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

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### **Current Business Trends**

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#### **Double Digit Growth Continues**

Despite the signs that several of our local industries are topping out, West Michigan business conditions remain positive. According to the latest survey conducted during the last two weeks of March, NEW ORDERS, our index of business improvement, moderated to +21, down slightly from +25. However, the PRODUCTION index bounced to +31, up significantly from the +17 we reported for February. Activity in the purchasing offices, the index of PURCHASES, rose to +25, up from +19. Probably because of the stronger sales reports, the March index representing FINISHED GOODS INVENTORIES index dropped from +5 to -9. The unexpectedly strong PRODUCTION index apparently caused some firms to drive the RAW MATERIALS INVENTORIES index down to +9 from +21. However, the fear of more price increases is still causing some firms to continue building inventory. Overall, the first quarter of 2017 for West Michigan has ended on a strong note. At this time, the West Michigan economy shows no sign of backing down.

Turning as we always do to individual industries, some auto parts suppliers are still concerned about softening in auto sales. However, those firms supplying light truck and SUV components remain much more optimistic, as do firms who are successfully selling to the numerous transplant manufacturers around the world. About 14% of the world's office furniture is made right here in West Michigan, and the spring season is opening on a positive footing for most firms, as well as their Tier I suppliers. The capital equipment rally that started in January may have run its course, although some firms are still positive. The performance for the industrial distributors continues to be mixed.

The pattern of economic improvement has helped to maintain positive outlook for West Michigan. For March, the SHORT TERM BUSINESS OUTLOOK, which asks local firms about the perception for the next three to six months, registered a small uptick from +37 to +39. Looking out three to five years, the LONG TERM BUSINESS OUTLOOK retreated modestly to +42 from +47. Although a few respondents are somewhat pessimistic, most of the comments for March remain optimistic.

The April 3 report from the Institute for Supply Management, our parent organization, continues to show considerable strength. NEW ORDERS, ISM'S index of business improvement, rose modestly to +35 from +32. However, the PRODUCTION index backtracked to +21 from +27. This month's best news came from ISM's index of EMPLOYMENT, which jumped to a six year high of +16, up from +8. Because of statistical variations, ISM's overall index for March eased to 57.2, down from 57.7. But 57.2 is still a very strong number.

The March survey of the U.S. conducted by Markit, the British economics consulting firm, came in a little less robust. Although still positive, the growth rate for NEW ORDERS and PRODUCTION indexes moderated from

January's 28-month peak. The Markit PMI for the U.S. came in at 53.3, down slightly from 54.2. Comments from Chris Williamson, the chief business economist for Markit, have again turned cautious:

"The post-election resurgence of the manufacturing sector seen late last year is showing signs of losing steam. Output growth slowed to a six month low in March, optimism about the outlook has waned and hiring has slowed accordingly. While the survey data suggest that the goods producing sector enjoyed a relatively good first quarter on the whole, the loss of momentum seen in February and March bodes ill for the second quarter."

The March 1 report from the J.P. Morgan Global Manufacturing survey of 31 nations continued to expand "at a solid pace." JPM's overall index remained at a 69-month high of 53.0. This index has now remained above the neutral 50.0 mark for 13 successive months. Although soft spots around the world in countries like Greece and Brazil are still a drag, the Eurozone continues to exceed expectations. David Hensley, the survey author, further noted:

"The global manufacturing sector recorded its fastest rate of quarterly expansion for almost six years over the first quarter as a whole. The latest PMI survey suggests little change in March, with rates of expansion in NEW ORDERS and PRODUCTION at or near February's highs. Furthermore, the 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."

Good news continues to come our way from the Index of Small Business Optimism tabulated by National Federation of Independent Business (NFIB). The index came in at one of its highest readings in 43 years, and follows the largest month-over-month increase in the survey's history. It is worth repeating that about 60 percent of all new jobs are generated by small businesses. But this optimism can fade as quickly if nothing happens in Washington. According to NFIB's chief economist:

"It is clear from our data that optimism skyrocketed after the election because small business owners anticipated a change in policy. The sustainability of this surge and whether it will lead to actual economic growth depends on Washington's ability to deliver on the agenda that small business voted for in November. If the health care and tax policy discussions continue without action, optimism will fade."

Jobs, jobs, jobs. The 2016 campaign is long over, but we still hear the call for more jobs. About 85 percent of all jobs come from the private sector, so it was good to see our EMPLOYMENT index for West Michigan edge up to a two-year high of +21. At the national level, the ISM index of EMPLOYMENT rose to a six year high of +16, up sharply from February's +8. It is worth repeating that many industrial firms are still struggling to find new workers who are both qualified and dependable.

