ISM
institute for supply management

Institute for Supply Management,
Greater Grand Rapids, Inc.
P. O. Box 230621
Grand Rapids, MI 49523-0321

News Release (For Immediate Release)

June 7, 2018

Current Business Trends

By Brian G. Long, Ph.D., C.P.M.
Director, Supply Chain Management Research
Grand Valley State University (269) 870-0428

STRONG PACE CONTINUES

As we head toward the summer, the slow growth we have seen for most of the recovery has again turned into faster growth. According to the data collected in the last two weeks of May, NEW ORDERS, our index of business improvement, came it at +30, up slightly from +28. The West Michigan PRODUCTION index fared better and rose nicely to +37 from +28. Activity in the purchasing offices, the index of PURCHASES, remained positive but eased considerably to +19 from +34 for no apparent reason. The comments from our survey participants remain cautiously optimistic, but many are justifiably concerned about an impending tariff war. Just as last month, personnel shortages continue to plague many firms with no end in sight.

Individual Industries. The rally among most of our local capital equipment firms is still continuing, largely because of the recently-passed tax advantages for new capital investments. The automotive parts producers are still somewhat cautious, but most are adjusting to the new market for fewer sedans and more SUVs. The office furniture industry is steady. Most industrial distributors reported a good month, which is typical for this time of year.

The U.S. Economy. The June 1, 2018 survey report from the Institute for Supply Management, our parent organization, remained strong and steady. NEW ORDERS, ISM's index of business expansion, eased slightly to +31 from +34. The PRODUCTION index edged modestly higher to +27 from +26. For the 20th consecutive month, ISM's EMPLOYMENT index came in positive, and grew to +16 from +13. ISM's overall index for May edged up to +58.7 from 57.3, not far from the recent short-term high of 60.8. An even more positive view of the U.S. economy comes from the British consulting firm of IHS Markit.com. Paradoxically, this firm was modestly pessimistic just a few months ago:

> "The past two months have seen the strongest back-to-back improvements in new orders since the fall of 2014, fueled by strengthening domestic demand. New orders have in fact now grown at a faster rate than output in each of the past five months, highlighting how producers have struggled to boost production to meet sales. In the words of one manufacturer we're selling more than we can make. The upturn has stretched supply chains to the extent that May saw the greatest lengthening of delivery times in the near ten-year history of the survey. Producers are also finding it difficult to find suitable staff. With sales growing faster than production, backlogs of work are accumulating at the fastest rate for nearly four years, which should support further production growth in coming months. Business expectations regarding future production in fact picked up again to one of the highest levels seen over the past three years, adding to signs that strong growth will persist through the summer."

The World Economy. The author of the J. P. Morgan Monthly Global Manufacturing Report for May noted that the survey of 32 nations is holding fairly steady, although the overall index eased to 53.1 from 53.5. JPM's NEW ORDERS index also eased slightly to 53.4 from 53.8. It appears the world economy may have gotten a little ahead of itself in the past year, so a modest backtracking is no cause for worry. The survey author further commented:

> "The May PMI data suggest global manufacturing output growth is holding up well. Output growth is down from the robust pace of 2H17 but it remains solid. Our separate measures of global final goods demand are firming this quarter, supporting output growth."

Like the JPM report, IHS Market's press release for the eurozone's manufacturing sector reported growth continuing to slow. Markit's overall index hit a record high in December of 61.1 but has now eased to 55.5. The index is still well ahead of the 50.0 breakeven point, and there is no reason to suspect any impending doom. However, Italy recently garnered some negative attention because the recently-formed new populist government is thought to favor withdrawal from the eurozone. Chris Williamson, Chief Business Economist at London-based IHS Markit, further noted:

> "The eurozone manufacturing sector reported its weakest expansion for 15 months in May. Some of the weakness may have been related to a higher than usual number of holidays during the month, but risks appear tilted towards growth remaining subdued or even cooling further in coming months. Slowing export sales have been a key drag on both production and order book growth, with the May survey indicating that new export orders rose at the weakest rate for nearly two years, linked in part to the appreciation of the euro alongside reports of weakened demand for imports from key markets, notably the U.S. There are signs that the soft patch has further to run."

