Institute for Supply Management,
Greater Grand Rapids, Inc.
P. O. Box 230621
Grand Rapids, MI 49523-0321

News Release (For Immediate Release)

January 6, 2016

Current Business Trends

By Brian G. Long, Ph.D., C.P.M.
Director, Supply Chain Management Research
Grand Valley State University (269) 323-2359

Flat or Slightly Negative

Flat or slightly negative. That's the latest word on the West Michigan economy according to the data and comments collected in the last two weeks of December 2015. NEW ORDERS, our index of business improvement, edged lower to -1 from +7. The PRODUCTION index softened to -4 from +3. Activity in the purchasing offices, our index of PURCHASES, eased to -4 from +5. One bright spot in December comes from the EMPLOYMENT index, which remains positive at +12. December is often a month of slower sales and reduced production sales because of the holidays so there is no cause for alarm—at lease yet. However, a continuation of this trend into January and February may warrant a reevaluation of the outlook for the rest of 2016. It is also worth noting that the West Michigan economy continues to outpace the national economy, and many local firms are fairly optimistic about 2016—at least as they see it now.

Looking at West Michigan's individual industries, we find that auto parts manufacturing, office furniture, and aerospace remain stable at this time. However, all three of these industries are notoriously cyclical and are now at their peak. Because of strong auto sales, some of our auto parts suppliers remain at full capacity, and at least one is still expanding. However, a couple of other Tier I auto firms have been disappointed with the prospects for the first quarter of 2016. As noted last month, the office furniture business has turned mixed, and some firms are less optimistic about 2016. Many of our firms associated with capital equipment are beginning to complain about the below-cost equipment being dumped on the market by the Japanese, Korean, and Chinese manufacturers because of the weaker international markets. December is almost always a sluggish month for the industrial distributors, so it was no surprise to see these respondents slower for the season.

According to the January 4 press release from the Institute for Supply Management, our parent organization, the national economy continues to lose strength. ISM's index of NEW ORDERS eased to -9, down from -3. In a similar move, the ISM PRODUCTION index dropped to -8 from -3. The EMPLOYMENT index declined to -7 from -1. According to ISM's index of INVENTORIES, many firms are continuing to liquidate the larger-than-usual inventories they have accumulated over the past few years. Inventory liquidation is typical during periods of falling prices because most commodities are expected to be cheaper for the upcoming months. Although this report represents the fourth successive month of weak numbers from ISM, at least some of the explanation can be attributed to the month of December, which is often a slow month for the industrial economy. If we see further erosion in January, then we will need to reevaluate the prospects for the rest of 2016.

A contrasting view of the national economy comes from Markit.com, the London-based international economics consulting firm. Although still positive, Markit's Purchasing Manager's Index for December dropped to a three-year low of 51.2, down from 52.8. The chief economist continues to grow more pessimistic about the prospects for 2016:

> "The manufacturing sector saw a disappointing end to 2015, and its plight looks set to continue into the New Year as headwinds show no sign of abating any time soon. The strong dollar is hurting exporters as well as hitting domestic sales as firms compete against inflows of cheap imports. Low oil prices are meanwhile hitting demand for goods and machinery from the energy sector. There are signs that consumers are becoming more cautious in relation to spending as interest rates lift off their historic lows, and overseas demand remains in the doldrums. All of these factors look set to continue to hurt manufacturers, and even intensify, in coming months."

A bright spot in this month's report comes from our indexes of confidence. In December, the index we call the SHORT TERM BUSINESS OUTLOOK rose nicely to +26 from +10. In a similar move, the LONG TERM BUSINESS OUTLOOK index accelerated to +49 from +39. Although geopolitical events had resulted in some respondents becoming more pessimistic in recent months, it appears that the Christmas season has brightened the prospects for the future. Hopefully, this optimism will carry over into the New Year. But don't hold your breath.

