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

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Down more sharply. That's the latest word on the Greater Grand Rapids economy, according to the data collected in the month of November. NEW ORDERS, our index of business improvement, declined to -32, down from -24. In a similar move, the PRODUCTION index fell to -30, down from -14. Activity in the purchasing offices, our index of PURCHASES, sank to -40, down from -35. The index of EMPLOYMENT turned in the weakest performance in our twenty year survey history, falling to -43, down from -26. The bad news is that we are in for a rough ride. The worse news is that we don't know how long or how rough the ride is going to last.

Looking at individual industries, the only industries that are still holding up are those relating to defense, aerospace, or mining equipment. Unfortunately, even these firms will not hold up for long. The shock wave has probably just not reached them yet. The office furniture business, which began falling a few months ago, is still falling. The auto industry continues to be hard hit, and there is obviously no end in sight at this time. Industrial distributors are still being pinched by tighter budgets. Capital equipment firms were generally down as well. Just like last month, we still have a smattering of specialty firms that are doing well, despite the current economic weakness.

Turning the national level, the December 1, 2008 press release from the Institute for Supply Management, our parent organization, continued to be pessimistic. ISM's index of NEW ORDERS sank to -47, down from -39. This is the lowest the index has been since 1980. The PRODUCTION index eased to -38 from -35. The EMPLOYMENT level remained unchanged at -33. ISM's composite manufacturing index dipped to 36.2, down from 38.9.

At the international level, the composite index for J.P. Morgan's Global Manufacturing Report dated December 1, 2008 fell to 36.4, down from 41.0. Aside form being a record low for the 10 year old index, the author says that the six month slide, "…confirms that global manufacturing has fallen into a deep and broad-based recession." Although this is a Grinch assessment, he is probably right. Unlike the dot com recession in 2001, this downturn appears to be worldwide. So far, it is many of the third world countries that are being hurt the most. Even the Chinese are starting to worry, as well they should.

The automotive sales reports for the month of November were just as bad as last month. Ford reported a year-over-year drop of 30.6%, and announced a 38% drop in production for the first quarter of 2009. Sales for Honda USA, which had weathered the storm thus far, fell 31.6%. GM sales fell 41.3 %. Toyota USA fared little better, and posted a sales drop of 34%. According to most sources, the culprits are still the lack of consumer confidence and the ongoing credit crunch.

Should the auto industry receive a government bailout? From an economic standpoint, it may be a bad deal for the US taxpayer. However, from a Michigan standpoint, ALL Michigan residents MUST be in favor of a bailout of some kind. Bankruptcy by the Detroit Three automakers could easily push Michigan's unemployment rate up to 15%, although advocates of a "controlled" bankruptcy say that reducing the pension fund obligations, dealerships, union benefits, and some lines of cars could actually help the industry over the long term.

Inflation, which was a major problem only a few short months ago, has now disappeared. Prices of most industrial commodities are falling at record rates. One steel buyer noted that some grades of steel are now 80% lower than they were in June. ISM'S index of PRICES fell to at 60 year low of -47, down from a near-record high of +84 just this past June. Locally, in the Greater Grand Rapids survey, the index of PRICES fell sharply to -38, down from -7. In Southwestern Michigan, the index eased to -17, down from +7.

One of the big dangers of any downturn of this nature is what the economists refer to as "structural damage." Simply put, marginal firms in a particular industry are driven out of the business, as they probably should be. However, altogether too often this washout extends to firms that are otherwise good performers, or even worse, the high quality/high price firms. They find themselves undercut by cheaper domestic competitors or foreign sources. When the markets finally correct themselves, there is not enough market capacity, and the surviving firms can now charge a higher price, fueling inflation as well as more foreign competition.

It is hard to believe that so many firms over the past year abandoned their devotion to JIT, but that is just what has apparently happened. For Greater Grand Rapids, the index of PURCHASED MATERIELS INVENTORY fell to -31, a clear indication that many firms are living off their inventories and not ordering new products or materials. In the Southwestern Michigan, the index plunged to -44, down from -8. ISM's national index came in at -23, down from -13. Unfortunately, the entire world is now cleaning the warehouses that were filled in last summer's buying panic. Historically, we will not be out of our current recession until the inventory liquidation is over. In the past, this kind of liquidation usually took about 9 months. However, these are unprecedented times, and the past rules may not apply.

