



institute for
supply management

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

January 5, 2009

Down more sharply. That's the latest word on the Greater Grand Rapids economy, according to the data collected in the month of December. NEW ORDERS, our index of business improvement, fell to -57, down from -32. The PRODUCTION index fared no better, falling -43, down from -30. Activity in the purchasing offices, our index of PURCHASES, sank to -59 from -40. It is little consolation that our index of EMPLOYMENT modestly recovered to -38 from -43. Unfortunately, there is no way to sugarcoat this situation. By a considerable margin, this is the weakest performance in the twenty year history of this report. To make matters worse, there is little prospect that next month's report will look better.

Looking as we always do at individual industries, the only oasis of stability are those firms relating to defense, aerospace, or mining equipment. However, the mining industry is in trouble, so it is unlikely that firms selling to this industry will do well in 2009. Our main local industry, office furniture, continues to decline. The same is true of automotive, where even those firms that managed to move some of their business to the Japanese and Korean transplant companies are suffering right along with the entire industry. Many of the industrial distributors are actually doing worse than the companies they service. The market for the capital equipment firms has virtually dried up. For this recession, there isn't much of anyplace to hide.

Turning as we always do to the national level, the January 2, 2009 press release from the Institute for Supply Management, our parent organization, came in just a pessimistic as our local report. ISM's index of NEW ORDERS sank from -49 to -59, the lowest the index has been since records were started in 1948. The PRODUCTION index also fell to a record low of -53, down from -38. It is little consolation that the EMPLOYMENT index did not set a record low, although it still fell to -43 from -33. ISM's composite manufacturing index dipped to 32.4, down from 36.2, not far from the record low of 29.4 set in May of 1980.

The international level fared no better. The composite index for J.P. Morgan's Global Manufacturing Report dated January 2, 2009 fell from 36.4 to 33.2, a record low for the ten year history of the report. The survey's other measures of output, new orders, prices, and employment also recorded record lows. The author further notes that "the second half of 2008 has been dreadful for global manufacturing, and the sector enters the New Year mired in the deepest recession in decades." Although Japan registered a greater drop than any other country, every country in the survey registered a decline. Regarding employment, the biggest drops were in the Eurozone nations, as well as the UK, China, Russia, Denmark, Spain, and of course, the US.

How we got into this mess will be a subject of controversy for years. It is equally obvious that how we get out will not be so easy. In general, the "drivers" of this recession are composed of at least three major components, one of which is well known to the supply management profession, namely the problem of inventory. Ever since the national survey was started back in the 1930s, industrial buyers have noted that excessive inventory accumulation of "big ticket" production materials such as steel, copper, and aluminum has resulted in recessions when these inventories were liquidated. Last summer's speculation binge resulted in huge accumulation of inventories for almost every ferrous and nonferrous metal in the industrial world. We are now in the liquidation phase, which means that firms all over the world, especially those in China, India, and Russia, will be emptying their warehouses for months to come. As a result, steel mills and mines all over the world are now being forced to close. **IF** this liquidation follows the pattern of past recessions, we should see the end of this liquidation by the end of the summer. Keep in mind that this is a big **IF**.

Unfortunately, this recession has many more components than just excessive industrial inventories. For many months, the news has been dominated by the housing crisis, part of which was also brought on by speculation. The Federal Reserve's decision to hold interest rate too low for too long resulted in creating a huge oversupply of homes. Easy credit policies by banks, combined with dubious adjustable rate mortgages, resulted in the infamous collapse of the housing market when the Fed finally began raising rates. The banking industry has been especially hard hit, even though they created their own problem. On a worldwide basis, the Europeans began issuing their own version of sub-prime loans, and are now facing a banking crisis all over Europe similar to ours. Although the Federal Reserve has dropped interest rates to near zero, the banking industry has yet to drop mortgage rates low enough to rekindle the housing markets in most areas of the country. In short, the housing market will not start to recover until mortgage rates come down significantly AND housing prices stabilize so that the banks can properly assess the value of the collateral. When will this happen? Probably by the end of the summer.

