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News Release (For Immediate Release)

April 5, 2016

Current Business Trends

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The Upturn Continues

After seeing the reports for the West Michigan industrial economy soften at the end of 2015, it is gratifying to report that the local economy is again gaining strength. The data and comments collected in the last two weeks appear to be paralleling the post-holiday growth we reported last month. NEW ORDERS, our index of business improvement, rose to +15, up incrementally from +14. The PRODUCTION index also edged higher to +16, up from +12. Activity in the purchasing offices, the index of PURCHASES, turned back to positive at +3, up from -3. The West Michigan economy continues to outpace the national economy as well as the overall Michigan economy, and the pattern of slow growth has returned.

Looking at individual industries, strong auto sales are still keeping our local auto parts suppliers humming. Although a couple of firms reported a slight hesitation, most firms were very positive. The office furniture business remains stable, and some of the specialty firms are reporting an unexpected upturn. Industrial distributors were generally positive. However, capital equipment firms reported widely mixed results.

Many of our survey participants remain fairly optimistic about 2016, and this month's survey reflects a much more positive attitude than last month. The biggest gain came in the index we call the SHORT TERM BUSINESS OUTLOOK, which asks about the perception of the next 3-6 months. Citing improved sales and less worry about the direction of the world economy, the index rose to +37, up considerably from February's +19, and significantly higher than the +4 reported last October. For the outlook for the next three to five years, the LONG TERM BUSINESS OUTLOOK index rose to +44, up from +40. Although the long-term index is well below the +60 recorded two years ago, the mood is still clearly positive.

The April 1, 2016 report from the Institute for Supply Management, our national parent organization, delivered a significant bounce for March. NEW ORDERS, ISM'S index of business improvement, rose to +20, up nicely from +6. In a similar move, the PRODUCTION index jumped to +17, up from +7. For the first time in six months, ISM's overall index flipped back across the 50.0 break-even line to 51.8. This is especially good news for economists who follow the ISM index closely.

By contrast, the U.S. survey conducted by Markit.com, the international economics consulting firm, is still more cautious, even though Markit's PMI edged up to 51.5 from 51.3. Manufacturers noted that generally improving global economic conditions have helped to offset some of the negative influence on

export sales resulting from the strong dollar. The survey author further noted:

"March's survey highlights sustained weakness across the U.S. manufacturing sector, meaning that overall growth through the first quarter slowed to its lowest since late 2012. Subdued client spending patterns within the energy sector, ongoing pressure from the strong dollar, and general uncertainty about the business outlook were cited as factors weighing on new order flows in March."

Just like all of our other indicators, the world economy improved slightly in March. According to the J.P. Morgan Global Manufacturing survey of 31 nations released on April 1, JPM's index of NEW ORDERS edged up to 51.2 from 50.4. In a similar move, the PRODUCTION index rose to 51.2 from 50.3. The Global Purchasing Manager's Index edged up to 50.5 from last month's break-even point of 50.0. The Eurozone PMI posted a small uptick to 51.6 from 51.2. Ireland hit an eight month high of 54.9, but Germany only managed to come in at 50.7. France and Greece remained negative. The survey author and chief economist for Markit remains cautious:

"Although the PMI ticked higher, March still saw the second weakest improvement in manufacturing conditions seen for just over a year. The data suggest manufacturing grew by only around 0.2% in the first quarter, acting as a drag on the wider economy. Policymakers will also be worried by the further intensification of deflationary pressures in the manufacturing supply chains, with prices charged at the factory gate falling at the steepest rate since late 2009. Discounting was widespread as firms competed on price amid weak demand. Both Germany and France saw especially disappointing export trends, exacerbating weak domestic demand in the case of France. Pockets of brighter light persisted outside of the core. With the exception of Greece, which remained in decline, most other countries surveyed including Spain, Italy, the Netherlands and Austria saw robust rates of growth."

Auto sales for March posted a gain of 3.1%, but the SAAR (seasonally adjusted annual rate) fell to a thirteen month low of 16.56 million—well below forecasts of 17.3 million. Among the Detroit three, Ford sales rose 7.8%, Fiat Chrysler gained 8.0%, and General Motors

eked out an increase of 0.9% because of declines in Buick and Cadillac sales. Toyota lost 2.7%, but Honda gained 9.4%. Overall, virtually the entire sales increase for the industry has come from the sale of light truck and SUVs, and inventories for most of the small cars are starting to build up on dealer lots. A few months ago, almost no one anticipated gasoline falling to the current levels, resulting in consumer preferences shifting away from fuel economy and back to the traditional gas guzzlers.

