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

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### **Current Business Trends**

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#### **SLOW GROWTH CONTINUES, BUT OPTIMISM RETREATS**

West Michigan's recovery from the Great Recession officially began exactly 10 years ago this month, and recovery is still proceeding at the same slow pace we have been observing since 2009. According to the data collected in mid-March, NEW ORDERS, our closely-watched index of business improvement, remained virtually unchanged at a modest +17, up from +16. However, the PRODUCTION index remained positive but retreated to +5 from +16. Activity in the purchasing offices, which we measure with the index of PURCHASES, waned to +4 from +16.

**The U.S. Economy.** According to the April 1 press release from the Institute for Supply Management, our parent organization, the national industrial economy posted another modest gain for March. NEW ORDERS, ISM's index of business improvement, came in at +24, up nicely from last month's +14. The PRODUCTION index posted a more modest gain, rising to +16 from +12. ISM's index of NEW EXPORT ORDERS edged down to +3 from +6, and ISM index of IMPORTS backtracked to +2 from +11.

Just as last month, the British international consulting firm of IHS Markit offers a more pessimistic view of the U.S. economy. Market.com's seasonally adjusted PMI for March dipped 52.4, down from 53.0. The statistics were drawn down by a slower-than-expected factory output index, which contradicts the gain in the PRODUCTION index collected by ISM. Although Markit.com's measure of new orders remained modestly positive, and the index of business confidence remained below the series trend but picked up from last month's report. Chris Williamson, Chief Business Economist at IHS Markit, further noted:

"A further deterioration in the manufacturing PMI suggests the factory sector is acting as an increasing drag on the US economy. The March survey is consistent with production falling at a quarterly rate of 0.6% according to historical comparisons with official data. Encouragingly, companies report that at least some of the slowdown is due to capacity constraints, notably in terms of skill shortages. One-in-three companies reporting declining headcounts cited an inability to fill vacancies. Those looking for positive signals will therefore note that hiring remained encouragingly solid during the month and expectations of future output perked up, albeit still running below levels seen this time last year. However, things may well get worse before they get better, as the forward-looking indicators are a cause for concern. New order growth has fallen close to the lows seen in the 2016 slowdown, often linked to disappointing exports, tariffs, and signs of increasing caution among customers."

**The World Economy.** Each month, J.P. Morgan compiles a Global Manufacturing index and economic report summarizing the purchasing manager's report from 43 nations. Because the February Caixin PMI for China index was slightly negative at 49.9, forecasters began speculating that China could be sliding into its first recession in over thirty years. When the March Caixin PMI posted a positive number of 50.8, the financial markets went wild. New orders and production for March came in marginally higher, and the overall employment expanded for the first time in five years. If accurate, this is good news for both the Chinese and world economies. But on a cautionary note, Caixin is a government-controlled news service, and it is difficult to tell if the March report is real or tainted.

The steady erosion which began 15 months ago has taken JPM's overall international index down to 50.6, still six ticks away from the break-even point of 50.0. Hence, JPM's March report is considered

marginally positive. JPM's index of new orders remained flat at 50.0, and the output (or production) index eased modestly to 50.5 from 50.6. Employment remained steady at 51.1. The survey index of 43 nations is weighted by the size of each country's GDP, so readings above the 50.0 break-even point for the largest countries like the U.S., China, Brazil and the U.K., helped rise the average. Conversely, sub-50.0 scores were registered for Germany, France, Italy, Japan and South Korea, pulling the average down. David Hensley, Director of Global Economic Coordination at J.P. Morgan, further noted:

"The performance of the global manufacturing sector remained weak in March, as output edged higher, new orders stagnated and new export business contracted. Expansions in output and new work at consumer goods producers were the main bright spots, offsetting the ongoing downturns in the intermediate and investment goods sectors. Growth will need to be restored to these industries if global manufacturing is to provide less of a drag on global GDP in the months ahead.

