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Current Business Trends

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Still Rising

For this month's report, it is gratifying to see the West Michigan economy continue to grow, even though the pace remains subdued. The data and comments collected in the last two weeks of April remain optimistic, although there remains a scattering of firms that are either flat or declining. NEW ORDERS, our index of business improvement, remained positive but backtracked to +7, down from +15. By contrast, the PRODUCTION index rose to a three month high of +20, up from +16. Activity in the purchasing offices, the index of PURCHASES, rose sharply to +14, up from +3. For April, it can be noted that the West Michigan economy approximately paralleled the performance of the national economy as well as the overall Michigan economy.

Reviewing our local industrial groups, near-record auto sales are still keeping the local auto parts suppliers operating at full capacity, even though a couple of firms are reporting a slight hesitation. The office furniture business remains stable, and the spring season has resulted in significant improvements for some firms. Just like last month, our industrial distributors were generally positive. Capital equipment firms continue to report widely mixed results.

For April 2016, the business sentiment of the local survey continues to be quite positive. The index which asks about the perception of the next three to six months, the SHORT TERM BUSINESS OUTLOOK, remained relatively stable at +34, down modestly from +37. For the outlook for the next three to five years, the LONG TERM BUSINESS OUTLOOK, the April index rose to +49, up from +44. Given the pessimistic numbers we reported six months ago, the current mood is much more confident.

Good news comes from Mike Dunlap's quarterly survey of the office furniture industry. Most of the statistics came in just a few points below the all-time records set about twelve years ago. Mr. Dunlap further noted:

"The industry continues to grow steadily. Obviously the smaller to mid-sized companies are growing faster than the Top Five. The Overall Index is strong and is definitely above the 54.79 Survey average. 2015 was the best year we had seen in well over a decade, and we remain confident that 2016 will be even better!"

The national report from the Institute for Supply Management, our parent organization, reported a small but significant improvement for April. NEW ORDERS, ISM'S index of business improvement, rose to +21 from +20. The PRODUCTION index edged higher to +22 from +17. The EMPLOYMENT index, which has

been negative for the past six months, returned to positive at +5, up from -4. However, because of statistical weighting, ISM's overall index remained positive but retreated to 50.8 from 51.8.

By contrast, the U.S. survey conducted by Markit.com, the international economics consulting firm, remains much more cautious. Despite a modest increase in NEW ORDERS, the rate of expansion was the weakest since December 2015. The final U.S. manufacturing PMI came in at 50.8, down from 51.5 in March and only slightly above the 50.0 no-change threshold. The survey author opined:

"The April PMI data suggest there's no end in sight to the current downturn in manufacturing activity. The survey indicates that factory outputs are dropping at an annualized rate of approximately 3%, and factory headcounts are being culled at a rate of around 10,000 per month. Rather than reviving after a disappointing weak first quarter, the data flow therefore appears to be worsening in the second quarter, raising the question marks over whether GDP growth will improve on the near-stalling seen in the first three months of the year."

The world economy continues to show signs of flattening. According to the J.P. Morgan Global Manufacturing survey of 31 nations released on May 2, JPM's index of NEW ORDERS edged lower to 50.4, down from 51.4. The PRODUCTION index eased to 50.4 from 51.3. JPM's Global Purchasing Manager's Index edged lower to 50.1, painfully near the break-even point of 50.0. The Eurozone PMI posted a very modest increase to 51.7, up from 51.6. The survey author and chief economist for Markit remains cautious:

"The growth rate of the global manufacturing sector ground to a near standstill at the start of the second quarter. The rate of expansion for PRODUCTION and NEW ORDERS decelerated back towards the broadly stagnant outcomes registered in February. Conditions remained muted in many domestic markets, while international trade flows continued to deteriorate. The level of new export business fell for the third straight month, and to the greatest extent, since September of last year."