At the international level, the picture for the industrial economy remains mixed, according to the January 4 press release from the J.P. Morgan Global Manufacturing report. The PMIs for countries like South Africa, Brazil, Indonesia, and Canada remain negative. By contrast, prospects for the European economy as a whole have modestly improved, largely because of the European Central Bank's quantitative easing. The survey author further noted:

> "The end of 2015 saw the Eurozone manufacturing recovery gain further traction with rates of expansion in production and new orders over the final quarter besting those of quarter three. The sector is therefore likely to make a meaningful positive contribution to the euro GDP numbers for the fourth quarter. While there is much to be positive about in these figures, the underlying picture is still one of solid yet unspectacular expansion. With Eurozone manufacturing still some 9% off its pre-crisis peak, it looks as if the sector still

has some distance to travel before the climb back to full recovery is complete."

Triggered by a stock market selloff in China, the New Year started off with a major decline in the equity markets around the world. The Purchasing Manager's Index for China came in negative again for the sixth successive month, raising fears that the Chinese economy may really be much weaker than some of the statistics being reported. The Chinese government is trying frantically to regulate the economy back to a more positive stance, and billions in stimulus money is still being poured into numerous questionable stimulus efforts. But China has not had a recession in the past 30 years, and many economists are now questioning whether the government can continue to steer the economy away from trouble. Their luck may be running out.

Much as we expected, the auto industry succeeded in setting a record for the largest number of cars ever sold in one year. For all of 2015, Ford recorded an 8.3% increase, GM 5.7%, and Fiat Chrysler 12.3%. For the transplants, 2015 sales for Honda rose 9.9%, Hyundai-Kia 7.0%, Nissan 17.9%, and Toyota 10.8%. These numbers are for both cars and light trucks, so it should be noted that all of the gain (and then some) was from the truck and SUV sector, not from the sales of cars alone. We can give credit to cheaper gas for a good portion of this gain.

Industrial deflation continues to accelerate the recession in the extractive industries such as mining and petroleum production. At -33, ISM's index for PRICES is now at the lowest level since the pit of the recession in April 2009. Locally, our index of PRICES remains negative at -6. Most of the "big ticket" items like steel, copper, aluminum, and petroleum products are still falling in price. For most of our firms in West Michigan, the lower prices mean a windfall of cost savings. But mines are now closing all over the world, and steel mills have reduced production to 2009 levels. Chinese firms are now dumping machinery and equipment on the world market at prices below cost. Again, for our local buyers, it is great to purchase materials and equipment at bargain prices, but the recession in the supply chain will weigh heavily on the world economy for 2016.

It has been said that economic forecasting is like driving a car blindfolded with someone looking out the back window giving you directions. However, the past does tend to repeat itself, and some of the indicators are starting to look negative. According to Citicorp, there is a 65% chance of a recession in 2016. JP Morgan's economists have declared that the probability of a recession within the next three years has risen to 76%. The international banking firm HSBC (the old Hong Kong and Singapore Bank Corporation) has announced that the global GDP, expressed in dollars, is already down 3.4% for 2015. These economists also note that the recent drop in factory orders, weakening export growth, and the flattening of corporate earnings were precursors of several other recessions in recent years. If HSBC is correct, then the 2015 fourth quarter GDP report may be very weak.

Looking at the current situation, there are still a few positives. As noted earlier, the European economy has shown some modest improvement in recent months, and the early part of 2016 appears to be on track for more slow growth. Even countries like Greece and France that had been posting red ink for many months have now turned modestly positive. In the U.S., most of our industrial groups such as aerospace and automotive have remained strong. Hence, we have at least some positive momentum going into early 2016.

DECEMBER 2015 COMMENTS FROM SURVEY PARTICIPANTS

"We are starting to close more future business. Our outlook is strong! We struggle to fill our production floor with workers."

"We had a slightly soft 2015, compared against what was a very strong 2014. 2016 is looking to be stronger than 2015.

"Mom taught me that if you cannot say anything nice do not say anything at all."

