



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

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

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### **Current Business Trends**

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

#### **MARGINAL GROWTH RETURNS FOR WEST MICHIGAN**

##### **Key Participant Comments for August:**

"We see machine tool pricing dropping in West Michigan and across the country."

"The uncertainty related to trade, tariffs, and recession is worrying our customers."

"Things are starting to slow down a little."

"We still need more machine operators, and we are having a hard time finding enough hourly workers for production."

After last month's substantial dip, the pace of the West Michigan industrial economy has returned to a very modest growth rate. According to the data collected in mid-August, NEW ORDERS, our closely-watched index of business improvement, recovered to +3, up substantially from July's -13. In a similar move, August's PRODUCTION index bounced up to +9 from -15. Activity in the purchasing offices, our index of PURCHASES, flipped back to +2 from -6. Anecdotal comments from our survey participants continue to be mixed, although the mood continues to drift in a more cautious direction.

**The U.S. Economy.** According to the September 3 press release from the Institute for Supply Management, our parent organization, NEW ORDERS, ISM's index of business improvement, continued to fall in August. Last month's report for July of -2, the first negative reading in seven years, was followed by a decline to -8 for August. August's PRODUCTION index held steady at -1. For a diffusion index, any reading below 50.0 is considered negative. It is therefore disappointing to see ISM's overall index come in at 49.1, down from 51.2. As always, one month does not make a trend, and this same index was at 48.0 as recently as January 2016. However, another downtick next month will be cause for concern.

A slightly different and perhaps more accurate view of the U.S. economy comes from IHS Markit, the British international consulting firm. Markit.com's seasonally adjusted August PMI came in at 50.3, down from July's 50.4, the lowest the index has been since September 2009. Just as last month, Chris Williamson, Chief Business Economist at IHS Markit, continues to be very cautious:

"The August PMI indicates that U.S. manufacturers are enduring a torrid summer, with the main survey gauge down to its lowest since the depths of the financial crisis in 2009. Output and order book indices are both among the lowest seen for a decade, indicating that manufacturing is likely to have again acted as a significant drag on the economy in the third quarter, dampening GDP growth. At current levels, the survey indicates that manufacturing production is falling at an annualised rate of approximately 3%. Deteriorating exports are the key to the downturn, with new orders from foreign markets dropping at the fastest rate since 2009. Many companies blame slower global economic growth for weakened order books, but also point the finger at rising trade war tensions and tariffs. Hiring has stalled as companies worry about the outlook: optimism about the year ahead is at its lowest since comparable data were

first available in 2012. Similarly, price pressures are close to a three-year low, as crumbling demand has removed firms' pricing power."

**The World Economy.** J.P. Morgan's August Global Manufacturing Index, a compilation of purchasing manager's reports from 43 nations, remained negative but upticked to 49.5 from 49.3. Of the major industrial economies, modest expansions were reported in China, France, Brazil, and India. However, Japan, Germany, South Korea, the U.K., Taiwan, Italy, and Russia were some of the countries reporting contractions. Given that JPM's index is weighted by the size of the respective world economies, the modest expansion of the U.S. economy helps keep the index from falling further. David Hensley, Director of Global Economic Coordination at J.P. Morgan, further noted:

"While the global manufacturing output PMI increased in August, its level remained low signaling very modest growth in manufacturing output. Away from the output index, detail of the PMI report points to weakening in activity. New Order intakes fell at the joint-fastest pace in nearly seven years, business optimism dropped to a series-record low, international trade flows weakened, and the cyclically sensitive orders-to-inventory ratio hit its joint-lowest level since late-2012. Geopolitical uncertainty weighing on business capital investment remains the main drag on global industry. Developments on this front need to improve for industry to lift."

It is good news that the PMI numbers from the Eurozone appear to be stabilizing. The August IHS Markit PMI manufacturing index for the Eurozone came in at 47.0, up modestly from 46.5 in July. Although still below the break-even point of 50.0, the PMIs for Spain, Italy, Austria, and Germany improved slightly in August. The PMIs for Greece, France, and the Netherlands still remain marginally positive. Worries about the U.S./China trade war, Brexit, and falling exports have driven the Eurozone's index of Business Confidence to a seven-year low. Chris Williamson from Markit.com further commented:

"Eurozone producers are suffering as the summer slump in factory production persisted into August. Although up on July, August's manufacturing PMI was the second-lowest since early 2013, and a marked deterioration in optimism about the year ahead suggests companies are expecting worse to come. Trade wars and tariffs remain the biggest concerns among producers, and the escalation of global trade war tensions in August encouraged further risk aversion. Germany is suffering the steepest decline, in part reflecting slumping global demand for autos and business machinery. While France bucked a wider downturn trend, even here growth was only very modest."

