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Current Business Trends

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Economic Growth Slows

Growth pauses for the late summer season. That's the latest word on the West Michigan economy, according to the data and comments collected in the last two weeks of August, 2015. Our closely watched index of NEW ORDERS remained positive but backtracked to +5, down significantly from July's +22. In a similar move, the August PRODUCTION index eased to +3 from +26. Last year's NEW ORDERS and PRODUCTION indexes also eased in August, denoting a possible seasonal trend. However, our EMPLOYMENT index did not backtrack significantly in August 2014, so it was disappointing to see the index slacken to +7, down from +25. The index of PURCHASES index eased modestly to +12 from +14. But one month is never a trend, and growth is still growth, even if it slows. Our participant comments still remain upbeat, although several firms have added a new tone of caution. Overall, the six-year pattern of slow growth continues on track, although we have had a few minor adjustments along the way. Although we have enough momentum to carry forward for the next few months, everyone is concerned about China.

Looking at individual industries, the reports from our automotive parts producers depict a stable environment, although the number of firms reporting new contracts has flattened considerably. Mike Dunlap's "Furniture Industry Index" for the second quarter of 2015 came in at 58.78, only slightly lower than the record high of 59.72 in July of 2005. However, for August, our furniture industry respondents were not as positive, hinting that the office furniture business may have peaked. For capital equipment firms, the August bias was to the down side. Industrial distributors reported mixed business conditions, which is typical for the summer vacation season.

Business confidence is still subdued. It appears that geopolitical events have continued to dampen the outlook for some respondents, especially for those firms associated with the international markets. Our LONG TERM BUSINESS OUTLOOK index eased to +38 from +40. The SHORT TERM BUSINESS OUTLOOK index remained positive but backtracked to +16 from +22. The general perception is that the future looks a little less certain than it did just a few months ago.

At the national level, the September 1 press release from the Institute for Supply Management, our parent organization, has turned virtually flat for the first time in over two years. ISM's index of NEW ORDERS remained scarcely positive at +1, down from +5. The PRODUCTION index eased to +5 from +7. Although any reading over 50.0 is still considered positive, ISM's overall index eased to 51.1 from 52.7.

The pattern of slower growth for the U.S. is also the view from Markit.com, the international economics consulting firm. Markit's overall index eased to 53.0, down from 53.8 in July. The survey author further noted:

"In response to softer growth momentum, manufacturers took a more cautious approach to staff hiring and inventories in August. Stocks of finished goods were depleted for the first time in 2015 so far, and job creation was the weakest for over a year. August's survey highlights that the U.S. manufacturing sector continues to struggle under the weight of the strong dollar and heightened global economic uncertainty, but resilient domestic spending and subdued cost pressures are keeping the recovery on track."

The J.P. Morgan Global Manufacturing Report released on September 1 reflects worldwide caution about the international economy. JPM's primary index, the Global PMI, retreated to a 28 month low of 50.7, down from 51.0. The strongest reports came from Italy, Spain, Ireland, the Netherlands, and Germany but were offset by weaker reports from France, Taiwan, South Korea, Brazil, Indonesia, Malaysia, Russia, and of course, China. In addition, Greece still holds the record for the weakest PMI in 75 years among all 32 nations in the JPM report. The only saving grace is that Greece constitutes only about 1.8% of the European economy, so the actual impact on the world economy is minimal.

The July 25 "unemployment" press release from the Michigan Department of Technology, Management and Budget (DTMB) confirms our survey statistics. For the past 18 months, our index of EMPLOYMENT has posted double-digit gains, despite the fact that the recovery from the Great Recession is now well over six years old. In terms of job growth over the past six months, Kent County has added about 13,000 new jobs, Ottawa County 6,000, and Kalamazoo County about 3,000. During the January to June period, the State of Michigan added 114,000 jobs. However, the total "official" number of unemployed workers for June rests at 261,000, well ahead of the 30 year record low of 167,000 recorded in March 2000. The survey respondents continue to imply that the unemployment rates would be even lower if they could find enough trained people to hire.

Other economic news for the month came from the Department of Commerce. After twice reporting that GDP for the U.S. fell in the first quarter, the latest (but not final) revision pegs the growth rate at a positive 0.6%. For the second quarter, the first estimate was that GDP grew at a rate of 2.3. On August 27, the second quarter estimate was upgraded to 3.7%, offsetting all of the weakness for the first quarter. There will obviously be more revisions to come, but the pattern of slow growth averaging about 2.2% is projected to continue for the rest of the year.

