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CURRENT BUSINESS TRENDS

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June 15, 2008

Still down. That's the latest word on the Greater Grand Rapids economy, according to the data collected in the third and fourth weeks of May. Our index of business improvement, which we report as NEW ORDERS, remained negative at -15, but rose slightly from the -18 we reported last month. The PRODUCTION index was also negative, but edged up to -9 from -15. Activity in the purchasing offices, which we report as our index of PURCHASES, retreated to -15, down from -2. The index of LEAD TIMES stretched out to +18, up from to +17. At +12, our index of RAW MATERIALS INVENTORIES is not at an alarming level. However, the fact that this index has been below zero for most of the past twenty years tells us that some firms are accumulating inventories in anticipation of higher prices. All in all, this month's report is still only the second month of negative numbers, and while the economy is definitely slowing, it is still too soon to declare a local recession. However, even in a slowdown, there are firms that are definitely hurting.

Looking at individual industries, the auto parts manufacturers continue to be one of our weak spots. Fortunately, the American Axle strike is over, and a couple of firms report being back on track. The office furniture business remains stable, but no one is reporting any kind of a boom. For the capital equipment firms who respond to the survey, almost all of them are down. In general, our industrial distributors were below par for the month.

In contrast at the national level, the June 2, 2008 press release from the Institute for Supply Management, our parent organization, shows that the national industrial economy is marginally positive. ISM's index of NEW ORDERS came in at +2, up from +0. The PRODUCTION index edged up to +7 from +6. Unfortunately, the EMPLOYMENT index remained bearish at -3. ISM's composite manufacturing index remained below the all-important 50.0 saddle point, and came in at 49.6. ISM's non-manufacturing index moved marginally lower to 51.7, down from 52.0. The non-manufacturing index of NEW ORDERS advanced to +14 from +9. So far, the service sector of the economy is clearly not yet in a recession.

Turning as we always do to the international level, the J.P. Morgan Index of Global Manufacturing edged very slightly higher to 50.4, up from 50.2. Countries reporting positive growth included Denmark, Brazil, India, China, and the Eurozone. Negative reports came in from the US, Japan, and the UK. JPM's global services index improved to 52.4, up from 51.0. At least for right now, it appears that the international economy is not in a recession, and may be stabilizing at the current level.

With our state so closely keyed to the auto industry, we continue to hope for an end to the slide in auto sales. Unfortunately, sales for Ford in May came in at 15.9% below May of last year. General Motors dropped 27.5%, partly because of production delays caused by the American Axle strike. Chrysler slid by 25.4%. Even Toyota fell 4.3%. Although Honda gained 15.6% and Nissan rose by 8.4%, their sales were no enough to keep the total industry sales from falling by 10.4%. Unfortunately, Michigan will take a bigger hit than most if these sales figures continue to decline. Particularly with the American nameplates, the industry seems to be having a difficult time shifting production to smaller cars. Many of those Michigan jobs that are lost will never come back, and the state planners are struggling with how to replace these lost jobs with new ones.

Turning to inflation, the news is still very bad for the industrial purchasers in our area. ISM's index of PRICES moved up to +74 from +69. In a similar move, the index of PRICES for Greater Grand Rapids survey rose to another all-time high of +76, up from +68. Because of statistical aberrations, the index of PRICES for the Southwestern Michigan index came in at +55, down from +75. Just as last month, almost every significant raw material continues to escalate in price. Although steel prices continue to escalate at a record pace, the speculation is that we will hit the top of the market some time in late summer.

Almost all of the economists are fully aware that the rapid rise in commodity prices can be partially blamed on speculation. When the sub-prime mortgage crunch erupted, the response of the Federal Reserve was to immediately cut interest rates in order to avoid a recession. This prompted rate cuts by many of the other central banks, leaving the interest rates on prime commercial paper at low levels all over the world. Because of high levels of demand by China, India, Brazil, and other emerging markets, commodity prices were already going up. Hence, the temptation to speculate on the price of commodities could not be turned back.

