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Current Business Trends

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SLOW GROWTH RESUMES; OPTIMISM IMPROVES

Although 2019 got off to a slow start in January, the February report for West Michigan continued the pattern of slow growth we have been reporting for nearly 10 years. According to the data collected in the last two weeks of February, NEW ORDERS, our index of business improvement, bounced back to +16 from -4. In a similar move, the PRODUCTION index rose to +16 from +4. Activity in the purchasing offices, the index of PURCHASES, also bounced to +16 from +3. Several participants continue to voice concern over the still-unresolved tariff war with China, and others are cautious about the potential decline in auto sales. Overall, the mood remains watchfully optimistic.

The U.S. Economy. According to the March 1 press release from the Institute for Supply Management, our parent organization, the national industrial economy posted another modest gain for February. NEW ORDERS, ISM's index of business improvement, came in at +14, up marginally from +12. The PRODUCTION index downticked to +12 from +13. The EMPLOYMENT index also lost a point to come in at +5. ISM's overall index eased to 54.2, down from 56.6. Contrary to other statistics reported in the news media, the U.S. trade imbalance might actually be improving. ISM's index of NEW EXPORT ORDERS edged up to +6 from +3, and ISM index of IMPORTS rose to +11 from +8. Hence, both indexes cancel each other out, yielding no deficit. However, these indexes reflect the PHYSICAL actions that have been taken. The money transfers will not show up in the government statistics for weeks or even months from now.

The British international consulting firm of IHS Markit offers a more pessimistic view of the U.S. economy for February. Market.com's seasonally adjusted PMI for February remained above the 50.0 break-even point but dipped to an 18-month low of 53.0, down from January's 54.9. The survey respondents were buoyed by forecasts of further upturns in new orders. That said, the degree of confidence slipped to the second-lowest since November 2016. Chris Williamson, Chief Business Economist at IHS Markit, further noted:

> "The PMI indicates the U.S. manufacturing sector is growing at its weakest rate for 18 months, with firms reporting a marked easing in production growth in February, linked to a similar slowdown in order book growth. Price pressures have likewise moderated, though tariffs were again reported to have pushed costs higher. Hiring has consequently also slowed. Worries regarding the impact of tariffs and trade wars, alongside wider political uncertainty, undermined business confidence, with expectations of future growth running at one of the most subdued levels seen for over two years and suggesting downside risks prevail for coming months."

The World Economy. Our best summaries of the health of the world economy comes from J.P. Morgan Monthly Global Manufacturing index encompassing 43 nations. Unfortunately, the steady erosion, which began 14 month ago has taken JPM's overall index down to 50.6 from last month's 50.8, the lowest level since June 2016. For diffusion indexes of this nature, 50.0 is the break-even point between expansion and contraction. Hence, this report is still considered marginally positive. The index is weighted by the size of each country's respective economy, so the moderately confident report from the U.S. helped keep the overall survey statistics positive. At 50.1, the Chinese PMI has now flipped back to positive. However, weaker reports from other countries continue to drag down the index. The JPM index of NEW ORDERS remained unchanged at a paltry 50.1, and the PRODUCTION index eased to 50.7 from 50.8. The index of NEW EXPORTS eroded further to 49.1 from 49.4. Needless to say, the analysts continue to blame the Brexit for at least some of the weakness. IHS Markit economist further noted:

> "The rates of expansion in global manufacturing output and orders held broadly steady in February. Slower growth in the U.S. and contractions in Japan and the euro area were offset by a stabilisation in China. The outlook remains lacklustre, as stagnant new order growth, declining international trade volumes and weak business confidence rein in the prospects of output growth staging a meaningful revival in the coming months."

The IHS Markit February PMI manufacturing index for the eurozone turned negative for the first time since June 2013. The index came in at 49.3, down from last month's 50.5. The PMI for Germany, the eurozone's largest economy, dropped to 47.6, a 74-month low. Italy posted a 69-month low of 47.7. It may seem hard to believe, but the eurozone's strongest PMI for February turned out to be Greece at 54.2. However, much of the Greek growth can be attributed to the proverbial post-debacle fire sale of unused production facilities. So far, the Greek financial restructuring seems to be working, which is relief to the sanctity of the European currency itself. The IHS Markit survey author further noted:

> "Euro area manufacturing is in its deepest downturn for almost six years, with forward-looking indicators suggesting risks are tilted further to the downside as we move into spring. Most worrying is the downward trend in new orders. Orders are falling at a faster rate than output to a degree not seen for seven years, meaning production is likely to be pared back further in coming months unless demand revives. The new orders to inventory ratio has also fallen to its lowest since 2012, with many companies reporting excess warehouse stocks. The downturn is being led by Germany and Italy, but Spain has also now fallen into contraction and only modest expansions are being seen in France, Austria and the Netherlands. Companies report that heightened political uncertainty, including Brexit, is hitting demand and driving increased risk aversion."

