



## Institute for Supply Management

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## CURRENT BUSINESS TRENDS

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Still positive. That's the latest word on the Greater Grand Rapids economy, according to the data collected in the last two weeks of July. NEW ORDERS, our closely watched index of business improvement, remained positive at +19, slightly below last month's +26. Given that this is the fourth consecutive month that the NEW ORDERS index has been positive, it is now safe to say that the Grand Rapids economy probably hit bottom in March, and that the long-awaited recovery has begun. The PRODUCTION index edged up to +19 from +14. For the first time since July of 2007, our index of PURCHASES turned positive at +4, up from -3 last month. Although the index of EMPLOYMENT remained slightly negative at -4, it is encouraging to see that 17% of the firms in our survey are now adding personnel. What does not show in this statistic is that some firms that had cut back to a 32 hour workweek are now resuming their normal schedule. However, SOME firms are still cutting back, and for them, the new wave of optimism has yet to arrive.

Turning to individual industries, our auto parts suppliers are still weak, but SOME firms are now stabilizing. One even reported conditions improving for the first time in many months. It was a better-than-usual month for the industrial distributors. For the third consecutive month, our local capital equipment firms are reporting better business conditions. The major office furniture companies appear to have stabilized and are now reporting some modest improvements in sales. The smaller office and steel furniture firms are also doing a little better. All in all, the comments at the end of this report clearly point toward cautious optimism, although some firms are still buried in the doldrums.

At the national level, the August 3, 2009 press release from the Institute for Supply Management, our parent organization, shows the national economy is modestly improving. ISM's index of NEW ORDERS came in at +11, up from +4, the highest this index has been since July 2007. The PRODUCTION index moved up to +16 from +10, the highest the index has been since June of 2007. The EMPLOYMENT index remained negative, but moderated to -8 from -16. The overall Index of Manufacturing came in at 48.9, up considerably from 44.8, but still not to the break-even point of 50.0.

The news at the international level continues to be positive. The composite index for J.P. Morgan's Global Manufacturing Report dated August 3, 2009 rose to 50.0, up from 46.9. NEW ORDERS rose to 53.3, up from 49.0. Countries reporting business condition as improving included China, India, and the UK. Although still declining, moderation in the rate of decline was noted in countries like Germany, France, the Netherlands, and Australia. Ireland and Brazil were cited as countries where conditions are still worsening. The EMPLOYMENT index stayed below the break-even of 50.0, but moderated to 45.1 from 42.3. Although only China and Turkey posted EMPLOYMENT readings above the break-even point of 50.0, the survey author noted that "... signs are that the worst of the labour market retrenchment may be behind us."

Since last month, the big news for Michigan has been the "Cash for Clunkers" program, officially known as the Car Allowance Rebate System (CARS). Although the program was supposed to start on July 1, it took the NHTSA three weeks to get the 136 page rule book written and the web-based computer approval system in place. The framer vastly underestimated the impact that \$3,500 to \$4,500 would have on the car market. The initial \$1 billion was used up in just six days, and as of this writing, the bill to extend the program by another \$2 billion has been passed by the House and sent to the Senate. Some dealers have had their lots stripped of all vehicles eligible under the program, and there is talk among the Detroit Three of bumping up the production schedules of the 2010 models-- just to get cars back on the dealer lots. Clearly, this is great news for Michigan, and especially good news for our local auto parts suppliers.

It is no real surprise that the CARS program resulted in a boost for automobile sales for the month of July. At +2.4%, Ford posted its first positive sales increase in 19 months. The losses for the other major firms are less than they would have been had it not been for the "clunker" program. General Motors dropped by 19.4%, Chrysler fell 9.4%, Honda slipped 17.3%, and Toyota was down by 11.4%.

At the national level, there was some good news for the housing market. Although it received only modest media attention, Case-Shiller, the national index of housing prices in 20 major metropolitan areas again saw the rate of decline subside by about a half percentage point. More importantly, The Detroit market posted a similar uptick for the first time in many months. Again, year-over-year prices are still falling in all markets, but the rate of the decline is definitely moderating. This has resulted in some analysts to suggest that the overall housing market may have bottomed out last January or February.

The news for the inventory situation is good at the local level, but ISM's index of INVENTORIES is still a problem. At -35, ISM's index of INVENTORIES remained near a record low. However, the Greater Grand Rapids index of PURCHASED MATERIAL INVENTORY recovered to -17 from -28. For Southwestern Michigan, the index turned positive at +4, up from -6. All in all, the prices for "big ticket" commodities like steel, copper, and aluminum are starting to rise, indicating that liquidation may be ending and that prices will stabilize. It is again worth noting that price stabilization is essential to economic recovery.

In summary, the long-awaited recovery has arrived, but a slow recovery should still be expected. The "Cash for Clunker" program may have been the catalyst that the auto industry needed to stage a turnaround, but time will tell. The worldwide economy is improving, which will help our domestic economy, especially for firms that do a lot of export business. All of this could still be tripped up by the massive treasury funding and refunding that we expect the world to purchase over the next few months. Finally, we should not expect the jobs to come roaring back any time soon. Employment is always a laggard in any recovery, and this one will be no exception.

## COMMENTS FROM SURVEY PARTICIPANTS

"Sales for the last few weeks have been good. The question is: Can we sustain it? Sales have been like a roller coaster ride for the past eight months or so."

"I hesitate to get to optimistic, but it looks as if automotive is picking up a bit. At least for our company the third quarter looks to be at pace with our 2008 sales, which is good. We'll see what happens thereafter."

"We have seen a significant increase in our sales backlog during the past two weeks."