When will the commodity speculation end? Soon, we hope. Theoretically, the housing bubble should have broken long before it did, but it took an EVENT in the form of the sub-prime debacle to trigger the collapse. For the commodity bubble to break, the sudden realization that speculative inventories have been built up in China and India could be that kind of event. As previously noted, a decision by all or most of the world's central banks to simultaneously raise interest rates could also result in commodities being sold and money rotating back to treasury bonds and other prime commercial paper.

Is there hope that the second half of the year will be better than the first half? Hope is about all there is. The housing crunch will probably bottom out by mid-summer, but take years to return to the robust level of 2006. The next proverbial shoe to drop will be the break in the commodity bubble, but most of the collapse will hopefully take place outside of the United States, leaving us with some badly-need commodity price relief. From an economic standpoint, we live in an increasingly confusing word.

COMMENTS FROM SURVEY PARTICIPANTS

"The cost of gas is driving every product price higher. Sellers are adding fuel surcharges to every truckload."

"Steel price increases are killing us, along with the continued devaluation of the U.S. dollar vs. the Euro."

"Here we go again! Prices are escalating at historical rates!!"

"Our current orders are soft. It looks like we will see some increases later this quarter or early next quarter."

"We experienced only our second downsizing in company history yesterday, losing approximately 5% of our workforce."

"This is an extremely inflationary environment. I don't think consumers are ready for how big this is going to get."

"The world economy is much more difficult to read. The USA needs to get on track with more development in oil refineries and alternative energy. Supply and demand and speculators are control prices."

"For contract manufacturing in the energy sector, business appears strong in the first quarter of 2009. There is a huge downward pressure on margins."

"We are aggressively pursuing cost reduction efforts, but there just isn't any room left to squeeze most suppliers."

"My company is instituting a surcharge to offset material and fuel inflation."

"Plastic resin prices continue to rise monthly. This, coupled with weak automotive production is really squeezing any potential profit from our business."

"As our funding continues to decrease and our costs of doing business increase at record highs, our organization is delaying projects, not hiring needed personnel, and making cuts wherever possible."

"With the constant negative media (and internally as well), do we talk ourselves and our customers into poor sales?"

"Anything even remotely related to oil is increasing and is out of control."

"Our sales remain strong, but margins have eroded due to material cost spikes."

"The cold spring weather has kept tourism numbers down."

"2008 is going to be a hard year! We are offering temporary layoffs. Hopefully the American Axle strike is almost over."

"Aluminum prices are stable for now."

	UP	SAME	DOWN	N/A	May Index	Apr. Index	Mar. Index	13 Year Average
Sales (New Orders)	21%	40%	36%	3%	-15	-18	+ 0	+16
Production	15%	49%	24%	12	- 9	-15	+ 0	+16
Employment	9%	61%	30%		-21	- 4	- 9	+10
Purchases	18%	49%	33%		-15	- 2	-13	+ 9
Prices Paid (major commod.)	79%	15%	3%	3%	+76	+68	+51	+13
Lead Times (from suppliers)	24%	70%	6%		+18	+17	+13	- 7
Purchased Materials Inv. (Raw materials & supplies)	33%	40%	21%	6%	+12	+13	+ 3	-10
Finished Goods Inventory	15%	58%	21%	6%	- 6	-13	+ 0	-11

Items in shot supply: Aluminum, some carbon steel, scrap, magnets, some auto and truck parts, filters, heavy equipment supplies, butadiene, SEB resin, LED, LCD.

Prices on the UP side: Silicon, resin, transportation, styrene, polyester, steel goods, scrap, powder paint, hardware items, fuel, lubricant, brass, PE, HDPE, TiO2, carbon black, ABS, SAN, PP, HIPS, HR & CR steel, diesel, copper, metal fabrications, natural gas, laminate, raw steel. paper, salt, chlorides, grader blades, bituminous paving materials, SEB resins, plasticizers, PVC resin, base oil, stainless steel, electronics, metals, magnesium

Prices on the DOWN side: Corrugated, nickel, plywood, some aluminum extrusions, state funding. .