Michigan Unemployment. According to the latest report from Michigan's Department of Technology, Management, and Budget, Michigan's "headline" unemployment rate for January (latest month available) remained unchanged at 4.0 percent, well below the 4.5% reported for January a year earlier. Total state-wide employment in January grew by over 39,000 workers compared to a year earlier, and the number of people unemployed decreased by 7,000.

West Michigan Unemployment. Despite the weakness in last month's survey, our EMPLOYMENT index continues to remain double-digit positive. For February, we posted a modest uptick to +17 from +14. Regrettably, employers are still complaining that they cannot find enough qualified workers to hire, much as they have been for nearly two years. Given the slight hesitancy in the current economic outlook and the absence of qualified workers, it is worth repeating that the current low unemployment numbers are as good as we can expect for the near future.

Automotive. Although several of our local auto parts producers remain modestly pessimistic about the prospects for 2019, we have yet to see any significant weakening in our local firms. According to the monthly report from Automotive News, sales for the industry dropped 2.9 percent in February, and the industry's Seasonally Adjusted Annualized Rate (SAAR) slipped to 16.61 million units. Bad weather can be partially to blame for some of the drop. As Jeremy Acevedo from Edmunds put it:

> "Shopping conditions are pretty unfavorable for consumers across the board, and even those with good credit are having trouble finding compelling finance offers. As rising vehicle costs and interest rates continue to compromise affordability, more shoppers might find themselves priced out of the new vehicle market."

Looking as we always do at the Detroit Three, sales for GM declined 5.3 percent, Fiat-Chrysler eased by 2.3 percent, and Ford lost 5.1 percent. Among the other major nameplates, sales at Honda declined 1.6 percent, Toyota shed 6.3 percent, and beleaguered VW lost an additional 3.6 percent. Nissan plunged again, this time by 11.4 percent. Of the major brands, only Subaru was able to post a modest gain of 3.9 percent.

Industrial Inflation. Our local index of PRICES upticked to +22 from +21, although all of the recent numbers for this index have eased from the +51 we reported last July. If it were not for the Chinese trade war, our inflation numbers would be even better. The world economy continues to slow, which has resulted in the J.P. Morgan international pricing index easing to 53.6 from 54.2 for February. ISM's national index of PRICES continues to be slightly negative at -1. Timothy Fiore, ISM's survey committee chair, further noted:

> "Prices contracted for the second straight month. Decreases were reported in aluminum, steel, steel-based products, various chemicals and plastic resins. Steel prices have returned to more normal levels. Price increases and shortages continue for passive electronic components. The Prices Index has dropped 22.2 percentage points over the past four months."

Business Confidence. After posting some near-record lows in January, business confidence has rebounded in February. Many of our local firms remain cautiously optimistic, but others continue to voice concern over the ongoing trade war with China. Many of our auto parts manufacturers continue to watch the situation in the auto market, even though many are well positioned for a modest downturn. The West Michigan index for the SHORT-TERM BUSINESS OUTLOOK for February, which asks local firms about the perception for the next three to six months, rebounded nicely to +22 from +5. The LONG-TERM BUSINESS OUTLOOK, which queries the perception for the next three to five years, rose more modestly to +27 from +22. Although both indexes are less robust than they were five years ago, they still remain optimistic about the future as long as our economic indicators continue to point toward more growth, even if we return to a pattern of slower growth.

