



institute for  
supply management

## Institute for Supply Management

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### CURRENT BUSINESS TRENDS

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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 August. NEW ORDERS, our index of business improvement, remained modestly negative at -14, virtually unchanged from the -15 we reported last month. Although still negative, the PRODUCTION index came back to -7, a little less pessimistic than the -26 we reported a month ago. At -21, activity in the purchasing offices, our index of PURCHASES, remained unchanged. The index of LEAD TIMES edged up to +5 from +2. Just for the record, this is our fifth month of negative statistics. The only real saving grace is that this downturn is not nearly as severe as many of our previous slumps. As we noted last month, there is no way to sugar coat the situation. The Greater Grand Rapids area is in a modest economic slump, and there is no sign that the trend is about to reverse itself over the next several months.

Turning as we always do to individual industries, there is still no good news coming from the auto sector. Many of our local auto parts manufacturers were pushed into extended shut-downs for model changeover. Others have had orders pushed out as far as November. Just as last month, a couple of office and steel furniture firms reported improved orders, but sales for other firms continue to soften. Any firms directly or indirectly servicing the defense or aerospace industry are doing very well. Due to short term cost cutting and putting off needed maintenance, business conditions for our industrial distributors remained flat.

At the national level, the September 2, 2008 press release from the Institute for Supply Management, our parent organization, remained modestly negative. ISM's index of NEW ORDERS came in at -6, trimming the loss of -10 reported last month. The PRODUCTION index remained virtually unchanged at +3, compared to +4 in July. Much as we expected, the EMPLOYMENT index flipped back to negative at -3, down from +3. ISM's composite manufacturing index slid below the break-even mark of 50.0, and closed at 49.9. In short, the industrial economy at the national level is about as close to dead flat as it has ever been. It is not rising, or declining. It is just treading water at the current level. The boom in agriculture and export manufacturing continues to offset the weakness in construction and automotive.

As we turn to the international economy, the news is not as good. The index for J.P. Morgan's Global Manufacturing Report dated September 2, 2008 eroded to 48.6, down from 49.0. Just as last month, weaker NEW ORDERS were reported in most of the European countries, the U.S., the U.K., and Japan. Germany was especially hard hit. Because of the production restrictions for the Olympics, China posted a sharp drop. However, the other BRIC countries posted modest gains. The international survey of EMPLOYMENT fared poorly, and declines were recorded in the US, the Eurozone, Japan, China, and the UK. In short, the economic retreat that we have been experiencing in the United States is now spreading worldwide. Like most economic downturns, the impact is spotty, with some countries like Spain being especially hard hit, while others are doing fine. On the other hand, we are not YET in a worldwide recession, according to our current statistics.

At this time, it appears that we can now declare an end to the war on industrial inflation. After months of price increases fueled by growth in the BRIC countries and a rampage of speculation, prices for many base commodities are dropping dramatically. Since February, the prices for zinc and nickel have fallen about 40%. Since July, copper and aluminum have fallen 20%. Crude oil is now 27% below the prices of just six weeks ago. The average price for diesel in August was \$4.15, down from \$4.76 just a couple months earlier. Even the basic agricultural commodities like corn and wheat are down 40% from their highs. Hence, all of the talk in Washington about curbing speculation has been unnecessary, because the markets are now correcting themselves. The problem is, of course, that declining demand is the reason that prices are falling.

Some of the semi-finished commodities are not falling nearly as fast. For instance, the average price for steel was reported down a scant 2% in August. Although most steel market observers, including some of the respondents to this survey, have noted that the recently announced September price hike will not stick, the fact remains that steel is still very high in price compared to just a few months ago. Because of mergers, consolidations, bankruptcies, and buy-outs, the world steel market has now become concentrated in the hands of a few firms. In short, a new monopoly for the domestic steel market has probably evolved, and it will take the forces of the international market to break the hold. Given the price cuts currently being announced by many of the international steel firms, the chances are fairly good that steel prices will decline considerably in August. With the speculation now drained out of the market, the price of scrap is now starting to fall as well.

Turning back to the local scene, there is at least some concern about the rising unemployment rate for the west side of our state. The development offices for both Kalamazoo and Grand Rapids have been very successful in recent months, and plenty of new jobs are now coming to West Michigan. The problem, of course, is that many of these jobs will be added over a period of YEARS, and that we are currently seeing steady erosion of the local employment base, primarily due to slumping auto sales and the slow housing market. By talking to non-automotive employers, we find that many of them are not rehiring to fill vacancies created by retirements and other attrition because the mood in Michigan has turned pessimistic. Some employers with legitimate vacancies are simply waiting for the economic picture to improve before hiring replacements. Other employers complain that there are not enough SKILLED workers to fill the positions that are available. We can talk about job retraining programs, but this will do little to help us right now. For the next few months, we are probably going to be in for a rough ride.

