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Institute for Supply Management

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CURRENT BUSINESS TRENDS

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Bottoming out. That's the latest word on the Greater Grand Rapids economy, according to the data collected in the last two weeks of April. For the first time since January of 2008, NEW ORDERS, our index of business improvement, came back to positive at a very modest +2, up from -5 in our last report. Rebounding from an all-time record low of -57 just four months ago, this is a positive sign. The PRODUCTION index remained modestly negative at -2, up from -7. Activity in the purchasing offices, our index of PURCHASES, moderated to -21 from -42. The index of EMPLOYMENT came in at -14, up from -27. Although the index of NEW ORDERS has flipped to positive, all of our other statistics remain negative. Hence, we are not yet to the point of declaring the beginning of a recovery. However, it is a reasonable bet that we may have reached the bottom of the current slide, at least for now. With the bankruptcy of Chrysler and the threat of bankruptcy looming for GM, we could be dealt another downward spike if too many of our local firms are negatively impacted.

Turning to individual industries, it is no surprise to find that many auto parts suppliers are struggling just to keep the lights on. Other auto parts firms are surviving because they have picked up work from competitors that have gone out of business. For the fourth successive month, the business conditions for distributors were slightly improved. One of our local capital equipment firms reported better business conditions for the first time in months. Although one of the office furniture firms reported an improvement in NEW ORDERS, the rest of the respondents remained flat. All in all, there continues to be evidence that the worst may now be behind us for most of our industrial groups... EXCEPT automotive.

At the national level, the May 1, 2009 press release from the Institute for Supply Management, our parent organization, is still paralleling our local survey, much as it has since last fall. Just like our survey, ISM's index of NEW ORDERS came back to positive. At +2, this index was nicely improved over the -13 we reported last month. The PRODUCTION index remained negative, but recovered to -13, up from -27. The EMPLOYMENT index moderated to -28 from -43, indicating that the rate of layoffs is lessening. All of this should have resulted in considerable improvement in ISM's index of manufacturing. However, because of statistical variations, the April index only edged up to 40.1 from 36.3.

At the international level, the news is good. The composite index for J.P. Morgan's Global Manufacturing Report dated May 4, 2009 rose to 41.8 from 37.2, its highest level in seven months. Although well below the breakeven point of 50, this constitutes the largest increase in the twelve year history of the survey. Considerable improvement was noted in the index of NEW ORDERS, NEW EXPORT ORDERS, and EMPLOYMENT.

For an automotive state like ours, it almost goes without saying that this month's big news is the bankruptcy at Chrysler. With the help of \$6 billion in additional money from Washington, the company HOPES to form a partnership with Fiat to produce fuel efficient cars. Immediately after the announcement, the company promptly closed all of its plants and sent its entire workforce home for the duration of the bankruptcy. Some suppliers had already stopped shipping parts to the firm for fear that they would not get paid. Since Chrysler sales are down about 46% over last year, the dealer lots are already full of enough cars to last more than the length of the bankruptcy, which is supposed to last no more than 60 days. Fiat will emerge with 20-35% ownership of the company, and the UAW will net a 55% stake. The remaining stock will be held by the US and Canadian governments. With the June 1 deadline for General Motors looming, what path the Chrysler bankruptcy takes will probably form a pattern for the reorganization of GM, whether through a pre-planned bankruptcy or a government-refereed reorganization.

There are several big problems with the government's plan. First, Fiat is far from being a stable company by itself, and has already been propped up by the Italian government. Hence, they bring almost no useful management expertise to the table. Second, the plan for restructuring calls for Chrysler to gain access to Fiat's expertise in manufacturing small, fuel efficient vehicles. However, with gas now just over \$2 per gallon, fuel-efficient vehicles are no longer selling nearly as fast as a year ago. The Toyota Prius is now selling at a discount, and the firm is introducing a third generation of the vehicles in October which are reported to improve fuel efficiency even more. The new Honda Insight is already in the showrooms. This is really tough competition. Finally, no one seems to be addressing the issue of whether anything the Chrysler produces will actually sell when it finally gets to the showroom. Except for irritating television ads, the auto industry has ignored Marketing 101 principals for years. Given this entire situation, Chrysler will probably be back to ask for MORE government money.

Last month, we discussed the problem of inventory liquidation. The end of inventory liquidation is and has been a key to the end of this or any other recession in the past 80 years. Fortunately, the news media in recent weeks has been filled with news that inventories around the world are declining significantly, both for raw materials and finished goods. As a result of the inventory glut finally being worked down, aluminum ingot is up 15% just since March, and copper is up 62% since December. Unfortunately, steel is still being overproduced around the world, so prices have not yet stabilized. Furthermore, the raw material inventories being held by firms are still too high. ISM's April index of INVENTORIES came in at -31, which indicates that many firms are still overstocked and still trying to work those inventories down. Similarly, the Greater Grand Rapids index of PURCHASED MATERIAL INVENTORY came in at -25, and the index for Southwestern Michigan was at -26 for April.

Finally, the national media reports are starting to talk about evidence of modest improvements in our national economy, even though home prices are still falling. It is worth repeating that the United States may pull out of the recession, and leave Michigan still mired in the same state-wide recession that began three years ago. However, the economy on the west side of the state will continue to outperform the economy of the Detroit-Flint-Saginaw area.

COMMENTS FROM SURVEY PARTICIPANTS

"I am noticing an increase in inquires. It's a place to start!"

"Every time things look brighter, a cloud moves over us. It could be a long year."

"It has been pretty quiet for the last month."

"Quoting activity is very high. This is driven by the fact that many auto suppliers are on the verge of collapse, and their customers are looking for a backup plan if they do fail. We have had several potential new customers tour our facility."