GDP. Because of the government shutdown, the U.S. Bureau of Economic Analysis (BEA) was unable to release the final numbers for 2018 on time. However, the GDP growth estimate by the BEA for the last quarter finally came in at 2.6 percent, well in line with numerous predictions. Many economists are now turning their attention to the first quarter of 2019, and most predictions are not very optimistic for several reasons. First, the trade war with China has destabilized at least some industries. Second, the government shutdown resulted in some regions of the country curtailing activity. Third, because of the way BEA now calculates GDP, the first quarter of the last few years has been weaker than the other quarters. Of course, the harsher-than-usual weather for much of the first quarter across most of the country will play a role as well. Hence, the Atlanta Fed, which has had a fairly good record of GDP forecasting, now expects the first quarter GDP of 2019 to come in at a paltry 0.5 percent growth rate. However, the well-recognized Blue Chip consensus estimates are now ranging between 1.3 and 2.5 percent. As previously noted, the current methodology for computing GDP concentrates heavily on the consumer sector, even though most of the economy is actually controlled by the business and manufacturing sectors. Hence, the recent moderate growth numbers we have been reporting for the industrial sector will not be enough to bring the BEA's GDP very high. Hence, a 1.3 and 2.5 percent growth rate for the first quarter of 2019 is highly probable.

Summary. Based on the national PMI indexes from both ISM and IHS Markit, the 2019 economy still has some significant positive momentum going forward. Whereas the Chinese trade war, the Brexit, and the softening world economy are still constraining factors to the national economy, the 2017 tax cuts may STILL be having a positive impact on growth. Needless to say, someday we will be facing a new recession, although the rest of 2019 continues to look safer given the current economic momentum. A resolution of the Chinese tariff situation would virtually ensure that growth would remain positive for the rest of the year, and possibly beyond. Although over 58 percent of the Wall Street Journal's panel of 60 economists expect the next recession to start in 2020, none of these economic experts have been able to identify a major event that could catalyze another major downturn. In short, it is not a recession "trigger" just because we haven't had one "lately."

FEBRUARY COMMENTS FROM SURVEY PARTICIPANTS

"Sales dollars and overall volume at our GR location was up over 20% in 2018 vs. 2017. Exciting times!"

"Business is still good, and many new projects are still coming in."

"New orders are unusually strong for this time of year. It looks like the first quarter should be better than usual."

"Business is very strong with no seasonal slowdown."

"This is typically a slower time of year for us, however, we are as busy now as we are during our busy time of year. It's very weird!! We attribute that to our new market segment. "

"We are still doing well in the capital equipment building arena."

"2019 has started slower than originally planned due to the slowing China market."

"Steel and China tariffs causing pricing increases on general steel components and parts."

We've seen lots of incremental price increases on industrial goods due to yearend, tariffs, or simply because they think they can get away with it now."

"Stainless and galvanized steel prices are down 10% from 2018 Q4."

"Steady sales slightly up over last year."

"Steel and China tariffs causing pricing increases on general steel components and parts."

"We are very busy, and the weather issues have put us behind just when sales are peaking. We're doing lots of overtime this month."

"Business is pretty stable right now."

"Business remains very steady."

"We've had a bit of a sluggish start to the new year, but things are picking up."

"Our vendors/suppliers are unable to hold prices and/or deliver in a timely manner due to the uncertainty of the market. It's beginning to put a strain on our operations."

"Business remains steady and robust."

"The weather conditions have impacted our production and shipping abilities due to trucks not showing up over the last 2 weeks."

"We see a slight trend down in February, but it looks like we will recover in March."

"Never a dull moment."

"Things seem to be perking up."

"We still need more production workers."

"The craft segment is slowing, and we are starting to see the financially weak companies fail regardless of size."

FEBRUARY Survey Statistics

	UP	SAME	DOWN	N/A	Feb. Index	Jan. Index	Dec. Index	25 Year Average
Sales (New Orders)	34%	46%	18%	2%	+16	- 4	+17	+14
Production	27%	53%	11%	9%	+16	+ 4	+15	+14
Employment	21%	75%	4%	0%	+17	+14	+20	+ 8
Purchases	27%	62%	11%	2%	+16	+ 3	+20	+ 7
Prices Paid (major commod.)	27%	68%	5%	0%	+22	+21	+34	+15
Lead Times (from suppliers)	25%	73%	2%	0%	+23	+25	+38	+11
Purchased Materials Inv. (Raw materials & supplies)	27%	60%	7%	7%	+20	+ 6	+15	- 4
Finished Goods Inventory	13%	60%	20%	7%	- 7	+ 8	+ 9	- 8
Short Term Business Outlook (Next 3-6 months)	29%	64%	7%	0%	+22	+ 5	+19	-
Long Term Business Outlook (Next 3-5 years)	34%	55%	7%	4%	+27	+22	+25	-

Items in short supply: Nylon resin, electronic components, foundry capacity, forgings, PA6 materials, aluminum, truckers, hydrazine, some commodity chemicals, brass components, specialty metals, labor, automotive size pallet, steel posts, grader blades, salt, welding engineers, steel.