Auto sales for April posted a gain of 3.5%, and the SAAR (seasonally adjusted annual rate) rose to 17.42 million, slightly below the 17.5 million forecast by analysts, but up sharply from the March sales pace of 16.56 million and 16.77 million in April 2015. The strong sales are attributed to lower gasoline prices, near

record cash incentives, favorable finance offers, pockets of pent-up demand, and a reasonably stable national economy. Sale rose 3.6% at Ford, 5.6% at Fiat-Chrysler, 14.4% at Honda, 3.8% at Toyota, and 12.8% at Nissan. General Motors lost 3.5%, and Volkswagen lost 9.7% because of continued fallout from the emissions scandal.

For the unemployment statistics, most West Michigan reporting units are at least a full percentage point better off than a year ago. The Kent County unemployment number for March came in at 3.3%, Ottawa County at 3.2%, and Kalamazoo County at 3.7%. The employment picture is the best it has been since the recovery began seven years ago, although some segments of the workforce have not participated in the recovery. For our local survey, the index of EMPLOYMENT remains positive at +11, slightly lower than the +14 reported for March. As long as the EMPLOYMENT index remains positive, we should expect to see some modest improvement in our local unemployment rates. However, it is worth repeating that the industrial sector alone cannot be counted on to unilaterally drive the unemployment rates lower.

Although many factors fostered the Great Depression 85 years ago, the trade war ignited by Smoot-Hawley tariffs is often cited as a significant factor. The Economist magazine, a British publication, worries that a new trade war could be spawned by the political rhetoric of the 2016 presidential election. The editors complain that ALL of the top presidential candidates in BOTH parties favor new trade restrictions, presumably to "protect American jobs." This language harkens back to Smoot-Hawley, and raises the prospects of potential trade wars breaking out with some of our major trading partners. As of March 1, the Department of Commerce imposed tariffs of 266% on some Chinese steel imports. So far, the Chinese have not responded. Based on past history, some kind of repose is almost inevitable.

For all of 2015 and most of 2016, our index of PRICES has been sharply negative. However, for March and

April of this year, the index has returned to positive, rising to +14 and +6 respectfully. Although most of the basic commodities prices are no longer falling, the big problem is that the recent imposition of tariffs on Chinese steel has resulted in almost every size, shape, and grade of steel going up in price. For the office furniture and automotive industry, the lower steel prices were good for the bottom lines of the major firms as well as their parts producers. However, higher steel prices are probably here to stay, at least as long as the world economy stays out of trouble.

Coming on the heels of a tepid 1.4% growth rate for the fourth quarter of 2015, it goes without saying that the first quarter of 2016 GDP release from the Commerce Department was a disappointment. Although the initial report of 0.5% growth is "preliminary," it still portends that the best we can hope for is more slow growth for the next few months.

In summary, we continue to balance the good news with the bad. Subject to the obvious limitations, our local unemployment rates have returned to near-full employment. The national ISM index remains marginally positive, and our local statistics have resumed the pattern of slow growth. However, numerous countries around the world have slid into recession, and European growth, while still positive, is disappointing in view of the central bank's accommodative monetary policy. The PMI from China remains negative, but since the government news agency seized the survey from HSBC about four months ago, we are not sure that the real numbers might be even weaker than reported. A recent Wall Street Journal article now questions the efficacy of the economic data coming from India. Right now, it appears that the U.S. economy is going sideways, and that the slow growth we have seen for the last seven years may get even slower. Locally, as long as auto sales and office furniture sales remain strong, West Michigan should continue to outpace the overall U.S. economy, but there is no prospect for faster growth.

APRIL COMMENTS FROM SURVEY PARTICIPANTS

strong." "New Orders are down, but quoting activity is still very

mandates. The Finished Goods inventory is down due to cash flow pressures to reduce inventory."

"New Orders are a little softer because one of our big customers is slowing activity to due to supply interruptions from the earthquake in Japan."

"After a rough first quarter, second quarter sales are stronger, and projected to be stable for rest of the year."

"I think steel shortages are around corner."

