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News Release (For Immediate Release)

November 5, 2018

Current Business Trends

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ANOTHER UPTICK

For well over nine years, our overall pattern of growth has been slow, punctuated by a few ups and downs. For West Michigan, September was strong, but October was even stronger. According to the data collected in the last two weeks of October 2018, NEW ORDERS, our index of business improvement, rose confidently to +36, up from +28. The West Michigan PRODUCTION index, which was already fairly strong, edged up to +30 from +29. Activity in the purchasing offices, the index of PURCHASES, rose to +29 from +21. Our survey participants are still airing concerns about the tariff wars, but most of the attention has now been directed at China. Despite these concerns, the overall impact of the tariffs has been fairly limited.

Individual industries. For many months, industry analysts have warned that auto sales will continue to soften. So far, the decline has been very orderly, and our West Michigan auto parts suppliers continue to report positive business conditions. The 2017 tax incentives continue to boost many segments of the industrial economy, keeping the capital equipment and office furniture firms humming. For most of our industrial distributors, business conditions are still benefitting from the usual seasonal uptick.

The U.S. Economy. According to the November 1 press release from the Institute for Supply Management, our parent organization, the national economy remains positive, but the pace has slowed considerably. NEW ORDERS, ISM's index of business improvement, remained positive but backtracked to an eighteen-month low of +9, down from +21. The PRODUCTION index edged lower to +17 from +24. The EMPLOYMENT index backtracked three points to +12 from +15. ISM's overall index eased considerably to 57.7, down from September's reading of 59.8.

A contrasting opinion of the U.S. economy comes from IHS Markit.com, the British international consulting firm. Markit.com's seasonally adjusted PMI for October rose to a four-month high of 55.7, up fractionally from September's 55.6, but up all the same. All of the survey's major components such as NEW ORDERS, PRODUCTION, and EXPORT ORDERS contributed to the rise. Chris Williamson, Chief Business Economist at IHS Markit, further noted:

> "The manufacturing sector saw a strong start to the closing quarter of 2018, with new order inflows rising sharply and business optimism spiking higher in an encouraging sign that firms expect the good times to continue into 2019. The increasingly bullish mood was also reflected in one of the largest monthly increases in factory payroll numbers seen over the past seven years as firms grew capacity to meet rising workloads. The key area of concern remained tariffs, which were widely reported to have contributed to another month of stalled export sales and a steep rise in prices for many inputs. Average input prices rose at one of the sharpest rates seen over the past six years in October. In a clear sign that inflationary pressures are continuing to build, strong customer demand meant firms were often able to push cost increases through to selling prices. Average prices charged for goods leaving the factory gate consequently jumped to one of the greatest extents seen since mid-2011."

The World Economy. The global economy remains positive, but the pace continues to slow. The J.P. Morgan Monthly Global Manufacturing index, encompassing 43 nations eased to a 23-month low of 52.1 in October, down fractionally from 52.2. Because of trade tensions and currency fluctuation, outbound export orders were reported weaker in China, South Korea, the U.K., Taiwan, Brazil, Turkey, Indonesia, Poland, Thailand, and the euro area. Although still ahead of the 50.0 the break-even point between expansion and contraction, growth continues to slow. The survey author further commented:

> "October saw developed nations (on average) outperform emerging markets. This was mainly due to the ongoing strength of the U.S., which saw its PMI rise to a five-month high. The rate of expansion hit a four-month high in Japan, which (like the U.S.) saw above global-average growth. Rates of increase slowed to the lowest level since August 2016 in the euro area and to its weakest level during the current 27-month sequence of expansion in the U.K."