**Automotive.** Although the Detroit Three have all decided to quit posting monthly sales figures, the remaining nameplates reported very positive sales for August. According to the September 4 edition of Automotive News, sales for the industry (without the Detroit Three) bounced up +12.2 percent in August. The industry's Seasonally Adjusted Annualized Rate (SAAR) came in at an estimated 16.5 million units, down from 17.1 million in August 2018. Among the firms still reporting monthly, VW improved by 7.7 percent, Subaru added 7.9 percent, Hyundai-Kia gained 13.3 percent, Honda added 17.6 percent, Toyota bounced up 11.3 percent, and the Nissan Group bounced even

higher adding 13.2 percent. Jeff Schuster, head of global vehicle forecasts at LMC Automotive, further noted:

“Consumers continue to shake off the political and trade turbulence because the economy remains on solid, if somewhat slowing, footing. This foundation, combined with higher fleet volume in the first half of the year, will keep the industry above 17 million units for a fifth year in a row.”

**Industrial Inflation.** The West Michigan index of PRICES edged up to +4 from July’s -2, and considerably higher than June’s index of -13. At the national level, ISM’s U.S. index of PRICES rose modestly to -8, up from -10. The Markit.com index of U.S. prices remained above the break-even point of 50.0. As the world economy continues to slow, J.P. Morgan’s international Pricing index edged lower to 50.2 from 50.9. Timothy Fiore, ISM’s survey committee chair, further noted:

“Prices contracted in August, but at lower rates compared to July. Respondents reported decreases in prices for aluminum, corrugate, energy, wood pulp and steel products, but the panel also reported price growth in hot-rolled steel, which is a positive sign for future price recovery,”

**GDP.** On August 29, the Bureau of Economic Analysis announced that the GDP “second estimate” for the second quarter of 2019 was revised modestly lower to 2.0 percent from 2.1 percent. Predictions for the third quarter continue to drift lower, with the Atlanta Fed’s “GDP Now” reporting a third quarter average estimate for the top ten forecasters to be between 1.5 percent and 2.4 percent. Based on various business indicators and our own statistics, it appears to be fairly certain that the GDP numbers for the next few quarters will continue to soften but MAY remain modestly positive. The formal definition of a recession is “...a contraction in the GDP for six months (two consecutive quarters) or longer. Hence, there is currently no evidence that a recession is imminent.”

**Business Confidence.** For August, West Michigan’s SHORT-TERM BUSINESS OUTLOOK, which asks local firms about the perception for the next three to six months, tiptoed up modestly to +10 from +6. The index for the LONG-TERM BUSINESS OUTLOOK, which queries the perception for the next three to five years, remains more stable but edged slightly lower to +25 from +28. Just like most months, both of these indices are heavily influenced by the current news cycle. Hence, the West Michigan survey respondents apparently do not see any major shift in the current outlook.

**West Michigan Unemployment.** Our local index of EMPLOYMENT has been one of our stronger statistics over the past thirty months or so. However, the index has now turned decidedly flat, coming in at -1 for July and +1 for August. According to the most recent data released by Michigan’s DTMB, the unemployment numbers for most of our

West Michigan counties are edging up, even though the job market remained fairly strong. Ottawa County reported an unemployment rate of 3.7 percent. Kent County and Allegan both came in at 3.9 percent according to DTMB’s latest report. These numbers are not as good as they were a few months ago for two main reasons. First, they are not seasonally adjusted. The raw unemployment rate always goes up in the summer when the annual graduations from college and high school add new people to the workforce. Second, the trend for marginally attached and discouraged workers to re-enter the workforce continues to push the unemployment numbers higher. In short, the rising wages and the demand for workers at almost every level has enticed at least some people to return to the workforce, and not all of these people have immediately found work.

