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Current Business Trends

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STILL SLIGHTLY NEGATIVE

Key Participant Comments for January:

"We had a slight softening a couple months ago, but are holding steady. Business is good. Not great, but moving forward positively overall."

"2020 is going to be very expensive for our company relative to tariffs... Several key exclusions from 2019 were rejected for 2020."

"Very strong month."

"Sales continue to soften."

According to the statistics collected in the last part of January, the West Michigan industrial economy remains marginally soft. Our survey's index of NEW ORDERS edged down to -9 from December's -7, but continues to be well ahead of October's much weaker -21 reading. The January index of PRODUCTION fared a little better and recovered to -2 from December's -7. The January index of PURCHASES, which measures activity in the purchasing offices, remained negative but narrowed the gap to a reading of -6 from -17. Much as they have been for the last four months, the participant comments remain mixed, although more respondents are fretting about softening overall business conditions.

The U.S. Economy. Good news for the economy is always welcome, and the February 3 press release from the Institute for Supply Management, our parent organization, reported that ISM's composite index came in at a six-month high of 50.9, up significantly from December's 47.8. NEW ORDERS, ISM's index of business improvement, rose substantially to +4 from -12. January's PRODUCTION index reported a stronger bounce and rose to +7 from -19. Because of increased demand, ISM's index of SUPPLIER DELIVERIES stretched slightly to +6 from +4. On the other hand, the index of ORDER BACKLOGS, which has been sliding since mid-summer, remained negative but improved to -9 from -13.

A similar reading on the U.S. economy comes from IHS Markit.com, the British international consulting firm. Markit.com's seasonally adjusted January 2020 PMI posted at 51.9, down slightly from December's 52.4. New Orders declined modestly, and New Export Orders fell for the first time since September. Chris Williamson, Chief Business Economist at IHS Markit, continues to be cautiously optimistic:

"U.S. manufacturing limped into 2020, with falling exports dampening output growth and causing a pull-back in hiring. The survey data are consistent with factory production falling moderately, meaning the manufacturing sector looks set to act as a drag on the overall economy once again in the first quarter. Weakness looks broad-based. Rising demand from households has helped support production in recent months, but January saw a marked slowing in new orders for consumer goods. Production of capital goods such as business equipment, plant and machinery meanwhile fell for the first time in almost four years, hinting at weakened business investment. More encouragingly, business expectations for the year ahead perked up, coinciding with an easing of trade tensions and the signing of new North American and

Chinese trade deals. Companies are therefore expecting the soft patch to be short-lived, though fears surrounding the Wuhan coronavirus and any further potential escalation of trade tensions could erode this optimism."

The World Economy. The J.P. Morgan Global Manufacturing Index for January released on February 3 improved slightly to 50.4 from 50.1. Although still positive, JPM's survey of purchasing managers from 42 countries around the world must still be described as flat. New Orders rose modestly to 50.9 from 50.3. In a similar move, the index of Output, which can also be called industrial "Production," edged up to 50.8 from 50.4. At 49.8, JPM's world Employment index remains scantily below the critical break-even point of 50.0.

Among the major industrial countries expanding were India, Brazil, Greece, China, and the U.S. The main depressors for the Global Manufacturing Index came from Germany, Japan, the U.K., and Italy. Olya Borichevska, from Global Economic Research at J.P. Morgan, further noted:

"The global manufacturing PMI resumed its upward trajectory in January. Overall this suggests that the global economy is well positioned for a recovery in the goods-producing sector. However, this will be interrupted by the outbreak of the new coronavirus in China. As for the PMI, the output index reached a high since January 2019 suggesting global IP growth at a 1% pace. Actual output contracted last quarter because of idiosyncratic factors in Japan related to the consumption tax hikes and the auto-sector strike in the U.S. With output, new orders, and business confidence all rising, the PMI in January send a positive message for the global industry."