Local Unemployment. The latest numbers reported by Michigan's Department of Technology, Management and Budget pegged Michigan's seasonally adjusted unemployment rate for April at 4.7 percent, unchanged for the previous month but higher than the 4.4 reading from a year ago. In general, the higher unemployment numbers both locally and statewide are the result of idle workers reentering the workforce. Our local index of EMPLOYMENT jumped to +32, up from +23. There are not enough local people to fill the openings, so many firms are using the internet to draw talent from near and far. Of the 83 counties in Michigan, Ottawa County reported the lowest unemployment rate of 2.7 percent for April. Kent County's rate came in at 3.0 percent, but with a 20-year low of 2.1 percent, there is still room for improvement.

National Unemployment. At the national level, May's U-3 unemployment number created a stir when it fell to 3.8 percent, an 18-year low. Next stop: 3.7 percent, which will be a 49-year low. Incidentally, the record post-war low for the "official" unemployment statistic is 2.5 percent for June 1953, so there is still room for unemployment to go lower. U-6, the broader measure of unemployment which includes discouraged and marginally-attached workers, hit an 18-year low of 7.6 percent in May. It is also interesting that the number of reported job openings now exceeds the number of unemployed workers for the first time since these statistics were recorded.

Automotive. Auto sales for May grew at a moderate rate, which is good news for our numerous local auto parts suppliers. Although auto finance rates have risen to a pre-recession high, some analysts claim the threat of rates going even higher has incentivized buyers to take advantage of the current rates. Looking at May tallies for the Detroit Three, Fiat-

Chrysler gained 11.0 percent because of the continued good sales for Jeep. GM sales also gained an estimated 11 percent, driven by new platforms and heftier discounts. Ford eked out a gain of 0.5 percent. Of the other major brands, Toyota lost 1.3 percent, Honda gained 3.1 percent, end Nissan slid 3.8 percent. Troubled VW netted a gain of 3.2 percent. An analyst from Kelly bluebook commented:

> "Despite rising transaction prices and higher fuel costs, the new-vehicle market remains strong. Consumers continue to buy trucks and SUVs at an accelerated pace, more than offsetting the ongoing drop in car sales. Gas prices continue to be in the news. Our survey shows that $4 a gallon is when consumers start thinking about a more fuel-efficient vehicle."

Tariff Wars. The trade deficit with China grew to a record $375 billion last year, so there is cause for concern among long-term economic planners, as well as the president, about where these growing imbalances will take us in the future. The current economy is strong, so this may be the best time to try to negotiate more favorable treatment for American sellers in all foreign markets where trade deficits are significant. For industrial steel and aluminum consumers, the greatest impact of a trade war would be rising prices and decreased availability. While some sellers have recently used the tariffs as an excuse to demand price increases, the impact so far has been fairly limited. In fact, the current price indexes for most grades of steel are about 30 percent below where they were just three years ago. NYSE Steel Index is currently at about 1,400. This is higher than it was a year ago, but well below the 2000 readings for most of 2011. If these numbers continue on the present path, all of the talk about higher costs destroying American jobs is meaningless. However, the outcome of these trade spats is still uncertain, and it is obvious that a full-blown trade war would end the current economic recovery.

Industrial Inflation. The "big ticket" items for most industrial firms continue to rise. In addition to the obvious troubled commodities like steel and aluminum, almost all grade of plastics and corrugated containers are now up in price. Despite significantly higher wages, the shortage of available truck drivers and trucking companies has resulted in a few minor plant shutdowns in recent weeks. Fortunately, our index of PRICES backtracked in May to +49 from +59, but price increase demands are still flooding in. At the national level, ISM's index of PRICES remained at a fairly lofty +59 percent. JPM's worldwide index of "Input Prices" index edged above last month's 80-month high to settle at 60.8, up slightly from April's 60.4. The West Michigan index of LEAD TIMES, which often drives future price increases, edged up to +43 from +39. Because of the actions of some of the world's oil producers, the price of oil has fallen about $5 over the past few days. However, we may have forgotten that oil was priced over $90 per barrel just four years ago. In that context, $65 oil isn't all that bad.