On the down side, the March IHS Markit PMI manufacturing index for the eurozone came in at 47.5, well below the break-even point of 50.0. The PMI for Germany, the largest country in the eurozone, fell to a seven-year low of 44.1. Germany does a lot of business with China, so the slowing Chinese economy has dampened exports. The 47.4 PMI for Italy and the 49.7 reading from France also helped to pull the overall eurozone average lower. For a surprise, the strongest PMI from the eurozone came from Greece at 54.7. The Netherlands and Ireland are still positive, but not nearly as strong as they were a few months ago. Needless to say, the Brexit battle is beginning to have a significant impact on all of the European countries. Chris Williamson from IHS Markit commented:

"The March PMI data indicate that the eurozone's manufacturing sector is in its steepest downturn since the height of the region's debt crisis in 2012. The survey is indicative of output falling at a quarterly rate of approximately 1% in March, suggesting that the January rebound from one-off factors late last year seen in the latest official data is likely to prove short lived. Looking at the forward-looking indicators, downside risks have intensified, and the trend could clearly deteriorate further in the second quarter. New orders are falling at a rate not seen since 2012, and disappointing sales mean warehouses are filling with unsold stock. Expectations of output for the coming year are also the gloomiest since 2012. Job losses were reported in both Germany and Italy, where the downturn in demand is doing the most damage. However, France's manufacturing sector is also now back in decline, Austria's goods-producing sector has stalled, Spain is close to stagnation, and growth has lost considerable momentum in the Netherlands, highlighting the increasingly broad-based nature of the current deterioration."

**Michigan Unemployment.** According to the latest report from Michigan's Department of Technology, Management, and Budget, Michigan's "headline" unemployment rate for February (latest month available) remained unchanged at 4.0 percent, but well below the 4.4% reported for February a year earlier. Total state-wide employment in February grew by over 24,000 workers compared to February 2018, and the number of people unemployed decreased by 23,000. By any measure, this growth is significant.

**West Michigan Unemployment.** For the past three years, employers have complained about not being able to find enough qualified workers to hire-- with no end in sight. If these jobs could be filled, Michigan's unemployment would be even lower. However, because of the proliferation of internet job sites, employers continue to have at least some luck drawing applicants from across the entire country. As a result, our March EMPLOYMENT index continues to remain double-digit positive at +15. Hence, according to the most recent data released by Michigan's DTMB, the unemployment situation in most of our West Michigan counties continues to improve. Of the 83 counties in Michigan, Ottawa County boasts the lowest unemployment rate of 2.7 percent. At 2.8 percent, Kent County is not far behind. Unemployment in Kalamazoo County is slightly higher at 3.1 percent, but compared to the 4.0 percent rate reported for February 2018, Kalamazoo County's situation has definitely improved. For this month, it is also gratifying to see that counties ravaged by the Great Recession, like Oakland County report a February 2019 unemployment rate of 3.1 percent, down from 13.0 percent registered nine years ago when the Michigan recession was at its worst.

**Automotive.** As predicted, auto sales are continuing to fall. According to the monthly report from Automotive News, sales for the industry dropped 3.3 percent in March. However, the industry's Seasonally Adjusted Annualized Rate (SAAR) rose to 16.8, up from 16.61 million units. Aside from the auto market being overbought, rising interest rates, tighter credit, and rising prices have apparently contributed to the drop in sales. For West Michigan, our auto parts producers are still not feeling pinched. Just as it has been for many months, the decline in auto sales has been very orderly-- so far.

Looking as we always do at the Detroit Three, the March downtick was a little more significant. Sales for GM declined 8.3 percent, Fiat-Chrysler eased by 7.3 percent, and Ford lost 5.5 percent. Among the other major nameplates on the down side, Nissan/Mitsubishi declined 3.7 percent, Toyota shed 3.5 percent, and Mazda plunged 19.1 percent. For a change, beleaguered VW jumped by 14.0 percent, American Honda gained 4.3 percent, and Subaru added to last month's winning streak with a 6.0 percent advance.

**Industrial Inflation.** Our local index of PRICES remains almost unchanged at +21, down from February's +22. Several survey

respondents are still blaming the ongoing trade war with China for at least part of the double-digit rate, although the slowing world economy has brought the prices for many major commodities down over the past year. The March J.P. Morgan international pricing index eased to 53.5 from 53.6. However, ISM's national index of PRICES, which was slightly negative at -1 last month, bounced up to +9. Timothy Fiore, ISM's survey committee chair, further noted:

"Prices increased in March, rebounding to a marginally strong level, primarily due to fewer respondents reporting price declines. This represents more stability in the markets. Increases were reported in aluminum, copper, oil, and steel, including steel scrap. Steel prices remain at more normal levels. Shortages continue for passive electronic components and labor."