"2016 will be an interesting year."

"We have the typical year end chaos. This month and next look good. However, February and March will be slower."

"Normally we are really slow in Oct,/December.

"We've seen a small uptick in business. Hopefully, this is a good sign for 2016."

"Business appears to be picking up, which is unusual for this time of year. We're seeing allot of bid activity for projects in 2016."

"2015 is finishing strong."

"We continue to struggle meeting customer demand but we are improving."

"Durable goods orders are slowing."

"We are in our normal slowdown for end of year, but there is some concern for 2016. Indications are pointing to lower N.A. class 8 truck build in 2016. The peak was 2015."

"Raw material pricing appears to have bottomed out in December, and it appears January pricing may rebound." "It is very difficult to find production workers." "Normally, this is a slower time for us. But the last two weeks of December our packed with production orders to meet the needs of some of our grocery customers."

"Due to ample customer orders, we will not be able to shut production down for the holiday weeks. We'll be working three days each week."

"We are looking forward to see the effect of the Fed rate hike on automotive sales. The automotive makers have been very quiet, while most of the major material input costs have dropped significantly in the past 12-18 months. Auto prices have not dropped which should translate into increased margins and EBIT for them. They may need to give some of this back when interest rates begin to climb in 2016."

"It's been a tough year surrounding the metal scrap market, but year is ending nicely despite challenges."

"Business is good, but slowing down slightly for holidays.

"We are anticipating closing out 2015 with another solid year of performance. New business opportunities look favorable heading into 2016."

"Employment down due to hiring slowdown to help offset industrial side of business slow down. Finished goods inventories are up due to 'build to stock' vs. 'build to order change.'"

"The forecast for 2016 is good and we should have a very active construction season."

"Business is really looking good for 2016. It looks like it will be another banner year, which is odd for an election year. "

"2016 looks very promising for us. We continue to grow and prosper."

"It is very difficult to find production workers."

"We're rushing to get the last of the year orders shipped and put out the normal end of year fires."

"We are hitting the end of year rush, but Section 179 is not helping us."

"It's been a very productive year. Our expectations for the year were fairly modest. However we surpassed our goals every quarter."

"We had a weak fourth quarter, but expect to normalize in the first quarter of 2016.

"We are very, very busy for this time of year!"

"We had an uptick in incoming orders, but are still below forecast for the month and year."

"November was significantly down from October, and December is shaping up to be on par with November. The fourth quarter will be the worst of the year, but our major customers say that January will start strong. Let's hope the New Year opens the flood gates."

December 2015 Survey Statistics

	UP	SAME	DOWN	N/A	Dec. Index	Nov. Index	Oct. Index	25 Year Average
Sales (New Orders)	31%	35%	32%	2%	- 1	+ 7	+ 9	+14
Production	28%	42%	24%	6%	- 4	+ 3	+ 3	+14
Employment	21%	70%	9%		+12	+15	+ 5	+ 8
Purchases	22%	52%	26%		- 4	+ 5	+ 6	+ 7
Prices Paid (major commod.)	9%	76%	15%		- 6	-13	-12	+15
Lead Times (from suppliers)	13%	72%	15%		- 2	+ 4	+ 0	+11
Purchased Materials Inv. (Raw materials & supplies)	18%	52%	24%	6%	- 6	+ 3	-10	- 4
Finished Goods Inventory	15%	50%	27%	8%	-12	- 6	- 6	- 8
Short Term Business Outlook (Next 3-6 months)	32%	62%	6%		+26	+10	+ 4	-
Long Term Business Outlook (Next 3-5 years)	51%	47%	2%	3%	+49	+39	+44	-

Items in short supply: Freight, plasticizers, workers, stainless steel, polypropylene, gears, non-leaking castings, chrome, fabrication, outsourcing partners, machined parts, custom castings, heavy construction equipment, labor.

