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News Release (For Immediate Release)

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Current Business Trends

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THE RECESSION RECOVERY PICKS UP SPEED

Key Participant Comments for August:

"Forecasting in automotive right now feels nearly impossible. The Tier-1 demand seems to fluctuate quite a bit right now, so there is a lot of daily firefighting that did not exist pre-Corvid. Overall sales are getting close to pre-Virus sales volumes.

"Sales are down 35%. Production on the shop floor still working 32hrs/wk. We need more project work."

"We continue to see a very weak forecast for the next few months."

"We are about 90% back to our plan for production. We think any growth from here will be slow or same for the coming months."

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The economic bounce that we were expecting has definitely arrived. According to the data collected in the third and fourth weeks of August, NEW ORDERS, our closely-watched index of business improvement, came in at +19, up nicely from July's +12. The August PRODUCTION index remained virtually unchanged at +13. Activity in the purchasing offices, the index of PURCHASES, was also essentially unchanged at +10. Just like last month, some of our survey participants are still working from home, and others are working on reduced office sharing schedules to help accomplish more social distancing. While some firms are still struggling, others are already back at full capacity. Furthermore, some survey participants report that they are again having difficulty finding enough workers, especially workers with specific skills. If this trend continues, our unemployment rates will continue to fall. That said, the recovery from every recession in recent memory has begun with a surge in pent-up demand. After the initial surge, we begin to see the permanent damage that the recession has wrought. The proverbial "rising tide lifts all boats," so the steady improvement in the world economy will clearly be a plus for the U.S. economy going forward.

The U.S. Economy. The September 1 press release from the Institute for Supply Management, our parent organization, continues to depict a strengthening national economy. NEW ORDERS, ISM's index of business improvement, edged up to +27 from +22. In a more modest move, ISM's June PRODUCTION index rose to +25 from +23. After adjusting for seasonal variation, ISM's overall index gained 1.8 points to come in at 56.0.

IHS Markit.com, the British international consulting firm that also surveys U.S. purchasing managers, reported a more moderate increase for August. Markit.com's seasonally adjusted August PMI posted at 53.1, up from July's 50.9. In addition, the NEW ORDERS and PRODUCTION indexes rose to levels last seen in early 2019. Just like previous months, 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:

> "The manufacturing upturn gained further ground in August, adding to indications that the third quarter should see a strong rebound in production from the steep decline suffered in the second quarter. Encouragingly, new order inflows improved markedly, outpacing production to leave many companies struggling to produce enough goods to meet demand, often due to a lack of operating capacity. Backlogs of uncompleted work consequently rose at the fastest rate since the early months of 2019, encouraging increasing numbers of firms to take on more staff. Key to the upturn was a jump in new export orders, which rose at the fastest rate for four years, reflecting improving demand in many foreign markets, and benefitting larger companies in particular. Disappointingly, new orders and export sales at smaller manufacturers continued to fall, highlighting an unbalanced recovery in favour of larger firms."

The World Economy. The August J.P. Morgan Global Manufacturing Index, which is composed of the purchasing manager's reports from 44 countries around the world, came in at 51.8, up from 50.6, and modestly ahead of the all-important 50.0 break-even point. Among the larger countries, significant positive growth was reported in Brazil, Canada, Australia, Italy, China, and of course, the U.S. Weak reports came from Mexico, Japan, and South Korea. JPM's index of New Orders came in at 52.8, up modestly from 51.2. 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 would may have been if the pandemic never developed. Olya Borichevska, from Global Economic Research at J.P. Morgan, further noted:

> "The recovery in the global manufacturing sector gathered further pace in August, with rates of expansion in output and new orders the steepest since mid-2018. The upturn should strengthen further in the short term if lockdowns and other restrictions in place to combat the COVID-19 pandemic are eased further as expected. Business optimism and the orders-to-inventory ratio also point to further near-term gains. The labour market remains in the doldrums and could face prolonged weakness as companies restructure in light of the current normal."

