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Institute for Supply Management

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CURRENT BUSINESS TRENDS

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More positive. That's the latest word on the Greater Grand Rapids economy, according to the data collected in the last two weeks of August. NEW ORDERS, our index of business improvement, edged up to +24 from +19. This index has now been positive for five consecutive months. PRODUCTION index fared even better, rising to +34 from +19. Activity in the purchasing offices, which we report as our index of PURCHASES, rose sharply from +4 to +33. For the first time in over two years, the index of EMPLOYMENT turned positive, rising to +19 from -4. Indeed, 31% of the firms that respond to this survey respondents noted that employment levels are rising, partially from people be called back to work and partially from hiring a few additional people. On the other side, 12% of the firms in our survey are still reducing their labor force.

Turning as we always do to individual industries, much of the improvement in this month's statistics can be attributed to the decision by many of the automakers to boost production to rebuild inventors depleted by the cash for clunkers program. Hence, NEW ORDERS are up for many of the auto parts suppliers in this survey. Just like our last report, it was a better-than-usual month for the industrial distributors. The picture was mixed for the capital equipment firms. Some are doing better, but most are just holding their own. The major office furniture companies remain relatively stable, but one firm was clearly down. All in all, the comments at the end of this report tell us that the optimism for most firms is spreading, and that they are increasingly convinced that this recovery is here to stay.

At the national level, the September 1, 2009 press release from the Institute for Supply Management, our parent organization, shows the national economy has clearly turned positive. ISM's index of NEW ORDERS jumped to +27, up from +11. This index has not been at this level since February of 2006. In a similar move, the PRODUCTION index rose to +25, up from +16. Just as last month, ISM's EMPLOYMENT index remained negative, but moderated to -28, up from -35. The overall Index of Manufacturing came in at 52.9, up from 48.9, and well ahead of the economic break-even point of 50.0.

The news at the international level is equally positive. The composite index for J.P. Morgan's Global Manufacturing Report dated September 1, 2009 rose to a 26 month high of 53.1, up from 50.0. NEW ORDERS jumped to 58.2, up from 53.3. Gains were posted by almost all of the Eurozone nations, except for Italy. Japan and China turned in strong reports, and Brazil turned positive for the first time since August of 2008. The survey author also noted that "... signs are that these gains will be sustained in coming months." Since recovery for the United States is partially predicated on a recovery for the rest of the world, this is very good news.

Although the cash for clunkers program (a.k.a., CARS) is now over, the auto sales reports for this month reflect solid gains for some firms based on the sales of cars in early August when the program was extended. Of the major firms, the big winners were Ford (up 17.2%), Toyota (up 6.4%), and Honda (up 9.9%). Of the smaller firms, Hyundai gained 52.1%, Volkswagen gained 14.1%, and Subaru rose 51.5%. General Motors and Chrysler did not fare as well, and posted sales declines of 20.1% and 15.4%, respectively. For the entire industry, sales were up 1.0%, the first monthly gain in 21 months. However, many analysts fear that August sales may have "robbed Peter to pay Paul." In other words, sales for September and October may have been moved up to August. We will have to see the September sales results hold up before we can say that the clunker program marked the beginning of a recovery for the auto industry. In the short run, it has certainly helped Michigan.

Turning to the ongoing problem of inventories, the situation remains positive at our local level, but ISM's national index remains out of line at -28, only slightly better than the -35 reported last month. However, the Greater Grand Rapids index of PURCHASED MATERIAL INVENTORY turned positive at +5, up from -17. For Southwestern Michigan, the index turned flat at +0, down from +4. Many respondents are now concerned that the absence of inventories at both the manufacturer and distributor levels are driving up the prices for "big ticket" commodities like steel, copper, and aluminum. ISM's national index of PRICES shot up to +30 from +10, raising new fears of a potential resurgence of inflation. If it isn't one thing, it's another.

After all of this good news, it is important to put everything in perspective. First of all, the recession is NOT over just because this survey as well as various other economic reports has turned positive. We are simply at the bottom of a very deep hole, and are finally starting to crawl out. The industrial market is almost always at the forefront of a recovery from any recession, but it takes a long time for positive growth in the industrial sector to work its way through the supply chain and generate more income for the consumer and drop the unemployment rate. In fact, unemployment may actually rise for the next few months in certain regions of the country or in the state.

Second, the specter still looms that there could be a problem with the massive amount of debt that the Treasury Department is trying to float over the next few months. If a major foreign creditor were to balk at one of our major treasury auctions, interests rates would soar, and the recession would go into a second phase.

Third, keep in mind that the fiscal situation for the State of Michigan is still dire. Revenues are down considerably, and significant cuts in spending will still have to be made. For the fourteenth time, it is worth repeating that the west side of the state is much better off than the east side. However, since the probability of West Michigan seceding from the rest of the state is very low, we will feel the budget ax falling on us as well.

In summary, the recovery is underway, but don't expect overnight miracles. The bloated housing market, tight credit, and slow recovery for the auto industry are still major problems that will generally have to heal on their own. Many of the automotive jobs that have been lost will never come back to Michigan. The state's decision to transition development efforts to biotechnology may bear fruit, but it will take many years to happen.

COMMENTS FROM SURVEY PARTICIPANTS

"We've seen lots of quoting activity. Hope this is a good sign?"

"Again, we are cautiously optimistic. We're trying to keep in place cost saving initiatives and cutbacks made six months ago to stay lean and mean, even though our sales have picked up."

"I am so pleased to be able to say that we have been hiring at 2 out of 3 locations!"

"Sales orders for the fourth quarter are increasing the demand for production materials. The hope is that this is the start of a consistent recovery."

"We're slightly up from last month. Our quoting activity is up significantly, which is a good sign."