Prices on the UP side: Steel, aluminum, aluminum coil and extrusions, pallets, steel posts, grader blades, salt, asphalt products, imports from China, PA6 resin, PVC resin, engineering grade resins, aluminum items, iron castings, trucking, copper, brass, electronic components, industrial textiles, tariffs.

Prices on the DOWN side: Steel coil, steel*, polypropylene, carbon steel, scrap steel, fuel, carbon steel, polypropylene, stainless steel, galvanized steel, copper*, propylene, benzene, HR and CR steel, scrap steel, copper*, aluminum*, mold components.

*Item reported as both up AND down in price.

Latest Unemployment Reports

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

	Dec. 2018	Dec. 2017	Aug. 2009	20 Year Low
State of Michigan (Adj.)	4.0%	4.7%	14.6%	3.2%
State of Michigan (Unadj.)	4.0%	4.4%	14.1%	2.9%
Kent County	2.6%	3.5%	11.9%	2.1%
Kalamazoo County	3.3%	4.0%	11.1%	2.1%
Calhoun County	4.1%	4.9%	12.8%	2.7%
Ottawa County	2.7%	3.3%	13.3%	1.8%
Barry County	3.4%	4.1%	10.9%	2.2%
Kalamazoo City	4.1%	4.9%	15.2%	3.2%
Portage City	3.6%	3.0%	8.7%	1.3%
Grand Rapids City	3.7%	4.6%	16.1%	3.0%
Kentwood City	2.6%	3.2%	10.7%	1.4%
Plainfield Twp.	2.1%	2.6%	8.0%	1.4%
U.S. Official Rate (Jan.)	3.9%	4.1%	9.6%	3.8%
U.S. Rate (Unadjusted)	3.7%	3.9%	9.6%	3.6%
U.S. U-6 Rate (Jan.)**	8.1%	8.2%	16.7%	8.0%

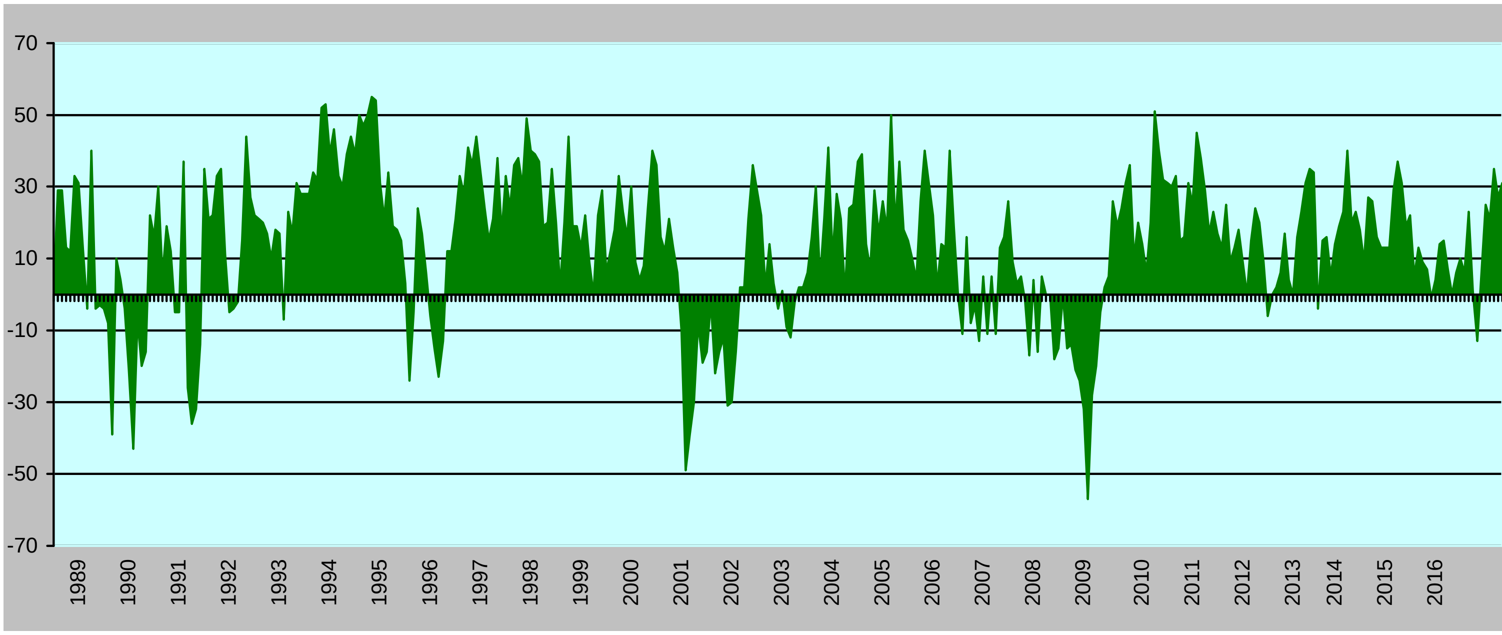
**U-6 for Michigan = 7.9% for all of 2018

