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supply management

## Institute for Supply Management

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### CURRENT BUSINESS TRENDS

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The modest recovery resumes. That's the latest word on the Greater Grand Rapids economy, according to the data collected in the last two weeks of December. NEW ORDERS, our closely-watched index of business improvement, came up to +20 from +10. However, the PRODUCTION index eased to +14 from +16. Typical of the holiday season, activity in the purchasing offices retreated to +0 from +10. It was good to see the index of EMPLOYMENT flip back to positive at +8, up from -5. All in all, our statistics still depict slow but steady growth, even though the pace of the recovery has slowed since the summer and early fall of 2009.

Turning as we always do to individual industries, we still only have one firm in the office furniture business reporting significantly better business conditions. The others are stable at the present level, which is not bad given the overall economy. Responding to better auto sales, several of our auto parts suppliers are continuing to post better results, although there is still a lot of nervousness about the rest of 2010. For industrial distributors, the results were unusually strong for December, probably because of heavier maintenance schedules for the holiday down time. For capital equipment, most firms are still flat, although business outside of the state seems to be picking up. Overall, the mode is still cautiously optimistic for the start of 2010.

At the national level, the January 4, 2010 press release from the Institute for Supply Management, our parent organization, shows that the national economy is still expanding at a fairly modest rate. ISM's index of NEW ORDERS rose very slightly to +16, up from +14. Just as last month, the PRODUCTION index backtracked to +10 from +16, although part of this reduction is seasonal. The EMPLOYMENT index remained negative at -1. ISM's composite index rose to 55.9 from 53.6, which bodes well for 2010. This is the fifth consecutive month for the index to come in ahead of the break-even point of 50.0.

At the international level, the results are slightly better. JPM's December index of NEW ORDERS edged up to 58.2 from 56.8. For the first time since March of 2008, the EMPLOYMENT index turned positive. The composite index for J.P. Morgan's Global Manufacturing Report dated January 4, 2010 rose to a 44 month high of 55.0. China, France, Brazil, Taiwan, and India were countries reporting better business conditions, but the euro area lagged behind. Although worldwide pricing pressures are rising, the author noted that "... if a rebound in the labour market can be maintained, this should aid with sustaining a broader recovery."

Taking a look at 2010, here's where we stand:

Automotive. It could be many, MANY years before we return to a sales rate of 2005. However, people are still driving almost as much as they used to, so the existing cars will some day need to be replaced. The July "Cash for Clunkers" program marked a turnaround in the industry, and unit sales have continued to improve. Hence, modest sales growth should prevail in most of 2010.

Industrial Inflation. The 2008 collapse of the commodity speculation bubble resulted in many industrial commodities falling to inflation-adjusted record lows. Over the past year, the worldwide recovery from the recession has escalated prices for key commodities like copper, aluminum, zinc, lead, and nickel back to normative levels. Unfortunately, 2010 will probably see a continuation in the rise of industrial commodities for at least the first half of the year. With increasing amounts of the steel manufacturing capacity being owned by fewer and fewer mega firms, the prices for many grades of steel may be held artificially high. To a lesser degree, the same scenario may be true for plastic resins and some industrial chemicals.

Consumer Inflation. Although there is always a lag time, industrial inflation eventually spills over into consumer inflation. With the high unemployment rate, consumer borrowing still relatively low, and the Chinese Yuan apparently pegged near its present level, consumer inflation should remain moderately low for the first half of 2010. If the economy continues to improve at its present rate, we will probably begin to see more consumer inflation in the second half of the year. With the price of natural gas relatively low, the cost of home heating for the nation as a whole should be relatively low for the 2010 season, but may rise considerably for 2011.

Interest Rates. Any attempt to raise rates at this time would shake consumer confidence and depress the stock market. Even though rates are now artificially low, the FED will wait until there is compelling evidence of the return of inflation before experimenting with some incremental increases. So far, the Treasury Department has had very good luck throwing trillions of dollars in new debt on the market. As the world economic recovery unfolds, this luck could run out, resulting in the world credit markets pushing our domestic rates higher. A small increase could probably be absorbed, but a large increase in rates would stall our recovery in its tracks.

Real Estate. With mortgage rates near record lows and government tax incentives still in effect, home sales will modestly increase for the first half of 2010. Given the likelihood that new incentives will be activated when the old ones run out April 30, this trend should continue for the rest of the year. However, more bankruptcies and foreclosures for the foreseeable future will continue to add more houses to the market. Would-be buyers will continue to demand lower prices. Just like automotive, it could be many, MANY years before we return to a real estate market like 2005.

Unemployment. If it hasn't already done so, the national unemployment rate should peak in the first few months of 2010. The unemployment picture for Michigan will remain negative, and probably escalate with plant closures. Although there will be new jobs in some sectors, these gains will be offset by the loss of manufacturing jobs.

Overall Economy. For 2010, we expect the industrial economy to continue modest improvement on the west side of the state. However, the continued cutbacks in automotive will keep the State of Michigan fiscal budget in the red. Another reminder: One successful terrorist attack and all bets are off. We will slide back into a second leg of the recession.

## COMMENTS FROM SURVEY PARTICIPANTS

"Sales backlog has slipped over the past several months, and we're anticipating a flat 2010 first quarter before sales volumes begin to build."

"Sales and quoting activity are robust."

"We're ending the year very positive considering we were looking at a red zone in losses. We will now end the year in the black, and business is looking up in all aspects as well as diversifying into other areas outside of automotive. We will not be sad to see 2009 go bye-bye."