"Now that we are seeing an increase in requirements for production materials, the steel mills are making it challenging to meet our customer's requirements."

"We are seeing a very strong recovery of our automotive business. The lack of inventory throughout the supply chain is now very evident. My fear is that it will all end as quickly as it started when the 'cash for clunkers' deal ends."

"We've seen a slight tick upwards in business. I'm not sure on 3-6 month outlook for steel fabrication."

"Overseas suppliers are starting to say that a 10% price increase is on the way."

"CARS has given the auto industry a boost. Is the government capable of managing this program so that it doesn't backfire?"

"Our sales backlog continues to increase. Hopefully, we are forming an upward trend."

"Stimulus money has provided some work for our local contractors for 2009. But with the continued reduction in funds, 2010 does not look good."

"We're cautiously optimistic regarding recent uptick in requirements from automotive OEMs."

"Sales have continued to increase. Let's see if we can sustain increase in sales through the third and fourth quarters. We are hiring again."

"Business is strong. We are coming off of a record month in July, so sales are down slightly, but look good for the rest of this quarter."

"Normally, companies in my field are the first to see 'both' upturns and downturns. The news media is talking 'upturn.'" We have not seen it yet!"

"I am seeing about a 6% price increase on spare parts. This is the second increase this year from most vendors."

"Activity is better, but orders are still down."

"We're having major supply chain issues with DuPont. They have pushed orders out near the end of October, due to supply and production issues on their end."

"Business is picking up. We hope to see a trend line upward. The autos are starting to add capacity. I hope it's not just building inventory."

"Let's see if we can sustain this positive momentum."

	UP	SAME	DOWN	N/A	Aug. Index	July Index	June Index	20 Year Average
Sales (New Orders)	48%	26%	24%	2%	+24	+19	+26	+29
Production	48%	28%	14%	10%	+34	+19	+14	+13
Employment	31%	57%	12%		+19	- 4	- 4	+ 8
Purchases	45%	43%	12%		+33	+ 4	- 3	+ 7
Prices Paid (major commod.)	26%	60%	12%	2%	+14	- 4	-17	+35
Lead Times (from suppliers)	29%	61%	10%		+19	- 7	- 2	+11
Purchased Materials Inv. (Raw materials & supplies)	24%	52%	19%	5%	+ 5	-17	-28	- 5
Finished Goods Inventory	12%	62%	17%	10%	- 5	-24	-31	-10

Items in short supply: Some sizes of steel sheets, carbon steel, money from banks, butadiene, some CRS items, salt, some truck filters, gears, castings, specialty machined details, DuPont Zytel 103, ultra high strength steel.

Prices on the UP side: Copper, steel, fuel, some corrugated, aluminum and aluminum ingot, surcharges on steel forgings, iron castings, stainless steel, carbon steel, fuel, plastic, steel plate, PVC resin, plasticizer, SEBS resin, plastic additives, CRS, copper, aggregate, petroleum based products, steel scrap, transportation GRI for containers, wire and cable, brass, polypropylene, TiO₂, Carbon Black, polyethylene.

Prices on the DOWN side: Magnesium, passive electronics, corrugated, material from Canada, profits.

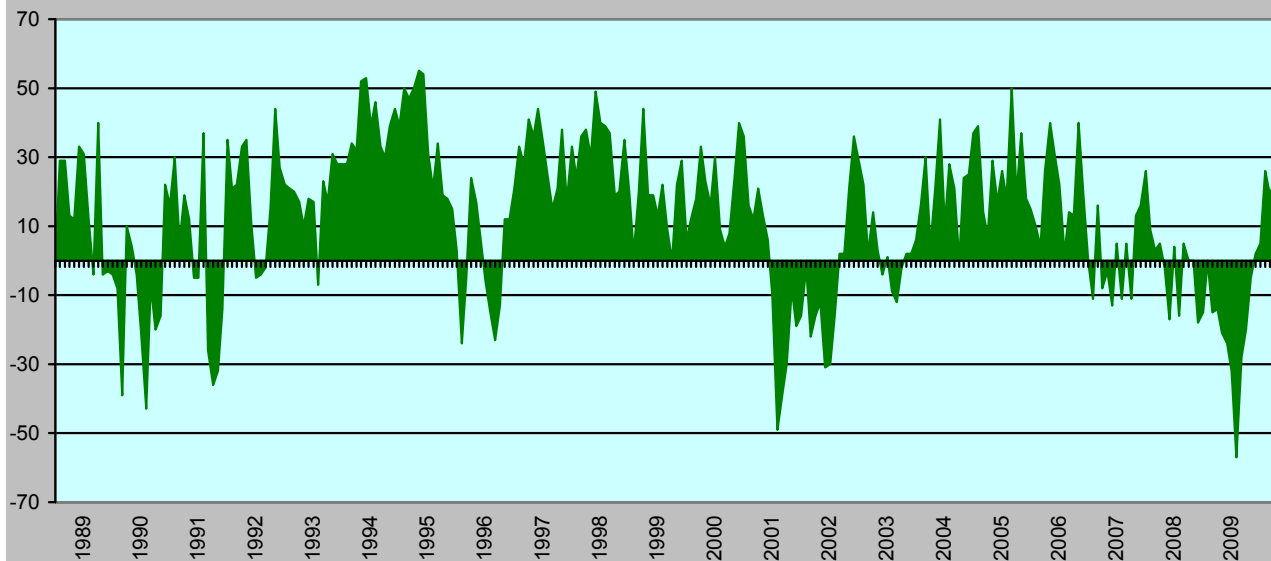
Index of New Orders - Greater Grand Rapids 1988 - 2009

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.

August Report: +24

Record Low -57 December 2008

Record High +55 September 1994



Index of New Orders: 2004 - 2009 Only