In late March, the Commerce Department posted a third and final revision for the GDP estimate for the fourth quarter of 2015. From the dismal initial estimate of 0.7%, the GDP was upgraded to 1.0%. On March 25, the number was upgraded to 1.4%. Looking at past estimates, it appears that the Commerce Department's first estimates are regularly off by the proverbial county mile, and the fourth quarter revisions for 2015 are a good example. The overall GDP for all of 2015 can now go in the record books as 2.4%, the same growth rate as 2014. Hence, the economy is still performing below the post-war average rate of 3.0%.

For the unemployment statistics, there is good news. Our local index of EMPLOYMENT remains in double digits at +14, up significantly from December's -3. Today's "official" unemployment rate in Michigan now stands at 4.8%, a fifteen year low. Again, the "official" rate is subject to the limitations of what the numbers really mean. Our latest U-6, which some call the REAL unemployment rate, continues at 11.4% for Michigan, which is also a fourteen year low. Overall, most West Michigan reporting units are a full percentage point below where they were a year ago. The February Kent County unemployment number came in at 3.2%, Ottawa County at 3.1%, and Kalamazoo County at 3.6%. The recovery is finally taking hold, and the employment picture is the best it has been since the recovery began seven years ago. We should see at least some additional improvement over

the next few months, although we can't expect to go down another full percentage point over the next year. Also keep in mind that Michigan's total workforce is about 400,000 workers lower than it was 16 years ago. Again, there is still room for improvement in Michigan's jobs picture.

In the industrial market, another significant event has been unfolding in the markets for the major commodities and raw materials. Over the past two years, we have watched the price of some grades of steel fall by 40-50%, copper drop 40%, aluminum slide 30%, and oil plunge by as much as 70%. For the seller of these commodities, business conditions have been a disaster, although the mining companies have endured recessions in the past. For some of the smaller oil exploration companies, bankruptcy is the only alternative. However, along with oil, we have recently seen an uptick in the prices of most of the major commodities. ISM's index of PRICES flipped back to positive at +3, up from -23 last month and considerably higher than the -33 reported in January. Our local index of PRICES also turned positive at +11, up from -20. This is a SIGNIFICANT reversal in just one month. Granted, the rising prices for these commodities will not be good for the bottom lines of many local firms, even though most increases have been fairly minor. But from the standpoint of the overall world economy, the turnaround in commodity prices has helped reduce the odds of a worldwide recession.

In summary, the purchasing manager's reports at the local, national, and international levels have turned more positive over the past month. Commodity prices have apparently bottomed out, which will hopefully allow business conditions for these industries to stabilize. Some of the economic news coming out of China has helped to relieve the world's anxiety about a possible recession. We hope all of these current trends will continue.

MARCH 2016 COMMENTS FROM SURVEY PARTICIPANTS

"The U.S. economy seems to be in an unusual or precarious position right now. Which way is it going to go?"

"We will miss forecast again this month, and have laid off some temporary workers."

"Construction season is ready to begin as soon as weight restrictions are lifted. There is already an indications that trucking – and the lack thereof - will be an issue."

"Automotive has started very strong in 2016."

"The steel trade cases are bumping steel prices, as well as publicly traded steel stocks."

"We have seen a few price increases on component parts over the last couple of months."

"The medical industry seems to be doing well, but the machine tool business is down."

"Overall, the business environment remains stable. The automotive sector remains strong, but oil and gas are weak. There is talk of a rebound in the aerospace sector."

"Business is very good, and quotes are very strong."

"New business being awarded, and we have a strong outlook for mid and long term sales growth."

"As the market constricts, supplier's rates are being reviewed and reduced."

"After January and February came in better than forecast, March has been soft."

"Business is still very strong, and forecasts from customers are meeting expectations."

"We are about 2.5% off from the same time last year. However, business looks better later this month and into the spring and summer."

"We continue to get more business from our current customers. This is putting the squeeze on manufacturing because we cannot find enough production employees that show up for work every day."

"Automotive industry is still carrying us to strong financial performance."

"Orders are slowing, and quotes are also slow. We're waiting for the upturn."

"We are forecasting a down first quarter, but see a pickup in the third quarter."

"Our business continues to be strong compared to others in our market. We are well diversified within our customer base."

