



## Institute for Supply Management

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### CURRENT BUSINESS TRENDS

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Moderate growth returns. That's the latest word on the Greater Grand Rapids industrial economy, according to the data collected in the last two weeks of December, 2010. NEW ORDERS, our closely watched index of business improvement, rose to +31, up from +16. The PRODUCTION index edged higher to +19 from +18. Activity in the purchasing offices picked up modestly to +19 from +16. Growth expanded for our index of EMPLOYMENT, which rose to +27 from +21. Historically, December has been a seasonally slow month because of reduced production schedules and the Christmas holidays. This month's report for Greater Grand Rapids broke the pattern. In this same vein, the participant comments at the end of this report are among the most positive we have seen since our local recovery began in April of 2009.

Turning to our local industrial groups, the office furniture industry is clearly pulling out of the long recession as evidenced by an uptick in NEW ORDERS in recent months. Our industrial distributors had one of their best months in recent memory. Although slowed somewhat by the Christmas holidays, our automotive parts suppliers posted a better month than usual. Some elected to forego the usual holiday shutdown altogether. More capital equipment firms are seeing a significant upturn in business, although others are still slow. Performance for the firms related to the aircraft industry continues to be mixed.

At the national level, the economy is growing at a modest rate. The January 3, 2011 press release from the Institute for Supply Management, our parent organization, reported that NEW ORDERS edged up to +9 from +5. In a similar move, ISM's PRODUCTION index rose to +12 from +6. The EMPLOYMENT index retreated to +10 from +15. ISM's overall index rose to 57.0 from 56.6, the 17<sup>th</sup> month that the index has been positive. All of this continues to confirm the slow growth forecast of many economists for 2011.

At the international level, the J.P. Morgan Global Manufacturing report released on January 3, 2011, was also moderately positive. JPM's worldwide index of NEW ORDERS rose significantly to 55.9 from 53.9. Of the 29 countries included in the survey, noteworthy expansion came from the US, China, and the Eurozone, while Japan and Greece were laggards. The EMPLOYMENT index expanded for the twelfth consecutive month, and Germany set a record high. Considerable concern was raised all over the world concerning the rise in input commodity prices. JPM's overall index of manufacturing rose to 55.0 from 53.9. On a positive note, the survey author further noted that the "...acceleration towards year-end suggest the sector will enter 2011 on a firmer footing than looked likely at the end of Q3."

As we always do at this time of year, it is time to look ahead to factors that will define the 2011 economy:

Automotive. The major domestic firms have again turned profitable, and many of their new vehicles are selling well. The prospect is good that the industry will see modest growth throughout the year. All of this is good news for our local parts suppliers. However, it will be many years before total domestic sales reach the levels of 2005.

Industrial Inflation. As the U.S. and the rest of the world continues to recover from the recession, the demand for key commodities like copper, aluminum, zinc, lead, and nickel will continue to rise. Because of the absence of other investment opportunities, many commodities like copper will continue to be targets for hedge funds and other big-money speculators. In the case of steel, a limited number of producers now exhibit almost monopoly-like power over the market. To a lesser degree, the same scenario may be true for plastic resins and some industrial chemicals. The good news is that most non-commodity inflation will be held in check by worldwide competitive forces.

Consumer Inflation. There is always a lag time between industrial and consumer inflation. Hence, 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. Food prices should continue to rise, as will the cost of many types of consumer services. Gasoline will probably approach \$3.50 per gallon by mid-summer. As the price of natural gas and home heating oil rise, the cost of home utilities will probably be higher by the end of 2011.

Interest Rates. As the U.S. and the rest of the world continue to recover from the recession, the demand for capital will cause rates to rise. The Treasury Department will have a much more difficult time throwing a trillion of dollars in new debt on the market, resulting in treasury bonds rising in price as the year goes along. This will cause home mortgage rates to continue to increase, much as we have already seen in the rates of thirty year mortgages. Adding to all of this is the uncertainty of the worldwide credit markets created by the European countries of Greece, Ireland, Portugal, Spain, and Italy. On the balance, the worldwide recovery from the recession should continue to stay on track, although higher interest rates will restrain the growth. However, if one of the aforementioned European countries were to default, all bets are off.

