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Institute for Supply Management

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CURRENT BUSINESS TRENDS

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Strong again, but moderating. That's the latest word on the Greater Grand Rapids industrial economy, according to the data collected in the last two weeks of June, 2010. Our index of business improvement, which we call NEW ORDERS, retreated to +32, down from +40. In a similar move, the PRODUCTION index eased to +30 from +40. However, activity in the purchasing office, which we record as our index of PURCHASES, rose to +36 from +27. Perhaps the best news comes from our index of The EMPLOYMENT, which set another four year record at +36, up from +27. 46% of the firms in our survey are now adding staff in the form of callbacks, new temp from the temp service companies, and new hires. The index rose to a six year high of +36, up from +27. Overall, the recovery is still on track.

Turning to individual industries, automotive is still leading the recovery, but the pace has slowed just a little. Many auto assembly lines are now approaching capacity, which means that sales for some of our auto parts producers are topping out. Most of our industrial distributors continue to show strength, primarily because of the strong production schedules posted by many local firms. The office equipment and furniture industry continues to show modest signs of recovery. The logjam in the capital equipment industry seems to have broken for a couple of local firms, but others are still waiting. A review of the respondent comments at the end of this report continues to note that several firms are at or near their all time highs. Although several respondents are voicing concerns about the future, the mood is still upbeat.

At the national level, the July 1, 2010 press release from the Institute for Supply Management, our parent organization, moderated for the month of June. ISM's index of NEW ORDERS eased to +22 from +38. In a similar move, the PRODUCTION index retreated to +22 from +38. The EMPLOYMENT index retreated modestly to +15 from +22. All of these statistics indicate that the U.S. industrial economy is expanding, but that the national rate of expansion has moderated. ISM's overall index fell to 56.2, down from 59.7, ending the almost unbroken string of advance which began 11 months ago. Again, any number over 50.0 is considered growth, so it is still fair to say that the industrial economy remains decidedly positive.

At the international level, the J.P. Morgan Global Manufacturing report released on July 1, 2010, followed the same moderation pattern reported by ISM. The index of NEW ORDERS backtracked to 55.5 from 58.9. Asia, Japan, the UK, and Australia all reported modest retrenchment. The Eurozone bucked the trend and posted a solid gain. EMPLOYMENT index eased for the first time in five months, but the slippage was only to 53.1 from 53.9. JPM's Global Manufacturing Index came in at 55.5, down from 57.2. Hence, we continue to see evidence that the world economy has probably starting to plateau. Further expansion beyond the present level will probably require the resolution of some of the world's economic problems such as the excessive sovereign debt of many nations.

Much as we expected, automobile sales for June moderated along with all of our other statistics. Chrysler posted a strong gain of 35%, up from 33% in our last report. General Motors posted a modest downtick to an 11% year-over-year sales growth rate, down from 17%. Honda and Toyota came in at a positive 6% and 7%, respectively. Lesser brands fared statistically better, rising 28% at Hyundai, 33% at Mazda, and 16% at Subaru. Overall, industry sales were up 14% for the month, which is much better than a year ago. This is part of the reason why Michigan is now seeing the unemployment rate SLOWLY declining.

Last week, a lot of headlines were grabbed by the Commerce Department's downward revision of the GDP. The revision was fairly modest, falling to 2.7% from 3.0%. Contrary to some news stories, this revision is not unusual, and most preliminary numbers are often modified—sometime as many as six times. It is worth noting that these quarterly GDP numbers are quarter to quarter, not year over year. Hence, the economy still has a long way to go to get back to the 2008 peak.

For a change, there is some good news on industrial inflation. As noted by the JPM report, the growth pace international economy has slowed considerably, which reduces worldwide demand for most of the major industrial commodities. More importantly, it has shaken some of the speculators out of the market. ISM-Greater Grand Rapids recorded a significant drop in the index of PRICES, from +58 down to +26. At NAPM-Southwestern Michigan, the drop was from +39 to +27. However, the biggest drop came from ISM's national index of PRICES, from +55 to +14. Again, with the speculators now starting to dump their inventories on the market, and commodities like steel, stainless steel, aluminum, and many types of plastic resin are MODESTLY falling in price. However, some types of steel, corrugated, and plastics are still rising. Hence, industrial inflation could come back in a few months.