**Business Confidence.** Business confidence rebounded in February after posting near-record lows in January. But March saw the optimism fade. The West Michigan index for the SHORT-TERM BUSINESS OUTLOOK for March, which asks local firms about the perception for the next three to six months, slipped to +8 from +22. The respondents offer the same responses for the waning short-term confidence, namely the lack of resolution of the Chinese trade war, Brexit, the softening world economy, and the retreating monthly auto sales. Fortunately, the LONG-TERM BUSINESS OUTLOOK, which queries the perception for the next three to five years, remained steady at +28, up marginally from February's +27. Many firms appear to be settling in for a period of slower growth.

**Summary.** Of the major economies in the world, the U.S. economy remains the strongest, although there are some significant signs that growth is slowing. The other major world economies, namely China, Japan, Germany, France, and the U.K., all have their respective problems. Right now, we know the world economy is slowing, and that this slowdown will ultimately have at least some impact on our domestic economy. However, only about 13 percent of the U.S. GDP comes from goods and services we sell to the rest of the world. By contrast, 41 percent of the German economy is based on exports. 2017 tax cuts may STILL be having a positive impact on growth, but the question remains if these tax cuts will be enough wind at our back going forward to keep the U.S. economy positive beyond 2019.

## MARCH COMMENTS FROM SURVEY PARTICIPANTS

"Steel seems to remain "stable-ish" as we head into the New Year. But steel prices were up quite a bit over the course of 2018. 2019 should stabilize, but we're waiting for 232 tariffs to be removed."

"Prices for many industrial goods just went up incrementally due to new year."

"We've had a sluggish start to the new year."

"Quotes are strong, but orders are up/down from week to week right now."

"With a rough outlook for 2019 in the automotive industry, it will be interesting to see how we can diversify to counter this."

"There is still a 'wait and see' attitude by buyers."

"Business seems to be very s, with no major changes."

"We are still having a hard time filling manufacturing positions."

"We have had slow sales and shipments for the past four months, but January finally brought us back to our normal sales target. February shipments will be slow also, but March will be good."

"Business is down, but China is down even more."

"Bookings were softer for the first two weeks this year compared to last year."

"December sales were slow as customers held on raising year-end inventories. January started off hot and heavy, and some new programs should increase our 2019 outlook by at least 10% up over 2018."

"We've had a busy month again, but we still have a lot of nervousness about a recession in late 2019."

"The OEM capital equipment industry is still going quite strong."

"We're off to an interesting start to the new year."

# MARCH Survey Statistics

	UP	SAME	DOWN	N/A	Mar. Index	Feb. Index	Jan. Index	25 Year Average
Sales (New Orders)	19%	58%	21%	2%	+17	+16	- 4	+14
Production	17%	63%	12%	8%	+ 5	+16	+ 4	+14
Employment	21%	73%	6%	0%	+15	+17	+14	+ 8
Purchases	19%	63%	15%	2%	+ 4	+16	+ 3	+ 7
Prices Paid (major commod.)	25%	71%	4%	0%	+21	+22	+21	+15
Lead Times (from suppliers)	27%	71%	2%	0%	+25	+23	+25	+11
Purchased Materials Inv. (Raw materials & supplies)	19%	60%	13%	8%	+ 6	+20	+ 6	- 4
Finished Goods Inventory	17%	67%	10%	6%	+ 7	- 7	+ 8	- 8
Short Term Business Outlook (Next 3-6 months)	27%	54%	19%	0%	+ 8	+22	+ 5	-
Long Term Business Outlook (Next 3-5 years)	40%	44%	12%	4%	+28	+27	+22	-

**Items in short supply:** Brass components, cold rolled steel, electrical components, castings, U.S. steel mill capacity, skilled CNC machinists, forgings, linear bearings, salt, liquid sodium chloride, music wire, truck drivers, shipping containers, nickel chloride crystal, hydrazine hydrate, PCBA electronic components, automotive aluminum grades.

**Prices on the UP side:** PVC resin (announced increase), industrial textiles, aluminum, stainless steel, resins, engineered plastic resins, powder paint, electrical components, wood, powder paint, domestic castings, iron castings, acetals, PBT, salt, liquid sodium chloride, all steel-based goods, transportation/trucking related prices.

