



Institute for Supply Management

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CURRENT BUSINESS TRENDS

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Still moderately lower. That's the latest word on the Greater Grand Rapids economy, according to the data collected in the last two weeks of February. NEW ORDERS, our index of business improvement, came in at -20. Since last month's reading was -28 and the previous month was an anemic -57, it is tempting to become overly optimistic. But negative is still negative, and at this time, we can only say that the rate of decline is lessening. The PRODUCTION index moderated to -31, up from -38, as did our index of PURCHASES, which edged up to -44 from -53. However, the index of EMPLOYMENT posted a record low of -48, surpassing our previous record set back in October of 2001. The same firms from last month that reported adding staff are still in a modest hiring mode, but they were more than offset by the larger number of firms that are reporting staff reductions.

As we look at individual industries, there is little news to report. Automotive continues to be a drag on the local region as well as the entire state. For the second successive month, the business conditions for distributors were slightly improved. Capital equipment is still weak. The office furniture business remains down, but some firms are at least starting to stabilize. For most of our firms, stabilization will be key as we head toward spring.

At the national level, the March 2, 2009 press release from the Institute for Supply Management, our parent organization, continues to parallel our local report. ISM's index of NEW ORDERS came in at -31, up from -37 in January and December's record low of -59. The same was true of the PRODUCTION index, which moderated to -28 from -41. The EMPLOYMENT index hit a record low of -48. ISM's composite manufacturing index edged up very slightly to 35.8 from 35.6.

At the international level, the pattern remains the same as both the national survey as well as our local survey. The composite index for J.P. Morgan's Global Manufacturing Report dated March 2, 2009 rose modestly to 35.8, up from 35.0 last month and 33.7 for the months of December. After sliding for twelve consecutive months, this is the second consecutive month that the index has posted a modest rise. JPM's index of NEW ORDERS also notched a modest gain. The author further noted that "...the rate of contraction has begun to ease in global industry." Furthermore, "...production cuts are likely to remain deep near-term while companies reduce inventory." The US, Japan, China and India were cited as countries where the decline appears to be moderating, but the Eurozone and the UK are still declining sharply. Since the worldwide liquidation of raw materials inventories is still reported as ongoing, it can easily be implied that the recovery for most of the world's basic industries is not at hand.

In last month's report, we raised the issue of the need to pare down the inventories of basic raw materials that were accumulated as a result of last summer's speculative run on most of the major commodities. For Southwestern Michigan, our index of PURCHASED MATERIALS INVENTORIES liquidation rate improved to -26, up from -32. In the Greater Grand Rapids survey, we improved to -36 from -42. These improvements are modest, and we still have a long way to go toward emptying the warehouses of materials so that normal markets can resume. However, these days, even modest good news is welcome.

Regrettably, the collapse in the automotive industry has continued to worsen, fueled by several negative factors. First, the credit crunch, despite some modest loosening in credit standards, remains a significant problem. Second, even those customers who do have good credit are reluctant to commit to a \$400 per month payment for modestly priced new car, given the current economic uncertainties and almost daily announcements of job cuts. Third, as a group, consumers are now saving more of their paychecks that they have for any time in the past five years, and parting with these savings for a down payment for a new car does not seem have much appeal. Fourth, the threat of bankruptcy by all of the Detroit Three makes at least some buyer reluctant to purchase a car from a company that may not honor the warranty or even, worse, cease to exist. Fifth, using incentives to induce buyers to buy has always been regarded as a short term strategy. Eventually, the incentives become part of the "current market price" and have little or no effect. In short, after seven years of bombardment, 0% financing and deep discounts are not working this time around. Sixth, the total miles driven by the motoring public continues to decline, which incrementally means that fewer cars are needed to replace the cars in the entire consumer fleet. Seventh, the decade-old problem of sticker shock may finally be catching up to people. Thirty years ago, a typical car cost \$5,000. The auto industry may finally be pricing itself out of the range of many Americans. Finally, the car companies have become a victim of their own good work. Cars of today ARE of higher quality, and as a result, last longer and go farther than they did even a few short years ago. With modest maintenance, cars running for well over 200,000 miles can be found everywhere. Hence, there are a lot of people who have decided that they really don't need a new car at this time.