GDP. The second estimate of economic growth for the first quarter of 2018 came in at 2.2 percent, down a single tick from the first estimate. Almost all major estimates call for a stronger second quarter, with predictions ranging a low of 2.6 percent to as high as the Atlanta Fed's 4.8 percent prognostication. Based on the strength of our local and national purchasing surveys, the odds favor an estimate closer to 4.0 percent. The expansion of the industrial markets will continue to spill over into the consumer sector as time goes along. The tax cuts will continue to favor capital expansion, but it is worth repeating that economic growth will need to expand at about 4.0 percent rate for a considerable period of time in order to offset the revenue from the tax cuts. According to a recent survey of *Wall Street Journal* economists, it is the majority consensus that the economy will continue to expand through 2019, leaving sometime in 2020 to be the most probable beginning of the next recession. But all recessions have triggers, such as the dot com bust or the housing crisis. No one so far seems to have identified what the trigger of a 2020 recession might be.

Business Confidence. If there is a negative aspect to this month's report, this is it. The West Michigan index for the SHORT-TERM BUSINESS OUTLOOK for May, which asks local firms about the perception for the next three to six months, eased modestly to +33 from +35. But the LONG-TERM BUSINESS OUTLOOK, which queries the perception for the next three five years, posted the biggest drop recorded since we began collecting data five years ago. Fear of a trade war continues to weigh heavily on the minds of some survey respondents as well as the continued escalation of the prices of many key commodities.

MAY COMMENTS FROM SURVEY PARTICIPANTS

"We're very afraid of steel and aluminum allocations. Our steel quota from Korea is already met for the year."

"Section 232 (tariffs) has created turmoil in the steel marketplace. It will be interesting on where metal price increases peak!"

"Business is good. We're waiting to see what the final impact of the tariffs are."

"The industry I work in is currently in the yearly lull for work but is estimated to ramp up quickly in mid-July"

"April was up nicely over March. May is lagging behind April, but we still have a week to go to get a big push."

"We're still doing very well in the OEM world. Unemployment rates are unbelievably low!"

"The Ford F-150 production volume stoppage has had a negative impact on sales."

"Monies have been appropriated, but now we need a release. With fuel on the rise we have the trifecta going."

"We're waiting to understand the impact of the potential Chinese tariffs."

"We're finally hiring some new job candidates but having to take those with less experience and commit to training them."

"We are running into issues with some of our contractors. They can provide the product such as brine or aggregate but they are having a hard time getting trucking."

"We have seen prices for just about everything go on the 'up' side."

"We were a little slow in April but have rebounded in May."

"We have a slight upturn in order intake. We have worked down our backlog and need more orders to be comfortable."

"Automotive business has been flat, i.e., down for cars but offset by SUV and cross over platforms."

"We are getting busy."

"It seems like price increases are a common thing in this economy.'"

"The new business we're into just took off, so everything is up for us."

"I have not noticed any decline of pricing in many items in the past month. If anything, propane prices have dropped for us by quite a bit."

"All is steady"

"The tight labor market presents additional challenges in meeting rapidly growing customer demand."

"Lack of transportation is causing longer lead times and increased prices."

"The very robust business climate continues."

"We're in an outage to tie in new equipment for a plant upgrade."

"The electronics market remains in unfavorable flux."

"Sales in automotive and heavy truck remain strong. Expense control is key, especially with rising prices of steel."

"Some of our business units are up and some are flat. Overall, our business is up."

"We are seeing steadily rising prices for raw materials."

MAY 2018 Survey Statistics

	UP	SAME	DOWN	N/A	May Index	Apr. Index	Mar. Index	25 Year Average
Sales (New Orders)	40%	48%	10%	2%	+30	+28	+34	+14
Production	37%	48%	10%	5%	+37	+28	+31	+14
Employment	38%	57%	5%		+32	+23	+19	+ 8
Purchases	35%	57%	8%		+19	+34	+37	+ 7
Prices Paid (major commod.)	53%	42%	4%		+49	+59	+54	+15
Lead Times (from suppliers)	45%	53%	2%		+43	+39	+44	+11
Purchased Materials Inv. (Raw materials & supplies)	33%	47%	5%	5%	+28	+26	+35	- 4
Finished Goods Inventory	18%	56%	19%	7%	- 1	+ 0	+ 6	- 8
Short Term Business Outlook (Next 3-6 months)	35%	63%	2%		+33	+35	+42	-
Long Term Business Outlook (Next 3-5 years)	38%	53%	5%	4%	+27	+40	+44	-

Items in short supply: Steel, aluminum, equipment, carbide drills, ¼" CS plate, some polypropylene, some nylon grades, castings, machined parts from castings, electronic components, salt, trucking companies, construction contractors, good qualified employees, truck drivers, labor, alloy bars, passive electronics, recycled papers, freight carriers, flatbed trucking availability.

