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News Release (For Immediate Release)

March 7, 2017

Current Business Trends

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Back to Double-Digit Growth

The For West Michigan, the 2017 rally continues for the industrial markets. According to the latest survey conducted during the last two weeks of February, NEW ORDERS, our index of business improvement, bounced to +25, up significantly from +8 in last month's report. The PRODUCTION index rose to +17 from +8. Activity in the purchasing offices, the index of PURCHASES, jumped to +19 from +6. The February index representing FINISHED GOODS INVENTORIES index edged up to +5 from +0. The fear of more price increases drove the RAW MATERIALS INVENTORIES index up to +21 from +11. All of this bodes well for the overall West Michigan economy for the first quarter of 2017. In fact, if March turns out to be as good as February, the GDP for the first quarter of 2017 should be very positive. Although many of our industrial groups are showing signs of topping out, the overall West Michigan economy should still remain positive for the foreseeable future.

Looking at individual industrial groups, the auto parts suppliers continue to raise concern over the recent softening in auto sales but remain positive about the 2017 outlook. For the office furniture industry, a few of the firms are continuing to set sales records, although many signs still point toward sales topping out. The capital equipment rally which started in January is still moving forward. The performance for the industrial distributors continues to be positive for some firms, but others are seasonally stagnant.

Following the pattern of improving sales and production statistics, it is not surprising to see the business sentiment numbers for February continue to improve. The SHORT TERM BUSINESS OUTLOOK, which asks local firms about the perception for the next three to six months, rose to +37 from +28. Looking out three to five years, the LONG TERM BUSINESS OUTLOOK remained unchanged at +47. All of this reflects a noticeable improvement over the pre-election statistics a few months ago.

The March 1 report from the Institute for Supply Management, our parent organization, came in very positive. NEW ORDERS, ISM'S index of business improvement, rose to +32, up sharply from +16 in January and +12 in January. The PRODUCTION index jumped to +27 from +14. The EMPLOYMENT index remained unchanged at +8. ISM's overall index for February accelerated to 57.7, up significantly from +56.0.

The February survey of the U.S. conducted by Markit, the British economics consulting firm, remained positive. However, the growth rate for NEW ORDERS moderated from January's 28 month peak, alongside a slightly slower increase in the PRODUCTION index. The Markit PMI for the U.S. came in at 54.2, down slightly from 55.0 in the January report. Comments from Chris Williamson, the chief business economist at Markit, have turned quite positive, given that most of his 2016 comments were very cautious:

"Even with the latest slowing, the goods-producing sector is still on course for its best quarter for two years, representing a markedly improved picture compared to this time last year. Growth is being driven by robust domestic demand, stemming in turn from buoyant consumers and increased investment spending by the energy sector in particular. Manufacturing is far from booming, however, as the strong dollar means near-stagnant exports continue to act as a drag on growth."

The March 1 report from the J.P. Morgan Global Manufacturing survey of 31 nations continued to be optimistic. JPM's overall index rose to a 69 month high of 52.9 in February, up slightly from 52.7 in January. This index has now remained above the neutral 50.0 mark for 12 successive months, quelling fears that a world recession might be brewing. Euro area manufacturing PRODUCTION and NEW ORDERS both rose at the quickest rates since April 2011. David Hensley, the survey author, further noted:

"Euro area manufacturers are reporting the strongest production and order book growth for almost six years, in what's looking like an increasingly robust upturn. Companies clearly expect the good times to persist. This year has seen firms more optimistic about the future than at any time since the region's debt crisis."

More good news comes from the Index of Small Business Optimism tabulated by National Federation of Independent Business (NFIB). The index came in at highest level since December 2004, and follows the largest month-over-month increase in the survey's history. It is important to noteworthy remember that about 60% of all new jobs are generated by small businesses. According to NFIB's chief economist:

"The stunning climb in optimism after the election was significantly improved in December and confirmed in January. Small business owners like what they see so far from Washington. The continued surge in optimism is a welcome sign that economic growth is coming. The very positive expectations that we see in our data have already begun translating into hiring and spending in the small business sector."