For the economists of the world, all eyes are now on China. We often refer to China as the economic miracle of our generation, but earthly miracles have their limitations. Do we know for sure what all is happening in China? Of course not. The government regulates the

outflow of information, and are now cooking the books to the point that some numbers are obviously false. What is even worse is that the Chinese themselves are not necessarily sure what is going on. The meteoric growth in exports has only occurred over the past 30 years or so, and the government has struggled to put in place adequate measuring statistics. China's GDP is now twenty times the size of 1985, but most of the benefits have accrued to only about 15-20% of the population. They now build about 24 million vehicles per year, which is twice the number of cars and light trucks built in the United States. By contrast, they produced a total of 5,200 vehicles for the whole year in 1985. In all of this time, they have not had a serious recession.

The China Purchasing Manager's report for August was the catalyst for the stock market sell-off panic over the past few days. Just like most PMI surveys, any number in the diffusion index below the break-even point of 50 is considered to be negative, and the current slide to 47.1 is the lowest the index has been since 2009. This report is especially telling because even the Chinese agree that the success of their

economy is almost exclusively attributed to manufacturing and export.

Outside of the GDP reports, many of the Chinese numbers have been pointing to an economic slowdown for the past two years. Specifically, we have seen a 24 month decline in industrial production, exports, and retail sales. Not good. This is incongruent with the modest easing of GDP the Chinese government has reported for the same time period. In fact, it is possible that the GDP is already negative. We just don't know. If the Chinese economy simply tapers to a slower rate of growth, the U.S. will probably slacken to a very slow growth rate. The Eurozone economy is already slow, so most of the European countries fare worse. As mentioned in previous reports, almost ALL of the major commodities are falling in price, which is now resulting in layoffs in the entire lower end of the supply chain. Canada and Australia are a couple of countries that are already feeling the pinch of lower commodity prices. Bottom Line. If the Chinese economy actually goes in to a full-fledged recession, they will draw the U.S. and the rest of the world into a recession as well.

August 2015 COMMENTS FROM SURVEY PARTICIPANTS

"The short term outlook is more promising."

"Material costs are down on many commodities helping our numbers look more favorable."

"We implemented a second shift last week because of the increased sales orders for this year vs. last year."

"How will the explosion in China affect their exports?"

"Prices continue to fall for major commodities that we use. Unfortunately it is due to a slowdown within our industry."

"As predicted, the disappearance of quality used equipment, (and the high price of same) has created a run on new machines."

"Sales have softened. Storm clouds may be forming on the horizon."

"Lead time on parts are long, and we are strung out on our shipped dates as well. We have added 30,000 square feet to our manufacturing space."

"July was great, and about 10% above June, which was also good. It looks like we could have a strong summer quarter."

"There's not much movement from last month. We are on track for busy fall, at least through the end of October."

"Machine tool pricing seems to be dropping dramatically due to a major Japanese company moving to direct sales and undercutting distribution."

"Prices are not declining as much as they should be. We're finding suppliers holding on to lower commodity prices and not passing them on."

"Revaluation for Chinese RMB has resulted in cost reductions for many Asian components."

"Business seems to be staying at a nice pace. Nothing is new or changing much. Steady as she goes."

"Lower raw material costs are starting to trickle through as a savings, but our smaller quantities are keeping the end price level."

"The future remains bright, with lots of big projects being quoted."

"We're steady at this time, but looking for some larger orders to hit the books."

"July turned out to be the slowest incoming order month in several years, we are feeling that now as we will be significantly below shipment forecast in August. We're hoping some projects finally cut loose, or September could be bad as well."

"We continue to struggle with production capacity and are adding some work centers that will be operational in the next six months."

"Business is doing well. We are seeing heavier orders than normal within the medical sector."

"China? Root of next recession?"

"It was another great month for our company!"

"Our quote log is really full right now."

"Prices for raw materials are fairly stable. Forecasts for the last half of the year still look strong for sales."

"Business is steady, but it is very, very difficult to find skilled and unskilled labor."

"We are still seeing continuing weakness in the oil, gas and drilling sectors of our business. Automotive remains robust."