"Very, very, slow. Recovery does not look good for rest of 2009. 2010 is a question mark."

"We're seeing quite a bit of Customer order activity, which is unusual for July."

"I just placed a large spare parts/upgrade parts for two customers and it was the vendor's largest order ever. He was happy!"

"It feels like we are starting the slow climb out of this recession."

"July is coming in as a steady month after an excellent June. Hopefully, it will continue as a trend, not just an anomaly."

"We had a record month last month, and may eclipse that this month."

"It looks like forecast from customer are starting to strengthen."

"We continue to see a decrease in volume from levels experienced in 2007 & 2008. We also believe that the market has reached bottom and expect modest growth in 2010."

"Hopefully, we have hit bottom. It appears that the automotive industry is improving slightly. Hopefully, they have learned that good suppliers will prevail and they need to be treated fairly."

"The first week of the months skews the numbers for us. We were completely shut down that week, but have seen a slight increase in overall business since then. We are still down overall for the month due to the first week shutdown, but we appear to be trending upward."

"Until automotive, its suppliers, and employment get up, my business sucks."

"For three months, we have been steady, and it looks like a slight upturn is coming for September and October."

"We haven't seen increases yet but plastic and steel seem to be creeping up, not sure if pricing will hold. Scrap steel is up."

	UP	SAME	DOWN	N/A	July Index	June Index	May Index	20 Year Average
<b>Sales (New Orders)</b>	40%	37%	21%	2%	+19	+26	+ 5	+29
<b>Production</b>	36%	42%	17%	5%	+19	+14	-21	+13
<b>Employment</b>	17%	62%	21%		- 4	- 4	-37	+ 8
<b>Purchases</b>	33%	38%	29%		+ 4	- 3	-32	+ 7
<b>Prices Paid (major commod.)</b>	10%	74%	14%	5%	- 4	-17	-35	+35
<b>Lead Times (from suppliers)</b>	17%	59%	24%		- 7	- 2	- 7	+11
<b>Purchased Materials Inv. (Raw materials &amp; supplies)</b>	19%	40%	36%	5%	-17	-28	-17	- 5
<b>Finished Goods Inventory</b>	7%	55%	31%	7%	-24	-31	-23	-10

**Items in short supply:** Some cold rolled steels, some stainless steel, coil steel, flat sheet steel.

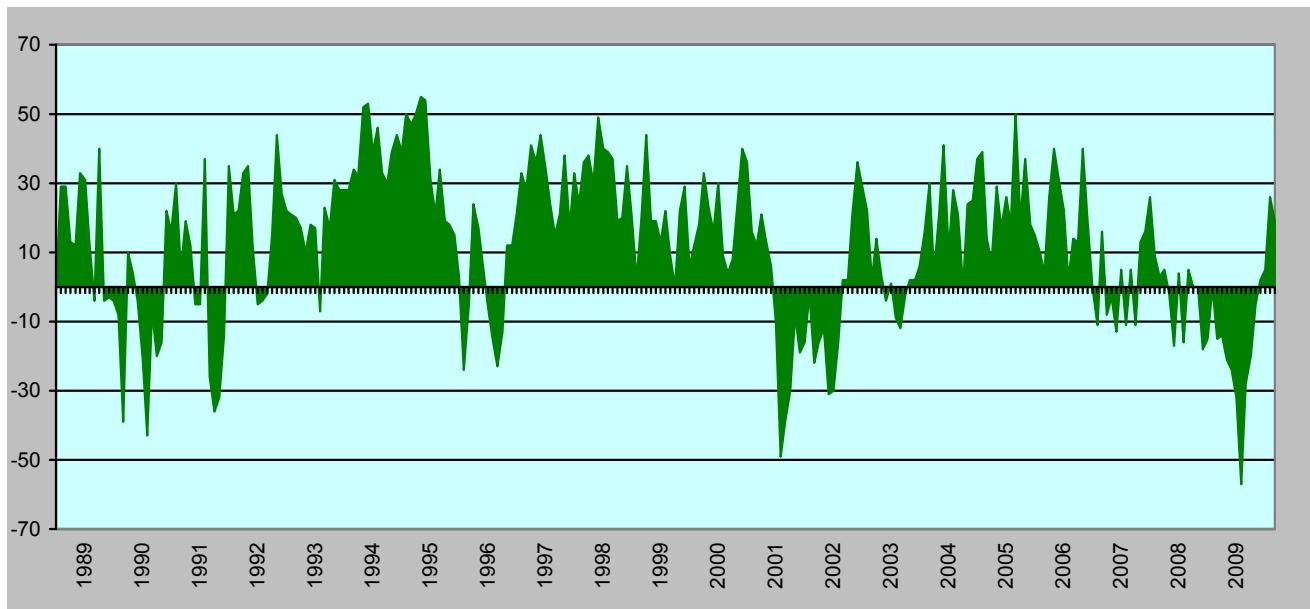
**Prices on the UP side:** Steel, steel products, zinc, polypropylene, aluminum, carbon steel, stainless steel, utilities, PVC resin, plasticizer, plastic modifiers, acrylics, SEBS resin, paraffinic oils, nickel, scrap steel, polyolefins, cool rolled steel, energy, copper, brass, aluminum, PET, salt, asphalt, grader blades.

**Prices on the DOWN side:** Gasoline, fuel, oil, corrugated, some steel, lumber, acetone, metal fab, packaging, some auto parts, liquid chlorides, wages, profits.

## **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: +19  
Record Low -57      December 2008  
Record High +55      September 1994



### **Index of New Orders: 2004 - 2009 Only**