The beleaguered composite PMI for the Eurozone posted at 51.7 for August, almost unchanged from July's 51.8. Except for France, Greece, and Spain, the PMI indexes for the other major European countries have finally returned to positive. The survey's measure of business confidence came in at the highest level in over two years. Chris Williamson from Markit.com further commented:

> "Eurozone factory output rose strongly again in August, providing further encouraging evidence that production will rebound sharply in the third quarter after the collapse seen at the height of the COVID-19 pandemic in the second quarter. Business expectations for output in a year's time also rose to the highest for over two years as prospects continued to brighten from the unprecedented gloom seen earlier in 2020. Caution is warranted in assessing the likely production trend, however, as so far it would have been surprising to have seen anything other than a rebound in output and sentiment. Of note, a key theme of the latest survey is one of firms taking a cautious approach to costs and spending, notably in respect to investment and hiring, amid continued worries about the strength of future demand and uncertainty over the course of the

pandemic. Producers of investment goods such as plant and machinery reported the weakest order book growth, and job losses remained amongst the most prevalent since the global financial crisis. In short, manufacturing is currently being buoyed by a wave of pent up demand, but capacity is being scaled back. The next few months' data will be all-important in assessing the sustainability of the upturn."

Automotive. So far, the drop in sales has not been nearly as steep as some analysts had expected. However, a combination of factory shutdowns, depleted dealer inventories, relative high unemployment, weak consumer confidence, and lower incentives are all weighing on the outlook for automotive sales for the rest of the year. For the firms still posting monthly sales figures, Toyota August sales were down by 24.6 percent, Honda lost 23.0 percent, Hyundai-Kia dropped 7.5 percent, and Subaru fell 17.4 percent. Almost all brands blamed a major portion of the decline on a significant drop in fleet sales. Jeff Schuster, president of Americas operations and global vehicle forecasts at LMC Automotive, further commented:

> "The global auto sales recovery is accelerating. Wild cards for the remainder of the year include the U.S. presidential election, financial stimulus programs, and any specific vehicle purchase incentives, so uncertainty is still at an elevated level. Supply and inventory are still expected to be a challenge in high demand segments going into the fall, due to factory shutdowns this past spring. Additionally, a potential second wave of shutdowns during the fall and winter seasons remains a concern."

West Michigan Unemployment. Although the West Michigan unemployment rates continue to be very high, our August index of EMPLOYMENT has returned to a positive reading of +13, up from July's -4. At the state level, the August 27 unemployment report for July released from Lansing's DTMB reported that state-wide unemployment improved to 8.7 percent, down significantly from June's 14.9 percent. Of the 83 counties in Michigan, the estimated unemployment rate ranged from 6.6 percent to 13.2 percent. For our major West Michigan counties, unemployment for Ottawa County came in at 7.5 percent, Kent County 8.7 percent, Kalamazoo County 8.7 percent, and Calhoun County 10.9 percent. The national unemployment rate for August fell to 8.4 from July's 10.2 percent.

Industrial Inflation. Our West Michigan index of PRICES for August flipped back to positive for the first time in four months to +9, up from -4. For the ISM national survey, the index of PRICES rose sharply to +19, up from +7. At the international level, the JPM index of PRICES edged up to 54.5 from 53.1, well ahead of the 50.0 break-even point. It is obvious that rising prices are not normally associated with a recession, although the Covid-19 recession is far different than any recession in history. Timothy R. Fiore, from the Institute for Supply Management, further noted:

> "Price increases were driven primarily by plastics, lumber, aluminum, copper, some steel products, transportation expenses, precious metals and petroleum products. Price growth reflects a power shift toward sellers, as increased costs to produce input materials are being passed on to panelists' companies,"

GDP. The U.S. Bureau of Economic Analysis posted the official "second estimate" of the second quarter GDP for 2020 at -31.7 percent. Looking ahead to the third quarter, St. Louis Fed President James Bullard said that he expected the third quarter to be "one of the best quarters ever for economic growth in the U.S." In confirmation, the Atlanta Fed's "GDPNow" third quarter rolling estimate projects an increase of 29.6 percent as recently as September 3. On August 28, the New York Fed posted a "Nowcast" estimate growth of 15.3 percent. Add the St. Louis Fed's projection of a 19.4 percent growth and it becomes abundantly clear that some of the brightest economic minds in the country cannot come close to agreeing on a valid GDP estimate for the third quarter. However, all of the major pundits are currently projecting a significant third quarter uptick, which may erase some or all of the disastrous second quarter loss. In a year when politics hangs on any form of statistics, it is noteworthy that the FED's first official number for the third quarter will be posted just five days before the election.

