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News Release (For Immediate Release)

August 6, 2020

Current Business Trends

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BACK TO POSITIVE RESULTS - FOR NOW

Key Participant Comments for July:

"We are about 30% below forecast set prior to COVID. We continue to keep everyone on 4-day weeks, and focus on reducing inventory."

"For automotive, April, May, and June were very difficult. July is looking much better, as long as things stay the way they are forecasted."

"We are very slow, and operating at only about 40% of normal summer operations."

"COVID-19 is still wreaking havoc on our customer orders and future program timing."

After four months of gut-wrenching decline, the West Michigan industrial economy has returned to positive territory - at least for now. According to the data collected in the third and fourth weeks of July, NEW ORDERS, our closely-watched index of business improvement, came in +12, up nicely from June's -7. In a similar move, the June PRODUCTION index rallied to +14 from -11. The July activity in the purchasing offices, the index of PURCHASES, bounced to +10 from -13. Shipping delays, shortages, and other disruptions in the various supply chains drove our index of LEAD TIMES to a near record level of +34, up from +16. As a result, many firms have exhausted their inventory reserves, and our index of RAW MATERIALS INVENTORIES index fell to – 14.

The U.S. Economy. Good news came from the August 3 press release from the Institute for Supply Management, our parent organization. NEW ORDERS, ISM's index of business improvement, bounced to +22 in July, up nicely from June's +13. In a similar move, ISM's July PRODUCTION index rose to +23 from +16. After adjusting for seasonal variation, ISM's overall index rose to 54.2, up 1.6 points from June's 52.6 and substantially higher than May's 43.1. Many companies were considerably more "upbeat" regarding busines conditions for the remainder of the year, despite historically subdued demand in recent months. Chris Williamson, Chief Business Economist at IHS Markit, further commented:

> "Although indicating the strongest expansion of the manufacturing sector since January, the IHS Markit PMI remains worryingly weak. Much of the recent improvement in output appears to be driven merely by factories restarting work rather than reflecting an upswing in demand. Growth of new orders remains lackluster and backlogs of work continue to fall, hinting strongly at the build-up of excess capacity. Many firms and their customers remain cautious in relation to spending in the face of re-imposed lockdowns in some states and worries about further disruptions from the pandemic. Encouragingly, business optimism about the year ahead has revived to levels last seen in February, but many see the next few months being a struggle amid the ongoing pandemic, with a more solid-looking recovery not starting in earnest towards the end of the year or even into 2021. Further infection waves could of course derail the recovery, and many firms also cited the presidential elections as a further potential for any recovery to be dampened by heightened political uncertainty."

The World Economy. Additional good news came from the August 3 press release from the J.P. Morgan Global Manufacturing Index for July, which crossed the critical 50.0 break-even point, and rose to 50.3, up from 47.8. Among the larger industrial nations included in this report, significant growth was reported in China, France, Italy, the U.S., the U.K. and Brazil. Weak reports came from Mexico, Japan, India, South Korea, and Indonesia. JPM's index of New Orders recovered to 50.7 from 46.8. Olya Borichevska, from Global Economic Research at J.P. Morgan, further noted:

> "The July PMI indicates that the recovery which began in May continued into mid-summer. Many of the PMI components reached their pre-pandemic levels for the first time in July including output and new orders. The employment PMI has not recovered suggesting labor markets will take longer to improve. Still, to fully recoup the losses sustained in the first half of the year will still take some time, especially if the recovery is knocked off course by any future re-tightening of restrictions."

In a similar move, the July Eurozone composite PMI re-crossed the 50.0 break-even threshold and rose to 51.8 from 47.4. The PMI for Germany retuned to a positive 51.0 for the first time in 19 months. France, Italy, Austria, and Spain also filed positive reports, but Greece and the Netherlands still remained negative. Chris Williamson from Markit.com further commented:

> "Eurozone factories reported a very positive start to the third quarter, with production growing at the fastest rate for over two years, fueled by an encouraging surge in demand. Growth of new orders in fact outpaced production, hinting strongly that August should see further output gains. The order book improvement has also helped restore business confidence about the outlook in July to January's pre-pandemic peak. The job numbers remain a major concern, however, especially as the labor market is likely to be key to determining the economy's recovery path. Although the rate of job losses eased to the lowest since March, it remained greater than at any time since 2009, reflecting widespread cost-cutting in many firms where profits have been hit hard by the virus outbreak. Increased unemployment, job insecurity, second waves of virus infections and ongoing social distancing measures will inevitably restrain the recovery. The next few months numbers will therefore be all-important in assessing whether the recent uplift in demand can be sustained, helping firms recover lost production and alleviating some of the need for further cost cutting going forward."

