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## **News Release (For Immediate Release)**

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### **Current Business Trends**

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#### **Sixteen Month High**

As we move into the fourth quarter of 2016, the West Michigan industrial economy continues to expand. According to the latest survey conducted during the last two weeks of September, NEW ORDERS, our index of business improvement, came in at a sixteen-month high of +23, up significantly from August's +6. In a similar move, the PRODUCTION index rose to +24 from August's anemic +6. Activity in the purchasing offices, the index of PURCHASES, returned to a positive reading of +15, up from -3. Following an unusual amount of inventory accumulation in August, the September indexes representing both FINISHED GOODS INVENTORIES and RAW MATERIALS INVENTORIES came back to normal.

For most of our industrial groups, September was a good month. Typical of the back-to-work nature of the Post-labor Day mindset, most industrial distributors reported an uptick for the month as fall maintenance work begins. Most of the auto parts suppliers were positive, although a couple signaled a note of caution because of softening auto sales. The office furniture industry continue to show evidence topping out, but overall business conditions still remain positive. Just like last month, the capital equipment industry remains checkerboard because of the large variations from industry to industry.

It is fortunate that the business sentiment numbers for September remain very positive. The SHORT TERM BUSINESS OUTLOOK, which asks local firms about the perception of the next three to six months, bounced to +28, up nicely from +15. The September index for LONG TERM BUSINESS OUTLOOK retreated to +41 from +46, but remains strong. Anecdotally, one of this month's respondent noted, "We still have a very positive outlook. Business is good."

After a weak report for August, the September report from the Institute for Supply Management, our parent organization, returned to normal. NEW ORDERS, ISM'S index of business improvement, came in at +7, up from -4. In a similar move, the PRODUCTION index returned to +4, up from -3. However, ISM's EMPLOYMENT index, remained weak at -3. ISM's overall index rebounded to 51.5 from 49.4, well above the all-important 50.0 break-even point. Much as we expected, last month's reading was most likely a statistical fluke.

A slightly different view of the U.S. economy comes from the October 3 press release from Markit.com, the British international economics consulting firm. The seasonally adjusted Markit PMI for September came in at 51.5, identical to ISM's PMI reading, and a little slower than August's 52.0. NEW ORDERS, EMPLOYMENT, and PURCHASES were all positive, but the pace continues to slow. Chris Williamson, Markit's chief economist further noted:

"Manufacturing growth slowed to a crawl in September, suggesting the economy is stuck in a soft

patch amid widespread uncertainty in the lead up to the presidential election. The survey saw firms pulling back on expanding production and focusing instead on cost cutting, as inflows of new business slowed to the weakest seen so far this year. Business spending is being subdued by the headwinds of uncertainty about the economic outlook, cost driven inventory reduction, and the strong dollar.

For the world economy, the J.P. Morgan Global Manufacturing survey of 31 nations released on October 3 continues to depict a world economy stuck in slow growth. JPM's index of NEW ORDERS remained above the all-important 50.0 break-even point and edged higher to 51.4 from 51.0. The PRODUCTION index declined to 51.9 from 52.0. The J.P. Morgan Global Composite Purchasing Manager's Index edged up to 51.0 from 50.8. Among the major economies of the world, the Northern European countries such as Austria, Germany, the U.K., and the Netherlands are growing, but France and Greece continue to present negative PMIs. Other countries posting negative PMIs include South Africa, South Korea, Turkey, and Brazil. The PMI for China came in at the break-even point of 50.0. The survey author further noted:

"The September PMIs signal that the global manufacturing sector remained in a low growth gear at the end of the third quarter, though the survey has registered some improvement in recent months. Based on the global PMI, it appears that global output growth is firming modestly from a 1% pace to a 2% pace. The consumer goods PMI remains quite elevated, consistent with good gains in retail sales, whereas the investment goods PMI is sending a message that capex growth remains slow."

For September 2016, it can be said that industrial inflation is almost non-existent. Locally, our index of PRICES came in at +0, down from August's +2, and well below last month's +12. At the national level, ISM's index of PRICES remained unchanged at +6. Indeed, most industrial commodities remain remarkably stable. The list of commodities either rising in price or in short supply is the smallest it has been in the 27 year history of our local survey. Steel is a component in many manufactured products from toys to cars to water coolers, so it is encouraging to see that the sharp upticks in prices we had been seeing have subsided and even reversed in some instances.