"September will be a soft month for us."

"We're seeing longer lead times for wood panel products and high pressure laminates."

"Overall, we are seeing things slow down in the West due to lower oil prices."

"Business is good, but not up to our forecasted increase over last year of 10%. The fourth quarter looks good."

"A lot of new automotive programs are starting in the third and fourth quarters."

"Construction projects are going full force, and hopefully they will get completed before the snow flies!"

August 2015 Survey Statistics

	UP	SAME	DOWN	N/A	Aug. Index	July Index	June Index	20 Year Average
Sales (New Orders)	27%	50%	22%	1%	+ 5	+22	+19	+29
Production	24%	49%	21%	6%	+ 3	+26	+16	+13
Employment	16%	75%	9%		+ 7	+25	+20	+ 8
Purchases	26%	59%	14%		+12	+14	+24	+ 7
Prices Paid (major commod.)	4%	80%	16%		-12	-14	-14	+35
Lead Times (from suppliers)	13%	84%	3%		+10	+11	+ 8	+11
Purchased Materials Inv. (Raw materials & supplies)	21%	60%	13%	6%	+ 8	+ 8	+10	- 5
Finished Goods Inventory	21%	56%	17%	6%	+ 4	+16	+ 9	-10
Short Term Business Outlook (Next 3-6 months)	30%	56%	14%		+16	+22	+25	-
Long Term Business Outlook (Next 3-5 years)	41%	53%	3%	3%	+38	+40	+44	-

Items in short supply: Aggregate, skilled labor, gears.

Prices on the UP side: Paraffinic oil, sodium chloride, trucking, fuel, wages.

Prices on the DOWN side: Steel, carbon steel, resins, metals, polypropylene, stainless and carbon steel scrap, oil, aluminum, copper, pig iron, aluminum, everything.

Latest Unemployment Reports

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

	July 2015	July 2014	Aug. 2009	20 Year Low
State of Michigan (Adj.)	5.3%	7.0%	14.6%	3.2%
State of Michigan (Unadj.)	6.1%	8.7%	14.1%	2.9%
Kent County	4.1%	6.2%	11.9%	2.1%
Kalamazoo County	5.0%	6.9%	11.1%	2.1%
Calhoun County	5.7%	7.7%	12.8%	2.7%
Ottawa County	4.0%	6.0%	13.3%	1.8%
Barry County	4.4%	6.5%	10.9%	2.2%
Kalamazoo City	6.2%	8.5%	15.2%	3.2%
Portage City	4.6%	6.3%	8.7%	1.3%
Grand Rapids City	5.5%	8.2%	16.1%	3.0%
Kentwood City	3.9%	5.9%	10.7%	1.4%
Plainfield Twp.	3.1%	4.7%	8.0%	1.4%
U.S. Official Rate (Aug.)	5.3%	6.2%	9.6%	3.8%
U.S. Rate Unadjusted	6.1%	8.7%	9.6%	3.6%
U.S. U-6 Rate**	10.4%	12.2%	16.7%	8.0%

**U-6 for Michigan = 10.5% for June 2014 to May 2015

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 + 5 for the month of August, 2015

