Institute for Supply Management
Greater Grand Rapids, Inc.
P. O. Box 230621
Grand Rapids, MI 49523-0621
institute for supply management

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

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Slow growth continues. That's the latest word on the Greater Grand Rapids industrial economy, according to the data collected in the last two weeks of November, 2010. NEW ORDERS, our index of business improvement, remained virtually unchanged at +15, down from +16. In a similar move, the PRODUCTION index eased to +18 from +19. Activity in the purchasing offices, which we report as our index of PURCHASES, rose modestly to +16, up from +9. The index of EMPLOYMENT remained unchanged at +21. As a whole, this month's report depicts very little change for this month from last. It is clear that the Greater Grand Rapids economy is still growing, but the pace has slowed from the previous months. Hence, we will probably end the year with slow growth, and should expect the slow pace to continue well into 2011. Much of the gloom and doom has subsided, but the pace of the recovery remains painfully slow.

Looking as we always do at individual industries, Mike Dunlop's quarterly report for the office furniture industry posted an overall index of 58.49, not far from the record 59.72 he reported in July of 2005. Our survey confirms that NEW ORDERS are up considerably for most of the office furniture firms in our survey, although some respondents note that it will still take many, MANY months before the industry returns to the pre-recession levels of production. Our automotive parts suppliers are still doing well, and one is even at a record level of production. The stabilization of auto sales continues to help. Some of the capital equipment firms are seeing a significant uptick in business, although others are still stuck in the recession. For November, performance for the industrial distributors was mixed. Although the respondent comments at the end of this report remain cautiously optimistic, many firms are frustrated about the slow growth and the many uncertainties that the future still holds.

At the national level, this month's results are not quite as strong. The December 1, 2010 press release from the Institute for Supply Management, our parent organization, reported that NEW ORDERS eased to +5 from +11. ISM's PRODUCTION index remained positive, but retreated to +6 from +23. The EMPLOYMENT index edged down to +15 from +16. Unlike last month, these new statistics indicate that the pace of the recovery in the U.S. industrial economy is slowing just a little. ISM's overall index eased to 56.6, down from 56.9. All of this confirms the general feeling among economists that the U.S. economy is in for many months of slow growth.

At the international level, the J.P. Morgan Global Manufacturing report released on December 1, 2010, was a little more optimistic. JPM's worldwide index of NEW ORDERS edged up to 53.9 from 53.7. It is worth remembering that any reading higher than 50.0 is considered positive. Of the 29 countries included in the survey, the pace improved in France, Germany, India, China, and the UK. Weakness was reported in Japan, and to no one's surprise, Ireland, Spain, and Greece. The international EMPLOYMENT index edged up to 53.2 from 52.9. JPM's overall index of manufacturing rose to 53.9 from 53.7, a four month high. Overall, the international economic recovery now appears to be outpacing the United States. The survey author further noted that "…growth should gain speed heading into the New Year as the drag from inventory adjustment fades."

From our local reports, it is obvious that the recovery from the Great Recession will be slower than any recession in the past 60 years. Four factors are still to blame. First, there is still a glut of unsold and unoccupied housing on the market, which will keep pressure on new construction for months to come. In addition, the rate of foreclosures will continue to be high, throwing more houses on a market that is already distressed. Because of the enormity of the problem, we are YEARS away from the housing market returning to normal.

Second, consumers are not spending as much. The artificial boom of the 2004-2006 era was partially financed by extreme overspending, AND over borrowing. In the years before the collapse, consumer savings rates dropped to their lowest levels in history. In addition, consumers borrowed against the skyrocketing value of their homes both in the form of buying homes they couldn't afford and in the form of home equity loans. The price of housing was automatically assumed to ALWAYS go up. With the nationwide fall in housing prices, even the frugal homeowners feel less wealthy. Many baby boomers saw the values of the 401k portfolios decline, and the recent surge in stock prices has still not brought them back to 2006 levels. Savings rates are now rising, which would normally be regarded as a good sign. Unfortunately, this return to sound personal finance occurs at the same time that more spending would actually help the recovery.

