



institute for
supply management

Institute for Supply Management

Greater Grand Rapids, Inc.

P. O. Box 230621

Grand Rapids, MI 49523-0621

CURRENT BUSINESS TRENDS

Dr. Brian G. Long, C.P.M.
Director, Supply Chain Management Research
Seidman College of Business
Grand Valley State University
(616) 331-7491

November 4, 2010

Still good, but less robust. That's the latest word on the Greater Grand Rapids industrial economy, according to the data collected in the last two weeks of October, 2010. NEW ORDERS, our closely-watched index of business improvement, remained positive but eased to +15 from +33. In a similar move, the PRODUCTION index eased to +19 from +36. Activity in the purchasing offices, our index of PURCHASES, backtracked to +9 from +28. The index of EMPLOYMENT also moderated, and came in at +21, down from +44. Overall, this month's report tells us that the Greater Grand Rapids economy is still growing, but the pace has slowed from the previous month. So far, it looks like this trend may continue for a few more months. But growth is still growth, even if it is a little slower.

Looking at individual industries, the office furniture business turned in a mixed performance for the month. Although there are no obvious new problems with the market for office furniture, the industry is blessed with the revival of the industrial market, but cursed by the prevailing slow rate of overall economic growth. Our automotive parts suppliers are still doing well. Fortunately, we are now getting some help from the stabilization of auto sales. Just as last month, capital equipment firms were all over charts, with some very busy, but others still stuck in the recession. Industrial distributors were mixed, but depending on the lines of merchandise they are selling, this month's bias was to the down side. The respondent comments at the end of this report remain cautiously optimistic, although many firms are frustrated about the many uncertainties that the future still holds.

At the national level, the results are more positive. The November 1, 2010 press release from the Institute for Supply Management, our parent organization, reported that NEW ORDERS came in at +11, up from +4. In a similar move, ISM's PRODUCTION index rose to +23 from +16. In a more modest move, the index of EMPLOYMENT edged up to +16 from +12. Unlike last month, these new statistics indicate that the pace of the recovery in the U.S. industrial economy is picking up. ISM's overall index rose to 56.9, up from 54.4. All of this bodes well for the future economy, and decreases the probability of a double dip to the recession.

At the international level, the J.P. Morgan Global Manufacturing report released on November 1, 2010, followed the same pattern reported by ISM. JPM's worldwide index of NEW ORDERS bounced to 53.7, up nicely from 51.4. Any reading higher than 50.0 is considered positive, so the additional margin is very positive. In addition to the US, the pace improved in Eurozone, India, China and the UK. Upticks in PRODUCTION were also noted in Turkey, Denmark, and Poland. For some unknown reason, Japan turned in the weakest report since June of 2009. The international EMPLOYMENT index edged up to 52.9 from 52.3. JPM's overall index of manufacturing rose to 53.7, up from 52.5. The survey author has turned modestly bullish, and further noted that "...the inventory correction and the consequent drag on manufacturing output are beginning to lose intensity."

This month's biggest economic news came from the government's preliminary estimate of 2.0% growth of GDP for the third quarter of 2010. This comes after the latest revision of 1.7% for the second quarter. In the current press release, economist noted, "Less than 2% GDP growth is considered too sluggish to prompt businesses to start hiring again." Although our local statistics do not necessarily agree with this assessment, it is still true that GDP growth of 2.0% should still be considered sluggish.

Other economic news included the decline of Michigan's seasonally adjusted unemployment rate to 13.0 from 13.1. Whereas any decline in the unemployment rate is certainly good news, this month's reduction by only .1% underscores the slow pace of Michigan's recovery from the recession.

Turning to inflation, our local statistics continue to come in fairly reasonable. For the Southwestern Michigan survey, this month's index of PRICES remained unchanged at +26. For Greater Grand Rapids, the index tapered off to +10, down from +20. However, at the national level, ISM's index remained fairly high at +44. Respondents to all three surveys are still frustrated by attempts by manufacturers to post price increases. Concerns have also been raised over key commodities that have been edging up in price, such as aluminum, copper, stainless steel, nickel, PVC, salt, corn, and paper.