The eurozone's overall manufacturing index eased to a 26-month low of 52.0, down considerably from September's reading of 53.2. Declines in export sales were recorded in Austria, France, Germany, and Italy. Business confidence slumped in October to the lowest level since late 2012. The PMI for Italy turned negative for the first time in five years, but positive reports from the economies of the Netherlands, Ireland, and Austria kept the statistics positive. Chris Williamson of IHS Markit, the survey author, further noted:

> "Concerns about the Eurozone manufacturing sector intensified at the start of the fourth quarter. The headline PMI fell to its lowest since August 2016, signalling a further slowing in the rate of expansion. New orders fell into decline for the first time in almost four years as trade woes escalated. Export sales fell for the first time in over five years. Moreover, the survey suggests that the manufacturing sector could contract in the fourth quarter unless the data revive in coming months. However, with backlogs of work falling for a second successive month, and business expectations sliding to the lowest for nearly six years, risks seem firmly tilted towards the downside heading towards the end of the year. The combination of destocking, deteriorating order books, and a drop in business optimism will add to concerns that growth risks are shifting to the downside rather than being 'broadly balanced', as indicated by the ECB."

Michigan Unemployment. According to the latest report from Michigan's Department of Technology, Management, and Budget, Michigan's "headline" unemployment rate for September (latest month available) edged down to 4.0 percent. Total state-wide employment grew by 30,000 workers compared to September 2017, and the number of people unemployed decreased by 37,000. Almost a third (10,000) of the increase in Michigan's employment can be attributed to Ottawa and Kent Counties alone.

West Michigan Unemployment. Our September index of EMPLOYMENT came in at +24, a little slower than last month's index of +29. The unemployment rate for most of our reporting units is now running about one full percentage point below 2017. Some West Michigan cities like Kentwood have an enviable unemployment rate of 2.4%. Can it get better? Probably not. A lower rate would primarily require hiring more people, and many of our area employers continue to complain that recruiting new (qualified) workers is extremely difficult. The industrial sector may have taken the economy as far as it can go, given that firms can't find enough qualified people to hire.

Automotive. The auto sales numbers continue to surprise many economists. After all the talk about auto sales softening, the October sales report from Automotive News posted a minor gain of 0.4%. The seasonally adjusted sales rate (SAAR) rose to 17.59 million vehicles from 17.44 in September. Just as last month, most of the major brands declined. Sales at Fiat-Chrysler bucked the trend, and rose 15.4 percent. GM posted a fairly modest decline of 5.3 percent, Ford lost 4.0 percent, Honda shed 4.1 percent, but Hyundai-Kia edged up 0.7 percent. Toyota sales rose modestly by 1.4 percent, but Nissan slid 10.6 percent. According to David Phillips at Automotive News:

> "The strength in today's new vehicle sales results for October were surprising, a little higher than our 17.1m SAAR expectation. Monthly payments are rising as the Federal Reserve's monetary tightening policy takes hold, but sales have not declined. It may be that higher income Americans, the key new vehicle buying demographic, are doing particularly well in today's economy."

Industrial Inflation. The advantage of the slower pace of the world economy is that prices for many key industrial commodities continues to moderate. For October, our local index of PRICES fell sharply to +14 from September's +33 and August's +42. However, ISM's national index of PRICES rose to +43 from +34. The J.P. Morgan international pricing index also rose to 61.2 from 60.6. The rise in trucking rates appears to subsiding, although some firms are still experiencing a few trucking capacity shortages.

GDP. The first estimate for the third quarter of 2018 came in at 3.5 percent, fairly close to the Wall Street Journal estimate of 3.2 percent. The Atlanta Federal Reserve had optimistically predicted a rate of 4.7 percent, hoping that the 4.2 percent rate from the second quarter would carry over. Because of the impact of the tariffs, the nationwide shortage of trucks, and the continued difficulty finding new workers, almost no one is expecting the fourth quarter of 2018 to be spectacular. Although current fourth quarter estimates are now running about 2.9 percent, the average for all of 2018 would still come in at about 3.2 percent, the best annual performance in 13 years.

Business Confidence. Although our local statistics remain positive, the optimism continues to fade. The West Michigan index for the SHORT-TERM BUSINESS OUTLOOK for September, which asks local firms about the perception for the next three to six months, ticked up to +26 from +25, an insignificant increase. This reading, although still positive, is still far less optimistic than February's reading of +51. The LONG-TERM BUSINESS OUTLOOK, which queries the perception for the next three to five years, retreated to a record low of +24, down from +33. Although these readings do indicate a little concern about where the West Michigan economy is headed, the overall mood is still positive.

