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

News Release **(For Immediate Release)**

November 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**

MARGINAL GROWTH CONTINUES

> Key Participant Comments for October:
>
> "Schedules have been low due to the GM strike, and we are just starting to ramp production back up now that the strike is over. I'm not sure of the demand from GM will make up for the down time. It appears schedules are strong, but not as strong as before the strike."
>
> "Business has been slower than normal for this time of the year."
>
> "We are still doing well, although it continues to feel like the economy is still getting weaker."
>
> "We're moving items out of China."

Although the G.M. strike began in mid-September, the initial impact on West Michigan was marginal. We do not assemble automobiles in West Michigan but have many Tier I and Tier II G.M. suppliers. Because few, if any, firms in our area supply only G.M., these firms were initially able to shuffle production schedules around to other work and avoid layoffs. Like most strikes, the suppliers initially stockpiled inventory. Post-strike production schedules try to make up for the lost time and require expanded supplier deliveries. However, as the stoppage approached 40 days, we began seeing some layoffs, and the West Michigan economy started to feel the crunch. For October, NEW ORDERS, our index of business improvement, dropped significantly to -21 from +6. September's PRODUCTION index fared worse and plunged to -34 from +6. Activity in the purchasing offices, our index of PURCHASES, coped a little better, but dropped to -21 from. -6. The October comments from our survey participants overwhelmingly refer to the negative impact of the G.M. strike. Now that the strike is over, we will hopefully see considerable improvement in our November statistics.

After automotive, office furniture is one of our other cyclical industries. On November 4, Mike Dunlap released his quarterly survey of the furniture industry. The statistics for the report are report rather pessimistic, although he considers most of the industry's problems to be the result of the on-going tariff war with China. October's Gross Shipment Index dropped sharply to 58.3 from 74.0 in July, although the average for all past surveys is 57.8. Order Backlog tumbled to 45.6 from 71.5. Expenditures for tooling and capital expenditures remained relatively stable, but the Personal Outlook Index eased to 57.4 from 64.0, compared to the survey average of 59.2. He further commented:

> "We still feel good about where the industry is currently. The effects of the tariffs with China have dampened the third quarter and will likely impact the fourth quarter, and the first quarter of 2020. The overall economic growth seems to be slowing down and will probably affect this industry in 2020. In spite of the third quarter declines, we believe that the industry remains very strong. The "Big Twelve" are generally doing very well. However, it is the smaller 'under $50.0 Million sales and fewer than 150 employees' companies that are driving this industry. Outlook is a purely emotional question but we put a lot of value on this content."

The U.S. Economy. Much as expected, November 1 press release from the Institute for Supply Management, our parent organization, remained relatively soft. NEW ORDERS, ISM's index of business improvement, came in at -8, modestly lower than September's reading of -7. In a similar move, October's PRODUCTION index eased to -9 from -7. ISM's overall index came in at 48.3, up from 47.8. Again, it is worth remembering that this same index was at 48.0 as recently as January 2016.

A more optimistic (and probably more accurate) view of the U.S. economy comes from IHS Markit, the British international consulting firm. Markit.com's seasonally adjusted October PMI posted at 51.3, up slightly from September's reading of 51.1. New Orders increased for the fifth consecutive month, and the rate of growth quickened to the fastest pace since April. Chris Williamson, Chief Business Economist at IHS Markit, has turned cautiously optimistic:

> "Tentative signs of renewed vigor are appearing in the U.S. manufacturing sector, with the survey's production gauge having now risen for three successive months to suggest that the soft patch bottomed out in July. Growth of new orders hit a six-month high, fuelled in part by a renewed increase in exports, prompting producers to take on more staff, with payroll numbers rising at the quickest pace since May. The improvement in current conditions was matched by a lifting of business optimism about the year ahead to the highest seen since June. It was also encouraging to see this optimism feed through to an upturn in demand for investment goods, such as plant and machinery, as this hints that firms are moving back into expansion mode, albeit only tentatively so far. However, while the outlook has improved, further growth is by no means assured. While the survey data are moving in the right direction, the overall picture therefore remained one of only very modest growth and guarded optimism."

