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CURRENT BUSINESS TRENDS

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July 15, 2008

Still down, but not as sharply. That's the latest word on the Greater Grand Rapids economy, according to the data collected in the third and fourth weeks of June. NEW ORDERS, our index of business improvement, came back to +0 from -15. The PRODUCTION index eroded slightly to -12, down from -9. Activity in the purchasing offices, our index of PURCHASES, declined to -20 from -15. The index of LEAD TIMES moderated to a more reasonable level of +5, down from +18. This constitutes our third successive month of negative statistics, and hope is beginning to fade that our numbers will turn back to the positive anytime soon. The only saving grace is that our local economy is not as weak as it has been in other economic downturns.

Looking as we always do at individual industries, it is hardly a surprise that the auto parts manufacturers are still our biggest problem. As automotive production schedules are cut, pessimism continues to grow. For the capital equipment firms, the reports are either flat or down. Just as last month, our industrial distributors were below par. A couple of firms in the office and steel furniture business reported improved orders, although most of the industry remains flat. One of our few remaining bright spots is the aerospace industry, where firms are either holding steady or expanding to meet the demands of booming west coast customers.

At the national level, the July 1, 2008 press release from the Institute for Supply Management, our parent organization, posted some modest improvement for the U.S. economy. ISM's index of NEW ORDERS rose modestly to +4, up from +2. However, the PRODUCTION index backtracked to +4 from +7. Unfortunately, the EMPLOYMENT index slid to -9, down from -3. ISM's composite manufacturing index crossed the all-important 50.0 saddle point, and came in at 50.2, up from 49.6. Unfortunately, ISM's non-manufacturing index crossed the 50.0 mark in the opposite direction, and came in at 48.2, down from 51.7. Although still positive, the non-manufacturing index of NEW ORDERS retreated to +3, down from +14.

The news from the international level is not so good. In a report dated July 1, 2008, the J.P. Morgan Index of Global Manufacturing fell to 49.5, its lowest level in five years. Growth slowed to a four month low in China, but hit its highest rate so far in India. Declines were also posted by Japan and the UK, as well as most of Europe. JPM's global services index fell sharply to 49.3, down from 52.4. As we've said many times, one month does not determine a trend. Needless to say, if the international economy were to decline for, say, three months in a row, we would have to declare the world to be in some kind of a worldwide slowdown or a a recession.

As anyone who follows the automotive news is fully aware, the news for the Detroit Three automakers continues to get worse-- with little real hope for improvement. Because of incentive programs, sales at General Motors were only down 18.2%. However, Ford slid 29.5%, and Chrysler tanked by 35.9%. High gasoline prices, tighter credit standards, a poor mix of products available for sale, and declining consumer confidence were sighted by *Automotive News* as some of the factors leading to the sharp decline. Even Toyota dropped 21.4%. American Honda was the only major firm to post a modest increase of 1.1%.

All of this continues to be bad news for our Michigan auto parts suppliers. The recent sales declines have resulted in further cuts in production schedules and more announcements of extended plant closures. A report from CSM Worldwide, an automotive market research firm, notes that the current deterioration of orders and the non-existent profit margins may spell the end for some of the smaller auto parts firms.

As a group, industrial buyers are all hoping for some kind of relief from inflation. Unfortunately, this month's news is still very bad. ISM's index of PRICES rose to +83 from +74. This isn't a record, but we have to go back to July of 1979 to find a higher number. Our local surveys fared no better. For Greater Grand Rapids, the index of PRICES remained very high at +73, only slightly lower than the all-time high of +76 we reported last month. The index for Southwestern Michigan came in at +76, up from +55. Regarding specific commodities, steel, aluminum, and all of the other major metal groups continue to rise in price. All forms of energy, including gasoline, Diesel, fuel oil, and natural gas continue to skyrocket. Almost all of the major freight companies are tacking on fuel surcharges. All types of petrochemicals and plastic resins continue to rise in lockstep. Most grades of steel have doubled in price since the beginning of the year. Just like every other price buildup in the past, everyone knows that all of this will come to an end. Just exactly when is the big question. As we noted last time, it will probably take some kind of an event to break the bubble. A decision by the Federal Reserve to raise interest rates at one of the upcoming FOMC meetings would be just that kind of event. However, the Fed has historically left rates alone in election years.