Prices on the UP side: Plastics, Freight, chlor-alkali, polypropylene, some steel, construction equipment, gravel, sand, health care.

Prices on the DOWN side: Scrap steel, pig iron, natural gas, PVC resin, most metals, oil and related products, carbon and stainless steel, fuel cost, cold rolled steel, hot rolled steel, aluminum, crude oil, resins.

Latest Unemployment Reports

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

	Oct. 2015	Oct. 2014	Aug. 2009	20 Year Low
State of Michigan (Adj.)	5.1%	6.5%	14.6%	3.2%
State of Michigan (Unadj.)	4.5%	5.8%	14.1%	2.9%
Kent County	2.9%	3.7%	11.9%	2.1%
Kalamazoo County	3.4%	4.3%	11.1%	2.1%
Calhoun County	4.1%	4.9%	12.8%	2.7%
Ottawa County	2.9%	3.7%	13.3%	1.8%
Barry County	3.3%	4.1%	10.9%	2.2%
Kalamazoo City	4.6%	5.7%	15.2%	3.2%
Portage City	3.4%	4.2%	8.7%	1.3%
Grand Rapids City	4.1%	5.2%	16.1%	3.0%
Kentwood City	2.7%	3.5%	10.7%	1.4%
Plainfield Twp.	2.2%	2.8%	8.0%	1.4%
U.S. Official Rate (Nov.)	5.0%	5.8%	9.6%	3.8%
U.S. Rate Unadjusted	4.8%	5.5%	9.6%	3.6%
U.S. U-6 Rate**	9.6%	11.7%	16.7%	8.0%

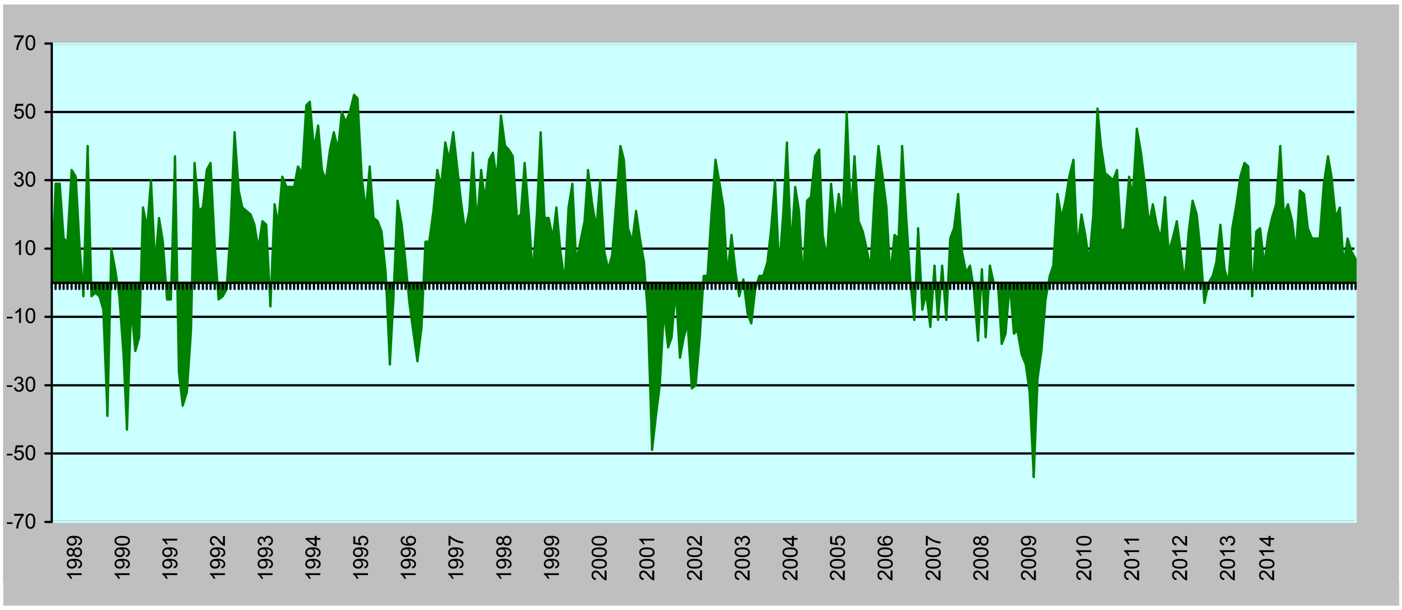
**U-6 for Michigan = 12.6% for July 2014 to June 2015

