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Current Business Trends

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THE 2018 “BOUNCE” CONTINUES

For West Michigan, the first quarter of 2018 has started on a strong footing. According to the data collected in the last two weeks of March, NEW ORDERS, our index of business improvement, came in at +34, slightly better than last month's +32. The West Michigan PRODUCTION index held steady at +31. Activity in the purchasing offices, the index of PURCHASES, jumped sharply to +37 from +22. The EMPLOYMENT index remained double-digit positive and edged up to +19 from +16. In short, the bounce we reported last month has continued. The general mood remains optimistic, but the pricing pressure brought on by the recently-announced tariffs has added a new dimension of stress to many purchasing offices. We have not seen this level of price pressure in several years.

Individual industries. The capital equipment manufacturers continue on a roll. Although quoting activity had been good for the past year or so, the flood gates of new orders were opened immediately after the corporate tax cuts were signed into law. The recent bounce in auto sales appears to have quelled the fears that our local automotive parts producers may be starting to slow. Despite the shortage of labor, several are still growing. The strength of the economy has resulted in the office furniture industry holding steady. Although there are a couple of exceptions, most of our industrial distributors are participating in the uptick of business. Upward pricing pressure remains a concern of many firms, and almost all of the manufacturing firms still cannot find enough new workers to fill open positions.

The U.S. Economy. The April 2, 2018 survey report from the Institute for Supply Management, our parent organization, came in moderately positive for March. ISM's manufacturing index for NEW ORDERS rose to +35 from +32. In a similar move, the PRODUCTION index edged up from +26 to +29. ISM's EMPLOYMENT index remained positive but backtracked to +12 from +19. The PMI, ISM's overall manufacturing index, came off last month's 14-year high of 60.8 to settle at 59.3. In a reverse pattern, the IHS Market.com PMI for the U.S. rose to 55.6 in March, up modestly from February's 55.3. New orders, production, and employment all remain strong. The survey author continues to voice a positive tone:

“U.S. factories reported a strong end to the first quarter, with the PMI advancing to a three-year high. The goods-producing sector should therefore make a positive contribution to economic growth in the first quarter, as rising demand fueled further improvements in factory production. Optimism about the year ahead has meanwhile also risen to its highest rate in three years, generating yet another solid payroll gain, and suggesting strong growth momentum will be sustained in the second quarter.”

The World Economy. For March, the J. P. Morgan Monthly Global Manufacturing Report reported a five-month low. This month's survey of 32 nations signaled expansions in almost all countries. Declines were noted in South Korea, Malaysia, and Thailand. However, growth continued but slowed in the euro area, China, Japan, India and Australia but improved in the U.S., the U.K., Brazil and Russia. According to the April 3 press

release, JPM's NEW ORDERS index came in at 53.9, well below February's 55.0, but still well ahead of the 50.0 break-even threshold. Worldwide EMPLOYMENT eased to 52.3 from 53.1. Price pressures eased in March, although the index of PRICES index at 60.0 remained very high. The stronger euro combined with a weaker dollar continues to cause problems for exporters. JPM's index of EXPORTS eased to 51.8 from 53.1. The survey author further commented:

“March data signaled slower rates of expansion in both the consumer and intermediate goods sectors, with growth at three and seven-month lows, respectively. Global manufacturing production increased at the slowest pace in eight months during March, as growth of total new orders and new export business both eased further.”

Although all of the major European economies are now positive, the pace is definitely slowing. The Markit Eurozone PMI eased to an eight-month low of 56.6, down considerably from February's 58.6. Although still modestly positive, the indexes for Ireland and France came in at 12-month lows. The Netherlands, Germany, and Austria were the strongest performers. Future sentiment among the European manufacturers fell to a 15-month low. Chris Williamson, Chief Business Economist at London-based IHS Markit, further noted:

“March saw the biggest fall in the manufacturing Eurozone PMI since June 2011 and the third successive slowing in the pace of expansion. We should not be too worried by the fall in the PMI as some moderation in the pace of growth from the surge seen at the turn of the year was inevitable. However, the fact that business optimism about the coming year has slipped to a 15-month low suggests there are other factors that are now hitting factory order books. Export growth has more than halved since late last year, linked in part to the appreciation of the euro, and in some cases, demand is being stymied by higher prices. The overall pace of growth nevertheless remains robust by historical standards, with decent PMI readings seen in all countries, including Greece, to indicate a steady, broad-based expansion.”