The World Economy. According to J.P. Morgan's November 4 press release, the Global Manufacturing Index for October, a compilation of purchasing manager's reports around the world edged up very slightly to 49.8 from September's 49.7. The index remains marginally below 50.0 break-even point, and the report headline proclaims, "Global Manufacturing Downturn Eases at Start of Final Quarter." The survey's national PMI data signaled expansion in only 13 out of the 32 countries for which October data were available, including China, the U.S., Brazil and France. Although Brexit, China, and other trades wars continue to hurt the manufacturing sector around the globe, JPM's index of New Export Orders recovered modestly to 48.9 from 48.0. Olya Borichevska, from Global Economic Research at J.P. Morgan, further noted:

> "October saw global manufacturing production edge higher for the second successive month, as inflows of new work stabilised following a five-month sequence of contraction. Global trade flows continued to weigh on manufacturing, however. New export business declined for the fourteenth month in a row. Among the larger exporting nations covered by the survey, Germany and Japan saw new export orders decline – with the downturn especially steep in Germany. The US and China both registered growth. Business optimism staged a mild recovery in October, rising slightly from the series-record lows registered in both August and September. Confidence improved (on average) across both developed and emerging markets, with the overall degree of positivity remaining higher in the latter."

For October, the PMI numbers from the Eurozone continued to slide, although there is hope that the slide may be stabilizing. The October IHS Markit PMI manufacturing index for the Eurozone came in at 45.9, up modestly from September's 45.7. JPM's index of NEW ORDERS returned to the break-even point of 50.0 from 49.4. Germany, the largest (and most heavily weighted) economy in the Eurozone, saw the headline PMI crawl to 42.1 from last month's 123-month low of 41.7. As a counterbalance, the PMIs for Greece, France, Ireland, and the Netherlands remained marginally positive. Chris Williamson from Markit.com further commented:

"Eurozone manufacturing remained stuck in its steepest decline for seven years in October, meaning the goods-producing sector is on course to act as a severe drag on GDP again in the fourth quarter. The survey data are consistent with industrial production falling at a quarterly rate in excess of 1%. Geopolitical concerns, ranging from Brexit to U.S. trade policy, continue to create uncertainty, further dampening demand both at home and in export markets. The focus of manufacturers remains on cost cutting, reducing inventories and investment spending while also lowering payroll numbers at an increased rate. The steeper pace of job losses is especially worrying, as it magnifies the risk of the downturn spilling over into the household sector. Producer prices, meanwhile, fell at a rate little changed on September's three-and-a-half year record as weak demand prompted companies to offer discounts, which is likely to feed through to lower inflation in the coming months. The severity of the downturn, alongside poor trends in employment and prices is especially disappointing given the ECB's recent stimulus measures, underscoring how new ECB head Christine Lagarde is taking over the reins at a particularly difficult juncture for the eurozone economy."

Automotive. Although the Detroit Three are now reporting only quarterly sales, Automotive News continues to post the monthly results for the remining firms. For September, Honda sales gained 7.6 percent, Hyundai-Kia jumped 11.1 percent, and beleaguered VW gained 5.7 percent. Toyota lost 1.6 percent, despite a gain from the Lexus division. The Nissan Group dropped 3.7 percent, largely because of a 14.0 percent drop in sedan sales. Although the total for the non-Detroit firms rose by 2.5 percent, the Automotive News Data Center estimates that overall sales for the industry fell by 1.8 percent. None the less, the year-long decline continues to be very orderly. According to Jeff Schuster, head of global vehicle forecasts at LMC Automotive:

"With the close of 2019 near, auto sales are expected to be above 17 million units for the fifth straight year. Attention is now shifting to 2020 and, while retail sales are expected to decline for the fifth straight year, the outlook has improved somewhat. Trade risk and vehicle affordability remain top concerns for the coming year, but the economy is expected to remain supportive with growth at a sub-2% level. A higher probability of a recession has been pushed out to 2021 or later."