Automotive. According to the August 3 report from Automotive News, the SAAR (seasonally adjusted annualized rate of sales) for July fell to 14.53 million units, down sharply from the July 2019 rate of 17.02 million units. Part of the sales decline has been attributed to a 60 percent drop in fleet sales, although tight inventories as well as decreased and erratic production schedules for many manufacturers have caused problems as well. Of the major brands still reporting monthly sales, Toyota posted a 20.7 percent year over year loss, Honda declined by 12.6 percent, but Hyundai-Kia limited July's loss to only 0.8 percent. Nick Woolard, chief analyst at TrueCar, further noted:

"It seems likely that this inventory problem is going to continue over the course of the summer and maybe through the rest of the year as sales slowly recover. Mainstream brands are steadily increasing new-vehicle sales month-over-month, especially brands with healthy inventory levels such as FCA. On the other end of the spectrum, new vehicles sales for luxury brands, such as BMW and Mercedes, are recovering at a slower rate. Consumers are not going back into the luxury market as quickly as mainstream brands, showing some budgetary discipline in reaction to the macroeconomic environment."

West Michigan Unemployment. The West Michigan manufacturing firms are gradually resuming "modified" normal operations, although some are still hampered by disrupted supply chains and shipping bottlenecks. West Michigan's July index of EMPLOYMENT recovered to -4 from -13, up significantly from March's record low of -41. At the state level, the July 23 unemployment report for the month of June released from Lansing's DTMB reported that state-wide unemployment improved significantly to 14.8 percent from May's 21.3 percent. Of the 83 counties in Michigan, the estimated unemployment rate ranged from 9.0 percent to 20.7 percent. For our major West Michigan counties, the unemployment rate for Ottawa County came in the best at 11.0 percent, with Kent County at 12.3 percent, Kalamazoo County at 11.6 percent, and Calhoun County at 15.2 percent. The national "official" unemployment rate has now fallen to 11.1 percent.

Industrial Inflation. Our West Michigan index of PRICES for July dropped to -4, slightly below June's breakeven point of +0. For the ISM national survey, the index of Prices came in at +6, a slight uptick from last month's +3. At the international level, the JPM index of PRICES remained above the 50.0 break-even point and rose to 53.0, up from June's 51.6. Despite the worldwide recession, the slightly higher prices have been attributed to scattered factory shut-downs all over the world and spot shortages of a wide variety of commodities. Timothy Fiore, ISM's survey committee chair, further commented:

"Raw materials prices increased for the second consecutive month. Price increases were driven primarily by plastics, lumber, aluminum, copper and petroleum products. Price growth remains at a stable supplier/buyer relationship,"

GDP. We knew the second quarter GDP would be very weak, but some analysts held out hope that it would not set a record. On July 30, the U.S. Bureau of Economic Analysis released what they term a first or "advanced" GDP estimate depicting a second quarter 2020 drop of 32.9 percent. Unfortunately, a drop this magnitude does set a record, given that our current system of calculation only goes back to about 1930. Even so, none of the quarterly GDP reports in the Great Depression ever posted a drop of this magnitude. Furthermore, for the fourth quarter GDP of 2008, the worst quarter in the Great Recession, the drop was "only" 8.4 percent. As we might expect, estimates for the upcoming third quarter of 2020 are very erratic, given that the strength of the recent reopening's for various segments of the economy are still in doubt. The July 24 third quarter estimate from the New York Fed's "Nowcast" economic model forecasts a decline of 13.3 percent. Because of the fluid nature of various state and local reopening policies, many other forecasters are reluctant to offer projections for the third quarter. However, the third quarter "bounce" that some forecasters were predicting now appears to be increasingly unlikely. This point of view is shared by Beth Ann Bovino, U.S. chief economist for S&P Global:

"While the traditional economic data, which are published with varying degrees of time lag, through late-June showed economic activity picking up at an above-consensus pace following a sharp decline in March and April was good news, it is backward-looking. The more recent rise in COVID-19 cases across large swaths of the country in July has begun to test the sustainability of current economic momentum."