Business Confidence. Most measures of confidence tend to be driven by the current news cycle. Hence, the August news cycle, which included the political conventions, yielded a slightly different view of the future. Our SHORT-TERM BUSINESS OUTLOOK index, which askes local firms about the business perception for the next three to six months, came in flat at +0, down from July's +6. By contrast, the LONG-TERM BUSINESS OUTLOOK index, which queries the perception for the next three to five years, jumped to a two year high of +41, up from July's +32. However, presumably because of the negative vibrations from the political conventions, the Conference Board's August index of Consumer Confidence deteriorated to 84.8, which is the lowest reading since May 2014.

Summary. One of our survey participants quipped that he will be glad when the November election is over. As we enter an election season wherein many people are already in a negative mood, we can expect that we do not really know where the economy is headed until the election is over. As schools continue to reopen, additional Covid-19 cases are inevitable. If the increase in the number of cases begins to get out of control, we face the possibility of another shut-down. Otherwise, the current positive numbers should probably improve a little more when we add up the results for September.

AUGUST COMMENTS FROM SURVEY PARTICIPANTS

"Forecasting for automotive right now feels near impossible. Tier I demand seems to fluctuate quite a bit right now, so there is a lot of daily firefighting that did not exist pre-Corvid. Overall sales are getting close to pre-virus sales volumes.

"Very slow August."

"We're starting to return to normal."

"We are steady right now. The forecast for Q4 2020 looks positive."

"Business volumes are fairly flat since April for us. I don't see any indication of a major change in either dire

"We are seeing increased lead times from our suppliers. I believe that since most are working from home, there's a lag in communication and many companies aren't up to full capacity. Therefore, lead times have increased. I think companies are running inventory thinner than normal since business has decreased. We have a mixed employment situation right now. Most everyone in the plant is back full time. However, the office has most people working from home, some not hired back at all and some are back part time. We just received an email that people working from home will do so for the foreseeable future."

"Our sales are still off from COVID, although we are busy as ever with everything else!"

"I can't wait to get the election is over."

"Sales are down 35%. Production on the shop floor still working 32hrs/wk. We need more project work."

"We continue to see a very weak forecast for the next few months."

"We've maintained our business through Q2 with small profit. Now we are trending up for Q3, even though it is much lower than the original year plan."

"We are about 90% back to our plan for production. We think any growth from here will be slow or same for the coming months."

"We chewed through our backlog over the past five months, which kept us very busy. New sales orders have continued to come in, which translates to a somewhat stable working environment for us, considering the current state of world affairs. From what I can tell, we are faring better than most."

"Business for July was up over a horrid June, but it is still slow. August has started well, and could be about the same as July if it doesn't wither by month's end."

"Automotive has come back strong from the Covid-19 hit. We hope this continues."

"Although business is down from last year, we are settling in nicely to new reality. There has been a rebound in business to a level that allows us to weather the storm."

August Survey Statistics

	UP	SAME	DOWN	N/A	Aug. Index	July Index	June Index	25 Year Average
Sales (New Orders)	47%	23%	28%	2%	+19	+12	- 7	+14
Production	34%	36%	21%	9%	+13	+14	-11	+14
Employment	30%	51%	17%	2%	+13	- 4	-13	+ 8
Purchases	36%	36%	26%	2%	+10	+10	-13	+ 7
Prices Paid (major commod.)	15%	77%	6%	2%	+ 9	- 4	+ 0	+15
Lead Times (from suppliers)	36%	58%	6%	0%	+30	+34	+16	+11
Purchased Materials Inv. (Raw materials & supplies)	13%	53%	26%	8%	-13	-14	-11	- 4
Finished Goods Inventory	19%	41%	32%	9%	-13	- 2	-11	- 8
Short Term Business Outlook (Next 3-6 months)	28%	44%	28%	0%	+ 0	+ 6	- 8	-
Long Term Business Outlook (Next 3-5 years)	45%	42%	4%	9%	+41	+32	+33	-

Items in short supply: China components, Brass mold components, Mexico supplier-related Covid facilities, PPE (masks, gloves), some Penberthy valves, some aluminum grades, some Allen Bradley, things with connections to China manufacturing or shipping issues, new purchase orders, isopropyl alcohol, disinfecting wipes/sprays, trigger sprayers/bottles, labor.

Prices on the UP side: Overseas steel, plastic resin, steel fasteners, ocean freight, aluminum extrusions, HR steel, polypropylene, some aluminum, copper, plastic resin, transportation spot rates.

Prices on the DOWN side: Rubber, plastics and plastic resins*, chemicals, steel*, scrap steel, gasoline.

*Item reported as both up AND down in price.