Why, then, are the unemployment numbers for West Michigan rising? For instance, the latest unemployment report for Kent County came in at 3.6 percent, well below the State rate of 5.3 percent, but slightly higher than the 3.3 percent year-over-year rate. It seems counterintuitive, but the biggest single reason for this increase is actually positive. The economy has finally improved enough that many workers are reentering the workforce. It is worth remembering that the "usual" unemployment rate (U-3) that is reported at the state and local levels every month only considers people who are working or actively looking for work to be considered to be part of the workforce. The U-3 unemployment rate for Michigan currently stands at 5.3 percent, but the Michigan U-6 rate, which includes discouraged and marginally attached workers, stands at 10.3 percent. Some pundits call this the "real" unemployment rate.

One major threat to the profitability of our local industrial firms continues to be industrial inflation. After moderating last month, our local index of PRICES jumped to +39 from +27. For the first time in over six years, not a single firm reported a significant level of falling prices. The list of major commodities rising in prices has exploded from a handful of commodities in January to about 50 in the March survey. At the national level, ISM's index of PRICES rose to +41, well ahead of the single-digit reports for all of 2016. Because West Michigan is the center for many injection molding firms, we received many reports of significant price increases for almost every type and grade of plastic resin. Although rising feed stock prices have been

cited as a reason for the price increases, some buyers suspect price collusion. Steel, another key industrial commodity for many of our local firms, is also rising in price, partially because of new import tariffs that were implemented about six months ago. Currency fluctuation has also contributed to industrial inflation, given that the dollar has strengthened by about 20 percent compared to the average of other major world currencies. Based on higher import costs, this has resulted in raw commodities like copper, aluminum, and nickel rising in price.

Because of the year-over-year sales drop in light vehicle sales for March, our automotive parts suppliers in West Michigan continue to be cautious. Looking at March sales for the Detroit Three, Ford posted a decline of 7.2 percent, followed by a 4.4 percent drop at Fiat-Chrysler. General Motors posted a modest increase of 1.6 percent. Among the other major brands, Honda eased 0.7 percent, Nissan added 3.2 percent, and Subaru gained 11.3 percent. Toyota reported a modest drop of 0.4 percent. All of this added to a 1.7 percent drop for the entire industry. The firms are blaming higher interest rates and falling used car prices, but market saturation is also a factor. Dealer inventories at GM are currently running at 98 days, and the company recently announced plans to cut inventories to about 70 days by the end of the year. This move will result in reduced production schedules for several local firms who are supporting some of the GM lines. However, light truck and SUV sales will probably continue to be positive.

Where do we go from here? Clearly, most of our state, local, and national statistics continue to improve. But the "Trump Rally" which has driven the stock market about 17 percent higher since Election Day may have run its course. Post-election, there has been a new wave of optimism, partially driven by expectations for decreased regulation and lower taxes. But the reality is now setting in that many of these changes may be months or even years away from being implemented. But for the "Trump" Rally" to continue, we need to see some kind of progress fairly soon.

## MARCH COMMENTS FROM SURVEY PARTICIPANTS

"Some potential increases from the carbon steel mills have been presented, but nothing major. Our first quarter is steady."

"2017 sales will probably be very similar to last year."

"Quotes are very strong and orders are starting to come in. We think this year will be very strong from here on out."

"February was slow, almost painfully slow. Looks like March is a little better, but activity is still below where I would like to see it."

"Business looks very strong in the coming months."

"The inquiries for new equipment have tapered off a little but, are now at steady and solid pace. There are not many 'shoppers' out there, just serious buyers."

"Price increases abound!"

"Our organization has the potential to be extremely busy this year as long as the funding comes in as promised. We have so many projects slated to do with the adding funding but may not have enough employee and time to get them all completed."

"We are very busy and are still working hard to find people and automate."

"We have a slow start to 2017 after a very busy 2016."

"Business is starting to ramp up."

"We are seeing normal schedule fluctuations due to end of Auto Show season."

"The plastic resin material we purchase that is manufactured by Sabic continues to have longer lead times, and little to no inventory by our distributors. Our production is finally stabilizing, and we are running well!"

"Softening in business jet sales coupled with some new aircraft delays are resulting in reduced sales forecast and need for small layoff."

"Attrition is taking place, and there is no sense of urgency to backfill."

"With energy prices still low, our sales continue to lag."

"Orders have dropped a small amount. We still have confidence for a good year, just maybe not as good as 2016!"

"The summer looking busy."

"Raw material price increase letters are coming fast and furious!"

