

CURRENT BUSINESS TRENDS

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by Dr. Brian G. Long, C.P.M.

(269) 323-1531

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 May. Our index of business improvement, which we call **NEW ORDERS**, rose for the third month in a row to +26, up from +16. The **PRODUCTION** index rose to +13 from +10. Activity in the purchasing office, which we report as our index of **PURCHASES**, turned back to the positive side of the ledger at +11, up from -5. Even the **EMPLOYMENT** index posted a small increase to +10 from +8. Overall, it was a good month. All of our numbers are positive, and the mood of many of our local firms has turned cautiously optimistic.

Looking as we always do at individual industries, the office and steel furniture business continued to show modest improvement for the month. Although the local auto parts producers were generally stable, they remain nervous about the future. Business conditions for capital equipment firms generally flattened, although one major firm is not doing well at all. Just as we have reported for many previous months, business conditions for industrial distributors were widely mixed. Any firm related to the defense or aerospace industry is doing great, with no end in sight.

At the national level, the June 1 press release from the Institute for Supply Management, our parent organization, reported little change in manufacturing activity for the month of May. Although still positive, ISM's closely watched index of **NEW ORDERS** eased to +20 from +25. In a similar move, the **PRODUCTION** index tapered down to +19 from +22. The **EMPLOYMENT** index remained unchanged at +10. Because of statistical variations, ISM's composite index rose to 55.0 from 54.7. For ISM's non-manufacturing report, **NEW ORDERS** moderated to +13 from +14. ISM's composite non-manufacturing index rose to 59.7 from 56.0, although most of the increase was caused by statistical variation.

At the international level, the J.P. Morgan survey of world manufacturing remained unchanged at 54.1. The author noted that the Eurozone and Japan reports were slightly softer than the April reports, but were offset by the slightly stronger reports from China and the United States. This is the 47th consecutive month that the JPM index has been above the all-important break-even point of 50.0. **NEW ORDERS** rose to 55.9 from 55.5. JPM's non-manufacturing index rose to 58.7 from 56.4, a thirteen month high. All of this confirms the continued growth of the world economy, which is especially good for U.S. exporters. However, stronger economies around the world can also result in higher costs for many of our basic industrial commodities, including steel and oil.

Turning as we always do to a look at auto sales, there is at least a few numbers that are positive. The most recent report from Automotive News notes that sales for General Motors rose 9.6%, virtually erasing last month's loss. Sales at Chrysler rose 3.9%. Unfortunately, Ford sales fell 6.9%. Toyota remains the company to catch, with sales rising 14.1%. Sales for the entire industry for the month of May were up 5.0%, which bodes well for our local auto parts producers.

This month's big news is the budget accord which has been reached in Lansing to replace the Single Business Tax. Many smaller firms will pay less tax than under the old tax system, and incentives are built into the program to help encourage the growth of manufacturing jobs. Once enacted, a huge wet blanket will be lifted on corporate planners who could only guess up until now about what the tax structure might be in upcoming years. Although it is difficult at this time to guess what the new program will mean for job growth, most observers say that it will be positive over the **LONG TERM**. No one should expect that this tax measure or any other measure of this nature would have any significant impact over the next few months.

Since our last report, a drop in the price of gasoline and diesel fuel has helped the battle with inflation. 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. The shortages of a few weeks ago are now gone, and the surpluses have temporarily driven the retail price of gasoline to the lowest levels we have seen in weeks. It almost goes without saying that this situation is temporary, and that our local prices at the pump will soon return to levels closer to the national average. Since much of our nation's stand-by electrical generating capacity is gas fired, the recent heat wave has temporarily run up the price of natural gas. For industrial buyers, the lower cost of diesel will help to lower fuel surcharges, although at least some arm-twisting may be necessary.

