NAPM Greater Grand Rapids, Inc.

National Association of Purchasing Management
Greater Grand Rapids, Inc.
PO Box 230621
Grand Rapids, MI 49523-0621
Hotline: 616.242.9458

CURRENT BUSINESS TRENDS

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

Flat. That's the latest word on the Greater Grand Rapids economy, according to the data collected in the third and fourth weeks of August. It was good to see NEW ORDERS, our index of business improvement, advance to +5 from +3. However, the PRODUCTION index flatted to +0, and the EMPLOYMENT index declined to -8 from +0. Activity in the purchasing offices, which we report as our index of PURCHASES, slid to -17 from +3. In short, most of our statistics have lost the strength that we have been reporting for many months. Although one month certainly does not constitute a trend, we need to be more vigilant as we enter the fall season.

A look at our individual industry groups reveals a myriad of crosscurrents. Unlike the "plateau" state of the office furniture business that we reported last month, several firms reported some modest increases in business activity. A couple of capital equipment firms also reported better business conditions, although one of these firms noted that most of there new business was outside of the state. On the down side, any firms connected to the housing industry are reporting weaker business condition, although none of the firms in our survey is collapsing. For auto parts suppliers, many firms are holding their own, but others are feeling the pinch of reduced production schedules brought on by slower auto sales. For industrial distributors, just like many months, the reports were widely mixed. Sales for defense and aerospace-related firms remain very strong.

Turning as we always do to the national statistics, the September 4 press release from the Institute for Supply Management, our parent organization, continues to flatten. ISM's all-important index of NEW ORDERS edged down to +6 from +14. The PRODUCTION index remained unchanged at +8. The EMPOYMENT index flattened to +0 from +6. ISM's composite index eased to 52.9 from +53.8. ISM's non-manufacturing index remained unchanged at 55.8, although NEW ORDERS for the service sector advanced modestly to +11 from +7. All of these statistics point toward a national economy that continues to grow, but at a slower pace than previous months. It is again worth noting that any index above 50.0 still constitutes growth.

It is probably not a surprise that the global economy shows a similar pattern of moderation. In the latest monthly report issued by J.P. Morgan, the survey of world manufacturing eased modestly to 53.0 from 53.3. NEW ORDERS at the international level moderated to 53.8 from 54.5. In addition to the United States, the moderation came from UK, Japan, and the Eurozone, while countries like China, India, Brazil, Switzerland, and Hungary all moved up a notch. JPM's world service index edged modestly lower to 56.5, down from 56.8. However, new orders for the worldwide service sector advanced to 57.2 from 55.2.

The problem for most of the uneasiness in the entire world economy continues to be the fiasco of the sub-prime lending market. Only a few months ago, we were seeing signs that the slump in the housing market may have reached the bottom of the cycle. Several major economic analysis organizations now declare that the bottom of the housing market may be months away. However, these same analysts prognosticate that the housing slump by itself is not enough to throw us into a recession, PROVIDING that other economic sectors do not get drawn into the downdraft. As we noted in last month's report, the European financial institutions that hold large balances of eurodollars were also drawn into the fray, and we still do not know the full extent of the international scope of this problem. If the problem were to grow worse, more pressure could be put on the already-weak dollar.

Fortunately, the impact of the sub-prime problem on the auto industry has not been as severe as some people had predicted. As standards are tightened for home loans, it is almost certain that standards will be tightened for auto loans as well, especially relating to the credit-worthiness of the borrowers. Total auto sales were down 2.8% for the month of August, which is more indicative of an automotive slow-down than a serious dip. General Motors posted a modest sales increase of 6.1% for the month, and American Honda sales advanced 4.7%. However, Ford sales were down 14.4%, Chrysler lost 5.6% and even Toyota lost 2.8%. Almost all of the smaller volume sellers such as BMW, Hyundai, Mazda, and Mitsubishi were up for the month. This helped to moderate the losses posted by the major brands.

It almost goes without saying that the problem of inflation now seems to be taking care of itself. ISM's index of PRICES eased to +26 from +30. For Southwestern Michigan, the index came down to +13 from +14. In the Greater Grand Rapids survey, the index moderated to +14 from +15. All of these numbers indicate that industrial inflation is less of a problem than it was just a few months ago, although any commodity related to the price of oil is generally going up in price.

What are the odds of a recession? Whereas only a few pessimists even mentioned the possibilities a few months ago, the odds have now risen considerably. Even Alan Greenspan now admits that he was blind-sided by the sub-prime debacle. However, dozens of government economists, including those at the Federal Reserve, are working on ways to keep the problem from getting any more out of hand that it already has. Bottom line: The odds of a recession starting any time over the next 12 months: About 30%.

COMMENTS FROM SURVEY PARTICIPANTS

"We are very busy, and are pushing to increase our throughput in order to increase sales.

"We are doing well. I wish the Holland area would begin to prosper again."

"Our business is trending down due to seasonality."

"Copper continues the whipsaw effect on pricing."

"Metals continue to bounce around."

"Our sales have somewhat fallen off. This is due to both seasonality and the slower housing starts."

"This year can't be saved, so all we can do is try and keep the lights on for this year and dream about next year."

"One product appears to be beyond the surge, while another one appears to be ramping up."

"It was a long, dry summer, but orders are picking up."

"We are at an even rate now, but sales activity suggests an upturn in orders later this year. Unusual timing, but welcome."

"Automotive remains very concerning. We are holding our own. Thank goodness for being global or we may not be here today."

"Many new orders are coming in. However, order size is down."

"Shipments for August will be good. However, new orders are low. September will start out very slow."

"Sadly, the only business we are doing now is outside Michigan."

"What does the future hold? With auto sales and housing sales down, are we headed for a recession?"

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	UP	SAME	DOWN	N/A	Aug. Index	July Index	June Index	13 Year Average
Sales (New Orders)	33%	36%	28%	3%	+ 5	+ 3	+ 9	+16
Production	25%	42%	25%	8%	+ 0	+ 3	+ 6	+16
Employment	17%	58%	25%		- 8	+ 0	+ 0	+10
Purchases	19%	45%	36%		-17	+ 3	+ 0	+ 9
Prices Paid (major commod.)	22%	67%	8%	3%	+14	+15	+18	+13
Lead Times (from suppliers)	11%	83%	6%		+ 5	+ 6	+ 0	- 7
Purchased Materials Inv. (Raw materials & supplies)	17%	56%	19%	8%	- 2	+15	-23	-10
Finished Goods Inventory	14%	56%	19%	11%	- 5	+ 6	- 8	-11

Items in shot supply: 201 stainless, aluminum casting, construction equipment & small tools, laptop computers, Baltic Birch wood, ultramarine blue pigment, plasticizer, parafinnic oil, certain metallic pigments.

Prices on the UP side: Some copper, brass, resin, gasoline, plastics, ferrochrome, ferromanganese, HDPE, polyurethane, some aluminum, polypropylene, food items, cleaning supplies, salt, 2ns sand, guard rails & components, stretch wrap, fuel charges, casters, powder paint, plasticizers, parrafinnic oil, corrugated, stearates, pigments, extruded plastics.

Prices on the DOWN side: Most stainless steel, some copper and copper products, carbon steel, some aluminum, chlorides, aggregates, nickel, stainless steel surcharges.