Summary. At least for a few more quarters, the 2017 tax cuts will continue to push the U.S. economy in a positive direction. Continued uncertainty about the trade talks as well as the softening world economy will limit future economic growth. New workers of all stripes are hard. The shortage of trucks and drivers is an additional constraint. Despite rhetoric to the contrary, neither the politicians nor the Federal Reserve have not repealed the business cycle. Yes, we have several bubbles that are starting to form, but none of them appear to be great enough to upset the current economic momentum—at least for the next few quarters.

OCTOBER COMMENTS FROM SURVEY PARTICIPANTS

"Aluminum pricing has been falling slightly, but consistently."

"Goods out of China (FOB) are falling in price due to lack of orders, but tariffs are offsetting the lower prices."

"It feels like the business economy is tapering off some, although business is still very strong."

"We're working on completing projects before the snow!"

"October was our most productive month of the year."

"Hiring and maintaining enough production employees is a problem."

"Tariffs are a big problem."

"September was the worst month in years; very much like October of 2008. This October, while still slow, is showing improvement. We're hoping the fourth quarter isn't horrible."

"We see machine tool pricing starting to increase due to component parts increasing from our suppliers. Items like castings, ball screws and electronics are in high demand and vendors to us are increasing lead-times and increasing pricing."

"We believe tariffs are having a near-term negative effect."

"Our supply base is full, and lead-times are extending."

"Orders are up, and some projects cutting loose. It is still impossible to find and hire good quality, skilled workers."

"Section 232 tariffs and section 301 tariffs are causing added costs and a lot of resources to deal with. Big Steel seems to be the big winner in the trade war, while smaller companies are being hit hard."

"Automotive is touch and go. The big questions are the China market and tariffs."

"We are busy, and should remain busy through year end."

"We are starting to see sales intake rise slightly. Many of our suppliers are slammed and can't expedite orders."

"We are starting to see commodities that are exposed to tariffs rise in price."

"Prices for lots of items are going up 1-3% incremental increases for no real reason other than "tariffs," or so the suppliers say."

"Business remains strong, and the forecast for the rest of the year is solid."

OCTOBER 2018 Survey Statistics

	UP	SAME	DOWN	N/A	Oct. Index	Sept. Index	Aug. Index	25 Year Average
Sales (New Orders)	40%	44%	4%	12%	+36	+28	+21	+14
Production	36%	40%	6%	14%	+30	+29	+16	+14
Employment	26%	62%	2%	10%	+24	+29	+21	+ 8
Purchases	40%	42%	8%	10%	+32	+21	+15	+ 7
Prices Paid (major commod.)	44%	42%	0%	14%	+33	+33	+42	+15
Lead Times (from suppliers)	46%	42%	2%	10%	+44	+48	+49	+11
Purchased Materials Inv. (Raw materials & supplies)	30%	48%	6%	16%	+16	+ 9	+20	- 4
Finished Goods Inventory	18%	58%	10%	14%	+ 8	+ 2	+ 3	- 8
Short Term Business Outlook (Next 3-6 months)	36%	44%	10%	10%	+26	+25	+32	-
Long Term Business Outlook (Next 3-5 years)	28%	54%	4%	14%	+24	+32	+32	-

Items in short supply: Polypropylene, UV stabilizers, trucking, transportation, both domestic TL and LT, space on ocean vessels, sodium chloride, paving contractors, trucking services, aluminum, trucking, passive electronic, electronic components, nylon 6/6, acetal, raw castings, linear bearings. In addition, about 30% of the responses listed various forms of labor, people, employees, or labor.

Prices on the UP side: Most resins, freight, steel machined components, salt, sand, construction, services, plasticizer, paraffinic oil, polypropylene, all engineering grade plastic resins, tariff related Items, steel, carbon steel, stainless steel, electric motors, transportation (fuel surcharges), petroleum-based products, some castings, carbide tooling, corrugated, aluminum, aluminum cans, Midwest premium aluminum, electronic components, red metals.