"I'm not sure why capital equipment is on a downturn. Maybe it is because of uncertainty in the new trade policies. My guess is that our customers are not sure which part of the world will be the most economical for placing new equipment orders."

"Everything is steady in office furniture. We have had a seasonal slowdown, but are now starting to pick up."

"Most plastic resins are increasing even though there isn't a good reason-- other than they can."

"Scrap prices continue to escalate. Business is very strong for the next few months."

# March 2017 Survey Statistics

	UP	SAME	DOWN	N/A	Mar. Index	Feb. Index	Jan. Index	25 Year Average
Sales (New Orders)	45%	39%	14%	2%	+21	+25	+ 8	+14
Production	43%	39%	12%	6%	+31	+17	+ 8	+14
Employment	32%	57%	11%		+21	+12	+ 6	+ 8
Purchases	34%	57%	9%		+25	+19	+ 6	+ 7
Prices Paid (major commod.)	39%	61%	0%		+39	+27	+30	+15
Lead Times (from suppliers)	26%	72%	2%		+24	+20	+15	+11
Purchased Materials Inv. (Raw materials & supplies)	20%	61%	11%	8%	+ 9	+21	+11	- 4
Finished Goods Inventory	11%	61%	20%	8%	- 9	+ 5	+ 0	- 8
Short Term Business Outlook (Next 3-6 months)	45%	49%	6%		+39	+37	+28	-
Long Term Business Outlook (Next 3-5 years)	45%	49%	3%	3%	+42	+47	+47	-

**Items in short supply:** Labor, ULTEM, Connectors for wire harnesses, steel, electronic components, Butadiene, methyl methacrylate, castings, quality production employees, Sabic resin.

**Prices on the UP side:** Polypropylene, lumber, steel, stainless steel, cold rolled steel, carbon steel, steel components, aluminum, copper, corrugated, fiber optics, brass, corrugated, benzene, propylene, PVC resin, SEBS resin, plasticizer, PP, pigment, acrylic process aids, paraffinic oil, NBR rubber, calcium carbonate fillers, limestone, fuels, trucking, polypropylene, some alloys, all plastic resin, stainless and carbon scrap pricing, paper products, ABS, polycarbonate, nylon, thermoplastic elastomers, bronze, heavy plate and high carbon steel, acrylic styrene acrylonitrile, scrap steel, pig iron.

**Prices on the DOWN side:** Copper\*, nickel, rubber.

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

## Latest Unemployment Reports

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

	Feb. 2016	Feb. 2015	Aug. 2009	20 Year Low
State of Michigan (Adj.)	5.3%	5.0%	14.6%	3.2%
State of Michigan (Unadj.)	5.7%	5.1%	14.1%	2.9%
Kent County	3.6%	3.3%	11.9%	2.1%
Kalamazoo County	4.2%	3.8%	11.1%	2.1%
Calhoun County	5.3%	4.8%	12.8%	2.7%
Ottawa County	3.4%	3.3%	13.3%	1.8%
Barry County	4.6%	3.8%	10.9%	2.2%
Kalamazoo City	5.2%	4.7%	15.2%	3.2%
Portage City	3.8%	3.5%	8.7%	1.3%
Grand Rapids City	4.8%	4.4%	16.1%	3.0%
Kentwood City	3.4%	3.1%	10.7%	1.4%
Plainfield Twp.	2.7%	2.5%	8.0%	1.4%
U.S. Official Rate (Dec.)	4.7%	4.9%	9.6%	3.8%
U.S. Rate Unadjusted	4.9%	5.2%	9.6%	3.6%
U.S. U-6 Rate**	9.2%	9.8%	16.7%	8.0%

