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

News Release **(For Immediate Release)**

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Current Business Trends

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

STATISTICS REBOUND, BUT MOOD TURNS MUCH MORE CAUTIOUS

Key Participant Comments for February:

"Limited impact from coronavirus thus far."

"We have full focus on the Coronavirus as it is negatively impacting our business."

"We continue to see a reduction in orders for the fifth month in a row."

"January was a better month, up 20% from December. Hopefully the trend stays up."

Good news. The West Michigan industrial economy has flipped back to positive. Bad news. The attitude of survey participants has turned much more cautious. According to the statistics collected in the last part of February, the West Michigan index of NEW ORDERS rebounded to +7 from January's -9. The February index of PRODUCTION edged up to +2 from -2. In addition, the February index of PURCHASES, which measures activity in the purchasing offices, jumped to +9 from -6. Despite the modest improvement in our January numbers, the February participant comments raise some significant concerns over the disruptions in the supply chains coming from China. In addition, several participants reminded us that ALL of the tariffs were not lifted in the recent Phase I trade agreement. Hence, some firms are continuing to look for non-Chinese sources for many commodities. For other firms, there are concerns that the Coronavirus may be pulling down the entire economy. Hence, even our non-automotive firms with no connection to China are now facing weaker business conditions.

The U.S. Economy. According to the March 2 press release from the Institute for Supply Management, our parent organization, NEW ORDERS, ISM's index of business improvement, edged up to +7 from +4. February's PRODUCTION index remained virtually unchanged at +6. Increased stress in the supply chain was reflected in ISM's February index of SUPPLIER DELIVERIES, which jumped to +15 from +6. Although the index of ORDER BACKLOGS has been sliding since mid-summer, the February report came in a single digit below the break-even point for the first time in eight months.

A slightly less optimistic reading for the U.S. economy comes from IHS Markit.com, the British international consulting firm. Markit.com's seasonally adjusted February 2020 PMI posted at 50.7, down from January's more optimistic 51.9. It is no surprise that the slightly softer numbers were attributed to the Coronavirus. Chris Williamson, Chief Business Economist at IHS Markit, further commented:

> "Manufacturing production and order book trends deteriorated markedly in February as producers struggled against the double headwinds of falling export sales and supply chain delays, both in turn often linked to the Coronavirus outbreak. Any growth in sales was once again largely driven by domestic consumers, though even here the rate of growth was weakened considerably compared to late last year. Historical comparisons against official data indicate that the survey is consistent with factory production and orders both falling at annualised rates of around 3%, with manufacturing jobs being lost at a monthly rate of roughly 20,000. While trade war fears have eased, helping push firms' expectations for future growth to the highest since last April, coronavirus-related supply chain issues threaten to constrain production in coming months. At the same time, companies have become increasingly concerned that the COVID-19 outbreak will also hit demand. Recent stock market volatility could also further dampen consumer spending and deter business investment."

The World Economy. It was no surprise to see the February J.P. Morgan Global Manufacturing Index fall to 47.2 from 50.4, given that China is the second largest component. In fact, the February Caixin Chinese index came in at 40.3, the lowest the index has been since the survey was initiated in 2004. New Orders, JPM's index of business improvement, plummeted to 45.3 from 50.8. However, firms in the survey anticipate a recovery in production over the next year due to expectations that production will be ramped up once the Coronavirus-related restrictions are lifted. In addition to the U.S., the U.K., Canada, Mexico, India, and Brazil were among the larger countries to report growth, while Japan, Germany, France, Italy, Taiwan, South Korea, Australia, and of course, China reported business contractions. Olya Borichevska, from Global Economic Research at J.P. Morgan, further noted:

> "The global manufacturing output PMI collapsed over seven points in February to 43.5, the second-largest monthly decline recorded going back to 1998. At this level, the PMI implies a contraction in global IP around a 5%ar pace. However much of the February output PMI drop owes to a 23-points tumble in China where the outbreak of the COVID-19 severely disrupted activity. Details of the PMI report were negative across many components. However, the future output PMI stood out with its resilience. In other details, the trend in international trade was hit hard, with new export business falling to the greatest extent in a decade."

