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News Release (For Immediate Release)

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Current Business Trends

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Still Strong, But...

Yes, the news is still good. The latest survey of the West Michigan industrial economy conducted during the last two weeks of May remains fairly positive, even though concerns have been raised about falling auto sales. NEW ORDERS, our closely watched index of business improvement, came in at +27, just a little below last month's two-year high of +35. However, the PRODUCTION index remained positive but backtracked to +19 from +29. Activity in the purchasing offices, the index of PURCHASES, remained virtually unchanged at +24. On a less positive note, May's FINISHED GOODS INVENTORIES index rose to +8, up considerably from April's -4. The fear of more price increases for some commodities helped to drive the RAW MATERIALS INVENTORIES index up to +19 from +16.

Looking at individual industries, most auto parts suppliers are turning a watchful eye to the summer shut-down schedules of many of their key customers. May is usually a good month for the office furniture business, and this year is no exception. However, the office furniture industry continues to show signs of topping out. The capital equipment market remains mixed, but the bias for this month is to the down side. The performance for the industrial distributors continues to be mixed, even though summer maintenance schedules are now in full swing.

It was good to see that business optimism picked up for May. Our West Michigan index of the SHORT TERM BUSINESS OUTLOOK, which asks local firms about the perception for the next three to six months, posted a small uptick from +32 to +33. Looking out three to five years, the LONG TERM BUSINESS OUTLOOK jumped to +46 from +35.

At the national level, the June 1 report from the Institute for Supply Management, our parent organization, continues to project moderate growth. NEW ORDERS, ISM'S index of business improvement, eased modestly to +25 from +27. Partially because of the season, the PRODUCTION index backtracked to +19 from +31. ISM's overall index for May advanced slightly to 54.9 from 54.8.

The May survey of the U.S. manufacturing conducted by Markit.com, the British economics consulting firm, remains positive but less robust. NEW ORDERS moderated to the slowest pace since September 2016. The Markit PMI for the U.S. came in at 52.7, down fractionally from 52.8. Chris Williamson, the chief business economist for Markit, remains cautious:

"Manufacturing growth momentum continued to ebb in May, down to its weakest since just before the presidential election. Manufacturing output, order books and employment all grew at only modest rates as sluggish sales prompted firms to scale back hiring. Exports sales remained especially lackluster, hampered in part by the relatively strong dollar. The survey also brought signs of companies becoming more cautious about holding inventory."

The May report from the J.P. Morgan Global Manufacturing survey of 31 nations remained positive,

although the pace slowed to a six-month low. Among the noteworthy nations covered by the survey, positive results were reported by Germany, Austria, Ireland, Netherlands, Spain, the United Kingdom, and of course, the U.S. Countries posting modestly negative results include Thailand, Greece, and China. JPM's overall index came in at 52.6, down slightly from 52.7 in April, but still above JPM's long run series average of 51.4. The survey author summarized his current perspective as:

"The global manufacturing sector continued to expand in May, achieving further steady growth. The underlying dynamics of the survey, such as fuller order books, rising employment and positive business sentiment, also bode well for the future performance of manufacturing. The Eurozone upturn is developing deeper roots as factories enjoy a spring growth spurt. Demand for goods is growing at the steepest rate for six years, encouraging manufacturers to step up production and take on extra staff at a rate not previously seen in the two-decade history of the PMI survey. Germany is leading the upturn but is by no means the only engine of growth. Solid upturns are being recorded in other countries such as the Netherlands, Austria, Spain, Italy and Ireland. While France is lagging behind, it is nonetheless enjoying its best quarter for six years."

The West Michigan employment picture, always a hot button issue, continued to show significant improvement in May. Of the 83 counties in Michigan, the latest data from Michigan's Department of Technology, Management, and Budget awards Ottawa County with the lowest unemployment rate of 2.1 percent, followed closely by 2.4 percent for Kent County. Kalamazoo County came in at a rate of 2.8 percent, a seventeen-year low. However, the monthly survey sample used by the Census Bureau to extract these numbers is fairly small, and the data are NOT seasonally adjusted. Furthermore, it is worth remembering that the standard unemployment statistics that are regularly quoted in the news are based on members of the workforce who are actively looking for work. If discouraged and involuntary part-time workers are added, the "real" unemployment rate is almost always much higher.

For our local survey, the West Michigan index of EMPLOYMENT remained positive but backtracked to +13 from last month's two-year high of +25. Many firms are still adding staff, but the pace is slowing. ISM's index of EMPLOYMENT remained unchanged at +11. As we have noted for many months, the Michigan economy continues to suffer from the inability of many firms to find and hire workers with the necessary technical skills.