For our local automotive parts suppliers, the future is naturally dependent on the automotive sale numbers which come out every month. Ford, General Motors, Fiat Chrysler and Honda posted modest U.S. sales declines in September while Toyota and Nissan advanced. Industry volume slipped for the second straight month, but only by 0.7 percent. However, almost 62% of the sales were for light trucks, while traditional cars accounted for only 38% of the September totals. Low gasoline prices have resulted

in consumers ignoring fuel economy in favor of bulk and comfort. Cash incentives for September hit a record high of \$3,923. With dealer inventories growing, sub-prime loans are again being pushed. The editor for Automotive News further noted:

“After a six-year run of U.S. sales gains, some analysts and automakers believe sales have peaked. Other executives and analysts -- citing low interest rates, easy credit terms, steady job growth and high consumer confidence -- say there is more room to run.”

The September EMPLOYMENT index for West Michigan rose to +9 from +6, but remained below the growth rate of the previous ten months. Of the 83 Michigan counties detailed in the State of Michigan unemployment report, Ottawa County's unemployment rate of 3.0% is tied for the lowest in the state. Allegan County took second place at 3.3%. Kent County also came in with a reading of 3.3%. All of the local reporting units in West Michigan continue to post year-over-year improvements, but the changes are now very small as we approach full employment. As noted in the comment section of this report, the shortage of qualified workers continues to be a major problem for many industrial firms.

In other economic news, the second quarter GDP was revised upward to 1.4% from 1.2%. The first quarter growth rate of 0.8% remained unchanged. As a result, the

IMF has cut the U.S. estimate for overall growth in 2016 to 1.7%. There is hope that the third quarter will come in slightly higher than the first two quarters, but few pundits expect strong growth to return anytime soon. The economy has grown at a 2.1% annual rate since the U.S. recovery began in mid-2009, which is well below the 3.0% average annual rate since the Second World War.

Looking forward, it is obvious that the news cycle will be dominated by the upcoming election until November 8. Unfortunately some pundits have noted that the stock markets are not pleased with either candidate, and the possibility of a post-election downtick is real. The business community dislike uncertainty, so business expansion may be put on hold until the future becomes clear. This could take several months. Statistically, the economic numbers from the world economy have actually shown some modest improvement in recent weeks, even though the pace remain painfully slow. Although the wind can easily blow in a different direction, our local statistics indicate that the West Michigan economy now has plenty of steam to carry us to the end of the year. As always, we need to keep a watchful eye on sales statistics for both the auto and the office furniture industries. And yes, to a lesser degree, aerospace is also a cyclical industry that is important to the West Michigan economy which should be watched.

## SEPTEMBER COMMENTS FROM SURVEY PARTICIPANTS

“We are still having a hard time finding people that want to work at least 40 hours per week. Absenteeism is a big problem.”

“We continue to struggle to get all of the orders out on time. Most capacity issues are related to shortage of employees.”

“It is harder to retain employees as the job market grows in Grand Rapids.”

“We are waiting for the orders to increase.”

“Business is a little softer than usual so far this month.”

“We are starting to see steel pricing pressure appear in the supply base. A potential increase with paper and packaging material is coming.

“Automotive outlook is starting to soften.”

“Labor continues to be a challenge for skilled, unskilled, AND professional.”

“We had our major trade show last week (International Manufacturing Technology Show) and saw a lot of discounting to get sales.

“It was a good summer, sales wise...”

“Most commodities we buy/sell are exhibiting some stability in prices.”

“August was a more robust month than expected, but September is off to a slower start. Auto sales were off 4% in August, so that could signal a cooling off period in that sector after five consecutive years of very solid volume. Automakers were quick to roll out 0% interest and rebates.”

“We are still doing quite well, thank you very much.”

“Some customers pushing out orders over next few quarters, and we are managing manpower accordingly.”

“A lot of the same-o, same-o. August showed a slight bump up from July order entry. Hopefully, the arrow stays positive.”

“We're still on track for solid third quarter (which is historically down), and strong fourth quarter.”

“After the summer vacations, the amount of inquiries are picking up.”

“We are starting to see a slowdown. We have laid off all temporary employees this month.”

