

## **CURRENT BUSINESS TRENDS**

November 15, 2007

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Still negative. That's the latest word on the Greater Grand Rapids economy, according to the data collected in the third and fourth weeks of October. Our closely watched index of NEW ORDERS, which is our best measure of business improvement, fell to -17 from -2. In a similar move, the PRODUCTION index slid to -16 from -5. The EMPLOYMENT index remained negative at -17, although it was not quite as pessimistic as the -26 reported last month. Activity in the purchasing offices, which we report as our index of PURCHASES, retreated slightly to -16, down from -11. Unfortunately, this is the third month of declining numbers. We can no longer hope for a bounce to bring us back, although we can hope that the current numbers will not continue to weaken.

Looking at individual industries, slower sales of some line of cars means that much of our current weakness can be attributed to our automotive parts producers. At least for now, office furniture remains stable, and one firm reported business conditions as much better this month. Capital equipment firms are widely mixed, with some doing very well, and others very poor. Firms related to the construction industry are still doing poor. For this month, industrial distributors were generally positive.

At the national level, it is with no great pleasure to report that the economy has turned flat. The November 1 press release from the Institute for Supply Management, our parent organization, saw ISM's index of NEW ORDERS drop sharply to +0 from +9. The news was worse for the PRODUCTION index, which sank to -4 from +15. The EMPLOYMENT index remained unchanged at +0. Because of statistical adjustments, ISM's composite manufacturing index eased to 50.9, down from 52.0. Although any index above 50.0 is considered positive, the forward momentum of the economy is obviously slowing. For the service sector, ISM's composite non-manufacturing index advanced slightly to 55.8, up from 54.8. ISM's index of non-manufacturing NEW ORDERS index remained unchanged at +19.

Turning to the international picture, November 2, 2007 J.P. Morgan report on global manufacturing is also less optimistic. The author noted that the current data for global manufacturing production show "...the weakest rate of growth since July of 2003." Although still positive, JPM's composite index eased to 51.9 from 52.6. In addition to the Eurozone, countries contributing to the weakness included the United States, Japan, and the United Kingdom. Weaker numbers from these countries were partially offset by stronger numbers from (surprise) China and India. In contrast, JPM's index of services edged up to 55.6 from 55.0. The J.P. Morgan economist calls this number "...a positive development that tentatively suggests the sector is weathering the credit market turbulence. If the PMI can hold its ground, we would look for global growth into 2008." All of this tends to imply that JPM expects the global economy to continue to moderate as a result if the worldwide sub-prime debacle, but that a recession will probably still be avoided.

As a result of the slowing economy and increased scrutiny by the lending institutions, weak October automobile sales for the Big Three continued to worsen Michigan's economic problems. At Ford, sales were down 9.3%. At Chrysler, the drop was 8.9%. General Motors managed to eek out a modest gain of 3.4%. Sales for the industry as a whole increased by 1.2%, led by firms such as Mazda, up 17.8%, Nissan, up 13.1%, Toyota, up 4.5%, and Honda, up 3.8%. This leads to the current paradox for the auto parts suppliers. The foreign nameplates are desperately trying to identify North American sources to supply their North American plants because of the falling dollar, while the Big Three are actively demanding that their domestic supplier look for foreign source in order to reduce prices.

Over the past month, the firestorm over the new tax on services has resulted in proposals to rescind the tax and replace it with a surcharge on the recently enacted revised Single Business Tax. The problem is, of course, that virtually the entire budget shortfall is still being shifted to the business community. It is obvious that Michigan taxes were already a deterrent to job expansion in Michigan without making the problem worse with more taxes. Furthermore, given the haphazard nature of Lansing politics, no one in the business community can be sure of what the impact of the new taxes will be, or what new taxes will be dreamed up in 2008. This makes any kind of long term planning almost impossible. Privately, some of the Michigan-based firms that are doing well are now saying that they have no plans for any further expansion in Michigan. Even worse, there are some firms so enraged over the Michigan tax mess that they are considering leaving the state.

Inflation. We've heard rattling from various sectors of the Federal Reserve leadership about fears of inflation returning to become a major problem. Whereas our own numbers remain relatively well behaved, the falling dollar has resulted in considerable concern about all of the basic commodities that we import, especially copper, nickel, zinc, and other big-ticket items. Part of the current uptick in oil prices has also been attributed to the falling dollar. For all this talk, the prices for some of these commodities are actually falling, partly because of the slackening demand resulting from the global slowdown in production.

Locally, for Southwestern Michigan, our index of PRICES actually fell this past month to +5 from +15. In the Greater Grand Rapids survey, the PRICES index rose to +24 from +15. At the national level, the increase was from +18 to +26. From a historical prospective, these numbers are still rather subdued. This is little comfort to our local firms that buy anything related to petroleum, where prices for plastics and petrochemicals are still sky high-- and probably going higher.

## **COMMENTS FROM SURVEY PARTICIPANTS**

"Our sales are 25% below forecast. This is not a good start to the final quarter of the year."

"We are quoting a lot of work. Unfortunately, most of the quotes will not increase production until the second quarter of 2008."

"China's decision to cut export taxes and allow the Yuan to float has had a negative impact on our costs."

"The polypropylene market is full a challenges. Our aluminum hedge strategy has been very successful. Pulp and paper mill have figured out how to work in sync to manage prices."

"We are not as busy as we should be at this time of the year. Hopefully, things will pick up quickly."

"Our sales are 25% below forecast. This is not a good start to the final quarter of the year."

"We are just trying to keep the light on these days. Will anyone ever need capital equipment again?"

"While we are busy through the first seven months of this year, we recently downsized 28 production office people. This was a finance decision."

"Orders for capital equipment are booming."

"A major Tier I customer canceled 1 1/2 weeks of production. This caused us to temporarily lay off workers."

"We are having a very successful year, although sales have tapered back some in the third and fourth quarters."

"The copper market is just 'killing' us because it is part of everything we manufacture. Our customers continue to 'demand' price concessions, forcing us into the offshore assembly market."

"We are still trying to survive. Hopefully, we can get through this in one piece."

	UP	SAME	DOWN	N/A	Oct. Index	Sept. Index	Aug. Index	13 Year Average
Sales (New Orders)	24%	32%	41%	3%	-17	- 2	+ 5	+16
Production	17%	38%	35%	8%	-16	- 5	+ 9	+16
Employment	13%	67%	30%		-17	-26	- 8	+10
Purchases	19%	46%	35%		-16	-11	-17	+ 9
Prices Paid (major commod.)	24%	73%		3%	+24	+15	+14	+13
Lead Times (from suppliers)	8%	87%	5%		+ 3	- 3	+ 5	- 7
Purchased Materials Inv. (Raw materials & supplies)	13%	55%	24%	8%	-11	+ 9	- 2	-10
Finished Goods Inventory	13%	52%	22%	13%	- 9	- 9	- 5	-11

**Items in shot supply:** Diesel engines, salt, platicizers, paraffinic acid, new orders, employees.

**Prices on the UP side:** Corrugated, propylene, components from Europe (due to weak dollar), fuel, nickel, scrap, brass, TPE resin, electronics, some aluminum, copper, diesel related plastic resin, adhesives, metal, trucking & freight, emulsions, platicizers, PVC resin, pigment, plastic performance additives, all petroleum based products, polyethylene, parts from China, oil, fabrics, high performance laminates.

**Prices on the DOWN side:** Some stainless steel, HR steel, MEKP (methyl ethyl ketone peroxide), some aluminum, aggregates, slag, sand, drywall, particleboard.