Business Confidence. The resumption of production has helped improve the sentiment of many west Michigan firms. Our SHORT-TERM BUSINESS OUTLOOK index for July, which asked local firms about the business perception for the next three to six months, came in at +6, up nicely from June's -8, and vastly improved over the record low of –47 recorded in the March survey. For July, the LONG-TERM BUSINESS OUTLOOK index, which queries the perception for the next three to five years, remained almost unchanged at +32, down from +33. According to the press release from the Conference Board, July's Consumer Confidence Index dipped to 92.6, down 5.7 points from June's 98.3 level. The resurgence of COVID-19 has apparently muted the recovery mood, and 92.6 remains well below the levels in the low 130s reached before the pandemic.

Summary. It is worth repeating that we have three cyclical industries in West Michigan, namely automotive parts, office furniture, and aerospace components. It appears that many office furniture customers are currently reevaluating office configurations from a "social distancing" perspective, as well as evaluating requests from some office workers to continue permanently working from home. Although some office furniture firms have partially transitioned into the medical furniture business, readjustment for this industry may be slow. Aerospace firms are also in a quandary, given the major cutbacks that have been announced by the major airframe manufacturers. However, although automotive may suffer some temporary setbacks, reshoring may provide some new opportunities, given that many of our local firms have proven themselves to be world competitive.

As we look ahead, we should keep in mind that no two recessions are alike, and that the impact is always uneven. Likewise, the recovery is also notoriously uneven. Some firms deemed to be "critical" remained open and booming, while others were shut down never to reopen. Unlike the previous recession, the residential real estate market has not collapsed, and the housing valuations in some areas of the county are actually rising. Commercial real estate is, of course, a different story. The entire concept of the traditional office is now being reevaluated to include more social distancing and more people working from home. The stay-at-home economy has resulted in a dramatic shift in the entire food supply chain. America has not gone on a diet, so food suppliers are trying to readjust to the new pattern, recognizing that a gradual reopening will shift the pattern back toward the pre-pandemic mode. Sit-down restaurants have been hardest hit, and returning to normal will be very slow—for those that survive. The restaurant take-out business has soared, but not enough to make up for the lost sit-down sales in traditional restaurants. One the other side of the street, some fast food outlets have actually seen increases in business because of the popularity of drive-thru window service. With more people eating at home, the grocery business is booming, and the grocery delivery segment has more than doubled. Many changes like this are likely here to stay.

Going forward for this survey, we can expect a few more good reports before absorbing the negative impact of the aforementioned market shifts. In addition, the trillion-dollar incentives will eventually run out, and we will then need to reassess where we stand in the West Michigan industrial market.

JULY COMMENTS FROM SURVEY PARTICIPANTS

"Polypropylene manufacturers are trying to push price increases outside of the index. We are not allowing it."

"Shortages are dependent more on various vendors than product categories. For example, some spark plug companies are struggling while others are shipping at high percentages. This is true for other categories I handle, such as filters and windshield wipers."

"We see strong sentiment for home improvement and new home starts. We remain cautiously optimistic."

"Automotive portion of our business is coming back to life and the remaining segments are holding strong."

"We are weathering the storm."

"VERY SLOW!"

"Order releases from automotive OEMs were not well timed, so the startup has been very chaotic. The race to release the first electric pickup truck has also caused significant timing compression resulting in higher prototype cost."

"We are steady at this point. We are starting to see an uptick in orders from the Medical sector."

"Auto is rebounding well. Forecasting is extremely difficult, due to rapidly fluctuating customer demand. Sales are back to 80% of pre COVID. Heavy Diesel orders are strong."

