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# CURRENT BUSINESS TRENDS

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Still very modestly negative. That's the latest word on the Greater Grand Rapids economy, according to the data collected in the third and fourth weeks of March. NEW ORDERS, our closely-watched index of business improvement, remained at +0. The PRODUCTION index also came back to +0, up from last month's modestly negative reading of -2. However, the EMPLOYMENT index declined to -9 from +0. Activity in the purchasing offices, our index of PURCHASES, eased to -13, down from -8. The index of LEAD TIMES stretched to +13, up from +6. In general, expanding lead times are not characteristic of a recession, but are typical for periods of rising prices. All in all, even though the economy is still very slow, it is still good to see that things do not appear to be getting worse.

Looking at individual industries, the pattern of widely mixed performance for most industrial groups prevails. The office furniture business is both up and down, depending on the firm. Industrial distributors turned in mixed reports, but the bias was to the up side. Automotive parts producers where mixed, and the American Axle strike has resulted in some unexpected order cancellations. For our capital equipment firms, this month's bias was to the down side. Just as last month, some firms are still seeing record sales.

At the national level, the April 1, 2008 press release from the Institute for Supply Management, our parent organization, shows that the national industrial economy is statistically the closest it has ever been to dead flat. ISM's index of NEW ORDERS came in at +0, and the ISM index of PRODUCTION also posted at +0. And the index of EMPLOYMENT? You guessed it. Another +0, although the index is up from last month's -6. Again, all three of these numbers have not all been +0 in the last sixty years of statistics on file. However, because of statistical variations, ISM's composite manufacturing index was only able to edge up to 48.6 from 48.3. Conversely, ISM's non-manufacturing index edged up slightly to 49.6 from 49.3. For this survey, NEW ORDERS turned back to positive at +2, up from -2.

At the international level, the credit crunch continues to have a dampening effect on the world economy, although the impact is not nearly as severe. The J.P. Morgan Index of Global Manufacturing for March came in at 50.8, just slightly below the 51.1 index reported for the month of February. Countries reporting positive growth included Germany, India, and China. Sub-par numbers came in from the US, Japan, Italy, and the UK. Considerable weakness was noted in the economies for Spain, Ireland, South Africa, and Turkey. JPM's global services index rose to 52.1, up from 51.5. Once again, we can conclude that the international economy is slowing, but there is no sign of an international recession. As we have noted in the past, the country to watch is China. Since China is now the world's biggest user of most industrial commodities, a major decline in the Sino-economy may well take the rest of the world down with it.

Based on the comments from survey respondents, it goes without saying that industrial inflation is getting out of hand. ISM's index of PRICES rose to +67, up from +51, the highest the index has been since October of 2005. For the Greater Grand Rapids survey, the inflation index rose to +51 from +41. The Southwestern Michigan index fared no better, rising to +59, up sharply from +38. Except for a few groups of plastic resins, most types of wood and building products, and some electronic items, almost every other major group of industrial commodities is rising in price. With lead times now starting to stretch, it has become difficult if not impossible to stop many of these price increases. Passing these increases along is very difficult, leaving many firms in a profit squeeze.

Based on the foregoing statistics, it is fair to conclude that the INDUSTRIAL sector of the economy is NOT YET in a recession, and may, in fact, never slide into a recession. Any firms connected to the housing market are, of course, not doing well, and auto parts firms selling to the Big Three have been sliding for months. Offsetting these troubled industrial groups are firms that supply the agricultural industries, such as seed and fertilizer companies and farm equipment manufacturers that have seen orders double and sometimes triple because of the record prices for farm commodities. The fall in the dollar is certainly troublesome to many economist, but the positive impact has been that any firm with a significant export business now has a major price advantage over most foreign competitors. In short, the fall of the dollar has resulted in business for some exporting firms doubling over the past year or so.

