI from the Eurozone also reported a modest recovery, posting at 39.4 for May, up from 33.4, but still a long way away from the 50.0 break-even threshold. Every major county in the survey reported modestly better statistics, although the government restrictions designed to limit the spread of Covid-19 continue to hamper further improvement. We should also keep in mind that entire European economy was already having trouble long before the current crisis began, so the road back to normal may take MUCH longer. Chris Williamson from Markit.com further commented:

> "The (European) manufacturing downturn looks to have bottomed-out in April, with production falling at a markedly slower rate in May. The improvement in part merely reflects the comparison against a shockingly steep fall in April, but more encouragingly was also linked to companies restarting work as virus lockdowns were eased. The further lifting of COVID-19 restrictions in coming months should provide a further boost to manufacturers. While we are still set to see unprecedented falls in industrial production and GDP in the second quarter, the survey brings hope that the goods-producing sector may at least see some stabilisation –and even potentially a return to growth –in the third quarter. Whether growth can achieve any serious momentum remains highly

uncertain, however, as demand –both domestically and in export markets –looks set to remain subdued by social distancing measures, high unemployment and falling corporate profits for some time to come. Headcounts continue to be cut at a rate not seen since the height of the global financial crisis in 2009 as firms scale-back capacity in line with weak demand. Prices charged for goods meanwhile are still falling at a pace not exceeded over the past decade as manufacturers offer discounts to help clear warehouses of unsold stock. The labour market and profits could therefore deteriorate further in coming months, holding any recovery in check."

Automotive. Many analysts are thanking internet sales for saving the auto industry from total ruin. Furthermore, although the May sales are significantly lower than in May 2019, the drop was not nearly as steep as some had expected. Of the firms still reporting monthly sales figures, year-over-year deliveries fell 26 percent at Toyota, 17 percent at Honda, 13 percent at Hyundai, 19 percent at Subaru, 24 percent at Kia, 2.5 percent at Volvo, and just 1 percent at Mazda. According to Morgan Stanley, volume for the entire industry, including the Detroit Three, fell approximately 30 percent in May, which is considerably better than the 50 percent drop expected by some analysts. At least SOME of our local auto parts suppliers are optimistic that production may return to normal over the next few months. Edmunds analyst Jessica Caldwell also struck a positive note:

"There's still a long road to recovery ahead, but May auto sales are a really encouraging sign for the industry. The unprecedented deals broadcast by automakers and dealers really did the trick in getting more consumers to reenter the market, social distancing and all."

West Michigan Unemployment. For May, our West Michigan index of EMPLOYMENT recovered modestly to -38 from -41. Needless to say, the May 29 unemployment report released from Lansing's DTMB was probably one of the worst reports ever issued. Of the 83 counties in Michigan, the estimated unemployment rate ranged from 14.5 percent to 41.2 percent. Ottawa County, which often boasts the lowest rate in the state, came in at 21.2 percent. Kent County was close behind at 21.6 percent. Kalamazoo County fared better than some, but still posted an unemployment rate of 17.2 percent. the entire state reported a seasonally adjusted rate of 22.7 percent, and the national rate rose to 14.7 percent.

Industrial Inflation. Purchasing managers have long noted that sharply declining prices only occur when the economy is very weak. Our West Michigan index of PRICES for May came in negative at -7, and improvement from April's -24. For the ISM national survey, the index of Prices came in at -18, a significant improvement over last month's -30. At the international level, the JPM index of PRICES recovered modestly to 48.0 from 47.4. Overall, all of these indices remain slightly negative, but the indication is that the markets for most industrial commodities have stabilized. Timothy Fiore, ISM's survey committee chair, further commented:

"Prices contracted in May, driven primarily by chemicals, plastics, steels, aluminum, copper, and distillates. Notwithstanding April and March, prices contracted to their lowest level since February 2016, when the index registered 38.3 percent."

GDP. On May 28, the U.S. Bureau of Economic Analysis released the official "second estimate" of the first quarter GDP for 2020 at -5.0, down slightly from the first estimate of -4.8. Estimates for 2020's second quarter are growing increasingly pessimistic, and there is fairly uniform consensus that it will be the worst quarterly drop in the history of the GDP measure. The Atlanta Fed's "GDPNow" second quarter for 2020 estimate has been revised downward to a monumental drop of 53.0 percent, which is more pessimistic than the New York Fed's latest "Nowcast" estimate for a drop of 31.2 percent. The St. Louis Fed's projection calls for a drop of 49.8 percent. All of these projections are from credible sources, but they change from day to day depending on new statistics that feed their economic models. However, if businesses continue to reopen at the present pace as we move into June, it is possible that the final report for the second quarter will not be as dire as projected.