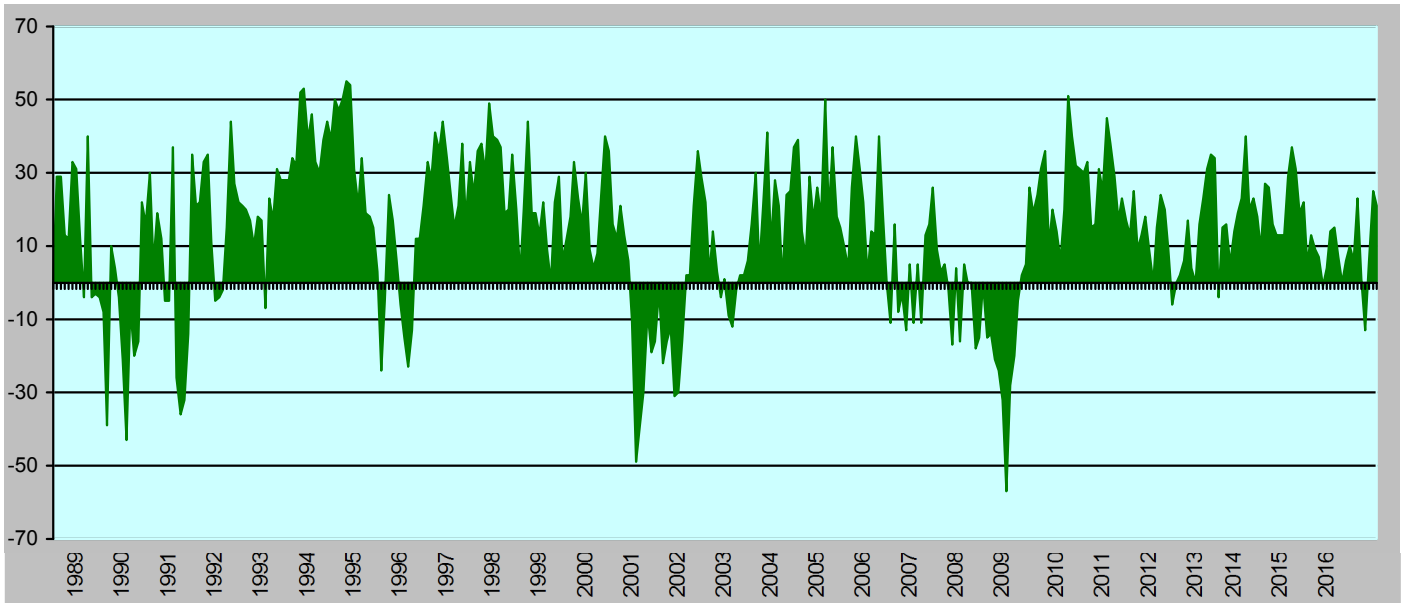
\*\*U-6 for Michigan = 10.3% for all of 2016

## Index of New Orders: West Michigan

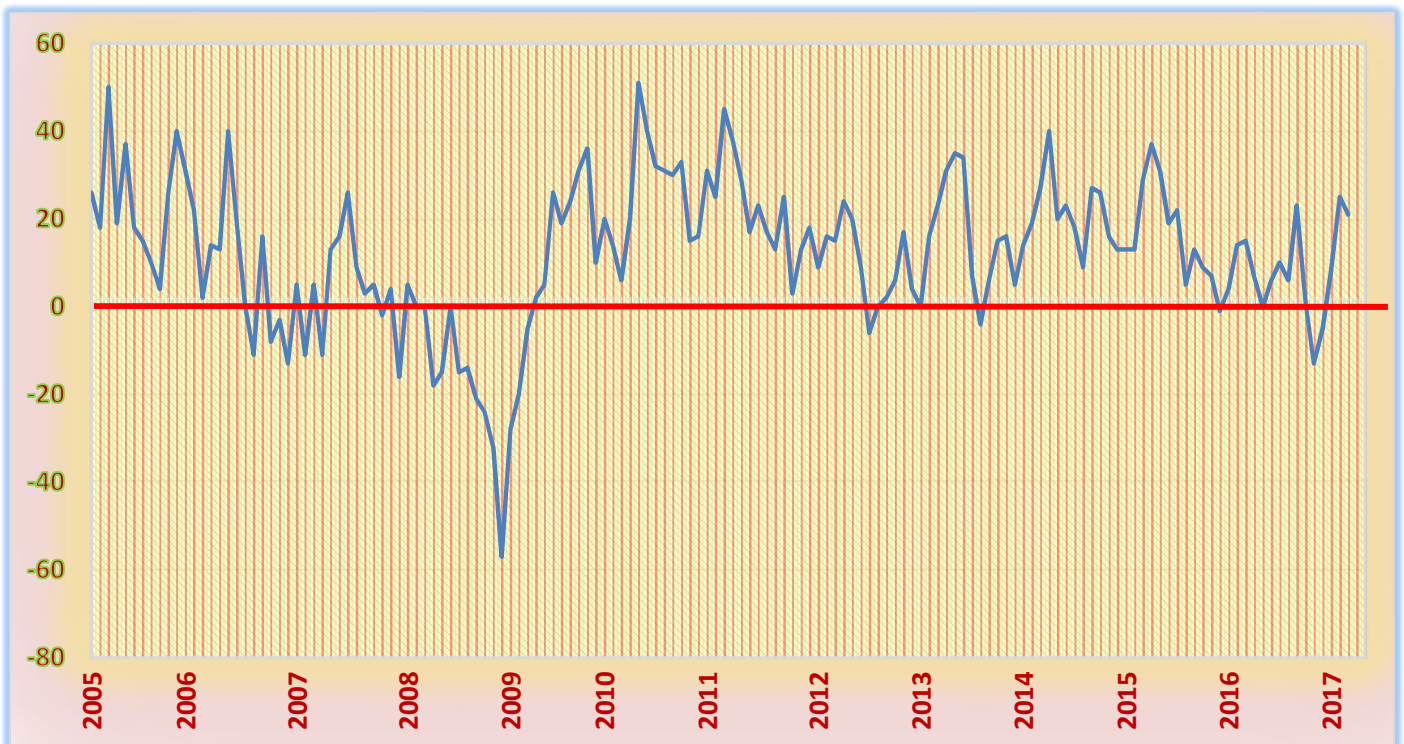
As the name implies, this index measures new business coming into the firm, and signifies business improvement or business decline. When this index is positive for an extended period of time, it implies that the firm or organization will soon need to purchase more raw materials and services, hire more 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	+21 for the month of March 2017
Previous Month	+ 25 for the month of February 2017
One Year Ago	+15 for the month of March 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

