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News Release (For Immediate Release)

July 6, 2020

Current Business Trends

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RECOVERY PICKS UP STEAM—FOR NOW

Key Participant Comments for June:

"Automotive is coming back pretty fast. June and July should be good months for our U.S. market, and the China market continues to do quite well."

"Business is down 30% from where we thought we would be prior to Covid-19. We have not reduced workforce, and there are no plans to do so. Remote working is becoming old."

"We've seen a slow start-up for the auto industry. New vehicle programs are being delayed, and some may be cancelled."

"We're hunkering down and hope we see improving sales for Q3 and really recovering by mid-Q4."

With many West Michigan production facilities resuming marginal operations, the pent-up demand has brought our statistics back closer to break-even. According to the data collected in the third and fourth weeks of June, NEW ORDERS, our closely-watched index of business improvement, came in at -7, considerably better than the -32 index we reported for May. In a similar move, our June PRODUCTION index rallied to -11 from -35. The June activity in the purchasing offices, the index of PURCHASES, recovered to -13 from -32. Although all of these readings remain modestly negative, the improvement over just two months ago is obvious. Some survey participants are still working from home, and others are working on reduced office sharing schedules to help accomplish more social distancing. Some of the factory reopenings have been thwarted by kinks in the convoluted supply chains we have built over the last two decades. In some instances, new suppliers need to be located to fill supply chain gaps. Although most factories have successfully enforced face masks, regular facility decontamination, and social distancing, increased social activities outside of the workplace may be causing the number of Covid-19 cases to re-escalate. Hence, we can expect next month's survey statistics to remain near the current levels, unless the current situation grows worse.

The U.S. Economy. Good news comes from the July 1 press release from the Institute for Supply Management, our parent organization. NEW ORDERS, ISM's index of business improvement, bounced to +13, up sharply from May's -32. In a similar move, ISM's June PRODUCTION index bounced to +16 from -31. After adjusting for seasonal variation, ISM's overall index flipped back to a positive reading of 52.6, up substantially from May's 43.1.

IHS Markit.com, the British international consulting firm that also surveys U.S. purchasing managers, reported that June's data represented a "marked easing in the overall manufacturing downturn." Markit.com's seasonally adjusted June 2020 PMI posted at 49.8, up a record-setting ten points from May's reading of 39.8, and fractionally shy of the all-important 50.0 break-even point. Although much of the improvement can be attributed to pent-up demand, order fulfillment predominately came for existing inventories rather than new production. Hence, it may be too early to declare a permanent return to positive growth in the industrial sector. Just as last month, firms that were deemed "essential" continued to set new production records, adding to the improved results. Chris Williamson, Chief Business Economist at IHS Markit, further commented:

> "U.S. manufacturers have reported a marked turnaround in business conditions through the second quarter, with collapsing production and demand in April at the height of the COVID-19 lockdown turning rapidly to stabilisation by June. The PMI posted a record 10-point rise in June amid unprecedented gains in the survey's output, employment and order book gauges. The record rise in the New Orders Index, coupled with low inventory holdings, bodes well for a further improvement in production momentum in July. A record upturn in business sentiment about the year ahead likewise hints that business spending and employment will start to revive. However, while the PMI currently points to a strong v-shaped recovery, concerns have risen that momentum could be lost if rising numbers of virus infections lead to renewed restrictions and cause demand to weaken again."

The World Economy. The closely-watched J.P. Morgan Global Manufacturing Index for June came in at 47.8, considerably better than May's 42.4, but still below the 50.0 break-even point for positives growth. Among the 32 industrial nations included in this month's report, growth was reported in China, France, Italy, the U.K., and Brazil. Downturns eased in the U.S., Japan, Germany, South Korea and India. JPM's index of New Orders recovered to 46.8 from 36.4. It is worth remembering that JPM's index numbers were already fairly flat long before the current pandemic crisis began. Hence, the world economy may not be far from where it may have been before the current situation developed. Olya Borichevska, from Global Economic Research at J.P. Morgan, further noted:

> "June saw a further momentum shift in the global manufacturing sector after the economy started on the recovery path in May. The output PMI increased for a second consecutive month in June rising a total of 14.5 points. We look for the PMI to continue moving higher as growth firms. This of course is premised on continued easing of activity restrictions. With demand rebounding, the focus is starting to shift to the labor market, with hopes that the current process of job retrenchment proves shallower and shorter than expected."