Unemployment. The latest numbers reported by Michigan's Department of Technology, Management and Budget pegged the Michigan unemployment rate for February of 4.8 percent, up slightly from January's 4.7 percent. Most of the increase can be attributed to workers deciding to return to the workforce. Between January and February, workforce levels increased seasonally in all 17 SMSA regions in Michigan, with advances ranging from 0.6 to 2.3 percent. Looking at individual counties, the DTMB estimates that Kent County added about 4,700 jobs between January and February, bringing the unemployment rate to 3.9 percent. Employment in nearby Ottawa County was up by 2,300 for the same period, yielding an unemployment rate of 3.8 percent. Kalamazoo County gained an estimated 1,500 job in February resulting in the unemployment rate falling to 4.4 percent. On a cautionary note, the DTMB reminds

us that all these numbers are estimates, although even a 50 percent error would still yield enviable results. The current national unemployment rate rests at 4.1 percent, with the prospect of the rate falling as the summer season unfolds. Hence, West Michigan is keeping pace with the rest of the nation and is still faring better than the rest of the state.

Automotive. Auto sales for March came in significantly higher than expected, reversing the year-long pattern of modest decline. Industry-wide sales for cars and light trucks posted a year-over-year gain of 6.4 percent, up nicely from last month's decline of 2.3 percent. This month's surprise performer was Jeep, which posted a whopping 44.7 percent sales gain over last year. This awarded Fiat-Chrysler its first monthly gain since August 2016. For the other domestic brands, Ford gained 3.5 percent, and General Motors shot up 15.7 percent. Of the other major brands, Toyota gained 3.5 percent, Honda added 3.8 percent, and VW sales were up by 12.7 percent. Sales losers for March included Nissan, down 2.1 percent, and Hyundai-Kia, slipping 5.5 percent. David Philips of Automotive News further commented:

"Sales continue to be driven by high incentives and demand for light trucks, notably crossovers, while car volumes remain weak and automakers shy away from deliveries to fleets. Moderate gasoline prices as well as steady job gains are supporting industry sales, automakers and analysts say, even as an era of cheap credit wanes."

Industrial Inflation. Even before the recent tariff announcement, the strong world economy had escalated the prices for many industrial commodities. The new tariffs have added fuel to the fire. Locally, our index of PRICES jumped to +54 from +51. At the national level, ISM's index of PRICES pushed up to a seven-year high of +56 from +48. However, JPM's worldwide index of "Input Prices" index retreated from an 80-month high to settle at 60.0, down slightly from last month's 60.7. The West Michigan index of LEAD TIMES edged

up to +44 from +42, adding more pressure to the prices. Besides steel and aluminum, we should also keep in mind that prices for many other industrial commodities like plastic resin, copper, and corrugated packaging are already rising as well.

Inventories. Another problem in the industrial market with rapidly rising prices is the tendency to hoard. In this month's report, the index of PURCHASED MATERIALS INVENTORY jumped from a rather placid +7 to +35. This constitutes the biggest monthly jump for this index in over twenty years. With the interest value of money now very low, firms are starting to build inventories as a hedge against future price increases as well as shortages. When many other firms also build inventory, the shortage situation worsens and prices escalate. It's a vicious circle.

Business Confidence. Much as we feared, the tariff announcement put a damper on the optimistic feeling we reported last month. The March West Michigan index for the SHORT-TERM BUSINESS OUTLOOK, which asks local firms about the perception for the next three to six months, remained positive but eased to +42 from +51. In a similar move, the LONG-TERM BUSINESS OUTLOOK also retreated to +44 from last month's lofty +53. Businesses dislike uncertainty, but they also dislike factors which arbitrarily raise the cost of doing business and threaten profitability.