April." "New Orders are on pace to be down compared to last

appears the trend will continue. Election year blues???"

over the past month. Nickel is up 10% since the first week of April."

"Steel prices are rebounding rapidly due to commerce department duties being set in excess of 200% on Chinese steel."

"Spring break slowdown???" The month of March was disappointing compared to January and February. Our customer base has all reported a softening of business."

"Business seems to be picking up."

from "Up" to "Same." "Our business looks flat for next few years until the energy business picks up again."

"More aggressive regulation enforcement by the FDA is resulting in less competition for generic drugs. In many cases, the cost to remediate deficiencies is greater than the long term profit potential, and some chose to discontinue production. This trend will ultimately result in higher prices for consumers."

"Almost across the board, commodities have reversed their downward course and are slowly rebounding. Reason: The weaker dollar and more restrictive trade policies as we head into elections."

"Business remains strong in automotive."

"We are in a momentary dip in our business cycle, but expect things to pick up shortly."

"We are sensing some softness in customer base. It's not major, so it could be just normal fluctuations."

"The metal industry is starting to make a move on pricing. The question is how aggressive will the steel mills be?"

"We just held an open house to display machines, and had over 40 companies visit. Most companies are telling us they are quite busy and planning to add equipment in the next few months."

"We have very steady business. It looks like another good year."

"While lead-times are shorter, suppliers cannot hit the dock date requested based on the lead-time given."

"Even though our overall winter maintenance budget was down around 35% we used that savings for other maintenance activities such as grading roads, fixing drainage problems, and trimming trees."

"Right now, the economy is in the sweet spot in my humble opinion. Our first quarter earnings will be better than anticipated. Our second quarter earnings will be more perilous especially in companies that are commodity intensive in raw materials."

"The slowdown that started in December is still upon us. There are no indicators pointing to an increase anytime soon, and new projects are being put on hold by our customers, particularly in machine tools. Medical seems to be doing well."

"Our business is growing! We are getting lots of new business!"

"We see a slight softening, but not extreme. We are expecting a rebound shortly."

May." "We are starting to see a slight slowdown for April and

"We are still a little down on incoming new orders, but things are about to break loose."

"We have lots of automotive quoting action, but controlling growth will be key."

drivers." "Our business level increases are because of seasonality

"We are seeing longer lead-times and push-outs with the

April 2016 Survey Statistics

	UP	SAME	DOWN	N/A	Apr. Index	Mar. Index	Feb. Index	25 Year Average
Sales (New Orders)	30%	46%	23%	1%	+ 7	+15	+14	+14
Production	27%	50%	7%	6%	+20	+16	+12	+14
Employment	17%	77%	6%		+11	+14	+17	+ 8
Purchases	29%	56%	15%		+14	+ 3	- 3	+ 7
Prices Paid (major commod.)	12%	79%	6%	3%	+ 6	+11	-20	+15
Lead Times (from suppliers)	14%	78%	8%		+ 6	+ 4	+ 2	+11
Purchased Materials Inv. (Raw materials & supplies)	23%	53%	18%	6%	+ 5	+10	+ 6	- 4
Finished Goods Inventory	20%	61%	12%	7%	+ 8	+ 4	+15	- 8
Short Term Business Outlook (Next 3-6 months)	43%	48%	9%		+34	+37	+19	-
Long Term Business Outlook (Next 3-5 years)	49%	48%		3%	+49	+44	+40	-

Items in short supply: Stainless steel, production workers, good labor, employees at all levels, Ultem resin, polysulfone material, trucking.

Prices on the UP side: Polypropylene, Resins, PVC resins, steel, hot rolled steel, stainless steel, carbon steel, steel components, wire rod, scrap steel, Styrene Ethylene Butylene Styrene (SEBS), Diisodecyl Phthalate (DIDP-E), butadiene, labor rates.