Previous Month +22 for the month of July, 2015

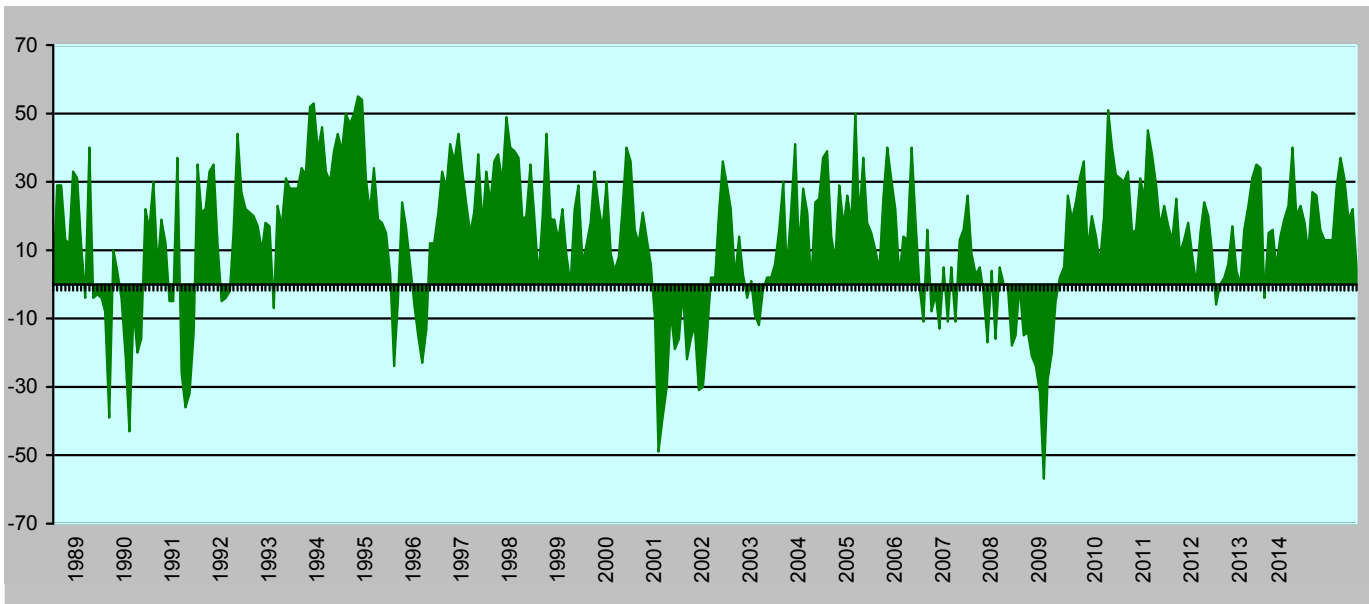
One Year Ago + 9 for the month of August, 2014

Record Low - 57 for the month of December, 2008

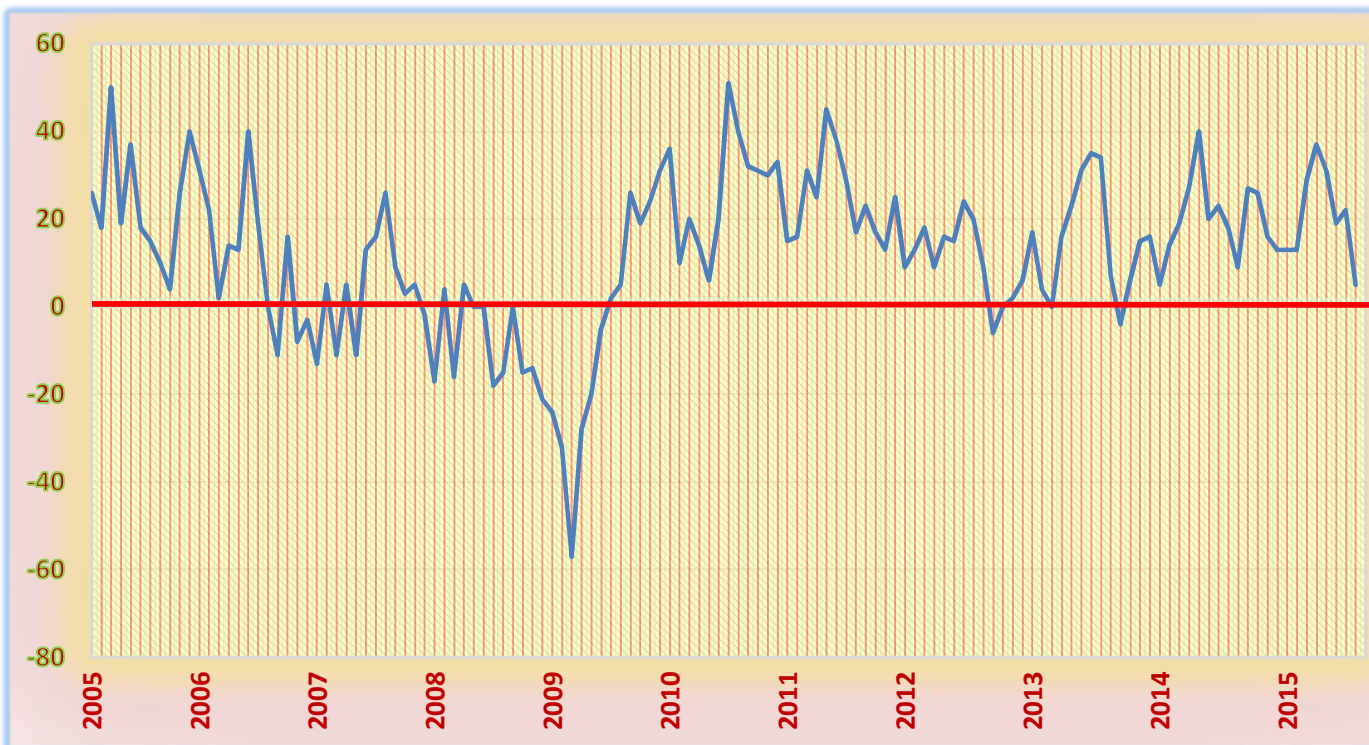
Record High + 55 for the month of September, 1994

