



## Institute for Supply Management

Greater Grand Rapids, Inc.

P. O. Box 230621

Grand Rapids, MI 49523-0621

institute for  
supply management

## 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

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Still searching for a bottom. That's the latest word on the Greater Grand Rapids economy, according to the data collected in the last two weeks of May. Regrettably, this is the first recent month that the local economy did not track with the ISM national statistics. NEW ORDERS, our index of business improvement, remained positive at +5, up from +2. Although this modest improvement is good news, the rest of our statistics worsened. The PRODUCTION index retreated to -21 from -2. Activity in the purchasing offices, our index of PURCHASES, backtracked to -32 from -21. The index of EMPLOYMENT dropped sharply to -37 from -14. Hence, last month's declaration that "... it is still too soon to declare the beginning of a recovery" has come to pass. Whereas the signs of a recovery may be at hand for the nation as a whole, the bankruptcy of General Motors may have caused some of our local firms to step back and see where all of the chips fall before moving forward. As many pundits have already noted, we are in uncharted territory, and some things we will have to reevaluate on a month-to-month basis until we see what the future holds for Greater Grand Rapids and for Michigan as a whole.

Turning as we always do to individual industries, it is the auto parts supplier group that is still our weakest link, although some firms are managing to hold their own. Just as last month, business conditions for distributors were slightly improved. Three of our local capital equipment firms reported better business conditions, which is of course good news given the current economy. Most of our office furniture companies remain flat, and some probably wondering how long it will be before things turn better. Collectively, most our industrial groups still note that their production schedules are on the soft side.

At the national level, the June 1, 2009 press release from the Institute for Supply Management, our parent organization, shows that the national economy is now outperforming the local economy. ISM's index of NEW ORDERS came in at +8, up from +2. The PRODUCTION index stayed modestly negative at -2, but recovered from the -13 we reported last month. The EMPLOYMENT index remained unchanged at -28. All of this resulted in ISM's Index of Manufacturing rising to 42.8, up from 40.1. This is up considerably from December's low of 32.9, and constitutes the best report we have seen in eight months. Any index below 50.0 generally depicts a contracting economy, so we are still not in a state of recovery. However, since the index has now improved steadily for the past five reports, there is now considerable evidence that the national economy has bottomed out.

At the international level, the news is also more positive than our local statistics. The composite index for J.P. Morgan's Global Manufacturing Report dated June 1, 2009 rose to 45.3 from 41.8, highest level the index has been since August. China and India reported increases in NEW ORDERS for the second consecutive month, which helped raise the international index of NEW ORDERS to 48.6. Also, the pace of job reductions eased in the Eurozone, Japan, and the UK. However, the author still characterizes the current report as "...well below a level consistent with outright recovery."

Last month's big news was the Chrysler bankruptcy. It now appears that the sale of assets to Fiat will provide enough cash to keep the company afloat, although the post-bankruptcy Chrysler will be 68% owned by the UAW pension fund. Having Chrysler come out of bankruptcy is certainly good news, but it is wise to remember that this only means that the *current* financial crisis has been mitigated. The firm still needs to deal with the thousand of unsold units still sitting on dealer lots, and with the problem of what cars the public will buy in the future. In this sense, whether Chrysler survives over the long term will be determined by the marketplace.

This month, it's GM's turn to make headlines. As a result of the current bankruptcy plan, the governments of the US and Canada will acquire a 72% stake in the company, which will really be divided between the "new" and "old" GM. The taxpayer ante will be another \$30 billion, which makes the \$1.5 billion that Lee Iacocca requested for Chrysler in 1979 look like chicken feed. There is already speculation that the company will be back for more money when the \$30 billion runs out. Again, there is still no guarantee that the firm will be able to sell cars that the public will buy.

Focusing back on some good news, the problem of inventory liquidation that we have noted in the past three reports continues to improve. ISM's April index of INVENTORIES came in at -34, which indicates that many firms are still trying to work those inventories down. However, the JP Morgan International report noted that worldwide inventories are starting to come back into line. Similarly, the Greater Grand Rapids index of PURCHASED MATERIAL INVENTORY came in at -17, an improvement over the -25 reported last month. For Southwestern Michigan, the index improved to -4 from -26. As inventories come back into line, the worldwide prices for commodities such as copper and corn continue to stabilize. Commodity price stabilization is essential to economic recovery.

A bigger problem for the economy as a whole remains the massive amount of debt that the government will need to float between now and October. Two trillion dollars is an almost inconceivable amount of money by any standard, and the reaction of the markets to this amount of new debt is difficult to assess. Most financial observers doubt that this amount of money can be raised without offering the new debt at a higher rate than the current 10-year rate of 3.72%. Indeed, despite the efforts of the Federal Reserve to keep rates as low as possible, the markets are already driving rates higher in apparent anticipation of the requirements for the massive amount of government financing about to hit the market. Since mortgage rates are once again starting to edge up, any potential recovery in the housing sector could be stalled.

Finally, it seems obvious that Michigan will continue to be under a cloud until the GM bankruptcy is over. The current plan calls for the bankruptcy to be over in 60-90 days, and this may be possible. However, a huge marketing gap still exists, and the fact remains that people must start buying a lot more cars before we can declare an end to the crisis. If this does not happen, GM will simply slide back into bankruptcy.

## COMMENTS FROM SURVEY PARTICIPANTS

"Automotive is a scary place to be right now. Our company is down to four days a week with no pay. I certainly hope we can weather the storm and still be standing in the end."