However, the CONSUMER sector of the economy is the source of most of the bad news that we are hearing from the media. Declining home sales have dominated the news, although the decline rate on the west side of Michigan has not been nearly as severe as most of the rest of the country. The retail sales for many of the major chains have been disappointing. Auto sales, even for the foreign nameplates, are falling. Toyota posted a loss of 10.3% in March, the largest loss in recent memory. The Big Three also posted double digit March losses, with Chrysler losing 19.4% and Ford 14.3%. The 18.7% loss for March at General Motors was the largest loss in history. Of the other major brands, the Hyundai group fared the best, losing only 2.7%. Honda declined 3.2%. Sales for the industry as a whole were down 12.0% for the month of March.

In summary, it is abundantly clear that we are in the midst of an economic slowdown, although it is still to soon to tell if it will really turn into a recession. The consumer economy is probably in a recession, but whether the industrial economy can remain strong enough to keep us out of a recession remains to be seen. The psychology for both the consumer and industrial markets has turned poor, and it is still possible that we may actually talk ourselves into a recession. Finally, it is worth repeating that we are still waiting for the economy in China to cool down so that the prices of many of these commodities can begin returning to normal.

## COMMENTS FROM SURVEY PARTICIPANTS

"Our orders are up slightly. Most of these are for future months. First quarter numbers look ugly."

"We are monitoring our inventory projections monthly to keep our FG inventory down."

"Extremely inflationary environment. It will be very difficult to deflect price increases."

"Quoting is hot and heavy, but still no orders! Customers are reeling from sticker shock, because of steel, alloys, and transportation costs."

"High steel prices are forcing smaller structural projects to be put on hold."

"Retail activity is down over last year, but our entire industry is down. We are not down as much as others in our industry."

"With the winter maintenance already over budget, funds may be limited or not available to repave roads, fix pot holes, and repair road surfaces as needed,"

"We are still doing well, and expect to finish 2008 with record sales."

"China is having problems getting qualified people in some areas."

"Our second quarter is looking very bad!"

"Whenever we hit a bump in the economic and business world, the media plays it up and cause the ruts to get 'deeper and wider'. The power of the spoken and written word has done us in again. Think and talk positive!"

"The American Axle strike is not helping."

"We are still very busy in our shop."

"A better than expected tourist season will allow us to increase CAP-EX expenditures."

| | UP | SAME | DOWN | N/A | Mar. Index | Feb. Index | Jan. Index | 13 Year Average |
|---|---|---|---|---|---|---|---|---|
| **Sales (New Orders)** | 32% | 32% | 32% | 4% | + 0 | + 0 | + 5 | +16 |
| **Production** | 26% | 42% | 26% | 6% | + 0 | - 2 | - 6 | +16 |
| **Employment** | 13% | 65% | 22% | | - 9 | + 0 | -23 | +10 |
| **Purchases** | 19% | 49% | 32% | | -13 | - 8 | -20 | + 9 |
| **Prices Paid (major commod.)** | 55% | 41% | 4% | | +51 | +41 | +34 | +13 |
| **Lead Times (from suppliers)** | 19% | 75% | 6% | | +13 | + 6 | - 8 | - 7 |
| **Purchased Materials Inv. (Raw materials & supplies)** | 22% | 55% | 19% | 4% | + 3 | - 2 | - 3 | -10 |
| **Finished Goods Inventory** | 16% | 55% | 16% | 13% | + 0 | + 3 | -18 | -11 |

**Items in shot supply:** TPU, large scale outsourcing machining, bituminous emulsions, carbon steel, electronics (LED).

**Prices on the UP side:** Propylene, styrene, gasoline, steel, carbon steel, scrap steel & scrap cast, foundry coke, aluminum, paper corrugated, fuel, freight, EPS, diesel, stainless steel, copper, brass, tallow, resin, polycarbonate, nylon, heavy carbon plate, ductile iron, steel castings, some appliances, adhesives, trucking & delivery charges, petroleum based products, ready mix concrete, cast iron, gasoline, connectors, NiMH batteries, aluminum extrusions, oil, energy costs.

**Prices on the DOWN side:** Wood, computer items, printing.