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CURRENT BUSINESS TRENDS

July 15, 2007 by Dr. Brian G. Long, C.P.M. (269) 323-1531

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 June. NEW ORDERS, our index of business improvement, moderated to +9 from +26. In a similar pattern, the PRODUCTION index eased to +6 from +13. Our index of PURCHASES flattened to +0 from +11. The same was true of the EMPLOYMENT index, which plateaued to +0 from +11. Overall, we have no indexes that are negative, and only two that are single-digit positive. Although the Greater Grand Rapids Economy is not declining, we hope that our next report will be a little stronger.

Looking at individual industries, the word "flat" seems to describe almost all of our industrial groups. The office and steel furniture business is good, but there was no report of increased business activity for the month. Our local auto parts producers are in the midst the annual "model changeover," and several are still nervous about the future. Business conditions for capital equipment firms remain flat, and one major firm is still doing very poorly. For industrial distributors, the reports were widely mixed. The only real standout industries remain aerospace and defense, especially for firms selling to Boeing and other major defense contractors.

At the national level, the July 2 press release from the Institute for Supply Management, our parent organization, posted a modest increase. ISM's closely watched index of NEW ORDERS edged up to +22 from +20. In a similar move, the PRODUCTION index rose to +25 from +19. However, the EMPOYMENT index eased to +6 from +10. ISM's composite index rose to 56.0 from 55.0, the highest the index has been in over a year. The results were similar for ISM's non-manufacturing report, where NEW ORDERS remained unchanged at +20. ISM's composite non-manufacturing index rose to 60.7 from 59.7.

As globalization of the world economy expands, it is becoming increasingly important to look at the performance of the international economy. For this month, the J.P. Morgan survey of world manufacturing rose modestly to 54.4 from 54.1. At least part of the increase came from the world index of NEW ORDERS, which rose to 56.1 from 55.8. The Eurozone (13 countries) as a whole showed some modest improvement, but much of this growth came from Germany. Unfortunately, the Japanese economy continues to remain flat. JPM's David Hensley noted that the recent dip in worldwide inventory liquidation appears to be over, and that the prospects "appear good for 4-5% annualized growth in global output in the coming months." In short, the overall world economy is on a reasonably sound footing unless, of course, Al Qaeda decides to upset the applecart.

Unfortunately, there is no good news from the auto sector, at least in Michigan. The latest report from Automotive News tells us that June sales for General Motors fell by 21.3%. At the current rate, the overall market share for GM has shrunk to 22%, the lowest in recent memory and perhaps the lowest percentage in about 90 years. Sales at Chrysler declined 1.8%, and Ford sales fell 8.2%. Most of these declines were offset by a 10.2% increase at Toyota and an 11.5% at Honda. Sales for the entire industry for June were down by 1.5%.

For the Michigan economy, this month's big news is the accord between Delphi and the UAW for a new round of wage concessions. The agreement was approved by 68% of the members, not because they relish wage concessions but because they see no other way out of the dilemma. The hope is that the new restructuring MAY allow the firm to eventually emerge from bankruptcy. However, a recent filing with the bankruptcy court notes that Delphi now plans to have as few as about 2,300 union members at its four remaining union plants by 2012, down from 24,000 in 2005, and down from the current union membership of 4,700. At this rate, the firm will be only a minor factor in the Michigan economy in coming years.

Since our last report, the price of gasoline and diesel fuel have jumped considerably. Most of the current round of increases appears to be based on unexpected refinery shutdowns and the high demand brought about by heaver than expected weekend and holiday traffic throughout much of the Midwest. So far, we have been spared hurricanes in the Gulf, which could drive the prices even higher. It is worth repeating that our local prices are heavily influenced by the Chicago markets, since much of our local supply comes from the Chicago area refineries via the Niles terminal. To the east, prices in the Detroit area are influenced by the prices offered by Marathon, the only remaining oil refiner in the state. Although we are an automotive state, a major portion of our gasoline must be brought in from other states.

Regarding industrial inflation, there is at least a little good news to report. Commodities falling in price include carbon steel, some grades of nickel, and some of the less expensive grades of aluminum. Locally, the index of PRICES in southwestern Michigan edged down to +25 from +45. In Grand Rapids, the index moderated to +18 from +26. At the national level, ISM's index edged down to +36 from +42. Although any number greater than +0 constitutes inflation, it is still good news that the inflation situation, at least by the numbers, is not getting any worse. However, buyers of copper, stainless steel, and many types of plastic resins are still seeing little relief.

In summary, all of this bodes well for the predictions that the second half of 2007 will be stronger than the first half. The Michigan economy will probably continue to have difficulties for months or even years due to the misfortunes of the so-called Big Three automakers, but our side of the state should hopefully continue to show modest growth.

COMMENTS FROM SURVEY PARTICIPANTS

"China's export rebate has been reduced by 8%"

"We are doing well!"