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Institute for Supply Management

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CURRENT BUSINESS TRENDS

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Still improving. That's the latest word on the Greater Grand Rapids economy, according to the data collected in the last two weeks of September. NEW ORDERS, our closely watched index of business improvement, rose to +31, the highest the index has been since May of 2006. PRODUCTION index fared better as well, rising to +38 from +34. Activity in the purchasing offices moderated to +24, down from +33. The index of EMPLOYMENT remained positive for the second time in two years, although it moderated to +14 from +19. Just as last month, 31% of the firms that respond to this survey respondents reported that employment levels are rising.

Turning as we always do to individual industries, NEW ORDERS are still up for many of the auto parts suppliers, although many of these firms are justifiably worried that production schedules will be cut if auto sales continue to slide. Once again, better performance by many firms in our survey spilled over to make it a very good month for many of our industrial distributors. In general, the capital equipment firms remain flat, but one firm was up nicely. Although the major office furniture companies are now relatively stable, they have a long way to go to get back to sales levels reached in 2003-2006. All in all, the participant comments at the end of this report continue to be cautiously optimistic. For good reason, the automotive firms remain very cautious.

At the national level, the October 1, 2009 press release from the Institute for Supply Management, our parent organization, shows that the national economy remains positive, although it is experiencing a few headwinds as the recovery unfolds. ISM's index of NEW ORDERS moderated to +22 from +27. In a similar move, the PRODUCTION index came in positive but eased to +18 from +25. ISM's EMPLOYMENT index remained negative, and eased to -8 from -6. All of these moderating statistics resulted in ISM's overall Index of Manufacturing adding up to 52.6, down from 52.9.

The news at the international level continues to be positive. The composite index for J.P. Morgan's Global Manufacturing Report dated October 1, 2009 came in at 53.0, down very modestly from the 53.1 we reported last month. Since an index above 50.0 is break-even, JPM's September index for NEW ORDERS at 57.4 clearly indicates that the world economy is well on its way to recovery. In addition to the US, business conditions improved in India, China, Japan, and the composite Eurozone. Declining countries included Italy, Denmark, Ireland, and Spain. Because the overall index remained virtually unchanged, the survey author noted that "... global PMI stalled in September after many months of gain." He went on to note that "... output and orders are extremely elevated, consistent with robust growth in current and near-term manufacturing activity."

Unfortunately, the news from the automotive sector is not so good. Although the cash for clunkers program (a.k.a., CARS) had boosted August sales, it is now apparent that at least some of the sales that would have occurred in September and October were merely brought forward. Although part of the problem can be attributed to low dealer inventories at the beginning of the September, the lingering problems of tight credit and weak consumer confidence certainly contributed to the poor September performance. Ford, which had posted a 17.2% year over year gain in August, declined 5%. Sales for General Motors fell 45%. Chrysler fell 42%. The previous stalwarts of success, Toyota and Honda, declined 13% and 20% respectively. Although Hyundai gained 26%, the performance was well below last months' 52% gain. For the industry as a whole, September 2009 sales fell 23%. This is on top of a 25.4% drop in September of 2008. The "annualized" rate of sales is now down to 9.3 million units per year or about 40% lower than the sales in the 2005-2006 periods. Even in the good times three years ago there was talk of overcapacity in the industry. Hence, even if we do get some modest recovery in auto sales over the next few months, we are still looking at additional plant closures until supply and demand finally get in balance. This is not good news for Michigan. In the very broadest sense, the auto industry is suffering from the same excess capacity and subprime loan problems that the housing industry has experienced since the bubble broke in 2006.

On a sad note, it now appears that the Saturn subsidiary of GM will not be sold to Penske and will instead be closed. Although the firm reached a high of 286,000 units in 1994, sales did not expand in recent years. With three months to go in 2009, only 57,000 units have been sold. To names like Studebaker, Nash, Packard, and Plymouth we can now add the name of Saturn. Although some of our local firms supply parts to Saturn, none of them are major suppliers.

