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

News Release (For Immediate Release)

June 7, 2019

Current Business Trends

By Brian G. Long, Ph.D., C.P.M.
Director, Supply Chain Management Research
Grand Valley State University (269) 870-0428

SLOWER GROWTH HAS ARRIVED; CONFIDENCE SAGS

Key Participant Comments for May:

"Business remains very strong, and we're still struggling to find employees. Logistics availability has improved over the last two months."

"April was SLOW. May is not looking any better. The first round of Trump Tariffs greatly affected the cost of our products."

"Feels like the economy is softening up some, but we are still doing wel. Sales are not quite as robust, and orders are not falling into our laps as easily as they were."

Considerable evidence continues to mount that the West Michigan economy is slowing. Although there have been several brief downticks in our statistics since the recovery from the Great Recession began ten years ago, the current flat growth pattern now appears to be more evident. According to the data collected in mid-May, NEW ORDERS, our closely-watched index of business improvement, flattened to +3, down from April's +13, and considerably lower than the +38 we reported six months earlier. However, +3 is still very modest growth, not a decline. Fortunately, the PRODUCTION index held steady at +11. Activity in the purchasing offices, our index of PURCHASES, dropped sharply to -2 from +16, indicating that many firms are reluctantly putting expansion plans on hold as well as beginning to sandbag operations in the event that the economy continues to flatten.

Office Furniture. When businesses are expanding and more office space is required, the tendency for most major firms is to purchase new office furniture. In addition, new employees are also sometimes awarded new furniture. Of course, the 2017 tax cut offered incentives to purchase new furniture. Hence, the office furniture industry had become somewhat of a proxy for employment growth and business expansion. In that context, the 2019 first quarter survey of the health of the office furniture industry from Michael A. Dunlap and Associates released on May 21 waves a flag of caution. Mr. Dunlap's Overall Index eased significantly to 54.6 from 59.3, slightly below the survey's overall average of 55.0. However, the Personal Outlook Index tapered very modestly to 65.9 from 66.4. Dunlop further commented:

> "To me, it's just a correction…(but) if we get through the second quarter, and these numbers are down lower than what they were first quarter, then I'm going to be a little more concerned (about) whether we've taken a different path. The effect of the next round of tariffs is still too early to predict, but it is reasonable to believe it will dampen second and third-quarter numbers."

The U.S. Economy. The May national industrial economy continued on April's pattern of slow growth, according to the June 3 press release from the Institute for Supply Management, our parent organization. NEW ORDERS, ISM's index of business improvement, remained virtually unchanged at +11, down from +12. The PRODUCTION index flattened to +6 from +12. ISM's overall index eased modestly to 52.1 from 52.8.

A sharply different view of the U.S. economy comes from IHS Markit, the British international consulting firm. Markit.com's seasonally adjusted PMI for May fell to a ten-year low of low of 50.5 from 52.6. Markit's index fell to its lowest level since the data were first collected in 2012. Chris Williamson, Chief Business Economist at IHS Markit, further noted:

> "May saw U.S. manufacturers endure the toughest month in nearly ten years, with the headline PMI down to its lowest since the height of the global financial crisis. New Orders are falling at a rate not seen since 2009, causing increasing numbers of firms to cut production and employment. At current levels, the survey is consistent with the official measure of manufacturing output falling at an increased rate in the second quarter, meaning production is set to act as a further drag on GDP, with factory payroll numbers likewise in decline. While tariffs were widely reported as having dampened demand and pushed costs higher, both producers and their suppliers often reported the need to hold selling prices lower amid lacklustre demand. While this bodes well for inflation, profit margins are clearly being squeezed as a result. With future optimism sliding sharply lower in May, risks to near-term growth have shifted further to the downside. While companies of all sizes are struggling, the biggest change since the strong growth seen late last year is a deteriorating performance among larger companies, where surging order book growth just a few months ago has now turned into contraction, the first such decline seen in the series' ten-year history."

