



institute for  
supply management

## Institute for Supply Management

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### CURRENT BUSINESS TRENDS

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Growth remains positive. That's the latest word on the Greater Grand Rapids industrial economy, according to the data collected in the last two weeks of April. Our closely watched index of business improvement, which we report as NEW ORDERS, moderated to +29, down from +38. In a similar move, the PRODUCTION index eased to +35 from +39. On the up side, activity in the purchasing offices, our index of PURCHASES, rose significantly to +51 from +34. The EMPLOYMENT index also posted a nice gain and rose to +46 from +35. Indeed, 50% of the firms in our survey are still adding personnel. Despite this month's moderation in NEW ORDERS, the growth rate for the local economy appears to be stabilizing at a moderate rate. It is worth noting that we have now posted 23 months of positive reports since the recovery began in 2009. However, despite our lofty EMPLOYMENT index, our local industrial sector has not had nearly the impact on our local unemployment statistics as we would like. In this same light, the strength in the industrial sector has had little or no impact on the seemingly never-ending housing and construction crisis.

Turning to individual industries, the local automotive parts suppliers continue to do well, and none of our local firms has AS YET reported any impact from the Japanese disaster. The report from the office furniture sector is still positive, but there are signs that the industry may be plateauing at the current level. Performance for the industrial distributors came in fairly mix for the month, but the bias is still to the upside. Like last month, capital equipment firms continue to improve. Unlike last month, the respondent comments at the end of this report are still positive, but there is a new note of caution from several respondents.

At the national level, the results are a little more optimistic. The May 2, 2011 press release from the Institute for Supply Management, our parent organization, reported that NEW ORDERS edged up to +41 from +33. In a similar move, ISM's PRODUCTION index rose to +38 from +34. The EMPLOYMENT index rose to +29 from +25, the highest the index has been in 38 years. Because of the usual statistical gyrations, ISM's overall index of manufacturing edged down to 60.4 from 61.2. Overall, the US industrial economy is now in its 21<sup>st</sup> consecutive month of expansion. The survey author further noted that inventories are once again growing, but attributed the growth to the expansion of NEW ORDERS rather than price hedging because of the near-record price increases.

At the international level, the J.P. Morgan Global Manufacturing report released on May 3 remained positive but backtracked to its lowest level in five months. JPM's worldwide index of NEW ORDERS retreated to 53.8 from 55.0. Growth rate moderated in the US, UK, the Eurozone, and India. To no one's surprise, Japan and Greece turned in the weakest reports. JPM's EMPLOYMENT index eased modestly to 55.1 from 55.7. For the second successive month, the JPM international index of PRICES retreated, this time to 72.4 from 75.3. February was the high at 76.0.

Looking at automotive, sales at Ford were up 13% for April. GM gained 24%. Buyers are flocking to showrooms to avoid the predicted shortages of the summer. The trade publications are still abuzz with assessments of the impact of parts shortages on automotive production over the next few months. For a typical example, about 41% of the automotive microcontrollers are manufactured by one small firm called Renesas Electronics—not a household name like Sony or Toshiba. Renesas is now moving production from the damaged Kaka plant to one farther west. Production at the Kaka facility will not resume until July. Supply for microcontrollers and other electronic components was already tight before the quake, which means that it could be well into October or November before supply catches up with demand. Power outages are also a problem.

Our surveys this month yielded only few notes of optimism about inflation. The index of PRICES for the Southwest Michigan survey retreated modestly to +68 from +72. In Greater Grand Rapids, the survey result was unchanged from the near-record level of +73. At the national level, ISM's index came in at +71, up slightly from +70. While there is no optimism for any impending price relief in the survey statistics, there are some anecdotal notes that inflation may soon start to ease. For instance, several survey respondents noted that steel prices may at long last be topping out. Copper is now down 8% from its recent high. Nickel is down about 7%. Tin fell about 3%. Cotton is down 17%. Sugar has fallen 34% from its peak. It is still too soon to call this a trend, but lower prices among some of the major commodities may bring the industrial market some badly needed relief.

While our report remains positive, there were several items in this month's economic news that were negative. First, Standard and Poor's downgraded the outlook for U.S. government debt to "negative" from "stable." For now, they reaffirmed the AAA rating for government bonds, but probably wanted to express concern over the unwieldy rate that the debt is expanding. Some market insiders believe that S&P is hoping for some evidence that Congress and the Whitehouse are working toward a long term solution to the debt problem. If they do not see any significant progress, they WILL take the unprecedented step of downgrading the US bond rating.

The second note of caution came from an International Monetary Fund forecast that the Chinese economy will surpass the U.S. economy by about 2016. Because the dollar has been the currency standard for the world since 1944, we have been able to just print money and have people, institutions, and other countries buy our debt to pay for all of our excess spending. With rising prices for gold and silver, it suggests that investors are losing interest in the dollar. The dollar will probably decline further if the massive federal deficits show no signs of getting resolved any time soon.