Prices on the DOWN side: Scrap steel, cold rolled steel, stainless steel*, SEBS resin*, aluminum*, stainless steel surcharges, zinc, copper*, powder paint, fuel*.

*Item reported as both up AND down in price.

Latest Unemployment Reports

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

	Sept. 2018	Sept. 2017	Aug. 2009	20 Year Low
State of Michigan (Adj.)	4.0%	4.7%	14.6%	3.2%
State of Michigan (Unadj.)	3.5%	4.5%	14.1%	2.9%
Kent County	2.6%	3.5%	11.9%	2.1%
Kalamazoo County	3.0%	4.1%	11.1%	2.1%
Calhoun County	3.6%	4.8%	12.8%	2.7%
Ottawa County	2.5%	3.4%	13.3%	1.8%
Barry County	2.8%	3.7%	10.9%	2.2%
Kalamazoo City	3.8%	5.1%	15.2%	3.2%
Portage City	2.8%	3.8%	8.7%	1.3%
Grand Rapids City	3.4%	4.6%	16.1%	3.0%
Kentwood City	2.4%	3.3%	10.7%	1.4%
Plainfield Twp.	1.9%	2.6%	8.0%	1.4%
U.S. Official Rate (Sept.)	3.7%	4.2%	9.6%	3.8%
U.S. Rate (Unadjusted)	3.6%	4.1%	9.6%	3.6%
U.S. U-6 Rate (Oct.)**	7.4%	8.0%	16.7%	8.0%

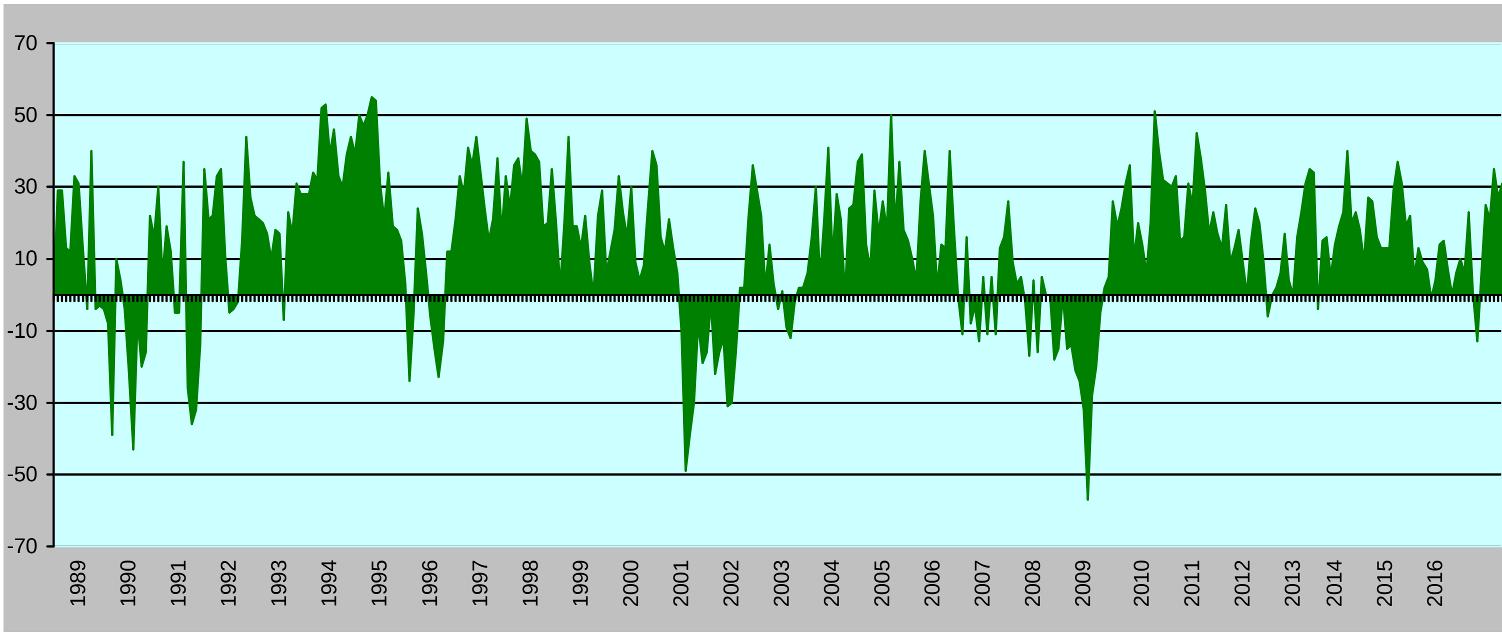
**U-6 for Michigan = 8.2% for Oct. 2017 to Sept. 2018