"Covid-induced doldrums continue as our government officials vacillate between bad decisions based on bad data and indecision based on fear of political reprisal. Where has our leadership gone?"

"We are seeing a few of our customers that were very busy in March, April, and May slow down by 30%."

"Lead times from suppliers have been increasing. Not everyone is back to "normal" as far as staff and production, so it's backing up our supply chain."

"Our spend is for indirect product."

"We are about 30% below forecast set prior to COVID. We continue to keep everyone on 4 day weeks, and focus on reducing inventory."

"Business is down. We have rightsized to weather the storm and are in a good position. We are anticipating this is a longer term challenging, likely a year or more."

"This year is looking to end up down 30-40 %."

"For automotive, April, May, and June were very difficult. July is looking much better, as long as things stay the way they are forecasted."

"We have been pretty busy these last few months burning through our backlog, although new capital equipment orders have been coming in at a reasonably good pace as well. We are doing fairly well given the circumstances. The food and pharmaceuticals industries are still quite active."

"Business is coming back, and automotive schedules look good but not as strong as pre-COVID. We continue to monitor longer forecast to determine if orders will hold firm or be pushed out."

"We are weathering the storm."

"We will see what the next 6-12 months have in store for all of us."

"VERY SLOW!"

"We are very slow, and at only about 40% of normal summer operations."

"COVID-19 is still wreaking havoc on our customer orders and future program timing."

"Worst June in 20 years. Our biggest customers are pretty strong, but business from the little guys has been nonexistent. If it doesn't get better soon...."

July Survey Statistics

	UP	SAME	DOWN	N/A	July Index	June Index	May Index	25 Year Average
Sales (New Orders)	42%	26%	30%	2%	+12	- 7	-32	+14
Production	40%	22%	26%	12%	+14	-11	-35	+14
Employment	22%	52%	26%	0%	- 4	-13	-38	+ 8
Purchases	40%	28%	30%	2%	+10	-13	-32	+ 7
Prices Paid (major commod.)	12%	72%	16%	0%	- 4	+ 0	- 7	+15
Lead Times (from suppliers)	48%	38%	14%	0%	+34	+16	+16	+11
Purchased Materials Inv. (Raw materials & supplies)	14%	48%	28%	10%	-14	-11	-10	- 4
Finished Goods Inventory	22%	40%	24%	14%	- 2	-11	- 2	- 8
Short Term Business Outlook (Next 3-6 months)	36%	34%	30%	0%	+ 6	- 8	-15	-
Long Term Business Outlook (Next 3-5 years)	46%	34%	14%	6%	+32	+33	+15	-

Items in short supply: China components, ocean containers, aluminum cans, certain types of plastic resin, backordered soft goods; plastics, PPE items like Colorox wipes, freight (especially overseas containers), anything PPE (personal protection equipment), a few motors, Allen Bradley electrical components, disinfectants, wipes & aerosols.

Prices on the UP side: Trucking rates, ocean freight rates, all freight, plastic resin, plastic colorants, aluminum extrusions, HRC steel, freight, aluminum, oil, copper, anything PPE (personal protection equipment), disinfectants, wipes, aerosols, raw materials, caustic soda.

Prices on the DOWN side: Steel, carbon steel, stainless steel, polypropylene*, indexed commodities, brass components, aluminum*, most major commodities, scrap steel, gasoline.

*Item reported as both up AND down in price.

Latest Unemployment Reports

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

	June 2020	June 2019	Aug. 2009	20 Year Low
State of Michigan (June)	14.8%	4.2%	14.6%	3.2%
State of Michigan (Unadj.)	14.9%	4.3%	14.1%	2.9%
Kent County	12.3%	3.2%	11.9%	2.1%
Kalamazoo County	11.6%	3.6%	11.1%	2.1%
Calhoun County	15.2%	4.5%	12.8%	2.7%
Ottawa County	11.0%	3.1%	13.3%	1.8%
Barry County	11.0%	3.4%	10.9%	2.2%
Kalamazoo City	14.2%	4.5%	15.2%	3.2%
Portage City	10.7%	3.3%	8.7%	1.3%
Grand Rapids City	15.8%	4.3%	16.1%	3.0%
Kentwood City	11.6%	3.0%	10.7%	1.4%
Plainfield Twp.	9.5%	2.4%	8.0%	1.4%
U.S. Official Rate (June)	11.1%	3.7%	9.6%	3.5%
U.S. Rate (Unadjusted)	11.2%	3.8%	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

