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News Release (For Immediate Release)

December 7, 2018

Current Business Trends

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ANOTHER UPTICK

For the West Michigan industrial economy, September was strong, October was stronger, and November was our best month of the year. According to the data collected in the last two weeks of November 2018, NEW ORDERS, our closely-watched index of business improvement, edged higher to +38 from +36. In a similar move, the PRODUCTION index, which was already fairly robust, edged up to +33 from +30. Activity in the purchasing offices, the index of PURCHASES, rose to +36 from +32. Just as last month, several of our survey participants are concerned about the impact of the tariff wars, especially regarding imports from China. But almost no one is forecasting any type of impending doom.

Individual Industries. Although auto sales continue to soften, our West Michigan auto parts suppliers continue to report positive business conditions and remain cautiously optimistic about the first half of 2019. The 2017 tax incentives may have run their course for at least some of the capital equipment firms. Business conditions remain strong for most of our industrial distributors.

Office Furniture. A cautionary warning to our local economy comes from Mike Dunlop's quarterly survey of the office furniture industry. The Dunlop Quarterly Gross Shipments Index eased to 60.37, down significantly from the survey's thirteen-year high of 66.86 set just three month ago. The Capital Expenditures Index eased to 52.31, down considerably the all-time high of 64.74 posted in April 2017. Both of these indexes clearly indicate that the "sugar high" for office furniture sales brought on by the 2017 tax reform package has now run its course. Fortunately, Dunlop's Personal Outlook Index remains strong at 64.81, well above the survey's overall average of 58.84. The industry is clearly profitable at the current level, but the expansion for this phase of the business cycle for office furniture is apparently over.

The U.S. Economy. According to the December 3 press release from the Institute for Supply Management, our parent organization, the national industrial economy posted a modest gain for November. NEW ORDERS, ISM's index of business improvement, came in at +17, up nicely from October's +9. The PRODUCTION index was virtually unchanged at +18. The EMPLOYMENT index gained three points to +15. ISM's overall index rose to 59.3, well ahead of the expectations of most analysts.

The British international consulting firm of IHS Markit.com offers a slightly different view of the U.S. economy. The seasonally adjusted PMI for November retreated slightly to 55.3 from October's four month high of 55.7. NEW ORDERS increased "…at a sharp and accelerated pace in November." The positive results were attributed to new product launches as well as the strongest new export demand in nine months. Job growth came in the second highest in all of 2018. Chris Williamson, Chief Business Economist at IHS Markit, further noted:

> "Despite the headline PMI slipping to a three-month low, November saw manufacturers enjoy another encouragingly solid month of improving business conditions. Dig deeper behind the headline number and the picture brightens further. New orders rose at the fastest rate for six months, prompting manufacturers to continue to expand capacity to meet demand. The pace of job creation remained among the highest seen over the past decade. The survey acts as a reliable guide to the official manufacturing data, and suggests that factory output is growing at an annualised rate of around 1.5% so far in the fourth quarter, providing a material but by no means impressive contribution to GDP. As such, the data corroborate the flash PMI's signal that the economy will likely see growth slow to a 2.5% rate in the fourth quarter. In a further sign that growth has peaked, business optimism about the year ahead waned to the lowest for over a year, albeit with the proportion of companies expecting output to be higher in a year's time outnumbering those expecting a decline by 36% to 3%."

The World Economy. The J.P. Morgan Monthly Global Manufacturing index encompassing 43 nations remained unchanged at a 23-month low of 52.0 in November. Among the largest nations covered by the survey, manufacturing business conditions improved in the U.S., the eurozone, Japan, China, the U.K., Brazil, and India. Deteriorations were seen in South Korea, Italy, Taiwan, Mexico, Poland, Turkey, Thailand, and Malaysia.