For the eurozone, the February PMI came in at 49.2, a significant uptick from January's 47.9 and December's 46.3. It is not surprising that many of the European manufacturers are also experiencing supply chain disruptions from China, although the problem does not appear to be as great as in the U.S. Germany continues to be the biggest drag for the eurozone statistics, although business conditions in Italy remain weak as well. At 49.8, the French PMI has slipped back below the critical 50.0 break-even point. Greece, Ireland, and the Netherlands helped raise the Eurozone index. Chris Williamson from Markit.com further commented:

> "Despite widespread reports from companies that the coronavirus outbreak disrupted supply chains and hit foreign sales, resulting in considerably longer lead times and a steepening drop in export orders, February saw encouraging signs that the eurozone's manufacturing downturn is easing. Production contracted at the slowest rate for nearly a year and, despite lost export sales, new orders fell at the weakest rate for 15 months amid signs of rising internal demand, notably from consumers. The concern is that coronavirus-related delays in shipments threaten to constrain production in the coming months, prolonging a downturn that already extends to over a year. Supply chains are lengthening to an extent not seen since 2018, and inventories are being depleted at a rate rarely seen over the past decade as companies struggle to produce enough to satisfy order books. Furthermore, while a return to work for many Chinese factories after the extended New Year holiday could help ease global supply constraints, any further spreading of the COVID-19 epidemic risks driving increased risk

aversion and a reduction of spending by both businesses and consumers."

Automotive. The Detroit Three automakers are continuing the practice of no longer reporting monthly sales in order to help reduce the volatility in their respective stock market shares. At about six dollar per share, Ford stock has lost about 80 percent of its value in the past 20 years. Of the firms that still report monthly to the Automotive News Data Center, February sales came in very strong. At 17.9 percent, Hyundai-Kia reported the best year-over-year results, followed by Toyota gaining 12.4 percent, and Honda adding 4.7 percent. Overall, the seasonally adjusted rate of sales for February came in at a strong 17.04 million units, although most automotive analysts continue to see the 2020 annual volume dropping modestly to 16.4 million, ASSUMING that the current Coronavirus does not generate a recession. Jeff Schuster, the president of Americas operations and global vehicle forecasts for LMC Automotive, further commented:

> "Uncertainty seems to be the buzz word for the auto industry right now, even if the causes change. While we expect the light-vehicle market to decline further in 2020, the factors that play a part in that decline are numerous. The coronavirus is not expected to have an immediate effect on sales in the U.S. but its effect on the global supply chain and production puts every global manufacturer and the global economy potentially at risk. A slowing U.S. economy and higher transaction prices are already contributing to the headwinds."

Industrial Inflation. The Coronavirus crisis has had a mixed impact on industrial prices around the world. Despite this disruption in the world supply chains, the February J.P. Morgan international Pricing index edged up to 51.9 from 51.8. For West Michigan, the index of PRICES eased to +3 from January's +15. In ISM's national survey, the February index of Prices dropped significantly to -8 from +7. Timothy Fiore, ISM's survey committee chair, attributed the contraction in February to falling prices for steel, scrap steel, aluminum, natural gas, corrugate, and copper.

GDP. U.S. Bureau of Economic Analysis announced on February 27 that a second growth estimate for 2019's fourth quarter was unchanged from the initial estimate of 2.1 percent. This report came in much stronger than the January Atlanta Fed's "GDP Now" estimate of 1.8 percent. Looking ahead to the first quarter of 2020, the Atlanta Fed's estimate has now risen to a rather optimistic 3.1 percent. By contrast, The Blue Chip forecast has eased to 1.4 percent. Unfortunately, the data for both of these forecasts were collected prior to the Coronavirus spread to numerous parts of the world as well as many U.S. states.

Business Confidence. West Michigan's SHORT-TERM BUSINESS OUTLOOK for January, which asks local firms about the perception for the next three to six months, remained little changed at +11, down from +13. The index for the LONG-TERM BUSINESS OUTLOOK, which queries the perception for the next three to five years, edged higher to +32 from +25. In addition to our local survey, the business confidence index in the eurozone had continued to improve in recent months, although the February index downticked slightly because of the Coronavirus scare.