Index of New Orders: West Michigan

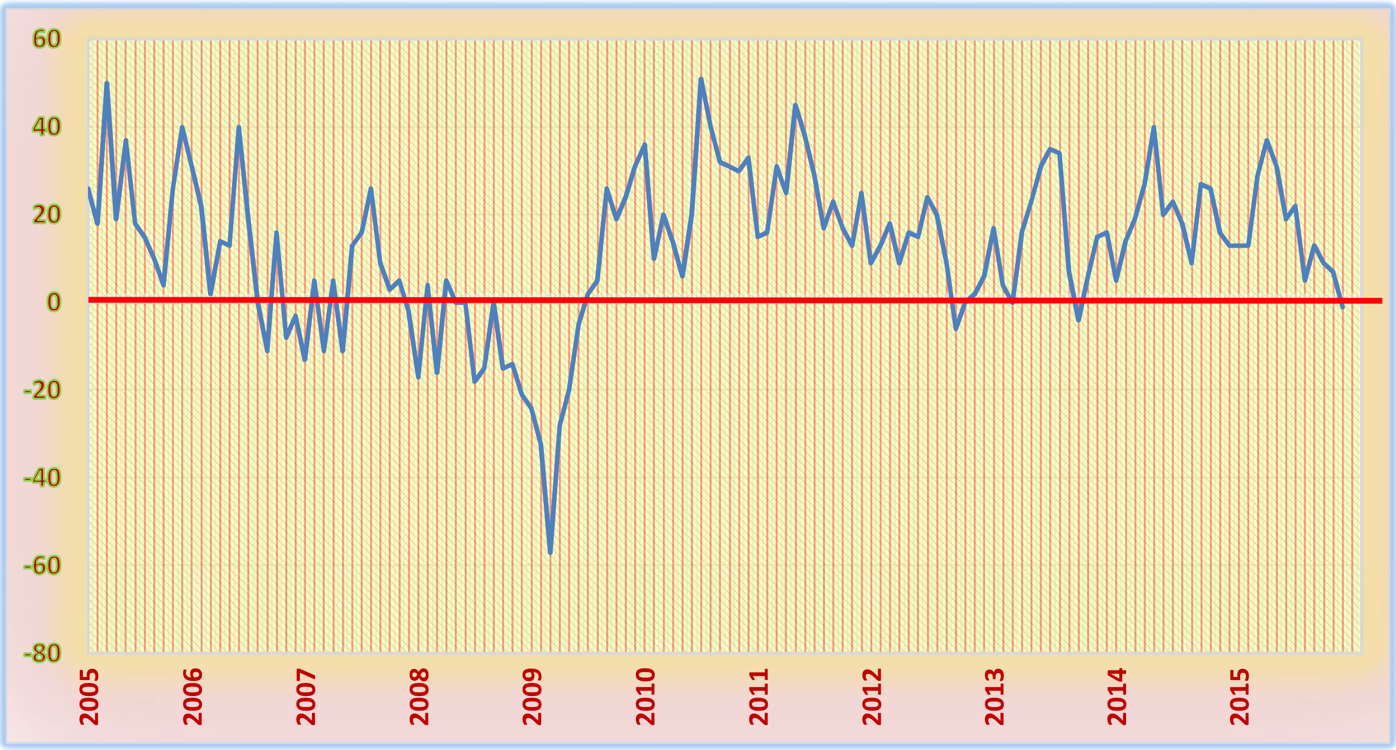
As the name implies, this index measures new business coming into the firm, and signifies business improvement or business decline. When this index is positive for an extended period of time, it implies that the firm or organization will soon need to purchase more raw materials and services, hire more 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	-1 for the month of December, 2015
Previous Month	+ 7for the month of November, 2015
One Year Ago	+16 for the month of December, 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

