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Current Business Trends

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Growth: Improvement Continues for a Third Month

Still growing at a moderate rate. That's the latest word on the local economy, according to the data and comments collected in the last two weeks of May 2015. NEW ORDERS, our closely-watched index of business improvement, remained historically strong, but backtracked to +31 from April's +37. The PRODUCTION index stayed virtually unchanged, but rose to +29 from +28. The EMPLOYMENT index came in unchanged at +24. Although still positive, the PURCHASES index eased to +24 from +32. Overall, the West Michigan economy has clearly shaken the mediocre performance of the winter months to show three solid months of strength. With the economic fundamentals for West Michigan still firm, the outlook for the next few months remain positive.

Reviewing this month's respondents, most of our industrial groups are positive, although some are more positive than others. Over the longer term, the undisputed group leader is still our local auto parts producers. Some are at full capacity, and most are growing increasingly optimistic about the future. But for this month, several reported being just "stable," and one posted a small decline. For the office furniture industry, May was one of the stronger months in recent history. Part of the upturn is seasonal, but a couple firms have clearly set some sales records. Business for the industrial distributors has again turned mixed. For capital equipment firms, business conditions were spread across the entire spectrum, with one firm reporting very busy conditions, one reporting very poor conditions, but most of the others in between.

At the national level, the June 1 press release from the Institute for Supply Management, our parent organization, continues to report the national growth rate to be slowing. ISM's index of NEW ORDERS remained positive but edged lower to +15, down from +18. The PRODUCTION index followed a similar pattern, and eased to +16 from +24. Good news came from the index of EMPLOYMENT, which rose to +8 from +4. ISM's overall index rose to 52.8, up from 51.5 in April.

A similar view of the U.S. economy comes from Markit.com, the international economics consulting firm. Although Markit's overall index eased modestly to 54.0 from 54.1, NEW ORDERS continued to lag the performance of previous months. The survey author further noted:

"With manufacturers reporting the smallest rise in new orders since the start of last year, the survey provides further evidence that the strong dollar is hurting the economy. Falling exports and slumping profits were two weak links in the economy during the first quarter and look set to act as ongoing drags in the second quarter."

There was a small flurry in the economic news when the revision for the first quarter GDP came in showing a 0.7% loss. The initial estimate had been reported as a very modest 0.2% gain, so the revision is not large by

past standards. Based on previous declines in the GDP, part of the decline is easy to explain. First, inventories, especially COMMODITY inventories, declined at a rate more rapid than expected. Given the across-the-board decline in the prices of most major commodities, it is logical to assume that many firms have reduced their inventories. From an economic standpoint, when commodity prices are again rising, firms will ADD to inventories, giving a small boost to the GDP numbers at that time. Hence, noting the recent stability in some of the commodity prices, some economists are hoping that some firms will add to inventories in the second half of the year, providing augmentation to GDP growth. Despite some of the doom and gloom prognostications that the second quarter GDP will also be negative, most forecasts are calling for modest growth. However, the growth range from some of the major firms range all the way from a growth rate of 0.8% to one that predicts a 3.5% growth rate. Needless to say, economic forecasting is becoming increasingly difficult.

Among the frustrations of many businesspeople is the obvious notion that empirical observations of business activity at most levels seem to have little relationship with the GDP reports. For instance, our growth rate in NEW ORDERS slowed in the first quarter, but did not turn negative. No one schooled in economics over these past 50 years likes to admit that the concept of GDP, born in the early 1930's out of a need to judge the level of business activity, just MIGHT not be "the" single, most important measure of economic activity.

Oil. For the foreseeable future, we can't do without it, and we have to try to live with whatever price the market hands us on any given day. We were reporting crude prices under \$50 per barrel and gasoline under \$2.00 per gallon a few weeks ago, and now there is talk that \$60 is the new short term norm. Although motorists scorn the higher prices at the pump, the current gasoline prices are still well below historical norms. Sales for "fuel inefficient" vehicles are soaring. In general, the markets are still responding to perceived changes in supply and demand. For instance, a report that crude inventories are up will cause prices to fall, while a recent report that reduced exploration, i.e., the falling "rig count," forces prices lower. Given the current level of market volatility, any form of trouble in the major oil producing countries would result in prices soaring overnight. Otherwise, we will probably see prices edge higher over the next few months as long as the rest of the world continues on a path of slow growth.