For November, the eurozone's overall manufacturing index eased to 51.8, down from 52.0 in October. Although still above the break-even point of 50.0, the pace has continued to slow for most of 2018. The PMI for Italy sank to a four-year low of 48.6, signaling continued uncertainty over the newly elected populist government. The 56.1 PMI reading for the Netherlands remains the strongest for the eurozone group, although the pace has eased considerably over the past two years. Chris Williamson of IHS Markit, the survey author, further noted:

> "Manufacturers reported that demand is now falling in Germany, France and Italy, while only modest growth was recorded in Spain. The darker outlook is linked to trade wars and tariffs as well as intensifying political uncertainty and has led to increased risk aversion and a commensurate cutting back on expenditure, notably for investment. Producers of investment goods such as plant and machinery reported the steepest drop in demand in November, with reduced capital spending by companies compounded by on-going disruption of business in the autos sector. Hopes that the soft patch may prove short-lived are countered by business optimism about prospects for the year ahead remaining among the gloomiest seen since the sovereign debt crisis in 2012, suggesting companies are bracing themselves for further weak demand in the coming months. The survey also indicates that households could rein in spending if companies continue to pull back on hiring, adding to downside risks to the outlook."

Michigan Unemployment. According to the latest report from Michigan's Department of Technology, Management, and Budget, Michigan's "headline" unemployment rate for October (latest month available) edged down to 3.9 percent, well below the 4.7% reported for October 2017. Total state-wide employment grew by 30,000 workers compared to October 2017, and the number of people unemployed decreased by 39,000.

West Michigan Unemployment. In our latest survey, the index of EMPLOYMENT remained virtually unchanged at +25, but well ahead of the survey's 25-year average of +8. Just as last month, the unemployment rate for most of our reporting units is still about one full percentage point below 2017. Like many past reports, at 2.5%, Ottawa County took the honors for the lowest unemployment rate among Michigan's 83 counties. Kent County came in second place at 2.6%. At 3.0%, Kalamazoo County's rate is still well below the statewide average. A few West Michigan cities like Kentwood boast a 2.5% rate. However, it is worth repeating that the current low unemployment numbers we are reporting are as good as we can expect for the near future. From Economics 101, it should be remembered that the employment statistics are laggards, and we are usually well into a recession before the unemployment statistics start to turn negative.

Automotive. November's bad news from the automotive sector came from the General Motors announcement to close three plants associated with small car production and lay off 14,000 workers, presumably to get ahead of the predicted slump in auto sales for 2019. Sales numbers for small cars and even traditional sedans have been falling for most of the past four years, and GM management thought that it was in the best long-term interest of the company to cut costs now and not hold on to false hope like they did in 2008. Ford has already announced plans to phase out the domestic production of most sedans over the next several years and concentrate on SUVs, trucks, and crossovers. However, Ford has not announced any significant layoffs. According to Jeremy Acevedo, manager of industry analysis at Edmunds:

> "November's sales slowdown signifies a new normal that we can expect through at least the end of 2018, and likely into 2019. Although sales remain at a healthy level, factors such as increasing market saturation, rising transaction prices and elevated interest rates continue to create headwinds for the industry overall."

Bolstered by fleet sales, U.S. light-vehicle sales for November were only off by 0.5 percent, yielding a seasonally adjusted sales rate (SAAR) of 17.55 million—well above the forecasted rate of 17.3 million. For the Detroit Three, GM posted a fairly modest decline of 1.4 percent, Ford lost 7.1 percent, but FCA gained 16.8 percent because of significant surges for the Jeep and Ram nameplates. Among the other major nameplates, Honda shed 9.5 percent, VW gave up 8.3 percent, and Nissan tanked by 18.3 percent. Toyota sales eased modestly by 0.6 percent.

Industrial Inflation. Despite the slower pace of the world economy, our local index of PRICES for November edged up to +46 from October's +33. However, ISM's national index of PRICES dropped significantly to +21 from +43. In a less dramatic move, the J.P. Morgan international pricing index eased to 58.6, down from 61.1. At least some key industrial commodities like aluminum, zinc, fuel, and some grades of steel are now slowly falling in price. However, many grades of plastic resin are still rising in price despite the recent declines in petroleum prices.

GDP. The second estimate for the third quarter of 2018 came in unrevised at 3.5 percent. Because of the falling prices for some commodities and pessimism promulgated by some forecasters, current fourth quarter estimates are now running about 2.9 percent.

