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News Release (For Immediate Release)

May 5, 2015

Current Business Trends

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Growth Rate Improvement Continues for a Second Month

The West Michigan growth rate continues upward. That's the latest word on the local economy, according to the data and comments collected in the last two weeks of April 2015. NEW ORDERS, our index of business improvement, rose to +37, up from March's +29, and significantly higher than the +13 we reported in February. The PRODUCTION index remained strong but backtracked modestly to +28 from +35. The EMPLOYMENT index, which has remained strong for the past year, came in virtually unchanged at +24. Activity in the purchasing offices, our index of PURCHASES, eased to +32, down from +35. Overall, the West Michigan economy has shown two months of considerable strength, making the summer outlook very positive.

Fortunately, most of our industrial groups are continuing to show improvement. Just as noted last month, our local auto parts producers continue attracting new business from many different nameplates around the world. With the seasonally slow period is now past, the office furniture segment business posted a stronger performance for April. The industrial distributors had a very good month, although a couple of firms reported erratic business conditions. For the capital equipment firms, the month of April yielded mixed results.

West Michigan business optimism remained fairly steady for April. Our SHORT TERM BUSINESS OUTLOOK index remained unchanged at +32. The LONG TERM BUSINESS OUTLOOK index posted a slight retreat to +42, down from +46. In general, our seminar participants have remained upbeat for most of the past eighteen months.

The Institute for Supply Management, our parent organization, reported a modest upturn in the national business activity for April. ISM's index of NEW ORDERS advanced to +18, up from +12. The PRODUCTION index also posted a modest gain, rising to +24 from +18. In other good news, ISM's index of NEW EXPORT ORDERS flipped back to positive for the first time in five months. The ISM EMPLOYMENT index rose modestly to +4 from +2. However, the BACKLOG OF ORDERS index remained negative at -1.

The April 1 press release from Markit.com, the international consulting firm, reported a slightly different picture for the United States. Markit's "Purchasing Managers' Index" or PMI eased to a three month low of 54.1, down from 55.1, but still well ahead of the 50.0 threshold. The survey author notes:

"With manufacturing output growth slowing to the weakest seen so far this year and exports falling for the first time since November, the survey results raise worries that the dollar's appreciation is hurting the economy. Input prices showed one of the steepest falls seen since the recession, a cost saving which producers often passed on to customers. Prices charged rose at the slowest rate seen for almost three years."

At the international level, the May 4, 2015 J.P. Morgan report on Global Manufacturing remains flat. Even though the break-even point on a diffusion index is 50.0, it was disappointing to see PM's index of NEW ORDERS decline a full point to 51.1 from 52.1. In a similar move, the world PRODUCTION index eased to 51.7 from 53.3. For individual countries, Canada, our largest trading partner, continues to suffer from falling commodity prices. China, our third largest trading partner, posted a PMI drop to 48.9 from 49.6 a month earlier. Of course, countries like Greece, Russia, and Brazil are continuing to experience economic difficulties, but countries like Ireland and Spain, which were once economic trouble spots, continue to show significant economic progress. JPM's overall international index retreated to 51.0, down from 51.7.

This month's big economic news came from the Commerce Department's report that the first quarter GDP for the U.S. came in at a scant 0.2% increase, down considerably from the 2.6% gain reported in the fourth quarter of 2014. Comparisons were made to the -2.4% growth decline for the first quarter of 2014, but it was difficult to blame the 2015 winter weather for all of the weaker performance. Although it seems fairly certain that the GDP numbers for the second quarter will show improvement, the growth estimates from the various reporting entities vary widely. One reputable organization forecasts a second quarter gain of only 0.8%, while another equally reputable agency predicts a growth rate of 3.2%. In today's convoluted world, even well-trained economists are having difficulty making accurate GDP predictions.

The aftermath of the West Coast dock strike continues to disrupt the operations of at least some of our local firms. Although we had hoped that operations for most firms would have returned to normal by now, several production facilities are still reporting difficulties receiving materials. For some firms, this crisis will result in a comprehensive review of the risks associated with their international supply chains.

Auto sales are still on the rise, and the April 1 press release from Automotive News reported a 4.6% increase for the March sale of cars and light trucks. Because of falling gasoline prices, almost all of the gains can be attributed to the truck and SUV segments of the market. The annualized sales rate (SAAR) retreated slightly to 16.5 million units, although among the major manufacturers, only Honda reported a slight decline. For the Detroit nameplates, sales at GM rose 5.9%, 5.4% at Ford, and 5.8% for Chrysler. Of the other major brands, Toyota gained 1.8%, Hyundai added 1.3%, Nissan gained 5.7%, and Volkswagen rose by 3.0%. Honda lost 1.8%, primarily because management still refuses to participate in sharp discounting. In fact, Honda's average April incentive discount amounted to about \$1,800, compared with Chrysler's hefty average of \$3,400 per vehicle.

