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Institute for Supply Management

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CURRENT BUSINESS TRENDS

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Slightly better! That's the latest word on the Greater Grand Rapids economy, according to the data collected in the last two weeks of June. NEW ORDERS, our closely watched index of business improvement, bounced to +26, up from +5. The PRODUCTION index reversed itself to +14, up from -21. Activity in the purchasing offices, our index of PURCHASES, remained slightly negative at -3, but was vastly improved over the -32 we reported last month. Although still in negative territory, it was encouraging to see the index of EMPLOYMENT come back to -4, a vast improvement over last month's -37. This of course means that layoffs are subsiding. Is this finally the beginning of the recovery? Perhaps. However, one month does NOT constitute a trend. The General Motors bankruptcy is just starting to unfold, and the recovery for the Detroit Three is still nowhere in sight.

Turning to individual industries, our auto parts suppliers continue to be our weakest groups. Business conditions for the industrial distributors came in mixed, with some doing better in June, but others feeling the pinch of reduced maintenance budgets. Our local capital equipment firms continue to report better business conditions. The major office furniture companies appear to have stabilized at the present level, but the small firms are reporting better business conditions. All in all, the positives outweigh the negatives, at least for this month.

At the national level, the July 1, 2009 press release from the Institute for Supply Management, our parent organization, shows the national economy is still moderating. ISM's index of NEW ORDERS retreated to +4 from +8. However, the PRODUCTION index bounced to +10, up from -2. The EMPLOYMENT index remained negative, but moderated to -16, up from -28. All of this modest improvement in the statistics resulted in ISM's Index of Manufacturing rising to 44.8 from 42.8. Compared to December's low of 32.9, this is great. However, it is worth remembering that any index below 50.0 generally depicts a contracting economy.

The news is similar at the international level. The composite index for J.P. Morgan's Global Manufacturing Report dated July 1, 2009 rose to 46.9, up from 45.3. Only China, India, and Turkey posted reading above 50.0. Production increased in China, India, Turkey, and Denmark. The international index of NEW ORDERS rose to 49.0, up from 48.6. The Eurozone continues to be "...weaker than the global average." The author remains optimistic that the global PMI "... should begin its ascent during Q3 of 2009.

The news about automobile sales is still not good, despite the positive twist that the news media seems to be trying. One report noted that Ford sales for the month of June were "only" down 10.7%. Compared to the rest of the industry, being down 10.7% is certainly better than the average, but down is still down. Chrysler may be pulling out of bankruptcy and resuming production, but with sales for June down 41.9%, the prospect for the survival of the company seems increasingly dim. Considering that Honda dropped 29.5% and Toyota fell 31.9%, the General Motors drop of 33.4% drop was in line with the industry.

For automotive parts suppliers, this was the week for Lear to file bankruptcy. As the industry continues to unravel, there will be many more to follow. Hence, it is worth repeating that the fallout from the declining auto industry still has a long way to go. The unemployment rate for both Kent and Kalamazoo counties has slid into double digits, even though the development agencies have had some success in attracting new jobs to West Michigan. However, the jobs that are being added are obviously not enough to offset the jobs being lost. Statewide, the current unemployment rate of 14.1 will probably rise for the rest of the year.

The problem of inventories continues to slow the recovery. For this month, ISM's index of INVENTORIES worsened slightly to -38 from -34. Similarly, the Greater Grand Rapids index of PURCHASED MATERIAL INVENTORY edged up to -28 from -17. For Southwestern Michigan, the index eased to -6 from -4. Commoditized like steel, copper, and aluminum will not stabilize in price until inventory liquidation is minimized, and commodity price stabilization is essential to economic recovery.

Another problem which could inhibit recovery is the recent increase in mortgage interest rates. In fact, rates for a 30 year mortgage are up about .75% since our last report. Even though these rates are still low by historical standards, if they continue to rise, they could choke off a recovery in the housing market. Unfortunately, the FED has already cut short term rates to at or near 0%, so there is no more "dry powder" to do much about it if the rates continue to rise.

In this same context, the treasury department is going to be throwing nearly two trillion dollars in bonds on the market over the next few months. We cannot possibly absorb all of this debt in the domestic market, so we must depend on foreign investors and foreign governments to buy our debt. The last couple of treasury auctions have gone fine, but it is difficult to predict how they will go as the summer unfolds. Most observers say that the debt will probably get sold, but even knowledgeable bond traders are not sure what the price will be. Some traders flatly declare that it will take considerably higher rates of interest to attract foreign investors. If this is the case, then the higher rates will inhibit the recovery.

In summary, several things are key components to the national economic recovery. First, as the major countries of international economy have become increasingly interdependent, the entire world must recover before we can expect to recover. Second, commodity prices must stabilize, given that the production of all of these commodities from wheat, to copper to steel, are key components of the world economy. Third, interest rates must stabilize. Fourth, the credit markets must define some new form of normality. Everyone is now aware that credit standards in the 2002-2006 era were too loose, but some kind of reasonable standards must emerge so that businesses and consumers alike can know what to expect regarding the availability of credit before they even walk through the door at the bank. Fifth, housing prices must stabilize. Although prices have started showing signs of stabilization in some parts of the country, the worst is still not over for the Michigan housing markets.

COMMENTS FROM SURVEY PARTICIPANTS

"Business has steadied out, but at a much reduced volume. Major structural steel and steel plate fabrication contracts are very few. Smaller orders are the bulk of the action."

"Business is doing very well. This could be a record sales month for us."

"Hopefully higher fuel prices won't affect the slight, gradual, upward movement."