The month of May brought good news from the battle with industrial inflation. After posting a six-year high just as last month, the West Michigan index of PRICES backtracked to +25 from +38. In a similar move, ISM's index of PRICES dropped to +21 from +37. J.P. Morgan's International index of PRICES came in at 55.1, which is well

above the break-even point of 50.0, but considerably lower than the 59.0 we reported last month. In particular, big-ticket commodities like steel, nickel, copper, and aluminum appear to be moderating in price.

From the May report from Automotive News, it is fortunate for our local auto parts suppliers that the decline in light vehicle sales appears to be moderating. Looking at the Detroit Three, General Motors posted a decline of 1.3 percent, followed by a 6.4 percent drop at Fiat-Chrysler. Ford flipped back to positive with a modest 2.3 percent gain, largely based on a jump in light truck sales. Among the other major brands, Honda eked out a 0.9 percent gain, Nissan rose 3.0 percent, and Subaru came in with a significant gain of 12.1 percent. Toyota eased by 0.5 percent. For the entire industry, sales were down 2.0 percent, marking the fifth consecutive monthly setback for U.S. sales.

The questionable quandary for the West Michigan economy continues to be automotive. Whereas we do not assemble cars or trucks in West Michigan, our local auto parts producers continue to employ a large number of workers. For these firms, production schedules can be altered on a daily basis to conform to assembly schedules around the world. But new car inventories on dealer lots have now swollen to a 90-day supply, well above the ideal level of 60 days. Historically, July and August used to be months for a production hiatus called "model changeover" for the auto industry, but hot-selling brands in today's market have often limited the production pause to a few

days. In today's world, for auto lines that are not selling well, the hiatus has now been used to balance dealer inventories. In a couple of months, some assembly lines may go down for as much as three weeks, potentially resulting in additional shutdowns in the supply chain here in West Michigan.

If auto sales continue to slide, will it herald the onset of a new recession? The general answer is no simply because the auto parts producers are only one piece of the West Michigan economy. Unlike automotive, there is no sign of an inventory bulge in the office furniture business, and many of our local firms expect the second half of 2017 to be nearly as good as the first half. For many months, we have been concerned that the automotive "bubble" might break, but the backtracking in auto sales has so far been fairly orderly. We are also not seeing any other industries that are having trouble at this time, but slower auto sales will result in slowing the West Michigan economy.

In summary, there is still no sign of an impending recession, but the tax cut promised by Washington now appears to be months away. Although year-over-year auto sales waned for the fifth month in a row, the decline has been fairly orderly so far. We have been fortunate that we have had no major terrorist attacks in any U.S. city, so consumers continue to go out to concerts, sporting events, and shopping malls with little apprehension. If all of these trends continue, the second half of 2017 should continue to show the same modest growth pattern we have seen for the past eight years.

MAY COMMENTS FROM SURVEY PARTICIPANTS

"We are cautiously pessimistic about potential summer automotive shutdowns, but we remain extremely busy."

"The milder winter has allowed us to re-allocate winter maintenance funds to road projects. It will be a busy season."

"We are waiting to see the extent of automotive summer shutdowns."

"We're seeing some order slowdown from customers, but we're still running at a healthy rate."

"My customers are back to 'not responding' to my inquiries into 'what is happening.' So, I guess that I have nothing to report!"

"We are still very busy heading into the summer months. We are not seeing much of a slowdown in automotive production from our perspective."

"I'm watching the electronics market. Both real and artificial scarcity will impact supply this year."

"We're struggling to get to our shipping target for May."

"Business is still good, but we are finally seeing a little softening."

"The metal fabrication industries really seem to be taking off. We have many projects for new equipment."

"March was huge. April was a disappointment. May looks more like April than March."

"There's lots of uncertainty in pharma. While it's true that we pay more for our drugs than nearly any other country, changes are expected. Not knowing how these changes will impact the bottom line is effecting other decisions like hiring and capital spending."

"Sales have slowed or cooled down slightly because of some nervousness in the economy - - maybe? We expect the remainder of the calendar year to be very good."

"We have seen a slowdown for May, which is the first down month of the year."

"Sales continue to be slow. I don't have a good feeling about the rest of the year."

"Production and finished goods inventory are down because we are still in our annual shutdown and doing some equipment upgrades."

"We are still having trouble getting quality employees come in and stay."