Index of New Orders: West Michigan

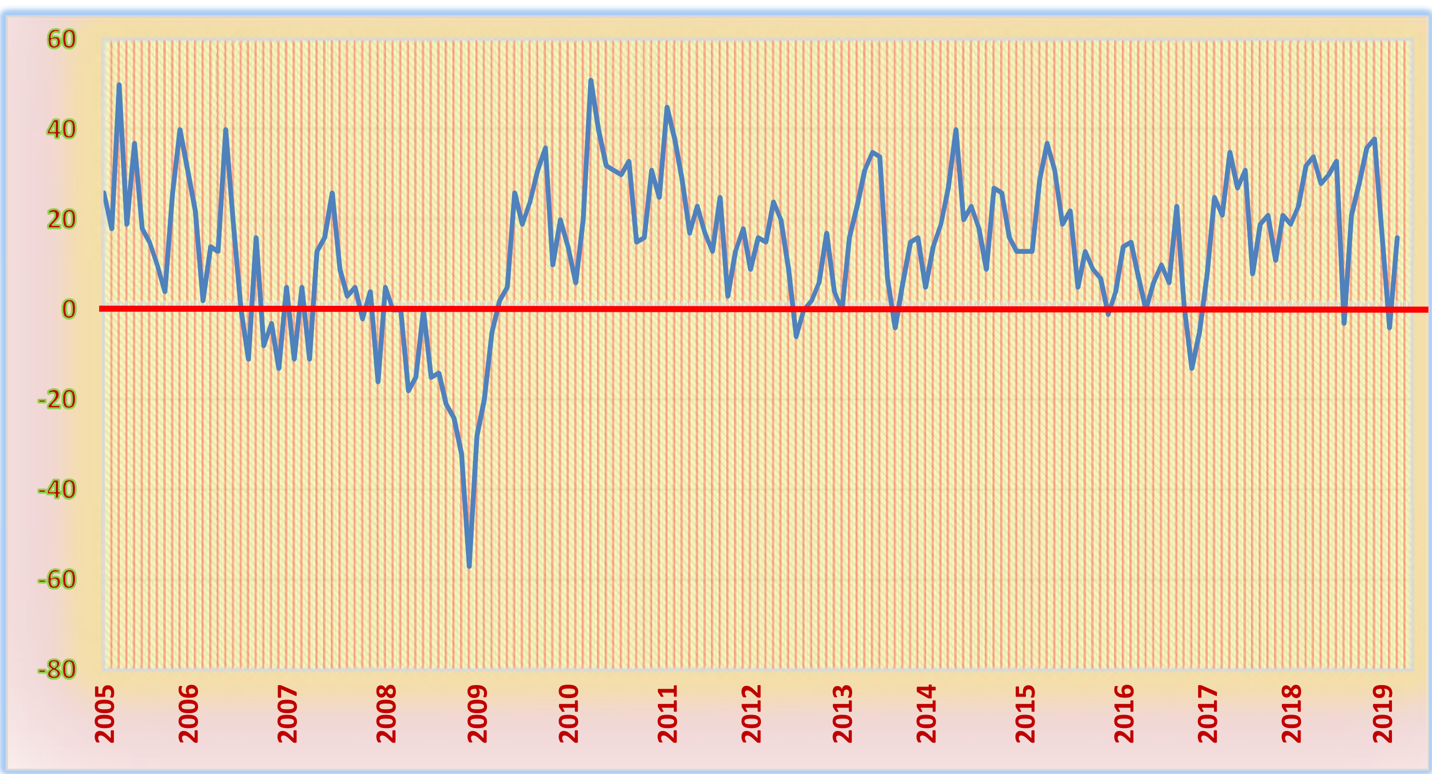
As the name implies, this index measures new business coming into the firm, and signifies business improvement or business decline. When this index is positive for an extended period of time, it implies that the firm or organization will soon need to purchase more raw materials and services, hire more 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	+ 16 for the month of February 2019
Previous Month	- 4 for the month of January 2019
One Year Ago	+ 32 for the month of February 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