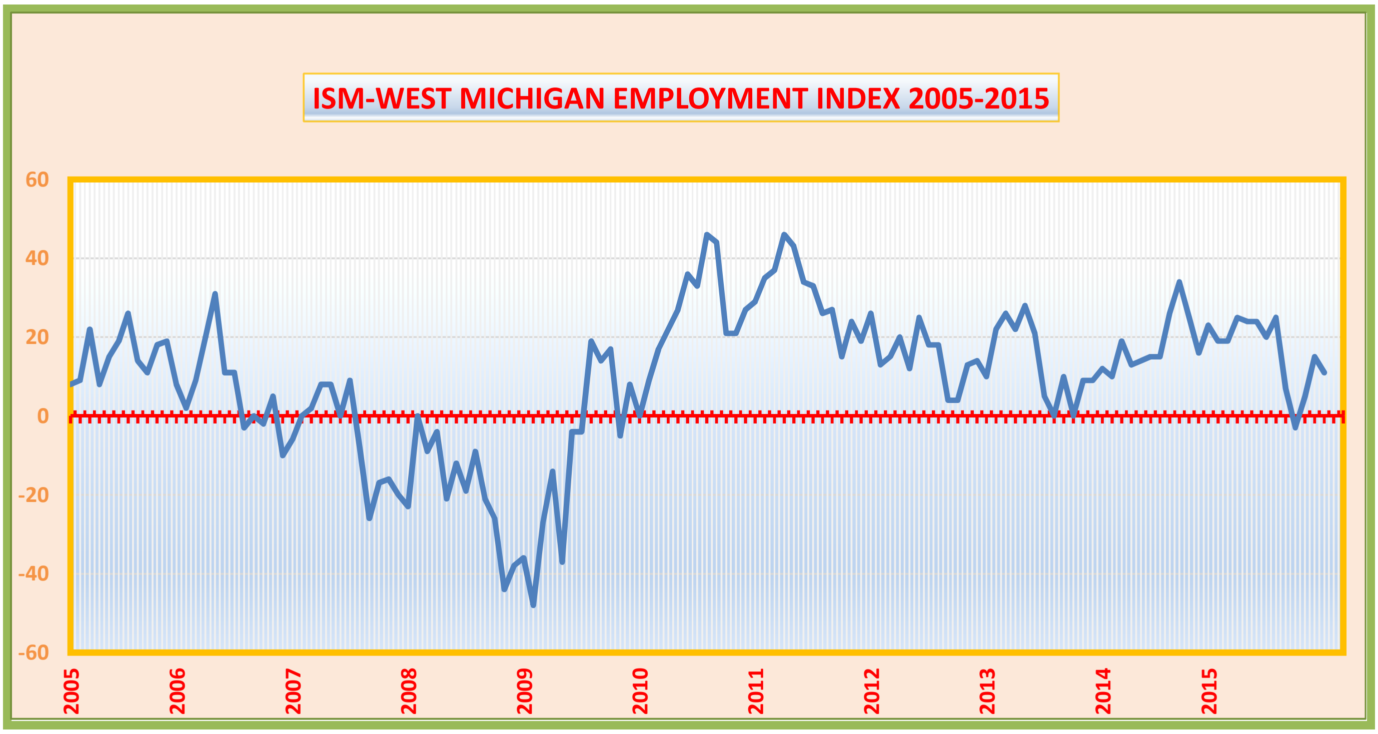


ISM-West Michigan Index of New Orders: 2005-2015 Only



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 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.