Another important piece of economic news came from the Chinese. After pegging the Yuan at about \$6.70 for the past three years, the Chinese Treasury Department has bowed to worldwide economic pressure and agreed to let the currency drift higher in value. Although this action reduces demand by raising the price of goods sold to the rest of the world, the Chinese economists have been recommending that the current growth rate be reined in or moderated. By raising the cost of our firms importing from China, a stronger Yuan will help offset the huge trade imbalance that has been such a political hot button for many years. However, the down side of the stronger Yuan is that the Chinese are now less likely to want to purchase our debt. As the Treasury Department tries to finance our huge budget deficits, this could become a problem in the future.

In summary, the pace of our recovery both here and around the world has slowed a little, but the pace remains positive. There are still parts of the economy such as residential and commercial construction that are causing us trouble, but most sectors are now getting back on track and profitable, even though the production levels of 2006 may still be many months away. Despite increased hiring by some firms, the unemployment level remains unacceptably high. Despite the rhetoric, there is very little that the politicians can do to fix this problem, except get out of the way and let the ECONOMY fix the economy.

COMMENTS FROM SURVEY PARTICIPANTS

“We are getting extremely busy, and the forecast looks strong over the next 2 quarters.”

“Production is strong in our area. However, we are facing much more price pressure on the finished goods side. Our customers are demanding price reduction. On the raw materials side, our suppliers are pushing more pricing increases.”

“Carbon steel appears to be trending down.”

“We are slightly down from last month, and we are currently waiting for several projects to come through.”

“Tourist season is starting a little stronger than last year.”

“Managing materials to support production is our number one focus. Lead time increases and low inventory levels are making it challenging.”

“Our industry is very non-committal right now.”

“The second half of the year appears to be very strong for our two business units.”

“I sure hope the ‘pipelines’ fill up soon so companies will start to look at additional equipment.”

“We’ve had another solidly profitable month.”

“We’re looking at bringing on some summer help to mitigate vacations and an uptick in business. We’re still seeing prices rise overseas on all new quotes. Domestic suppliers are beginning to follow suit.”

“Quotes just are not turning into orders. It just seems like companies want to place orders, but just don’t dare take the leap. I’m not sure what has to happen to make things begin flowing in capital equipment sales.”

“Sales have steadied and look solid through the summer.”

“Steel pricing has leveled off.”

“Offshore sourcing presents more and more concerns. Opportunities for on shoring are looked at skeptically by suppliers.”

“This was a strong sales month. What a difference a year makes!”

“Things are OK now, but next year isn’t looking good.”

“I wish for a stronger economy, Gulf oil spill has just begun. Hopefully, it doesn’t dampen the economic recovery too bad.”

“The State is proposing to take money from the general and transportation funds in order to balance the 2011 budget. If this happens, public services will be drastically cut.”

“We have exceeded sales goals for the first two quarters and anticipate similar performance for the balance of the years. All locations are hiring.”

“We had a flurry of sales in the spring, but it looks like the summer could be dry.”

“I have had some supplies try to get price increases, but have not taken them. People are talking on the upside orders.”

“The economy is still very unsettled with much uncertainty about the July (automotive) shutdowns. Will we or not? Prices on raw material continue to be volatile.”

“We are seeing packaged materials are getting longer leading time from the supplier.”

“Business is strong and picking up. It looks like it will be a busy summer.”

“Our business is slowing. I think car restocking and heavy incentives are over. I see back half of 2010 slowing”

“It will be interesting to see if the automotive shutdowns occur at the beginning of July as usual.”

	UP	SAME	DOWN	N/A	June Index	May Index	Apr. Index	20 Year Average
Sales (New Orders)	50%	30%	18%	2%	+32	+40	+51	+29
Production	42%	40%	12%	6%	+30	+40	+44	+13
Employment	46%	44%	10%		+36	+27	+22	+ 8
Purchases	46%	32%	22%		+34	+28	+39	+ 7
Prices Paid (major commod.)	32%	58%	6%	4%	+26	+58	+57	+35
Lead Times (from suppliers)	36%	58%	6%		+30	+46	+32	+11
Purchased Materials Inv. (Raw materials & supplies)	18%	58%	20%	4%	- 2	+14	+37	- 5
Finished Goods Inventory	14%	56%	16%	14%	- 2	+ 0	+ 3	-10

Items in short supply: Packaging materials, die cast suppliers, metal cutters, mint flavor, TiO2, large machining capacity, plasticizer, acrylates, butadiene, stearamides, bearings, iron castings, specialty steels, overseas transportation, ABS resin, heavy equipment parts & attachments, some car parts, resins, ABS, PC/ABS, some HSLA and coated steel, ultra high strength steel, mineral Spirits and items tied to the BP oil spill.

