



Institute for Supply Management

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institute for
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CURRENT BUSINESS TRENDS

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Still holding steady. That's the latest word on the Greater Grand Rapids industrial economy, according to the data collected in the last two weeks of September, 2010. NEW ORDERS, our index of business improvement, rose modestly to +33, up from +30. However, the PRODUCTION index eased slightly to +36, down from +42, but still significantly above the +27 we reported for the month of July. Activity in the purchasing offices, our index of PURCHASES, eased to +28 from +38. The index of EMPLOYMENT moderated to +44 from +46. It was good to see that 50% of the firms in our survey reported adding staff. Overall, this month's report still depicts the Greater Grand Rapids economy growing at a modest pace. So far it looks like this trend may continue for a few more months.

Looking as we always do at individual industries, it is probably the revival in the office furniture business that is most responsible for the stronger sales number we are reporting. Our automotive parts suppliers are still doing well and production levels are stabilizing. The capital equipment firms were all over charts, with some very busy, but others still stuck in the recession. Industrial distributors were also widely mixed, depending on the lines of merchandise they are selling. The respondent comments at the end of this report remain cautiously optimistic, although many firms are frustrated about the many uncertainties that the future seems to hold.

At the national level, the results are slightly less optimistic. The October 1, 2010 press release from the Institute for Supply Management, our parent organization, reported that NEW ORDERS retreated to a modest +4, down from +7, and considerably below the +22 reported three months ago. The PRODUCTION index eased to +16 from +19. Whereas ISM's index of EMPLOYMENT is still positive, the growth rate retreated to +12 from +21. All in all, these statistics indicate that the pace of the recovery in the U.S. industrial economy is slowing. ISM's overall index eased to 54.4, down from 56.3. Hence, the national economy is still growing, but the pace appears to be moderating.

At the international level, the J.P. Morgan Global Manufacturing report released on October 1, 2010, followed the same pattern reported by ISM. For the third successive month, growth rate in the index of NEW ORDERS backtracked, this time to 51.4 from 52.4. Any reading higher than 50.0 is still considered positive, but the margin is getting slim. In addition to the US, the slower pace was attributed to Eurozone, Japan, Germany, and the UK. Countries reporting improved performance included China, India, and (surprise) France. On another disconcerting note, the international EMPLOYMENT index backtracked to 52.3 from 53.7. JPM's overall index of manufacturing came in at 52.5, the lowest level in fourteen months. The survey author has turned modestly bearish, and further noted that index "...is likely to fall further in coming months, based on the continued slide in the ratio of new orders to inventory. As a result, production is likely to stop growing or even contract in the next few months..."

This month's good news came from the latest report on automobile sales, which rose at a rate of 29% for the industry as a whole. One of the stand-outs was Ford, which reported 40% increase over September of 2009. Much of the success was attributed to an unexpected increase in truck sales. Chrysler was also a big winner for September, where sales rose 60%, largely because of the success of new Jeep models that have recently been launched. More modest growth was reported by Honda (26%), Toyota (17%), and General Motors (11%). Whereas no one has offered a firm explanation for this surprise spirit in the sales performance of the auto industry, we will take good news anywhere we can get it.

Housing and construction, another industry that has taken a beating in the last few years, continues to show signs of stabilization. The most recent Case-Shiller index of housing prices, released September 28, 2010, showed that the annual growth rates in 16 of the 20 MSAs in the survey remained the same or higher than in previous months. The survey author goes on to note that housing prices have generally moved sideways for the past years or so, despite the never ending barrage of bankruptcies, foreclosures, and short sales. Although everyone agrees that it will take years or even decades for the housing market to return to the levels of 2006, it is clearly good news that the slide in prices has stabilized and that homeowners can at least count the present value of their homes as a stable asset.

On the inflation watch, many of our respondents have become increasing frustrated with the attempts by manufacturers to make up excuses for price increases. Statistically, inflation in our local surveys is reasonable, with the index of PRICES coming in at +20 for Greater Grand Rapids and +26 for Southwestern Michigan. However, ISM's index of PRICES shot up to +41 from +23. Prices for J.P. Morgan's international survey also posted an ominous boost to 62.6 from 58.5. Whereas some of the increases can be attributed to a pickup in worldwide demand for many key industrial commodities, some of the demands for higher prices are based on near-monopoly power by some firms in their respective industries. The silver lining to all of this is that higher prices for commodities, when combined with the stability of home prices, have helped to quell the Federal Reserve's worries about deflation.