"We are beginning our busiest part of the year, and so far, sales are not as strong as we thought they would be. We are busy, but not crazy busy like we are most years at this time."

"Automotive numbers are beginning to soften, but it still look strong for 2017."

"Business is still strong!"

"Do more with less."

"Things have been slowly improving."

"Sales are still flat. Hope continues to center around the end of the calendar year when project business is expected to pick up. It's nice to see some of the big energy companies announcing large planned investments. We are upgrading 'Longer Term Business Outlook' from 'Same' to 'Up'."

"Sourcing for our 2019 and beyond programs continue to move forward. We are on track for another record sales year."

"Business is strong, and looking good going forward."

"Rumor has it that steel pricing in Taiwan is on the 'down' side for next quarter."

May 2017 Survey Statistics

	UP	SAME	DOWN	N/A	May Index	Apr. Index	Mar. Index	25 Year Average
Sales (New Orders)	38%	49%	11%	2%	+27	+35	+21	+14
Production	35%	41%	16%	8%	+19	+29	+31	+14
Employment	27%	59%	14%		+13	+26	+21	+ 8
Purchases	35%	52%	11%		+24	+26	+25	+ 7
Prices Paid (major commod.)	27%	71%	2%		+25	+38	+39	+15
Lead Times (from suppliers)	22%	76%	2%		+20	+25	+24	+11
Purchased Materials Inv. (Raw materials & supplies)	29%	53%	10%	8%	+19	+16	+ 9	- 4
Finished Goods Inventory	22%	59%	14%	5%	+ 8	- 4	- 9	- 8
Short Term Business Outlook (Next 3-6 months)	38%	57%	5%		+33	+32	+39	-
Long Term Business Outlook (Next 3-5 years)	48%	47%	2%	3%	+46	+35	+42	-

Items in short supply: Labor, part-time laborers, Ultem, carbon steel, MMA, electronics passive components tapes, packaging foam.

Prices on the UP side: Most plastic resins, steel, stainless steel, steel coils, corrugated, aggregates, slag, soft metals, process aids, paraffinic oil, paper and steel items, weld wire, electronic components, acrylic, fiberglass, electric motors, nuts, washers, end fittings, packaging supplies, electronic components, aluminum, electrical steel, linerboard, Vale S round, wages.

Prices on the DOWN side: Alloy bar, rock salt for roads, polypropylene, SEBS resin, NBR (rubber), computers, steel,* nickel,* steel from Taiwan.

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

Latest Unemployment Reports

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

	Apr. 2017	Apr. 2016	Aug. 2009	20 Year Low
State of Michigan (Adj.)	4.7%	4.9%	14.6%	3.2%
State of Michigan (Unadj.)	3.7%	4.5%	14.1%	2.9%
Kent County	2.4%	3.1%	11.9%	2.1%
Kalamazoo County	2.8%	3.6%	11.1%	2.1%
Calhoun County	3.6%	4.5%	12.8%	2.7%
Ottawa County	2.1%	2.9%	13.3%	1.8%
Barry County	2.9%	3.7%	10.9%	2.2%
Kalamazoo City	3.5%	4.5%	15.2%	3.2%
Portage City	2.6%	3.3%	8.7%	1.3%
Grand Rapids City	3.2%	4.2%	16.1%	3.0%
Kentwood City	2.2%	3.0%	10.7%	1.4%
Plainfield Twp.	1.8%	2.4%	8.0%	1.4%
U.S. Official Rate (Dec.)	4.4%	5.0%	9.6%	3.8%
U.S. Rate Unadjusted	4.1%	4.7%	9.6%	3.6%
U.S. U-6 Rate**	8.6%	9.7%	16.7%	8.0%