**Prices on the DOWN side:** Paraffinic oil, polypropylene, aluminum\*, hot rolled/cold rolled steel, injection molding pellets, copper, aluminum\*, steel\*, steel surcharges, stainless steel\*, scrap steel, copper\*, some aluminum sheets, cobalt metal and chemicals, plastic resin.

\*Item reported as both up AND down in price.

## Latest Unemployment Reports

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

	Feb. 2019	Feb. 2018	Aug. 2009	20 Year Low
State of Michigan (Adj.)	4.0%	4.4%	14.6%	3.2%
State of Michigan (Unadj.)	4.1%	4.9%	14.1%	2.9%
Kent County	2.8%	3.5%	11.9%	2.1%
Kalamazoo County	3.1%	4.0%	11.1%	2.1%
Calhoun County	4.1%	5.1%	12.8%	2.7%
Ottawa County	2.7%	3.4%	13.3%	1.8%
Barry County	3.5%	4.3%	10.9%	2.2%
Kalamazoo City	3.9%	5.0%	15.2%	3.2%
Portage City	2.9%	3.7%	8.7%	1.3%
Grand Rapids City	3.7%	4.7%	16.1%	3.0%
Kentwood City	2.6%	3.3%	10.7%	1.4%
Plainfield Twp.	2.1%	2.7%	8.0%	1.4%
U.S. Official Rate (Feb.)	3.8%	4.1%	9.6%	3.8%
U.S. Rate (Unadjusted)	4.1%	4.4%	9.6%	3.6%
U.S. U-6 Rate (Feb.)**	7.3%	8.2%	16.7%	8.0%

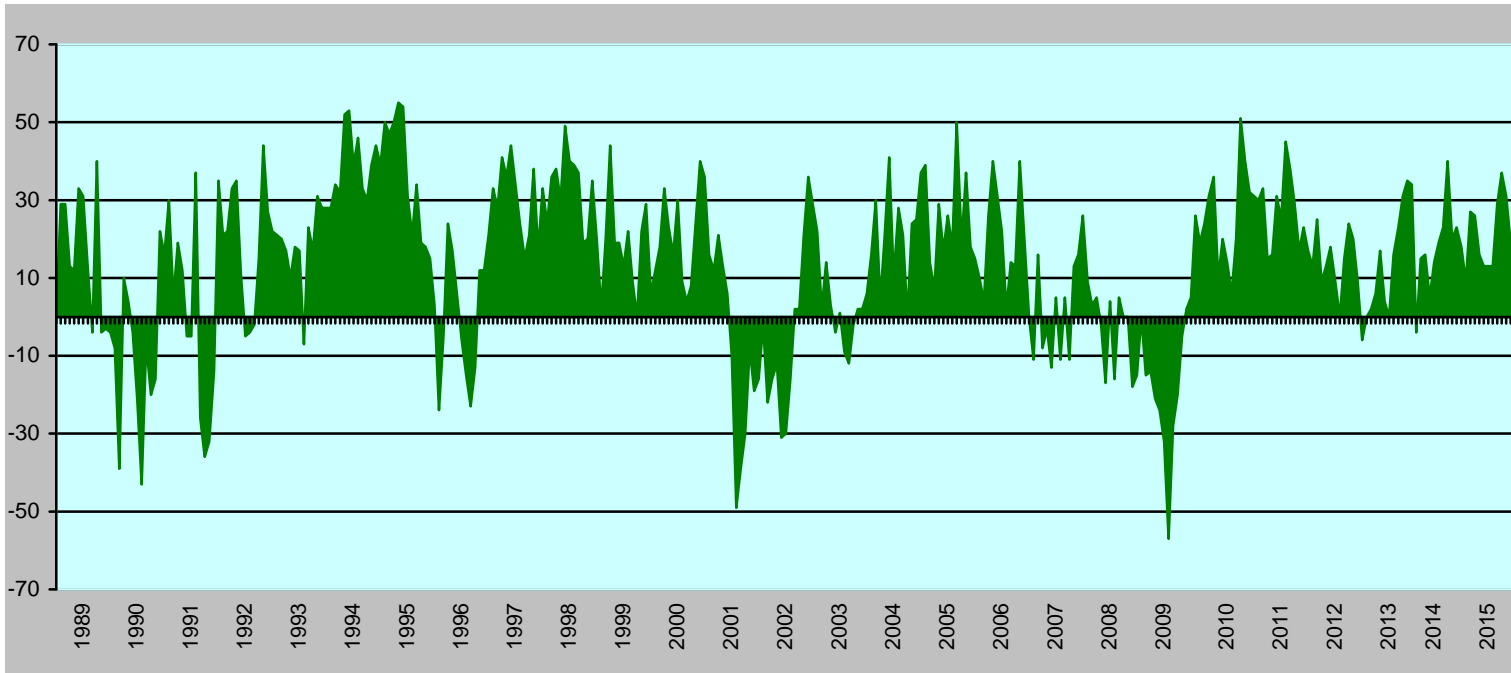
\*\*U-6 for Michigan = 7.9% for all of 2018