**Trade Wars.** For West Michigan, the impact of the trade war with China is a two-edged sword, and both sides are bad. The news media has highlighted the impact on farmers, which has resulted in falling prices for corn, soybeans, pork, and other agricultural exports. And then there is the import side of the sword. Many West Michigan industrial firms have come to rely on a wide range of industrial commodities subject to new tariffs that are driving up prices. Initially, many Chinese exporters were reluctantly willing to accept lower prices in orders to retain the business relationship. Both buyers and sellers believed that the governments for both countries would soon reach an agreement, and some modified form of trade between the two countries would resume. But that was 18 months ago, and now the rhetoric has turned pessimistic.

Even though trade talks have resumed, there is no concrete indication about how much longer the trade war will continue. On the selling side, our farmers are impacted by falling prices for corn and soybeans. On the buying side, the industrial firms are now being bitten by higher prices. It is noteworthy that at least some of these firms are now actively looking for sourcing outside of China. However, for China, sales to the U.S. have become a gigantic cash cow. At some point, tariffs or no tariffs, the Chinese may come to realize that they may be permanently losing business.

**Summary.** In the past, most recessions have been triggered by a catastrophic event, such as the dot com bust, the Arab oil boycott, or the housing financial crisis. There is no obvious event that could trigger a recession at this time, EXCEPT if the trade war should get out of hand. The world economy continues to slow, and the U.S. will eventually be drawn into the slowdown. Hence, we could see several quarters of GDP growing in the range of one percent or so. If, by some miracle, a trade agreement is soon reached with the Chinese, confidence in the entire world economy would benefit, and the U.S. and Chinese economies would rebound. But the operative word is “if.”

## AUGUST COMMENTS FROM SURVEY PARTICIPANTS

“We’re seeing some softening in sales lately.”

“Business steady and strong.”

“Other than the stock markets, everything is staying the same right now.”

“Business is strong. The customer orders forecast is slightly lower, but we are shipping many items. Current orders are higher than forecast.”

“We’re very busy with lots of road projects going on both on state and local roads. All the contractors and local road agencies are at full capacity. Hopefully, they can get all the work completed before the weather changes.”

“We’re cautious about the future.”

“We had our best July in history this year.”

“The uncertainty related to trade, tariffs, and recession is worrying our customers.”

“Some of these questions are difficult to answer from a retail standpoint. Our company functions in such a way where we have to rely heavily on our suppliers, and their lead times vary.”

“We will be at least 10% above forecast for this month. We have been busy enough this summer to prevent us from building inventory going into our busy season. We are expecting a lot of overtime this fall.”

“Sales feel weak in the capital equipment arena, although we are still holding our own.”

“The second half rebound is underway. Our major general commodities continue to be down in prices.”

“We are seeing a little softening in the market.”

“Business over the next few months appears to be steady.”

“We still need more machine operators, and we are having a hard time finding enough hourly workers for production.”

“Things are starting to slow down a little.”

“We had a good month, but it is last of a windfall project. Now it’s back to business as usual.”

“We see machine tool pricing dropping in West Michigan and across the country.”

“For our suppliers, sourcing certain metals for the jewelry can be difficult. I’m unsure on how they are doing currently.”

“The steel market has been getting very competitive lately, and the vendors are getting very competitive on steel prices.”

# AUGUST Survey Statistics

	UP	SAME	DOWN	N/A	Aug. Index	July Index	June Index	25 Year Average
Sales (New Orders)	27%	47%	24%	2%	+ 3	-13	+10	+14
Production	27%	45%	18%	10%	+ 9	-15	+11	+14
Employment	20%	61%	19%	0%	+ 1	- 1	+ 5	+ 8
Purchases	16%	70%	14%	0%	+ 2	- 6	+12	+ 7
Prices Paid (major commod.)	14%	76%	10%	0%	+ 4	- 2	-13	+15
Lead Times (from suppliers)	14%	80%	6%	0%	+ 8	+ 2	+ 5	+11
Purchased Materials Inv. (Raw materials & supplies)	16%	64%	12%	8%	+ 4	+12	+ 0	- 4
Finished Goods Inventory	12%	68%	10%	10%	+ 2	+ 4	- 3	- 8
Short Term Business Outlook (Next 3-6 months)	35%	45%	20%	0%	+15	+ 6	+20	-
Long Term Business Outlook (Next 3-5 years)	31%	59%	6%	4%	+25	+28	+29	-

**Items in short supply:** Brass components, labor, contractors, trucking, aggregates, qualified employees, Vogt valves, plating capacity.

