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Institute for Supply Management

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CURRENT BUSINESS TRENDS

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Strong growth. That's the latest word on the Greater Grand Rapids economy, according to the data collected in the last two weeks of April, 2010. NEW ORDERS, our closely watched index of business improvement, shot up to a 16 year high of +51. For the first time in the 21 year history of the survey, not a single firm reported business conditions to be weaker than the previous month. In a less spectacular move, the PRODUCTION index advanced to +44, up from +30. Activity in the purchasing offices rose to +39 from +17. The news from the EMPLOYMENT index was also good, and index rose to +22 from +17. It was especially good to see that 32% of the respondents reported adding staff over the past month. All in all, our Greater Grand Rapids statistics are on a roll. Although we have no indication regarding the sustainability of our current good fortune, we will seize the moment for now. It should be clearly noted that we have returned to the output and employment levels of 2005. However, we can say that strong growth has resumed, and we are *on our way back* to the pre-recession production levels of a few years ago. Major exceptions to all of this good news are the commercial and residential construction markets, which will take many more years for a full recovery.

Turning as we always do to individual industries, it almost goes without saying that no sectors are weak, but that some sectors are stronger than others. Automotive is leading the way, with almost every respondents reporting business as very positive. Next up are the industrial distributors, who are helping to provide materials, repair and replenish equipment, and otherwise help the firms meet their newfound demand. Although the office equipment industry is still a laggard in the recovery, there is evidence that the worst is over and that business conditions are modestly beginning to recover. A review of the respondent comments at the end of this report tells us the level of optimism is definitely improving.

At the national level, the May 3, 2010 press release from the Institute for Supply Management, our parent organization, parallels our own survey. ISM's index of NEW ORDERS rolled ahead to +44, up from +30. ISM's index of PRODUCTION rose to +42 from +25. The EMPLOYMENT index surged to +20 from +11. All of these numbers drove the composite index to 60.4, up from 59.6. This index has now advanced for 9 consecutive months. The author noted this is the best overall report since June of 2004.

Automobile sales for April were stronger than expected. Ford again led the way with a 25% gain. Toyota was up 24%, but Honda had to make do with a 13% gain. For the first time in five years, Chrysler sales were up 25%. General Motors posted a more modest gain of 7%. Of the lesser brand, Nissan gained 35%, VW 39%, Subaru 48%, and Hyundai 24%. For the industry as a whole, sales were up 20%. Needless to say, this all is good news for our local auto parts suppliers.

So with all of these good statistics, where are the jobs? Michigan is at 14.1% unemployment, Kent County unemployment is at 12.3%, and at 11.7%, Kalamazoo County is not faring much better. In apparent contrast, the firms responding to this survey are definitely adding to their workforces. However, for this recovery, several aspects of the advancement of the EMPLOYMENT index are different. First, many economic writers have noted, a large percentage of the unskilled jobs that we have lost in Michigan over the past 10 years are gone forever. The percentage of people out of work for over 6 months is the highest it has been in over 70 years. Most of the jobs that are now available require some kind of skill and some kind of experience.

Second, many firms now prefer to hire temporary workers, and take a long look at them before bringing them on board full time. If the temp worker does not pan out, getting rid of them is obviously very easy. Furthermore, at least part of the screening is done by the temp agency in advance. Also, it is not necessary to run an ad in the "help wanted" section of the paper, and be deluged with hundreds of resumes and phone calls.

Third, word of mouth and reputation are more important than ever in finding a job. Human relations people are just as harried as every other department in the firm, and have found that sorting resumes from newspaper ads is increasingly difficult and unreliable. Instead, they turn to people within their own workforce to identify potential new recruits. This includes union workers, where union management is asked to "send us someone good." To preserve the sanctity of their own union, they comply.

Other good news relates to growth rate of the national economy. As recent press releases have noted, the preliminary estimate for GDP for the first quarter of 2010 came in at +3.2%. Although the pace has slowed from the 5.6% reported in the last quarter of 2009, this rate is consistent with the growth estimates for the entire year of 2010.