Coronavirus. For the West Michigan industrial economy, the major concern for our survey participants has been disruptions in the supply chain. In other instances, shortages have resulted in price gouging. Some Chinese factories have temporarily closed, although the government has taken steps to reopen as many as possible. Because of the convoluted nature of the modern Chinese supply chains, it is often difficult to determine where the problems might occur until the shipments fail to arrive on time. In addition, the logistics system itself may be halted by a quarantine. In the wonderful world of JIT inventory, some firms run the risk of stopping production for the want of some small component imported from China or some other country impacted by the virus. So far, valid information is lacking about how long the current coronavirus can live on various surfaces. In the case of a local firm, one worker refused to open a package of small electrical components for fear that a Chinese worker may have been infected allowing the virus to hitch a ride to the U.S. Although some viruses can live as long as 30 days, it is possible that the Coronavirus COVID-19 will live about three days away from the host on some surfaces. However, this virus CAN be picked up by simply walking as little as five or six feet behind and infected person and breathing the air that they exhale. What's worse is that the person passing the virus may not even know that they are infected.

Summary. As of now, it is still too early to assess the economic impact of the Coronavirus, except to say that it will definitely have a significant impact. Although the flu and other viruses tend to spread more slowly in the summer months, it seems somewhat apparent that this virus will continue to torment us UNTIL we have an effective vaccine. Hence, with signs that the economy has already been slowing, the Coronavirus will obviously accelerate the pace of the decline. Will it weigh down the economy enough to drag us into a recession? We can no longer ignore the possibility. However, we can say with some degree of certainty that slower growth is inevitable for the next year or so.

FEBRUARY COMMENTS FROM SURVEY PARTICIPANTS

"Supply of certain products from China is starting to tighten. Many Chinese factories and several key shipping ports remain closed."

"We're watching the delivery from China components closely. So far, no delays."

"China produced components are in short supply due to Coronavirus."

"Our vendors are having a hard time sourcing certain fabrics in India and Pakistan."

"Anything coming from China is in short supply due to Coronavirus is at risk, depending on tier 2 and tier 3 suppliers. We are seeing larger (Chinese) firms opening up for work, but are also seeing a slower release of smaller companies, which is impacting us."

"Demand is weak."

"We have full focus on the Coronavirus as it is negatively impacting our business."

"We rebounded somewhat from previous month, but backlog is still too low. We need more project work, and we are hearing that the projects are not being cancelled but are being delayed for now."

"We continue to see a reduction in orders for the fifth month in a row."

"January was a better month, up 20% from December. Hopefully, the trend stays up."

"The Corona Virus is significantly impacting demand from China. We are reducing our export volumes to China due to Chinese storage tanks being full at destinations. As a result, prices may fall for other regions. We expect a container shortage in the MPC in the next 4-5 weeks. This will affect capacity to every region for all US exports."

"The economy feels softer, but we are still doing well."

"We're in a very stagnant business environment. Everyone is just sitting on their hands waiting to see how the year unfolds."

"Tariff costs are beginning to weigh on our company very heavily. We are working to gain exclusions, mitigate away from China, or anything we can because these tariffs are coming in at a cost of about 5% of our sales."

"Our continued focus this year for our firm is moving product out of China to avoid tariffs."

"We're gearing up for another busy construction season!"

"We've seen a limited impact from coronavirus thus far."

February Survey Statistics

	UP	SAME	DOWN	N/A	Feb. Index	Jan. Index	Dec. Index	25 Year Average
Sales (New Orders)	33%	37%	26%	4%	+ 7	- 9	- 7	+14
Production	21%	49%	19%	11%	+ 2	- 2	- 9	+14
Employment	16%	75%	7%	0%	+ 9	- 7	- 2	+ 8
Purchases	30%	49%	21%	0%	+ 9	- 6	-17	+ 7
Prices Paid (major commod.)	12%	79%	9%	0%	+ 3	+15	- 6	+15
Lead Times (from suppliers)	16%	72%	11%	0%	+ 5	+ 4	+ 2	+11
Purchased Materials Inv. (Raw materials & supplies)	16%	63%	16%	5%	+ 0	+ 4	-12	- 4
Finished Goods Inventory	19%	58%	16%	7%	+ 3	-15	-19	- 8
Short Term Business Outlook (Next 3-6 months)	30%	51%	19%	0%	+11	+13	+ 0	-
Long Term Business Outlook (Next 3-5 years)	37%	53%	5%	5%	+32	+25	+35	-

Items in short supply: Raw materials from China, components from China, engineers, labor.