Latest Unemployment Reports

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

	July 2020	July 2019	Aug. 2009	20 Year Low
State of Michigan (July)	8.7%	4.1%	14.6%	3.2%
State of Michigan (Unadj.)	9.5%	5.1%	14.1%	2.9%
Kent County	8.7%	3.9%	11.9%	2.1%
Kalamazoo County	8.7%	4.4%	11.1%	2.1%
Calhoun County	10.9%	5.2%	12.8%	2.7%
Ottawa County	7.5%	3.6%	13.3%	1.8%
Barry County	7.9%	4.1%	10.9%	2.2%
Kalamazoo City	10.8%	5.5%	15.2%	3.2%
Portage City	8.0%	4.0%	8.7%	1.3%
Grand Rapids City	11.4%	5.2%	16.1%	3.0%
Kentwood City	8.3%	3.7%	10.7%	1.4%
Plainfield Twp.	6.7%	2.9%	8.0%	1.4%
U.S. Official Rate (July)	11.1%	3.7%	9.6%	3.5%
U.S. Rate (Unadjusted)	10.2%	3.7%	9.6%	3.4%
U.S. U-6 Rate (July)**	16.5%	6.9%	16.7%	8.0%

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

Index of New Orders: West Michigan

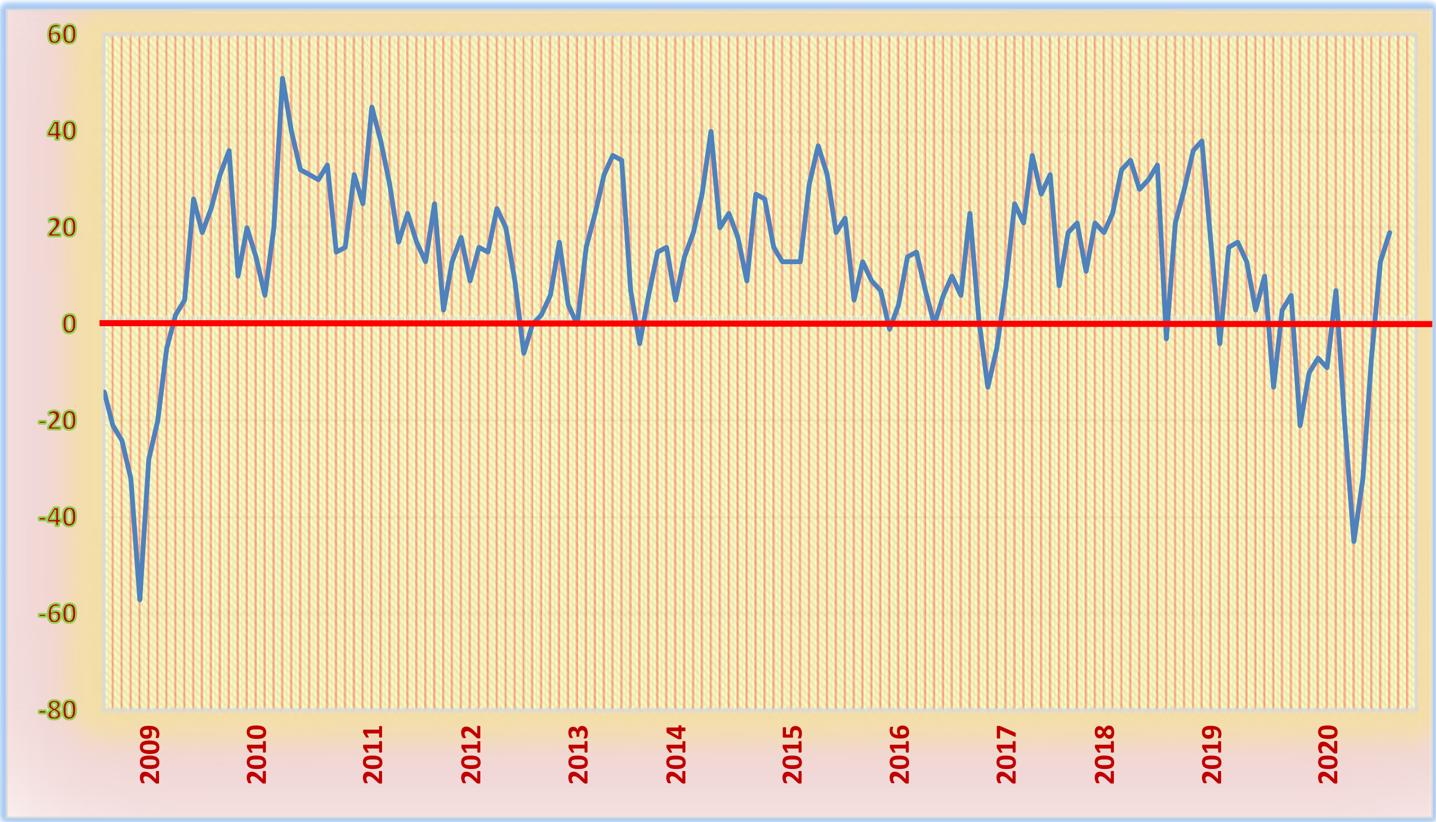
As the name implies, this index measures new business coming into the firm, and signifies business improvement or business decline. When this index is positive for an extended period of time, it implies that the firm or organization will soon need to purchase more raw materials and services, hire more 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	+ 19 for the month of August 2020
Previous Month	+12 for the month of July 2020
One Year Ago	+ 3 for the month of August 2019
Record Low	- 57 for the month of December 2008
Record High	+ 55 for the month of September 1994