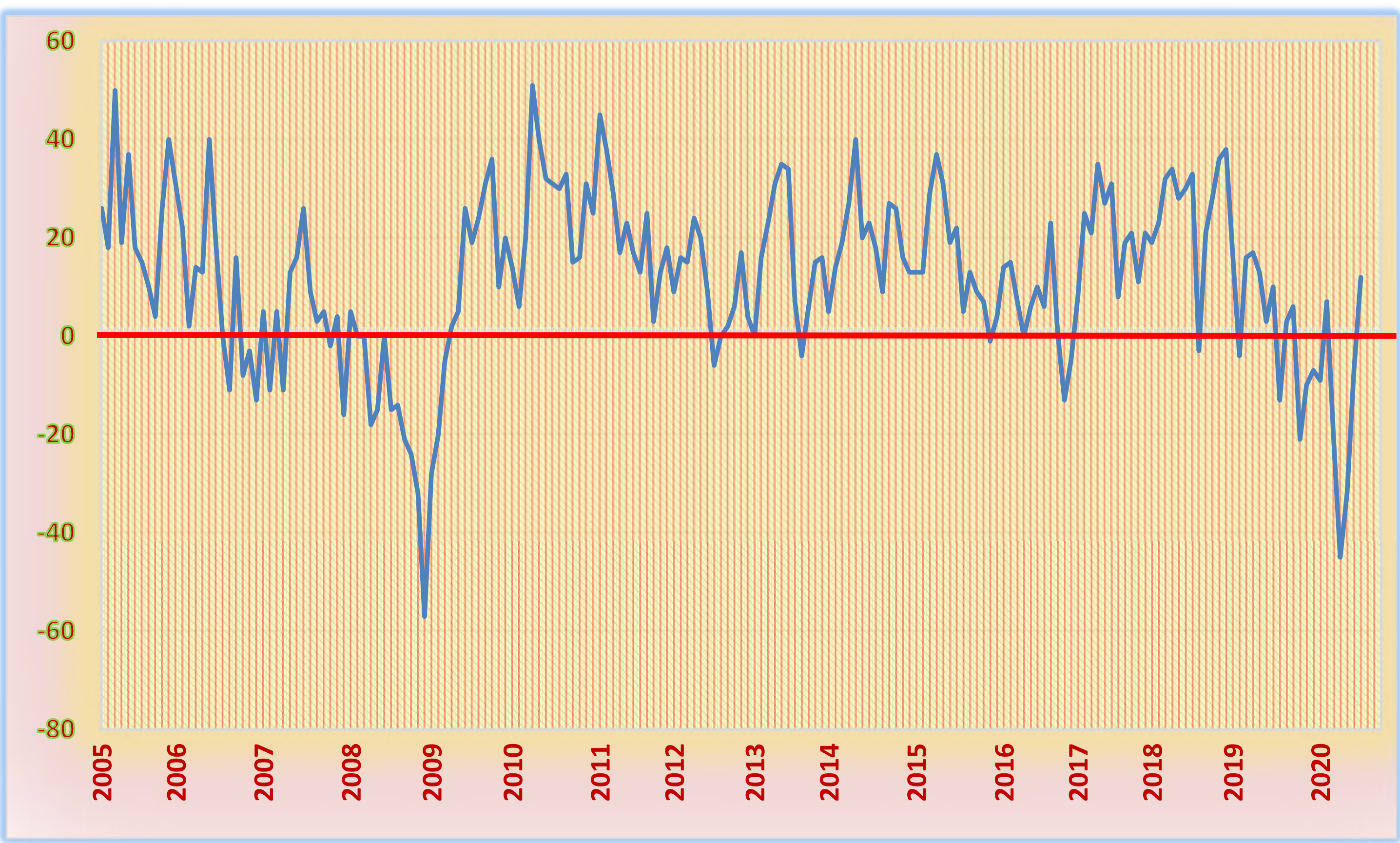
As the name implies, this index measures new business coming into the firm, and signifies business improvement or business decline. When this index is positive for an extended period of time, it implies that the firm or organization will soon need to purchase more raw materials and services, hire more 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	+ 12 for the month of July 2020
Previous Month	- 7 for the month of June 2020
One Year Ago	+ 6 for the month of July 2019
Record Low	- 57 for the month of December 2008
Record High	+ 55 for the month of September 1994