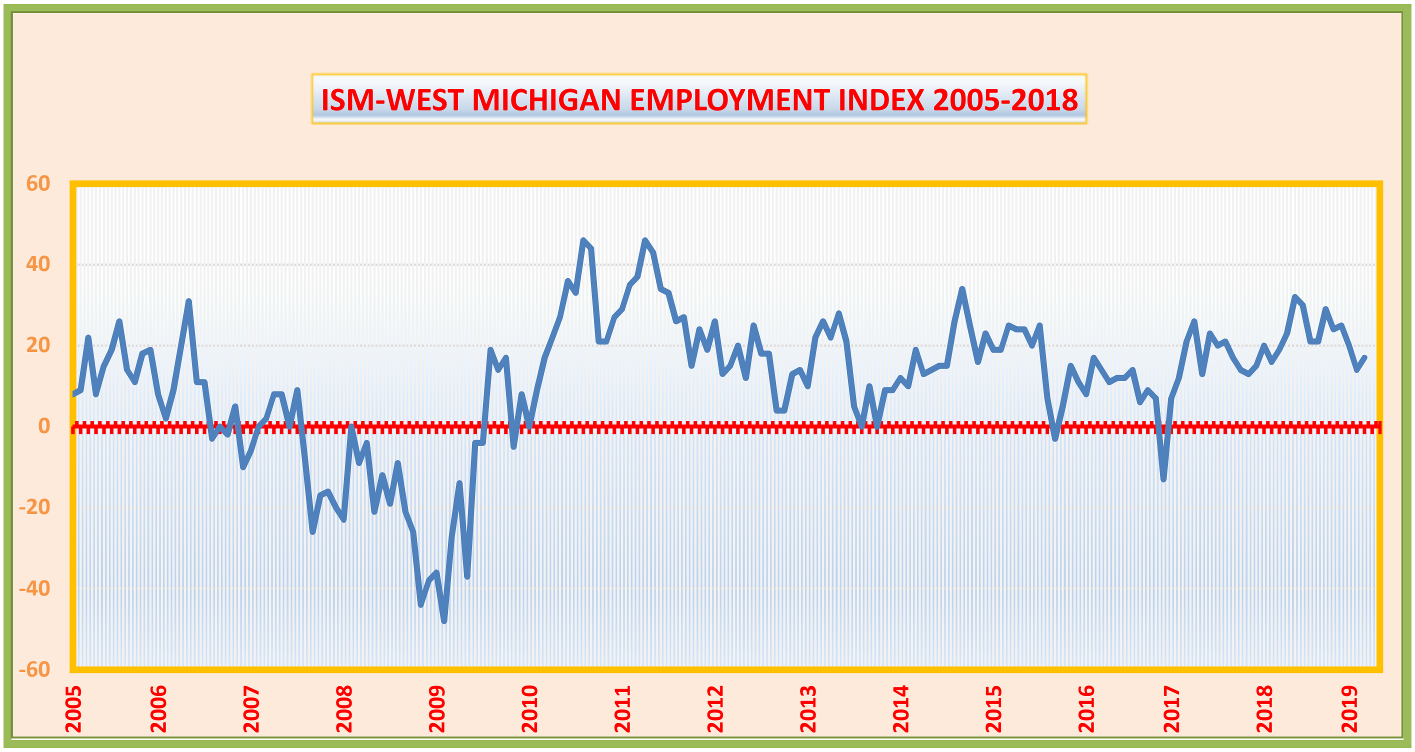


ISM-West Michigan Index of New Orders: 2005-2019 Only



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 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.