For good reason, there has been a lot of talk about a return to inflation. So far, our statistics have remained relatively stable. At ISM, the index of PRICES for September came in at +27. For Southwestern Michigan we recorded +15. In Grand Rapids, the September index was +19. By historical standards, these numbers are no cause for alarm. What is more troubling is the fact that lists of commodities in short supply and the commodities UP in price for all three reports are growing in size. Furthermore, they contain many "big ticket" items like copper, steel, and plastic resins. The Fed governors have generally indicated that they do not intend to let inflation get out of control, and will probably raise interest rates if things start to get out of hand. Since we live in an era when business conditions can turn up or down very quickly, we will need to watch the inflation situation very carefully. Although unbridled inflation could spawn a run on the dollar, an increase in interest rates could halt our recovery.

Where does all of this leave us? We are in uncharted territory, and no one really knows for sure. The international economy is improving, which is good for the US and Michigan economies. However, the most recent auto sales reports will probably put pressure on our auto parts producers in the near future IF sales remain flat. Although some of our other industries are starting to recover, it seems improbable that they can offset a decline in automotive enough to continue. The recovery will probably continue, but it may be slower and bumpier than we hoped.

COMMENTS FROM SURVEY PARTICIPANTS

"A few inquiries are starting to struggle in, but not many with 'teeth'. Of the ones that come in, most people are looking for 'deals.'"

"Sales backlog continues to build, and the outlook for the balance of 2009 is cautiously optimistic."

"We are seeing some light at the end of the tunnel, and are planning on doing some hiring if we get some of the big projects we have quoted."

"I keep talking to people, and their feelings are more on the up side. There's still not a lot of new orders, but fall is making the turn up."

"Fortune 500 companies and others appear to be doing some reinvesting in capital equipment. Our outlook continues to look better going into winter."

"We've seen a slight increase in steel fabrication work, but still nothing in large contracts."

"Budget approved for 2010 and capital purchases are drastically cut again for the second year in a row!"

"This was our best month since November 2008. September is tracking better as well."

"Our business is entering the 'brown' season. We are beginning to drive down inventory and production for the expected slow period. Our overall expectations, however, are still improved from this time a year ago."

"Our spike in business is from work we have taken over from other suppliers. Most of it is short term work with less than one year left in production, but it is keeping us going for now and has allowed us to get some people back to work!"

"We are still plugging away. Business is flat with slight increases."

"We are still plugging away. Business is flat with slight increases."

"Things are booming!"

"Is the business uptick for real, or is it to replenish 'Cash for Clunkers'? How are we supposed to forecast for 2010? Will the increase continue? Mill lead times and pricing are ugly!"

"Business has slowed down since July and early August. Fourth quarter projections are much lower than they were for the third quarter."

"We're still working on a supplier relocation due to economics, and now we just received notice that another supplier is moving. Guess I am to consider myself fortunate to receive notification as I had another supplier close a plant and not notify me due to the lack of open orders."

"Orders still look strong. We continue to hold off bringing back labor just in case the orders pull back."

"We're staying cautiously optimistic. New business and some diversification outside of the automotive business are helping."

"Quoting activity is up, and the sales staff is optimistic."

"A large number of parts are coming from overseas, and the shipping industry has added huge price increases lately. I have a feeling from all I've read that the increases are going to continue for some time."