Prices on the UP side: Tariff related goods, steel, scrap steel, wages, aluminum from China, freight, salt, sand, aggregates, bituminous.

Prices on the DOWN side: Major commodities are all down, caustic soda, sodium hydroxide (50%), natural gas, steel*, SEBS resin, plasticizer, transportation (primarily due to lower fuel surcharges), passive & active electronic components, polypropylene.

*Item reported as both up AND down in price.

Latest Unemployment Reports

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

	Dec. 2019	Dec. 2018	Aug. 2009	20 Year Low
State of Michigan (Dec.)	3.9%	4.0%	14.6%	3.2%
State of Michigan (Unadj.)	3.4%	4.1%	14.1%	2.9%
Kent County	2.4%	2.8%	11.9%	2.1%
Kalamazoo County	2.7%	3.3%	11.1%	2.1%
Calhoun County	3.5%	4.2%	12.8%	2.7%
Ottawa County	2.3%	2.8%	13.3%	1.8%
Barry County	2.9%	3.5%	10.9%	2.2%
Kalamazoo City	3.4%	4.1%	15.2%	3.2%
Portage City	2.5%	3.0%	8.7%	1.3%
Grand Rapids City	3.5%	3.7%	16.1%	3.0%
Kentwood City	2.2%	2.7%	10.7%	1.4%
Plainfield Twp.	1.8%	2.1%	8.0%	1.4%
U.S. Official Rate (Feb.)	3.5%	3.8%	9.6%	3.5%
U.S. Rate (Unadjusted)	3.8%	4.1%	9.6%	3.4%
U.S. U-6 Rate (Feb.)**	7.0%	7.2%	16.7%	8.0%

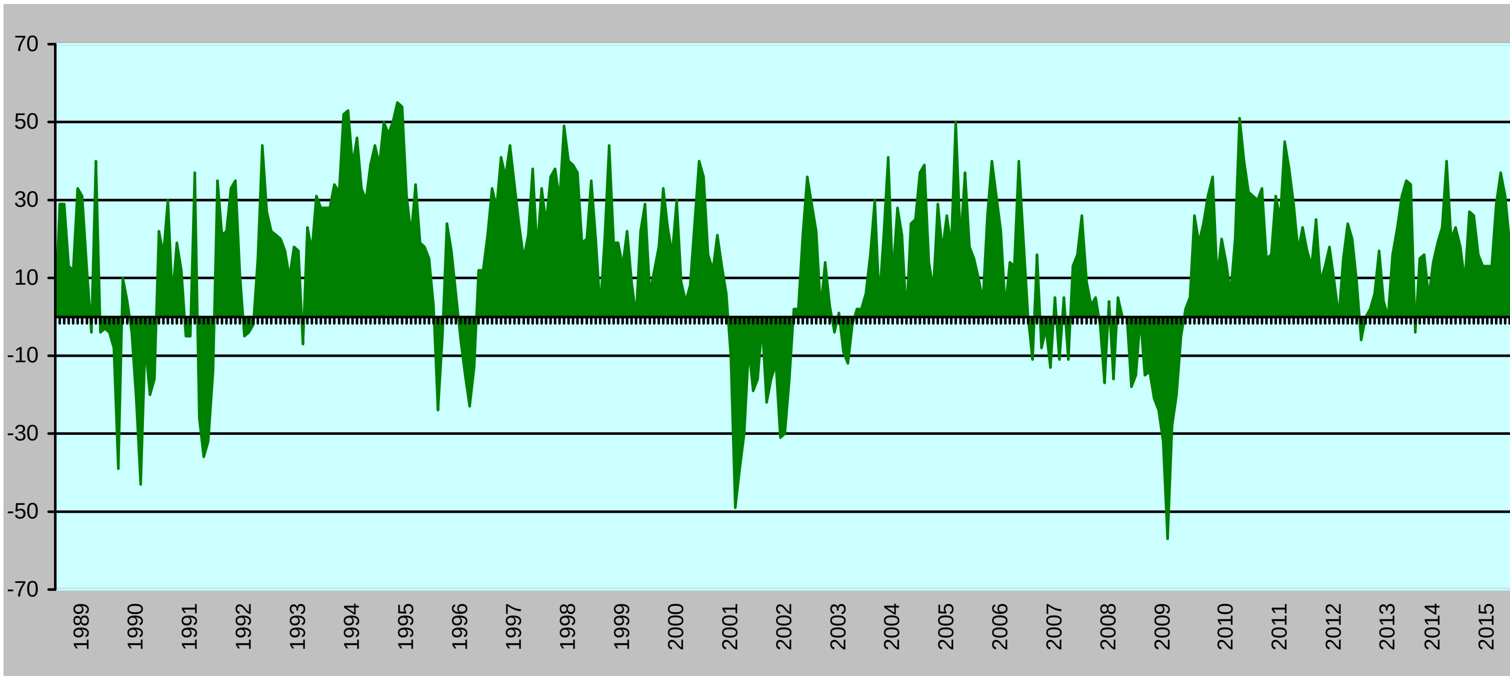
**U-6 for Michigan = 7.5% for all of 2019