It was good to see the February EMPLOYMENT index for West Michigan edge up to +12 from +6. Double digit growth for the index has returned for the first time since August. At the national level, the ISM index of EMPLOYMENT rose to +8 after posting negative numbers for most of 2016. Many industrial firms are still struggling to find new workers who are both qualified and dependable. Hence, as we approach full employment, it is not surprising to find that the unemployment rates among our West Michigan reporting units are no longer falling like they were a year ago. For instance, the latest unemployment report for Kent County came in at 2.9%.

slightly higher than the 2.7% rate from a year earlier. We can hope that the unemployment rate will show modest improvement in coming months, but the inability of many firms to fill the 80,000 Job openings throughout the state will probably keep unemployment rates from falling much further. As we have noted in the past, it is frustrating that the education system is currently doing little to close this gap. The lowest rate for Kent County in the past twenty years came in at 2.1%, so there is still room for improvement.

One of the current threats to the profitability of our local industrial firms continues to be the recent surge in prices for a wide variety of commodities. Our local index of PRICES moderated to +27 from +30, but the list of major commodities rising the prices continues to grow. At the national level, ISM's index of PRICES came in at +36, well ahead of the single digit reports for most of 2016. Among the "big ticket" worrisome commodities that have jumped in price over the past few months are hot and cold rolled steel, rubber, copper, brass, and most types of plastic resins. Over the past two years the U.S. dollar has strengthened by about 20% compared to the average of other major world currencies. Whereas a strong dollar may be an element of national pride, it makes export sales less competitive and raises the cost for many of our key industrial commodities. Unfortunately, the Federal Reserve's probable increase in interest rates will result in the dollar rising even further in value.

The sales statistics for automobiles have continued to moderate, and the year-over-year sales for February eased by 1.1 percent. Our automotive parts suppliers in West Michigan continue to be cautious, although one respondent noted that the drop in sales has so far been

very orderly. Furthermore, several of our local firms have been successful in developing new business with the Japanese and Korean transplant companies around the world. Looking at February sales for the Detroit Three, Ford posted a decline of 4.0 percent, followed by a 9.9 percent drop at Fiat-Chrysler. General Motors posted an offsetting increase of 4.2 percent. Among the other major brands, Honda rose 2.3 percent, Nissan added 3.7 percent, and Subaru gained 8.3 percent. The big loser was again Toyota, which reported a drop of 4.4 percent.

In summary, most of our state, local, and national statistics continue to improve. Even the world economy continues to show modest improvement. The term "Trump Rally" has been applied to the stock market, which has risen about 17% since Election Day. Overall, there is now a new wave of optimism, partially driven by expectations for decreased regulation and lower taxes. As we have noted in previous reports, large corporations like General Electric are able to take advantage of the myriad of tax loopholes to bring their taxes down well below the widely publicized statutory rate of 35%. A few years back, all of these loopholes resulted in GE paying no federal income tax at all. Small businesses, on the other hand, are almost never afforded this kind of favorable treatment, and end up paying taxes very close to the 35% rate. It is therefore understandable that the possibility of rates falling to 15% or even 20% has generated a lot of excitement. But for the "Trump" Rally to continue, we need to see by mid-summer some evidence that lower taxes are actually going to happen. As the Four Seasons put it over fifty years ago, "Talking is cheap, people follow like sheep, even though there is nowhere to go."

FEBRUARY COMMENTS FROM SURVEY PARTICIPANTS

"Orders are steady, but we're looking for more employees."

"Tool & die shops remain busy and are slowly warming to new capital equipment to help fill the orders they have. Our fabrication equipment is doing well, but competition is tough on pricing."

"It seems like all the resin suppliers are trying to boost their margins."

"We have a good start to 2017."

"Automotive remains strong. Sales would be stronger if we could produce to what is needed. Many larger drop-in orders from customers have been coming in pretty heavy this new year."

"2017 is starting off a little slow for us. Hopefully, sales will pick up this spring."

"Raw material increase letters are coming fast and furious."

"Steel Scrap seems to maintain its small upward bump, with no real indicators it will go up much more nor come back down."

"We're seeing lots of first-of-the-year incremental increases."

"Long term contracts tied to economic escalation are starting to trend up a bit."

"No change since last month."

"2017 is looking stronger than we first thought based on the last quarter of 2016."

"We are meeting plan. Sales came in as expected in January, and we are very close to plan for February."

"We continue to jog along fat & happy. We are expecting 2017 to be another good year for us."

"Sales continue to grow and our backlog is larger than it has been in years."

"We are busy getting ready for spring by procuring construction equipment and materials and working on construction contracts to start when the weather breaks!"

"Orders are slow right now, but quotes are high for this time of year."

"We can never sustain any momentum on incoming orders. Projects still not cutting loose, though we are still hopeful to see something in next few months."