For the Eurozone, the January PMI came in at 47.9, a nice uptick from December's 46.3. Improvement in the indices of New Orders, Production Output, and Purchases all contributed to the modest recovery of the overall PMI. Germany, Austria, Italy, and Spain are the main components holding the index down, while Greece, Ireland, and France helped raise the European index. Chris Williamson from Markit.com further commented:

"Eurozone manufacturing started 2020 with green shoots of recovery in sight. Most encouragingly, order books moved closer towards stabilisation, falling to the smallest extent since late 2018. With the survey indicating the steepest fall in warehouse stocks since September 2016, the new orders-to-inventory ratio, a key forward-looking indicator for factory production, surged to its highest for nearly one-and-a-half years. Expectations for output growth also leaped to the highest since August 2018 amid a broad-based improvement of sentiment across the region, with an especially important upturn in confidence seen in Germany. The improvement adds to our view that the eurozone economy could see growth strengthen in the coming months, meaning the ECB will hold off with any policy changes and instead focus on its strategic review. However, key risks which could alter the brightening outlook include the threat of U.S. tariffs and trade war escalation, Brexit-related disruptions to trade as well as uncertainty surrounding the impact of the Wuhan coronavirus."

Automotive. After several adjustments, the Automotive News Data Center now reports that U.S. light-vehicle sales finished 2019 down 1.2 percent at 17.1 million units. The shift to the sales of light trucks and crossovers from the sale of traditional sedans was about 20 percent, and higher fleet shipments offsetting weaker retail volume. Most automotive analysts see 2020 volume dropping modestly to a range of 16.4 to 16.9 million units. Standard and Poor's analyst noted that

affordability and heightened consumer interest in purchasing used vehicles will likely undermine U.S. light-vehicle demand for 2020. David Phillips from Automotive News further commented:

"...the recently reached trade agreement between the U.S. and China will only have a limited impact on the industry, and the next round of [trade] negotiations will likely drag out over many years. In the meantime, the imposition of substantial tariffs on imports could hurt the auto market and lead to consumer price increases."

Some additional firms in the auto industry are following the path of the Detroit Three and no longer report monthly sales results. Of those still posting monthly data, the January year-over-year sales for Toyota gained 5.5 percent, Hyundai-Kia added 6.4 percent, Subaru improved a scant 0.5 percent, and Mazda "zoom-zoomed" by 17.8 percent. On the down side, Honda lost 4.3 percent, largely because of an insufficient number of offerings in the light truck market. Overall, most forecasters remain modestly positive about the prospects for the auto industry in 2020.

Industrial Inflation. Although the world economy slowed during the last two quarters of 2019, the slight uptick of business activity recorded in December and January has started to push industrial prices slightly higher for many commodities. The January J.P. Morgan international Pricing index edged up to 51.8 from 51.3. Locally, the West Michigan index of PRICES jumped to +15 from December's -6. For the ISM national survey, the U.S. index of Prices rose modestly to +7 from +4. Timothy Fiore, ISM's survey committee chair, further noted:

"The ISM Prices Index registered +7 in January, an increase of three percentage points from the December reading. Raw materials prices increased for a second straight month following six months of decreases."

GDP. On January 30, the U.S. Bureau of Economic Analysis announced a preliminary growth estimate of 2.1 percent in 2019's fourth quarter. This report confirmed the Atlanta Fed's "GDP Now" December estimate of 2.1 percent. Looking ahead to the first quarter of 2020, the Atlanta Fed's estimate has now risen to a rather optimistic 2.9 percent. Part of the uptick can be attributed to the recent trade agreement with China, as well as the modest uptick in business conditions around the world.

West Michigan Unemployment. For January, our West Michigan index of EMPLOYMENT edged lower to -7 from -2. Although the January 30 unemployment report released from Lansing's DTMB

remains optimistic, it is again worth noting that employment and unemployment statistics are economic laggards. Of the 83 counties in Michigan, Ottawa County posted the second lowest December unemployment rate of 2.3 percent. Kent County came in third at 2.4 percent, Kalamazoo County was fifth at 2.7 percent, and Allegan County shared seventh place at 2.8 percent. Of the major cities in Michigan, the Grand Rapids report of 3.2 unemployment is the envy of most other major cities in the nation. However, if history repeats itself, the negative growth rate exhibited by our index of NEW ORDERS will translate to marginally higher unemployment rates in a few months.

Business Confidence. West Michigan's SHORT-TERM BUSINESS OUTLOOK for January, which asks local firms about the perception for the next three to six months, recovered to +13 from +0. The index for the LONG-TERM BUSINESS OUTLOOK, which queries the perception for the next three to five years, edged lower to +25 from +33. Because of the recent Chinese trade agreement and the signing of the "new" NAFTA, now known as the USMCA, the current news cycle has added a modest degree of economic optimism as we go forward into 2020.