In a similar move, the composite PMI of 47.4 from the Eurozone remains below the 50.0 break-even threshold but continues on a path to recovery. Although the PMI for France came in at a 21-month high, Germany remains the weakest (and largest) of the major European economies. Fortunately, the survey's measure of business confidence flipped back to positive in June, which should help stabilize the other statistics for July. Chris Williamson from Markit.com further commented:

> "The final PMI numbers for June add further to signs that the Eurozone factories are seeing a strong initial recovery as the economy lifts from COVID-19 lockdowns. The rise in the June survey is indicative of output falling at an annual rate of just 2%. That compares with a near 30% rate of contraction seen at the height of the lockdowns in April. This remarkable turnaround implies very strong month-on-month gains in the official production numbers for the past two months. Expectations for the year ahead have also rebounded sharply as hopes grow that the economy will continue to find its feet again in the coming months. However, even with

these gains, production and sentiment remain below pre-pandemic peaks, and persistent weak demand combined with ongoing social distancing measures are likely to act as a drag on the recovery. The focus therefore now turns to whether gains seen in the past two months can be built on, or if momentum fades again after this initial rebound."

Automotive. According to Automotive News, sales for the first half of 2020 were off by 27.7 percent. With customers depleting dealer inventories and only about 60 percent of the assembly lines reopened, the sales numbers for the remainder of the year will probably remain soft. So far, the drop in sales has not been nearly as steep as some had expected. Looking at the sales figures for the 2020 second quarter for the Detroit Three, General Motors sales declined by 34.0 percent, Fiat-Chrysler slid 38.7 percent, and Ford lost 33.0 percent. For other major nameplates, Toyota second quarter sale were down by 34.6 percent, Honda lost 28.0 percent, Hyundai-Kia dropped 24.8 percent, and Subaru fell 25.3 percent. Almost all brands reported that a significant drop in fleet sales resulted in about half of the decline. Chief Economist Jonathan Smoke at Cox Automotive stuck a cautious note:

"The market is losing the upward momentum that it enjoyed in May and early June. The challenge ahead begins with the increasing number of COVID-19 cases that's causing consumer sentiment to decline again. It also appears the pent-up demand that gave us a much stronger recovery in May and June is waning. Dealer inventory remains challenged as well. When you add it up, it looks like the industry will be heading into an even more challenging sales environment in July.

West Michigan Unemployment. Fortunately, many of our local manufacturing firms have resumed at least partial production schedules. Although still negative, the June West Michigan index of EMPLOYMENT recovered to -13, up from -38. At the state level, the June 25 unemployment report for the month of May released from Lansing's DTMB reported that state-wide unemployment improved modesty to 21.2 percent from 24.0 percent, the third highest in the nation. Of the 83 counties in Michigan, the estimated unemployment rate ranged from 12.3 percent to 30.3 percent. For our major West Michigan counties, the unemployment rate for Ottawa County came in at 16.1 percent, Kent County 17.3 percent, Kalamazoo County 15.3 percent, and Calhoun County 15.5 percent. The national unemployment rate has now fallen to 11.1 percent.

Industrial Inflation. Our West Michigan index of PRICES for June returned to the breakeven point of +0, up from May's -7. For the ISM national survey, the index of Prices came in at +3, a significant uptick from last month's -18. At the international level, the JPM index of PRICES flipped back across the 50.0 break-even point to 51.6, up from May's 48.0. Scattered factory shut-downs all over the world have resulted in spot shortages of a wide variety of commodities, semi-finished goods, industrial services, and some sub-assemblies. Shipping schedules from overseas have become erratic. Unlike previous recessions, all of these factors have kept industrial prices from falling.

GDP. On June 25, the U.S. Bureau of Economic Analysis released the official "third estimate" of the first quarter GDP for 2020 at -5.0, identically the same as the second estimate posted on May 27. Estimates for the 2020's second quarter are growing increasingly erratic, although the consensus remains that it will be the worst quarterly drop since the current measurement system was implemented in 1937. On June 25, the Atlanta Fed's "GDPNow" estimate was reported as falling to -46.6 percent for the second quarter. One day later, the estimate was upgraded to -39.5 percent. On June 26, the New York Fed's latest "Nowcast" estimated a second quarter drop of only -16.3 percent, a considerable improvement over the estimate of -31.2 percent from the previous week. The press release attributes the uptick to "…positive surprises from manufacturing and personal consumption data." Pessimistically, the St. Louis Fed's projection still calls for a Q2 drop of -38.1 percent. Projections for the third quarter of 2020 are equally diverse and confusing. The New York Fed optimistically expect a "V" shaped recovery and anticipates a modest growth of +1.5 percent for the quarter, but the Conference Board projects a very weak report of -32.2 percent. Overall, a noteworthy summary of where we presently stand comes from Beth Ann Bovino, U.S. chief economist for S&P Global:

"As states across the U.S. begin to loosen lockdowns in an effort to bring back economic activity, the world's biggest economy has a long way to go to return to pre-pandemic heights. We estimate that it will take about two years for U.S. GDP to regain its year-end 2019 level, with unemployment remaining high, consumer spending depressed, and business demand recovering only slowly."