**Prices on the UP side:** Polypropylene, wages, salt, aggregates, contracted services, trucking, mixed metal stabilizers, Allen Bradley electrical components (due to tariffs, they say), China based goods related to tariffs, scrap steel, metals.

**Prices on the DOWN side:** Packaging, corrugated/linerboard, aluminum, copper, steel, Taiwan steel, CR/HR steel, brass, copper, zinc, magnesium, propylene, softwood, transportation.

## Latest Unemployment Reports

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

	July 2019	July 2018	Aug. 2009	20 Year Low
State of Michigan (Adj.)	4.3%	4.0%	14.6%	3.2%
State of Michigan (Unadj.)	5.1%	4.8%	14.1%	2.9%
Kent County	3.9%	3.6%	11.9%	2.1%
Kalamazoo County	4.4%	4.1%	11.1%	2.1%
Calhoun County	5.2%	4.8%	12.8%	2.7%
Ottawa County	3.7%	3.2%	13.3%	1.8%
Barry County	4.1%	3.9%	10.9%	2.2%
Kalamazoo City	5.5%	5.2%	15.2%	3.2%
Portage City	4.0%	3.8%	8.7%	1.3%
Grand Rapids City	5.2%	4.8%	16.1%	3.0%
Kentwood City	3.7%	3.4%	10.7%	1.4%
Plainfield Twp.	2.9%	2.7%	8.0%	1.4%
U.S. Official Rate (July)	3.7%	3.9%	9.6%	3.8%
U.S. Rate (Unadjusted)	4.0%	4.1%	9.6%	3.6%
U.S. U-6 Rate (July)**	7.0%	7.3%	16.7%	8.0%

\*\*U-6 for Michigan = 7.6% for July 2018 to June 2019

## 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 + 3 for the month of August 2019

Previous Month - 3 for the month of July 2019

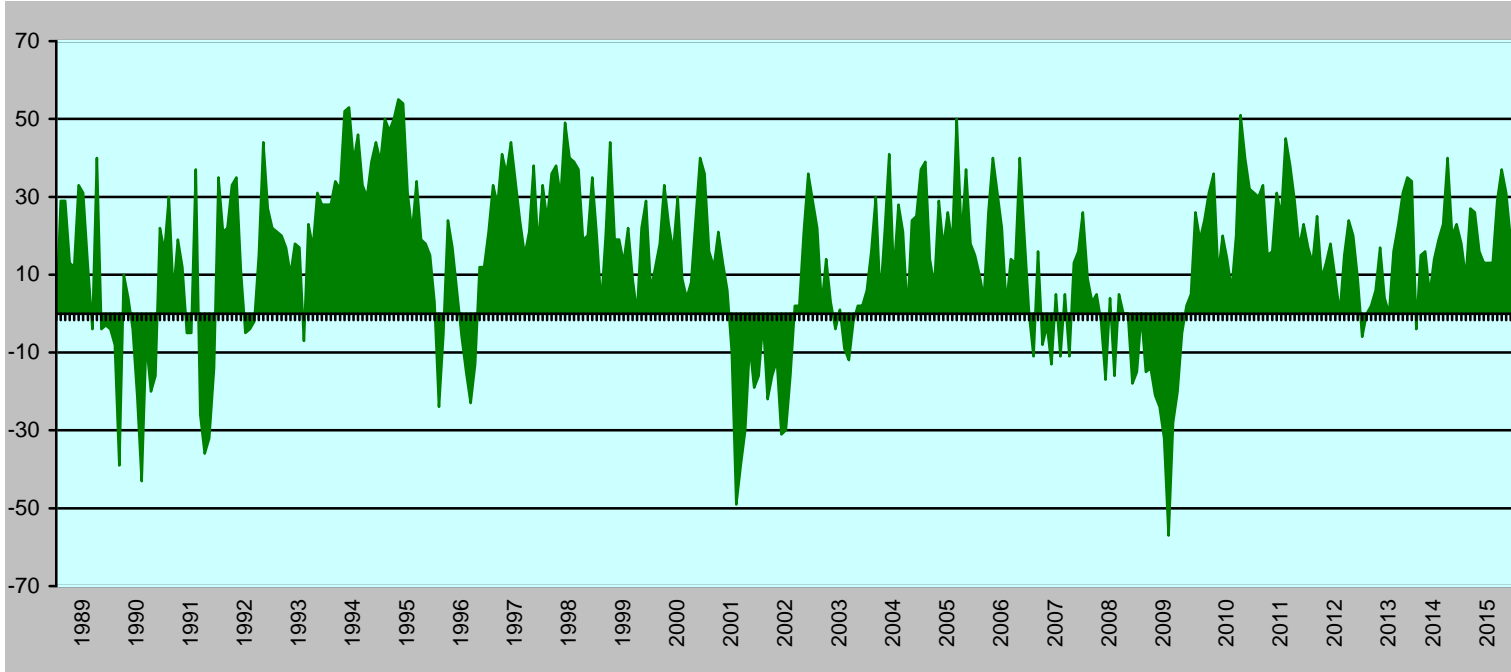
One Year Ago + 17 for the month of August 2018