We come back to the same question that was raised last month and will probably be raised for months to come. Where and when do we reach the bottom? Unfortunately, there are so many negative economic things happening at once that it is difficult to aggregate an honest assessment. Cheaper gasoline has given American consumers more pocket money, but so far, they are not spending it. Cheaper diesel is good for businesses that must rely on shipping products, with slower orders, there is less to ship. Another consumer "stimulus" check would be good for Walmart, but would have little impact on getting the overall economy back on track. Hence, we come back to the same problems that have already been mentioned. We must use up the inventories of the major commodities, and we must wait for the demand for housing to catch up with the supply. This will require mortgage rates to come down to the levels of 2003, and so far, they have not. Banks will have to start loaning money again, and so far, they seem afraid to do so.

COMMENTS FROM SURVEY PARTICIPANTS

"Our orders are up slightly; after 2-3 weeks of even lower order intake from last month. Hopefully, we have hit our bottom."

"Automotive is a scary place to be right now. Things are down dramatically. I wonder how long can my company hang in there. "

"We are holding our own. Some decline in sales, but not enough to cause too much concern."

"Orders are the slowest I have seen since 2001"

"Time will tell if steel prices level out or bounce up like a super ball! The steel mills continue to remove capacity to try to match demand. The volatility in pricing is unprecedented."

"I am open to 'any' ideas!"

"Wouldn't you know it? Just when commodity prices start to go down, we hit our slow season."

"The election is behind us. Now we await what "change" it will bring about."

"We're just 'maintaining' for now, and getting ready for winter."

"The credit crunch hit us hard in the month of October. Our customers are having a hard time getting funding for larger orders and projects."

"Raw material prices are not coming down proportionately to the drop in crude oil prices. They are coming down a lot slower than even gas prices at the pump."

"Mixed up economy. What will hit us next? Are we at the bottom?"

"Demand is STILL very strong for steel fabrication in the defense and mining segments."

"We are planning 2009 to be 10% down. Eliminating exposure to inventory is HUGE!"

"We are seeing some hints of improvement, but not enough to recall staff from layoff-- yet."

"Scrap metal prices have fallen dramatically over the last 2 months, and are now close to record lows."

"We are 100% automotive, and are running about 25% down at this time. We expect a small increase after November when truck production resumes in Indian and Texas."

"My understanding is that China steel has set a price reduction of 10%. We should see depressed costs stateside for the next 6 months."

"We are getting very busy for the balance of this year, but it sounds like the first quarter of next year will be very tough."

	UP	SAME	DOWN	N/A	Nov. Index	Oct. Index	Sept. Index	20 Year Average
Sales (New Orders)	**21%**	**26%**	**53%**		**-32**	**-24**	**-21**	**+29**
Production	**17%**	**27%**	**47%**	**9%**	**-30**	**-14**	**-24**	**+13**
Employment	**4%**	**49%**	**47%**		**-43**	**-26**	**-21**	**+ 8**
Purchases	**13%**	**34%**	**53%**		**-40**	**-35**	**-28**	**+ 7**
Prices Paid (major commod.)	**2%**	**58%**	**40%**		**-38**	**- 7**	**+21**	**+35**
Lead Times (from suppliers)	**6%**	**71%**	**23%**		**-17**	**- 4**	**+ 0**	**+11**
Purchased Materials Inv. (Raw materials & supplies)	**9%**	**42%**	**40%**	**9%**	**-31**	**-35**	**- 5**	**- 5**
Finished Goods Inventory	**13%**	**36%**	**34%**	**17%**	**-21**	**-14**	**- 7**	**-10**

Items in short supply: **C**astings and forgings, salt, SEBS resin.

Prices on the UP side: Some grades of paper, some corrugated, some steel, foil, bituminous materials, process aids, some plastics, powder paint, fasteners.

Prices on the DOWN side: Fuel, fuel surcharges, gasoline, stainless steel, scrap steel, carbon steel, brass, aluminum an aluminum ingot, PET resins, corrugated, almost all plastic, poly foam, cast iron, PVC resin, plasticizer, copper, zinc, crude oil, cold rolled steel, diesel fuel, polyolefins, steel surcharges, nickel, polypropylene, moly, steel castings and forgings.