The third problem relates to the tight lending policies of the banks. Gone are the days of 0% down. Gone are the easy (albeit high interest) loans for people with credit scores below 620. Loans for proprietorships employing less than 25 people are very difficult to obtain, inhibiting hiring for this class of small business. Whereas most observers feel that the recently enacted banking reform legislation will be good for the system over the long term, it leaves the banks with a whole host of new and so far undefined pro-consumer regulations. While it is certainly wise for the regulators to make sure that the failures of the banking system never happen again, the local loan officers now feel compelled to error on the side of caution. As a result, even good loans are now being rejected unless the borrower can prove that he/she doesn't really need the money in the first place or can provide 100% collateral.

Fourth, uncertainty about the future continues to keep both business and consumer confidence low. The new health care law contains numerous new taxes, and no one is sure of the impact of all of these new taxes on the overall economy. Because of congressional inaction, personal tax rates remain uncertain. Even the worldwide geopolitical situation is uncertain. The "feel good" era of 2006 is gone, resulting in business and individuals hoarding their cash and not spending on the future.

Collectively, ALL of these problems have heretofore been MORE than offset by the strong performance by the industrial economy, wherein some of the firms in our local area continue to report record sales and record profits. These same firms continue to add new people and equipment, albeit slowly. Exports sales for some firms and industries are booming. Ford and General Motors have returned to strong profitability, and their suppliers are also bouncing back. Despite all the grumbling, consumers are now expected to spend more on Christmas than any time since 2006.

Bottom line. In the coming months, barring some unforeseen tragedy such as the collapse of the Euro, a significant terrorist attack, or some new war, we WILL continue to recover from the Great Recession. However, this recovery will probably be longer and slower than any recession in recent history.

COMMENTS FROM SURVEY PARTICIPANTS

"Orders have dropped off slightly. It looks like a slow end to the year."

"Business will be quiet until January when new budgets are funded."

"Sales are strong. It's going to turn out to be a good 2010."

"Our sales are up slightly from last month. Projects continue to be booked through the first of the year. We hope it continues."

"We are finishing the year strong, and starting 2011 with a healthy backlog."

"Sales are still very strong. However, we are seeing some signs of things slowing down towards year end. Even with that, we are still having a record year."

"Great month again. The year looks to be finishing well. There is some slowing of sales orders in some segments, but not all."

"Hopefully, the election results will make some companies be more aggressive. Most of the manufacturing sector seems to be waiting on---------- 'something'"???"

"We've seen a nice, steady increase in business. Energy and defense segments are looking strong for the near term."

"The supply chain appears to have adjusted to the volume increases over 2009. Our business is reduced, possibly hiding continued weakness. Business in a major segment is forecast for significant growth again next year."

"SBQ and stainless bar pricing continues to rise, with three increases this year, and another coming January 1st! When will it stop?"

"Automotive seems to be leveling off. We are still busy with new work that we've landed."

"Revenues continue to decline, while the cost of doing business continues to rise, resulting in a lower level of services."

"The dollar uncertainty is causing overseas pressure on costing."

"Capital equipment buying is busting loose in the food and chemical industries."

"Business is still strong but slowing for the end of the year."

"We're trying to finish out 2010 and get through 2011. An uptick is not planned until 2012."

"The schedule looks good well into next year! Happy Thanksgiving!"

"Lead times for flexible packaging are moving out to 16-20 weeks. PET is the longest lead time, and tin foil is next."

"We are hopefully turning the corner. New Orders for the first quarter of 2011 will determine if this is true."

"We seem to be past the latest speed bump downturn."