For most of the next month, the news will be dominated by the mid-term election. As November 2 draws near, about half of the commercials on television will be political advertisements. Our mailboxes will be flooded with fliers, and many candidate solicitors will be knocking at our doors. The markets dislike uncertainty, and the outcome of the election may help to define the future. However, it is not until the new legislature meets in Lansing and the new congress convenes in Washington that we will have a clearer idea about the political environment that we will face for the next few years. It is worth repeating that uncertainty about the future has been the biggest factor holding back businesses from investing and consumers from buying. Fortunately, as time goes on, there is less and less talk about a double dip recession, although we cannot say with certainty that there is no chance of the economy backtracking in 2011. As we can deduce from our statistics, our local economy continues to be more and more influenced by the world economy. Hence, we still have to worry about wars half way around the world, European countries with debt problems, and the willingness of the rest of the world to continue to finance our massive budget deficits.

On summary, the economy will probably slow in the coming months, but there is still no evidence of an impending double dip to the recession. The election, once it is over, should help reduce uncertainty and may pave the way for some attritional recovery. The poor housing market and high unemployment will continue to be wet blankets that will hold us back for some time to come.

COMMENTS FROM SURVEY PARTICIPANTS

“Quotes are way up, but we have a slight downturn in orders placed. We are on the brink of being very busy. We are finishing many projects for September to make way for new projects coming up.”

“Business is building. Time will tell if we can sustain it.”

“It is not pretty around here, and is not slated to get any prettier by the end of the quarter.”

“Business continues to be strong heading into the fourth quarter, and the forecast is holding into the first quarter of 2011.”

“It’s getting tougher to find suppliers that have items in stock or that can supply in the quoted lead-time.”

“The 2011 budget just passed. Funding is at the same level as 1994. We’re down 30 employees, and there is more work than our funds and employees can do. This should be an interesting winter and interesting year.”

“We hear the auto market is weakening, but we have not seen it... yet!”

“Slowing.....I think all manufacturing is slowing.”

“Business is still strong. We’ll see what the coming winter months bring.”

“We are seeing a real uptick in business, but we don’t totally feel confident that it will last long term.”

“Business is really picking up. Hope it is sustainable.”

“Manufacturers are at capacity, reduced intentionally due to last year’s collapse. They are very slow to bring new capacity levels online. This week I talked with several of our suppliers at a conference, and they were all at capacity without exception. Lead-times are out to as much as 12 weeks for our domestic suppliers. They are seeing pockets of growth, and are telling me that the Midwest is surprisingly strong with the exception of construction. We had another very strong month in sales.”

“Some of the supply base is still having financial problems. We are looking at alternative suppliers to protect supply of the product.”

“There’s been a slight softening in sales, but we are still outperforming the annual plan.”

“We have seen a dip in automotive schedules. Customers are remaining optimistic about October and have not cut forecasts, but the September dip was not forecasted either.”

“Production is steady, but incoming orders are starting to show some variability.”

“It’s very steady now. We are having our most profitable month since 2008.”

“Bookings are down this month. However, we had record bookings last month, and have a very large backlog. We are busy.”

“‘Down’ is typical for our business for the last quarter of the year. Our overall business will be down in 2011.”

“Things here are steady.”

	UP	SAME	DOWN	N/A	Sept. Index	Aug. Index	July Index	20 Year Average
Sales (New Orders)	48%	35%	15%	2%	+33	+30	+31	+29
Production	43%	44%	7%	6%	+36	+42	+27	+13
Employment	50%	44%	6%		+44	+46	+33	+ 8
Purchases	39%	48%	11%		+28	+38	+23	+ 7
Prices Paid (major commod.)	22%	72%	2%	4%	+20	+18	+ 4	+35
Lead Times (from suppliers)	39%	59%	2%		+37	+30	+27	+11
Purchased Materials Inv. (Raw materials & supplies)	31%	50%	13%	6%	+18	+10	+15	- 5
Finished Goods Inventory	19%	51%	17%	13%	+ 2	+10	+ 0	-10

Items in short supply: Major subcontracted components, program start ballasts, resins, petroleum based products, potting material coming from Germany, steel, bearings, certain oil seals, plasticizer, some antioxidants, China labor, capacitors, circuit board components.