Industrial Inflation. If a rising tide floats all boats, then a falling tide sinks these same boats. Because of the October turmoil, the West Michigan index of PRICES fell to -2 from +5. As the world economy continues to slow, J.P. Morgan's international Pricing index eased to 50.4 from 51.0. For the ISM survey, the U.S. index of PRICES dropped significantly to -9 from -1. Timothy Fiore, ISM's survey committee chair, further noted:

"Prices contracted in October at a faster rate compared to September. Survey respondents reported decreases in prices for aluminum, copper, basic chemicals, steel, steel scrap and freight expenses. The panel also reported price growth in ethylene, propylene, corn and nickel. Price stability remains elusive."

GDP. According to Washington's Bureau of Economic Analysis, the preliminary reading for the third quarter GDP came in at 1.9 percent, slightly below the 2.0 percent rate for the second quarter but well in line with expectations. Attention is now shifting to 2019's fourth quarter, which had a little bit of a rough start because of the GM strike, weaker than expected agricultural production and prices, problems with Boeing, as well as the ongoing trade war with China. Because of these factors, the Atlanta Fed's "GDP Now" computer model is estimating that the fourth quarter GDP growth will come in at a paltry 1.1 percent, considerably below the 1.4 and 2.4 percent estimates from the economists they survey. Although the Wall Street Journal's survey of 60 economists expects the fourth quarter to grow at a rate of 1.8 percent, this same group still expects a recession to begin sometime in 2020. Other economic forecasts are far more optimistic. For instance, the OECD estimated U.S. growth for all of 2020 is 2.28 percent. It is worth repeating that our own statistics indicate that the GDP numbers for the next few quarters may continue to soften, but there is still no indication that a recession is impending.

Business Confidence. For October, West Michigan's SHORT-TERM BUSINESS OUTLOOK, which asks local firms about the perception for the next three to six months, fell to -2 from +0, another six-year low. However, the October LONG-TERM BUSINESS OUTLOOK, which queries the perception for the next three to five years, edged slightly higher to +25 from +19. It has been encouraging to see some apparent minor progress in the trade talks with China, although numerous other economic problems still abound. The Federal Reserve has recently cut rates for the last time in the current cycle, although the economic impact of the lower rates is questionable.

West Michigan Unemployment. Needless to say, G.M.-related layoffs accounted most of the drop in October's West Michigan index of EMPLOYMENT from +8 to -14. Of the 83 counties in Michigan, the state's DTMB again reports that Ottawa County posted the lowest unemployment rate of 2.7 percent. At 2.8 percent, Kent and Allegan Counties share third and fourth place. Although unemployment is an economic laggard, it is good to see that many firms are still looking for people at all levels.

Summary. If China and the U.S. have actually agreed to some of the issues leaked to reporters, we could see a modest bounce if the agreement is actually signed. But we've been here before, only to have the Chinese pull the rug out from under us at the last minute. Looking at the world economy, the purchasing manager's indexes continue to stagnate near the break-even point of 50.0 for an unusually large number of countries. Hence, the current signs still point more toward more stagnation rather than a recession.

OCTOBER COMMENTS FROM SURVEY PARTICIPANTS

"Schedules have been low due to the GM strike, and we are just starting to ramp production back up now that the strike is over. I'm not sure of the demand from GM will make up for the down time. It appears schedules are strong, but not as strong as before the strike."

"Auto sales have slowed, but hopeful the UAW & GM will soon come to an agreement."

"We are seeing competitors drop pricing drastically in the machine tool business."

"Prices for raw material are up for most supplier that have their supply base overseas. Example: China."

