

## **CURRENT BUSINESS TRENDS**

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Modestly higher. That's the latest word on the Greater Grand Rapids economy, according to the data collected in the third and fourth weeks of April. NEW ORDERS, our index of business improvement, rose slightly to +16 from +13. Fortunately, last month's improvement in business conditions spilled over to the PRODUCTION index, which rose to +10 from -1. Activity in the purchasing office, which we report as our index of PURCHASES, remained negative at -5, slightly better than last month's -8. The closely-watched EMPLOYMENT index rose to +8 from +2. Overall, our numbers are modestly positive. However, we must still remember that at least some firms who respond to this survey are not doing well at all.

Looking at individual industries, the office and steel furniture business showed modest improvement for the month, which probably accounts for the better numbers. Our local auto parts producers were generally stable, but one respondent reported conditions sharply negative. Although there are exceptions, the capital equipment firms are generally negative. One firm noted that most of the new business for capital equipment is for firms that are leaving the state or that have out-of-state plants. Just as last month, the reports from industrial distributors were widely mixed. The local suppliers who sell to the defense or aircraft industries are still booming.

At the national level, the May 1 press release from the Institute for Supply Management, our parent organization, reported a significant increase in manufacturing activity for the past month. ISM's index of NEW ORDERS jumped to +25 from +11. In a similar move, the PRODUCTION index rose to +22 from +11. The closely-watched index of EMPLOYMENT shot up to +10 from +0. ISM's composite index rose to 54.7, up from significantly from last month's anemic 50.9. For ISM's non-manufacturing report, NEW ORDERS moderated to +14 from +21. ISM's composite non-manufacturing index rose to 56.0 from 52.4, confirming the positive growth in both the industrial and service sectors of the economy.

At the international level, the J.P. Morgan survey of world manufacturing rose to 54.1 from 52.9. The report attributed most of the gain to stronger numbers in the United States, and noted that most of the numbers coming from Japan, China, UK, and the Eurozone were about the same as last month. NEW ORDERS edged up to 55.1 from 53.5. JPM's non-manufacturing index rose to 56.4, the highest the index has been since January. The report noted that new business bookings for the past month has been stronger than usual. Any lingering fear of a potential worldwide recession has dissipated, at least for now.

This month's big news relates to the announcement of the sale of Chrysler to Cerberus, a New York based private investment group. Since the deal involves a badly-needed influx of capital for Michigan operations, the short run impact can only be judged as positive. Cerberus is also absorbing the \$18 billion in employee benefits and pension liabilities, which is good news for the current and future Chrysler retirees. However, the shift of ownership does not address the broader long-term problem that has plagued Chrysler for the past decade, namely how to stop the relentless decline in sales. In short, we need to see a forward-thinking Cerberus turn-around plan before we can draw a sigh of relief. If the plan turns out to be just whacking employment by a few thousand, then Chrysler could be doomed.

Turning to auto sales, the most recent report from Automotive News notes that the entire auto market softened in April. Although total industry sales fell 7.6%, sales at DaimlerChrysler were up 1.2%. Sales for General Motors fell 9.5%, and Ford sales drooped by 12.9%. Since a large portion of Ford stock is still held by the family, a rumor has circulated that some of the family members would like to sell out while the company still has some significant value. April sales for Honda and Toyota fell 9.1% and 4.3%, respectively. Although having the entire industry down for April is unsettling to our local auto parts suppliers, almost no one expects this sales droop to continue. The month of May SHOULD be a better month for the entire industry.

Can escalating costs for gasoline and diesel fuel cause a recession? Yes, but only if they go over \$4 per gallon AND STAY there. In the glorious world of just-in-time inventory, any inventory imbalance, up or down, is almost immediately reflected in the market. For instance, the refiners built inventories last summer in anticipation of a bad hurricane season. When the Gulf experienced no hurricanes and the season drew to a close, gas prices came down as the refiners trimmed inventories. We are currently plagued with refinery and delivery problems, so local prices are higher than the rest of the country. From past experience, we know that even one major hurricane in the Gulf any time this summer will easily push gas prices well over \$4 per gallon. As long as prices come down after the hurricane season is over, we will probably be safe, as long as gas and diesel are AVAILABLE. A shortage market (i.e., gas lines) of any duration will force people to curtail driving, inhibit deliveries by truck and rail, hurt auto sales even more, and probably throw us into a recession. Although the probability of the occurrence of this scenario is not high, it cannot be completely dismissed.

Except for the cost of energy, inflation at the consumer level has remained relatively low in recent months. However, the industrial market is still being squeezed. Whereas the costs of some key commodities like copper, aluminum, and plastic resins were falling just a few weeks ago, they are now again rising. This reduces, or in some instance, takes away, the profitability of many local firms that utilize large quantities of these materials.

### **COMMENTS FROM SURVEY PARTICIPANTS**

"We are seeing a spurt in new business, but are skeptical that it will last. We expect a slow summer."

"We are looking at a reduction of 25% for the next 3-4 months."

"Our business is starting to pick up. Our second quarter will still be on the low side. However, new projects will make the third and fourth quarters much better."

"Business remains strong. New orders and shipments are up considerably"

"Our flexible packaging division is growing. We were up 18% in 2006 over 2005!"

"When will the continuing pricing pressures end? It just goes on, and customers are looking for lower prices while suppliers are increasing prices."

"We are experiencing great interest in our new products. More new models are being developed. Some suppliers are slow to react causing us problems."

"The economy appears to be slowing. We continue to get more and more calls from suppliers saying they have capacity and are wondering about additional orders."

"We have cut \$2.3 million from our budget in order to recover from winter maintenance in February and March. Projects slated for 2007 are being pushed back to 2008-2009."

"We are doing well,"

"Our sales are strong."

"Electronic component lead times are moving out!"

"It seems if I want to do any business in machine tools, I need to concentrate on people who have satellite plants in the Mexico, China, or down South."

"Our business is slow."

"A slight dip from last month. Quoting is still strong. More large projects are pending."

"April was a good month. It's too early to tell if it will hold going forward."

"We have fallen off the cliff, and layoffs have started. Things don't look good in the near future."

	UP	SAME	DOWN	N/A	Apr. Index	Mar. Index	Feb. Index	13 Year Average
Sales (New Orders)	38%	38%	22%	2%	+16	+13	-11	+16
Production	32%	41%	22	5%	+10	- 1	-16	+16
Employment	27%	54%	19%		+ 8	+ 2	+ 0	+10
Purchases	22%	51%	27%		- 5	- 8	-24	+ 9
Prices Paid (major commod.)	22%	71%	5%	2%	+18	+14	+ 0	+13
Lead Times (from suppliers)	14%	78%	8%		+ 6	+ 3	+ 6	- 7
Purchased Materials Inv. (Raw materials & supplies)	5%	59%	25%	11%	-20	- 5	+ 2	-10
Finished Goods Inventory	8%	59%	19%	14%	-11	- 7	- 5	-11

**Items in shot supply:** Consumer purchases, nickel, energy, tubing, plasticizer, anti-stat.

**Prices on the UP side:** Stainless steel, some copper, nickel, fuel 7 related by-products, brass, steel, diesel fuel, energy, aluminum ingot, CRS, polyethylene, emulsions & asphalt patching materials, aggregates, resins, gasoline, natural gas, polypropylene, PVC resin.

**Prices on the DOWN side:** Some steel, particleboard, vehicles, class II sand, some copper, aluminum, antimony oxide.