Tariff Wars. Are the tariff wars over? No, but there has been some obvious recent progress. First, the new USMCA with Canada and Mexico will correct some inequities that have popped up over the past 26 years. For West Michigan, the biggest beneficiaries will be our local auto parts producers who will have their tariffs to Canada reduced or eliminated.

West Michigan farmers may benefit from the Phase I trade agreement with China. However, many of the tariffs that have disrupted Chinese pricing for many commodities and sub-assemblies for at least some of our survey participants are not included in the agreement. Furthermore, the agreement may contain a lot of loopholes that could allow the Chinese to fudge compliance numbers. In fact, it may be a year before we know if the agreement has actually done us any good.

Summary. Although the national and international economies appear to be edging slightly higher, the West Michigan economy is poised for a period of slower growth as we enter 2020. The Chinese flu virus, formally called #2019nCoV and informally dubbed the Coronavirus may soon begin to put a significant crimp in the world economy if the contagion spreads. The CDC tells us that a vaccine is still about 12-14 months away, so world travel and other measures to contain the spread may put a dent in the Chinese economy as well as other economies around the world, including our own.

JANUARY COMMENTS FROM SURVEY PARTICIPANTS

"Very strong month."

"Our business is seasonal, and we are building finished goods inventory to support peak season levels. We are leveling our manufacturing capacity and improving product flow of raw and work in process inventory."

"2020 is going to be very expensive for our company relative to tariffs. This will be the first full year at 25% on all of our Chinese purchases. Several key exclusions from 2019 were rejected for 2020."

"We had a really good 2019."

"New orders are little slower this time this year vs. last year."

"Business is very slow."

"We are already starting a busy season with lots of road projects slated for 2020."

"We are still holding our own in the ETO capital equipment industry."

"Incoming orders are really slowing this month, and we are eating away our backlog. Budgets are being reduced, but we are still hoping for some project work to keep us busy."

"Quoting activity still remains very active."

"Business is soft but steady. Steady sales are expected for 2020, and our forecasts remain even with 2019. However, 2021/2022 are forecasted to be more than 25% higher than 2020. New business kicking in at the right time in the right volumes."

"We had a slight softening a couple months ago, but are holding steady. Business is good. Not great, but moving forward positively overall."

"The passive electronics market is definitely right sized. Lead times have reverted back to 2017 levels, and scarcities have subsided."

"We had a real slow down since the middle of November. December was the worst bookings month of the year, and January is starting slow."

"Pricing has either stayed the same or has gone up a little bit. Sadly, no prices are on the decline as of now."

"We've had some typical New Year incremental price increases, but industrial inflation seems to be in check."

"Sales continue to soften."

January Survey Statistics

	UP	SAME	DOWN	N/A	Jan. Index	Dec. Index	Nov. Index	25 Year Average
Sales (New Orders)	19%	51%	28%	2%	- 9	- 7	-10	+14
Production	17%	56%	19%	8%	- 2	- 7	- 9	+14
Employment	6%	81%	13%	0%	- 7	- 2	- 9	+ 8
Purchases	17%	58%	23%	2%	- 6	-17	-18	+ 7
Prices Paid (major commod.)	17%	81%	2%	4%	+15	- 6	-18	+15
Lead Times (from suppliers)	11%	80%	9%	0%	+ 4	+ 2	+ 0	+11
Purchased Materials Inv. (Raw materials & supplies)	17%	66%	13%	4%	+ 4	-12	-16	- 4
Finished Goods Inventory	11%	55%	26%	9%	-15	-19	-14	- 8
Short Term Business Outlook (Next 3-6 months)	30%	53%	17%	0%	+13	+ 0	+11	-
Long Term Business Outlook (Next 3-5 years)	34%	53%	9%	4%	+25	+33	+35	-

Items in short supply: Aluminum cans, food grade terra alba (gypsum), production workers.

Prices on the UP side: Fuel due to the IMO 2020 regulations, aluminum, steel (hot rolled and cold rolled), scrap steel, asphalt products, raw materials, trucking, construction services, PVC resin, anything imported goods from China.