Business Confidence. Most of our local firms remain cautiously optimistic, although others continue to cite uncertainty about the impact of the Chinese trade war and the gradual easing of auto sales. West Michigan index for the SHORT-TERM BUSINESS OUTLOOK for November, which asks local firms about the perception for the next three to six months, ticked up to +28 from +26. This index had been at +51 just nine months ago. The LONG-TERM BUSINESS OUTLOOK, which queries the perception for the next three to five years, rose to +29 from last month's record low of +24. Most of our survey participants have been through at least one recession, and are beginning to worry about how long the current expansion can continue to run.

Summary. The 2017 tax cuts may have run their course for many firms, but the economic momentum going forward remains positive. The softening world economy and the pessimistic outlook by some of the automotive firms are now pointing toward a slower pace for the West Michigan economy going in to 2019. The expansion of the office furniture industry has apparently run its course, although most firms remain positive. Unless trade talks with China break down, there is no apparent problem in the SHORT term that will upset the economy for the first half of 2019. However, if any sign of weakness does pop up, we will see many firms start to decrease spending and reduce or stop hiring new people. Hence, growth for the second half of 2019 may be subdued.

NOVEMBER COMMENTS FROM SURVEY PARTICIPANTS

"Orders are up, and we're seeing some projects cutting loose. It's still impossible to find and hire good quality, skilled workers."

"Section 232 tariffs and section 301 tariffs are adding 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're starting to see sales intake rise slightly. Many suppliers are slammed and can't expedite orders."

"It feels like the economy is softening some, although still quite robust."

"Tariffs are a big problem."

"Business continues to be very robust."

"Business is strong, so we are having a hard time filling key open positions."

"We're seeing lots of incremental price increases in many product families. "

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

"Pricing for lots of items are going up 1-3% incremental increases for no real reason other than 'tariffs' suppliers say."

"We're starting to see prices for commodities that are exposed to tariffs take effect."

"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. "

"Prices are not going up as fast. New quotes and orders are up right now."

"We think things may slow down after the first of the year with capital orders"

"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."

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

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

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

"We have seen some relief in steel pricing. Not sure how long it will last. "

"Pricing for goods FOB out of China are decreasing due to lack of new orders, but tariffs are offsetting the decreases."

"September was the worst month in years, very much like October of 2008. October, while still slow, is showing improvement. We're hoping the 4th quarter isn't horrible."

NOVEMBER 2018 Survey Statistics

	UP	SAME	DOWN	N/A	Nov. Index	Oct. Index	Sept. Index	25 Year Average
Sales (New Orders)	43%	51%	5%	2%	+38	+36	+28	+14
Production	38%	50%	5%	7%	+33	+30	+29	+14
Employment	27%	71%	2%	2%	+25	+24	+29	+ 8
Purchases	41%	52%	7%	2%	+36	+32	+21	+ 7
Prices Paid (major commod.)	46%	54%	0%	0%	+46	+33	+33	+15
Lead Times (from suppliers)	52%	46%	2%	0%	+50	+48	+48	+11
Purchased Materials Inv. (Raw materials & supplies)	30%	56%	7%	7%	+23	+16	+ 9	- 4
Finished Goods Inventory	20%	64%	9%	7%	+11	+ 8	+ 2	- 8
Short Term Business Outlook (Next 3-6 months)	39%	50%	11%	0%	+28	+26	+25	-
Long Term Business Outlook (Next 3-5 years)	34%	57%	5%	4%	+29	+24	+32	-

Items in short supply: Data not available this month.

Prices on the UP side: Wages, industrial textiles, freight, imported components, most resins, steel machined components, salt, sand, construction services, plasticizer, paraffinic oil, polypropylene, all resin and plastic components, all engineering grade plastic resins, tariff related items, electric motors, transportation (fuel surcharges*), items made from steel, petroleum based products, some castings, metals and plastics, aluminum, carbon steel, stainless steel, carbide tooling, corrugated, aluminum, aluminum cans, electronic, components, Midwest premium aluminum, red metals.