Prices on the UP side: Ferrosilicon, all resins, paper products, base commodities/petrol based products, stainless steel powder, metals, foundry work, semiconductors, bar stock steel, bar stock aluminum, transportation, PVC, corrugated, some carbon steel items, plasticizer, SEBS resin, process aids, paraffinic oil, calcium carbonate, Asian imports, overseas transportation, resin foam chemicals, OSB board, salt, aggregates, finish materials, metal, corrugated, import glass, resins, ABS, PC/ABS, fuel, milk protein.

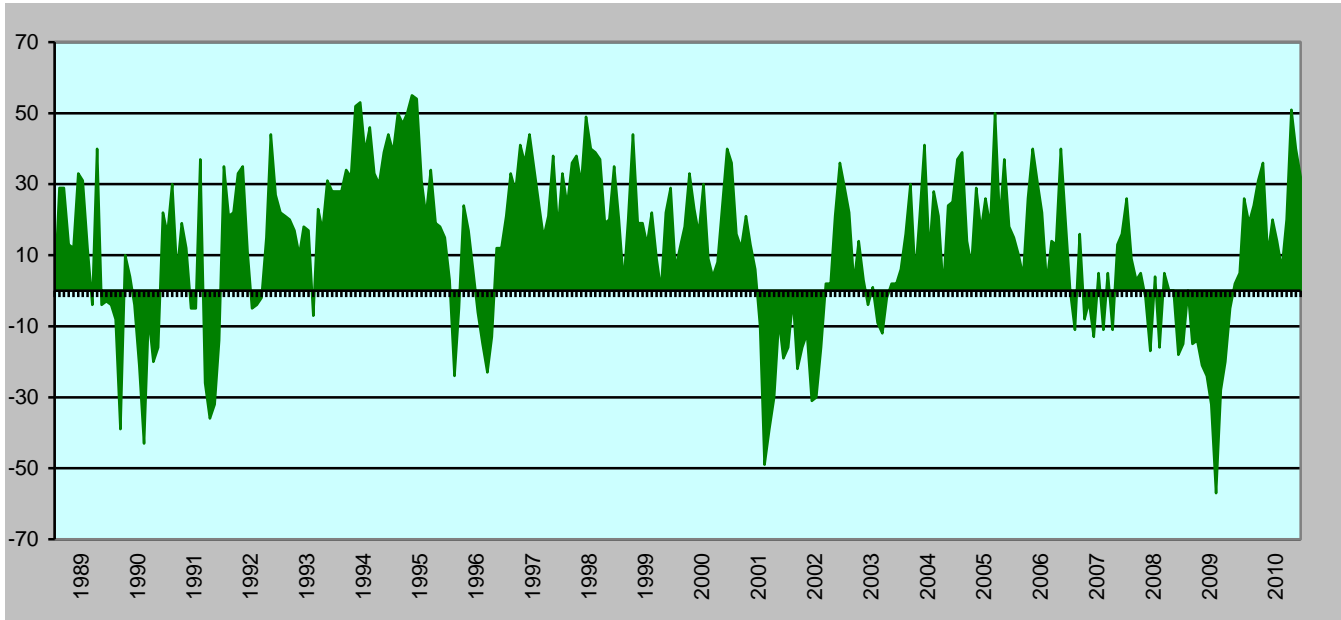
Prices on the DOWN side: Steel scrap, scrap metals, aluminum, some fuel, polypropylene resin, HDPE, LDPE, PVC resin, hot and cold roll steels, carbon steel, brass (for now), trucking, contract services, stainless steel.

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 +32 for the month of June, 2010
One Year Ago +26 for the month of June, 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

