

CURRENT BUSINESS TRENDS

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Back to negative. That's the latest word on the Greater Grand Rapids economy, according to the data collected in the third and fourth weeks of April. Our closely-watched index of business improvement, which we call NEW ORDERS, fell to a disappointing level of -18, down from +0. In a similar move, the PRODUCTION index slid to -15, down from +0. The EMPLOYMENT index remained negative at -4, but recovered slightly from -9. In a similar move, activity in the purchasing offices, our index of PURCHASES, climbed back to -2 from -13. The index of LEAD TIMES stretched out a little farther to +17, up from +13. After three months of moderation, it was disappointing to see our statistics slide back into negative territory. However, seven of our last twenty-four reports have been negative. We have complained about the zigzag nature of the economy for the last five years, and this downtick may be no more than a month long. If it lasts a couple of months, we will be forced to reevaluate.

Looking at individual industries, it is no surprise that the auto parts manufacturers are reporting the weakest business conditions. Firms that are directly or indirectly related to the American Axle strike are having the hardest times. Just like last month, the office furniture business is both up and down, although this month's bias is to the up side. For our capital equipment firms, this month's bias is clearly to the down side. Although our overall performance for the Greater Grand Rapids area is clearly below par, we are still seeing some firms reporting record sales.

At the national level, the May 1, 2008 press release from the Institute for Supply Management, our parent organization, shows that the national industrial economy is still flat. For the second consecutive month, ISM's index of NEW ORDERS came in at +0. ISM's index of PRODUCTION edged up to +6 from +0. In the negative column, the EMPLOYMENT index backtracked to -4 from +0. All of this activity resulted in ISM's composite manufacturing index edging up to 49.1 from 48.6. ISM's non-manufacturing index edged up to 52.0 from 49.6. The non-manufacturing index of NEW ORDERS advanced to +9 from +2. This is certainly good news.

At the international level, the J.P. Morgan Index of Global Manufacturing remains marginally positive at 50.3, just slightly softer than the 50.7 reported last month. Countries reporting positive growth included Germany, Greece, Brazil, Russia, India, and China. Negative reports came in from the US, Japan, and the UK. JPM's global services index retreated to 51.0 from 52.1. Just as last month, we can conclude that the international economy is slowing, but our key numbers are still above the all-important 50.0 mark.

Much as we expected, the situation for industrial inflation continues to grow worse. ISM's index of PRICES edged up to +69 from +67. For the Greater Grand Rapids survey, the inflation index rose to +68. Regrettably, this number represents an all-time high for the 20 years we have been doing the survey. The Southwestern Michigan index came in worse at +75, up significantly from last month's +59. For this survey, the record is +93 that was set back in March of 1979. It is scary to see that we are only a few points away from that number. Except for a handful of items related to residential construction like wood, plywood, and roof shingles, almost every significant raw material is up in price. In the case of steel, prices are escalating at a record pace toward record levels. After moderating in price a few months ago, commodities like copper and aluminum are now headed back toward record levels. Petroleum prices are again setting record levels. Food commodities are rising so high in price that people all over the world living at subsistence levels are now starving to death. In short, industrial inflation is now the worst it has been in nearly thirty years.

Although it would take hundreds of pages to describe all the causes of the current cycle of industrial inflation, here are some of the major causes. Topping the list are China and India. Even though these countries constitute 40% of the world's population, no one ever dreamed that these two countries would begin demanding huge volumes of industrial commodities. No one ever dreamed that millions of Chinese would trade their bicycles for gas-burning mopeds. China has gone from being a small user of industrial commodities to being in the world largest user of steel, copper, aluminum, nickel, and iron ore. This newfound affluence has resulted in a new demand for food, which has now resulted in rice tripling in price.

Another culprit of inflation is the weak dollar. All of the commodities that we must import, by definition, are up in price proportional to the fall of the dollar. The dollar has stabilized in recent days, creating hope that the worst may be over. However, low interest rates mean low return for investors, and at least some of these investors have chosen to pour money into commodities as long as they see them continue to rise in price. Again, this creates more inflation.