Prices on the UP side: Steel, insurance, labor cost, linerboard, finished goods, adhesives, aluminum, carbon steel, stainless steel, insulation, corrugate, lumber, outside trucking, wire, brass, corrugated, polycarbonate, resin, oil, salt, trucking, diesel, steel, corrugated materials, transportation, base oil, plasticizer, SEBS resin, some paper, powder paint, gasoline, passive electronics, select computer memory, stainless and carbon steel bars, carbon steel scrap, stainless steel scrap, carbon based products, engineering resins.

Prices on the DOWN side: Carbon steel scrap*.

*Item reported as both up AND down in price.

Latest Unemployment Reports

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

	Apr. 2018	Apr. 2017	Aug. 2009	20 Year Low
State of Michigan (Adj.)	4.7%	4.4%	14.6%	3.2%
State of Michigan (Unadj.)	4.0%	3.8%	14.1%	2.9%
Kent County	3.0%	2.8%	11.9%	2.1%
Kalamazoo County	3.4%	3.3%	11.1%	2.1%
Calhoun County	4.4%	4.2%	12.8%	2.7%
Ottawa County	2.7%	2.4%	13.3%	1.8%
Barry County	3.3%	4.1%	10.9%	2.2%
Kalamazoo City	4.3%	4.1%	15.2%	3.2%
Portage City	3.1%	3.0%	8.7%	1.3%
Grand Rapids City	4.0%	3.7%	16.1%	3.0%
Kentwood City	2.8%	2.6%	10.7%	1.4%
Plainfield Twp.	2.2%	2.1%	8.0%	1.4%
U.S. Official Rate (May)	3.8%	4.3%	9.6%	3.8%
U.S. Rate (Unadjusted)	3.6%	4.1%	9.6%	3.6%
U.S. U-6 Rate**	7.6%	8.4%	16.7%	8.0%

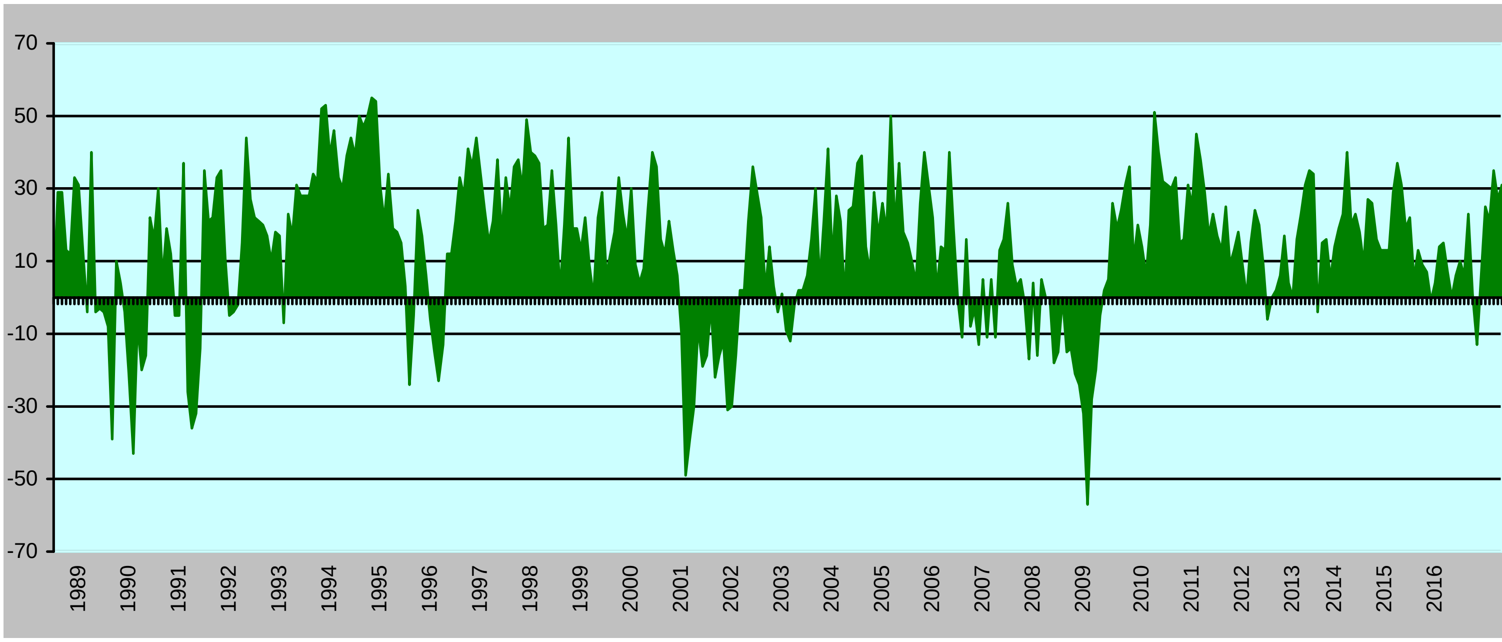
**U-6 for Michigan = 9.0% for April 2017 to March 2018