Index of New Orders: West Michigan

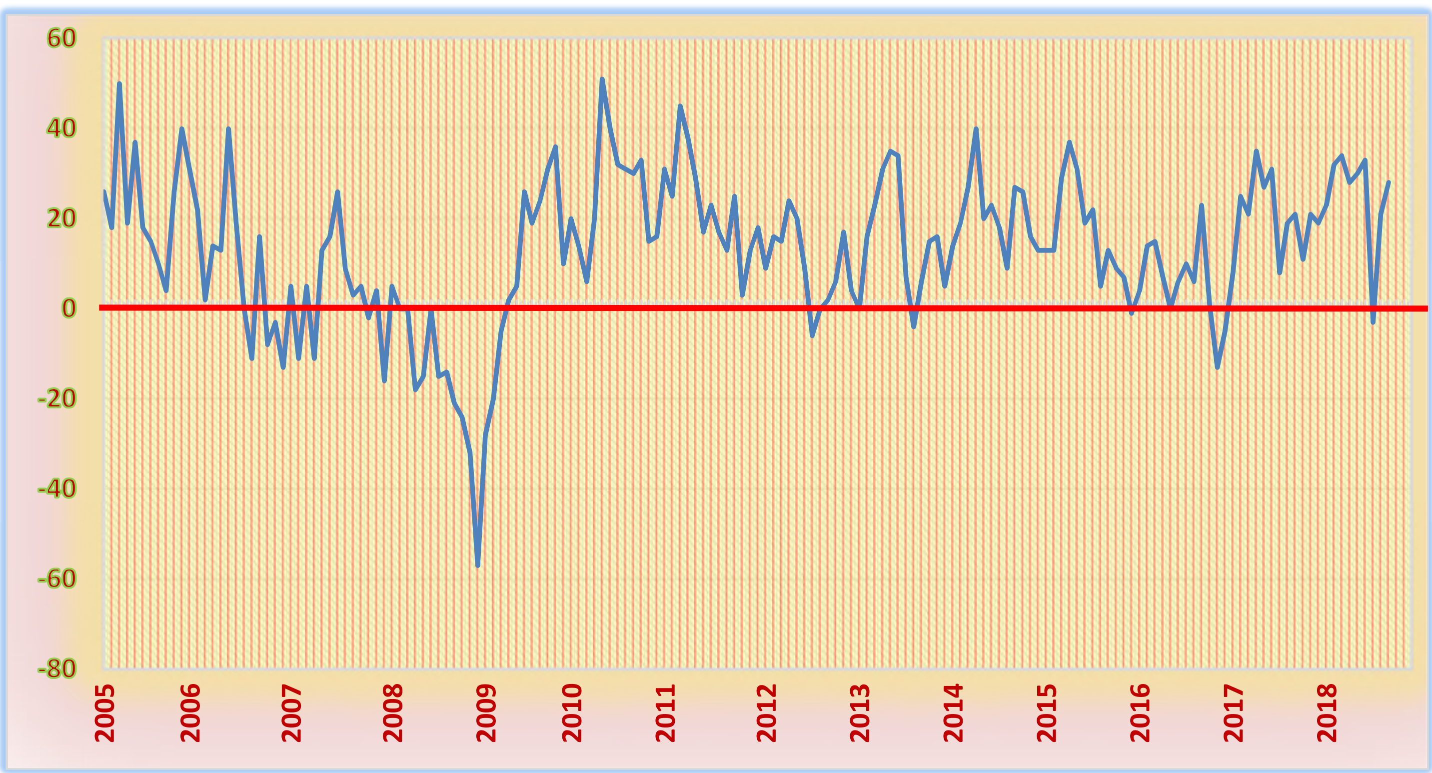
As the name implies, this index measures new business coming into the firm, and signifies business improvement or business decline. When this index is positive for an extended period of time, it implies that the firm or organization will soon need to purchase more raw materials and services, hire more 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	+ 36 for the month of October 2018
Previous Month	+ 28 for the month of September 2018
One Year Ago	+ 11 for the month of September 2017
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 - 2018