For the auto industry, October was a good month, and sales were up 10%. Sales at Ford grew 15%, and GM posed a more modest 4% gain. Chrysler grew 37%, and Honda advanced 16%. Of the major firms, only Toyota was down, and even then only by 4%. Jeff Schuster, from J.D. Powers noted that, "Despite the drag from high unemployment and lower incentive levels, improvement in the automotive market continues in October, suggesting that consumers are discounting the negative sentiment."

Finally, after what seems like months of robocalls, television ads, direct mail fliers, and door-to-door solicitations, the November election is over. Many promises have been made, but new legislation is obviously months away, and the positive or negative impact of this legislation is even more months away. In short, we cannot expect overnight miracles, although we may see some badly needed changes in attitudes and cooperation. Furthermore, as these monthly reports have indicated, the world economy is becoming more and more interdependent. It is not just coincidence that an uptick or downturn in our local report is also reflected in the ISM national report and even the J.P. Morgan international report. As we saw a few months ago, the possibility of Greece defaulting on its sovereign debt sent shock waves through the entire financial system of the world. Hence, the impact that any one congressman or senator may have is clearly limited, although collectively, their impact may be very significant.

In summary, economic growth continues to be constrained by consumer and business confidence. Hopefully, with all of the negative campaign ads off the television, confidence will slowly begin to improve. At the national level, everyone will also be waiting to see what comes out of the "lame duck" session of congress. As yet, it is not even clear what the tax policy will be for 2011. Despite some limited improvement in the sales prices for residential real estate, both residential and commercial construction economic sectors will continue to restrain economic growth at the national as well as local levels. Economic growth may remain sluggish, but improved automotive sales could help lift Michigan out of the economic doldrums. We are also anxiously awaiting the plans for economic growth that will be proposed from Michigan's incoming leadership.

COMMENTS FROM SURVEY PARTICIPANTS

“For the most part, unit prices are still holding. However premium freight, overtime requirements and inventory required by increasing lead times are adding costs.”

“Orders remain strong across most of our customer base.”

“Capital equipment seems to be picking up. Only time will tell about sustainability.”

“Orders have exceeded expectation over the month. That is great. We are also a couple of months from yearend, so we are strategically working down inventory levels.”

“Things are looking up. Maybe we have turned the corner?? But I wouldn't bet the farm on it!”

“October and November will be very busy. December looks good, but it's too soon to tell. At our current pace, we will have a record setting quarter.”

“Excellent month. However, we are seeing a little softening. Nothing to be concerned about.

“We have had a slight downturn in Sales. New projects are on the horizon, which should turn that around shortly.”

“Demand is holding steady to slight increase. Energy sector is holding strong on the demand side.”

“The uptick of business this summer seems to have peaked. Business is still stronger than last year, but following the cyclical slowdown pattern.”

“We've seen a slight slowdown in incoming orders.”

“Business is looking steady to a little stronger over the next few months. We are still running lean and having issues keeping up with our customer demand.”

“We have a good backlog of work and a solid schedule out through the third quarter of 2011.

“We have noticed electronic components are becoming more available. Perhaps that market will be in to its recovery by December as the industry planned.”

“Prices are up for anything that is purchased globally because of dollar devaluation. The government is doing this on purpose to launch the stock market. This is why the jobless rate not improving. We've moved all the jobs to Mexico and China.

“Inquiries have picked up but, unfortunately, the orders have not. Orders are what produce revenue!”