After falling sharply for the past year, commodity prices are beginning to moderate. Locally, our index of PRICES came in unchanged from April at -14. At the national level, ISM'S index of PRICES recovered to -1, up significantly from April's -19 and February's -30. In the steel industry, there is significant evidence that prices have bottomed out and are now starting to rise.

Granted, many firms have benefitted from lower commodity prices in recent months. However, if the prices stay too low for too long, the suppliers begin to permanently shut down capacity. When the market recovers, the available capacity is then much more limited, and prices soar until new plant and capacity can be rebuilt. In short, price stability is good for both buyers and sellers, and it now appears that the price moderation will continue for the next few months.

Auto sales continue to moderate, although the current level remains very profitable for all of the major firms. More importantly, our local auto parts suppliers remain very profitable as well, and several are at full capacity. Some of these same firms continue to hire more staff, although finding enough skilled labor to fill all of the jobs continues to be a challenge. For the Detroit Three, Chrysler gained 4%, General Motors added 3%, but Ford lost about 1%. Honda gained about 1%, but Toyota edged down -0.3% for the first decline in fifteen months. Sales rose 12% at Subaru, and Volkswagen shot up 8% for one of the best months in recent memory. Sales for the entire industry are now up 3.9% for the first five months of the year, which is slightly ahead of industry forecasts.

Improvement in the employment situation is always good news, and we are pleased to note that our West Michigan index of EMPLOYMENT remains in double digits at +24. Looking at previous reports, this index turned modestly positive in early 2014-- and has shown

consistent improvement for the past 14 months. In confirmation, the May 28 press release from the Michigan Department of Technology, Management and Budget (DTMB) yielded more good news. Michigan's official unemployment rate fell to 5.4%, even though the statistically "unadjusted" rate came in much lower at 4.8%. We have 257,000 people on the official unemployment rolls, which is considerably lower than the 771,000 number in July 2009. Our best number in the past 40 years occurred in April 2000, when only 150,000 were reported as unemployed. Among the jobless rates in the 83 Michigan counties, West Michigan continues to shine. Ottawa County posted the lowest unemployment rate of 3.1%, followed by third place Kent County coming in at 3.3%. Barry County took fifth place at 3.7%, Allegan eased to 3.8%, and Kalamazoo came in at 4.6%.

Where does the economy go for the summer? First, the national economy will probably continue on the same path of slow growth that we have seen for many months. The world economy will also maintain slow growth, although countries with economies tied to mining, oil, or other extractive industries will continue to have difficulties. But for the West Michigan economy, we should continue to see above average growth and falling levels of unemployment. Of course, a major terrorist event or some other unexpected geopolitical incident could change all of these projections.

May 2015 COMMENTS FROM SURVEY PARTICIPAN

"We started the year out slow, but we will finish strong."

"We are seeing gradual slowdown in incoming orders. It's too early to tell if this is a trend."

"Orders and quotes are very strong right now."

"Sales have basically equaled April. We are no longer concerned over falling orders, because our new orders has picked back up to where expected. We believe the second half will be stronger."

"Business is war in better clothes."

"We have a lot of projects going, and we are 'extremely' busy. Sometimes it is 'extremely' stressful but, compared to the alternative, I'll take the stress!"

"Business activity continues to be steady, and pricing remains very stable."

"Business seems to be picking up a little."

"We still have to take into account possibility of delays on the West Coast ports."

"We are having trouble finding/keeping/relying on employees on the production floor. We are now behind on orders/shipments and have an increase of inventory because of unreliable personnel."

"There's no big changes in our business. We're steady, but overly busy."

"Our business is booming. We are expecting growth, year over year."

"We are having the typical spring/summer pickup in business. Summer will be busy again."

"Business is making up from a slow first quarter."

"Steady."

"We are getting very busy."

"Part supply has improved with the labor issues on West Coast being resolved."

"Our second quarter remains strong with positive outlook for the third quarter."

"We've introduced new machines, and they are selling quickly on our fabricating side. The machining side of our business (tool & die) seems to be a little slower."

"Steel will be going up in last half of 2015."

"We continue to receive good price reductions across a wide range of raw materials, increasing margins."

"Funding is still an issue, and hopefully the Legislators will figure out a way to fund roads in Michigan."

"Opportunities with new customers are out there."

"We are adding more suppliers to increase our on-time deliveries."

"Overall business is maintaining steady and busy."

"The falloff in the energy sector has slowed our business substantial."