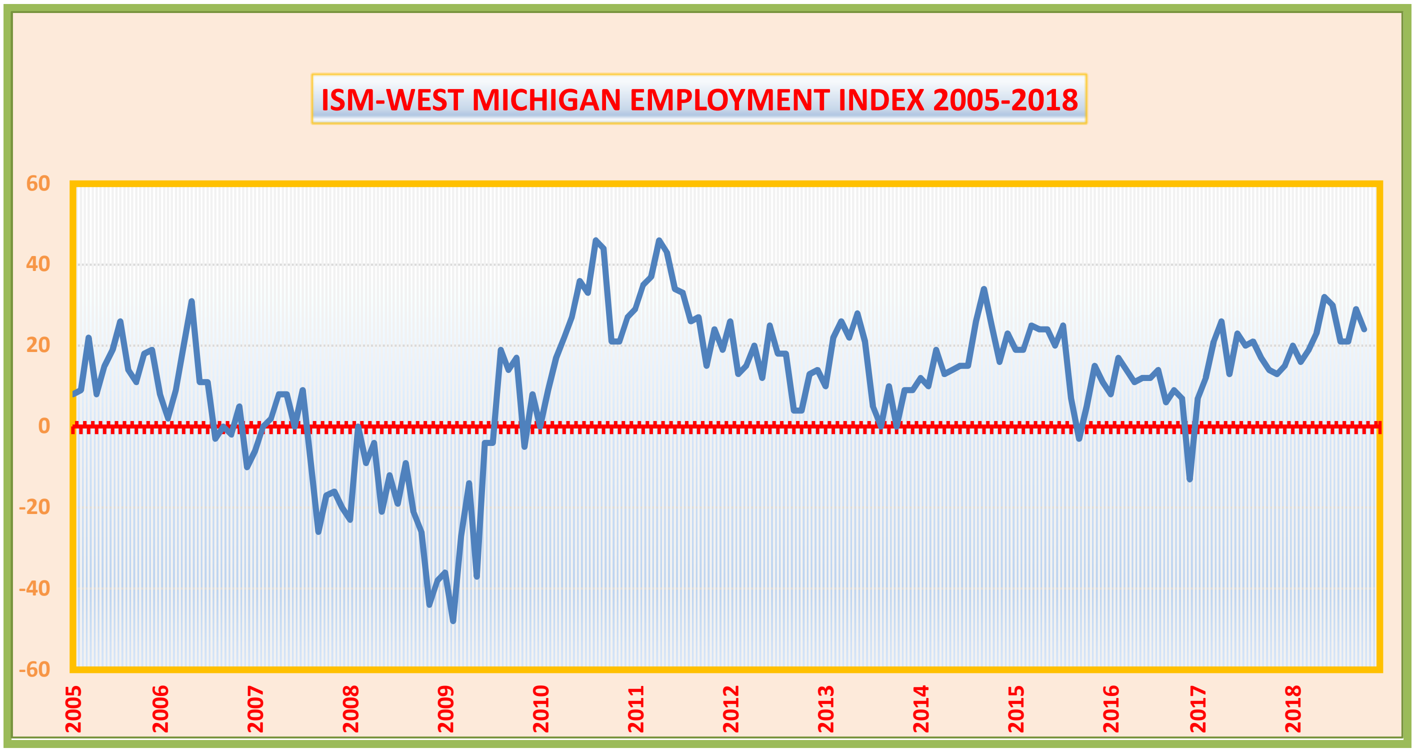


ISM-West Michigan Index of New Orders: 2005-2018 Only



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.