## Index of New Orders: West Michigan

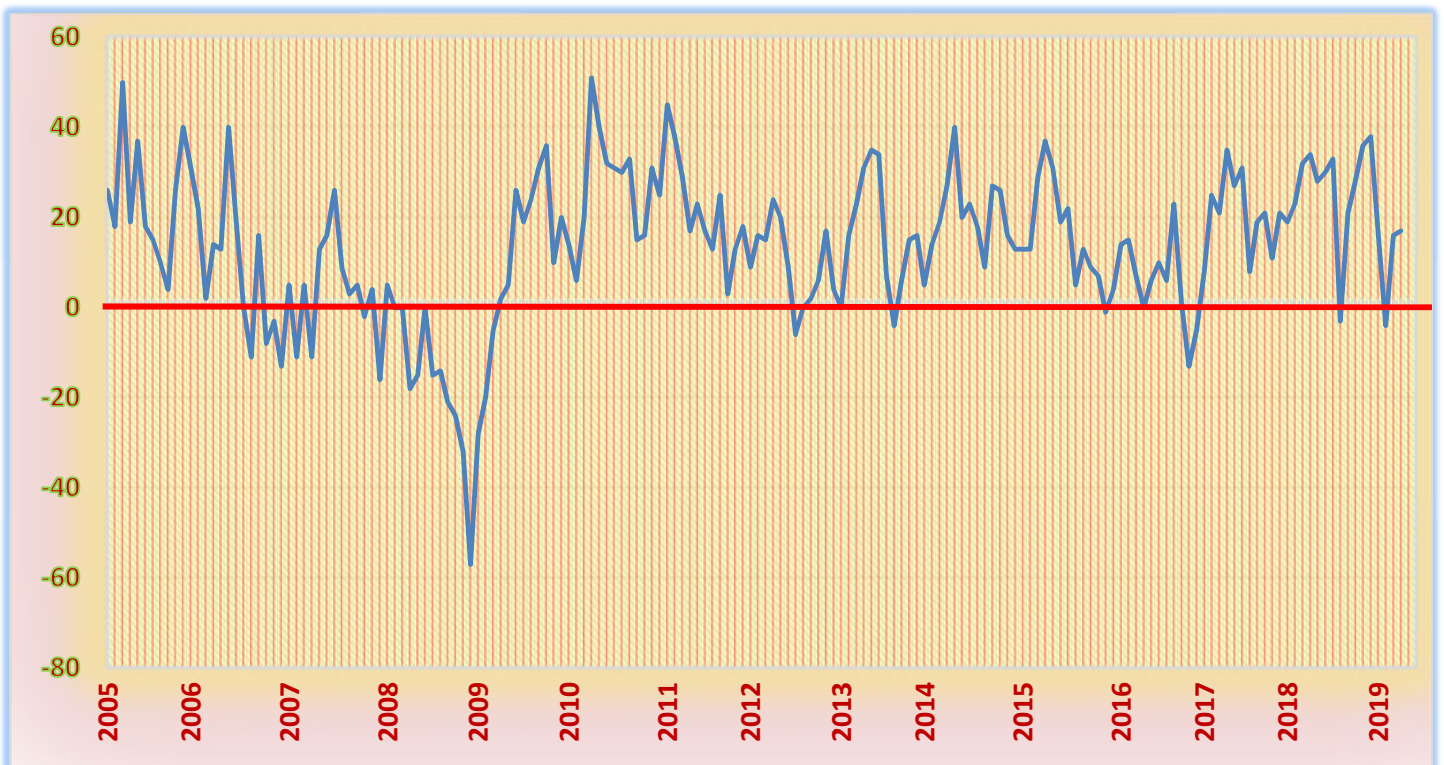
As the name implies, this index measures new business coming into the firm, and signifies business improvement or business decline. When this index is positive for an extended period of time, it implies that the firm or organization will soon need to purchase more raw materials and services, hire more 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	+17 for the month of March 2019
Previous Month	+16 for the month of February 2019
One Year Ago	+ 34 for the month of March 2018
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 - 2019