Index of New Orders: West Michigan

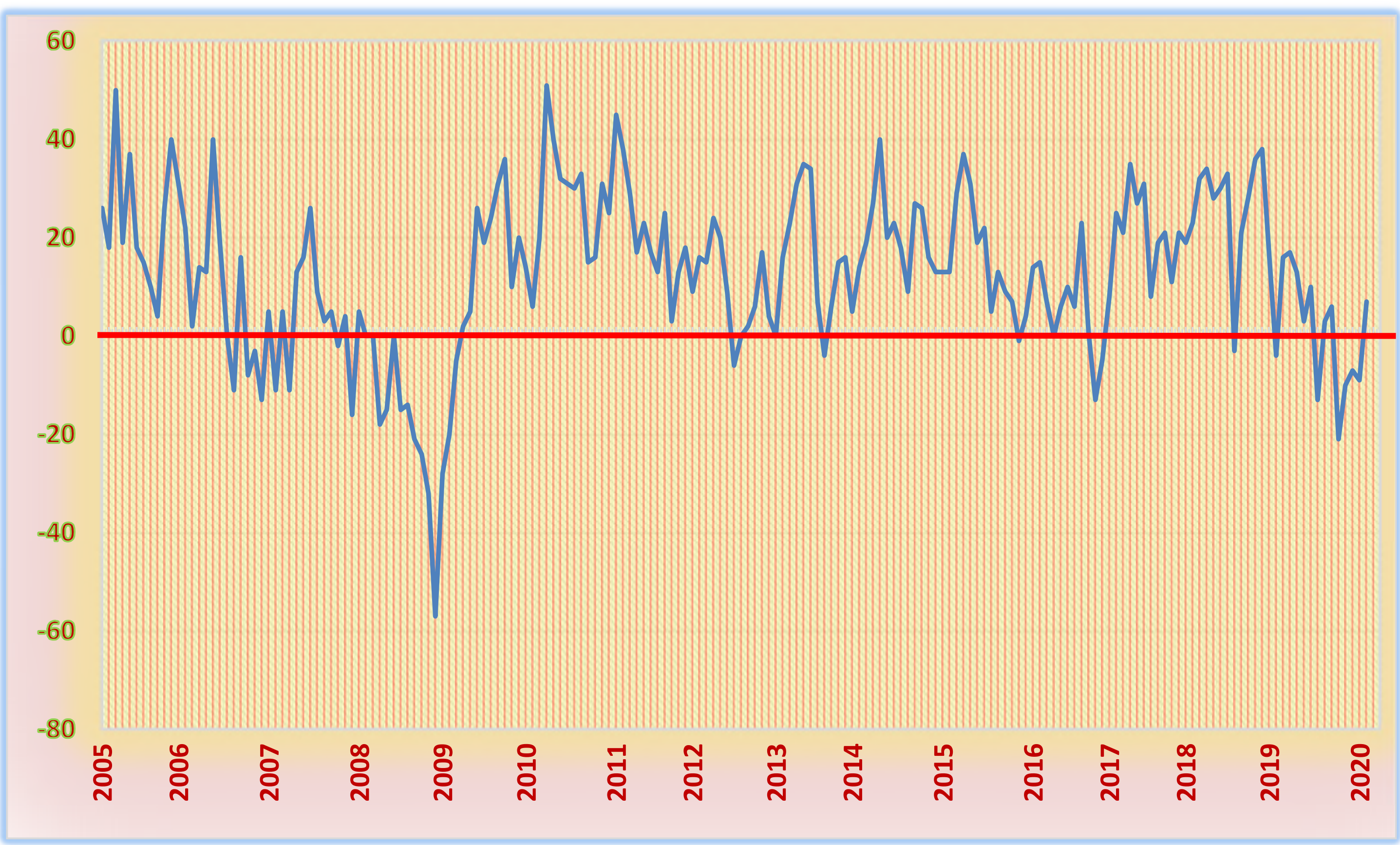
As the name implies, this index measures new business coming into the firm, and signifies business improvement or business decline. When this index is positive for an extended period of time, it implies that the firm or organization will soon need to purchase more raw materials and services, hire more 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	+7 for the month of Feb. 2020
Previous Month	- 9 for the month of Jan. 2019
One Year Ago	- 4 for the month of Feb. 2019
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 - 2020