"We seem to be in a stall. Business is steady, and it isn't horrible. But there doesn't seem to be any uptick on the horizon."

"Business is strong. We are running very tight on capacity on many key pieces of equipment."

"Sales at the very beginning of the year were decent. But as the year has rolled on, sales are starting to struggle. If we continue at this pace, we will be lucky to have a flat sales year."

May 2015 Survey Statistics

	UP	SAME	DOWN	N/A	May Index	Apr. Index	Mar. Index	20 Year Average
Sales (New Orders)	41%	48%	10%	1%	+31	+37	+29	+29
Production	38%	47%	9%	6%	+29	+28	+35	+13
Employment	28%	68%	4%		+24	+24	+25	+ 8
Purchases	28%	63%	9%		+19	+32	+35	+ 7
Prices Paid (major commod.)	4%	75%	18%	3%	-14	-14	-24	+35
Lead Times (from suppliers)	19%	80%	1%		+18	+11	+ 7	+11
Purchased Materials Inv. (Raw materials & supplies)	22%	64%	7%	7%	+15	+19	+13	- 5
Finished Goods Inventory	18%	63%	13%	6%	+ 5	+ 8	+ 3	-10
Short Term Business Outlook (Next 3-6 months)	41%	52%	7%		+36	+32	+32	-
Long Term Business Outlook (Next 3-5 years)	48%	46%	3%	1%	+45	+42	+46	-

Items in short supply: Electronic components, machined parts, slag aggregate, heavy construction equipment, polypropylene, components from the Far East, labor.

Prices on the UP side: Steel, slag aggregate, heavy construction equipment, fuel, steel plate, labor, tools, machines.

Prices on the DOWN side: Muriatic acid, steel* (bottoming out), steel coil, aluminum, plasticizer, acrylics, impact modifiers, stainless steel, computers, monitors, polypropylene*, most scrap, aluminum, resins, copper.

*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)

	Apr. 2015	Mar. 2015	Aug. 2009	20 Year Low
State of Michigan (Adj.)	5.4%	5.6%	14.6%	3.2%
State of Michigan (Unadj.)	4.8%	5.7%	14.1%	2.9%
Kent County	3.3%	3.8%	11.9%	2.1%
Kalamazoo County	3.8%	4.4%	11.1%	2.1%
Calhoun County	4.5%	5.2%	12.8%	2.7%
Ottawa County	3.1%	3.7%	13.3%	1.8%
Barry County	3.7%	4.7%	10.9%	2.2%
Kalamazoo City	4.7%	5.4%	15.2%	3.2%
Portage City	3.5%	4.0%	8.7%	1.3%
Grand Rapids City	4.4%	5.1%	16.1%	3.0%
Kentwood City	3.1%	3.6%	10.7%	1.4%
Plainfield Twp.	2.5%	2.9%	8.0%	1.4%
U.S. National Official Rate	5.4%	5.5%	9.6%	3.8%
U.S. Rate Unadjusted	5.1%	5.6%	9.6%	3.6%
U.S. U-6 Rate**	10.8%	10.9%	16.7%	8.0%