The World Economy. J.P. Morgan's Global Manufacturing Index, a compilation of the purchasing manager's report from 43 nations, slid to 49.8 in May, the first time the index has been below the 50.0 break-even point since 2012. Several major industrial regions including the euro area, Japan, South Africa, the U.K., Canada, South Korea and Taiwan have all turned negative. PMI readings for the U.S., China and Brazil are only slightly positive. JPM's index of New Orders turned negative at 49.5, down from last month's precarious 50.1. In a similar move, the Employment index fell to 49.9, down from 50.6. David Hensley, Director of Global Economic Coordination at J.P. Morgan, further noted:

> "The trend in international trade continued to weigh on the sector, with new export business contracting for the ninth month running. Business optimism fell for the second month in a row and to its lowest level since future activity data were first collected in July 2012. Downturns continued in the intermediate and investment goods industries, which both saw output and new orders fall further during May. Although the consumer goods sector fared better in comparison, with production and new business rising, rates of expansion eased."

The Brexit battle continues show no sign of immediate resolution, and the potential impact of a "hard" Brexit continues to weigh on all of the European countries. The IHS Markit PMI manufacturing index for the eurozone came in at 47.7 for May, modestly lower than the 47.9 reported in April, but still well below the 50.0 break-even point. The "fire sale" rally continues in Greece, but the May PMI from Athens backtracked to 54.5 from April's 19-year high of 56.6. Indexes for the Netherlands, Spain, and Ireland are still modestly positive. Although Austria and Italy are still reporting negative PMIs, it is Germany, the largest country in the eurozone, that posted a recession-level PMI of 44.3 for May. The entire European situation is made worse by political instability, given that populism, provincialism, and anti-eurozone rhetoric have gripped Britain, France, Italy, and to a lesser degree, Germany. The author at IHS Markit commented:

> "The Euro area manufacturing remained in contraction during May, suggesting the sector will act as a drag on the wider economy in the

second quarter. A fourth successive monthly drop in output and further steep decline in new orders underscored how the sector remains in its toughest spell since 2013. Companies are tightening their belts, cutting back on spending and hiring. Input buying, inventories and employment are all now in decline as manufacturers worry about being exposed to a further downturn in demand. That said, the forward-looking orders-to-inventory ratio also picked up for a second month running to reach a six-month high, the improvement of which augurs well for the downturn to moderate in June. However, trade wars, slumping demand in the auto sector, Brexit and wider geopolitical uncertainty all remained commonly cited risks to the outlook, and all have the potential to derail any stabilisation of the manufacturing sector."

Michigan Unemployment. According to the latest report from Michigan's Department of Technology, Management, and Budget, Michigan's "headline" unemployment rate for April (latest month available) edged up to 4.1 percent, slightly below the 4.3% reported for April 2018. However, the total state-wide seasonally adjusted employment grew by 49,000 workers between April 2018 and April 2019. 8,000 of these new jobs were in the Grand Rapids-Wyoming metro area.

West Michigan Unemployment. For May, our West Michigan index of EMPLOYMENT bounced back to +15 from last month's dismal +3. However, for the thousandth time, unemployment is always an economic laggard, and even if our other statistics continue to flatten or even turn negative, it will probably be considerable time before we begin to see a significant rise in unemployment. In fact, most of our West Michigan counties will probably continue to post very good unemployment numbers. According to the data released by Michigan's DTMB a few days ago, the unemployment situation in most of our West Michigan counties is still very good. Of the 83 counties in Michigan, Ottawa County continues to report the lowest unemployment rate of 2.4 percent. Kent County comes in second at 2.5 percent. Among the other large West Michigan counties, Kalamazoo and Allegan Counties claimed fifth and sixth place at 2.8 percent. All of these numbers compare favorably with the current seasonally adjusted "headline" rate of 3.6 percent for the nation, which has received a lot of media attention lately. As a point of reference, the post-war record low unemployment rate of 2.5 percent was recorded in May 2019.