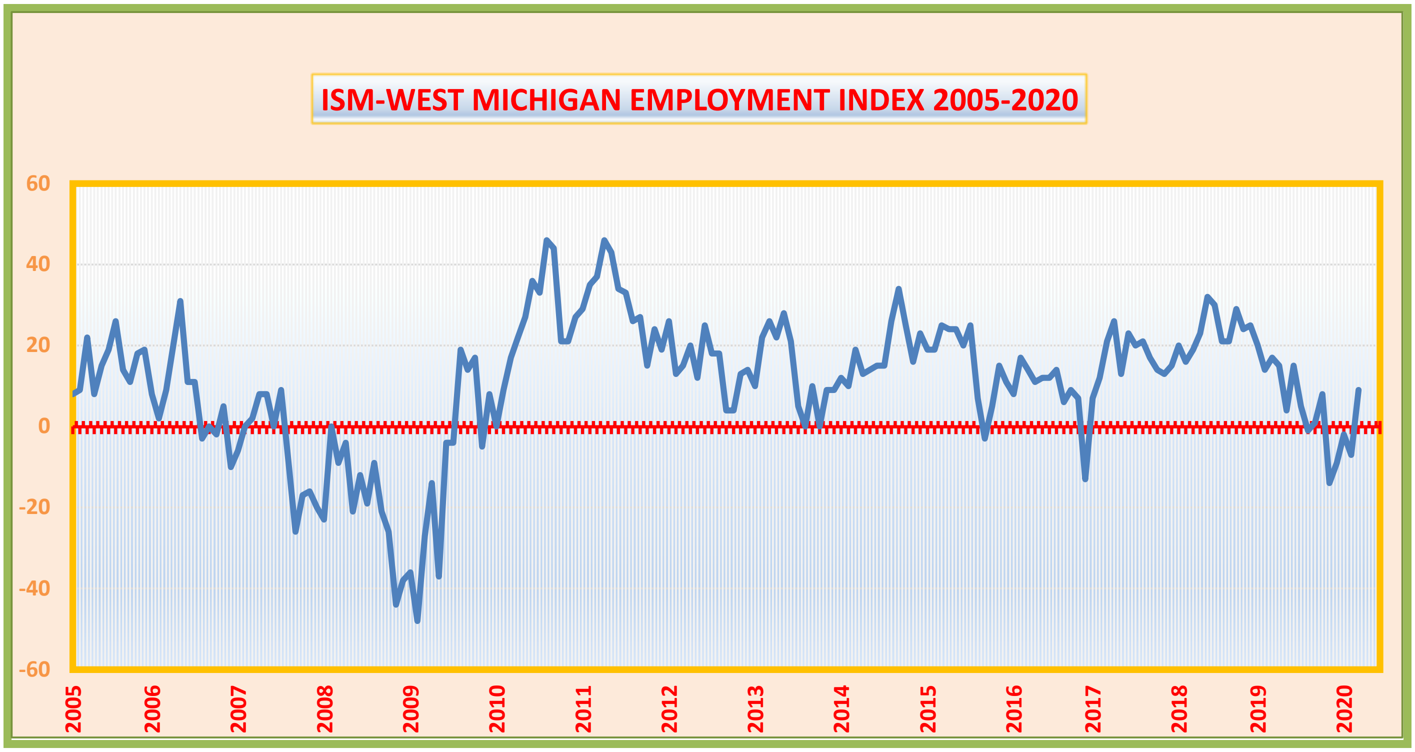


ISM-West Michigan Index of New Orders: 2005-2020 Only



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.