"We are starting to see a little uptick in machine tool orders, and hoping that things pick up by summer."

"Business is good in office furniture, but it is very hard to fill open positions (blue and white collar)."

"We've been very slow the last four weeks. Others in our industry seem to be following suit. Will it stay like this until we elect someone that the majority of people don't like?"

March 2016 Survey Statistics

	UP	SAME	DOWN	N/A	Mar. Index	Feb. Index	Jan. Index	25 Year Average
Sales (New Orders)	37%	40%	22%	1%	+15	+14	+ 4	+14
Production	32%	46%	16%	6%	+16	+12	+12	+14
Employment	21%	72%	7%		+14	+17	+ 8	+ 8
Purchases	32%	49%	19%		+ 3	- 3	- 1	+ 7
Prices Paid (major commod.)	15%	77%	4%	4%	+11	-20	-18	+15
Lead Times (from suppliers)	13%	78%	9%		+ 4	+ 2	- 5	+11
Purchased Materials Inv. (Raw materials & supplies)	16%	65%	13%	6%	+10	+ 6	+ 2	- 4
Finished Goods Inventory	16%	64%	13%	7%	+ 4	+15	- 5	- 8
Short Term Business Outlook (Next 3-6 months)	44%	49%	7%		+37	+19	+24	-
Long Term Business Outlook (Next 3-5 years)	47%	48%	3%	2%	+44	+40	+48	-

Items in short supply: Electronic components, trucking services, gravel, contractors, Ultem resin, labor.

Prices on the UP side: Polypropylene, Asia steel, paint services, Chinese wire rod, stainless steel, carbon steel, fuel, mineral oil, PVC resin, HR steel, aluminum, wages.

Prices on the DOWN side: Electronic components, natural gas, hydrochloric acid, sodium hydroxide, chromium trioxide, steel*, machined components, plastic components, freight cost.

*These items are reported as both up AND down in price.

Latest Unemployment Reports

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

	Feb. 2016	Feb. 2015	Aug. 2009	20 Year Low
State of Michigan (Adj.)	4.8%	5.9%	14.6%	3.2%
State of Michigan (Unadj.)	5.0%	6.1%	14.1%	2.9%
Kent County	3.2%	4.0%	11.9%	2.1%
Kalamazoo County	3.6%	4.6%	11.1%	2.1%
Calhoun County	4.6%	5.6%	12.8%	2.7%
Ottawa County	3.1%	3.9%	13.3%	1.8%
Barry County	3.3%	4.2%	10.9%	2.2%
Kalamazoo City	4.5%	5.7%	15.2%	3.2%
Portage City	3.3%	4.2%	8.7%	1.3%
Grand Rapids City	4.3%	5.4%	16.1%	3.0%
Kentwood City	3.0%	3.8%	10.7%	1.4%
Plainfield Twp.	2.0%	2.7%	8.0%	1.4%
U.S. Official Rate (Mar.)	5.0%	5.6%	9.6%	3.8%
U.S. Rate Unadjusted	5.1%	5.6%	9.6%	3.6%
U.S. U-6 Rate**	9.8%	11.0%	16.7%	8.0%

**U-6 for Michigan = 11.4% for Nov. 2014 to Dec. 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 +15 for the month of March, 2016