	UP	SAME	DOWN	N/A	Nov. Index	Oct. Index	Sept. Index	20 Year Average
Sales (New Orders)	35%	44%	19%	2%	+16	+15	+33	+29
Production	33%	46%	15%	6%	+18	+19	+36	+13
Employment	25%	71%	4%		+21	+21	+44	+ 8
Purchases	35%	46%	19%		+16	+ 9	+28	+ 7
Prices Paid (major commod.)	33%	58%	4%	6%	+29	+10	+20	+35
Lead Times (from suppliers)	27%	69%	4%		+23	+16	+37	+11
Purchased Materials Inv. (Raw materials & supplies)	27%	48%	17%	8%	+10	+ 0	+18	- 5
Finished Goods Inventory	12%	54%	21%	13%	+ 9	- 4	+ 2	-10

Items in short supply: Poly BD, electronic components, outside services, blister board, titanium dioxide, antimony oxide, SBQ steel, stainless steel, some I-beams, Some aluminum and DOM tubing, PET, nylon, thin gauge foil, aluminum.

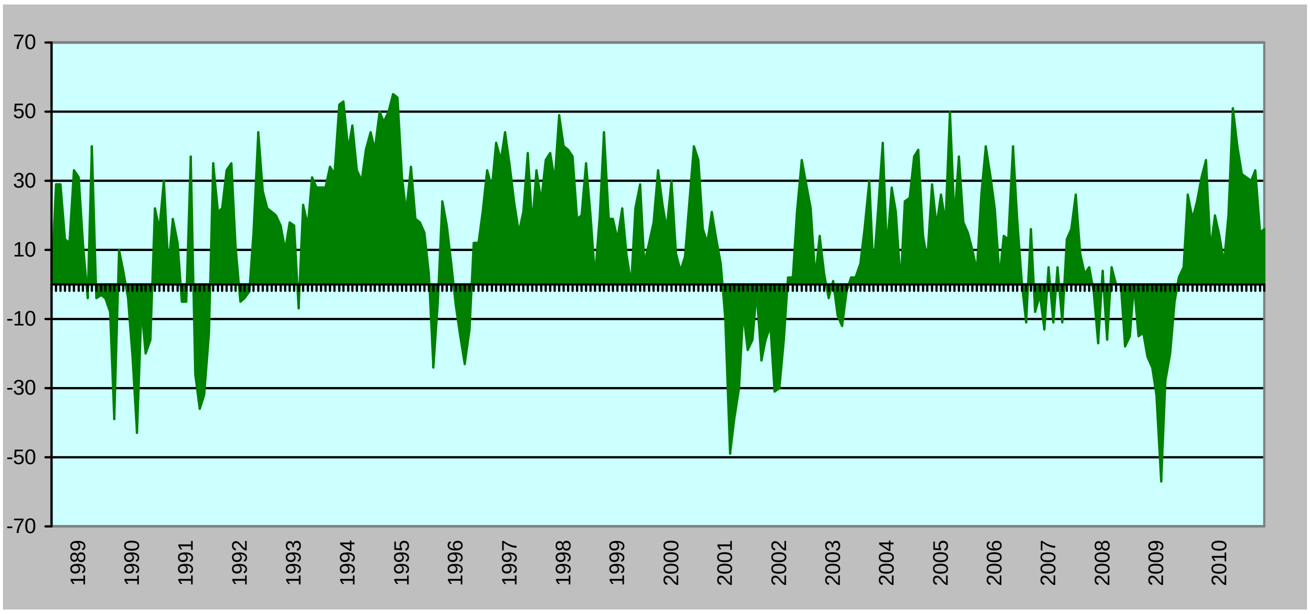
Prices on the UP side: HDPE, fuel, aluminum, all metals, basic commodities and raw materials, copper products, nickel, molded fiberglass, copper, drywall, steel, stainless steel, powder paint, fuel, freight (ocean and land) some paints, scrap steel, PVC resin, carbon and alloy steel bar, trucking costs, paper products, asphalt products, corrugated metal, salt, chlorides, construction vehicles, electric motors, methanol, hydraulic oil, quench oil, all Tyvek material, PET materials, fabric, thin gauge foil, silver, chloride, copper, anything imported.

Prices on the DOWN side: Some steel, some scrap steel, some carbon steel, poplar lumber, natural gas (spot market), sand, services.

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	+16 for the month of November, 2010
Previous Month	+15 for the month of October, 2010
One Year Ago	+10 for the month of November, 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