"Projects have been delayed a few weeks due to various reasons: There is more work than there are contractors, employee shortages, and employee work stoppages. Hopefully they will be able to complete the projects in a timely manner."

"The GM strike is hurting what was beginning to be an upward trend over a flat to prior year sales."

"The GM strike impact has not been too bad thus far."

"The GM Strike is causing layoffs problems."

"Business has been slower than normal for this time of the year."

"We are entering the seasonal slowdown a month earlier than normal. Typically, the business cycle slows in November, so this is unplanned. As a result, we are making adjustments to inventory and supply plans."

"We are still doing well, although it continues to feel like the economy is still getting weaker. Let's hope Syria doesn't get out of control."

"It's been a very slow month, and the end of the quarter. Our customers are shopping everything and switching traditional items for nickels."

"The third quarter was down to our forecast. The fourth quarter will get better, but not as busy as we would like to be."

"Refinery projects are starting to break loose, but they want their products in very short lead times. We are adjusting purchased materials inventories of the long lead time items which is increasing our inventory. We are outsourcing some machining hours to try to rush through the project business."

"We're flat. No growth."

"We've seen a dramatic slowdown in quoting and orders over the last few months. Our fourth quarter will be difficult."

"We're moving items out of China."

"We are experiencing a negative effect from the GM strike, and also an overall pullback on orders from other customers."

"Our business is being negatively affected by the GM strike. We have production lines down, and our sales are down."

"Business is great and going strong, but we're not sure how the long-term outlook in the economy will impact sales."

OCTOBER Survey Statistics

	UP	SAME	DOWN	N/A	Oct. Index	Sept. Index	Aug. Index	25 Year Average
Sales (New Orders)	22%	33%	43%	2%	-21	+ 6	+ 3	+14
Production	14%	29%	47%	10%	-34	+ 6	+ 9	+14
Employment	12%	61%	26%	0%	-14	+ 8	+ 1	+ 8
Purchases	16%	47%	37%	0%	-21	- 6	+ 2	+ 7
Prices Paid (major commod.)	8%	82%	10%	0%	- 2	+ 5	+ 4	+15
Lead Times (from suppliers)	8%	84%	8%	0%	+ 0	+ 3	+ 8	+11
Purchased Materials Inv. (Raw materials & supplies)	10%	57%	29%	4%	-19	+ 5	+ 4	- 4
Finished Goods Inventory	20%	39%	31%	10%	-11	+ 2	+ 2	- 8
Short Term Business Outlook (Next 3-6 months)	27%	44%	29%	0%	- 2	+ 0	+15	-
Long Term Business Outlook (Next 3-5 years)	29%	63%	4%	4%	+25	+19	+28	-

Items in short supply: Polymers involved with the Saudi fires, some aggregates and road materials, large construction equipment, emulsions, good people.

Prices on the UP side: Specialty metals, imported items, PVC resin, polypropylene, aggregates, road materials, emulsions, construction equipment, imports from China, stainless steel.

Prices on the DOWN side: Brass components, transportation costs, SEBS resin, packaging, copper, steel, stainless steel, hot and cold rolled steel, steel surcharges, scrap steel, oil related items, aluminum, aluminum extrusions, currencies to USD (RMB & Won), computers & PCBAs.

Latest Unemployment Reports

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

	Sept. 2019	Sept. 2018	Aug. 2009	20 Year Low
State of Michigan (Adj.)	4.2%	3.9%	14.6%	3.2%
State of Michigan (Unadj.)	3.7%	3.5%	14.1%	2.9%
Kent County	2.8%	2.6%	11.9%	2.1%
Kalamazoo County	3.3%	3.0%	11.1%	2.1%
Calhoun County	3.9%	3.5%	12.8%	2.7%
Ottawa County	2.7%	2.5%	13.3%	1.8%
Barry County	2.9%	2.8%	10.9%	2.2%
Kalamazoo City	4.1%	3.7%	15.2%	3.2%
Portage City	3.0%	2.7%	8.7%	1.3%
Grand Rapids City	4.2%	3.8%	16.1%	3.0%
Kentwood City	2.6%	2.4%	10.7%	1.4%
Plainfield Twp.	2.1%	1.9%	8.0%	1.4%
U.S. Official Rate (Sept.)	3.5%	3.7%	9.6%	3.5%
U.S. Rate (Unadjusted)	3.3%	3.6%	9.6%	3.4%
U.S. U-6 Rate (Sept.)**	7.0%	7.3%	16.7%	8.0%