One of the recurring threats to the world economic order is the possible collapse of negotiations for the debt bailout for Greece. Five years into the crisis, a permanent solution is still not at hand. As we have noted in the past, the outcome is unpredictable because of the erratic nature of the personalities involved in the negotiations. Some analysts feel that the withdrawal of Greece from the European currency is already built in to the current markets. If this is the case, and an announcement by the IMF, World Bank, and the European Commission that no agreement for continued support can be reached, we may experience only a temporary shock to the world's financial markets. In fact, Greece is a relatively small country, with a population smaller than Michigan. Almost 20% of the capital has already left the country. Short of another election and new leadership, a return to the old currency, the drachma, may be the country's only solution.

Industrial deflation continues to be a potential long term problem. Right now, most of our local firms are benefiting from the lower prices of almost all major commodities such as copper, steel, and plastic resins. One local firm even called the unexpected lower prices a windfall for profitability. However, in the industrial market, one firm's gain may be another's loss. Steel mills, mines, and oil rigs are being shut down all over the world, bringing about the potential of long term damage to the supply chain. Because the Michigan economy is not built around any of these primary industries, we will probably see little negative impact of the falling prices. However, this disruption will result in a drag on some segments of the world economy.

In the April 23, 2015 press release from the Michigan Department of Technology, Management

and Budget (DTMB), it was gratifying to see that the unemployment rates for West Michigan continue to fall. Among the jobless rates in the 83 Michigan counties, Ottawa County posted the second lowest rank of 3.6%, followed by third place Kent County coming in at 3.8%. Kalamazoo County took fifth place at 4.3%, Allegan eased to 4.5%, and Barry County came in at 4.6%. With the official state unemployment rate at 5.7%, West Michigan remains better off than the rest of the state. Counties on the east side of the state with high unemployment include Wayne (6.9%), Macomb (5.9%), Genesee (6.3%), Saginaw (6.1%), St. Clair (7.5%), and Lapeer (8.3%). The bottom line is simple; Michigan still has 267,000 people on the "official" unemployment rolls, although an additional 100,000 people beyond this number may fall into the category of workers who are "discouraged and no longer looking." That said, the official number of Michigan unemployed in March a year ago stood at 363,000. Regardless of the measurement systems, it seems obvious that we are moving in the right direction.

As we move toward the summer months, the momentum remains positive. However, we are always subject to the risk of geopolitical events, such as additional unrest in Libya, Yemen, the Ukraine, and of course, ISIS. The financial markets and the news media continue to push these events further into the background, resulting in the stock markets continuing to set record highs. The Fed's threat to increase interest rates, which was tentatively scheduled for June, now appears to be deferred to September, if then. Hence, there is at least a 95% probability that the recent economic improvements we have been experiencing will continue for the rest of the summer season.

APRIL 2015 COMMENTS FROM SURVEY PARTICIPAN

"The tightness in the polypropylene market is resulting in price increases and longer lead times. We have been close to being shut down a few times because of this."

"Our business has paused, but still strong."

"The impact of the West Coast port backlog has spread to the railroads."

"We are running ahead of pace from 2014!"

"Steady!"

"We have seen business slow quite a bit recently, but there is a lot of activity among our customers."

"We are slowing down somewhat, but that is typical for this time of year. We are still waiting for components stuck in the West Coast ports."

"The second and third quarters are our busy season. Business is increasing rapidly."

"The energy sector manufacturing has taken a real hit."

"Flat."

"New orders are flat lining. We are not feeling real worm and fuzzy."

"We have a lot of quoting activity, but orders are slow to come in."

"Our fiscal second and third quarters are exceeding expectations."

"We still have delivery issues because of the west coast dock strike."

"We have been very busy, but it looks like orders are getting a little softer after this month."

"My customers (auto suppliers) are working on their two year contract awards. They are looking for equipment to be in production in early 2016."

"Our busier season is starting."

"Finding quality help is still an issue. New suppliers are being added to take up the slack."

"Sales are up a bit over last year, but it is still a challenging sales environment out there. Customers are watching every penny!"

"Smaller quantities and more quality requirements are going to drive costs higher."

"Aerospace special metal processing suppliers are pushing out lead times."

"It was a great first quarter for most of our divisions."

"We are still experiencing long lead times with our vendors from overseas. Also, many other vendors seem to be behind on delivery about 1-2 weeks."