Real Estate. Although home prices are still falling at the national level, there is credible evidence that prices at the local level may have bottomed out and may even see some MODEST improvement throughout 2011. However, more bankruptcies and foreclosures for the foreseeable future will continue to add more houses to the market. Although mortgage rates will continue to rise, banks will SLOWLY begin to loosen their very tight lending standards. For new home construction, rising prices for building materials will inhibit growth. On the balance, there is little doubt that 2011 will continue to be a difficult year for both commercial and residential real estate. Any significant recovery is still years away.

Unemployment. The national unemployment rate should continue to edge lower, but will still end the year in the 8.5%-9% range. The unemployment picture for Michigan will remain negative but will probably drop faster than the national rate if the automotive industry continues to improve. Also on the negative side, the "brain drain" will continue to see many of our best and brightest leave the state in search of better opportunities, leaving us with a larger group of unemployables.

Overall Economy. We expect the industrial economy to continue modest improvement throughout 2011. Overall GDP growth for 2011 should be about 3%. Many firms will continue to set new sales records. The State of Michigan fiscal budget will continue to be seriously in the red. A second leg to the recession is increasingly unlikely. However, another reminder: One successful terrorist attack and all bets are off. We will slide back into some form of recession.

## COMMENTS FROM SURVEY PARTICIPANTS

“We have strong demand through the remainder of the calendar year, and are hoping for it to carry over into next year as well.”

“Our forecast remains strong as we get ready to move into 2011!”

“We are still trying to hang on through 2011.”

“2010 was a nice year. We’re looking forward to what 2011 brings. It has taken time, but I believe we have learned what it takes to be profitable in a trying market.”

“We had a great 2010, and the 2011 backlog remains strong.”

“Quoting is up, and the orders are starting to follow.”

“Business is looking up after the first of the year.”

“We’re ending year with a bang, and first two months of 2011 look great. Let’s hope the good fortune continues.”

“Our typically slow automotive season is not as slow as normal.”

“We’re holding steady for now, and hoping the New Year picks up some.”

“We are increasing capacity to match customer orders. Need for steel fabrication is very strong.”

“We’re adjusting for anticipated seasonal shift.”

“This month is a little less hectic than November. However, we are still busy. We will end the year with record sales.”

“Things continue to look hopeful.”

“Business is very good again. Companies are again reinvesting in capital equipment.”

“We are ending the year on a soft note (typical for automotive), but spirits are high. We turned a profit in 2010, employees earned modest bonuses, and we are preparing for a strong 2011. We cancelled 4 planned shutdown days at the end of December due to high customer demand in January. Let’s all hope that this economy can keep inching forward!”

“We have finished a remarkable year.”

“Lead times continue to be extended in the fourth quarter due to increased demand for flexible packaging materials. Several sole sourced items are out three and four months for raw materials used in top and bottom web pouch applications for medial end customers. “

“It is probably a good thing that China increasing rates, but probably not fast enough.”

“Scrap steel is up \$40 - \$45/gtd this month and will continue to escalate through February.”

“Steel is spiking horribly at an annual inflation rate 396%.”

“Steel is inching upward, putting upward pressure on a lot of finished components.”

	UP	SAME	DOWN	N/A	Dec. Index	Nov. Index	Oct. Index	20 Year Average
<b>Sales (New Orders)</b>	43%	43%	12%	2%	+31	+16	+15	+29
<b>Production</b>	35%	43%	16%	6%	+19	+18	+19	+13
<b>Employment</b>	35%	57%	8%		+27	+21	+21	+ 8
<b>Purchases</b>	41%	37%	22%		+19	+16	+ 9	+ 7
<b>Prices Paid (major commod.)</b>	33%	61%	2%	4%	+31	+29	+10	+35
<b>Lead Times (from suppliers)</b>	27%	73%			+27	+16	+16	+11
<b>Purchased Materials Inv. (Raw materials &amp; supplies)</b>	33%	47%	14%	6%	+19	+10	+ 0	- 5
<b>Finished Goods Inventory</b>	20%	50%	18%	12%	+ 2	+ 9	- 4	-10

**Items in short supply:** Poly BP, butadiene, ductile iron castings, DOM Tubing, large 4140 bar, PET film, electronics, steel.

