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CURRENT BUSINESS TRENDS

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December 2, 2009

Moderation. That's the latest word on the Greater Grand Rapids economy, according to the data collected in the last two weeks of November. NEW ORDERS, our index of business improvement, backtracked to +10 from +36. In a similar move, the PRODUCTION index remained positive, but eased to +16 from last month's +29. Activity in the purchasing offices came in at +10, down from +21. It was disappointing to see the index of EMPLOYMENT slide to -5, down from +17. All in all, most of our statistics continue to be positive, but the pace has clearly slowed. Since we are now in our eighth month of the current recovery, it is not surprising to see a month of moderation. Although this trend may continue into December, the beginning of 2010 still looks positive.

A look at the individual industries in this survey clarifies the picture. First, the office furniture business has stabilized, but only one firm reported significantly better business conditionings. The real recovery for this industry has yet to arrive. Second, for the auto parts suppliers, the "cash for clunkers" surge appears to have run its course, although better business conditions for GM and Ford have helped to stabilize the market. Like many previous months, November's business for industrial distributors came in widely mixed. Although one of our capital equipment firms saw an uptick in business a few months back, most firms are reporting business conditions to be stable but flat. The participant comments at the end of this report are still cautiously optimistic, and there is a mood that we will mark time until we get into 2010.

At the national level, the December 1, 2009 press release from the Institute for Supply Management, our parent organization, shows that the national economy is still expanding, but the pace has leveled out. ISM's closely watched index of NEW ORDERS rose to +14 from +10. However, the PRODUCTION index backtracked modestly to +16 from +22. Unfortunately, the EMPLOYMENT index flipped back to negative at -1, down from +4. ISM's overall Index of Manufacturing declined to 53.6 from 55.7. The survey author notes that "…the recovery in manufacturing is continuing, but many are still struggling."

The news at the international level continues to be positive, although the October report was slightly less robust. The composite index for J.P. Morgan's Global Manufacturing Report dated December 1, 2009 retreated from the 39 month high of 54.4, and eased to 53.6. Manufacturing output backtracked to 56.7 from 58.3. JPM's November index for NEW ORDERS moderated to 56.4 from 56.8. Individual country reports were strong for countries like Taiwan, China and Brazil, but weak for countries like Japan. Although the Eurozone hit two year highs for PRODUCTION and NEW ORDERS, the European manufacturing sector "…continued to lag behind the global averages in November." At 49.1, JPM's index for worldwide EMPLOYMENT is still below the break-even point of 50.0.

For the auto industry, sales have turned flat. In November of 2009, the industry sold 747,086 vehicles, which is exactly 35 more than the 747,051 they sold in November of 2008. Sales at GM were down 2%, Toyota was up 3%, Honda was down 3%, and Ford was up by only 123 units. Indeed, the worst may be over for the current automotive slump, although consumers are still held back by tight credit. As consumer confidence grows, auto sales should start to edge up as we enter the first quarter of 2010. The number of miles driven by the motoring public is up so far in 2009, and sooner or later, the current fleet on the road will have to be replaced. However, sales for Chrysler fell 25% in November.

As the value of the US dollar continues to fall, there remains an underlying fear that the price of imported commodities will spiral into a new round of inflation. So far, there is no evidence in our surveys that this will be a problem any time soon. In Southwestern Michigan, our index of PRICES came in at +13. For the Greater Grand Rapids survey, PRICES retreated to a scant +2. For the ISM national survey, the index is a modest +10. In general, the world economy, although improving, has yet to strain the capacity for big ticket items like steel, aluminum, and some forms of plastic resins. However, in the age of JIT inventories, there is no buffer supply in the system, and any threat to supply could result in prices doubling overnight. Significant increases for several major commodities would fuel inflation to the point the Federal Reserve would be forced to take action.

As we head into 2010, what should we expect? First and foremost, the recovery will continue, barring some unforeseen event. Contrary to some of the financial pessimists on television, there is no evidence to suggest that this recession will have a second leg to it. For Michigan, the recovery will be helped by a partial recovery of the auto industry. Whereas it will take many years for auto sales to climb back to the 16-17 million range of 2005-2006, we should settle into a new sustainable range of about 13-14 million cars by 2011. At the present rate, Chrysler will be forced out of business, except for the Jeep brand which will probably survive. Fortunately, we do not have a lot of companies in West Michigan that are directly tied into Chrysler. Furthermore, production levels have sunk to the level that the end of Chrysler will probably be no more than a small economic ripple. Hence, overall Michigan unemployment rates will probably continue to climb until about the middle of 2010.

Unfortunately, the housing market will continue to be an economic wet blanket for the entire nation. Although there are some empty houses and foreclosed houses throughout West Michigan, the market situation on the east side of the state is much worse. Despite the ample availability of cash, the financial institutions are still very tight with credit restrictions for potential home buyers. Furthermore, mortgage delinquencies are STILL growing, which means there will be more houses thrown on the market throughout 2010.

Finally, we need to keep an eye on the State of Michigan budget, given the drop in revenues from almost every source. Although the budget is now in place for fiscal 2010, the expected shortfall for 2011 is about $20 million dollars. This will put pressure on all government services, from repairing roads to schools to social services. It will take many, many years for these revenues to come back.

COMMENTS FROM SURVEY PARTICIPANTS

"Orders appear strong after the first of the year."

"It feels good to be busy again. However, we'll see how long it lasts in the first quarter of 2010."

"Our sales were down slightly from last month, but we have several new projects in the works that should boost our order intake."