"Progress is glacially slow, but steady."

"March was the best month for us this year. We're hearing signs that would indicate that a turn for the better may be starting. It will be incremental, but positive is still positive."

"The economy is still very slow. The next few months will be watched very closely in the automotive industry. Most of our new work is coming from companies that are having financial problems. Competition is very fierce."

"Our sales have been a rollercoaster ride. We are currently in a slight upturn at this time. We are giving and getting concessions to make sales to our customers."

"Business is slow but steady."

"Companies are becoming less desperate to protect margins, and are more active in covering just burden. My team is spending more time performing due diligence to assure that our supply chain is strong and can withstand this market."

"I've received two merger notifications and one plant closing from suppliers since the last survey."

"It's bad all the way around, and it looks even worse for May and June."

"Business continues to look poor. We are loosing work to in-sourcing by our customers. We have had some takeover work, and we continue to look for those opportunities."

"We are seeing an increase in business. Much of the increase is seasonal but it is welcome news business."

"The GM and Chrysler bankruptcy potentials looming have slowed sales further. Bankruptcy could lead our company to a place we may not be able to sustain. Hopefully, they can work things out and the unions realize it's now or never."

"I feel the train coming to a total standstill. No matter were I look or who I talk with, everybody is scrambling to just keep the lights on. We all need to keep praying for this country and our leaders to make the right decisions in this time on uncertainty!!!"

	UP	SAME	DOWN	N/A	Apr. Index	Mar. Index	Feb. Index	20 Year Average
Sales (New Orders)	27%	46%	25%	2%	+ 2	- 5	-20	+29
Production	16%	57%	18%	9%	- 2	- 7	-31	+13
Employment	16%	54%	30%		-14	-27	-48	+ 8
Purchases	18%	43%	39%		-21	-42	-44	+ 7
Prices Paid (major commod.)	5%	45%	48%	2%	-43	-59	-56	+35
Lead Times (from suppliers)	2%	64%	32%	2%	-30	-35	-35	+11
Purchased Materials Inv. (Raw materials & supplies)	18%	36%	43%	2%	-25	-39	-36	- 5
Finished Goods Inventory	11%	45%	27%	16%	-16	-31	-26	-10

Items in short supply: Some steel, truck parts, filters.

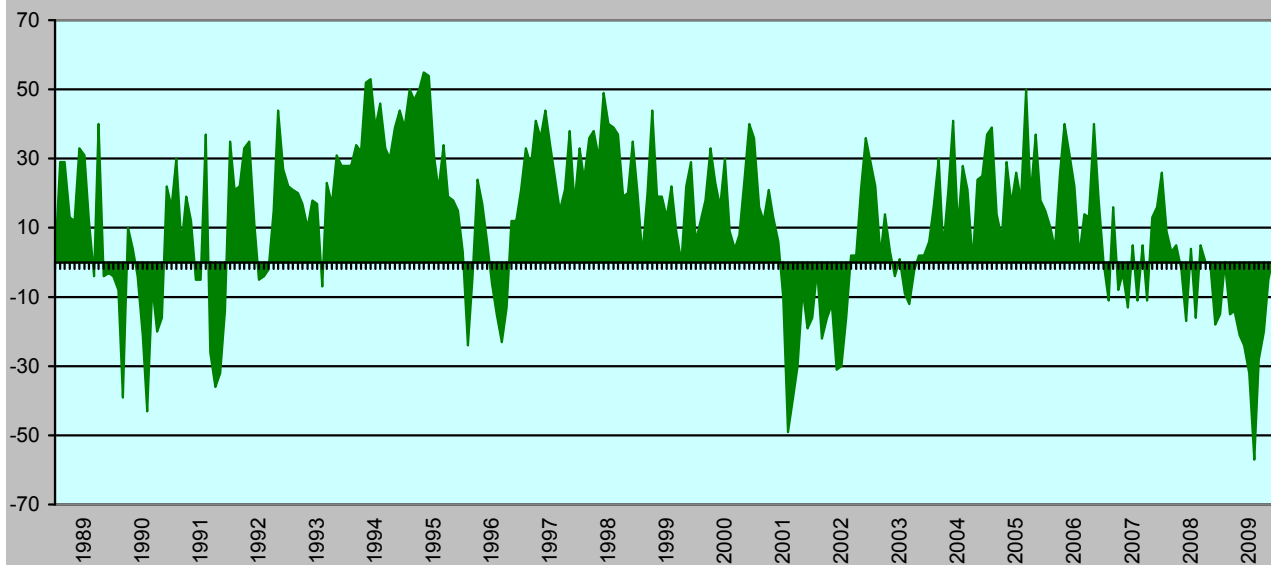
Prices on the UP side: Copper, brass, motors, plasticizer, PVC resin, truck parts, filters, salt, asphalt, fuel, chemicals.

Prices on the DOWN side: Carbon steel, stainless steel, cold rolled steel, hot rolled steel, liner board, corrugated packaging, polypropylene resin, ASA resin, natural gas, aluminum, foam, passive and active components, injection moldings, metal fabrications, services, butadiene, welding wire, chlorides, petroleum products, chemicals, transportation costs, castings.

Index of New Orders - Greater Grand Rapids 1988 - 2009

As the name implies, this index measures new business coming into the firm, and signifies business improvement, or business decline. When this index is positive for an extended period of time, it implies that the firm or organization will soon need to purchase more raw materials and services, hire more people, or possibly expand facilities. Since new orders are often received weeks or even months before any money is actually paid, this index is our best view of the future.

April Report: +2
Record Low -57 December 2008
Record High +55 September 1994



Index of New Orders: 2004 - 2009 Only