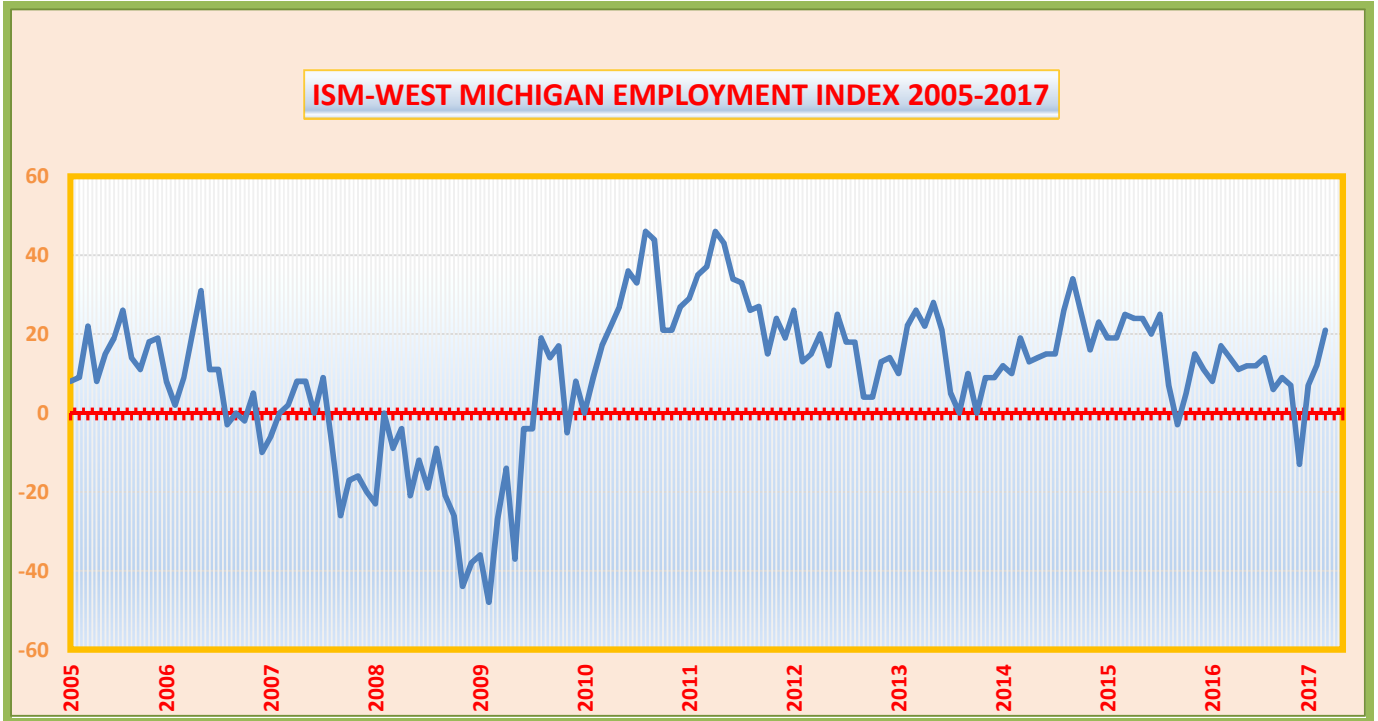


## ISM-West Michigan Index of New Orders: 2005-2017 Only



## 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.