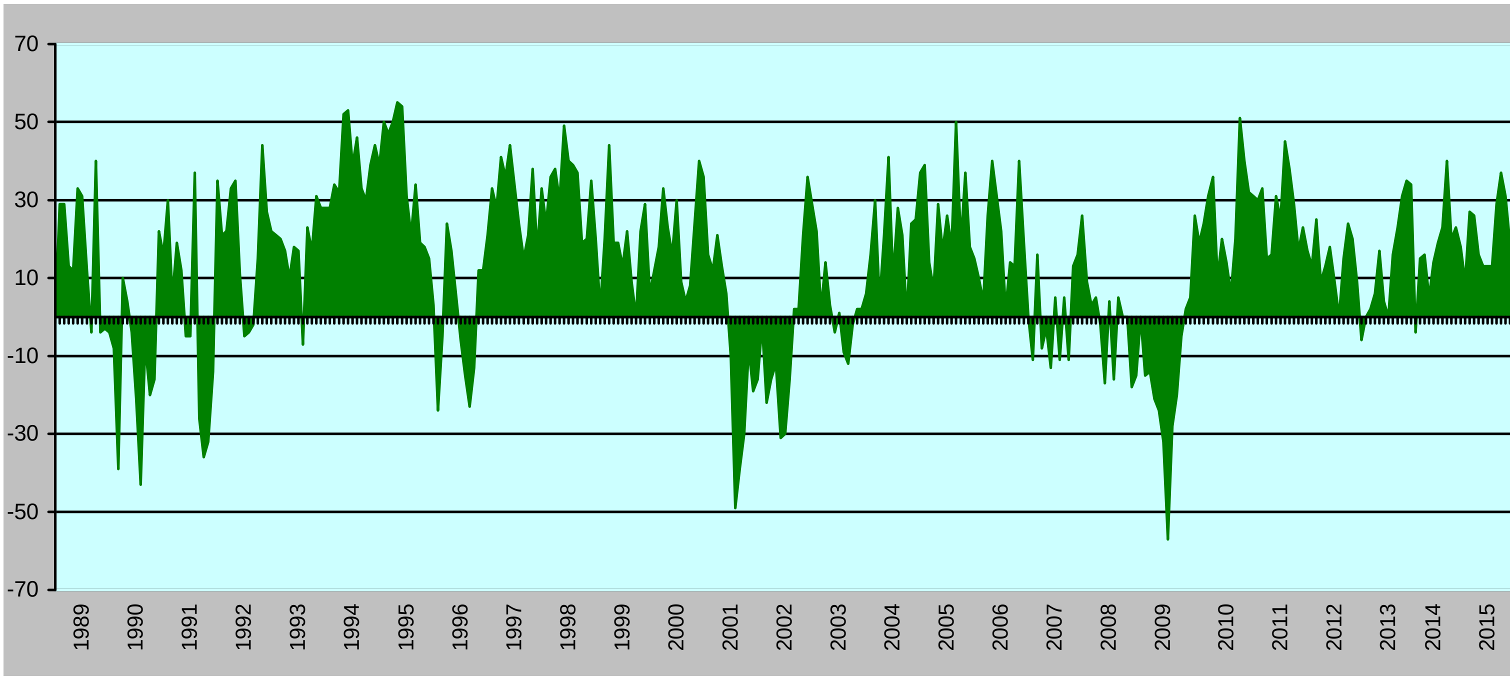
**U-6 for Michigan = 7.6% for July 2018 to June 2019