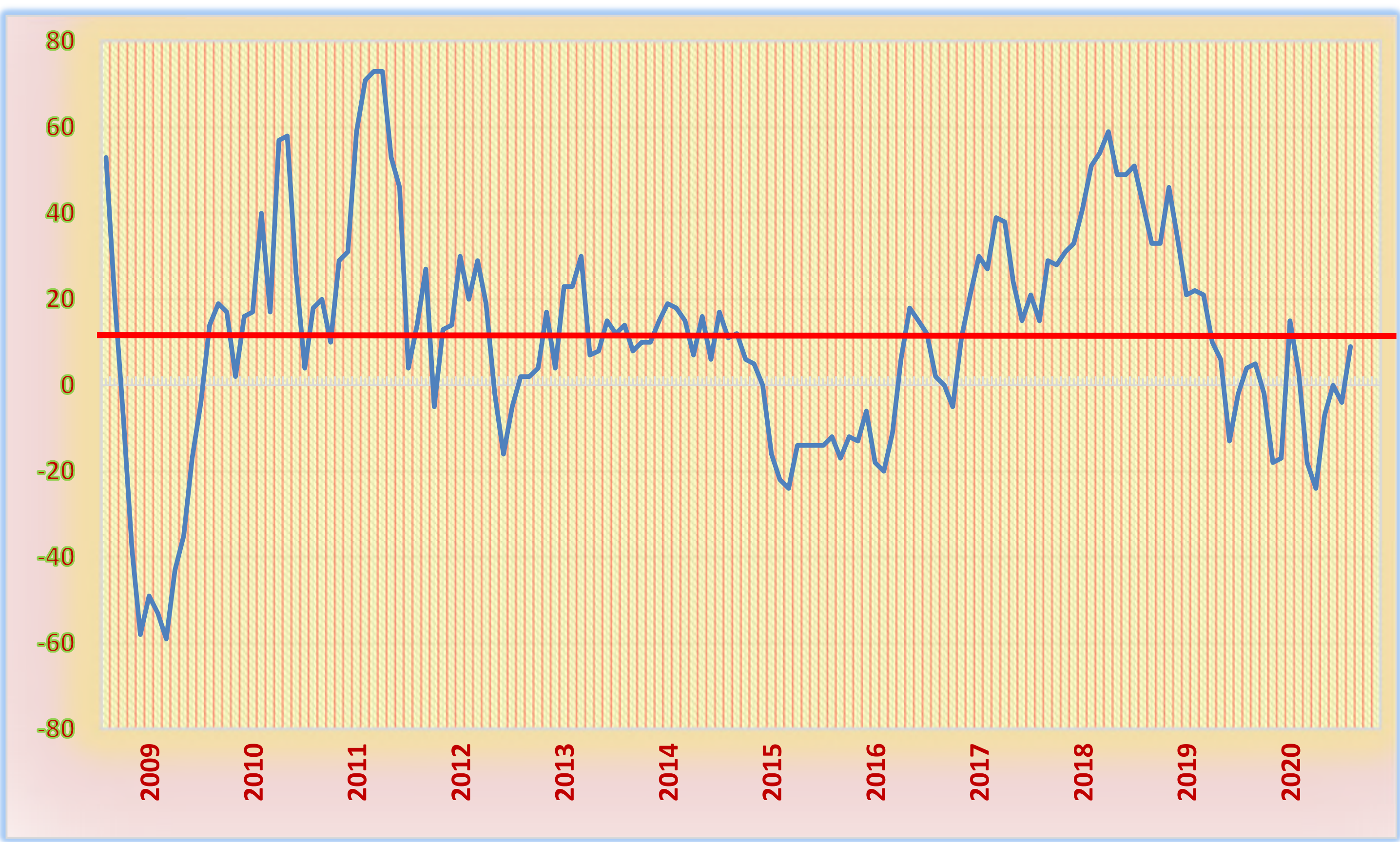
Great Recession
First Recovery + 3 in April of 2009