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

*Item reported as both up AND down in price.

Latest Unemployment Reports

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

	Oct. 2018	Oct. 2017	Aug. 2009	20 Year Low
State of Michigan (Adj.)	3.9%	4.7%	14.6%	3.2%
State of Michigan (Unadj.)	3.8%	4.2%	14.1%	2.9%
Kent County	2.6%	3.2%	11.9%	2.1%
Kalamazoo County	3.0%	3.8%	11.1%	2.1%
Calhoun County	3.6%	4.5%	12.8%	2.7%
Ottawa County	2.5%	3.1%	13.3%	1.8%
Barry County	2.8%	3.4%	10.9%	2.2%
Kalamazoo City	3.8%	4.7%	15.2%	3.2%
Portage City	2.8%	3.4%	8.7%	1.3%
Grand Rapids City	3.5%	4.3%	16.1%	3.0%
Kentwood City	2.5%	3.0%	10.7%	1.4%
Plainfield Twp.	2.1%	2.4%	8.0%	1.4%
U.S. Official Rate (Oct.)	3.7%	4.1%	9.6%	3.8%
U.S. Rate (Unadjusted)	3.5%	3.9%	9.6%	3.6%
U.S. U-6 Rate (Oct.)**	7.4%	8.0%	16.7%	8.0%

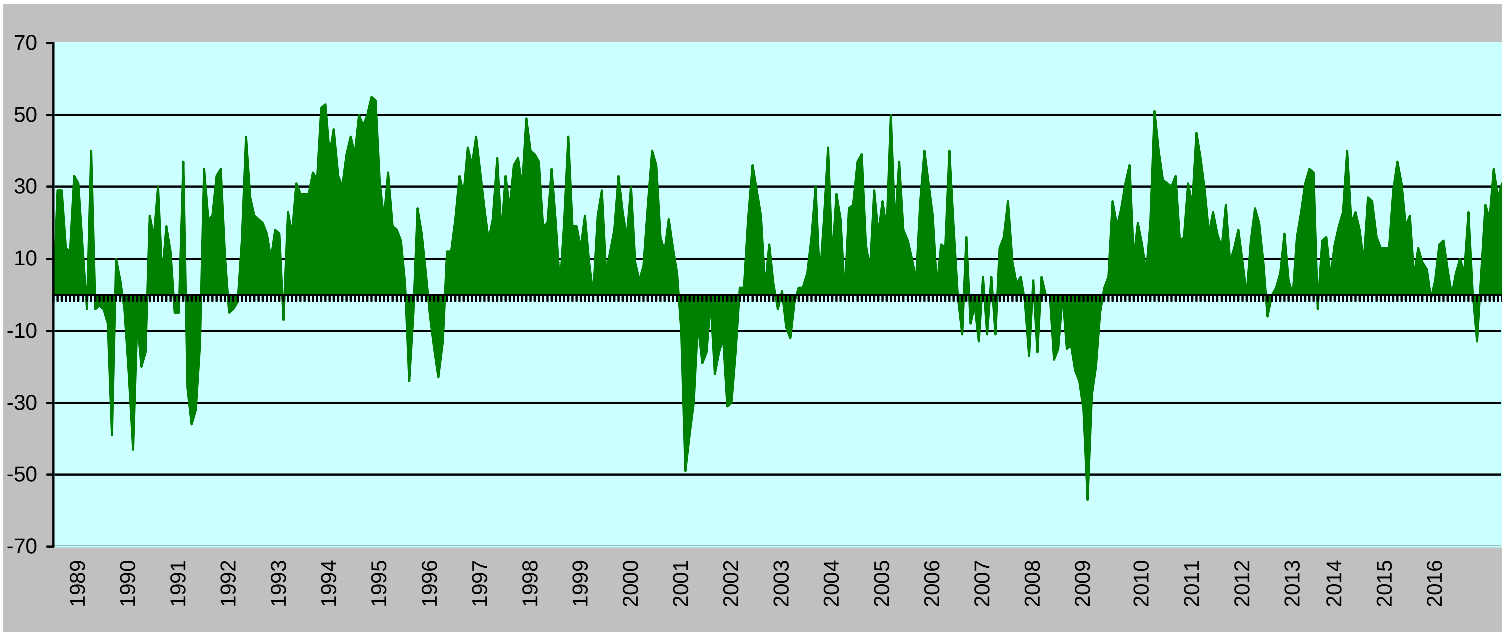
**U-6 for Michigan = 8.2% for Oct. 2017 to Sept. 2018