"April is much stronger than the first quarter, and new business on the horizon."

"Business is good. It looks like we will acquire the major global contract for door handles with the focus on one other line. This is huge business, and very good for our company."

"We are just waiting to see the results of the May 5th election to see whether we will have a busy summer or a really busy season!"

"Lead times seem to be in check. We've been able to benefit from the resin market decreases, but are just starting to hear rumblings that has bottomed out. Prices may bounce back up again."

"Sales are up slightly at 2%. Incoming orders have been stronger, increasing our order backlog."

"Orders are very good and stronger than normal for this time year."

"We are still dealing West Coast port issues."

"The first quarter of 2015 was very slow compared to plan. We hope to make up the difference in second and third quarters."

"March finished strong, which resulted in a pretty good quarter. We seem to be in a pattern of being really quiet for a few days. Then all hell breaks loose, and the orders come in heaps."

April 2015 Survey Statistics

	UP	SAME	DOWN	N/A	Apr. Index	Mar. Index	Feb. Index	20 Year Average
Sales (New Orders)	52%	32%	15%	1%	+37	+29	+13	+29
Production	39%	44%	11%	6%	+28	+35	+18	+13
Employment	27%	70%	3%		+24	+25	+19	+ 8
Purchases	38%	56%	6%		+32	+35	+16	+ 7
Prices Paid (major commod.)	9%	65%	23%	3%	-14	-24	-22	+35
Lead Times (from suppliers)	20%	71%	9%		+11	+ 7	+12	+11
Purchased Materials Inv. (Raw materials & supplies)	27%	59%	8%	6%	+19	+13	+13	- 5
Finished Goods Inventory	20%	61%	12%	7%	+ 8	+ 3	+ 3	-10
Short Term Business Outlook (Next 3-6 months)	38%	56%	6%		+32	+32	+18	-
Long Term Business Outlook (Next 3-5 years)	47%	47%	5%	1%	+42	+46	+41	-

Items in short supply: Products from overseas because of the west coast port delays, road equipment, pinnacle material, skilled trades, skilled labor, unskilled labor.

Prices on the UP side: Bituminous paving, concrete, fuel, some corrugated, some steel, polypropylene, plastic extrusions.

Prices on the DOWN side: Plastic resins, prices on major machines, petroleum based products, steel*, steel components, fuel, emulsions, copper, polypropylene*, plasticizer, carbon steel, scrap steel, aluminum, aluminum machined parts, electronic components, freight, brass, international sourced items.

*Note: All items marked with an asterisk are reported as BOTH **up** AND **down** by different survey participants.

Latest Unemployment Reports

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

	Mar. 2015	Feb. 2014	Aug. 2009	20 Year Low
State of Michigan (Adj.)	5.7%	5.8%	14.6%	3.2%
State of Michigan (Unadj.)	5.6%	5.9%	14.1%	2.9%
Kent County	3.8%	3.8%	11.9%	2.1%
Kalamazoo County	4.3%	4.3%	11.1%	2.1%
Calhoun County	5.2%	5.2%	12.8%	2.7%
Ottawa County	3.6%	3.7%	13.3%	1.8%
Barry County	4.6%	4.7%	10.9%	2.2%
Kalamazoo City*	5.4%	5.4%	15.2%	3.2%
Portage City*	4.0%	4.0%	8.7%	1.3%
Grand Rapids City*	5.1%	5.0%	16.1%	3.0%
Kentwood City*	3.6%	3.6%	10.7%	1.4%
Plainfield Twp.	2.9%	2.9%	8.0%	1.4%
U.S. National Official Rate	5.5%	5.5%	9.6%	3.8%
U.S. Rate Unadjusted	5.6%	5.8%	9.6%	3.6%
U.S. U-6 Rate**	11.0%	11.4%	16.7%	8.0%