Record Low - 57 for the month of December 2008

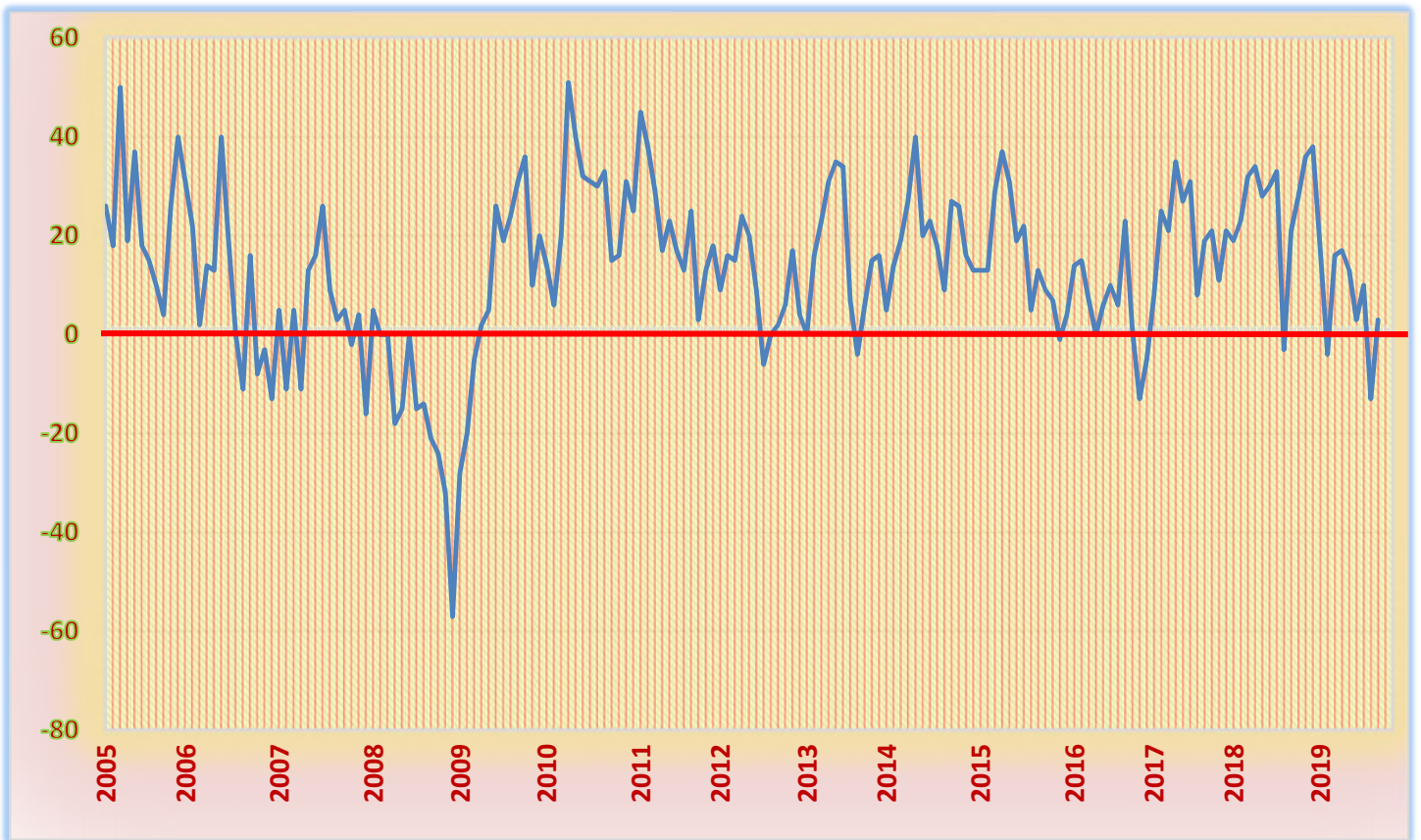
Record High + 55 for the month of September 1994