"We had a decent sales increase the last two weeks, but we're still not out of the woods yet. The Michigan economy is still of grave concern."

"Business is much stronger than expected."

"Orders are very hard to close because of the banking problems."

"Talks are that CARB may move out their fabricator, distributor, and retailer dates by one year."

"There are a few signs that things are picking up, but nothing concrete yet."

"Our public agency's operating budget is reflective of 1999 monies and is struggling to maintain/provide services to the public's increased demands."

"Some of my suppliers don't seem to have the inventory they once did, and parts shipments are taking longer."

"The 'up' trends start with my end (purchasing) of the business (as well as stop here first) and we are seeing a gentle, cautious up tide."

"The auto industry continues with over capacity and uncertainty about GM. There is concern about what will be left after this summer."

"The fat has been long gone, we are cutting into meat."

"Hopefully, this is the bottom."

"We continue the economic roller coaster ride as we wait for Chrysler and GM to hopefully stabilize the auto industry."

"I've been in the auto industry since 1987 and this is by far the most difficult period I have seen."

"We're seeing a drop-off in sales backlog for May and June."

"We received the proposed budget from the new administration, and as expected, it was not friendly."

"We still have the same number of employees, but everyone has gone to a 32 hour work week."

"We're steady, but hopeful"

"Sales are up a little, but from an extremely low level"

"It's very, very tough right now. Summer will be a time of survival."

	UP	SAME	DOWN	N/A	May Index	Apr. Index	Mar. Index	20 Year Average
<b>Sales (New Orders)</b>	28%	44%	23%	5%	+ 5	+ 2	- 5	+29
<b>Production</b>	16%	42%	37%	5%	-21	- 2	- 7	+13
<b>Employment</b>	5%	53%	42%		-37	-14	-27	+ 8
<b>Purchases</b>	12%	44%	44%		-32	-21	-42	+ 7
<b>Prices Paid (major commod.)</b>	7%	51%	42%		-35	-43	-59	+35
<b>Lead Times (from suppliers)</b>	7%	79%	14%		- 7	-30	-35	+11
<b>Purchased Materials Inv. (Raw materials &amp; supplies)</b>	16%	42%	33%	9%	-17	-25	-39	- 5
<b>Finished Goods Inventory</b>	7%	49%	30%	14%	-23	-16	-31	-10

**Items in short supply:** Specialty items (source controlled), castings and machined details made from forging, credit from banks, revenues.

**Prices on the UP side:** Brass, copper, fuel, some chemicals, gasoline and everything related to it, diesel, asphalt, aggregate, salt, plasticizers, some stainless steel, nickel, scrap, aluminum.

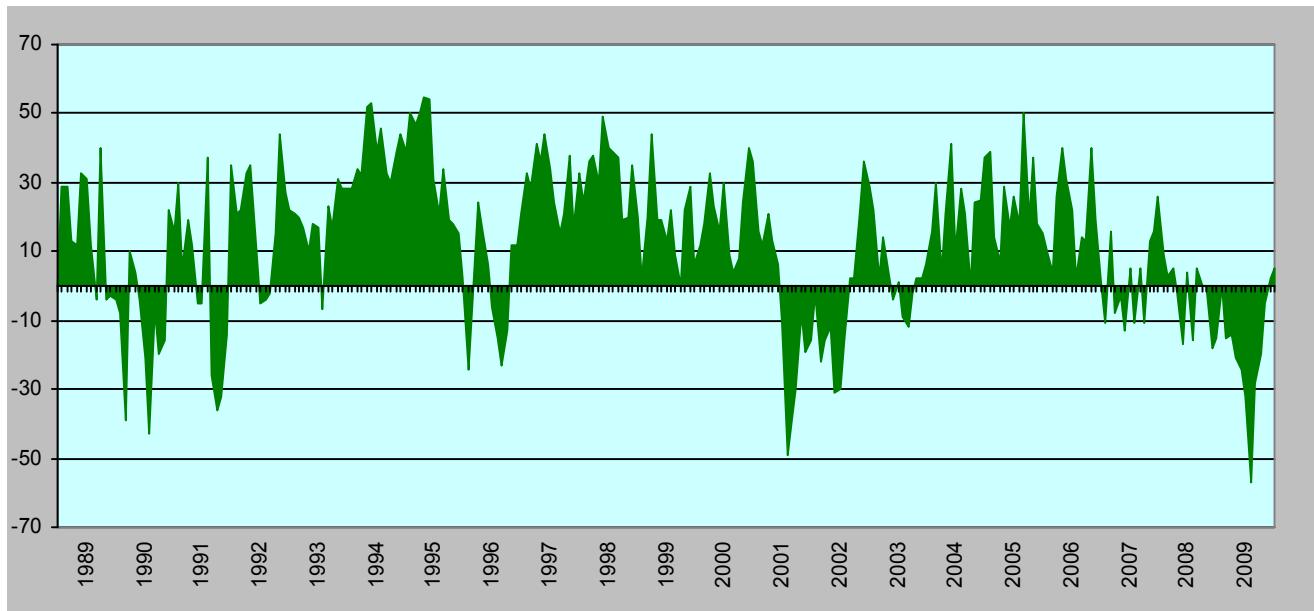
**Prices on the DOWN side:** Plastics, transportation, corrugated containers, carbon steel, stainless steel, electronics, metals, assembled parts, wages (again!!).

# 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.

May Report: +5  
 Record Low -57 December 2008  
 Record High +55 September 1994



## Index of New Orders: 2004 - 2009 Only