On the inflation watch, it is disconcerting to see the list of commodities "up" in price continuing to grow. Although ISM's index of **PRICES** retreated to +42 from +46 in the latest report, our Grand Rapids and Southwestern Michigan reports went up from +18 to +26 and from +30 to +45, respectively. Copper, nickel, aluminum, and zinc are among the primary commodities that are squeezing the profitability of our local firms. However, most observers do not believe that the increases in these industrial commodities are enough to prompt the Federal Reserve to increase interest rates at the FOMC meeting scheduled for the end of the month. In fact, there is considerable consensus that the Fed will hold rates steady for the rest of the year.

COMMENTS FROM SURVEY PARTICIPANTS

"Inquiries have increased, but companies are still slow to move on projects. High fuel prices are not helping."

"Copper prices are killing us. Competition will send us to China if we can reduce prices on our products."

"There is a sudden shortage of Furfuryl alcohol coming out of China. Prices are increasing daily, and are up 15% since June 1. Our business looks slow for the next 6 months. We are down 25%.

"Part of our demand spike was due to artificially low Q406 inventories, which are now being replenished. Housing starts are off 15-20%, but remodeling is strong."

"We are getting very busy. This should be a hectic summer!"

"Our business is 'to plan.' However, we're being cautiously optimistic that this will continue."

"May is turning out ok, but I expect a big slowdown in June,"

"No change. We are still slow, and it's too late to save the summer. Maybe the fall will look better!"

"Our higher end products continue to sell well. Our industry peers with entry-level products are not doing very well. Fuel costs are starting to take their toll."

"An attempt to raise plastic resin prices is underway. So far, demand is weak enough to keep the proposed increases from sticking. It will be interesting to see how the sale of GE Plastics will affect the industry"

"Our sales remain steady and slightly ahead of forecast. However, we remain cautious of economic conditions. Employers (and all of us) are having a hard time with the rising cost of living. Wages are not keeping up. Companies face the same problem, and can't pay more. Something has got to give, and soon."

"Some suppliers are getting caught up, but we need all components to ship our end product."

"We are enjoying back-to-back years of record sales. Our capital equipment business is strong."

"We are slower now than we usually are this time of the year. The 'big news' is the pending sale of GE Plastics to Saudi Bovic Ind (SABIC)."

"It was a great Q1 for us!"

"Resin natives are getting restless!"

"Shipping costs from Asia are being negotiated this month, and the shipping firms/railroads are pushing for a major rate increase. If this happens, it will have a major factor on retail and manufacturing costs."

"Tourism numbers are lower, creating lower prices in order to entice tourists. This is creating lower profits."

"Our orders are steady, and quote activity remain high."

	UP	SAME	DOWN	N/A	May Index	Apr. Index	Mar. Index	13 Year Average
Sales (New Orders)	39%	45%	13%	3%	+26	+16	+13	+16
Production	29%	45%	16	10%	+13	+10	- 1	+16
Employment	26%	58%	16%		+10	+ 8	+ 2	+10
Purchases	32%	47%	21%		+11	- 5	- 8	+ 9
Prices Paid (major commod.)	29%	65%	3%	3%	+26	+18	+14	+13
Lead Times (from suppliers)	16%	76%	8%		+ 8	+ 6	+ 3	- 7
Purchased Materials Inv. (Raw materials & supplies)	13%	65%	13%	8%	+ 0	-20	- 5	-10
Finished Goods Inventory	8%	55%	24%	13%	-16	-11	- 7	-11

Items in short supply: Furfuryl alcohol, orders, castings, specialty machining, plasticizer, white oil.

Prices on the UP side: Stainless steel, some copper, nickel, furfuryl alcohol, polystyrene, stainless steel, powder paint, freight, brass, aluminum, zinc, PE, inorganic pigments, diesel fuel, some plastic resins, heavy plate steel, products with nickel alloy, mineral wool, gasoline, plastic & steel pipe, guardrail, natural aggregates, bituminous aggregate, petroleum based products, rock salt, plasticizer, PP, fuel surcharges, chemicals, some carbon steel.

Prices on the DOWN side: Some carbon steel, China goods, computer items, data & phone services, some copper.