Covid-19 Recession
First Recovery +12 in July 2020

ISM-West Michigan Index of New Orders: 2008-2020

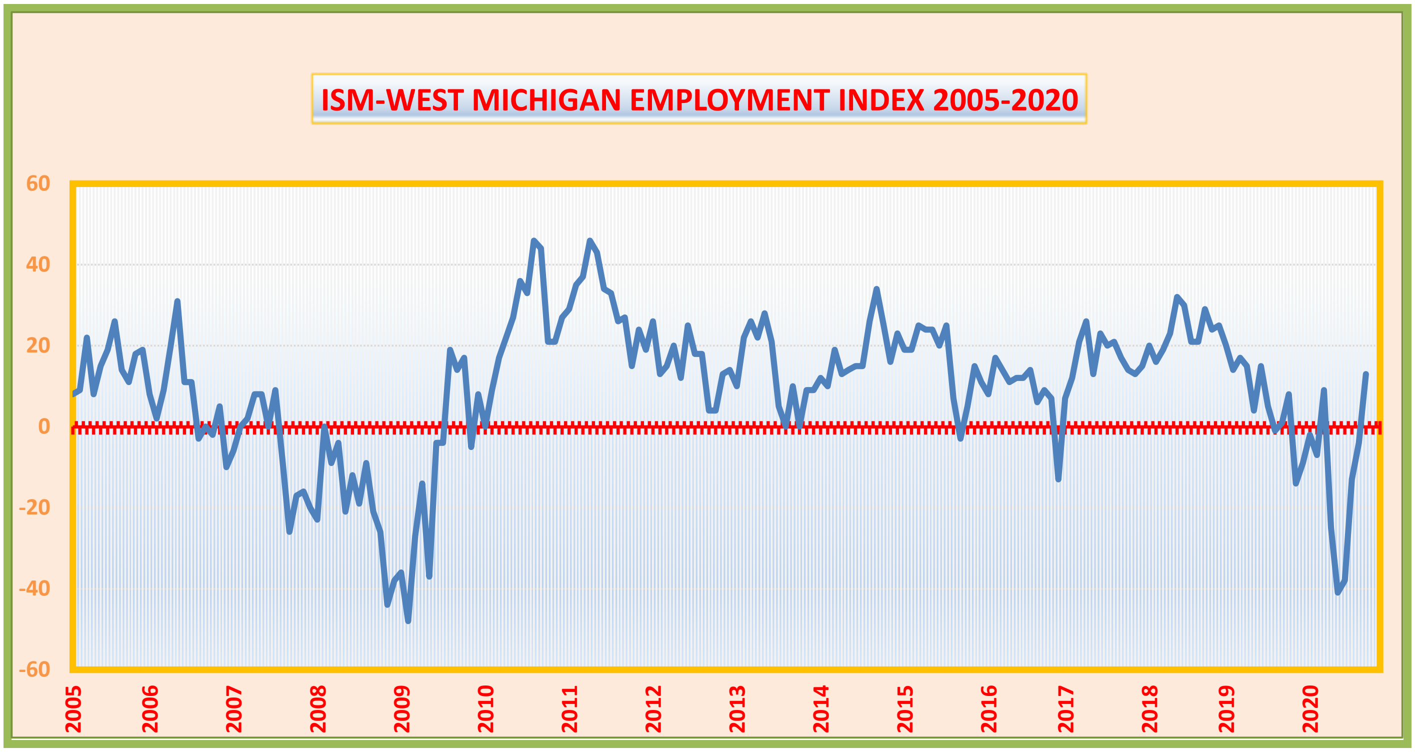


ISM-West Michigan Index of PRICES: 2008-2020



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.