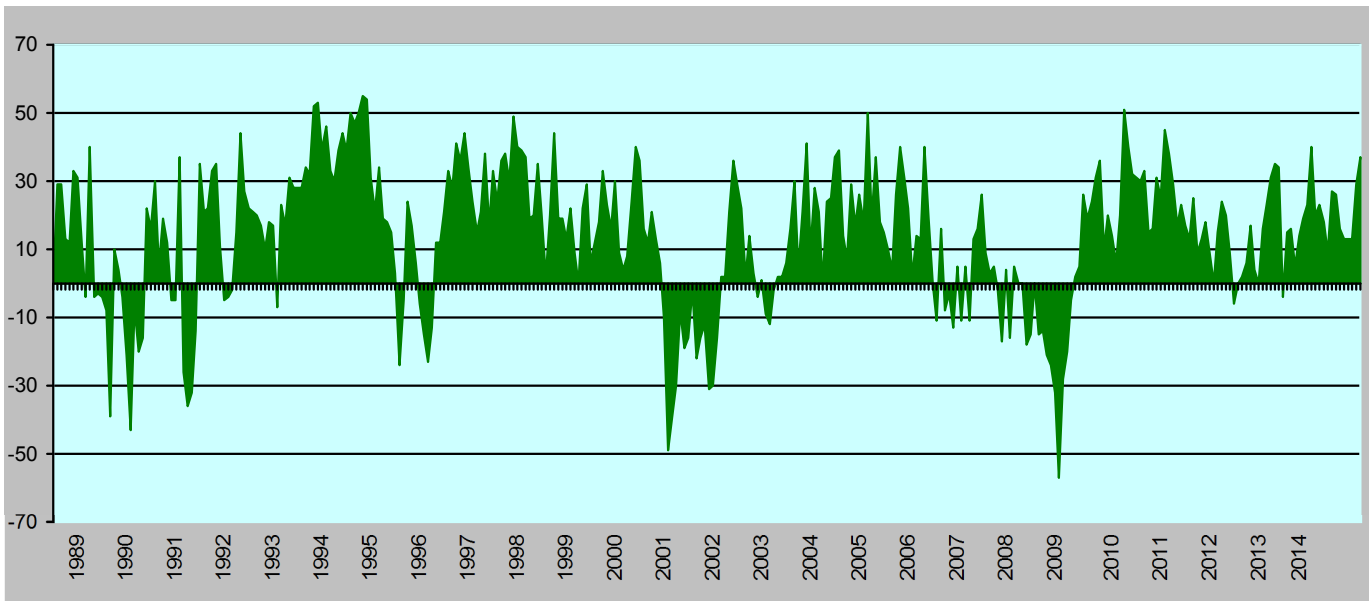
**U-6 for Michigan = 13.1% for Apr. 2014 to Mar. 2015

Index of New Orders: West Michigan

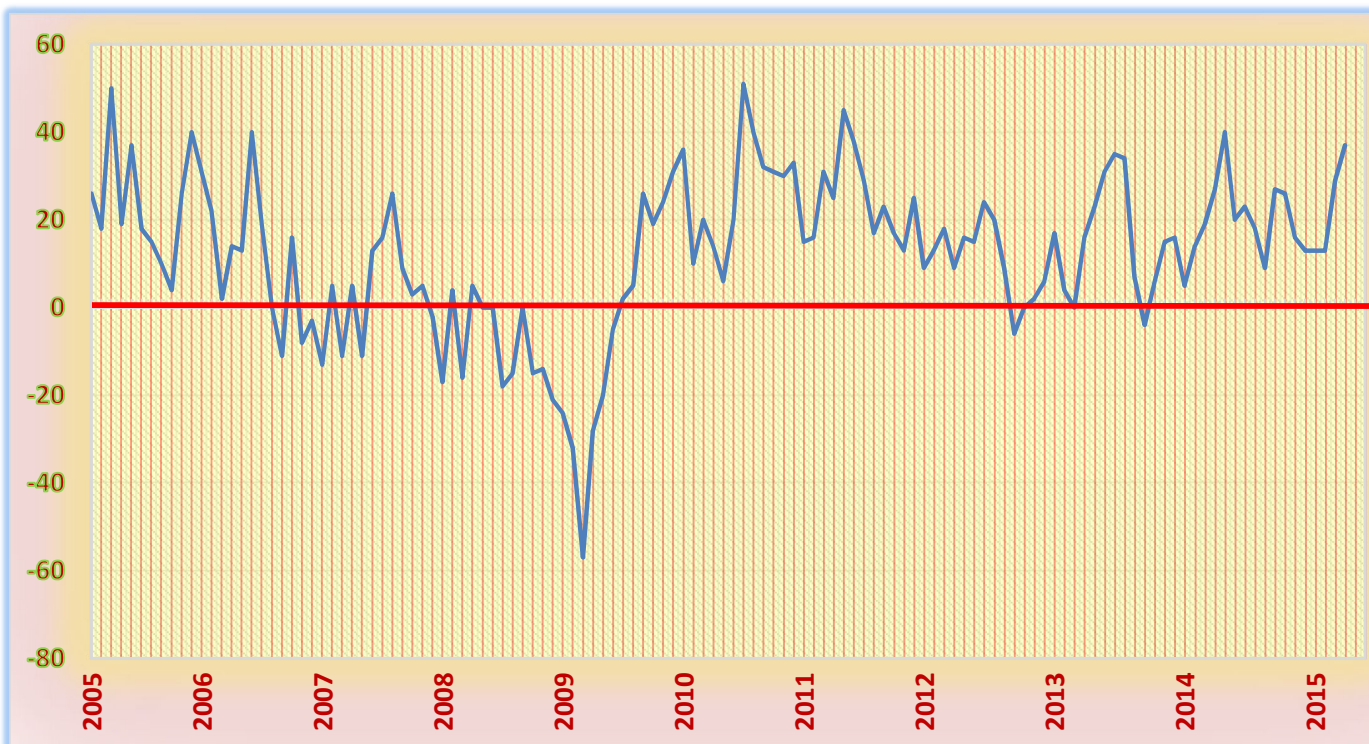
As the name implies, this index measures new business coming into the firm, and signifies business improvement or business decline. When this index is positive for an extended period of time, it implies that the firm or organization will soon need to purchase more raw materials and services, hire more 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	+37 for the month of April, 2015
Previous Month	+29 for the month of March, 2015
One Year Ago	+40 for the month of March, 2014
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 - 2015