Index of New Orders: West Michigan

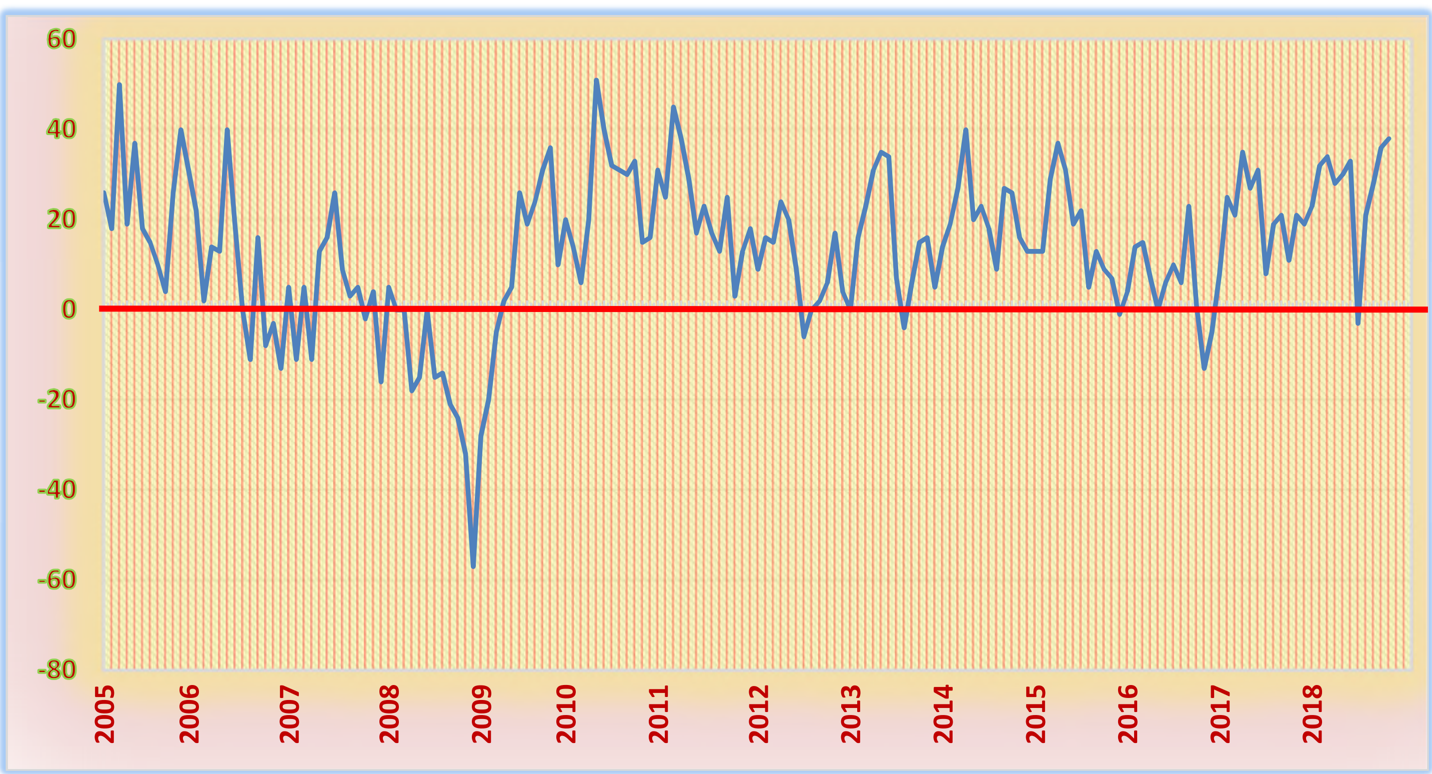
As the name implies, this index measures new business coming into the firm, and signifies business improvement or business decline. When this index is positive for an extended period of time, it implies that the firm or organization will soon need to purchase more raw materials and services, hire more 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	+ 38 for the month of November 2018
Previous Month	+ 36 for the month of October 2018
One Year Ago	+ 21 for the month of November 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