Prices on the DOWN side: Polypropylene, steel*, steel scrap*, some raw steel products, electronic components.

*Item reported as both up AND down in price.

Latest Unemployment Reports

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

	Dec. 2019	Dec. 2018	Aug. 2009	20 Year Low
State of Michigan (Dec.)	3.9%	4.0%	14.6%	3.2%
State of Michigan (Unadj.)	3.4%	4.1%	14.1%	2.9%
Kent County	2.4%	2.8%	11.9%	2.1%
Kalamazoo County	2.7%	3.3%	11.1%	2.1%
Calhoun County	3.5%	4.2%	12.8%	2.7%
Ottawa County	2.3%	2.8%	13.3%	1.8%
Barry County	2.9%	3.5%	10.9%	2.2%
Kalamazoo City	3.4%	4.1%	15.2%	3.2%
Portage City	2.5%	3.0%	8.7%	1.3%
Grand Rapids City	3.5%	3.7%	16.1%	3.0%
Kentwood City	2.2%	2.7%	10.7%	1.4%
Plainfield Twp.	1.8%	2.1%	8.0%	1.4%
U.S. Official Rate (Dec.)	3.5%	3.7%	9.6%	3.5%
U.S. Rate (Unadjusted)	3.5%	3.9%	9.6%	3.4%
U.S. U-6 Rate (Dec.)**	6.7%	7.6%	16.7%	8.0%

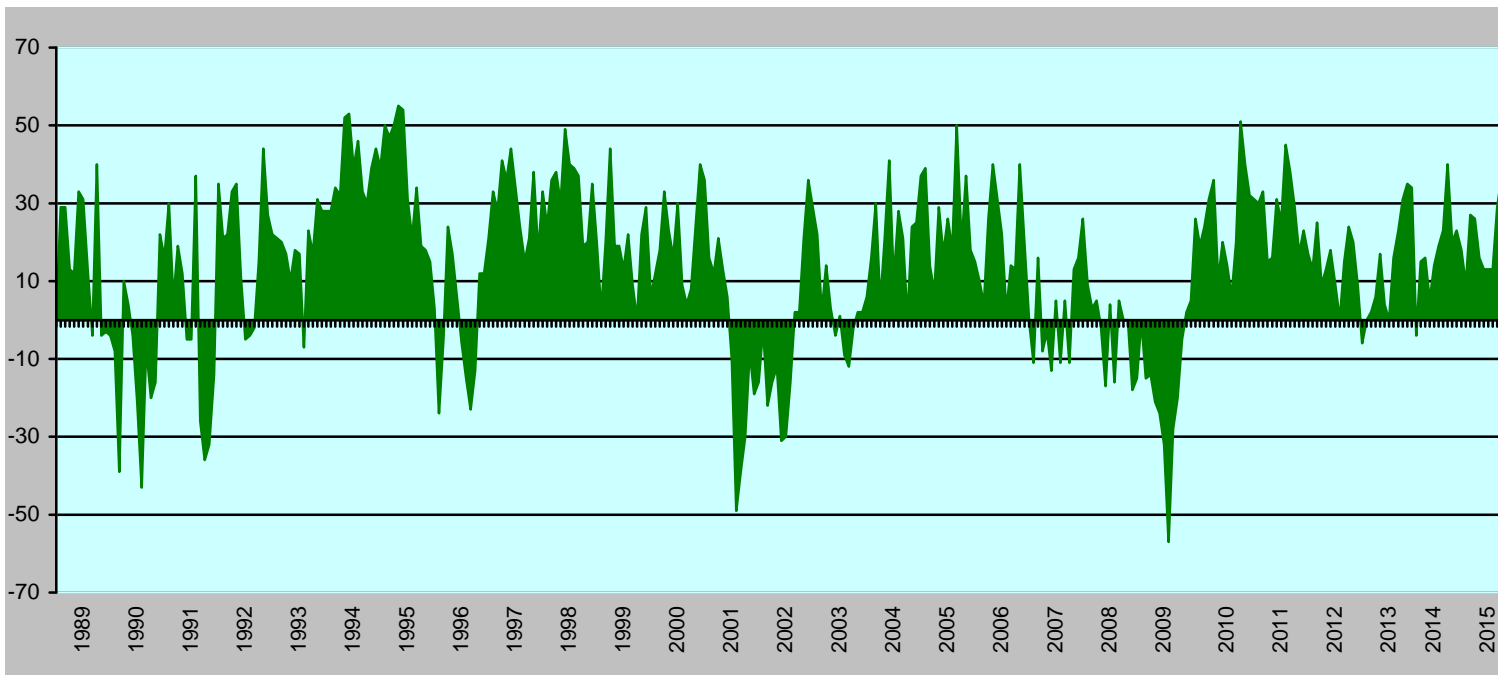
**U-6 for Michigan = 7.5% for all of 2019