“Weather permitting, construction projects should be complete within the next 30 days!”

“We still have a very positive outlook. Business is good.”

“This month is trending better than last month and better than same time last year. We are hoping this continues.”

# September 2016 Survey Statistics

	UP	SAME	DOWN	N/A	Sept. Index	Aug. Index	July Index	25 Year Average
Sales (New Orders)	39%	43%	16%	2%	+23	+ 6	+10	+14
Production	34%	49%	10%	7%	+24	+ 6	+18	+14
Employment	21%	67%	12%		+ 9	+ 6	+14	+ 8
Purchases	31%	51%	16%	+2	+15	- 3	+14	+ 7
Prices Paid (major commod.)	10%	80%	10%		+ 0	+ 2	+12	+15
Lead Times (from suppliers)	15%	80%	5%		+10	+ 5	+ 3	+11
Purchased Materials Inv. (Raw materials & supplies)	16%	67%	10%	7%	+ 6	+12	+11	- 4
Finished Goods Inventory	15%	60%	18%	7%	+ 3	+20	+ 9	- 8
Short Term Business Outlook (Next 3-6 months)	41%	46%	13%		+28	+15	+16	-
Long Term Business Outlook (Next 3-5 years)	44%	50%	3%	3%	+41	+46	+39	-

**Items in short supply:** Concrete, trucking, good production employees, indirect labor, skilled production labor.

**Prices on the UP side:** Gasoline (short term due to pipeline break), raw steel, stainless steel, glass, stoppers, PVC resin, plasticizer, polypropylene, SEBS resin, paraffinic oil, cement, concrete, trucking slag, aggregate, corrugated packaging.

**Prices on the DOWN side:** Hot and cold rolled steel, carbon steel, gasoline, aluminum, LCD displays, scrap steel, foundry coke, salt, calcium chlorides.

## Latest Unemployment Reports

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

	Aug 2016	Aug 2015	Aug. 2009	20 Year Low
State of Michigan (Adj.)	4.5%	5.1%	14.6%	3.2%
State of Michigan (Unadj.)	4.9%	5.2%	14.1%	2.9%
Kent County	3.3%	3.4%	11.9%	2.1%
Kalamazoo County	3.7%	3.9%	11.1%	2.1%
Calhoun County	4.4%	4.5%	12.8%	2.7%
Ottawa County	3.0%	3.2%	13.3%	1.8%
Barry County	3.5%	3.6%	10.9%	2.2%
Kalamazoo City	4.6%	4.9%	15.2%	3.2%
Portage City	3.4%	3.6%	8.7%	1.3%
Grand Rapids City	4.3%	4.5%	16.1%	3.0%
Kentwood City	3.1%	3.2%	10.7%	1.4%
Plainfield Twp.	2.5%	2.5%	8.0%	1.4%
U.S. Official Rate (June)	4.9%	5.1%	9.6%	3.8%
U.S. Rate Unadjusted	5.0%	5.2%	9.6%	3.6%
U.S. U-6 Rate**	9.7%	10.3%	16.7%	8.0%

\*\*U-6 for Michigan = 10.8% for Q2 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 + 23 for the month of September 2016

