

CURRENT BUSINESS TRENDS

by

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December 15, 2007

Modestly negative. That's the latest word on the Greater Grand Rapids economy, according to the data collected in the third and fourth weeks of November. NEW ORDERS, our index of business improvement, rose to +4, up from -17. However, the PRODUCTION index remained negative at -13, only slightly better than the -16 we reported last month. The EMPLOYMENT index remained negative at -16, virtually unchanged from last month's -17. Activity in the purchasing offices, which we report as our index of PURCHASES, dropped significantly to -29, down from -16. Whereas it was certainly good to see the NEW ORDERS index turn modestly positive, our other numbers are not improving. Hence, we must score the overall report for this month as modestly negative.

Looking at individual industries, it is not surprising to see that our auto parts suppliers are having difficulties, given that production schedules are being reduced by most of the Big Three. Otherwise, most of our other industries are reporting mixed business conditions, depending on the firm. For instance, the office furniture business has slowed considerably for several firms, but one respondent reported business for this month to be slightly improved. The same is true of capital equipment, where we have a couple of firms at or near capacity, while others are suffering. Industrial distributors are in the same boat, with some sharply up, and others down.

Turning as we always do to the national level, the December 3, 2007 report from the Institute for Supply Management, our parent organization, remains flat. ISM's index of NEW ORDERS remained stuck at +0. The PRODUCTION index recovered slightly to an anemic +1, up from -4. The EMPLOYMENT index retreated to -5 from +0. ISM's composite manufacturing index eased to 50.8, down very slightly from 50.9. As we noted last month, the forward momentum of the economy is obviously slowing, and becoming increasingly mixed in performance. Business conditions for firms associated with construction and automotive are obviously less favorable, but firms that are traditional exporters such as manufacturers of machinery, aircraft, and medical supplies, are booming because of the soft dollar's role in making American made goods much cheaper.

At the international level, the December 3, 2007 J.P. Morgan report on global manufacturing posted some modest improvement. JPM's composite index edged up to 52.2 from 51.9. The author of the report cautioned "... it is still too soon to judge whether this is purely short-term respite or the end of the current down-shift in the manufacturing business cycle." Countries showing major strength included Brazil and India, while China, Japan, and the UK were only modestly higher.

There is still no good news on the automotive front. In the December 3, 2007 press release from Automotive News, sales fell at General Motors by 11.0%, and by 2.1% at Chrysler. Ford posted an anemic increase of 0.6%. Overall sales for the industry fell by 1.6%. Locally, the slower sales have resulted in reduced production schedule of our local auto parts producers, as well as extended shut-downs for the traditional Christmas break.

Since our last report, the big news for Michigan has been the repeal of the sales tax levied against services. Aside from adding billions of dollars (That's right. Billions!) of new taxes for consumers and business, the state tax officials in Lansing were relieved of the responsibility of adding huge numbers of staff people to administer the new tax. The bad news, of course, is that the difference was made up by simply adding a surcharge to the Michigan Business Tax, formerly known as the Single Business Tax.

Because of the falling dollar, inflation continues to be a problem at the industrial level for commodities that are imported, especially oil. For Southwestern Michigan, our index of PRICES edged up to +17 from +5. In ISM's national survey, the increase was from +26 up to +35. Greater Grand Rapids fared a little better, given that the PRICES index fell to +17 from +24. Despite the recent fall in crude oil prices, the savings have not been passed along to the buyers of most petrochemical, plastic resins, and diesel fuel.

As we wrap up 2007, we are still uncertain about how deep the sub-prime mess will cut into the economy as we look forward to 2008. Whereas tightening of loaning requirements have clearly been felt in the slumping housing market, the auto finance firms as well as every other form of consumer credit have seen tightening as well. So far, declines in automotive and housing have been offset by strong demands for export goods, including those associated with the aircraft, machinery, and agricultural industries. On a nationwide basis, job losses in Michigan have been offset by job gains in other parts of the country. With the U.S. Treasury officials and various committees in Congress working on band-aid solutions to the problem, we can hope that there will be enough fiscal and psychological relief to keep us out of a recession. At this time, there is still at least a 60% chance that a recession can be avoided. However, we will certainly enter 2008 at a slower pace.

COMMENTS FROM SURVEY PARTICIPANTS

"It is the worst we have seen in 42 years. I am afraid China has us in a strangle hold!"

"OEM steel fabrication is very strong for the energy industry."

"Manufacturing in Muskegon is challenging."

"Pressure is building in China for some sort of 2008 price increases. The effect of \$100 per barrel oil hasn't been passed through."

"Our orders are up slightly, and we have hired two new employees. We are optimistic about 2008."

"I wish I had the answers. If I did, I would help and have an important job!"

"We received a nice bump in business at year end. Forecasts for the first quarter are scary."

"Every day without snow helps our winter maintenance budget, and those dollars hopefully will be used in the spring for road projects. If we have a rough winter, then we are looking at many spring maintenance projects to be either reduced or cancelled. Our budget is that tight!"

"Tourism numbers are driven by out-of-state tourists, not Michigan residents."

"We were two days away from cutting back our production force for the remainder of the year when a competitor closed their doors, and we acquired a nice chunk of immediate business. Instead of layoffs, we are now working overtime. How quickly plans can change. Unfortunately, it is a zero sum game. There seems to be very little additional new business being sourced in Michigan."

"November should be a good month for us. However, December looks slower than normal. New orders are very soft."

"We have been purchased by an equity firm, and while the management has changed here, we are still busy. Yet we had a 'wrong sizing' in September and October."

"Our sales continue to slide. Rising petroleum prices continue to push PE and PP pricing upward."

"We just received notice of a 16% increase for 2008 on foundry coke. Here we go again."

"I am very happy that we continue to thrive and are prosperous, but I'd like to see the rest of Michigan prosper too."

	UP	SAME	DOWN	N/A	Nov. Index	Oct. Index	Sept. Index	13 Year Average
Sales (New Orders)	37%	27%	33%	3%	+ 4	-17	- 2	+16
Production	20%	40%	33%	7%	-13	-16	- 5	+16
Employment	17%	50%	33%		-16	-17	-26	+10
Purchases	17%	37%	46%		-29	-16	-11	+ 9
Prices Paid (major commod.)	20%	74%	3%	3%	+17	+24	+15	+13
Lead Times (from suppliers)	7%	83%	10%		- 3	+ 3	- 3	- 7
Purchased Materials Inv. (Raw materials & supplies)	13%	57%	23%	7%	-10	-11	+ 9	-10
Finished Goods Inventory	10%	50%	27%	13%	-17	- 9	- 9	-11

Items in shot supply: Large customer machine capacity, business, some aggregate, limestone, some heavy construction equipment, plasticizer, parafimic oil, 201 stainless.

Prices on the UP side: Propylene, copper, gasoline, HDPE, diesel, magnesium, cobalt, contracted services, capital equipment, construction vehicles, fasteners, plasticizer, PVC, resin, process oils, freight, ABS, color concentrates, Stainless steel, nickel, imports, TiO₂, polyethylene, gases for welding, propane.

Prices on the DOWN side: Some scrap, brass, hot rolled steel, computers & other IT items, printing services, pumps, AED'S.