



institute for
supply management

Institute for Supply Management

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CURRENT BUSINESS TRENDS

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Growth accelerates. That's the latest word on the Greater Grand Rapids industrial economy, according to the data collected in the last two weeks of February, 2011. NEW ORDERS, our closely-watched index of business improvement, advanced to +45, up from +25. In a similar move, the PRODUCTION index rose to +41 from +29. Activity in the purchasing offices, our index of PURCHASES, edged up to +33 from +29. The EMPLOYMENT index posted a modest gain and rose to +35 from +29. Overall, the growth rate for the local economy has accelerated, and confirms many of the other positive numbers that have been posted in other economic sectors. However, this is just a single month, and one month does not indicate a trend. The important fact is that we have now posted 21 months of positive reports since the recovery began in 2009.

Turning as we always do to our local industrial groups, it almost goes without saying that the recovery of office furniture industry is part of the strong report for this month. Since auto sales are still on track and even expanding, business conditions for our auto parts producers remain positive. Performance for our industrial distributors is good, although one firm noted a down month. Just as last month, the results for the capital equipment firms are still mixed. For the second month, performance for the firms supporting to the aircraft industry was generally down.

At the national level, the recovery from the recession continues at a moderate pace. The March 1, 2011 press release from the Institute for Supply Management, our parent organization, reported that NEW ORDERS edged up to +32 from +28. A similar increase was noted in ISM's PRODUCTION index, which rose to +33 from +24. The EMPLOYMENT index advanced to +26 from +17. ISM's overall index of manufacturing rose to 61.4 from 60.8, the highest the index has been in seven years. Lest there be any doubt, the industrial sector of the US economy is leading the nation out of the recession. With this much momentum, the month of March should build on this success.

At the international level, the J.P. Morgan Global Manufacturing report released on March 1, 2011, continued to rise at a record pace. JPM's worldwide index of NEW ORDERS rose to 60.0 from 59.7. Of the major countries included in the survey, noteworthy expansion came from the Germany, the US, the UK, Ireland, Japan, and Italy. Business conditions in China continued to cool, largely because of tighter monetary policy. Greece, Spain and India were among the weaker performers. The EMPLOYMENT index rose to 56.4, another new record for the survey. On the negative side, the indexes of PRICES rose to 76.7 from 73.6.

Whereas many of last month's comments from the participants were upbeat, the comments for this month's report are now centering on a new problem. For most industrial buyers, industrial inflation is once again getting out of hand. One respondent to this month's survey commented that the recent price escalations are beginning to look like "...2008 all over again." Unfortunately, if this run-up in prices goes much further, it is a possibility that we could repeat the boom-bust cycle of 2008.

Why? For that answer we have to go all the way back to the end of the 2001 recession and the soft money policy of the Federal Reserve. When the economic history books are written 50 years for now, Alan Greenspan will probably be tagged as one of the major culprits. Numerous economists have noted that the Federal Reserve held rates too low for too long after the 2001 recession was over. One noticeable problem the low rates created was the overstimulation of the residential and commercial construction, which in turn resulted in far more homes and buildings being built than the market could absorb. Hence, we ended up with a boom-bust cycle for housing, which has left over 20% of the home in the United States now below their value and mortgage balances.

Although almost everyone is aware of the low interest policy on housing, few are aware of the impact of low interest rates on the financial institution. The fact is that endowment funds, short term money funds, conservative money managers, and even the conservative hedge funds have relied for many years on high-quality corporate and government bonds as primary investment media. When interest rates hit record lows, many of these money managers were forced to look for other places to invest. Part of the record rise for stocks in 2008 was the result of money managers looking for higher returns, even though the level of risk was obviously increased. The prevailing rates of less than 1% were simply too low to be acceptable. As the stocks became more fully priced in 2008, attention shifted to commodities. Although the run-up in gold was obvious, the speculators began running up almost every other major commodity, including most of the non-ferrous metals, corn, wheat, and other agricultural commodities. The Chinese, with trillions of dollars and Euros to invest, were in on this speculation as well. Like every boom-bust cycle, the bust finally occurred for most of these commodities in mid-2008. The speculative commodities were dumped on the market. Firms began liquidating their bloated inventories. Literally trillions of dollars were withdrawn from the market overnight. The economy was in a free-fall.