"There are needs starting to generate, but it is still difficult for companies to get financing."

"We have done extremely well all year, and so far January 2010 looks like it will be much better than January 2009. Hopefully, the trend continues for the rest of the year."

"Our order intake is steadily improving, and the project potential is also increasing."

"What will it be like after the holidays? Will production levels remain high? Will we continue to see the upward price pressures? Hopefully some of these will ease so that we don't kill the slight gains that we've seen in the economy. Merry Christmas & Happy New Year!"

"So far, our budget has exceeded our expectations for October but it is unlikely to hold true for the rest of the months ahead."

"We are on pace to have our best December in three years."

"The low numbers we are reporting for the month are a bit deceiving. Our production and sales are actually up for the few weeks of December, but as normal, we are shutting down over the holidays. We are holding our breath about January. Will the OEM's resume production at the same pace, or will there be more shutdowns to bring the growing inventories back in line?"

"We've had three strong months now. Hopeful, we are finally out of this mess."

"Customer demand has continued to increase month over month for the past 4 months with no sign of it letting up heading into 2010. We have several new programs on the horizon for late 2010 and into 2011."

"Schedules drop for January but much better then a year ago."

"We had a better than plan fourth quarter, and we are seeing many positive indicators starting 2010."

"Reductions in workforce early December did not make for happy holidays for some."

	UP	SAME	DOWN	N/A	Dec. Index	Nov. Index	Oct. Index	20 Year Average
<b>Sales (New Orders)</b>	39%	39%	19%	3%	+20	+10	+36	+29
<b>Production</b>	28%	50%	14%	8%	+14	+16	+29	+13
<b>Employment</b>	19%	69%	11%		+ 8	- 5	+17	+ 8
<b>Purchases</b>	28%	44%	28%		+ 0	+10	+21	+ 7
<b>Prices Paid (major commod.)</b>	22%	69%	6%	3%	+16	+ 2	+17	+35
<b>Lead Times (from suppliers)</b>	17%	77%	3%	3%	+14	+14	+29	+11
<b>Purchased Materials Inv. (Raw materials &amp; supplies)</b>	17%	52%	28%	3%	-11	- 8	+ 5	- 5
<b>Finished Goods Inventory</b>	14%	64%	11%	11%	+ 3	- 5	- 7	-10

**Items in short supply:** Aluminum sheets, specialty magnets, some stainless steel, some vehicle parts, some pigments, transportation, some HSLA steel and coated steel, specialty machined components.

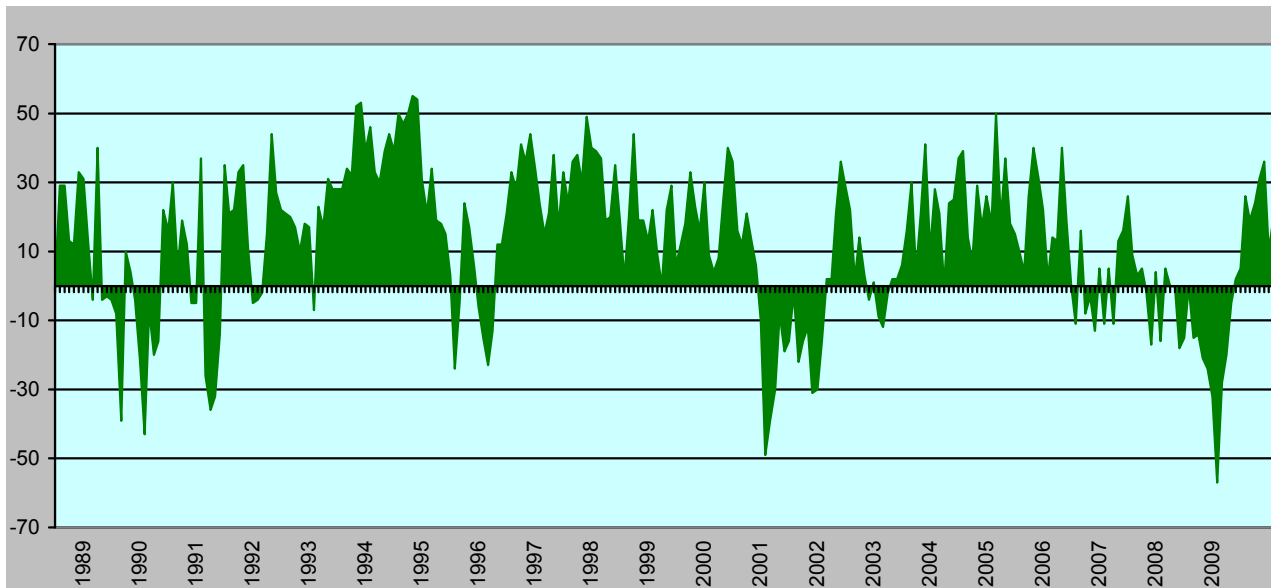
**Prices on the UP side:** Stainless steel, steel, ferrous and non-ferrous items, some services, chemicals, transportation, polypropylene, scrap steel, aluminum, aluminum ingot, gases, carbon steel, polypropylene, salt, fasteners, paper products, PVC resin, plasticizer, kiln dried poplar lumber, copper, brass, wire and cable, steel surcharges.

**Prices on the DOWN side:** Fuel, sand, chlorides, wood core.

## 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.

November Results +20  
Record Low -57 for December 2008  
Record High +55 for September 1994



## Index of New Orders: 2004 - 2009 Only