Overall Economy. The stock market, which had been up over 30 percent in the past year, will probably continue to gyrate until the trade situation becomes clearer. Almost all of our local industries remain on sound footing as we glide into the spring season, and little stands in the way as we head toward summer. The geopolitical situation appears to be stabilizing, at least for the present. Of course, in the unlikely event that a major trade war breaks out, all bets are off.

West Michigan, the first quarter of 2018 present. Of course, in the unlikely event that a major trade war breaks out, all bets are off.

MARCH COMMENTS FROM SURVEY PARTICIPANTS

"Steel pricing is very volatile because of the tariff announcement; up 30% increase overnight."

"We're still seeing incremental year-end prices increases. Steel and items with lots of steel in them are showing signs of upward price increase."

"The steel and aluminum tariff situation is causing a lot of consternation in the industries that are impacted."

"Prices and lead time for raw materials have been consistently increasing for a while now, and with the federal tariffs on raw aluminum and steel, prices and lead times continue to increase."

"We are working with customers and suppliers to navigate through the impact of Section 232. Interesting times ahead!"

"Additional transportation funds may become available, which will relieve some of the added costs of winter so that more dollars can be put back into the roads and bridges."

"This is typically the time of year that we get busy."

"We ended 2017 with a slow 4th quarter, and now we are booming! We are up for the first quarter of 2018 at a 6% growth rate."

"2018 is off to a very solid start with January and February coming in ahead of budget. We are half way through March, and it is looking very solid."

"The Trumps tariff request has caused more questions than answers from the customers that I have spoken with!"

"Business is okay, but there is still no clarity for the 232-tariff impact on the metals market. Pressure continues to be on the side of higher prices."

"Steel prices are up bigtime."

"It seems like all commodities are going up. Steel pricing is going up daily."

"Plastic resin price increase letters are out of control!"

"Lack of truck drivers is becoming a big problem!!"

"First quarter sales have been excellent. Cost increases are impacting profits. Labor is in short supply."

"Many new programs coming in from the laser cutting market and medical. Steel prices going up in the U.S., but the Canadian steel distributors seem to be holding their prices steady."

"The market still strong in capital equipment. The tax cuts created lots of buying motivation."

"We're still have trouble finding enough people for manufacturing."

"Several projects that were in limbo for over year have finally cut loose. Quoting for new projects is up."

"Traditionally, this is our slowest time of year, and that trend seems to be holding. Next quarter will be a lot better."

"We've seen a slight downturn in new business, and had some layoffs to offset. "

"Things have bounced back from a slow tail end of 2017, but I would still like to see it busier."

"We're concerned about what the steel and aluminum increases are going to do to our long-term business."

"I'm concerned with the new steel tariffs negatively impacting our ability to remain profitable without passing it on to the customer."

MARCH 2018 Survey Statistics

	UP	SAME	DOWN	N/A	Mar. Index	Feb. Index	Jan. Index	25 Year Average
Sales (New Orders)	45%	42%	11%	2%	+34	+32	+23	+14
Production	41%	44%	10%	5%	+31	+31	+24	+14
Employment	28%	63%	9%		+19	+16	+20	+ 8
Purchases	41%	55%	4%		+37	+22	+18	+ 7
Prices Paid (major commod.)	56%	42%	2%		+54	+51	+41	+15
Lead Times (from suppliers)	44%	56%			+44	+42	+31	+11
Purchased Materials Inv. (Raw materials & supplies)	39%	52%	4%	5%	+35	+ 7	+18	- 4
Finished Goods Inventory	15%	70%	9%	6%	+ 6	- 2	- 3	- 8
Short Term Business Outlook (Next 3-6 months)	46%	50%	4%		+42	+51	+38	-
Long Term Business Outlook (Next 3-5 years)	46%	48%	2%	4%	+44	+53	+44	-

Items in short supply: All metals, plastic resin, long haul freight services, trucking, common carrier freight services, aggregates, construction equipment, carbon steel, titanium dioxide, electronic components, some steel, aluminum, labor, qualified candidates for skilled positions.