Index of New Orders: West Michigan

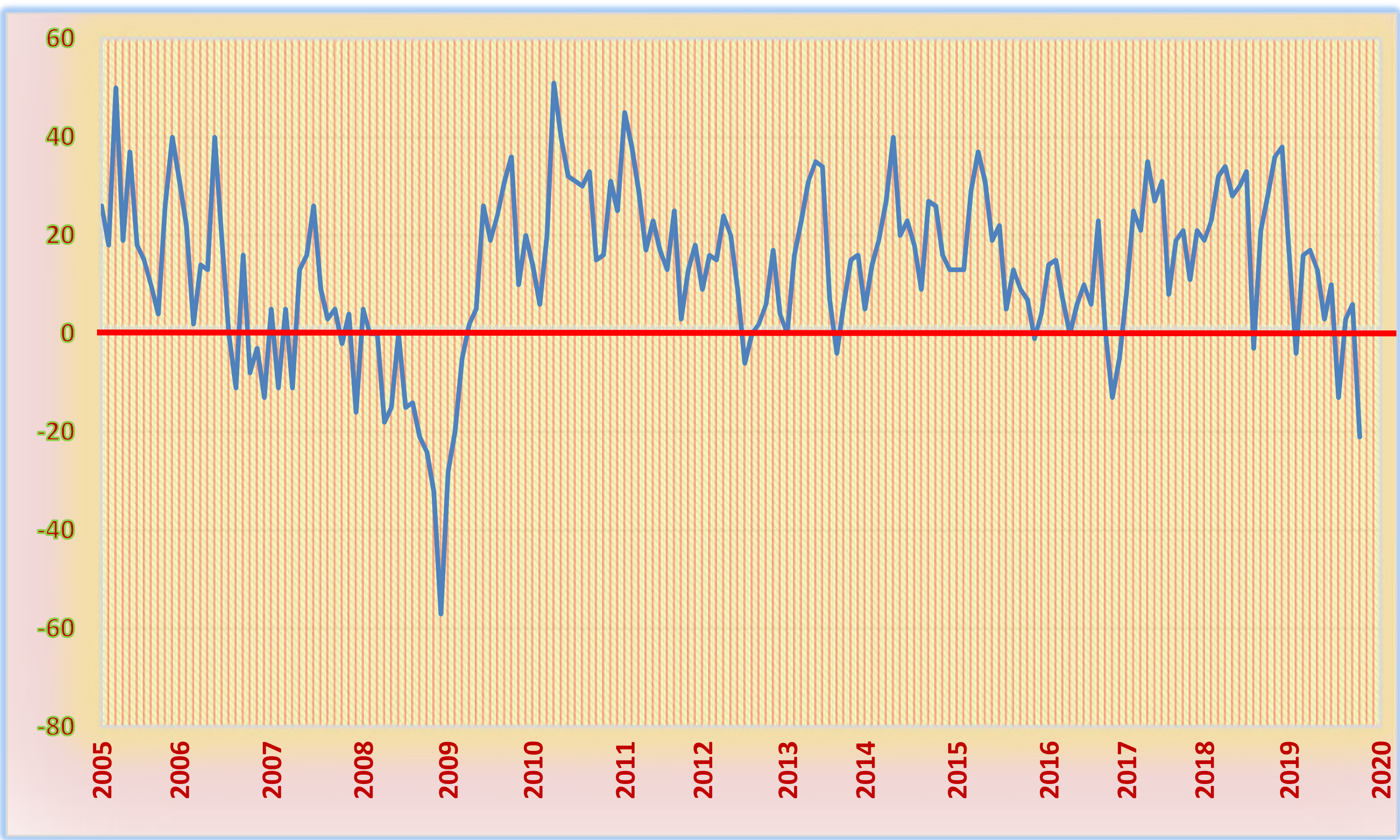
As the name implies, this index measures new business coming into the firm, and signifies business improvement or business decline. When this index is positive for an extended period of time, it implies that the firm or organization will soon need to purchase more raw materials and services, hire more 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	-21 for the month of Oct. 2019
Previous Month	+ 6 for the month of Sept. 2019
One Year Ago	+ 36 for the month of Oct. 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