Index of New Orders: West Michigan

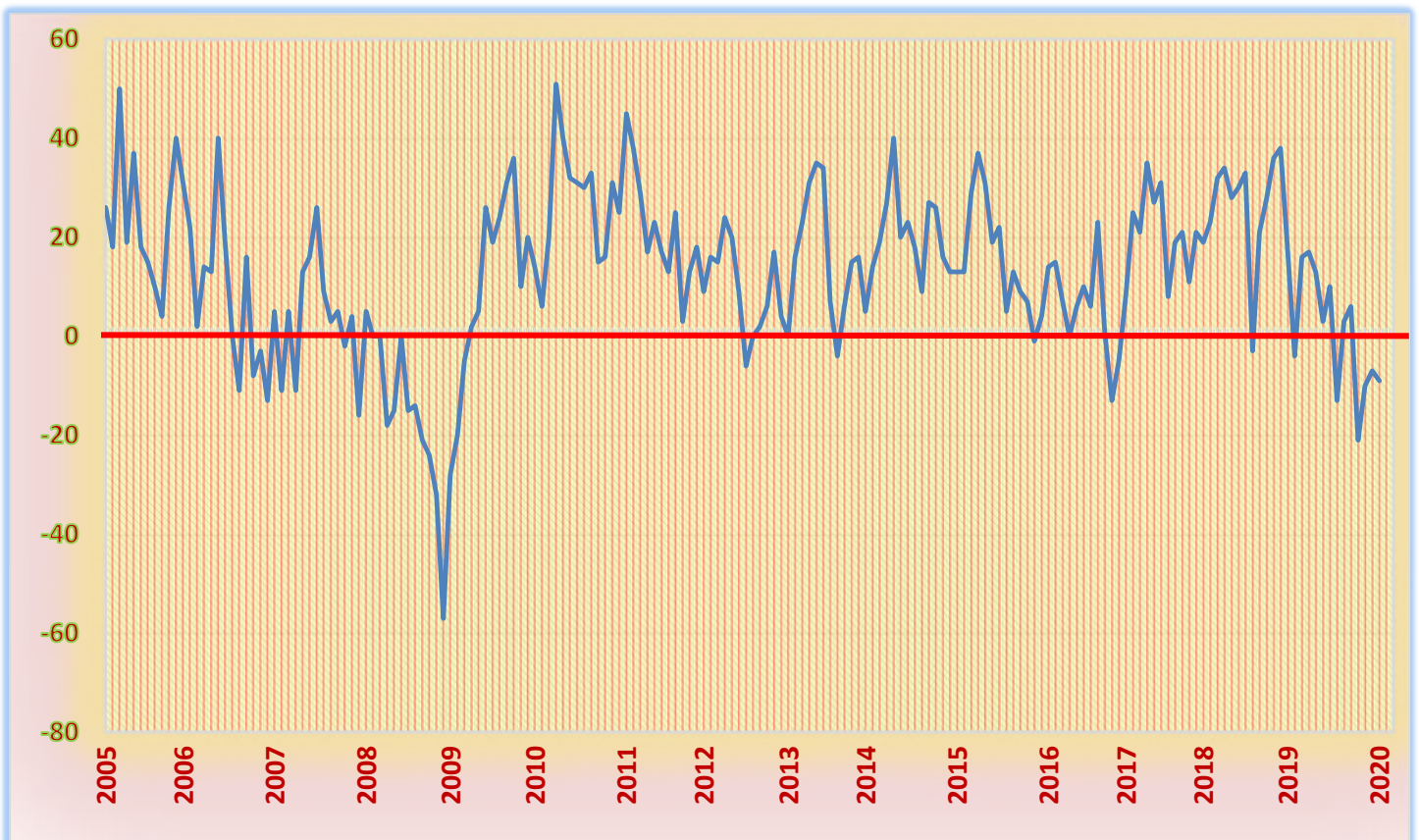
As the name implies, this index measures new business coming into the firm, and signifies business improvement or business decline. When this index is positive for an extended period of time, it implies that the firm or organization will soon need to purchase more raw materials and services, hire more 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	- 9 for the month of Jan. 2020
Previous Month	-7 for the month of Dec. 2019
One Year Ago	+ 17 for the month of Jan. 2019
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