Business Confidence. To paraphrase King Solomon, "This too shall pass." Fortunately, our SHORT-TERM BUSINESS OUTLOOK index continues to recover. The June survey, which asked local firms about the business perception for the next three to six months, came in at -8, modestly better than May's -15 and vastly improved over the record low of -47 recorded in the March survey. For June, the LONG-TERM BUSINESS OUTLOOK index, which queries the perception for the next three to five years, remained positive but retreated to +26 from +33. With many venues beginning to reopen in late June, some of the general public may have become overly optimistic. Although economists polled by Dow Jones had expected June Consumer Confidence to rise to 91.0 from a May reading of 85.9, the Conference Board's confidence index surprisingly rose to 98.1 for the month. Given the recent surge in Covid-19 cases, it is doubtful that these number will continue to rise.

Summary. It is worth repeating the same warning for the Nth time. This crisis WILL NOT be over until we have a viable vaccine that can be widely disseminated to the entire world. Until then, the economy will be restrained. In the short term, we cannot be fooled by a bounce triggered by pent-up demand. The good news, of course, is that there are hundreds, if not thousands, of scientists with modern equipment scrambling to come up with a solution. Furthermore, numerous production labs around the globe stand ready to duplicate the vaccine once it has been identified. Short term, we can mitigate the damage with facemasks, social distancing, increased sanitization, and comprehensive screening tests. Again, "this too shall pass."

JUNE COMMENTS FROM SURVEY PARTICIPANTS

"Business is down 30% from where we thought we would be prior to Covid-19. We have not reduced workforce, and there are no plans to do so. This remote working is becoming old."

"We're feeling the effects of Covid-19 on our business."

"After several months of automotive sales being almost non-existent, we are seeing the month of June look to be almost back to pre-Covid-19 planned numbers."

"Automotive is coming back pretty fast. June and July should be good months for our U.S. market, and the China market continues to do quite well."

"We've seen a slow start-up for the auto industry. New vehicle programs are being delayed, and some maybe cancelled."

"Business prospects for the next 6-12 months are still up in the air, given that we sell capital equipment."

"Sales are slowing even more. Our workforce is reduced to 4-day weeks until sales pick back up."

"Our business is the slowest it has been since 2009."

"Some suppliers running on tighter labor and shifts are taking longer to turn around orders."

"We have not recovered from shutdown/lockdown yet."

"We continue to do well, Only time will tell how the economy goes."

"We anticipate a sales decrease of 35-40% in the short term."

"We're hunkering down and hope we see improving sales for Q3 and really recovering by mid-Q4."

"2020 is looking to be a break-even year at best."

"More of the same. Bhhhhhh."

"Our biggest customers are still strong, but Joe "little guy" has not been unheard from."

"Hopefully, the small companies survive this."

"In a nutshell, 2020 sucks."

"Markets that were good over past several months are staying steady, and we are starting to see life out of dormant market segments."

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.

June Survey Statistics

	UP	SAME	DOWN	N/A	June Index	May Index	Apr. Index	25 Year Average
Sales (New Orders)	32%	29%	39%	0%	- 7	-32	-45	+14
Production	26%	29%	37%	8%	-11	-35	-48	+14
Employment	21%	45%	34%	0%	-13	-38	-41	+ 8
Purchases	21%	42%	34%	3%	-13	-32	-44	+ 7
Prices Paid (major commod.)	8%	84%	8%	0%	+ 0	- 7	-24	+15
Lead Times (from suppliers)	24%	68%	8%	0%	+16	+16	+35	+11
Purchased Materials Inv. (Raw materials & supplies)	21%	44%	32%	3%	-11	-10	-12	- 4
Finished Goods Inventory	21%	39%	32%	8%	-11	- 2	+15	- 8
Short Term Business Outlook (Next 3-6 months)	24%	44%	32%	0%	- 8	-15	-47	-
Long Term Business Outlook (Next 3-5 years)	37%	47%	11%	5%	+26	+33	+15	-

Items in short supply: All China supply due to blank sailings and higher volatility in mix than expected, Mexico supplied items due to Covid-reduced production capacity, some electrical parts, some motors.