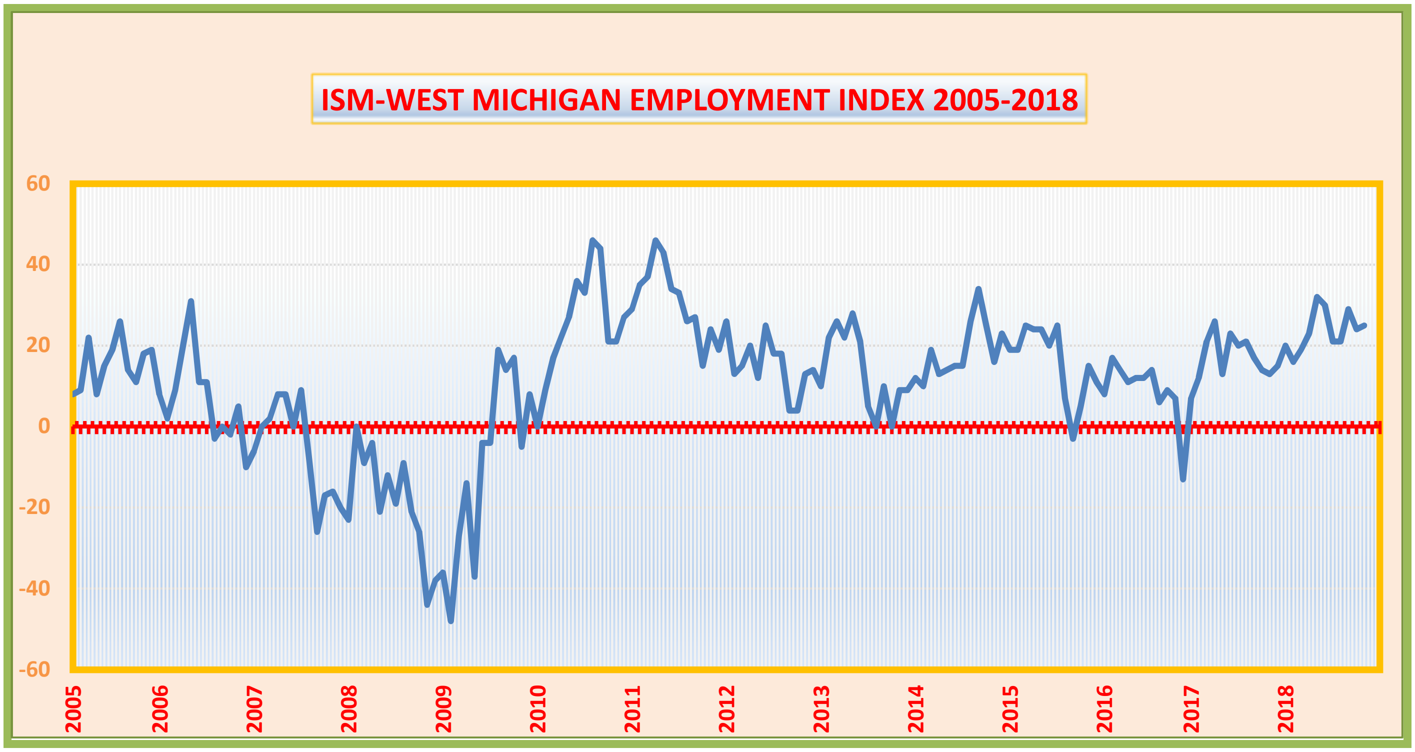


ISM-West Michigan Index of New Orders: 2005-2018 Only



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.