Automotive. Like office furniture, automotive remains one of our most cyclical economic components in West Michigan. Although auto sales ultimately impact our numerous auto parts suppliers, the five-month sales decline has shown virtually no impact on our local firms, except, of course, for the shift in product preferences from cars/sedans to SUVs and light trucks. According to the June 3 report from Automotive News, sales for the industry dropped a very modest 0.3 percent in May, resulting in the industry's Seasonally Adjusted Annualized Rate (SAAR) rising to 17.4 million units, up from 17.3 million units in May 2018.

However, given that many of our local parts producers are still primarily "Tier 1" suppliers to the Detroit Three, we watch sales for these firms more closely. May sales for Ford slipped 4.0 percent, and GM declined a modest 1.2 percent. Fiat-Chrysler gained 2.0 percent. Among the other major nameplates on the down side, Honda dropped 5.9 percent, and Mazda plunged 16.0 percent on top of last month's 14.5 percent drop. On the up side, Toyota sales were up by 4.1 percent, Subaru added 6.4 percent, Hyundi-Kia gained 2.4 percent, and beleaguered VW was up by 7.5 percent. Jeremy Acevedo, manager of industry analysis at Edmunds further commented:

"It's going to be an up-and-down year. Automakers are still figuring out how to balance supply with declining demand, but incentive budgets aren't big enough for dealers to offer deep discounts on a consistent basis. And when those bargains go away, so do the shoppers."

Industrial Inflation. The slowing world economy has dampened demand, resulting in the rate of industrial inflation flattening. In our latest report, the West Michigan index of PRICES leveled to +6, down from April's +10, and down significantly from the +34 we reported six months ago. The rising cost of commodities driven by tariffs are apparently being countered by increased competition among suppliers, holding price increases to a minimum but squeezing profit margins. The April J.P. Morgan international pricing index eased to 52.6 from 53.0. However, ISM's U.S. index of PRICES edged slightly higher to +6 from +0. Timothy Fiore, ISM's survey committee chair, further noted:

"Prices rebounded in May, as price issues remain in electronic components, food ingredients, wood products and other areas, which are offset by steel and aluminum declines. Shortages continue for electronic components and integrated circuits."

Tariff Wars. For economists around the globe, the economic impact and direction of the on-going multi-national tariff wars virtually defies prediction. What we do know is that the tariffs are now starting to raise prices for a wide variety of commodities and pinch profitably for an increasing number of firms. Business planners hate uncertainty, and not knowing what new commodities might be impacted and what the resulting delivered prices might be causes future hiring or expansion plans to be put on hold. A few firms appear to be already starting to hedge against the possibility that a recession may be imminent

Business Confidence. When last month's data were collected in mid-April, business confidence had rebounded in response to optimism over a potential new agreement with China. And then the deal fell apart. Hence, May's West Michigan index for the SHORT-TERM BUSINESS OUTLOOK, which asks local firms about the perception for the next three to six months, fell to a near all-time low of +5, down sharply from April's +19. However. The index for the LONG-TERM BUSINESS OUTLOOK, which queries the perception for the next three to five years, fell to a six-year low of +20, down from +28.

Summary. Given the on-going strength of the U.S. industrial economy, we have suggested for many months that the only obvious stumbling block that could trigger a recession is for a trade war to get out of hand. Regrettably, that possibility is now looming. Brinksmanship, according to Webster, is a "policy or practice of pushing a dangerous situation to the brink of disaster (to the limits of safety), in order to achieve the most advantageous outcome." For the current economic outlook, this implies that we could be in for a few rough months until wiser minds finally prevail. For the present, the political uncertainty based on the personalities involved defies accurate predication.

A second major risk to the current economy is psychological. To quote Mary Daly, president, Federal Reserve Bank of San Francisco, "What really keeps me up at night is the data and the mood getting out of sync and, eventually, the possibility that the mood becomes the self-fulfilling prophecy of the data." In other word, we could "talk" ourselves into a recession.