This brings us to 2011. Numerous major commodities are now 40% higher in price than 10 months ago. Although world-wide bad weather has been blamed for much of the run-up in agricultural commodities, it now seems obvious that we have also returned to speculation. Hence, we COULD be on the front edge of another boom-bust cycle for commodities.

When will the bust occur? The best guess relates to a significant rise in interest rates. This could occur suddenly if the Federal Reserve decides to change policy or more slowly if the United States starts to have trouble floating another trillion dollars in debt over the next year or so. As previously noted, the higher interest rates will tend to pull money out of commodities and the stock market. If the Federal Reserve can accomplish this task very gradually, it is possible that the commodity markets will have a "soft landing" and simply drift lower. We are going to keep a close eye on this entire situation over the next few months.

On a less pessimistic note, Michigan is still an automotive state, and the strong auto sales posted for the month of February will quickly translate to more new orders for our auto parts suppliers. General Motors led the way for February, posting a 46% increase. Sales at Ford were up 10%. For Chrysler, the gain for February was 13%. Even Toyota, which has been plagued by bad publicity for the past year, rose 42%. In short, the economy at both the state and national level is picking up steam. Increased employment by the industrial firms will begin to have a noticeable impact on the employment statistics. If it were not for the menacing problem of the over-built housing markets, we would soon be back to normal. But that is a very big IF.

COMMENTS FROM SURVEY PARTICIPANTS

"We are very busy but are not seeing our bottom line improve. We need to increase prices to gain more margin."

"Costs are rising, the concern being that our economy is still weak. The increased costs will affect spending and profits."

"We're still trying to start that old engine. It runs for a while, then sputters. This purchasing business 'ain't' fun anymore!"

"This year is looking like it could be a record year for us. Praise God!"

"We have hit a soft patch. Orders stopped rather quickly."

"We're seeing global manufacturing inflation."

"Sales are slightly stronger than expected. The year is starting off good."

"We are getting very busy. Prices and lead times are starting to rise."

"Another great month."

"We are booming. We have the best backlog in three years. 2011 looks very good for us."

"Steady start to the year."

"Our agency has tried to be fiduciary responsible over the years. We have not had a defined retirement plan since the 1980's, only a 401K; we don't have life time benefits, and have had a hiring and wage freezes since 2005. Not a good time to be a public employee!"

"I hear talk of orders going down with all the price increase."

"Business is good and this is our slow time. We are expanding."

"Rising prices and longer lead times are affecting the profitability of many smaller companies. We're cautiously optimistic about the future because of rising prices and lead times."

"Business is still looking strong. There is growing concern that the steel pricing will continue to rise. If so, it may slow down the order in the future."

"I hope the prices of steel and fuel do not crush the recovery."

"We are doing reasonably well, although we're concerned about inflation."

"Capacity at many suppliers is not adequate for the current and forecast business level."

"Sales are holding strong in February, but profits are slumping due to industrial inflation. I have never seen such a push by resin producers to raise prices on so many different types of plastic resin. From what I am hearing, the steel consuming folks are in the same boat. If this keeps up, it will have to spill over to the consumer side soon."

"Sales are steady, and winter seems like the season to increase raw material prices across the board."

"Steel availability is tightening. Deliveries for offshore shipments on other global sources items are slowing. Because of increased cost due to rising commodity prices, people are trying to buy prior to inflationary price increases. It's starting to look a lot like 2008 again."