Prices on the UP side: Linerboard, metals, plastic resin, steel, aggregates, construction equipment, plastic, aluminum, steel, carbon steel, stainless steel, steel products, packaging supplies, scrap steel, transportation, paraffinic oil, SEBS resin, weld wire, some packaging/paper, paper, engineering resins, corrugated boxes, corrugated.

Prices on the DOWN side: Polypropylene*.

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

Latest Unemployment Reports

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

	Feb. 2018	Feb. 2017	Aug. 2009	20 Year Low
State of Michigan (Adj.)	4.8%	5.4%	14.6%	3.2%
State of Michigan (Unadj.)	4.8%	5.2%	14.1%	2.9%
Kent County	3.9%	3.7%	11.9%	2.1%
Kalamazoo County	4.4%	4.3%	11.1%	2.1%
Calhoun County	5.6%	5.4%	12.8%	2.7%
Ottawa County	3.8%	3.5%	13.3%	1.8%
Barry County	4.8%	4.7%	10.9%	2.2%
Kalamazoo City	5.5%	5.3%	15.2%	3.2%
Portage City	4.1%	3.9%	8.7%	1.3%
Grand Rapids City	5.1%	4.9%	16.1%	3.0%
Kentwood City	3.7%	3.5%	10.7%	1.4%
Plainfield Twp.	2.9%	2.8%	8.0%	1.4%
U.S. Official Rate (Feb.)	4.1%	4.7%	9.6%	3.8%
U.S. Rate (Unadjusted)	4.4%	4.9%	9.6%	3.6%
U.S. U-6 Rate**	8.2%	9.2%	16.7%	8.0%

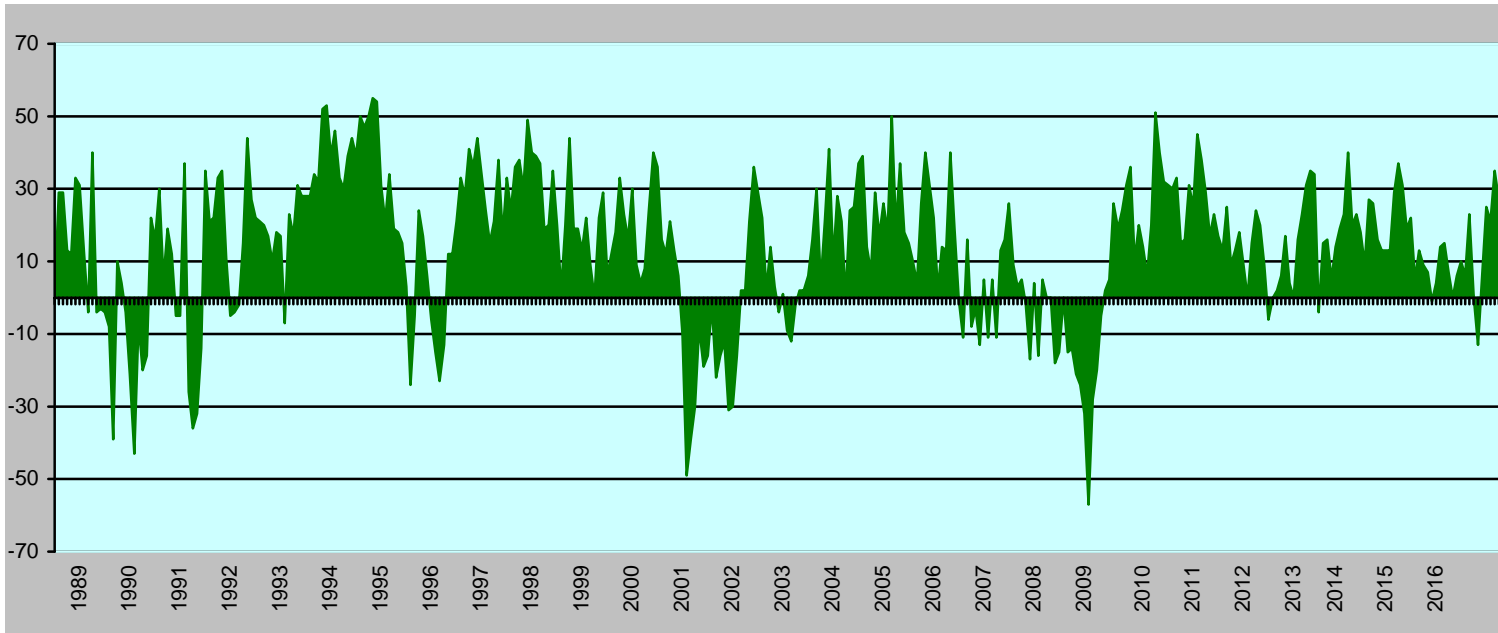
**U-6 for Michigan = 9.1% for all of 2017