That said, we can hope for a third possible scenario. Assume, for a moment, that the Chinese and American trade negotiators are able to reach a viable accord over the next few months. The trade war could end overnight. Aside from a stratospheric stock market rally, business confidence would be restored, trade between the two nations would boom, and growth in the GDP for both countries would almost immediately edge higher. Of course, a recession at some future time would still be inevitable, but the crisis would be dodged for the present.

MAY COMMENTS FROM SURVEY PARTICIPANTS

"Business is still strong but showing signs of slowing in the forecasting from our customers."

"Funding is always an issue in the when it comes to the transportation system, and the legislators need to find a solution to properly maintain and improve that system. Road agencies continue to struggle!"

"Labor continues to be a challenge for everyone. Automation seems to be the answer, but it brings other challenges."

"April was SLOW. May is not looking any better. The first round of Trump Tariffs affected the cost of our products greatly. It is unknown at this time if the next round will affect our products or not."

"Quoting is still good, but incoming PO's have slowed."

"It feels like the economy is softening up some. We are still doing well, although, sales are not quite as robust and orders are not falling into our laps as easily as they were."

"2019 is looking better than originally planned, but tariffs are becoming a huge expense and resource drain."

"We're slowing down in May after a record April. I never like to see sales down, but we need a breather."

"We're still having a hard time finding production workers."

"Steady."

"It finally looks like the electronics components market is getting healthy."

"Business remains very strong. We're still struggling to find employees. Logistics availability has improved over the last two months."

MAY Survey Statistics

	UP	SAME	DOWN	N/A	May Index	Apr. Index	Mar. Index	25 Year Average
Sales (New Orders)	27%	47%	24%	2%	+ 3	+13	+17	+14
Production	24%	51%	13%	11%	+11	+11	+ 5	+14
Employment	22%	71%	7%	0%	+15	+ 4	+15	+ 8
Purchases	16%	64%	18%	0%	- 2	+14	+ 4	+ 7
Prices Paid (major commod.)	22%	62%	16%	0%	+ 6	+10	+21	+15
Lead Times (from suppliers)	22%	71%	7%	0%	+14	+ 4	+25	+11
Purchased Materials Inv. (Raw materials & supplies)	22%	60%	9%	8%	+13	+16	+ 6	- 4
Finished Goods Inventory	13%	56%	20%	12%	- 7	+ 8	+ 7	- 8
Short Term Business Outlook (Next 3-6 months)	27%	51%	22%	0%	+ 5	+19	+ 8	-
Long Term Business Outlook (Next 3-5 years)	27%	62%	7%	2%	+20	+29	+28	-

Items in short supply: Some aluminum grades, salt, aggregates, trucking, mechanics, good labor, new orders.

Prices on the UP side: Salt, aggregates, bituminous products, tariffs, freight, tariff goods from China, paraffinic oil, polypropylene, copper, polyethylene, acetal, Nylon 6/6, paper-based products, any item with high labor contents.

Prices on the DOWN side: Steel, scrap steel, aluminum ingot, polypropylene*, gasoline, electronic components.

*Item reported as both up AND down in price.

Latest Unemployment Reports

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

	Apr. 2019	Apr. 2018	Aug. 2009	20 Year Low
State of Michigan (Adj.)	4.1%	4.3%	14.6%	3.2%
State of Michigan (Unadj.)	3.7%	3.7%	14.1%	2.9%
Kent County	2.5%	2.7%	11.9%	2.1%
Kalamazoo County	2.8%	3.1%	11.1%	2.1%
Calhoun County	3.7%	4.0%	12.8%	2.7%
Ottawa County	2.4%	2.5%	13.3%	1.8%
Barry County	2.9%	3.2%	10.9%	2.2%
Kalamazoo City	3.6%	3.9%	15.2%	3.2%
Portage City	2.6%	2.8%	8.7%	1.3%
Grand Rapids City	3.3%	3.6%	16.1%	3.0%
Kentwood City	2.3%	2.5%	10.7%	1.4%
Plainfield Twp.	1.9%	2.0%	8.0%	1.4%
U.S. Official Rate (Apr.)	3.6%	3.9%	9.6%	3.8%
U.S. Rate (Unadjusted)	3.3%	3.7%	9.6%	3.6%
U.S. U-6 Rate (Apr.)**	7.3%	7.8%	16.7%	8.0%