Previous Month +14 for the month of February, 2016

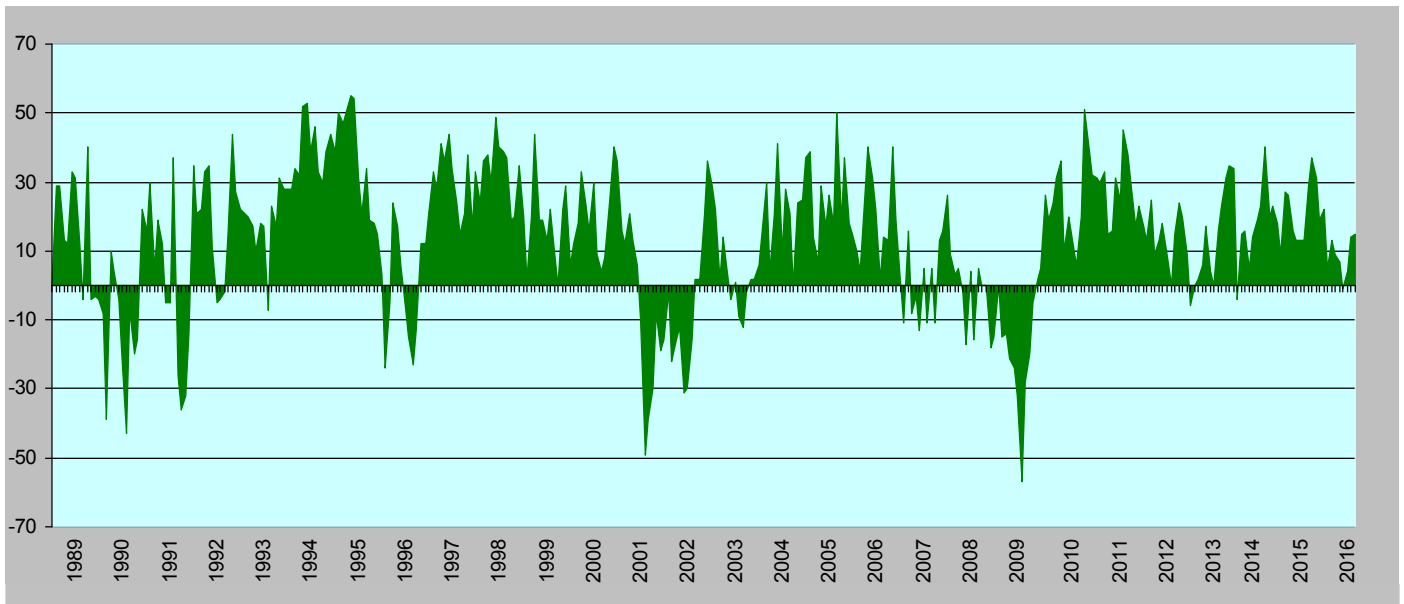
One Year Ago +29 for the month of March, 2015

Record Low - 57 for the month of December, 2008

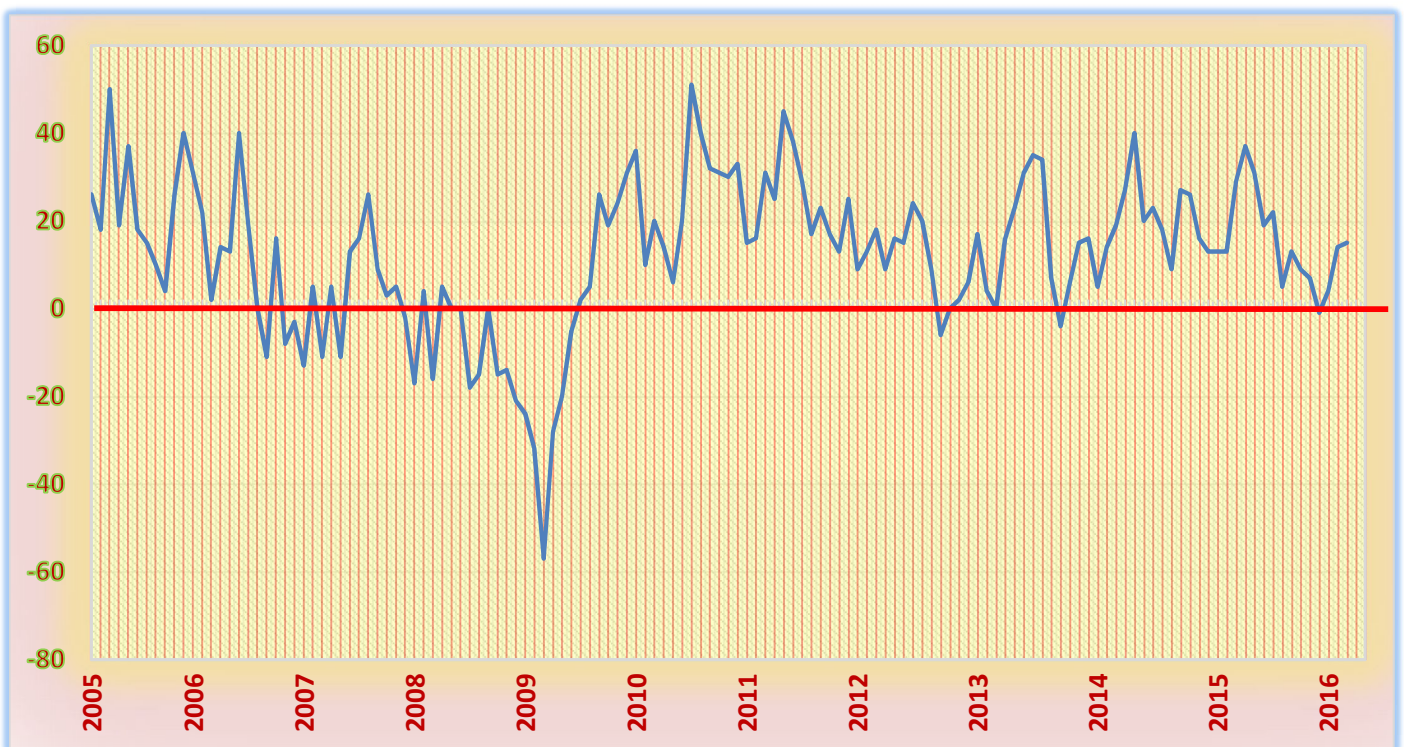
Record High + 55 for the month of September, 1994