Business Confidence. After two disastrous months, the SHORT-TERM BUSINESS OUTLOOK index has partially recovered. The May survey, which asked local firms about the business perception for the next three to six months, came in at -15. Although still negative, this index of short-term confidence is considerably improved from April's -47 and the March reading of -46. The LONG-TERM BUSINESS OUTLOOK index, which queries the perception for the next three to five years, bounced upward to +33 from +15. In confirmation, U of M's index of Consumer Sentiment edged up to 72.3 from April's 71.0. Consumer Confidence, a similar index from the Conference Board, also rose modestly to 86.6. The fact that most measures of business and consumer confidence have quit sliding and are starting to improve is an additional sign that the recovery has begun, although the road back to the confidence levels of 2019 will take considerable time.

Summary. Yes, some stores are starting to reopen, some factories are resuming production, and some Covid-19 statistics are improving. Barring a relapse in the fall, it now appears that history will record either March or April as the bottom of the 2020 Recession. Assuming that the current civil unrest does not get out of hand, we can expect some additional improvement in next month's report. However, the prediction circulating in the press of a full recovery by the third or fourth quarter seems highly unlikely at this time. It is worth repeating that we do not consider a recession to be OVER until we return to full employment, which took about seven years for the complete recovery from the Great Recession. Hopefully, it will not take seven years this time.

MAY COMMENTS FROM SURVEY PARTICIPANTS

"Business is up 2x from last year at this time due to the supply of COVID related sales."

"It is a very interesting time right now that we are navigating through, with the ups and downs in big swings. Hopefully, we can get some normalcy back relatively soon."

"We are still doing surprisingly well in the capital equipment arena. We'll see if we can maintain our sales as time goes by."

"By pivoting to online sales and encouraging sales people to sell online, we have grown 100% over last year."

"Business Sucks. Who knew the world could be stopped by a bad cold?"

"We are expecting the second quarter to be down 35% - 40%, and the third quarter down 20%."

"Hospitals are pushing out medical equipment orders with their decrease in revenue due to the restrictions placed on elective surgery."

"We're trying to just survive."

"We are starting operations back to about 50% up from a small skeleton crew that has been working for the last 8 weeks. We are seeing light at the end of the tunnel as we ramp back up."

"April and May were horrible. down 40% from year ago for the first quarter."

"We are holding up, but it is rough. The next year is going to be a wild business ride."

"We're seen a significant drop in business activity since the first quarter."

"Let's get on with life. This Covid-19 is getting ridiculous. Just live normal, keep your hands clean., and then use your manners and don't cough and sneeze on people. Call it good, and get rid of the mask and gloves."

"We are now seeing our customers slowing down. Our forecast is down 25% for June."

"Current automotive OEM orders are very low because they are just restarting after the late March shut down due to COVID-19. The forecasts were strong while on shut down, but now they have been reduced."

"We are preparing for orders to start to increase in the next 4-6 weeks."

"Our business continues strong because as we were considered 'essential.' Demand has even increased by a few points."

"We're getting hit with both the COVID fallout and the plunge in oil prices. Most of the plant is now on 20% reduction in hours through Michigan Work Share program."

"COVID-19 is like nothing we have seen before. We're not sure how all of this will play out and what our business and industry will look like once things are back to 'normal.'"

"Due to Covid-19, Mexican factories are at 20 - 50% production capacity."

"Most steel has declined in price, but it seems to be holding mostly steady for now."

Statistical Note:

Because of the current economic emergency, many of our survey participants are working from home or other remote locations and do not have regular access to their company computers. Hence, with the response rate is below normal, statistics herein presented may not represent the West Michigan economy as accurately as we would like. As firms gradually reopen over the next few weeks, hopefully our response rate will return to normal.

May Survey Statistics

	UP	SAME	DOWN	N/A	May Index	Apr. Index	Mar. Index	25 Year Average
Sales (New Orders)	23%	22%	55%	0%	-32	-45	-21	+14
Production	20%	8%	55%	7%	-35	-48	-16	+14
Employment	5%	52%	43%	0%	-38	-41	-25	+ 8
Purchases	20%	28%	52%	2%	-32	-44	-30	+ 7
Prices Paid (major commod.)	10%	73%	17%	0%	- 7	-24	-18	+15
Lead Times (from suppliers)	33%	50%	17%	0%	+16	+35	+20	+11
Purchased Materials Inv. (Raw materials & supplies)	23%	37%	33%	7%	-10	-12	+ 7	- 4
Finished Goods Inventory	25%	38%	27%	10%	- 2	+15	+12	- 8
Short Term Business Outlook (Next 3-6 months)	30%	25%	45%	0%	-15	-47	-46	-
Long Term Business Outlook (Next 3-5 years)	48%	32%	15%	5%	+33	+15	+22	-

Items in short supply: All items related to hand sanitizer packaging, hydraulic components, some Allen Bradley electrical components, some Eaton fittings, all jewelry materials because suppliers are closed, motors and fuses coming from Juarez, Mexico, PPE for Covid, all Mexico supplied items due to Covid-19, air freight capacity, polyphenylene, disinfecting wipes, all Personal Protection Equipment (PPE), all disinfectants.