Prices on the DOWN side: Methyl ethyl ketone, alcohol, computers, monitors, steel forgings, iron castings, steel*, paraffinic oil, bituminous asphalt paving, asphalt, emulsion products, chlorides, aluminum.

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

Latest Unemployment Reports

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

	Mar. 2016	Mar. 2015	Aug. 2009	20 Year Low
State of Michigan (Adj.)	4.8%	5.8%	14.6%	3.2%
State of Michigan (Unadj.)	5.1%	5.9%	14.1%	2.9%
Kent County	3.3%	4.0%	11.9%	2.1%
Kalamazoo County	3.7%	4.5%	11.1%	2.1%
Calhoun County	4.6%	5.4%	12.8%	2.7%
Ottawa County	3.2%	3.8%	13.3%	1.8%
Barry County	4.0%	4.8%	10.9%	2.2%
Kalamazoo City	4.6%	5.6%	15.2%	3.2%
Portage City	3.4%	4.1%	8.7%	1.3%
Grand Rapids City	4.3%	5.3%	16.1%	3.0%
Kentwood City	3.1%	3.7%	10.7%	1.4%
Plainfield Twp.	2.5%	3.0%	8.0%	1.4%
U.S. Official Rate (Mar.)	5.0%	5.5%	9.6%	3.8%
U.S. Rate Unadjusted	5.1%	5.6%	9.6%	3.6%
U.S. U-6 Rate**	9.8%	10.9%	16.7%	8.0%

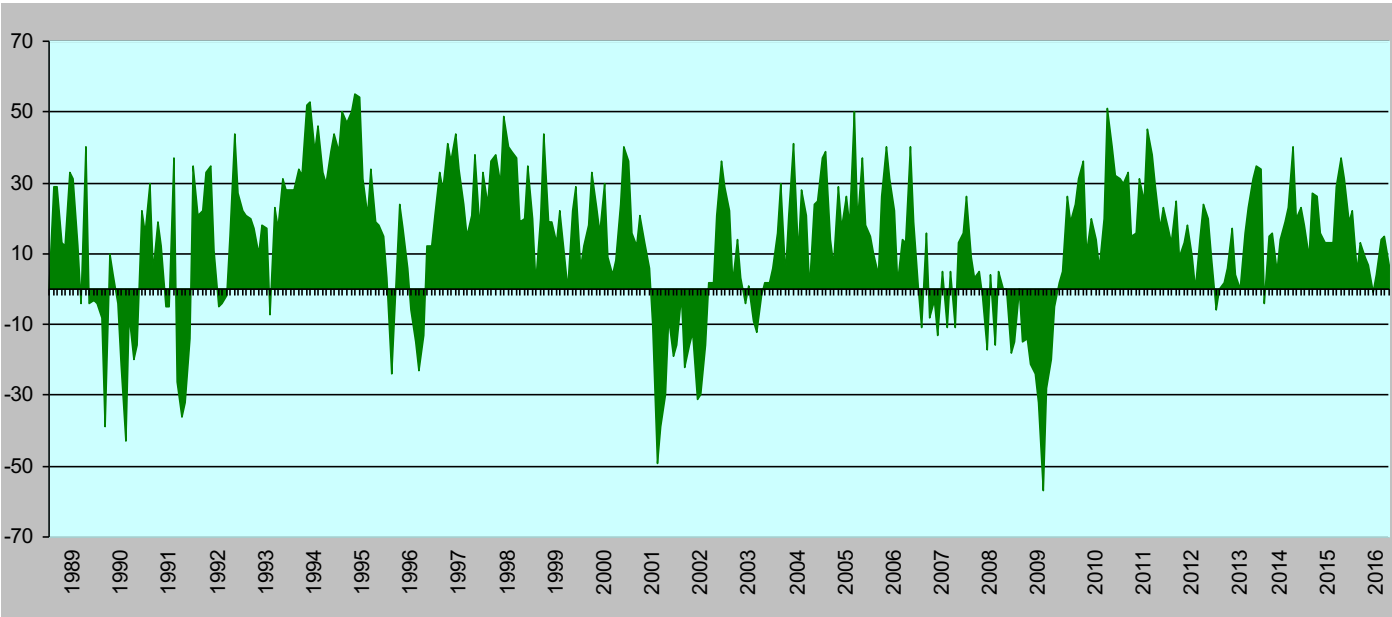
**U-6 for Michigan = 11.4% for all of 2015