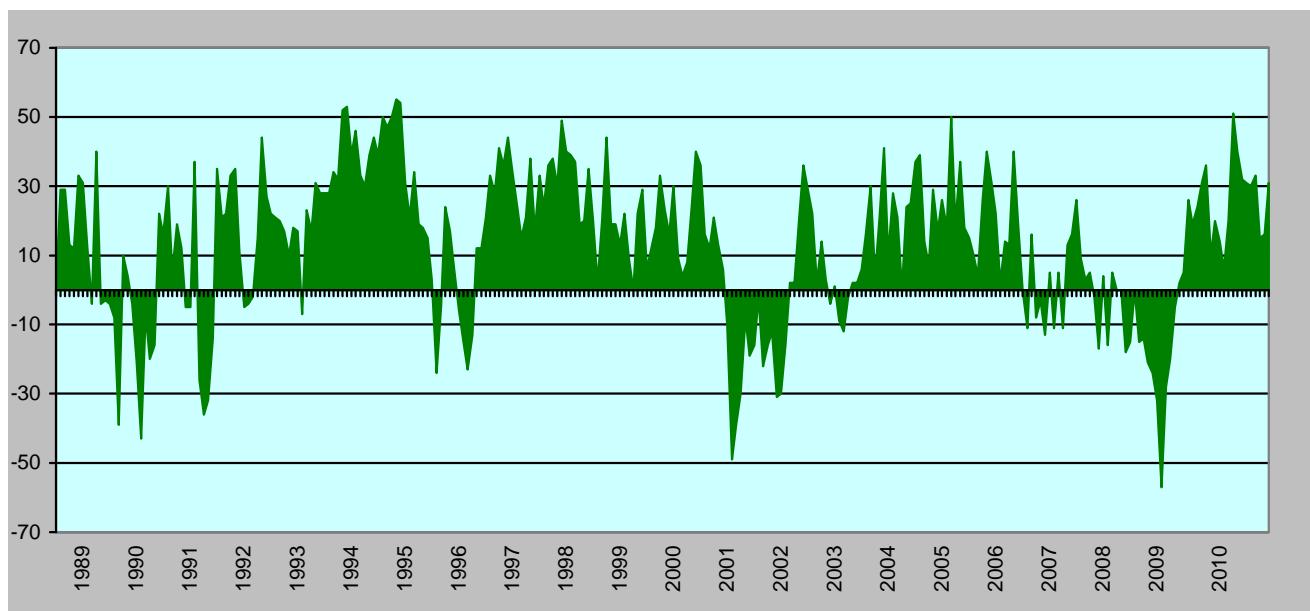
**Prices on the UP side:** Poly-based product, steel, scrap steel, fuel, salt, paper products, steel products, copper and copper products, brass, bronze, HDPE plastic, stainless and carbon steels, freight, nickel, drywall, mineral wool, steel tubing, CRS & HRS, china glass, plasticizer, PVC resin, SEBS resin, steel plate and tubing, bulk liquid oxygen, small assemblies, electronic valves, transportation, powder paint and metal components, aluminum, industrial gases, printing paper, flexo inks, film.

**Prices on the DOWN side:** Some cold rolled steel, electronic assemblies, poplar lumber, natural gas.

## Index of New Orders - Greater Grand Rapids 1988 - 2010

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.

Latest Report	+31 for the month of December, 2010
Previous Month	+16 for the month of November, 2010
One Year Ago	+20 for the month of December, 2009
Record Low	-57 for the month of December, 2008
Record High	+55 for the month of September, 1994



### Index of New Orders: 2005-2010 Only