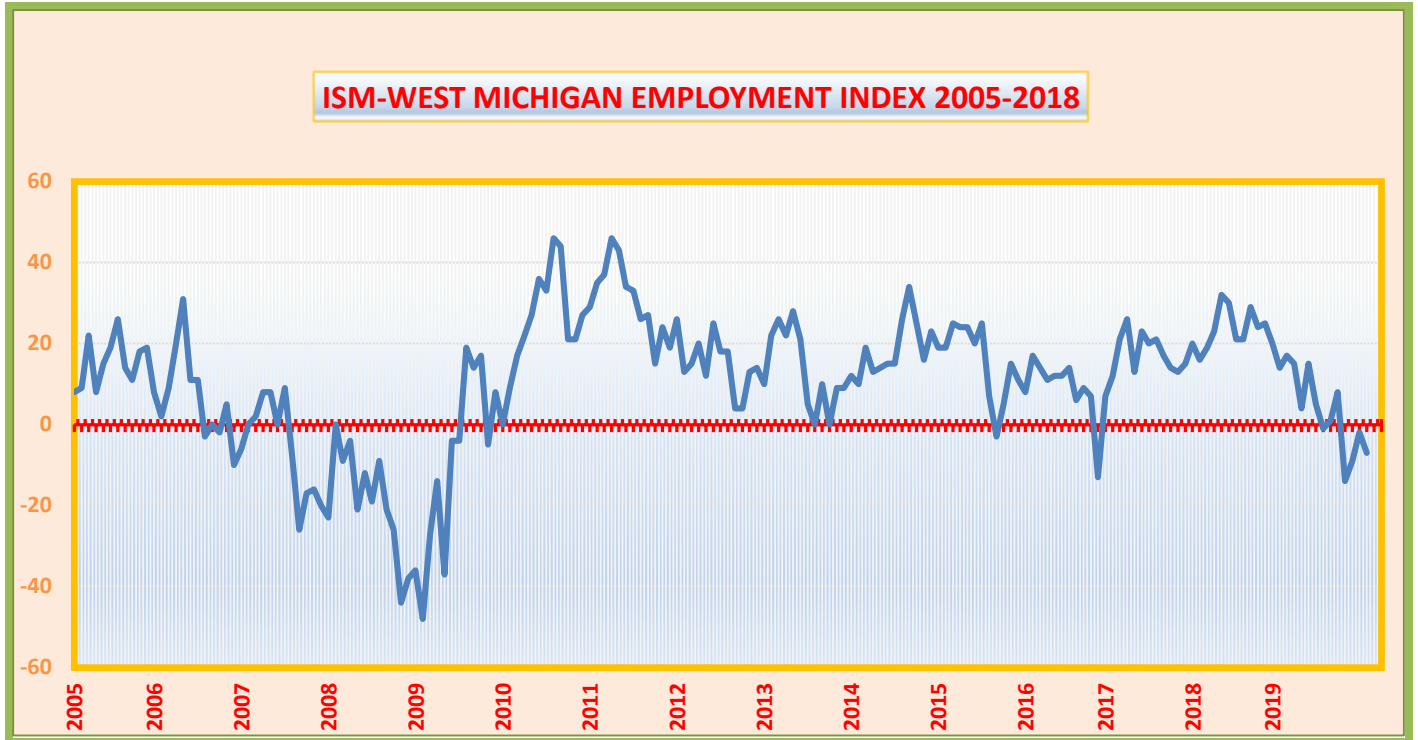


ISM-West Michigan Index of New Orders: 2005-2019 Only



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.