First Recovery + 3 in April of 2009 and forward

ISM-West Michigan Index of New Orders 1988 - 2015

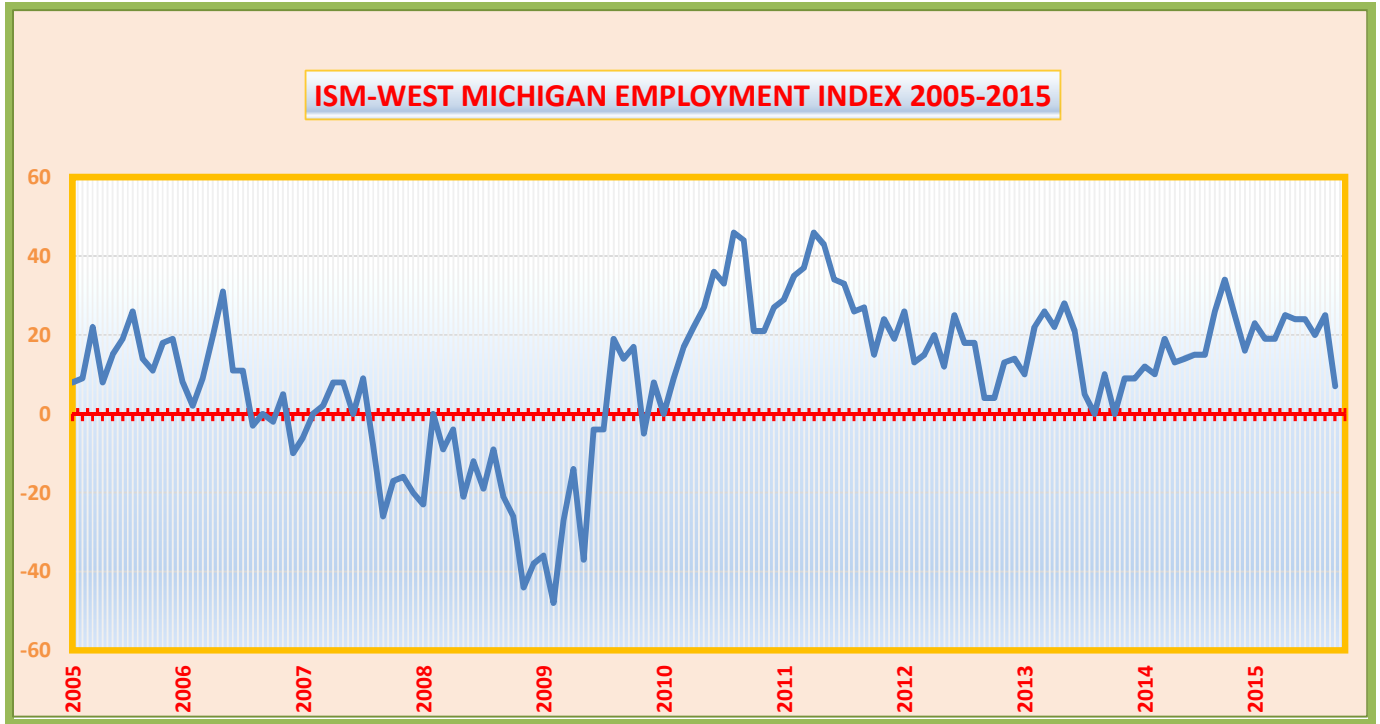


ISM-West Michigan Index of New Orders: 2005-2015 Only



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 measure 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.