On the caution side is the problem of industrial inflation. The numbers continue to grow worse. At ISM, the index of PRICES rose to +56. For the Southwestern Michigan survey, our index of PRICES came in at +43. For Greater Grand Rapids, we logged an index of +57. As noted in the past, the culprits are big ticket commodities like steel, aluminum, magnesium, corrugated, plastic resins, and all oil related products. Our list of commodities "UP" in price continues to lengthen, as does the list of commodities in short supply.

What is driving these prices up? Several factors. First, it is again worth noting that many counties in the rest of the world are recovering from the recession much faster than we are. Hence, worldwide demand is up. Second, countries like China are buying up raw materials and simply storing them in anticipation that prices will soon be higher and/or that some commodities may be in short supply or unavailable. In other words, they think it is a better business decision to store their money in copper ingots than store it in Euros that are falling in value or in dollars that pay almost no interest. One this theory, they just may be right.

Third, given that the cost of carrying raw commodity inventories is relatively low, the buying policies of many domestic companies call for discarding the 1990s religion of JIT. Furthermore, predications of higher prices and potential shortages loom on the horizon. These same firms are watching the Chinese, and jumping on the wagon.

Last but not least, the speculators are getting back into the commodity markets. With interest rates around the world at record lows and the stock markets now seeming top heavy, the hedge funds and the big money speculators are creeping back into the commodity markets. Needless to say, this situation bears watching, least we end up with another round of runaway speculation, followed by another bust.

COMMENTS FROM SURVEY PARTICIPANTS

"The 'cost' side of our business (raw materials) remains our biggest challenge."

"Olefin prices seem to have peaked."

"We still see a very mixed outlook on future economic growth. It is very difficult to get any long term forecasts."

"We are seeing *some* increase in inquires, but still nothing to get excited about."

"The steel pricing cycle is gaining momentum. It appears there are enough buyers to help the announcements of price increases to stick."

"How high will raw material prices rise? They have been rising steadily throughout 2010 in the plastics industry."

"Automotive releases are holding strong. We are investigating significant capital equipment expenditures for the first time in 2 years."

"We have lots of quote request, but very few orders. Hopefully, that will change soon!"

"We're not going to do any hiring with our backlog."

"Overseas pricing and delivery times are increasing. It is great to finally have this recession over and on to better times!"

"Trying to maintain services in 2010-2011 with 1990 funds has been changeling!"

"We've slowly improved in 2010. We had a great Q1, and we're going into Q2 with a health backlog. We are on the upside!"

"We're working through issues where inventory is being depleted from suppliers that were source controlled. Those suppliers either did not make it through this most recent cycle or moved/consolidated operations driving requalification."

"Steel fabrication is very busy for the mining industry OEMs. It's looking strong and sustainable for rest of 2010."

"We broke a shipment record for each month in Q1 2010!"

"We had a strong first quarter, and things are looking just as good or better for the second quarter so far."

"Sales continue to trend modestly upward."

"The oral care business is good!"

"We are experiencing a growth in our backlog which we hope to sustain."

"We will start seeing price increases for plastic this month and foam price increases coming our way in May as it stands right now. Scrap steel is up, but should be leveling off soon. This translates into increased steel prices."

	UP	SAME	DOWN	N/A	Apr. Index	Mar. Index	Feb. Index	20 Year Average
Sales (New Orders)	51%	47%	0%	2%	+51	+20	+ 6	+29
Production	46%	45%	2%	7%	+44	+30	+ 8	+13
Employment	32%	58%	10%		+22	+17	+ 9	+ 8
Purchases	46%	47%	7%		+39	+17	+14	+ 7
Prices Paid (major commod.)	59%	34%	2%	5%	+57	+42	+40	+35
Lead Times (from suppliers)	37%	59%	5%		+32	+30	+31	+11
Purchased Materials Inv. (Raw materials & supplies)	49%	37%	12%	2%	+37	+20	+ 3	- 5
Finished Goods Inventory	15%	63%	12%	10%	+ 3	+13	+ 0	-10

Items in short supply: Polyolefins, some HLSA steel and coated steel products, plasticizer, butadiene, paper, paraffinic oil, some heavy equipment parts, 40,000#GVW trucks, semiconductors, plastic bar stock, industrial supply abrasives, specialty stainless steel, bearings - ball and needle, transportation.