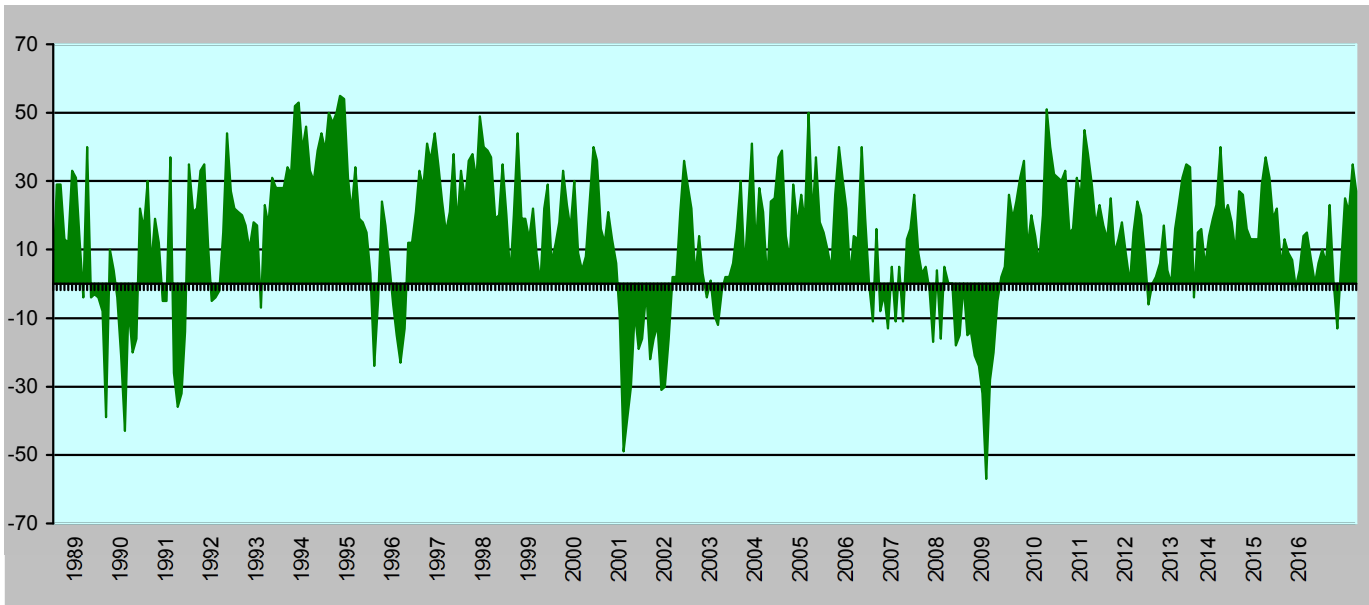
**U-6 for Michigan = 10.3% for all of 2016

Index of New Orders: West Michigan

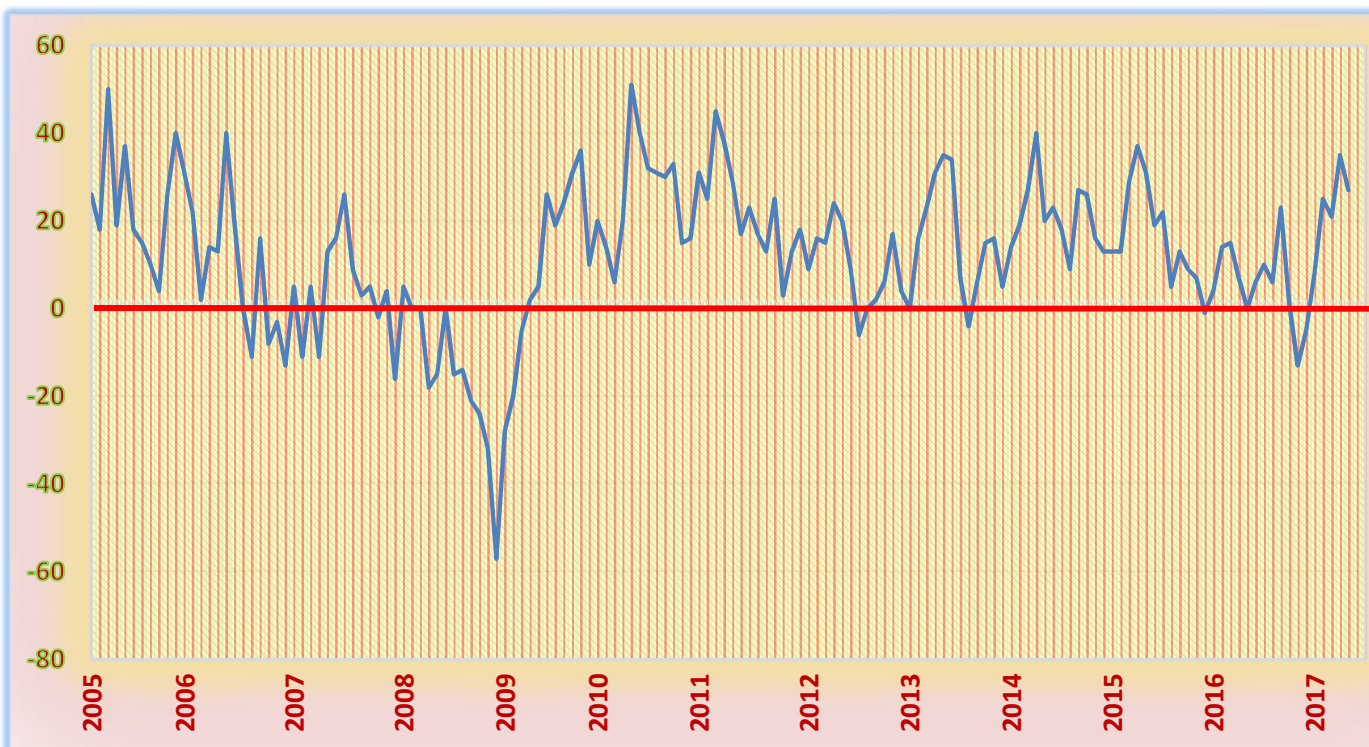
As the name implies, this index measures new business coming into the firm, and signifies business improvement or business decline. When this index is positive for an extended period of time, it implies that the firm or organization will soon need to purchase more raw materials and services, hire more 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	+27 for the month of May 2017
Previous Month	+35 for the month of April 2017
One Year Ago	+ 7 for the month of May 2016
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 - 2017

