

CURRENT BUSINESS TRENDS

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Still very modestly positive. That's the latest word on the Greater Grand Rapids economy, according to the data collected in the third and fourth weeks of July. NEW ORDERS, our index of business improvement, eased to +3, down from +9. In a more subdued move, the PRODUCTION index eased to +3 from +6. Activity in the purchasing offices, which we record as our index of PURCHASES, edged up to +3 from +0. The EMPLOYMENT index remained dead flat at +0. Nevertheless, positive is still positive. Just as last month, we have no indexes that are negative, and three that are single-digit positive. In short, the Greater Grand Rapids Economy is growing, but at a very slow rate.

As we look at individual industries, we are again confronted with flat markets. The office and steel furniture business remains good, but except for one firm reporting some significant new orders, business conditions have plateaued. For auto parts suppliers, the annual "model changeover" is in full force, and at least one firm seemed concerned about the large inventories of 2007 models still on the lots. Business conditions for capital equipment firms were either flat or down, depending on the customer base. One major capital equipment firm is still doing very poorly. For industrial distributors, just like last month, the reports were widely mixed. Even the aerospace and defense industries are showing signs of hitting capacity, and are nearing the end of their proverbial ropes.

Turning to the national level, the August 1 press release from the Institute for Supply Management, our parent organization, remained positive but less robust than previous reports. ISM's index of NEW ORDERS edged down to +14 from +22. The PRODUCTION index retreated to +8 from +25. The EMPLOYMENT index flattened to +0 from +6. ISM's composite index eased to +53.8 from 56.0. In a similar move, ISM's non-manufacturing index eased sharply to 55.8 from 60.7. The big culprit was NEW ORDERS for the service sector, which eased to +7 from +20.

The global economy also shows signs of slight moderation. In the monthly report issued on August 1, the J.P. Morgan survey of world manufacturing eased modestly to 53.1 from 54.4. NEW ORDERS, which constitutes a major portion of the index, moderated to 54.4 from 56.1. Worldwide, business condition improved in the UK, remained about the same in the Eurozone, but slowed in Japan, China, India, and Brazil. The same pattern held for JPM's world service index, which remained strong but backtracked to 59.6 from 56.8. The Eurozone, Russia, and Australia were cited as this month's contributors to the strength of the world service market.

This month's big news is the melt-down in the so-called sub-prime lending market. What has worried economists is the fact that so many overseas investors have been caught up in the fury, and that the problem appears to be MUCH more widespread than originally anticipated. The Federal Reserve, which is supposed to keep lending practices from getting out of hand, appears to have been blindsided by the current problem. Unregulated hedge funds have also contributed to the severity of the problem.

On the inflation watch, we noted in last month's report that the Chinese government, bowing to political pressure from both the U.S. and the EEC, has reduced a large number of tariff rebates for goods sold on the world market. This effectively raises the cost of goods imported from China. In addition, The Chinese Yuan has fallen about 8% over the past two years, effectively raising the cost of Chinese goods. For American manufacturers who have been losing business to China, this is good news. However, for firms currently buying from China, Chinese imports are now about 15% more expensive. In short, higher priced goods from China are good for U.S. employment but bad for inflation.

Our inflation statistics show some modest improvement. For Southwestern Michigan, the index of PRICES came in at +14, down from +25. In Greater Grand Rapids, the index moderated to +15 from +18. By historical standards, these numbers represent relatively tame inflation. Big-ticket commodities that are still causing trouble include plastic resins, copper, tin, zinc, and plywood. Commodities falling in price include certain grades of aluminum, carbon steel, and a few grades of stainless steel. Market prices for copper ingot are falling, but are not yet falling at the "local" level.

The news from the automotive sector remains negative. It was sad to hear that sales for the so-called Big Three sank below 50% of the total market for the first time in the 102-year history of the auto industry. In year-over-year comparisons, General Motors lost 22.3%, followed by Ford at 19.2%, and Chrysler at 9.1%. However, for the first time in recent memory, Toyota posted a loss of 7.3%, and Honda lost 7.1%. The industry as a whole lost 12.4%. Some analysts attributed the drop to a tightening of credit standard by the lending institutes because of the unrest caused by the sub-prime debacle. As noted previously, the sub-prime debacle has implications that are just now coming to light, and may have an impact on many industries.

In summary, the economy on the west side of Michigan continues to stay modestly positive. The economies for cities like Flint, Saginaw, and Detroit continue to worsen, compounding the budget mess for the Lansing lawmakers. We must all keep a close eye on the credit markets, given that it has long been predicted that a collapse in the confidence in consumer credit could, in fact, throw us into a recession. In all probability, the Federal Reserve will soon be forced to act in order to keep the financial markets, and well as the economy, safe. Everyone should add Ben Bernanke to his or her prayer list.

COMMENTS FROM SURVEY PARTICIPANTS

"We are doing well. Firms are still buying capital equipment."

"Exchange rates from Canada and China are adversely affecting cost."

"We sell machine tools statewide. Business in West Michigan is ok, but business in Detroit is a train wreck."

"We are busy this month. However, new orders are down for August. Our business is usually its strongest in the Fall."

"Many price increase notices are being implemented by suppliers. Some are as high as 20%. BAT reduction by China has attributed to some of it."

"Lay offs, lay offs and more lay offs. Even the domestic auto makers are now becoming loyal to China."

"We are seeing a softening in our smaller end products, but our upper end is strong. Two new models are debuting in August which should be 'home runs'."

"Having a slow July is a fact of life in automotive manufacturing. That being said, this July is shaping up to be the best on we have had in a long time."

"The market is becoming indifferent to customer service."

"Flat is an excellent way to describe our current business."

"The townships are keeping us busy this year but, we are anticipating a very tight 2008 season."

"The housing market is down 15-20%, but our sales are only down 5%. We're capturing more market share."

"Our sales remain the same."

"The inquiry level is up, which is a good sign. Now we have to turn inquiries into orders in a 'tight profit' market."

"July is always slow due to shut downs."

"We are very busy. This should be a very good year."

	UP	SAME	DOWN	N/A	July Index	June Index	May Index	13 Year Average
Sales (New Orders)	27%	46%	24%	3%	+ 3	+ 9	+26	+16
Production	24%	43%	21%	12%	+ 3	+ 6	+13	+16
Employment	18%	64%	18%		+ 0	+ 0	+10	+10
Purchases	30%	43%	27%		+ 3	+ 0	+11	+ 9
Prices Paid (major commod.)	21%	70%	6%	3%	+15	+18	+26	+13
Lead Times (from suppliers)	12%	82%	6%		+ 6	+ 0	+ 8	- 7
Purchased Materials Inv. (Raw materials & supplies)	27%	49%	12%	12%	+15	-23	+ 0	-10
Finished Goods Inventory	18%	58%	12%	12%	+ 6	- 8	-16	-11

Items in shot supply: 201 stainless, furfural alcohol, resin (FA), plywood, castings, machined details, electric motors, connectors, filters, aluminum, tools, white oil, plasticizers, some Allen-Bradley electrical components.

Prices on the UP side: Stainless steel, copper, FA resin, propylene, aluminum, PE, TiO2, organic pigments, carbon block, SAN, ABS, inorganic pigments, zinc stearate, plastic resin fiberglass, plywood, brass, rock salt, grader blades, trucking services, white oil, heavy duty construction equipment, PVC resin, antimony oxide, some chemicals, foam, HDPE, LCD flat panels, copper, some imports from China.

Prices on the DOWN side: Stainless steel scrap, carbon steel, certain grades of aluminum, electronics, computers & computer components, particleboard.