First Recovery + 3 in April of 2009 and forward

ISM-West Michigan Index of New Orders 1988 - 2016

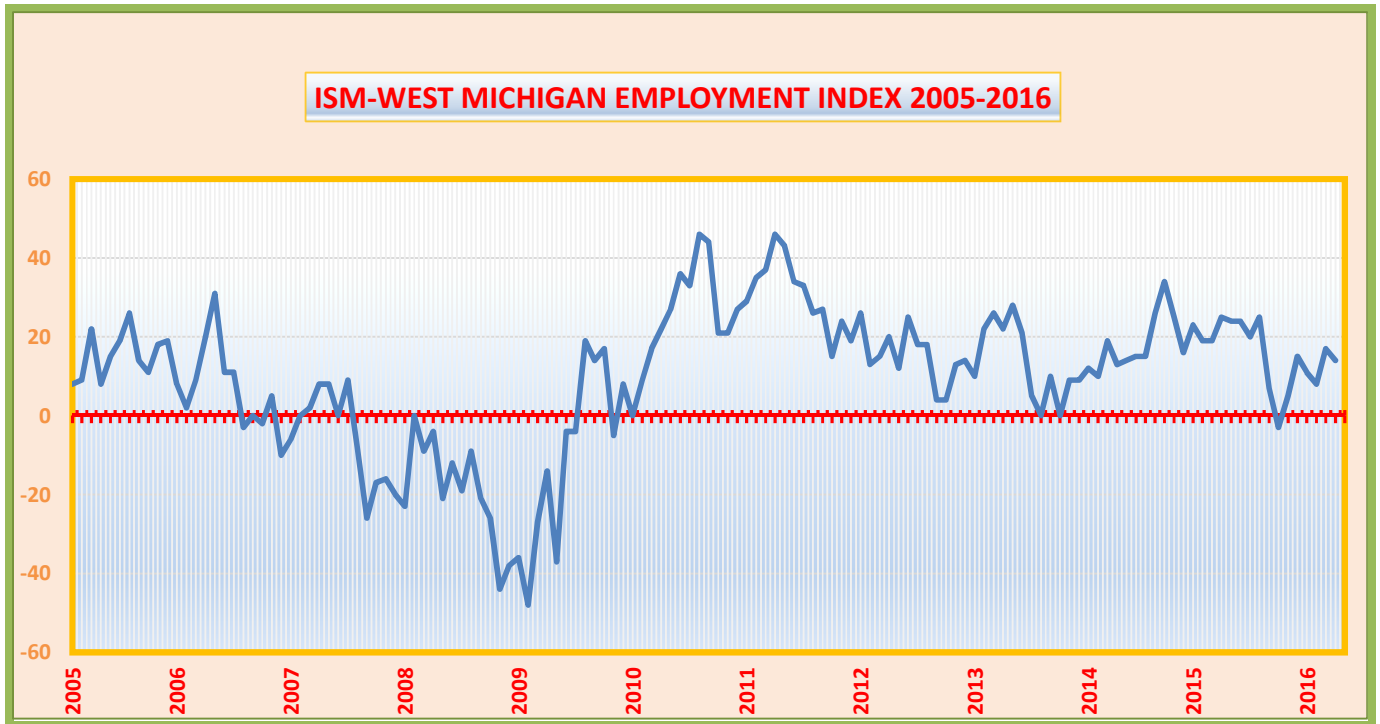


ISM-West Michigan Index of New Orders: 2005-2016 Only



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.