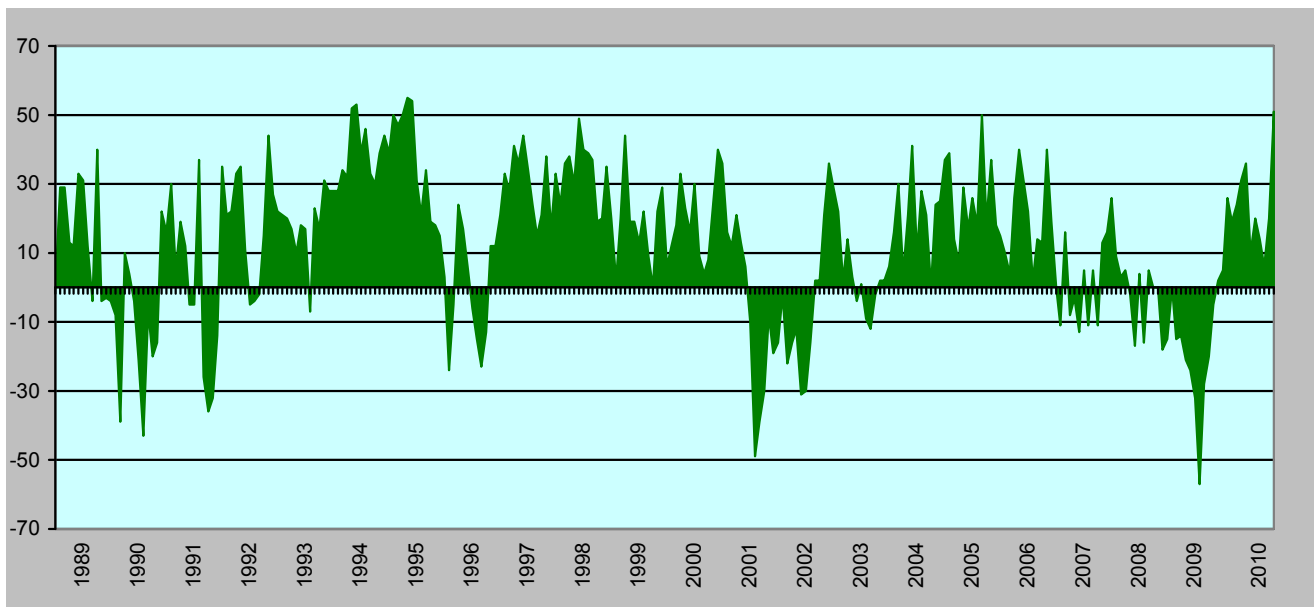
Prices on the UP side: Ridgeband, particle board, steel, cardboard and corrugated, polyolefin, pigments, plastic resins, CR steel, carbon steel, stainless steel, aluminum ingot, paper products, oil based lubricants, plasticizer, PVC resin, PP, SEBS resin, paraffinic oil, impact modifiers, brass, scrap steel, emulsions, semiconductors, LEDs, injection molded plastics, gas and fuel surcharges, adhesives, poly bags, chemicals, chemical Resins from Dow, Chevron, and DuPont, magnesium, powder paint, aluminum die castings, iron castings.

Prices on the DOWN side: Aggregates, services, some corrugate, some resins.

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 +51 for the month of April, 2010
One Year Ago + 2 for the month of April, 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