Index of New Orders: West Michigan

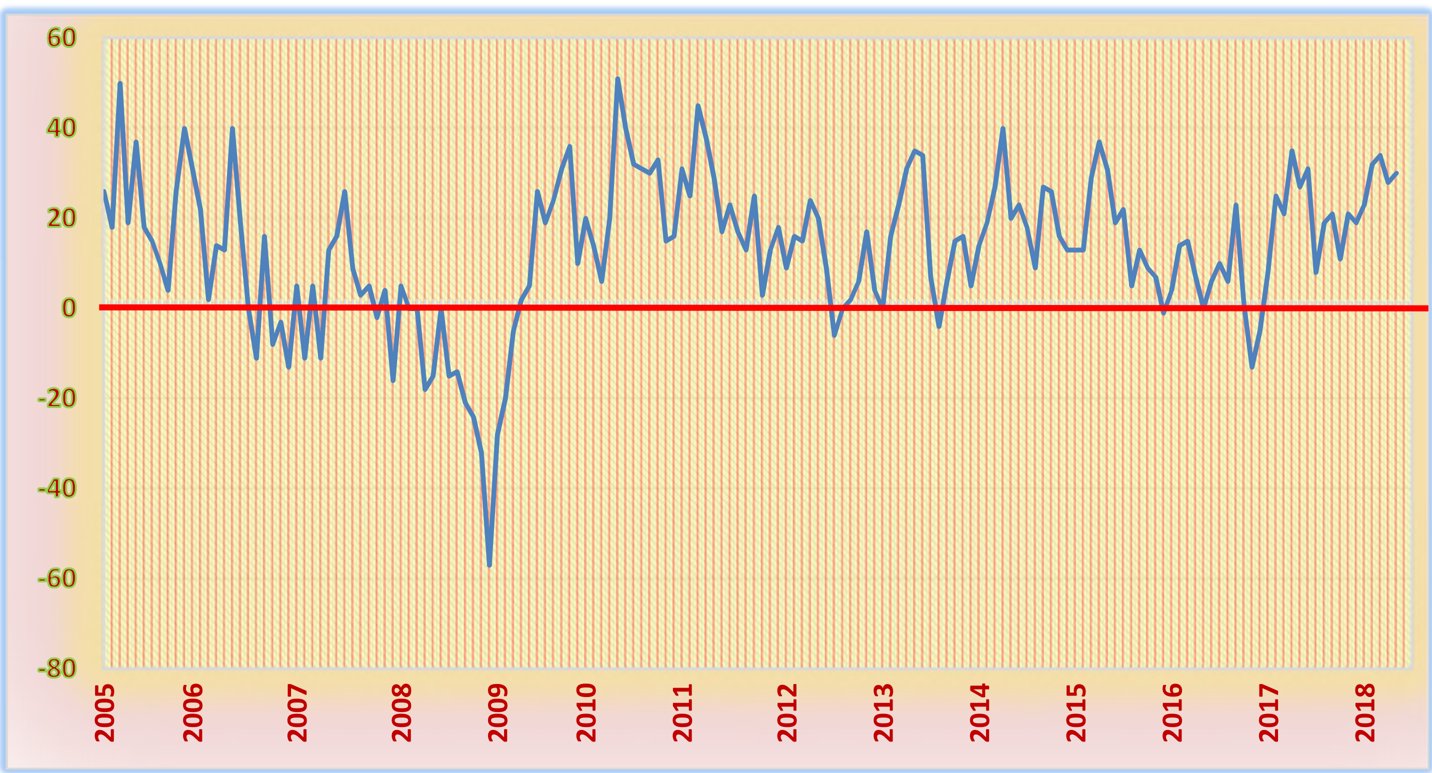
As the name implies, this index measures new business coming into the firm, and signifies business improvement or business decline. When this index is positive for an extended period of time, it implies that the firm or organization will soon need to purchase more raw materials and services, hire more 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	+30 for the month of May 2018
Previous Month	+28 for the month of April 2018
One Year Ago	+27 for the month of May 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