Index of New Orders: West Michigan

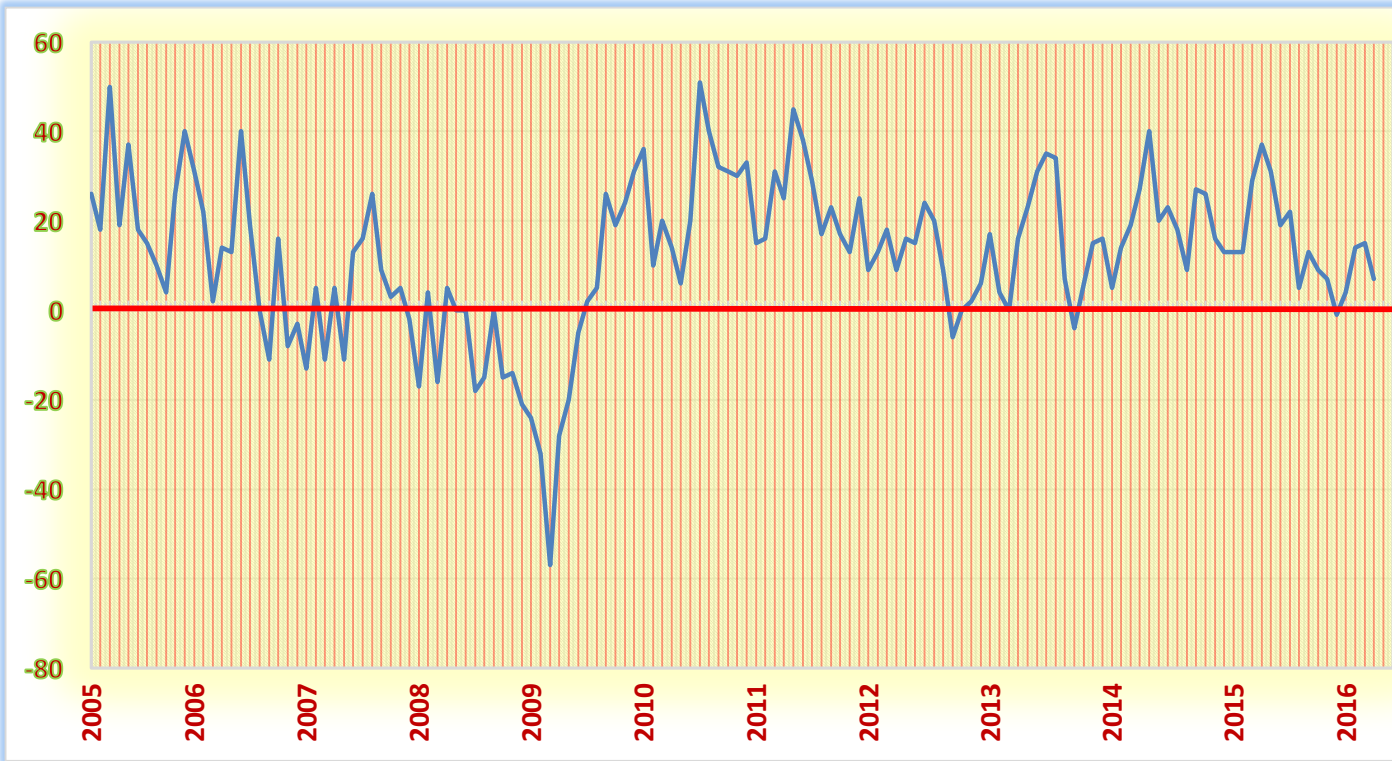
As the name implies, this index measures new business coming into the firm, and signifies business improvement or business decline. When this index is positive for an extended period of time, it implies that the firm or organization will soon need to purchase more raw materials and services, hire more 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	+ 7 for the month of April, 2016
Previous Month	+15 for the month of March, 2016
One Year Ago	+37 for the month of April, 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