## COMMENTS FROM SURVEY PARTICIPANTS

"It's been a long, dry summer."

"Ferrous scrap went down for August, and I expect further reductions in September."

"The freight costs to bring in individual spare parts has risen so much that we are not very competitive."

"Business is beginning to pick up. It looks like we will be very busy later this quarter and until the end of the year."

"The global economy surely has changed the way that we need to look at business and the future."

"The auto industry is still very questionable as to where it is headed."

"We finally got a nice order with a couple more in the wings. Could we be turning the corner??"

"Our organization will be struggling for the 2009 year. Our main revenues come from the gas tax, which has not been increased for years. But fuels, blacktop, and all other road related items have increased some 50-80% over the last couple of years. With high gas prices, consumption goes down, and so does our funding. Our organization is down 27 employees due to retirements and attrition, so we are struggling to maintain the service level with fewer resources."

"If I were 20 years younger, I would be considering relocation down south. If I were a young man, I would never go into the machine tool business in Michigan."

"There are no price decreases proposed, despite a drop in oil prices."

"We recently purchased another local company, and will be merging soon. Many of our key development people have jumped ship. This is not good for our business right now."

"We're holding our own. We're not hiring much, but we're not laying off."

"We are continuing rotating layoffs until December unless things improve."

"We are maintaining."

"Carbon steel pricing is holding for August. With scrap pricing coming down, it's doubtful that September announcement will stick."

"We're somewhat in a holding pattern awaiting the outcome of the election."

"We have reorganized at the top, and 'smart sizing' will start taking place to realign the company support from a 20% drop in sales. Hard times. It's a scary to be in the automotive industry"

"Prices are going up faster than I have ever seen, and nothing is stopping them."

"Markets continue to slow, but significant capacity constraints exist in the North American glass market."

"Our parts sales have been down for over a month now, which is unusual for this time of year. I hope this ends soon."

"We are going nuts! There's lots of business in mining, oil, and defense for steel fabricators. It is a good time to be a contract manufacturer."

|  | UP  | SAME | DOWN | N/A | Aug.<br>Index | July<br>Index | June<br>Index | 13 Year<br>Average |
|--|-----|------|------|-----|---------------|---------------|---------------|--------------------|
| <b>Sales (New Orders)</b>  | 26% | 26%  | 40%  | 7%  | -14           | -15           | + 0           | +16                |
| <b>Production</b>  | 24% | 36%  | 31%  | 10% | - 7           | -26           | -12           | +16                |
| <b>Employment</b>  | 17% | 52%  | 26%  | 5%  | - 9           | -19           | -12           | +10                |
| <b>Purchases</b>   | 17% | 43%  | 38%  | 2%  | -21           | -21           | -20           | + 9                |
| <b>Prices Paid (major commod.)</b>                                 | 60% | 26%  | 7%   | 7%  | +53           | +66           | +73           | +13                |
| <b>Lead Times (from suppliers)</b>                                 | 12% | 79%  | 7%   | 2%  | + 5           | + 2           | + 5           | - 7                |
| <b>Purchased Materials Inv.<br/>(Raw materials &amp; supplies)</b> | 24% | 45%  | 21%  | 10% | + 3           | -20           | - 8           | -10                |
| <b>Finished Goods Inventory</b>                                    | 14% | 45   | 26%  | 14% | -12           | -12           | -12           | -11                |

**Items in short supply:** Electronics, some sizes of steel sheets, salt, heavy HRS plate, PVC resin, SEBS resin, butadiene, some chemicals, copper, clear tempered glass, ABS, certified welders, customers.

**Prices on the UP side:** All plastic resin, corrugated packaging and cartons, steel, powder paint, salt, chlorides, sand, trucking, bituminous products (asphalt), fuels, emulsions, PVC resin, polypropylene, impact modifiers, pigment, SEBS resin, freight costs, carbon steel, foam , paint, powder paint, fabric, electronics, metals, injection molded plastics, machined steel and cast iron components, fuel surcharges, janitorial supplies, paper, clear tempered glass, foundry coke, resins, ThermoPlastic Olefin, import carvings, polycast resin, medium/high density fiberboard, marine engines, acrylic.

**Prices on the DOWN side:** Stainless steel, nickel, aluminum ingot, copper, fuel, building materials, polypropylene, steel scrap, wages.