Unlike past recessions, this recession is definitely worldwide, and some form of a worldwide recovery will be necessary before we can declare the recession to be approaching an end. The most important countries to watch are the so-called BRIC countries of Brazil, Russia, India, and China. As noted in the aforementioned J.P. Morgan Global Manufacturing report, these countries have already been much harder hit than we have domestically. Since these were the countries that fueled the spike in demand for many commodities, including oil, it stands to reason that we will have to see that these countries are beginning to recover before we can declare an end to the crisis. Unfortunately, this MAY be the problem that takes the greatest amount of time to correct itself.

For the short run, we are in for a very rough ride. Locally, the good news, if you can call it that, is that the west side of the state will probably continue to fare better than the east side. Despite the bail-out of Chrysler and General Motors, the crisis in the automotive industry is still far from over. In the Great Depression, many government actions made the problems worse. Today, our government in cooperation with other governments around the world, and the Federal Reserve in cooperation with central banks around the world, are working toward a large package of positive solutions. An economic stimulus package will certainly help, but **ONLY** if it is targeted to the right segments of the economy. If the stimulus package turns out to be composed of too much pork, all bets are off.

COMMENTS FROM SURVEY PARTICIPANTS

"Prices are coming down slower than they went up."

"Doing business in today's world requires sharper pencils, sharper tactics, better service, and supplying the customer with "exactly" what he/she "needs" (plus some)."

"Snow in northern Michigan and low gas prices gives hope to the tourist industry."

"We are looking at layoffs for the first time in several years. Something better give soon."

"As a GM supplier, we are hanging on in quiet desperation."

"Hopefully, the US economy turns the corner soon. I think it will be a long, cold winter."

"We need to remain diligent and positive. It's a good time to train and re-train."

"Next year, we thought was going to be 5% - 10% down. Now we are looking at 20%. Total cost reduction efforts are being reviewed again."

"Auto makers are pushing out new programs. 2009 will be a lot worse then we had forecasted."

"It seems every day a new offer comes in for steel at a lower price. Business is slow, and we don't need it!"

"Fuel surcharges are dropping for some companies. Others are not dropping the charges because they are trying to make up for what was lost."

"Transportation funds are coming in lower than budgeted, thus limiting our ability to provide all of the needed services."

"Everyone is holding their breath just trying to get through 2008!! We removed two weeks in November and two weeks in December from our production schedule."

"Structural steel fabrication has headed south (down). Here comes the recession. Defense and mining segments are still holding steady."

"Without an automotive bailout, who knows who will remain to fill out your survey?"

"We had a spike in business for the first few weeks of December. However, things look very soft after the holidays."

"The automotive industry is just plain scary. Furthermore, the inability of the CEOs from the Detroit Three to get a plan together is very bothersome. I believe we need new leadership that is young, bright, energetic, and has the ABILITY to change with the times."

	UP	SAME	DOWN	N/A	Dec. Index	Nov. Index	Oct. Index	20 Year Average
Sales (New Orders)	7%	24%	64%	5%	-57	-32	-24	+29
Production	12%	26%	55%	7%	-43	-30	-14	+13
Employment	5%	52%	43%		-38	-43	-26	+ 8
Purchases	5%	31%	64%		-59	-40	-35	+ 7
Prices Paid (major commod.)	2%	38%	60%		-58	-38	- 7	+35
Lead Times (from suppliers)	5%	57%	38%		-33	-17	- 4	+11
Purchased Materials Inv. (Raw materials & supplies)	7%	31%	52	10%	-45	-31	-35	- 5
Finished Goods Inventory	12%	35%	36%	17%	-24	-21	-14	-10

Items in short supply: Salt, some chemicals.

Prices on the UP side: Corrugated, 3M sheeting, aluminum sign posts, chlorides, paper products, corrugated metal, powder paint, caustic soda, process aids.

Prices on the DOWN side: Plastic, steel, steel forgings, poly foam, surcharges, scrap steel, iron castings, aluminum, copper, copper wire, petroleum, future purchase orders for fasteners (Taiwan - China), carbon steel, computer items, resins, hot rolled steel, cold rolled steel, polyolefins, stainless steel, brass, nickel, natural gas, freight, fuel surcharges, PVC resin, SEBS resin, paraffinic oil, most metals and alloys.