Great Recession
First Recovery + 3 in April of 2009

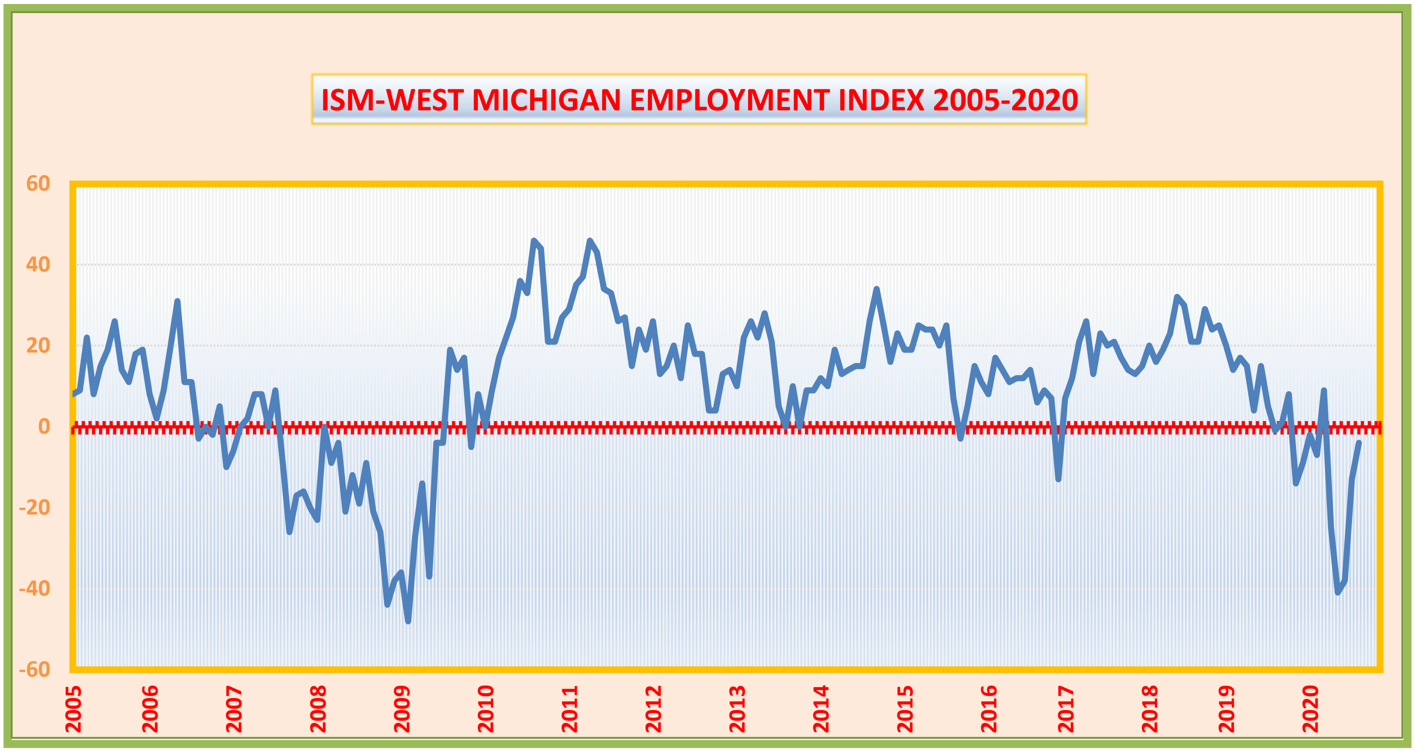
Covid-19 Recession
First Recovery +12 in July 2020

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



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.