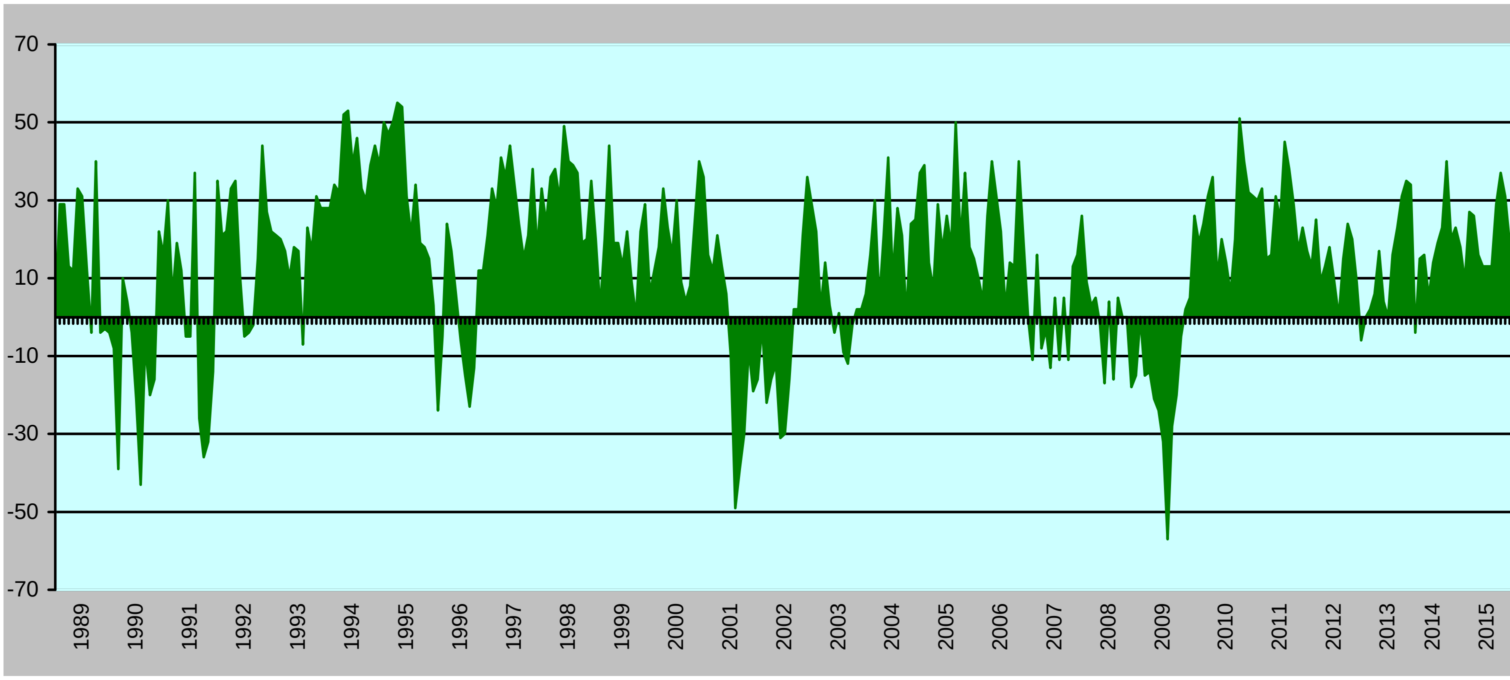
**U-6 for Michigan = 7.6% for April 2018 to March 2019