"Business is good, and I think it will stay that way for a while. A lot of our customers have launched projects that require a huge capital investment. They wouldn't do that if they were concerned about the near future."

"Lots of sabre rattling going on."

"We are looking strong through the first quarter."

"We have a steady start to the new year. It's not amazing, but consistent."

"Our sales backlog has increased significantly over the past 30 days."

"Bookings for January are higher than December, but that isn't saying much because December was horrible. February is not looking strong at this point."

February 2017 Survey Statistics

	UP	SAME	DOWN	N/A	Feb. Index	Jan. Index	Dec. Index	25 Year Average
Sales (New Orders)	40%	43%	15%	2%	+25	+ 8	- 5	+14
Production	28%	57%	9%	6%	+17	+ 8	+ 3	+14
Employment	20%	72%	8%		+12	+ 6	+ 7	+ 8
Purchases	31%	57%	12%		+19	+ 6	+ 3	+ 7
Prices Paid (major commod.)	29%	69%	2%		+27	+30	+21	+15
Lead Times (from suppliers)	20%	80%			+20	+15	+11	+11
Purchased Materials Inv. (Raw materials & supplies)	32%	51%	11%	6%	+21	+11	+ 4	- 4
Finished Goods Inventory	20%	59%	15%	6%	+ 5	+ 0	- 7	- 8
Short Term Business Outlook (Next 3-6 months)	45%	48%	8%		+37	+28	+20	-
Long Term Business Outlook (Next 3-5 years)	48%	48%	1%	3%	+47	+47	+45	-

Items in short supply: Labor, Sabic resin, some steel, nickel chloride crystal, Vale S rounds anodes, butadiene, titanium dioxide, electrical components, castings, some automotive grades of aluminum, sound castings, carbon steel, coated steel.

Prices on the UP side: wages, Asian wire rod and steel, aluminum, copper.

Prices on the DOWN side: Some resins*, rubber, carbon steel, ocean freight.

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

Latest Unemployment Reports

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

	Dec. 2016	Dec. 2015	Aug. 2009	20 Year Low
State of Michigan (Adj.)	5.0%	5.1%	14.6%	3.2%
State of Michigan (Unadj.)	4.4%	4.5%	14.1%	2.9%
Kent County	2.9%	2.7%	11.9%	2.1%
Kalamazoo County	3.4%	3.1%	11.1%	2.1%
Calhoun County	4.2%	3.9%	12.8%	2.7%
Ottawa County	2.8%	2.6%	13.3%	1.8%
Barry County	3.4%	3.3%	10.9%	2.2%
Kalamazoo City	4.3%	3.9%	15.2%	3.2%
Portage City	3.2%	2.9%	8.7%	1.3%
Grand Rapids City	3.9%	3.6%	16.1%	3.0%
Kentwood City	2.8%	2.6%	10.7%	1.4%
Plainfield Twp.	2.2%	2.0%	8.0%	1.4%
U.S. Official Rate (Dec.)	4.7%	5.0%	9.6%	3.8%
U.S. Rate Unadjusted	4.5%	4.8%	9.6%	3.6%
U.S. U-6 Rate**	9.2%	9.9%	16.7%	8.0%