Prices on the UP side: Oil, HR steel, aluminum extrusions, caustic soda, Maquat disinfectant, recycled scrap, freight.

Prices on the DOWN side: Steel, aluminum, gasoline, all major commodities.

Latest Unemployment Reports

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

	May 2020	May 2019	Aug. 2009	20 Year Low
State of Michigan (May)	21.1%	4.2%	14.6%	3.2%
State of Michigan (Unadj.)	20.7%	3.7%	14.1%	2.9%
Kent County	17.3%	2.8%	11.9%	2.1%
Kalamazoo County	15.3%	3.1%	11.1%	2.1%
Calhoun County	15.5%	2.6%	12.8%	2.7%
Ottawa County	16.1%	2.6%	13.3%	1.8%
Barry County	16.4%	2.9%	10.9%	2.2%
Kalamazoo City	18.5%	3.9%	15.2%	3.2%
Portage City	14.1%	2.9%	8.7%	1.3%
Grand Rapids City	22.0%	3.7%	16.1%	3.0%
Kentwood City	16.4%	2.6%	10.7%	1.4%
Plainfield Twp.	13.5%	2.1%	8.0%	1.4%
U.S. Official Rate (June)	11.1%	3.8%	9.6%	3.5%
U.S. Rate (Unadjusted)	13.0%	3.4%	9.6%	3.4%
U.S. U-6 Rate (June)**	18.0%	7.2%	16.7%	8.0%

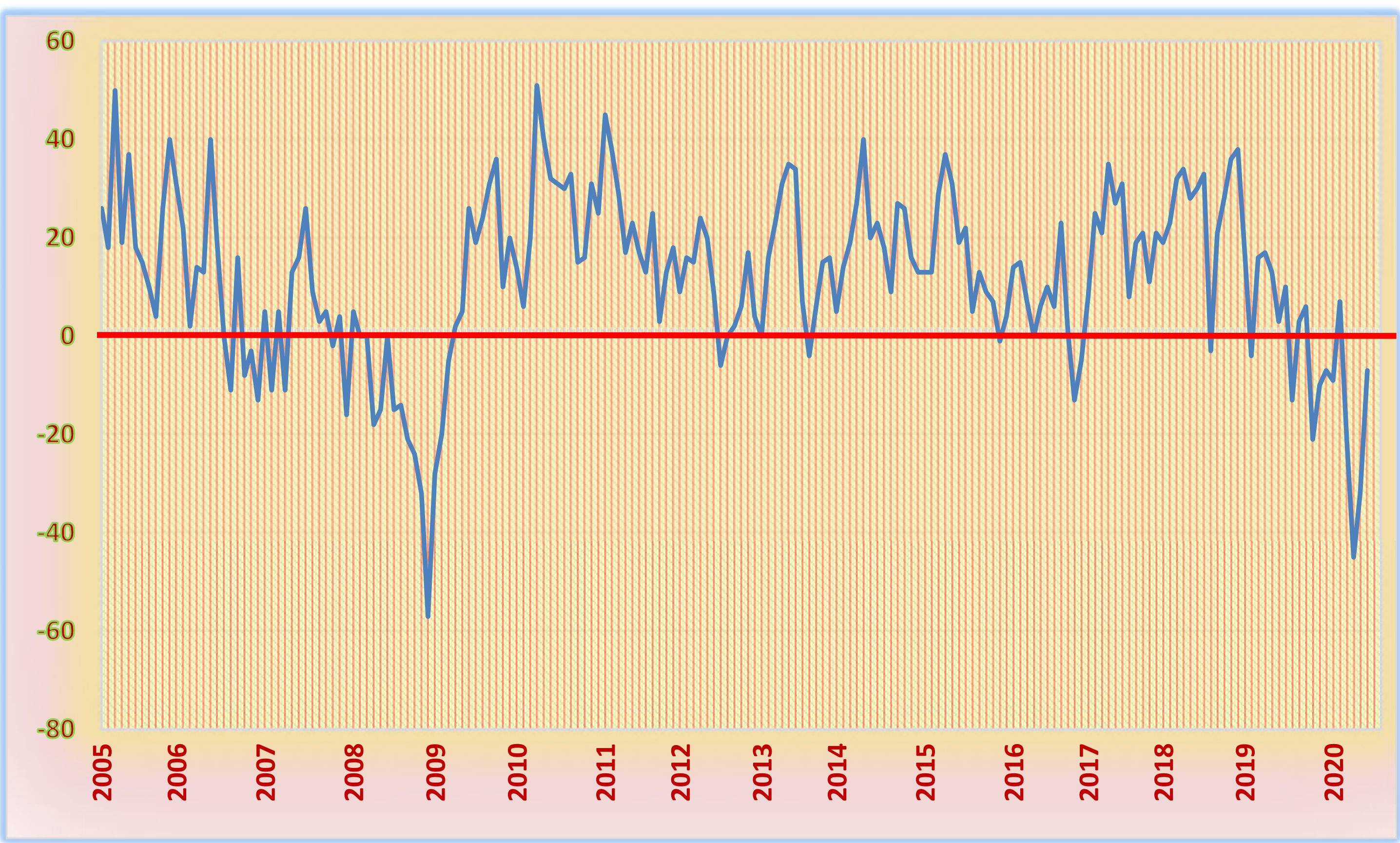
**U-6 for Michigan = 7.5% for all of 2019