	UP	SAME	DOWN	N/A	Oct. Index	Sept. Index	Aug. Index	20 Year Average
Sales (New Orders)	39%	35%	24%	2%	+15	+33	+30	+29
Production	33%	45%	14%	8%	+19	+36	+42	+13
Employment	37%	47%	16%		+21	+44	+46	+ 8
Purchases	33%	43%	24%		+ 9	+28	+38	+ 7
Prices Paid (major commod.)	18%	72%	8%	2%	+10	+20	+18	+35
Lead Times (from suppliers)	24%	69%	8%		+16	+37	+30	+11
Purchased Materials Inv. (Raw materials & supplies)	22%	52%	22%	4%	+ 0	+18	+10	- 5
Finished Goods Inventory	18%	51%	22%	10%	- 4	+ 2	+10	-10

Items in short supply: Ball and Roller bearings, specialized components, electronic valves, manufactured/machined components, ductile iron casting, some AB electrical components, poly-d resin, program start ballasts, plasticizer, antimony oxide, saline, circuit board components, electronics, blister board.

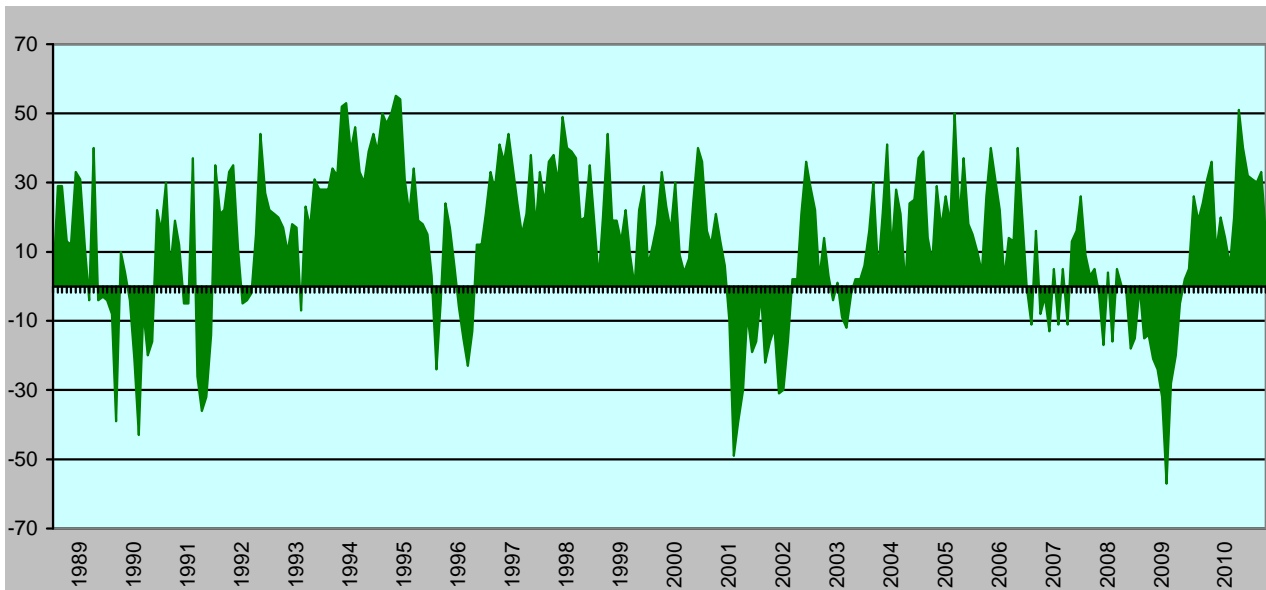
Prices on the UP side: Fuel surcharges, freight rates, specialty steels, copper, copper wire, tin, SS sheet, SS structural, aluminum, powder paint, fuel, electrical components, carbon steel, aluminum, polypropylene, specialty stainless bar, nickel surcharges, fiberglass, powder coating, steel, PVC resin, SEBS resin, impact modifiers, flame retardants, salt, culverts, paper products, trucking services, some import steel items, base commodities/materials, China produced items.

Prices on the DOWN side: Steel, scrap steel, carbon steel, uniform services, sand, chlorides, computer items, anything manufactured domestically.

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	+15 for the month of October, 2010
Previous Month	+30 for the month of September, 2010
One Year Ago	+36 for the month of October, 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