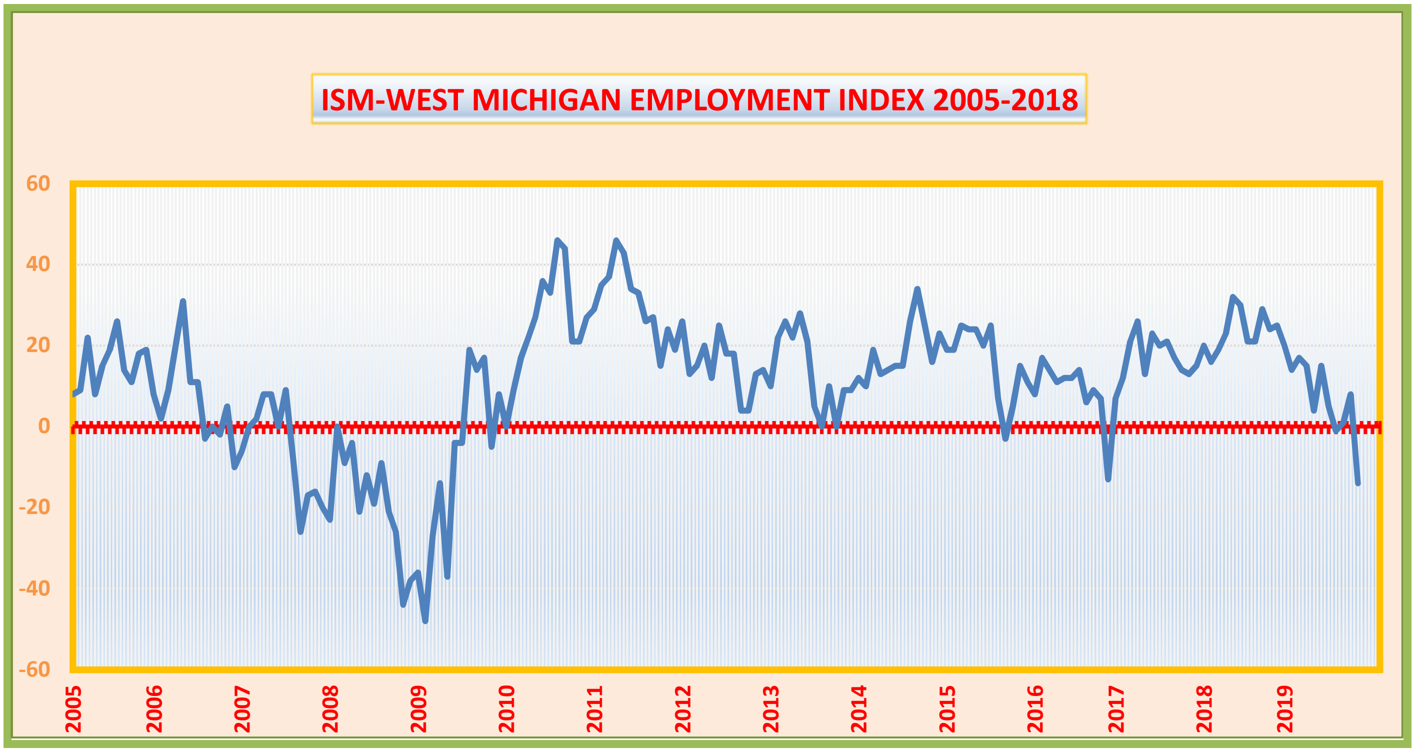


ISM-West Michigan Index of New Orders: 2005-2019 Only



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.