	UP	SAME	DOWN	N/A	Feb. Index	Jan. Index	Dec. Index	20 Year Average
Sales (New Orders)	55%	33%	10%	2%	+45	+25	+31	+29
Production	51%	33%	10%	6%	+41	+29	+19	+13
Employment	41%	53%	6%		+35	+29	+27	+ 8
Purchases	45%	43%	12%		+33	+29	+19	+ 7
Prices Paid (major commod.)	71%	27%		2%	+71	+59	+31	+35
Lead Times (from suppliers)	57%	43%			+57	+37	+27	+11
Purchased Materials Inv. (Raw materials & supplies)	31%	57%	8%	4%	+23	+19	+19	- 5
Finished Goods Inventory	22%	56%	12%	10%	+10	- 3	+ 2	-10

Items in short supply: Specialty stainless bar, poly BD used in casting resin, some chemical, steel, off shore shipments, larger thickness of plate steel, sheet steel, electronic components, polypropylene, some coated steel products, high carbon steel bar, heavy wall tubing, ductile castings, certain processed parts, butadiene, titanium dioxide pigment, base oils.

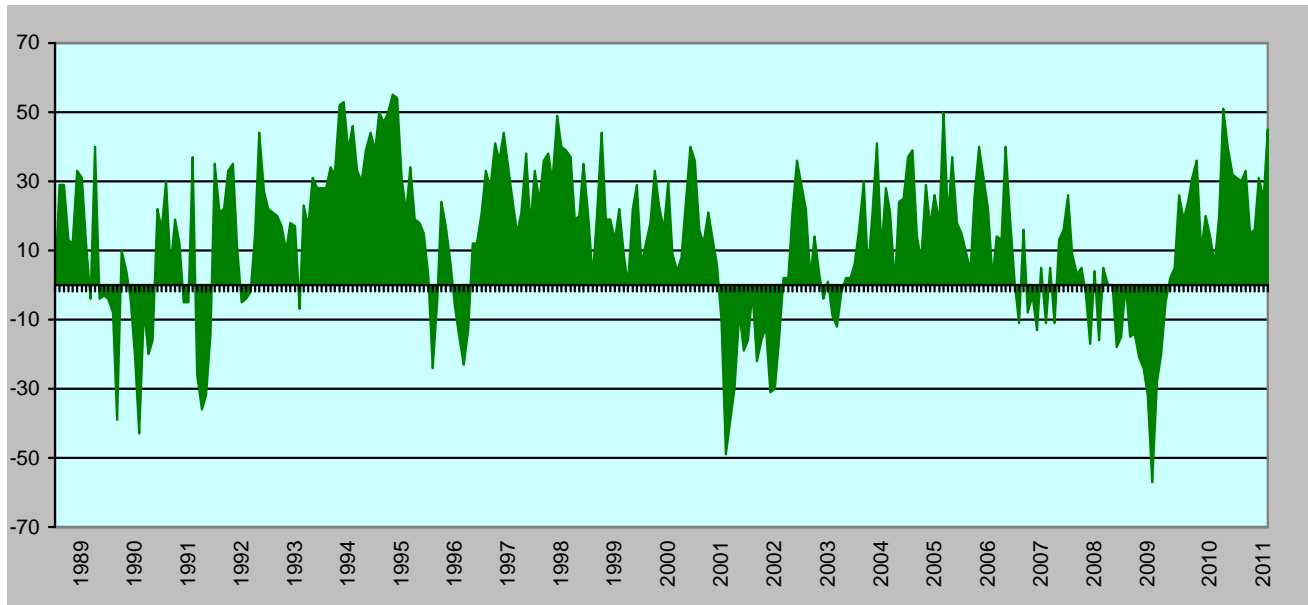
Prices on the UP side: Carbon steel, brass, plastic laminates, nickel, stainless steel, steel coil, steel sheet, copper pipe & fittings, propane, diesel, electric motors, copper wire, anything petroleum based, resins, polypropylene, steel, sanding belts, all steel prices (import AND domestic) fuel surcharges, electronics, steel tube, aluminum, plastic parts and components, hardware, oil and oil products, carbon black, TiO2, polypropylene, copper and everything with copper content, everything.

Prices on the DOWN side: Some polypropylene, salaries.

Index of New Orders - Greater Grand Rapids 1988 - 2011

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 +45 for the month of February, 2011
Previous Month +25 for the month of January, 2011
One Year Ago + 6 for the month of February, 2010
Record Low -57 for the month of December, 2008
Record High +55 for the month of September, 1994



Index of New Orders: 2005-2011 Only