Prices on the UP side: Specialty metals, shipping prices, Safety related cleaning and disinfectant supplies, sanitizers, air freight, isopropyl alcohol.

Prices on the DOWN side: Steel, tool steel, scrap steel, natural gas, aluminum.

Latest Unemployment Reports

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

	Apr. 2020	Apr. 2019	Aug. 2009	20 Year Low
State of Michigan (Apr.)	22.7%	4.3%	14.6%	3.2%
State of Michigan (Unadj.)	23.8%	3.7%	14.1%	2.9%
Kent County	21.6%	2.5%	11.9%	2.1%
Kalamazoo County	17.2%	2.9%	11.1%	2.1%
Calhoun County	24.6%	3.8%	12.8%	2.7%
Ottawa County	21.2%	2.4%	13.3%	1.8%
Barry County	22.4%	3.0%	10.9%	2.2%
Kalamazoo City	20.8%	3.6%	15.2%	3.2%
Portage City	16.0%	2.7%	8.7%	1.3%
Grand Rapids City	27.1%	3.4%	16.1%	3.0%
Kentwood City	20.6%	2.4%	10.7%	1.4%
Plainfield Twp.	17.1%	1.9%	8.0%	1.4%
U.S. Official Rate (Apr.)	14.7%	3.6%	9.6%	3.5%
U.S. Rate (Unadjusted)	14.4%	3.3%	9.6%	3.4%
U.S. U-6 Rate (Apr.)**	22.8%	7.3%	16.7%	8.0%

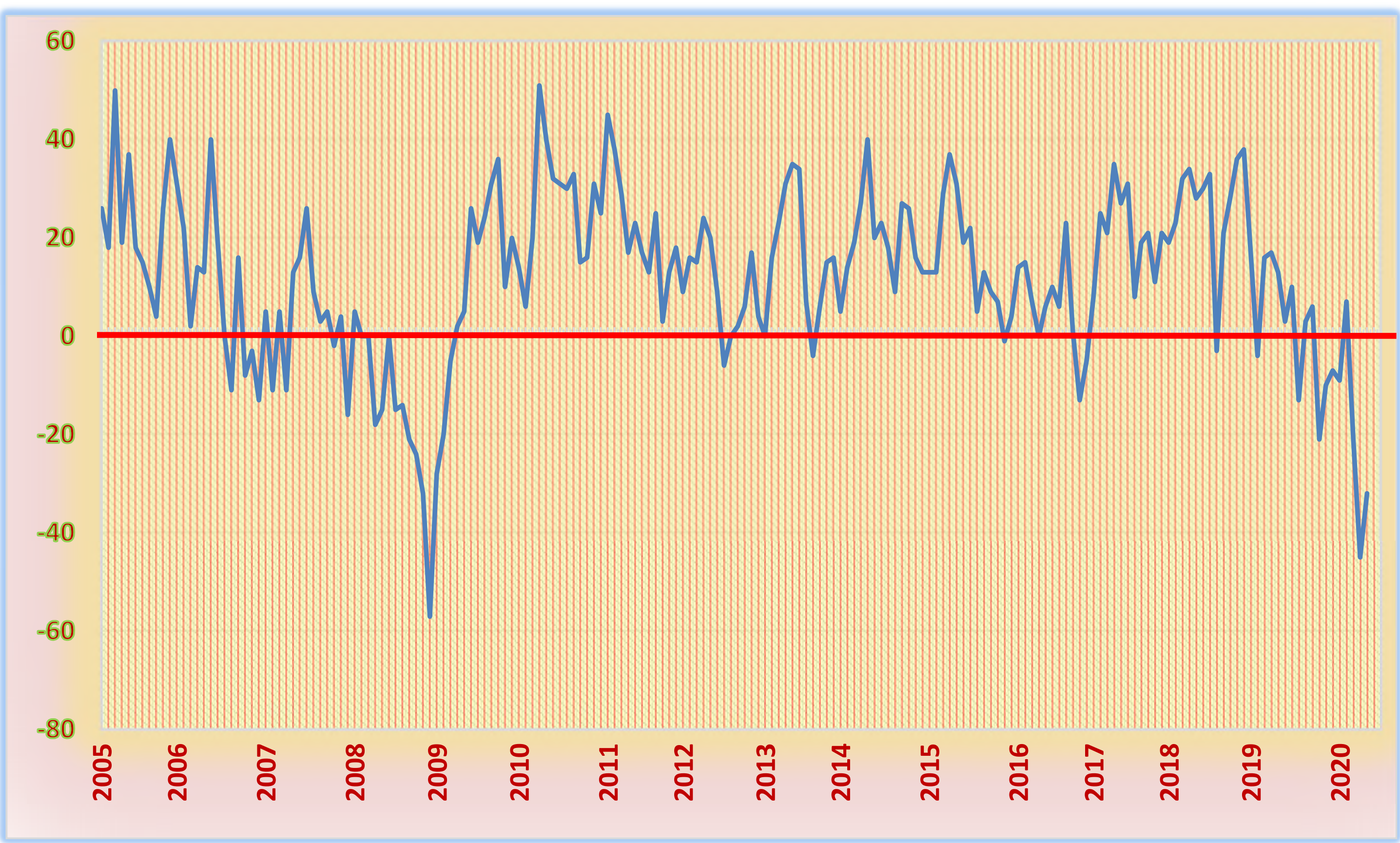
**U-6 for Michigan = 7.5% for all of 2019