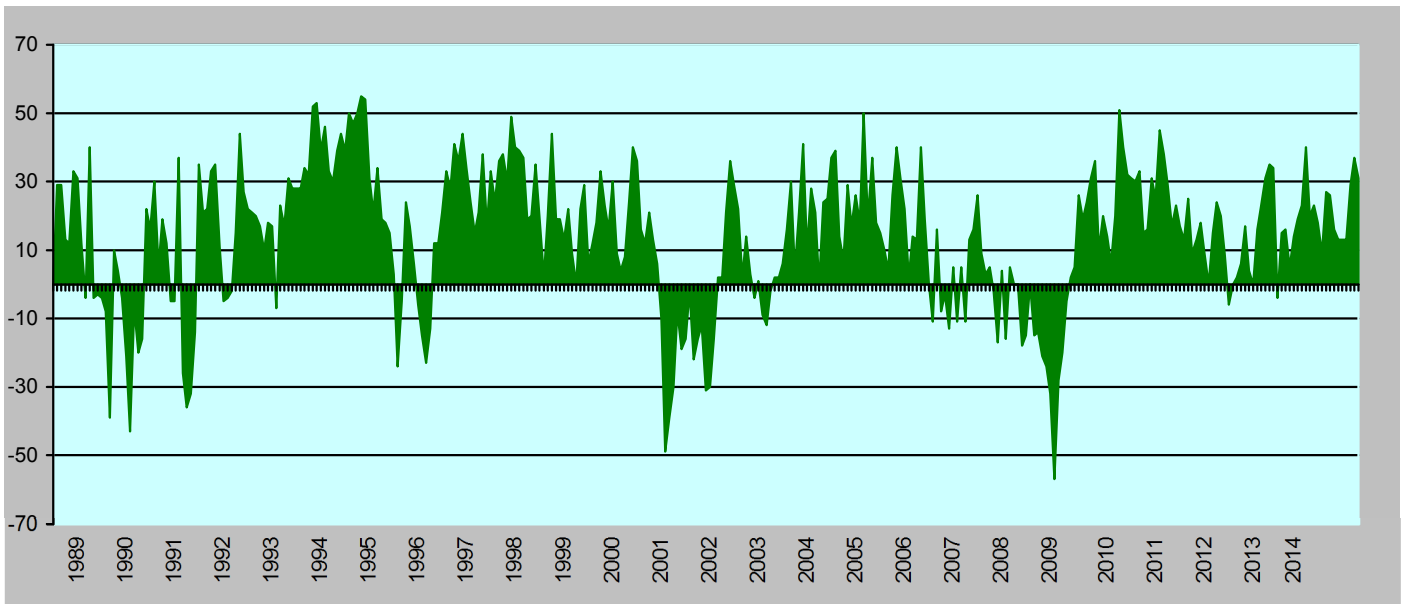
**U-6 for Michigan = 13.1% for Apr. 2014 to Mar. 2015

Index of New Orders: West Michigan

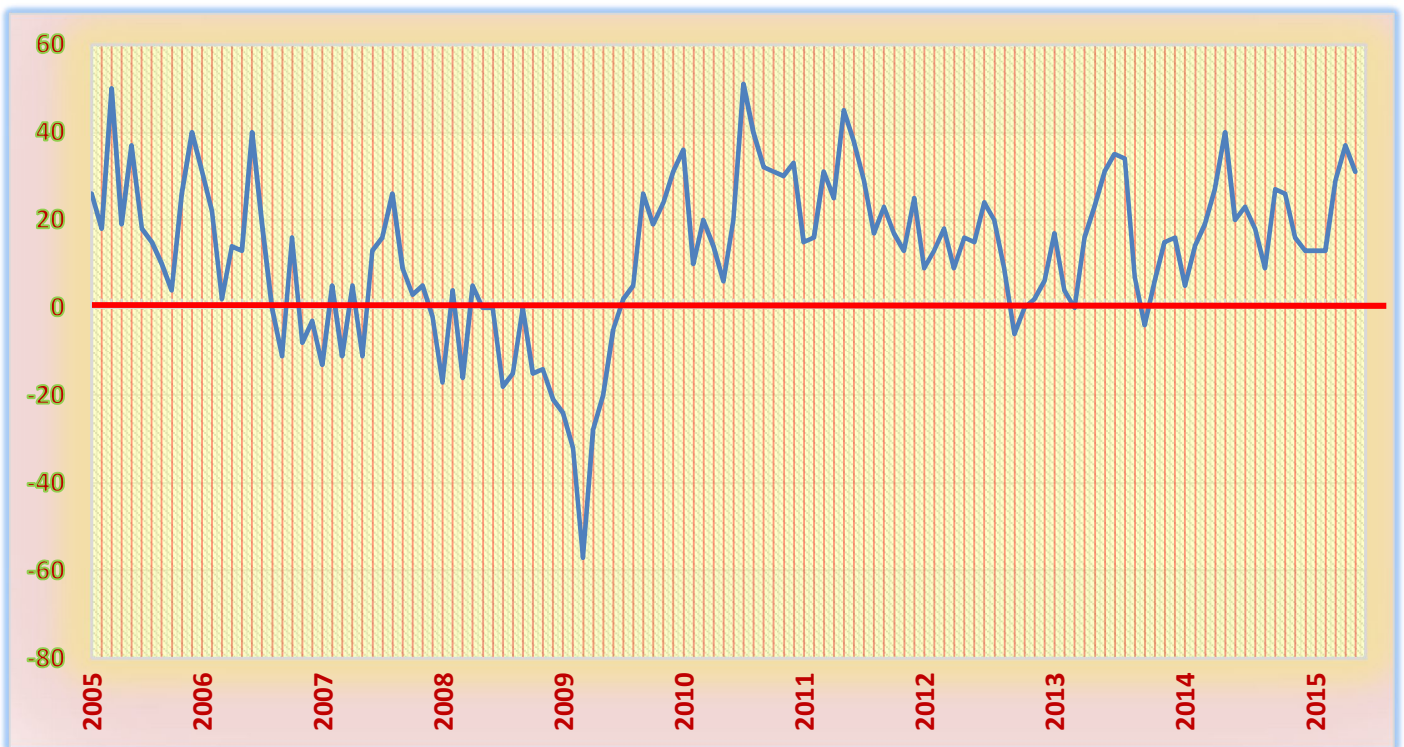
As the name implies, this index measures new business coming into the firm, and signifies business improvement or business decline. When this index is positive for an extended period of time, it implies that the firm or organization will soon need to purchase more raw materials and services, hire more 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	+31 for the month of May, 2015
Previous Month	+37 for the month of April, 2015
One Year Ago	+20 for the month of April, 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