Index of New Orders: West Michigan

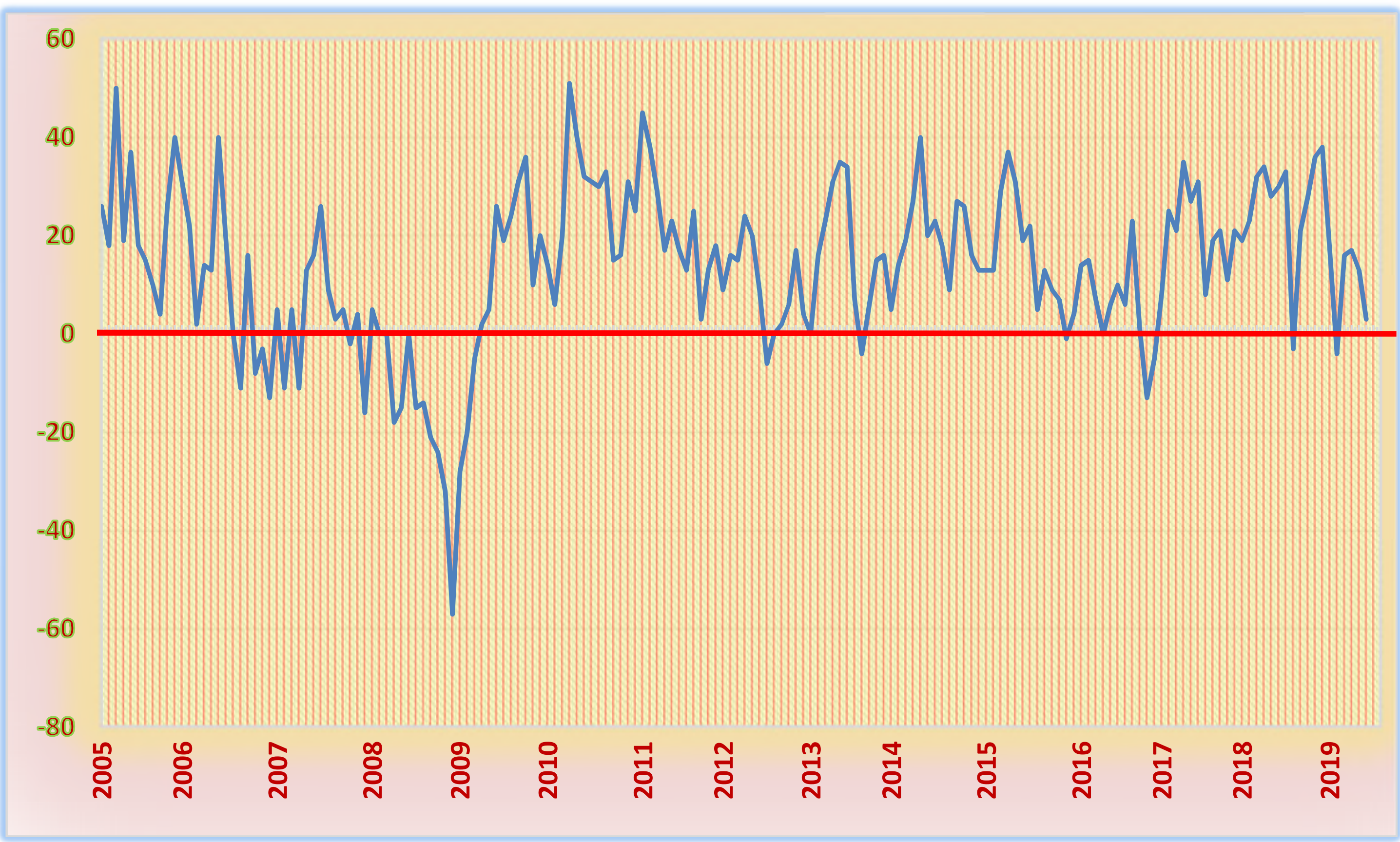
As the name implies, this index measures new business coming into the firm, and signifies business improvement or business decline. When this index is positive for an extended period of time, it implies that the firm or organization will soon need to purchase more raw materials and services, hire more 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	+3 for the month of May 2019
Previous Month	+13 for the month of April 2019
One Year Ago	+ 28 for the month of April 2018
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 - 2019