	UP	SAME	DOWN	N/A	Sept. Index	Aug. Index	July Index	20 Year Average
Sales (New Orders)	43%	43%	12%	2%	+31	+24	+19	+29
Production	48%	32%	10%	10%	+38	+34	+19	+13
Employment	31%	52%	17%		+14	+19	- 4	+ 8
Purchases	43%	38%	19%		+24	+33	+ 4	+ 7
Prices Paid (major commod.)	24%	69%	5%	2%	+19	+14	- 4	+35
Lead Times (from suppliers)	31%	59%	10%		+21	+19	- 7	+11
Purchased Materials Inv. (Raw materials & supplies)	31%	43%	21%	5%	+10	+ 5	-17	- 5
Finished Goods Inventory	12%	66%	12%	10%	+ 0	- 5	-24	-10

Items in short supply: Active electronic components, carbon and stainless steel, Dupont Zytel 103HSL, butadiene, some types of CRS and stainless, some steel sheets, HR steel, resins, copper, forgings, gears and specialty machined details.

Prices on the UP side: Steel forging and casting "surcharges," overseas shipping charge, poly strapping, plastic, carbon steel, cold rolled steel, stainless steel, all steel, polypropylene, scrap, salt, operating fluids, transportation costs, paper products, metals, aluminum, polystyrene, ABS resin, plasticizer, SEBS resin, leaded steel bar, brass, copper wire, chemicals, acetone.

Prices on the DOWN side: MRO items, chlorides, equipment rental, services, stainless steel (also reported UP), poly can liners and polyprop items (also reported UP).

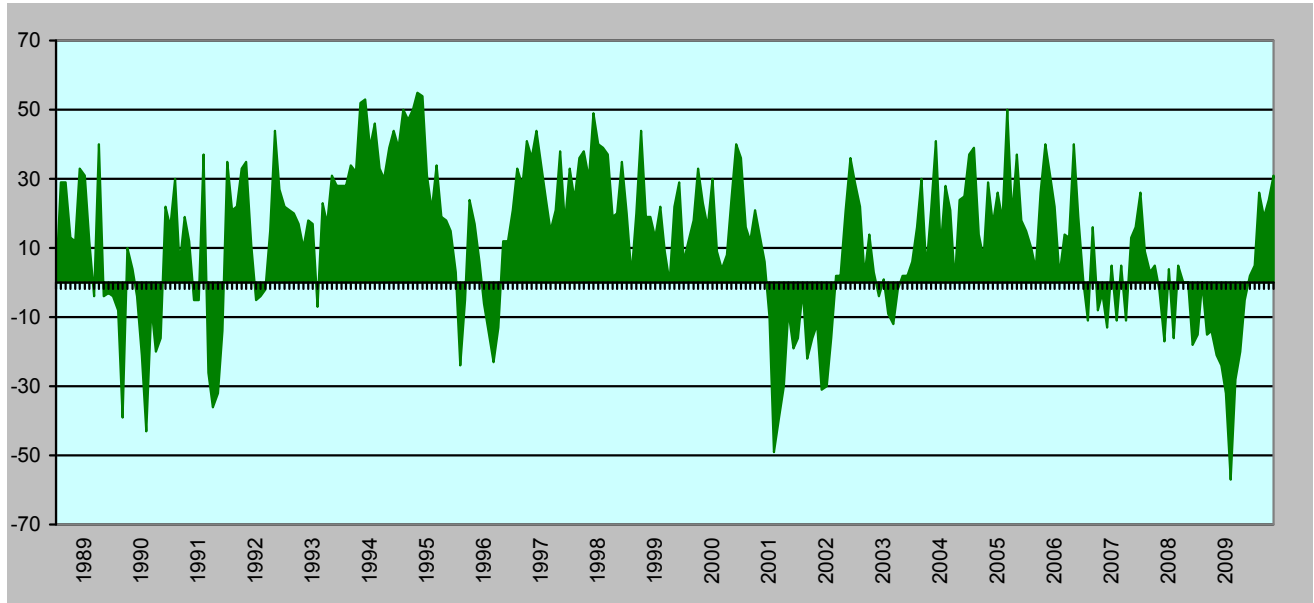
Index of New Orders - Greater Grand Rapids 1988 - 2009

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.

September Report: +31

Record Low -57 December 2008

Record High +55 September 1994



Index of New Orders: 2004 - 2009 Only