Previous Month + 6 for the month of August 2016

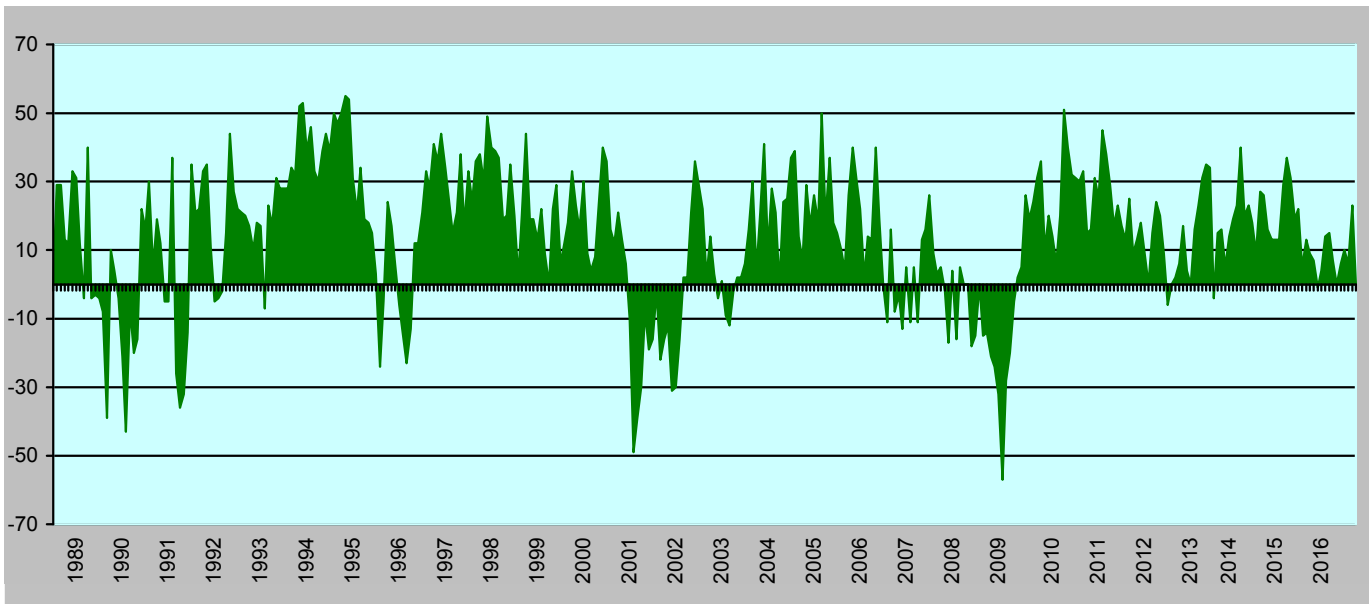
One Year Ago + 13 for the month of September 2015

Record Low - 57 for the month of December, 2008

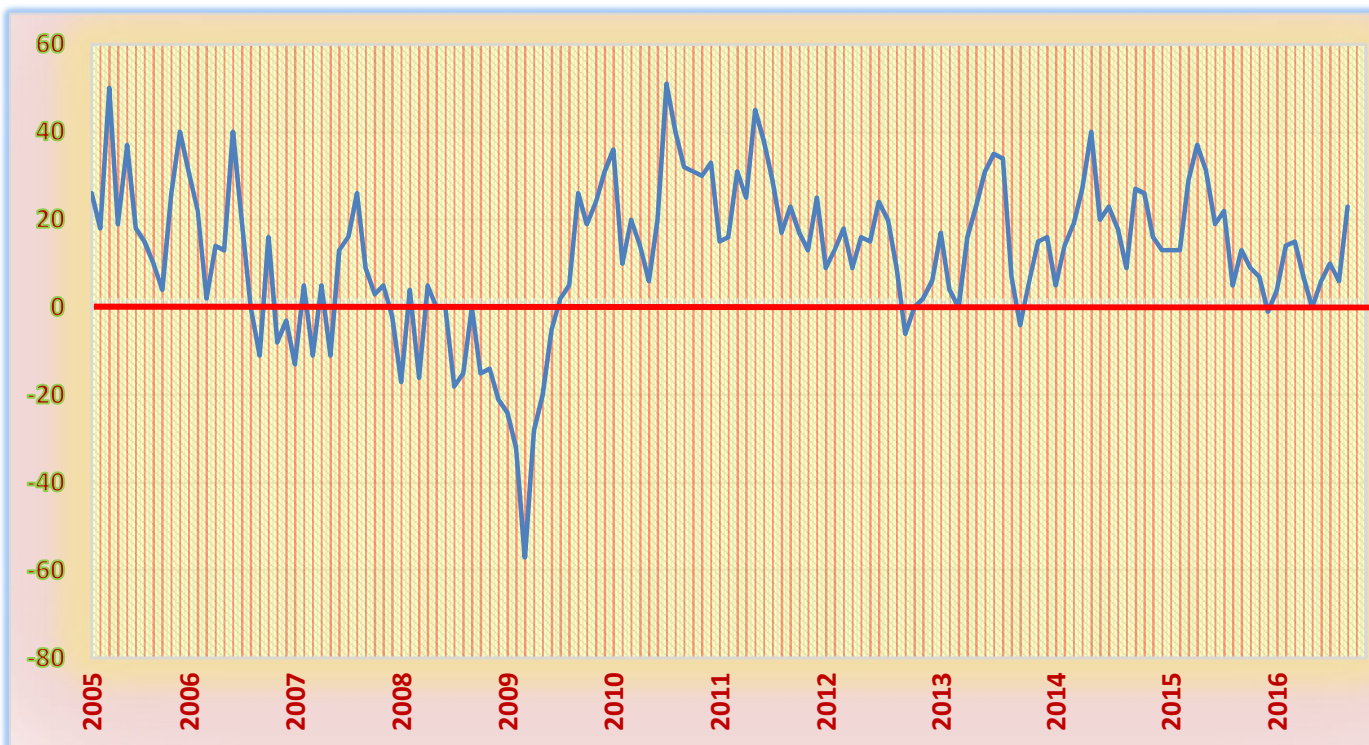
Record High + 55 for the month of September, 1994