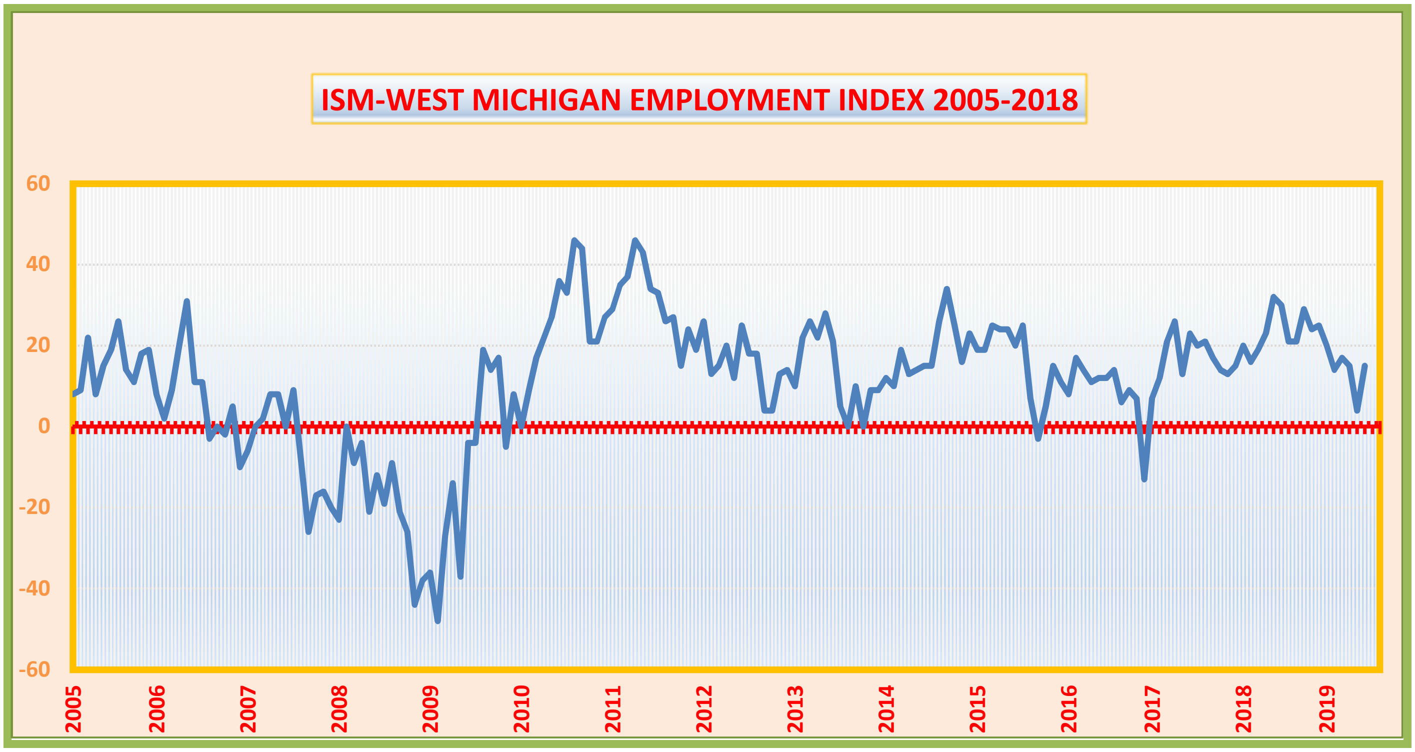


ISM-West Michigan Index of New Orders: 2005-2019 Only



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.