

CURRENT BUSINESS TRENDS

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Down slightly. That's the latest word on the Greater Grand Rapids economy, according to the data collected in the third and fourth weeks of February. NEW ORDERS, our index of business improvement, retreated to -13 from +5. The PRODUCTION index edged lower to -16, down from -11. PURCHASES, our measure of activity in the purchasing offices, sank to -24 from -12. However, EMPLOYMENT came back to +0 from -6, which indicates that there were no further net layoffs for the month. Much as we feared, the zig-zag statistics that we have periodically been experiencing since the last recession have returned. The current numbers, while less than desirable, are still not negative enough to declare that the local economy to be in any kind of a recession. Although it is possible that we will see disappointing economic performance level for the next few months, most economist are still optimistic about the second half of 2007 being better than the first half.

Looking as we always do at individual industries, most of our auto parts suppliers continue to be under pressure. Those firms supplying Chrysler nameplates are the most uneasy. The office and steel furniture business appears to have flattened and even turned negative for some local firms. Business conditions for capital equipment firms have turned slightly more optimistic. Most industrial distributors were flat. On the negative side, almost any firm having anything to do with the residential housing market is doing poorly.

At the national level, the March 1 press release from the Institute for Supply Management, our parent organization, turned much more optimistic. ISM's index of NEW ORDERS bounced to +15 from -1. In a similar move, PRODUCTION index came up to +10 from -3. For the first time in six months, the EMPLOYMENT index came back to positive at +4, up from -4. ISM's overall index rose to 52.3, up significantly from 49.3. In ISM's March 5 press release of non-manufacturing activity, NEW ORDERS for the service sector edging up to +9 from +5. In the same report, ISM's composite non-manufacturing index fell to 54.3 from 59.0. Since any index number above 50.0 is considered positive, both of these reports from ISM confirm the current scenario of slow growth for the overall economy.

At the international level, the J.P. Morgan survey of world manufacturing also showed promise. Driven by significant increases in China and the United States, NEW ORDERS rose to 55.1, up from 53.1. JPM's overall index advanced to 53.7 from 52.4. However, JPM's non-manufacturing index edged modestly lower to 55.7, down from 56.4. The J.P Morgan report says that it is still too early to see if the growth in the industrial economy will "gain traction," largely because of the volatility in the industrial economy among many of the 23 countries included in the survey.

Since the key to the Michigan economy is relegated to the auto industry, it was good to see that the February auto sales numbers were up by 3.7% for General Motors, thanks to a company-wide 0% financing offer. Furthermore, General Motors reported a profit for the fourth quarter of 2006. Unfortunately, February sales for Ford tanked by 13.4%, and Daimler-Chrysler sales fell 7.7%. However, sales for most major competitors, like Nissan, Toyota, Hyundai, and Honda, reported sales improvements.

On the inflation watch, some of our numbers came in higher. For Southwestern Michigan, the index of PRICES rose to +24 from +4, largely based on the cost of non-ferrous metals. For Grand Rapids, the index of PRICES fell to +0 from +8, primarily based on lower costs for carbon steel, copper, and particleboard. At the national level, ISM's index rose to +18 from +6, and cited nickel, stainless steel, and corn products as some of the major cost drivers.

Since our last report, a lot of attention has been directed at the potential sale of Chrysler. Daimler, for all intents and purposes, bought Chrysler in 1998 for about \$40 billion, and has indicated that it would be happy to get rid of it for about \$20 billion-- a 50% loss. Domestically, Blackstone appears to be one of the front-runners in the bidding, although Shanghai and Great Wall, a couple of China's largest auto firms, have also been digging around for capital. Chery, another Chinese auto firm, has already inked a deal to begin selling limited numbers of their cars through Chrysler dealerships. Needless to say, all of this talk continues to make Chrysler auto suppliers uneasy. A Chinese purchase of Chrysler could give any of several Chinese producers a quick entry to the North American market, but might cost auto parts producers some additional jobs.

Finally, the lack of progress on a state budget, as well as the exact nature of the new taxes that will be used to cover the state's current shortfall and replace the recently repealed SBT, is giving numerous state development officials forty fits. It is difficult to attract any new business to our state when the exact nature of the future tax structure is up in the air. Needless to say, service-related businesses are extremely opposed to the proposal for 2% sales tax. State wide, such a tax would amount to millions of dollars worth of additional record keeping, accounting, and paperwork, as well as discourage the use of at least some services.

In summary, the national economy, with unemployment at 4.5% and most of our statistics looking good, is in fine shape. With Michigan's unemployment rate running close to 7%, we can be happy that our local economy is holding its own.

COMMENTS FROM SURVEY PARTICIPANTS

"We're finding savings through China sourcing, VA/VE projects, and major design and material changes."

"Our business looks slow for the next 3 months"

"Business is slowing. However, quoting activity is high. The second quarter should be much better."

"We have had an extremely soft start for the new year."

"We always seem to keep just enough work to stay busy, but still don't have a big back log. A very bumpy road."

"Public reaction to our new product under development is very strong. We have had great success at recent shows."

"We continue to await funding. Our suppliers want to make decisions about '08 and '09."

"We are still stable but somewhat reluctant to hire or purchase capital equipment. Our industry diversification continues

"Now that 201 stainless steel is in demand, price gouging appears to be taking place."

"We are starting to quote again, and this is a good sign. The next step will be trying to get customers to buy at the quoted dollar rather than making redrawn offers."

"Copper is down, thankfully, as the copper market has been killing us. February sales are coming in lower."

"Quotes remain steady, while new orders and capture rates have declined."

"The first quarter is typically our slowest, but we've started the year a bit stronger than expected."

"Tourism numbers are improving, but still down year to date."

"The market for plate and structural is flat to softening,"

	UP	SAME	DOWN	N/A	Feb. Index	Jan. Index	Dec. Index	13 Year Average
Sales (New Orders)	28%	30%	39%	3%	-11	+ 5	-13	+16
Production	14%	45%	30%	11%	-16	-11	-15	+16
Employment	22%	56%	22%		+ 0	- 6	-10	+10
Purchases	17%	42%	41%		-24	-12	-16	+ 9
Prices Paid (major commod.)	11%	78%	11%		+ 0	+ 8	+ 4	+13
Lead Times (from suppliers)	11%	84%	5%		+ 6	+ 5	- 1	- 7
Purchased Materials Inv. (Raw materials & supplies)	19%	56%	17%	8%	+ 2	+ 3	-17	-10
Finished Goods Inventory	14%	53%	19%	14%	- 5	+ 6	-19	-11

Items in shot supply: Teakwood, VCR's 27" TVs, gears, forgings & machined forgings, grader blades, heavy equipment, some stainless steel tubing.

Prices on the UP side: Stainless steel, copper, nickel, zinc, galvanized steel, gases, AMS, steel, methacrylite adhesive, organic peroxides, some brass, aluminum die castings, aluminum sheeting, hydraulic systems for trucks, emulsions, aggregate, bituminous materials, some furniture items, galvanizing.

Prices on the DOWN side: Carbon steel, copper, some brass, particleboard, LCD TV's and Plasma TV's, chlorides, sand, scrap.