First Recovery + 3 in April of 2009 and forward

## ISM-West Michigan Index of New Orders 1988 - 2016

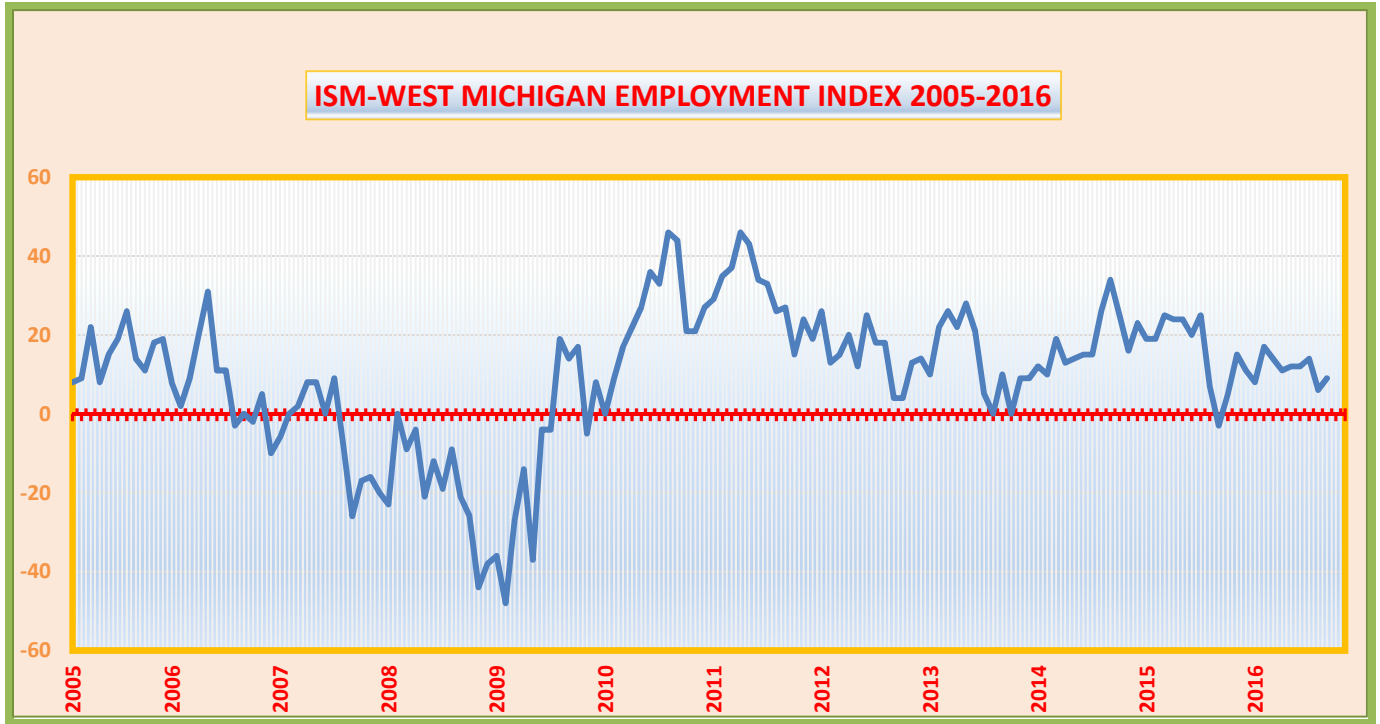


## ISM-West Michigan Index of New Orders: 2005-2016 Only



## 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.