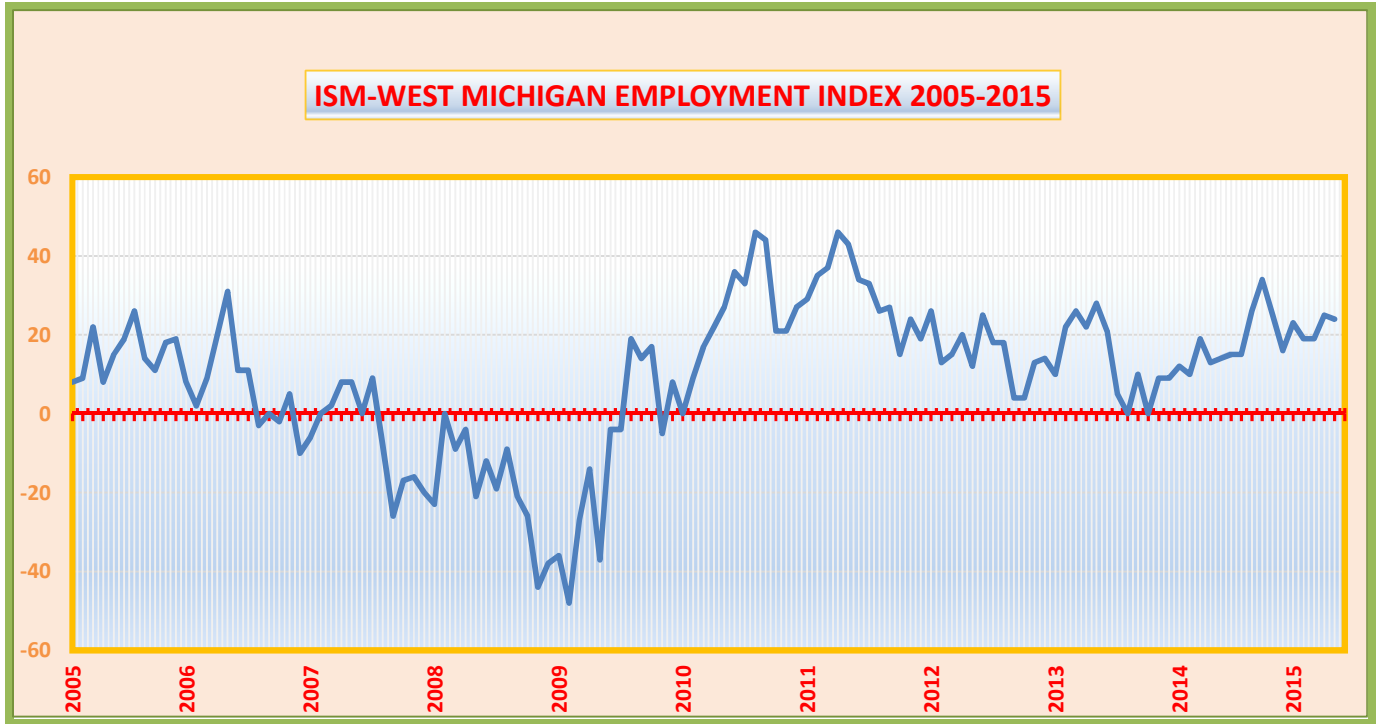


ISM-West Michigan Index of New Orders: 2005-2015 Only



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 downturn in industrial unemployment for West Michigan. Normally, there is about a month in lag time between this report and the payroll numbers being picked up 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 lay 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.