As noted last month, the recently passed Stimulus Package will add SOME jobs to the local market for firms that build bridges and overpasses, pave highways, and maintain highways infrastructures. Firms that produce equipment for "green" energy equipment, such as wind turbines and solar panels, may receive some additional funding. Unfortunately, even though the entire state will benefit, the additional new jobs will not begin to offset the job losses resulting from the declining automobile industry. The Stimulus Package also includes numerous tax reductions, but since many Michigan firms are not paying taxes because of not making money, we cannot expect very much help from this part of the package.

In the coming weeks, what should we look for in the way of good news? One thing would be some form of a solid plan to reorganize General Motors. This may well take additional government money, and every citizen of this great state must support the effort to get these additional funds from Washington. Second, we can hope that the moderation trend of our last two reports will continue. Finally, let's hope that the most of the bad news is behind us.

COMMENTS FROM SURVEY PARTICIPANTS

"The Stimulus Bill will release work to us for green energy."

"We are continuing to have layoffs. We are hoping we have hit the bottom."

"We are hoping that we will see incremental increases month over until the economy gains traction. We did hire one new talented person, and will continue to do so if talent becomes available."

"Business is slowly improving, but not by much. It is going to be a tough first quarter."

"We are now victims of the recession cloud hanging directly over Michigan. We are downsizing accordingly."

"I strongly feel no one knows what's going on in this economy."

"Things are very scary. Our entire supply chain is being squeezed for price reductions. I do not think we are at bottom yet. Orders are being pushed out or cancelled, and there is little new work."

"Things have been improving week by week over the last month."

"Economy is still very fragile. When will the top management and politicians get the message that greed is not the way to get out of this mess? The consumer needs to regain confidence and money to spend."

"We must remain positive in our business climate. A negative outlook helps no one. Support our law makers no matter what you party. We will get through this decline."

"Daddy, make the bad man stop!"

"Our organization is trying to maintain public services under a very tight budget with capital purchases being slashed by 80%. Winter expenditures are significantly over budget, and because of that will definitely reduce summer operations. In conjunction with several other agencies, we have identified several road and bridge projects that will be ready to bid out if and when the State receives some of the transportation stimulus money. The construction companies and vendors in this area are eagerly waiting for the work. I just hope that they can hang in there long enough!"

"Now is the time for good maintenance. If your customer's call with a problem, they will remember prompt and effective service. They may not be buying anything 'right now,' but down the road (if they survive), they will! At that point, they WILL think of the supplier that helped them out."

"While this month is better than January, it's nothing to get excited over. We are operating as a shell of the company we were just a few short months ago. But at least we are still operating!"

"We continue to evaluate everything we are doing. If we can do without, we are. Some auto platforms are picking up modestly."

"We have currently lost one big job in the auto industry, and things elsewhere are looking bleaker for us. No layoffs yet, just pay cuts."

"Green Season is expected to begin in March, and we will commit to building minimum inventory to level our production schedules."

"We're receiving numerous calls from suppliers looking for work."

	UP	SAME	DOWN	N/A	Feb. Index	Jan. Index	Dec. Index	20 Year Average
Sales (New Orders)	21%	35%	41%	3%	-20	-28	-57	+29
Production	13%	35%	44%	8%	-31	-38	-43	+13
Employment	8%	36%	56%		-48	-36	-38	+ 8
Purchases	10%	36%	54%		-44	-53	-59	+ 7
Prices Paid (major commod.)	3%	36%	56%	5%	-56	-49	-58	+35
Lead Times (from suppliers)	3%	56%	38%	3%	-35	-34	-33	+11
Purchased Materials Inv. (Raw materials & supplies)	8%	43%	44%	5%	-36	-42	-45	- 5
Finished Goods Inventory	10%	44%	36%	10%	-26	-36	-24	-10

Items in short supply: Some specialty metals, specialty batteries, filters, aluminum signs, salt, money.

Prices on the UP side: Emulsions, salt, concrete, polymers, chemicals, motors, caustic soda, fuel, polypropylene resin, PVC resin.

Prices on the DOWN side: Diesel, unleaded fuels, bituminous asphalt, steel, carbon steel, stainless steel, medium density fiberboard, adhesives, computers, packaging materials, plastics, resins, stampings, copper, aluminum, cast iron products, plastics, foam, janitorial products, stretch wrap, resins, chemicals, ABS resin, corrugated, paraffinic oil, fuel surcharges, alum.