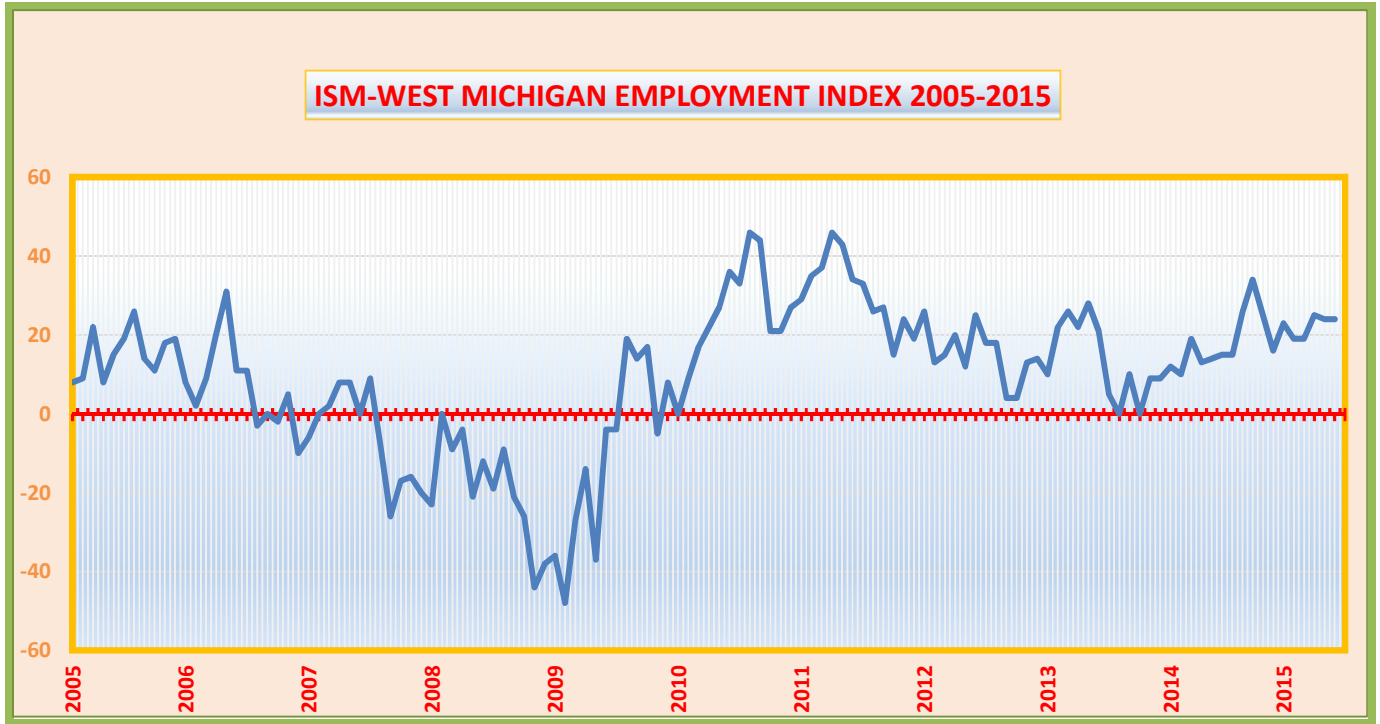


ISM-West Michigan Index of New Orders: 2005-2015 Only



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.