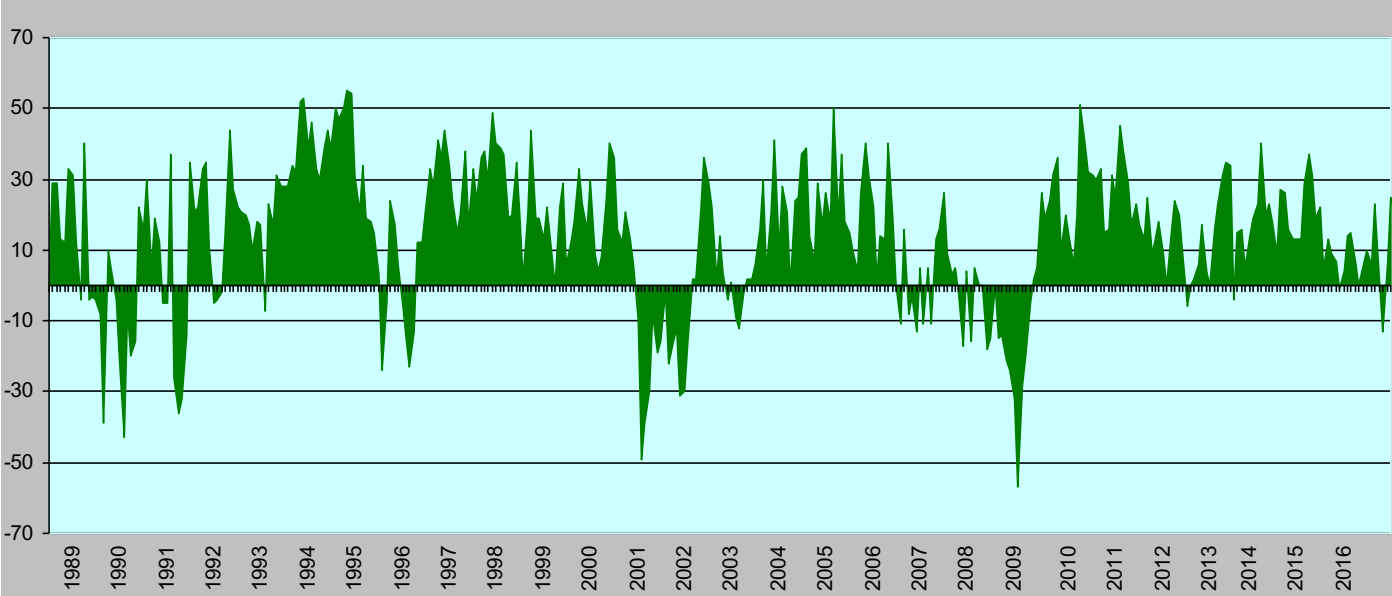
**U-6 for Michigan = 10.4% for Q3 of 2016

Index of New Orders: West Michigan

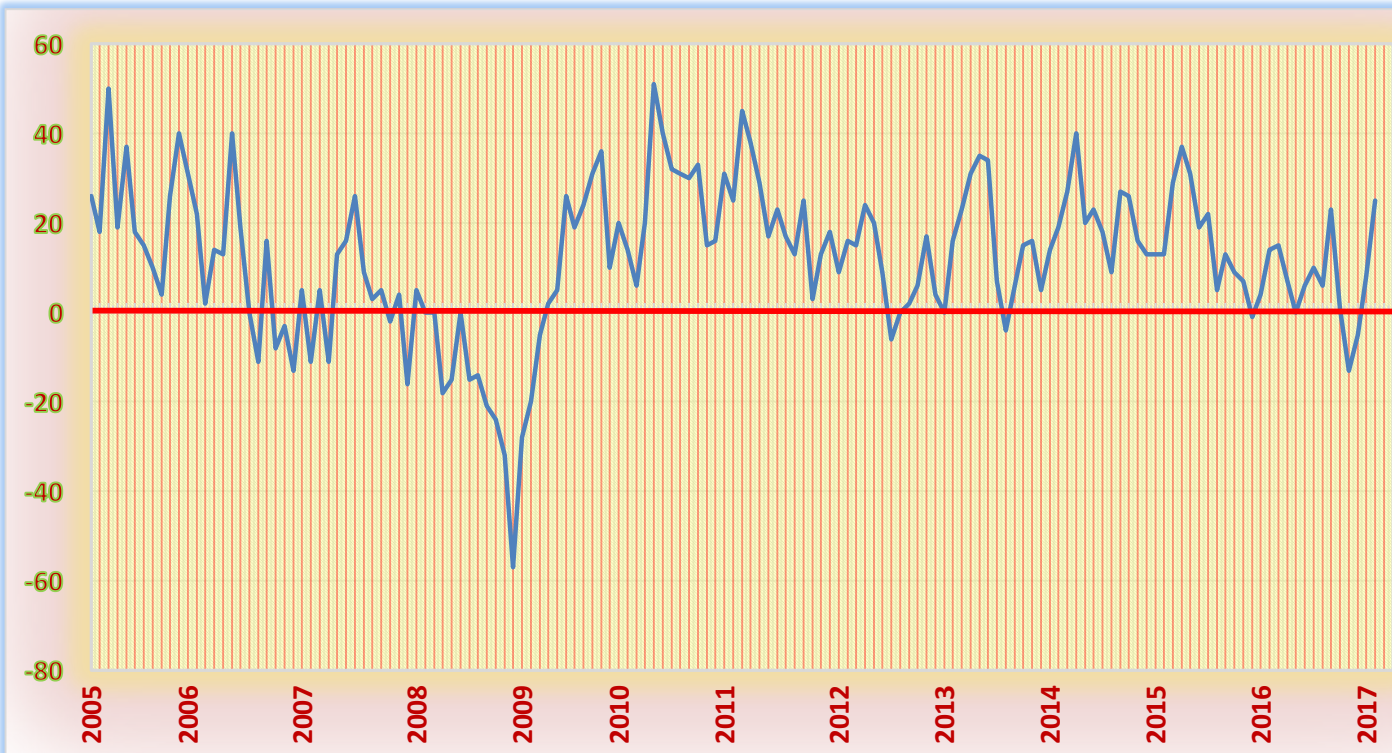
As the name implies, this index measures new business coming into the firm, and signifies business improvement or business decline. When this index is positive for an extended period of time, it implies that the firm or organization will soon need to purchase more raw materials and services, hire more 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	+25 for the month of February 2017
Previous Month	+ 8 for the month of January 2017
One Year Ago	+14 for the month of February 2016
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 - 2017

