



## Institute for Supply Management

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## CURRENT BUSINESS TRENDS

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Lower, but less pessimistic. That's the latest word on the Greater Grand Rapids economy, according to the data collected in the last two weeks of March. NEW ORDERS, our closely-watched index of business improvement, moderated to -5, up from -20. Although the index is still in negative territory, it looks far better than the -57 that we reported in December. In a similar move, the PRODUCTION index remained negative but moderated to -7, up from last month's -31. Activity in the purchasing offices, our index of PURCHASES, only moved to -42 from -44. The index of EMPLOYMENT came in at -27, not nearly as pessimistic as last month's record low of -48. All in all, our statistics are still negative, but the sharp rate of decline has subsided substantially. Although the worst may be over, the road to recovery may still be very long.

Turning as we always do to individual industries, our biggest weak spot is still automotive, although one firm managed to acquire the work of another that went out of business. For what is now the third successive month, the business conditions for distributors were slightly improved. As we might expect, there is still no good news to report for our local capital equipment firms. Although there are exceptions, the office furniture business remains down. Among all of the industries, there are some firms that are showing signs of stabilization, albeit at a lower level of sales and production considerably lower than just a year ago.

At the national level, the April 1, 2009 press release from the Institute for Supply Management, our parent organization, continues to mirror the same statistical pattern that we are reporting locally. After hitting a record low of -59 in December, ISM's index of NEW ORDERS moderated to -13, up from -31 in the previous report. The PRODUCTION index recovered very modestly to -27, up from -28. The EMPLOYMENT index edged up modestly to -43, up from the record low of -48 we reported last month. All of this culminated in helping ISM's composite manufacturing index, which edged up to 36.3 from 35.8.

At the international level, the statistics continue to follow the same pattern as both the ISM national survey and our local survey. The composite index for J.P. Morgan's Global Manufacturing Report dated April 1, 2009 rose modestly to 37.2 from 35.8. This is the second consecutive month that the index has posted a modest increase. JPM's index of NEW ORDERS posted a moderate gain to 35.8, up from 31.4. The author further noted that the world's manufacturers "...may be passed the worst of the recession." Furthermore, "...job losses and unwinding of inventory positions suggest restructuring efforts are still ongoing." Countries which contributed to the statistical improvements included the UK, Japan, the US, and most of the Eurozone nations, although all are still below the break-even level of 50.0. Worldwide job losses moderated slightly, but the US, Denmark, and Czech Republic posed the steepest losses.

As noted in JPM's manufacturing report, inventory liquidation continues to be a problem in most of the world's economies. Last summer's rapid run-up in commodity price resulted in the accumulation of billions of dollars of raw materials inventories. The world is very slowly returning to the religion of JIT which dominated the industrial world for well over twenty years. However, ISM's inventory liquidation rate actually accelerated to -34 from -24. In Southwestern Michigan, our PURCHASED MATERIAL INVENTORY index moderated to -20 from -26. The Greater Grand Rapids index retreated to -39 from -36. When commodity prices collapsed last summer, the entire world began the slow process of liquidating inventories. In the space of a few weeks, over a trillion dollars was taken out of the world economy. Mines, smelter, and steel mills of all kinds and varieties began closing all over the world, throwing thousand of people out of work. As we have noted in previous reports, the end of inventory liquidation is essential to the economic recovery of the world. Based on these current statistics, the liquidation is not yet over.

Just like everyone else in Michigan, we keep hoping for some kind of good news about the auto industry. Unfortunately, we may have a long wait. The sales figures for the month of March register a 36.8% drop for the entire industry, which is roughly compatible with the 38.4% for the first three months of the year. This performance was actually better than what analysts had expected because of record-high incentive levels by all of the manufacturers. In early 2008, there was a six month wait to get delivery on a Toyota Prius. The long wait is gone, and there is now a \$1,000 Prius rebate available for most regions of the country. Unlike the sales statistics of a few months ago, Honda and Toyota are losing sales almost as fast as the Detroit three. In automotive, there is almost no place to hide.

Will General Motors file bankruptcy? Unfortunately, the odds are running in that direction. Outside of automotive states like Michigan, Ohio, and Indiana, there is little sympathy for the auto industry among the congressional representative and the general public. We had hoped for the Obama administration to broker some kind of a compromise deal between, the stockholder, bondholders, unions, and GM management. So far, this has not happened, and GM has simply been mandated to "come up with a plan in 60 days." Short of some form of pre-packaged or controlled bankruptcy, it is difficult to see what new plan might be devised in this eight week period. For Chrysler, the mandate is to "make a deal with Fiat." However, Fiat has stated that without the receipt of \$6 billion dollars of additional bailout money that Chrysler has requested, they are not interested. Since this size of appropriation will probably require congressional approve, the future of Chrysler continues to deteriorate, and the odds of bankruptcy increase. The bottom line of all of this is simple. Call it bankruptcy or call it reorganization, we are still going to lose more automotive job in Michigan over the next year or two. The current unemployment rate in Michigan is 12%, and our previous estimate that unemployment in Michigan may go as high as 18% appears more likely.