We hear the plaintiff cry that the commodity speculators are killing us. Indeed, there is substantial evidence that speculation has escalated the costs for most of the major commodities. As we have noted in the past, money managers have to put their money somewhere. With U.S. interest rates for government bonds as low as at 2%, mortgage markets in the dumper, and real estate prices in a freefall, the money has naturally gravitated toward the allure of rising commodity prices as a place to make money.

The other oft-cited reason for the escalation in prices for commodities like gasoline is the emergence into the 21st century of third world countries like India, China, and Brazil, i.e., about 50% of the world population. If only 10% of these people start driving cars and other motorized vehicles, the strain on the existing worldwide refinery capacity is obvious. Furthermore, oil production in countries like Russia, Mexico, and Nigeria has been declining, and cannot be simply offset by pumping more oil from the Persian Gulf. Hence, world demand is rising while the world supply of oil is declining. The only positive thing that may break this cycle is that motorists are FINALLY starting to drive less, which may start to ease the price of gasoline.

COMMENTS FROM SURVEY PARTICIPANTS

"The economy is very worrisome. Hope the company can hang on!"

"We are a machine tool distributor that sells both American and imported equipment. We have seen significant price increases from our non-US builders, particularly the Germans and Japanese."

"Business is improving slowly. This quarter will be better than the first. However, we are still more than 10% behind last year's pace."

"We have concerns over the China RMB (Yuan) vs. the US dollar as the year goes on."

"It looks as though we are getting close to the top or at least leveling on carbon steel pricing. The July and August price announcements are not as ugly as the last few months."

"Inflation is scary. We expect a significant recession in 2009."

"The only thing left is looking for ways to diversify if we are going survive."

"With all of the layoffs, job losses, and reduced buying power of the majority of the population, economic recovery will be slow."

"Contract manufacturing business is steady, but all are coming from the European sector."

"I checked the 'same' box for everything. I think almost everyone is taking a 'wait and see' position until the election is over. Energy costs have to become a bigger campaign issue,"

"It is not good. The State has no money, the county has no money, and the cost of all the things that we fix and maintain for the pubic are increasing at a record rate. Fuel prices are 30-40% higher.

"We are still doing quite well in the ETO/OEM world. High quality and high value-added products are what's' keeping us around."

"We took a dramatic position in Q1 to reduce cost. Now that Q2 is complete, we have performed better than planned. Our eyes are wide open to Q3 and Q4, and the surprises they hold. Planning and reality are out best course of action."

"I am resorting to selling my machines for scrap! The dollar paid for scrap steel is still spendable even if the scrap goes to China."

"Suppliers are doing a lousy job generating any form of innovation and/or continuous improvement. The general attitude is, '…here is my price increase, take it or we won't ship.'"

"We are still very busy, although the pricing volatility is wreaking havoc on our margins. Many projects are either in the works or coming soon."

	UP	SAME	DOWN	N/A	June Index	May Index	Apr. Index	13 Year Average
Sales (New Orders)	25%	48%	25%	2%	+ 0	-15	-18	+16
Production	15%	48%	27%	10	-12	- 9	-15	+16
Employment	8%	72%	20%		-12	-21	- 4	+10
Purchases	20%	40%	40%		-20	-15	- 2	+ 9
Prices Paid (major commod.)	75%	20%	3%	2%	+73	+76	+68	+13
Lead Times (from suppliers)	10%	85%	5%		+ 5	+18	+17	- 7
Purchased Materials Inv. (Raw materials & supplies)	20%	40%	28%	12%	- 8	+12	+13	-10
Finished Goods Inventory	12%	48%	25%	15%	-13	- 6	-13	-11

Items in shot supply: Aluminum, styrene, petroleum, some steel sheets, coated carbon steel, hot rolled alloy bar stock, profits, wages & benefits, castings, salt, paraffin oil, butadiene.

Prices on the UP side: Fuel and fuel surcharges, chemicals, transportation, plastics, all energy, steel, steel tube, scrap, powder paint, plastic bags, springs, magnesium, carbon steel, plastic resins, most metals, welding wire, some MRO supplies, fiberglass chop and matt, adhesives, aluminum extrusions, plastic injected molded parts, salt, aggregates, limestone, services asphalt, chlorides, grade blades, polypropylene, SEBS resins, plasticizer, paraffin oil, carbon black, pigment, corrugated, impact modifiers, process aids, filler, motors, paint, fasteners, electrical components, particleboard, vinyl, laminate, foam, oil based products, freight, copper, all raw materials.

Prices on the DOWN side: Stainless steel, nickel, brass, some MRO supplies, computers, some technical tools, wages.