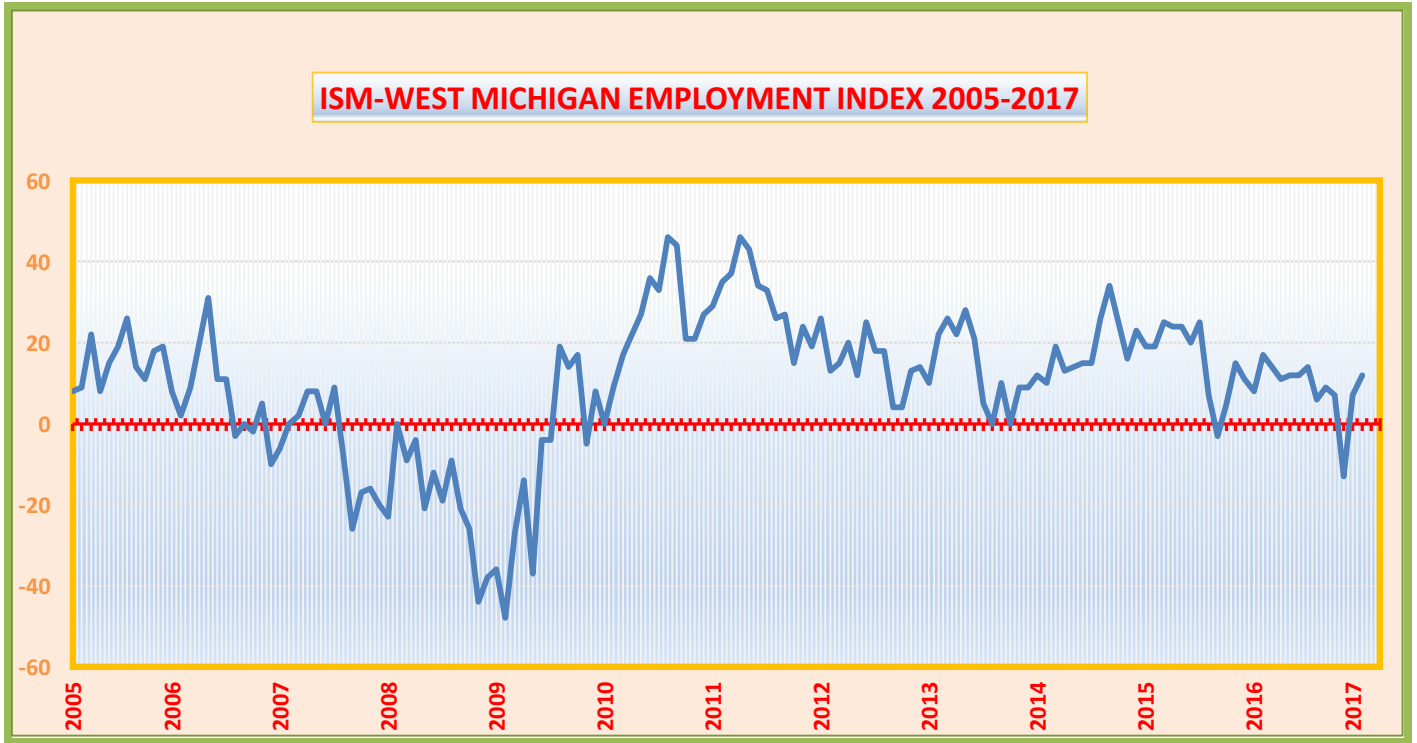


ISM-West Michigan Index of New Orders: 2005-2017 Only



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.