Inventory accumulation is another problem. In the United States and most of the Eurozone, inventory is a dirty word, so these inventories are low. However, developing countries like India and China are not nearly as sophisticated when it comes to controlling or managing inventories. Therefore, firms are stockpiling commodities all over the Far East. Like other inventory cycles, the prices will soon top out and begin to fall. This will result in all of these inventories being used as new orders are halted. Prices will fall significantly, although they will probably never fall to the levels of the late 1990s.

In summary, with the first quarter GDP reported at a growth rate of 6 tenths of one percent, we are not in a recession, although we are in a serious slowdown no matter how we look at it. Although some of our numbers at the national and international levels are still flat, there is hope that we can at least stabilize at these levels without sliding any further.

COMMENTS FROM SURVEY PARTICIPANTS

"Our growth in contract manufacturing is flat as a pancake. There is promise in the third quarter of 2008."

"I'm trying to order in larger volume in anticipation of the China Olympics. My biggest fear is that my container gets clogged in the system while everyone else is also in a rush to order extra stock over the next few months."

"The price of scrap is out of control. The weak dollar is causing this material to leave the country faster than ever in history."

"Things are slowly picking up. April will be better than March. We will have to see how the rest of the quarter shapes up."

"We are keeping our inventory lower. Prices continue to rise, but our second quarter looks good."

"Carbon steels are still on the rise. We are not sure what will stop it."

"We are becoming just a parts and service house! Nobody can afford new equipment from America!!"

"The American Axle strike is taking its toll."

"We are realigning our manufacturing lines to reflect changing consumer demand. High end goods are saving us from lay offs."

"We are happy to report the same mediocre sales as last month. With all the negative news in the auto industry and economy in general, we are projecting long term layoffs by mid-summer."

"We have been given notice that scrap metal surcharges are going through the roof."

"Nothing to comment about! Prices are rising, and we are trying to maintain the same level of service with less revenue."

"We continue to do well. Hopefully, inflation pressures and the falling dollar don't pull the U.S. economy down much further."

"We are aggressively working with our supply base to decrease costs as much as possible. Nobody wants to lose business right now."

"We are making significant strides to finish Q2 and Q3 strong. Some products will be transferred to West Michigan for production! This is a great reflection of a knowledge/experienced workforce."

"Hopefully, when the political arena clears and the election is over, the interest and efforts will be spent on the economy."

"The advanced reservations for the summer tourist season are down."

"It is becoming a tough year!"

"We are quoting many new projects and have several in process now. This should be a great year."

"YIKES!"

"We're seeing a normal spring season ramp-up as our customers replenish inventory. The duration of it will be key."

	UP	SAME	DOWN	N/A	Apr. Index	Mar. Index	Feb. Index	13 Year Average
Sales (New Orders)	15%	50%	33%	2%	-18	+ 0	+ 0	+16
Production	15%	48%	30%	7%	-15	+ 0	- 2	+16
Employment	13%	70%	17%		- 4	- 9	+ 0	+10
Purchases	20%	48%	32%		-12	-13	- 8	+ 9
Prices Paid (major commod.)	73%	20%	5%	2%	+68	+51	+41	+13
Lead Times (from suppliers)	22%	73%	5%		+17	+13	+ 6	- 7
Purchased Materials Inv. (Raw materials & supplies)	30%	48%	17%	5%	+13	+ 3	- 2	-10
Finished Goods Inventory	12%	50%	25%	13%	-13	+ 0	+ 3	-11

Items in shot supply: Fiberglass, some carbon steel, steel, copper pipe, wire, particleboard, castings, and butadiene.

Prices on the UP side: Carbon steel, stainless steel, some corrugated, everything plastic, all oil based products, freight movement, copper, scrap iron & metal, aluminum, hardware, brass, everything from China, PE, carbon black, iron oxides, copper pipe, wire, HR & CR steel, diesel, structural scrap steel, plastic sheet goods, adhesives, fuel, various metals, paper, plasticizers, polypropylene, SEBS resin, tin, tin stabilizer, paints, thinner, castings, polyfoam, HDPE, motors, pumps, nickel, energy, food, and transportation.

Prices on the DOWN side: Wood and wood based items, some corrugated, plywood, some aluminum extrusions, wages, printing, and PVC blisters.