Prices on the UP side: Copper, copper wire, brass, plastics, domestic glass, import glass, cold rolled steel, hot rolled steel, scrap steel, utilities, resins, linerboard, paper products, sand, salt, gas, chemicals, nickel, some corrugated, bronze, aluminum, steel surcharges, bearings, fittings, plasticizer, SEBS resin, paints, imported goods from Asia, powder paint, plastic parts, fasteners, soda.

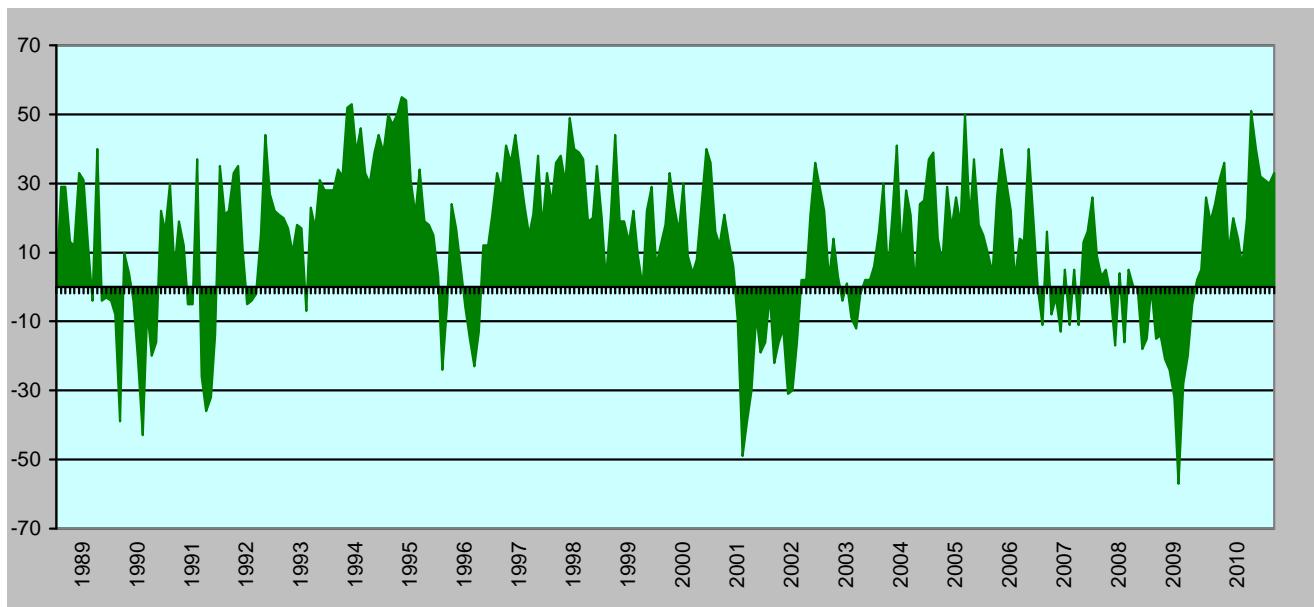
Prices on the DOWN side: Services, liquid chlorides, carbon steel, packaging, stainless steel, some steel, polyethylene.

Index of New Orders - Greater Grand Rapids

1988 - 2010

As the name implies, this index measures new business coming into the firm, and signifies business improvement or business decline. When this index is positive for an extended period of time, it implies that the firm or organization will soon need to purchase more raw materials and services, hire more people, or possibly expand facilities. Since new orders are often received weeks or even months before any money is actually paid, this index is our best view of the future.

Latest Report	+33 for the month of September, 2010
Previous Month	+30 for the month of August, 2010
One Year Ago	+31 for the month of September, 2009
Record Low	-57 for the month of December, 2008
Record High	+55 for the month of September, 1994



Index of New Orders: 2005-2010 Only