First Recovery + 3 in April of 2009 and forward

## ISM-West Michigan Index of New Orders 1988 - 2019

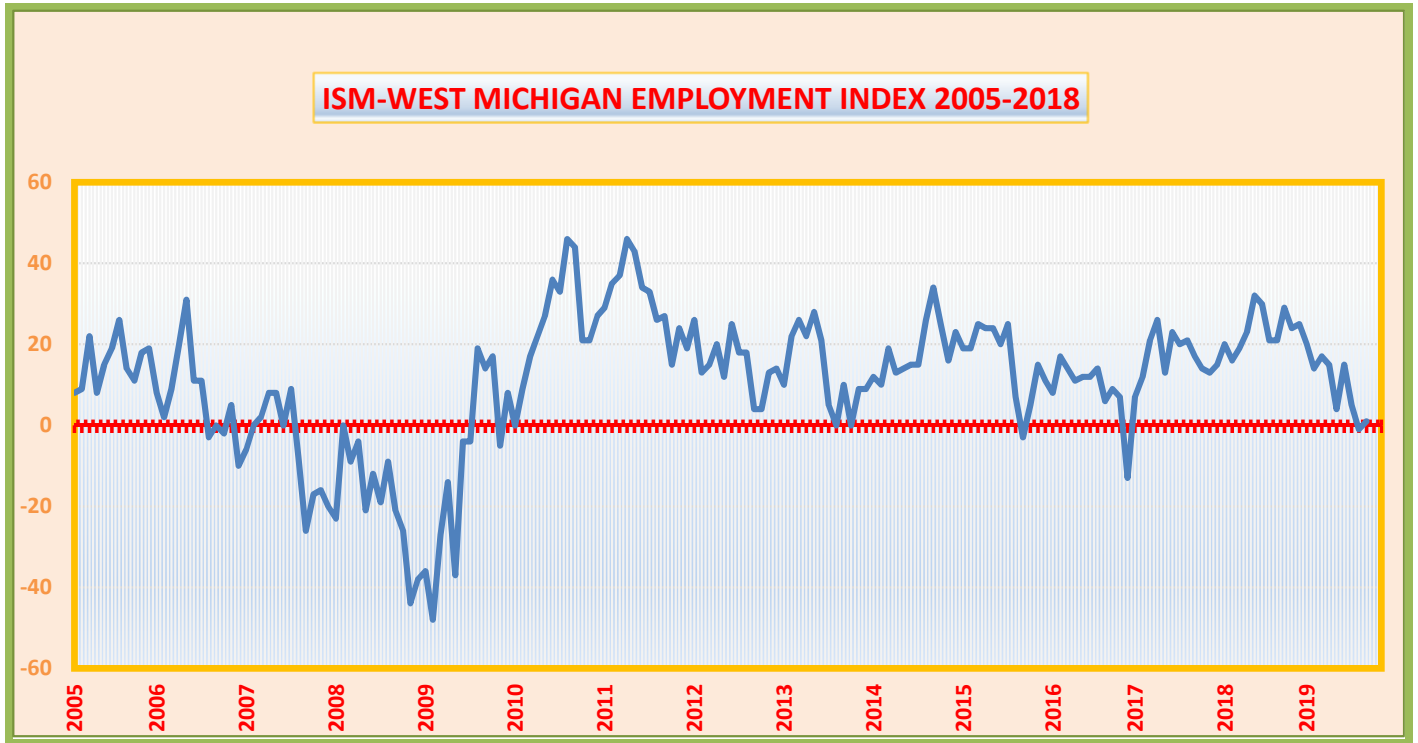


## ISM-West Michigan Index of New Orders: 2005-2019 Only



## 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.