"We've had a small uptick in business."

"The residential construction market is improving. Commercial construction continues to decline."

"This is our second consecutive month of positive numbers."

"We've had a few people leave for other companies, and no replacements are being considered."

"Revenues are project to be down 20-25% next year, so we are hoping for a mild winter."

"I think I can...I think I can...I think I can.... That's the sound of our sales performance. I hope it takes ground."

"Freight costs are driving up spare parts costs."

"Our 'brown season' is upon us. We are closely monitoring/limiting inventory levels across the organization. On a brighter note, we do expect business levels in 2010 to increase from 2009 levels."

"Slow growth!"

"Steady."

"There are a lot of idle machines in my metal stamping customer's plants. Until the "pipeline" is filled again, the sales of new or used machinery will be very limited. Even if a machine is broken, they switch production to an idle machine or go to one of the 'many' auctions available to find another one."

"It's still a very fragile economy."

"Some suppliers appear to be trying to extend their backlog by foregoing their delivery performance."

"We continue to work weekends and bring in temp employees to cover needed labor. If this pace keeps up through much of the first quarter, I think we will hire back workers that have been laid off."

"We are doing pretty well. 2010 looks promising."

	UP	SAME	DOWN	N/A	Nov. Index	Oct. Index	Sept. Index	20 Year Average
Sales (New Orders)	32%	44%	22%	2%	+10	+36	+31	+29
Production	28%	52%	12%	8%	+16	+29	+38	+13
Employment	10%	75%	15%		- 5	+17	+14	+ 8
Purchases	25%	60%	15%		+10	+21	+24	+ 7
Prices Paid (major commod.)	12%	72%	10%	5%	+ 2	+17	+19	+35
Lead Times (from suppliers)	22%	70%	8%		+14	+29	+21	+11
Purchased Materials Inv. (Raw materials & supplies)	12%	58%	20%	10%	- 8	+ 5	+10	- 5
Finished Goods Inventory	10%	63%	15%	12%	- 5	- 7	+ 0	-10

Items in short supply: Semiconductors, some process aids, some stainless and cold rolled steel, castings, gears, machined details.

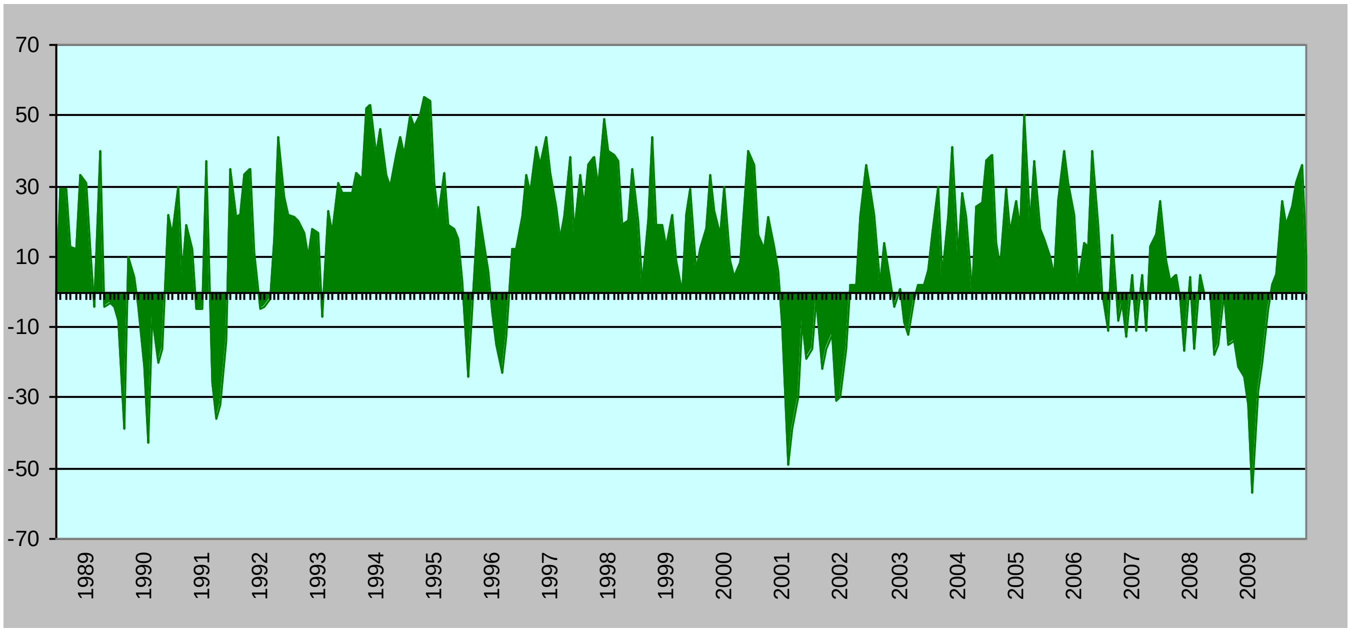
Prices on the UP side: Stainless steel (after the first of the year), poplar lumber, some primers, copper, brass, some overseas items, sand, milling services, grader blades, corrugated metal culverts, landfill rates, some steel, aluminum, acrylic, PVC resin, plasticizer, polypropylene, oil products, transportation.

Prices on the DOWN side: Some steel, scrap steel, carbon steel, corrugated, emulsions, patching materials, concrete culverts, corrugated.

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 Report: +10
Record Low -57 for December 2008
Record High +55 for September 1994



Index of New Orders: 2004 - 2009 Only