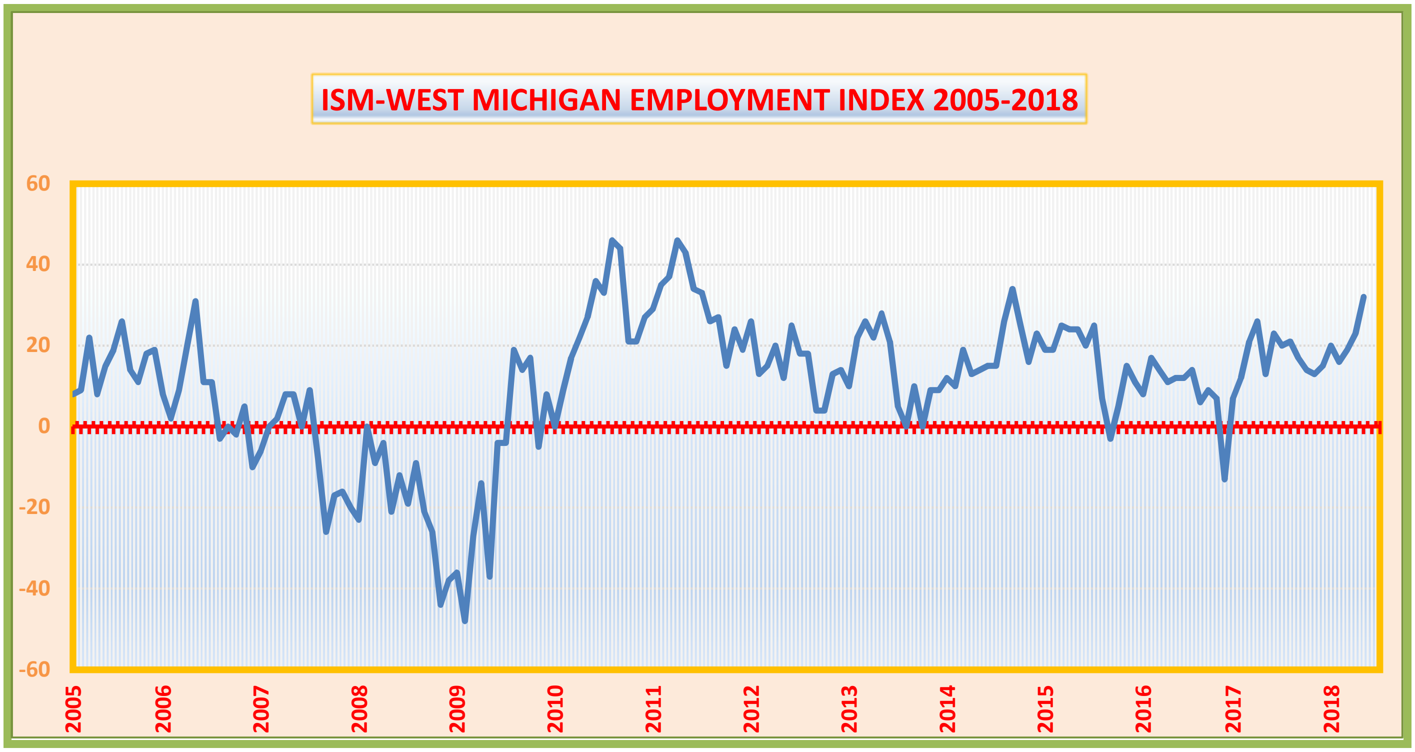


ISM-West Michigan Index of New Orders: 2005-2018 Only



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 BUSIESS 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.