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.

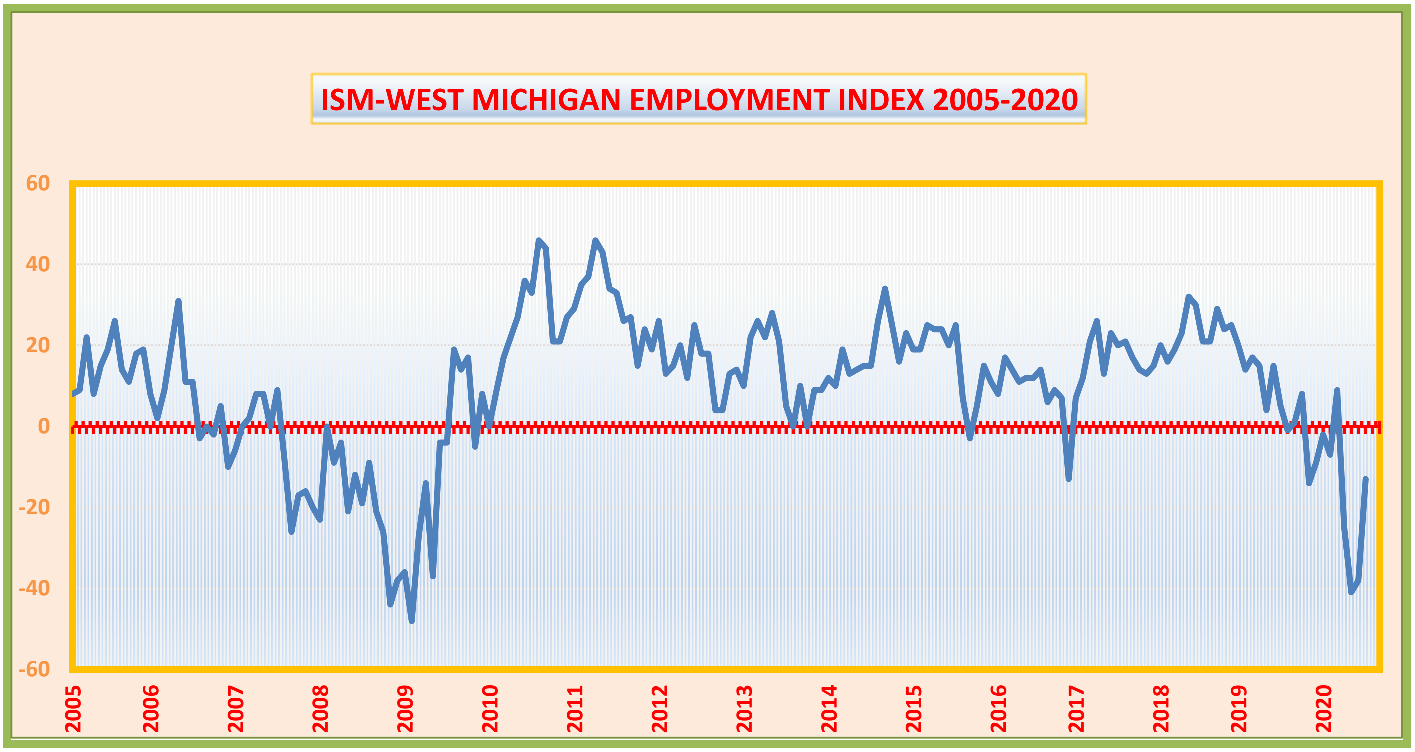
Latest Report	- 7 for the month of June 2020
Previous Month	- 32 for the month of May 2020
One Year Ago	+ 3 for the month of June 2019
Record Low	- 57 for the month of December 2008
Record High	+ 55 for the month of September 1994
First Recovery	+ 3 in April of 2009 and forward

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.