The Governor has called the demise of the auto industry to be "Michigan's Katrina." The entire nation demonstrated sympathy for the victims of the Katrina hurricane, and hundreds of public and private relief efforts were launched to help in the recovery effort. Hopefully, congress will do the right thing and appropriate the money that the Michigan auto industry needs to survive.

## COMMENTS FROM SURVEY PARTICIPANTS

"Last week we had a very good week in sales. If we can string more weeks like this together, we'll be doing very well again."

"We received a new job from Volkswagen. That was good news. It's our first one with them, and means customer diversity. However, new orders are still very low. It's tough."

"Inquires seem to be picking up a little, but customers still want value at a cheap price!"

"It is a buyer's market at this time. Concessions are being made, and lead times are being cut to make sales. We show a slight improvement over last month."

"Shipments are still ahead of last year's pace. However, new orders are down over 20%. Our backlog won't last very long if this trend continues."

"We have laid off more people, cut the shop down to 32 hours, and cut salary pay by 10%. Your biggest job for this coming year is to just keep your job."

"Quoting is very aggressive, but sales are up to the point were we have to hire. This quarter is looking very solid. Automotive related business is totally in the tank, but we are making it up elsewhere."

"Because I purchase a lot of replacement parts from Germany, the cost is down due to the ever changing exchange rate."

"Even though we won the biggest job in the history of the company, we all were forced to take a temporary 10% pay cut."

"Keep your chin up. The worm will turn."

"We're starting orders early to keep people working, but customers are moving other orders out."

"We're starting to see new work due to the demise of our completion."

"We have been able to pick up new work at the expense of financially distressed companies. It just moves jobs to us. We're still not seeing any positive uptick in the economy."

"Lead times are hard to gage as suppliers are changing their schedules. An example is one of our suppliers shutting down for one week a month for the foreseeable future."

"Things are still slowly trending positively."

"Carbon steel pricing continues to decline. As long as demand is weak, we expect the pricing to stay low. The lead time for most steel is weeks less than normal business conditions."

"Housing market reports are improved. This is generally the start of the green season for our industry. We expect a green season in 09' but to a lesser extent than in 08'."

"Pricing seems to be falling everywhere."

|  | UP  | SAME | DOWN | N/A | Mar.<br>Index | Feb.<br>Index | Jan.<br>Index | 20 Year<br>Average |
|--|-----|------|------|-----|---------------|---------------|---------------|--------------------|
| <b>Sales (New Orders)</b>                                      | 29% | 35%  | 34%  | 2%  | - 5           | -20           | -28           | +29                |
| <b>Production</b>  | 20% | 43%  | 27%  | 10% | - 7           | -31           | -38           | +13                |
| <b>Employment</b>  | 10% | 53%  | 37%  |     | -27           | -48           | -36           | + 8                |
| <b>Purchases</b>   | 12% | 34%  | 54%  |     | -42           | -44           | -53           | + 7                |
| <b>Prices Paid (major commod.)</b>                             | 0%  | 39%  | 59%  | 2%  | -59           | -56           | -49           | +35                |
| <b>Lead Times (from suppliers)</b>                             | 2%  | 59%  | 37%  | 2%  | -35           | -35           | -34           | +11                |
| <b>Purchased Materials Inv. (Raw materials &amp; supplies)</b> | 10% | 31%  | 49%  | 10% | -39           | -36           | -42           | - 5                |
| <b>Finished Goods Inventory</b>                                | 10% | 37%  | 41%  | 12% | -31           | -26           | -36           | -10                |

**Items in short supply:** Credit from banks, ferrous and non ferrous castings, salt.

**Prices on the UP side:** Chemicals, acetates, greases, paint pre-treat chemicals, polyolefins, motors, copper, PVC resin, polypropylene, emulsion, aggregates, spray patching materials, nickel metal parts.

**Prices on the DOWN side:** Some steel, some plastics; oil based products, gear lubes, hydraulic oil, fuel, fuel surcharges, iron castings, steel, stainless, aluminum, diesel fuel, magnesium, poly foam, motors, electronics, computers, injection molds, MRO, industrial services, finishing materials, steel surcharges, plastics, foam, carbon steel, paraffinic oil, corrugated packaging, polypropylene resin, carbide steel, TPE, transportation.