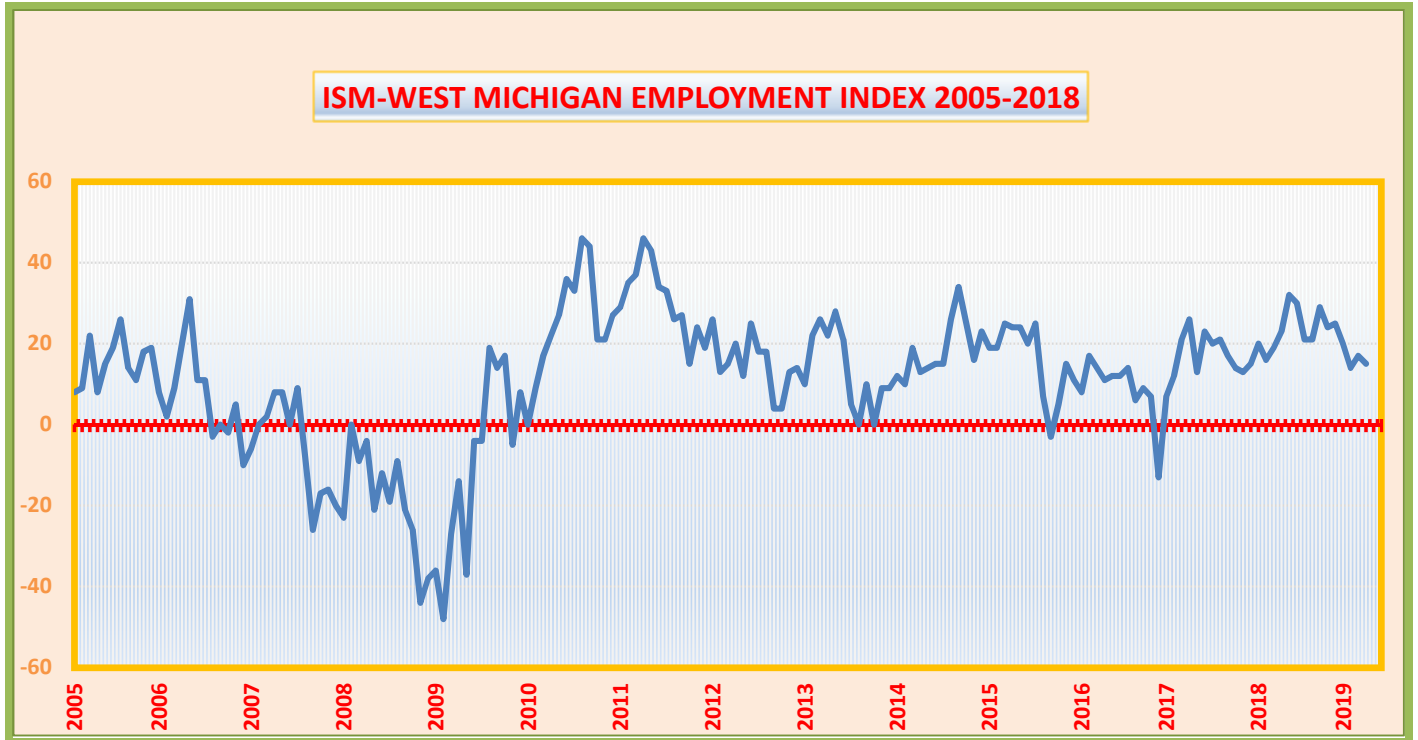


## ISM-West Michigan Index of New Orders: 2005-2019 Only



## 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.