Index of New Orders: West Michigan

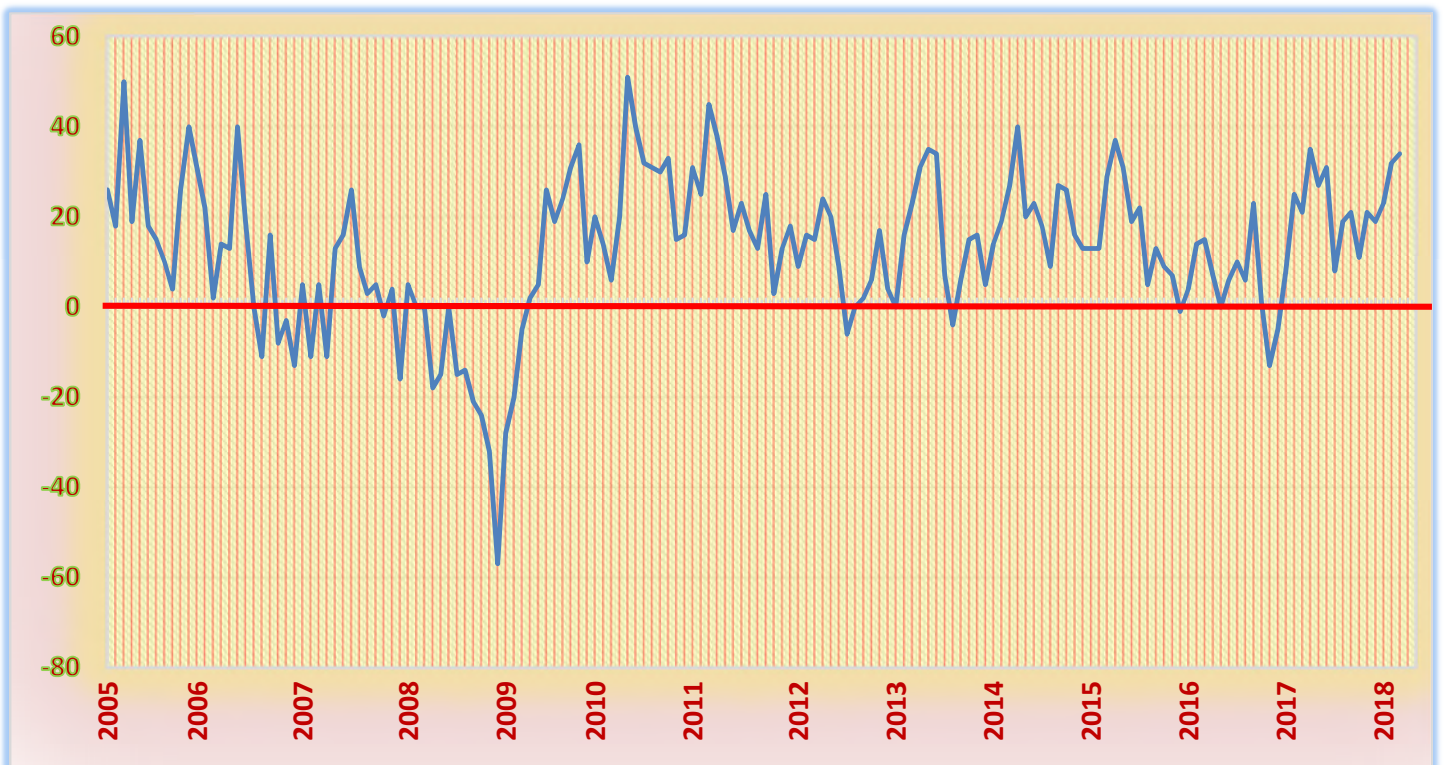
As the name implies, this index measures new business coming into the firm, and signifies business improvement or business decline. When this index is positive for an extended period of time, it implies that the firm or organization will soon need to purchase more raw materials and services, hire more 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	+32 for the month of March 2018
Previous Month	+23 for the month of February 2018
One Year Ago	+21 for the month of March 2017
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 - 2018