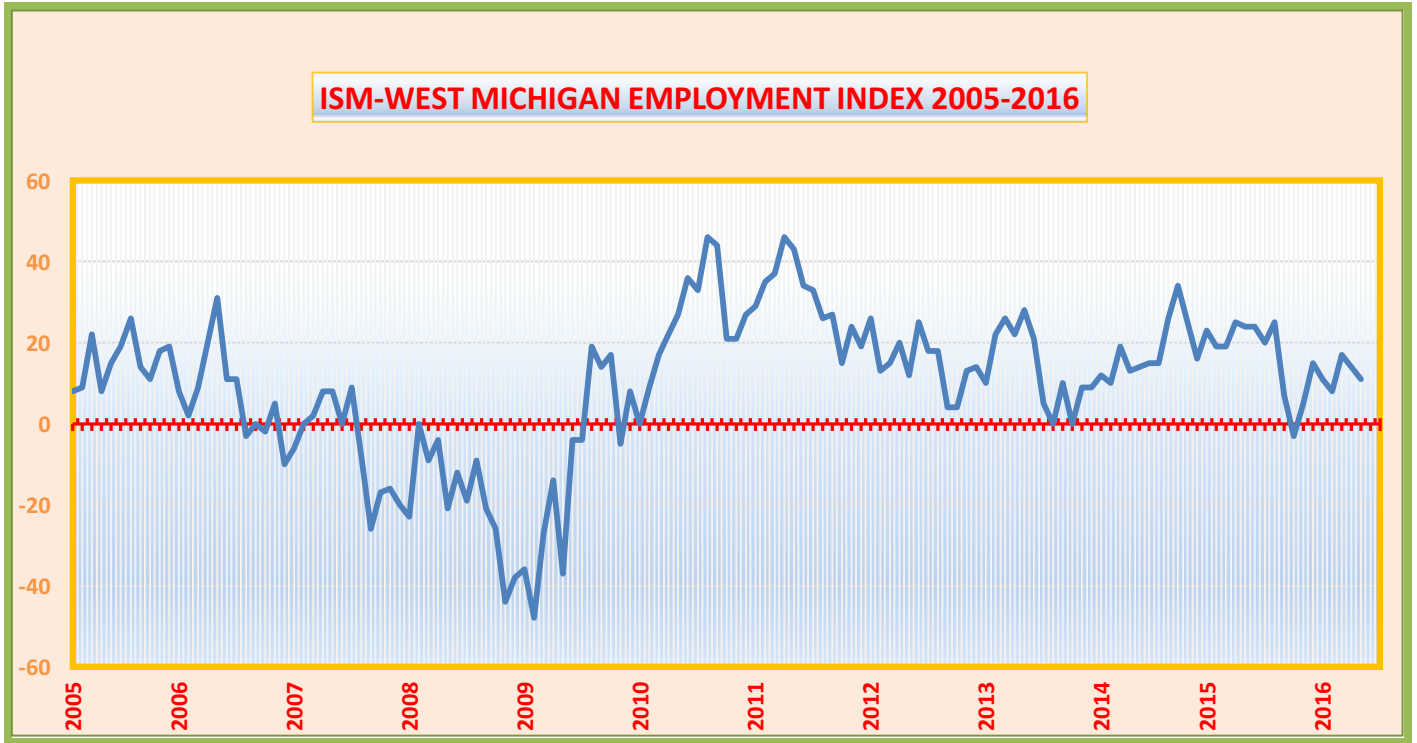


ISM-West Michigan Index of New Orders: 2005-2016 Only



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.