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.

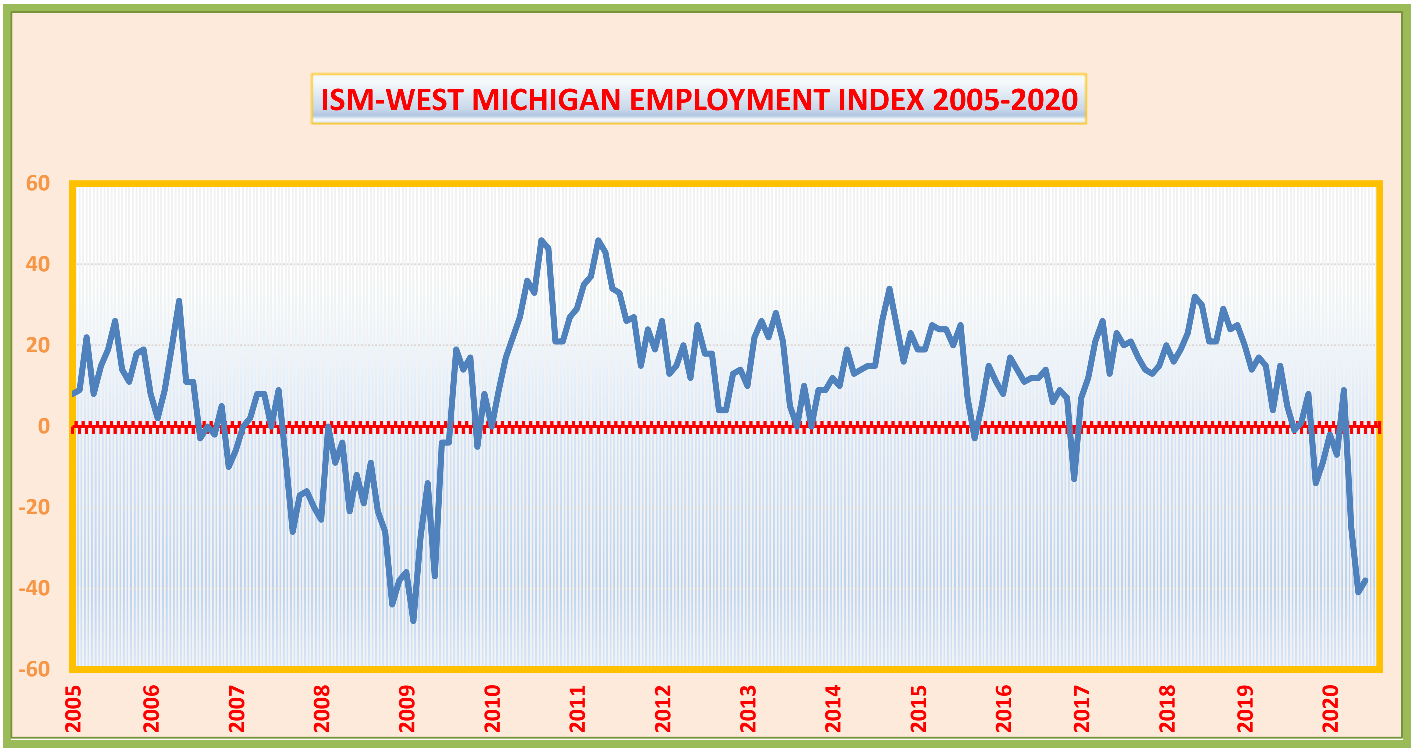
Latest Report	-32 for the month of May 2020
Previous Month	- 45 for the month of Apr. 2020
One Year Ago	+13 for the month of May 2019
Record Low	- 57 for the month of December 2008
Record High	+ 55 for the month of September 1994
First Recovery	+ 3 in April of 2009 and forward

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 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.