"I have seen a steady rise in spare parts orders over the last month. This is good news for us."

"We are currently working on our 2010 budget, but with continued reduction in funding means it will be an interesting year."

"With the Chrysler and GM filings, I hope the trend is only up from here."

"Things look to be improving slightly, but we're not real energized by the movement. We're still working 4 days a week."

"Our business is stable, but at a reduced level from 2008. We are not planning on any incremental growth until spring of 2010."

"We finally sold some equipment. Now if we can get a few more orders we will be able to call people back, maybe???"

"Business is very steady, and better than expected."

"We are preparing for a upswing in September."

"We have a few projects coming to fruition with many more pending. We are starting to see some positive signs."

"Steel mills are pushing for increases in pricing and not starting up production. This could make for a difficult summer as orders seem to be rising slightly."

"We're still not out of the woods yet. The uncertainty in our economy is so thick you can cut it with a knife."

"We're hanging on by the skin of our teeth."

"We have a tough next 6-8 weeks ahead."

"Our backlog will be gone in less than a month. Layoffs are sure to follow."

"As expected, the new administration is not being kind."

"Steel mills are starting to announce price increases. At this point, prices have not changed to steel users. We will see if this sticks."

	UP	SAME	DOWN	N/A	June Index	May Index	Apr. Index	20 Year Average
Sales (New Orders)	45%	31%	19%	5%	+26	+ 5	+ 2	+29
Production	31%	48%	17%	5%	+14	-21	- 2	+13
Employment	10%	76%	14%		- 4	-37	-14	+ 8
Purchases	26%	45%	29%		- 3	-32	-21	+ 7
Prices Paid (major commod.)	7%	64%	24%	5%	-17	-35	-43	+35
Lead Times (from suppliers)	17%	64%	19%		- 2	- 7	-30	+11
Purchased Materials Inv. (Raw materials & supplies)	12%	43%	40%	5%	-28	-17	-25	- 5
Finished Goods Inventory	7%	48%	38%	7%	-31	-23	-16	-10

Items in short supply: Salt, carbon steel, specialty machined components, funding.

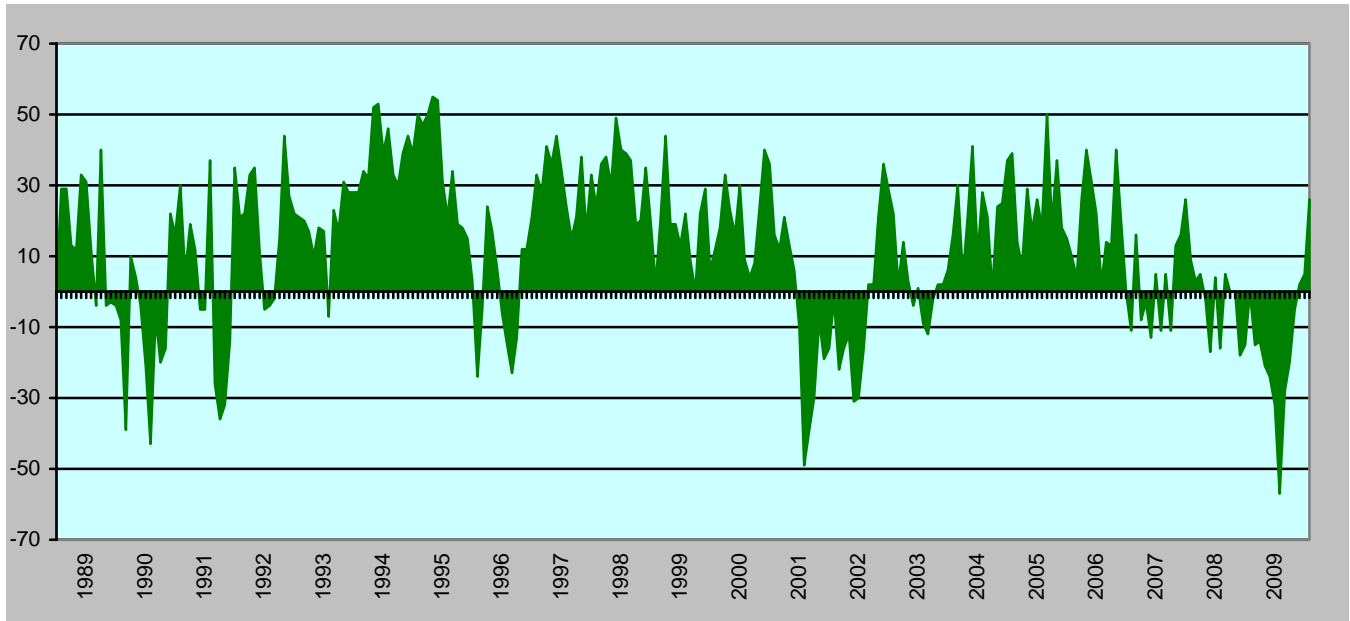
Prices on the UP side: Plate steel, stainless steel, fuel, salt, petroleum products, some aluminum, carbon steel, hot rolled steel, cold rolled steel, stainless steel, gasoline, copper, brass, some plastics, PVC resin, plasticizer, some paraffinic oils, black pigment, polypropylene, polyolefins, TiO2, packaging.

Prices on the DOWN side: Corrugated packaging, gravel, sand, rough kiln dried poplar & ash, magnesium, liner board, steel, some aluminum, fabricated steel (only slightly down), LCD panels (although availability in certain sizes is a problem), my salary and all wages at our company.

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.

June Report: +26
Record Low -57 December 2008
Record High +55 September 1994



Index of New Orders: 2004 - 2009 Only