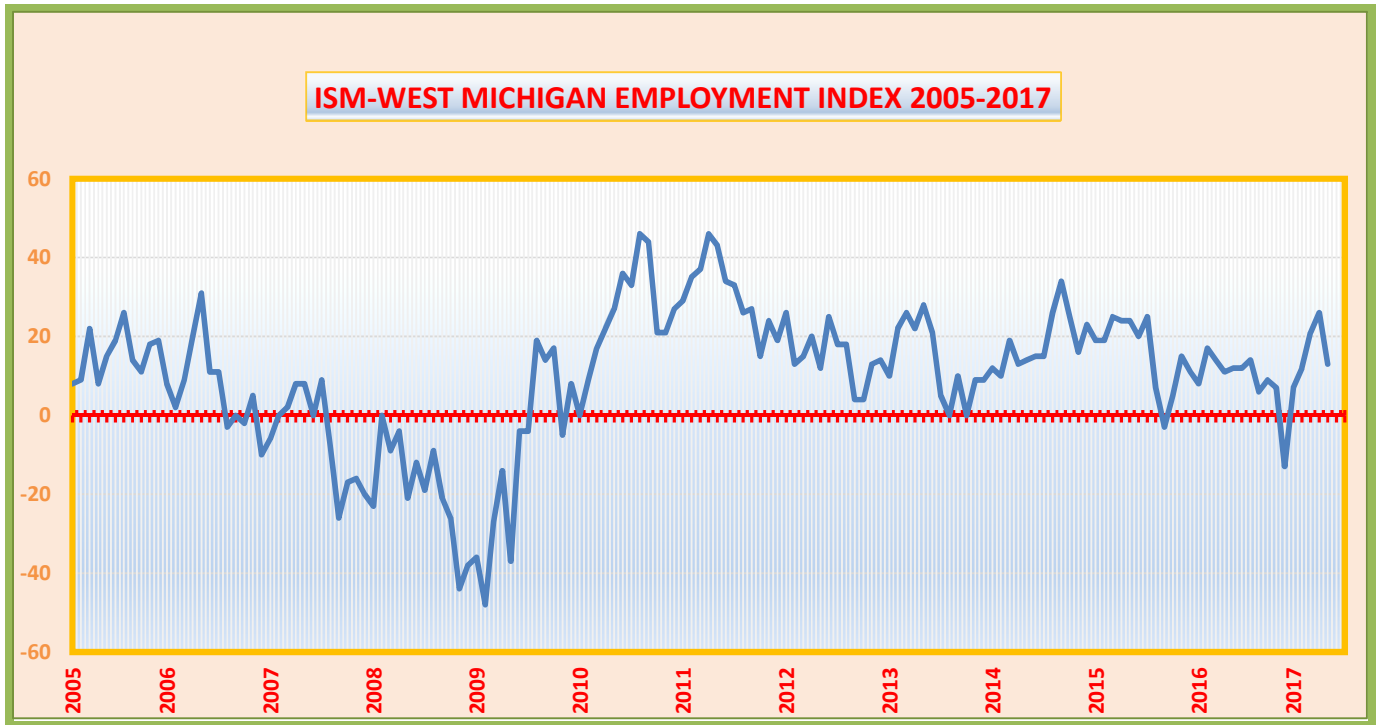


ISM-West Michigan Index of New Orders: 2005-2017 Only



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.