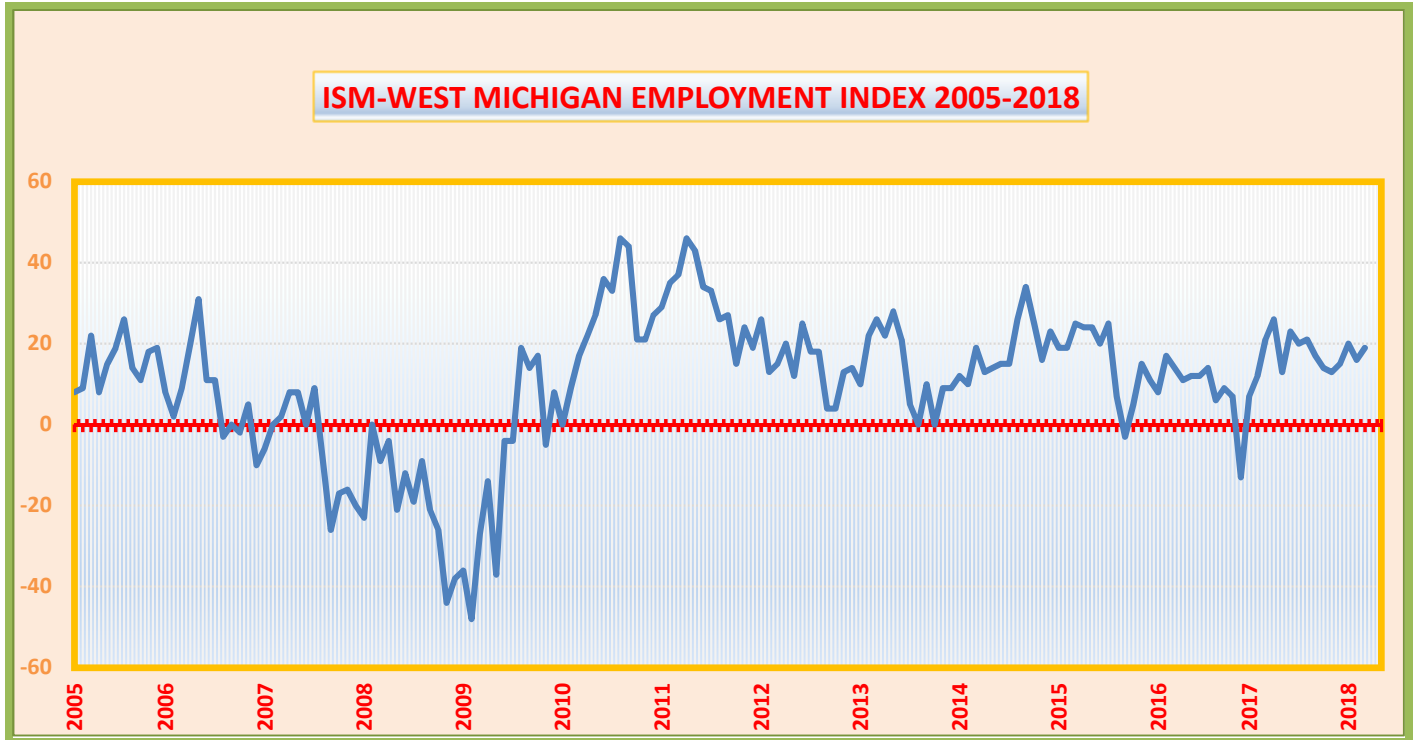


ISM-West Michigan Index of New Orders: 2005-2018 Only



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 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.