The third note of caution came from the Commerce Department's report on the GDP. After posting a 3.1% gain for the fourth quarter of 2010, the preliminary estimate for the first quarter of 2011 came in at 1.8%. Whereas the recovery from many recessions is zigzag, the drop to 1.8% was greater than many economists had expected. This resulted in a considerable downgrade by many economists for projected growth of the US economy in the second half of the year. In addition to the continuation of the gloomy attitudes among consumers and small business, other negative factors included high gasoline and diesel prices, the impact on automotive from the Japanese disaster, deficit inaction, the falling dollar, the continuation of tight credit, and the unstable housing markets.

Needless to say, there are a lot of negative forces still at work in the economy. However, as the results of our survey shows, the industrial sector of the economy CONTINUES to be positive, even though the rate of increase may be slowing. We still do not have an accurate projection of the total impact of the Japanese disaster on our own economy, much less the world economy. Until the rebuilding gains momentum, Japan will be in a short term recession. However, it is safe to conclude that the impact will NOT be enough to put us into a recession. All we really know for sure is that there will be a worldwide "Japanese" downside for the next six months or so, and that some firms will be impacted more than others.

## COMMENTS FROM SURVEY PARTICIPANTS

“Prices are going up!”

“There’s nothing good to comment about at this time!”

“The unfortunate situation in Japan is starting to have its effect on the auto industry.”

“We’re building four schools to open in Aug/Sept.”

“Negotiations continue to move to the right, which does not bode well for us.”

“I am very nervous that things are slowing back down. Hope I am wrong!!!”

“Inquiries are picking up, and he orders are ‘slowly’ following.”

“Oil prices are going to slow this recovery drastically.”

“Price increases on steel have slowed. There is an expectation that we have reached a top in the market.”

“The fuel surcharges this year are going to be VERY expensive!”

“Business looks ready to break, if only oil & world instability don’t derail the train.”

“This was the second best month in the history of the company, and this month is starting out much the same. We are adding part time staff to handle the increased pressure and to make sure customer service does not suffer. It’s a great problem to have.”

“Business is good, and we continue to conservatively hire where needed. We need to see what Gov. Snyder is going to enact to determine future course of business in Michigan. I’m holding onto my wallet tightly!”

“Waiting for several projects to come to fruition, which will help us meet our annual forecast.”

“Steel seems to be leveling off in price. All items are trying to go up in price due to raw material increases and gas price increase.”

“Business remains strong through the end of the second quarter.”

“Overall business is up 30% compared to 2010.”

“We have confirmed there is no foreseeable impact to our supply chain due to the tragedy in Japan. However, the third quarter will tell the tale, since I believe that is when the affects to Tier II and III level suppliers will be seen. Also, we have seen a steady price increases for raw commodities, and are bracing ourselves to maintain future price increases for finished materials. The good news is that sales remain strong.”

“Our automotive sales have leveled off due mostly to declining build schedules from the transplants. Once the situation in Japan stabilizes, we expect schedules to rebound. Raw material prices continue to keep profits low. We are aggressively passing increases along to our customers as contracts allow.”

“Prices are rocketing out of orbit.”

“The Japan situation has not affected us yet.”

“Great balls of fire. We are booked out for weeks. Fantastic!”

“I think we are going into a slowdown. These gas prices are really going to slam car sales. Steel prices are going to go down a lot. Scrap prices are going to drop. Interruptions from Japanese earthquake will mean slower car sales, or at least smaller car sales will be the theme since no one buys big vehicles at 4.00 gas. We’re heading back towards a double dip. Home prices are not going up when fed rates are zero, and the dollar is getting taken to the woodshed. Dollar has to be strengthened which means have to move away from zero interest policy. The problem is that businesses are benefitting from low interest rates but consumers are not. It’s the tale of two economies. I think second quarter corporate profits are going to be hit really hard by commodity costs; hence the stock market will be hit. On the positive side, natural disasters may help the construction industry.”

“Business is still good. However, things have slowed down over recent weeks.”

	UP	SAME	DOWN	N/A	Apr. Index	Mar. Index	Feb. Index	20 Year Average
<b>Sales (New Orders)</b>	41%	45%	12%	2%	+29	+38	+45	+29
<b>Production</b>	46%	38%	11%	5%	+35	+39	+41	+13
<b>Employment</b>	50%	46%	4%		+46	+37	+35	+ 8
<b>Purchases</b>	50%	41%	9%		+51	+34	+33	+ 7
<b>Prices Paid (major commod.)</b>	73%	25%		2%	+73	+73	+71	+35
<b>Lead Times (from suppliers)</b>	39%	54%	5%	2%	+34	+39	+57	+11
<b>Purchased Materials Inv. (Raw materials &amp; supplies)</b>	36%	52%	12%		+24	+27	+23	- 5
<b>Finished Goods Inventory</b>	23%	54%	18%	5%	+ 5	+ 9	+10	-10

**Items in short supply:** Some chemicals, paints, and electrical components with subcomponents coming from Japan, some pigment fleck, acetylene, filters, bearings, nylon tubing, high carbon bar, alloy bar, heavy wall tubing, electronics and components, natural rubber, steel, semiconductors, PVC resin, montan waxes, antimony oxide, PP, some process aids, SBQ steel, specialty stainless steel, large machining outsource capacity, certain types of resin, PET, specialty resins, web based adhesive, patience for lead long times!

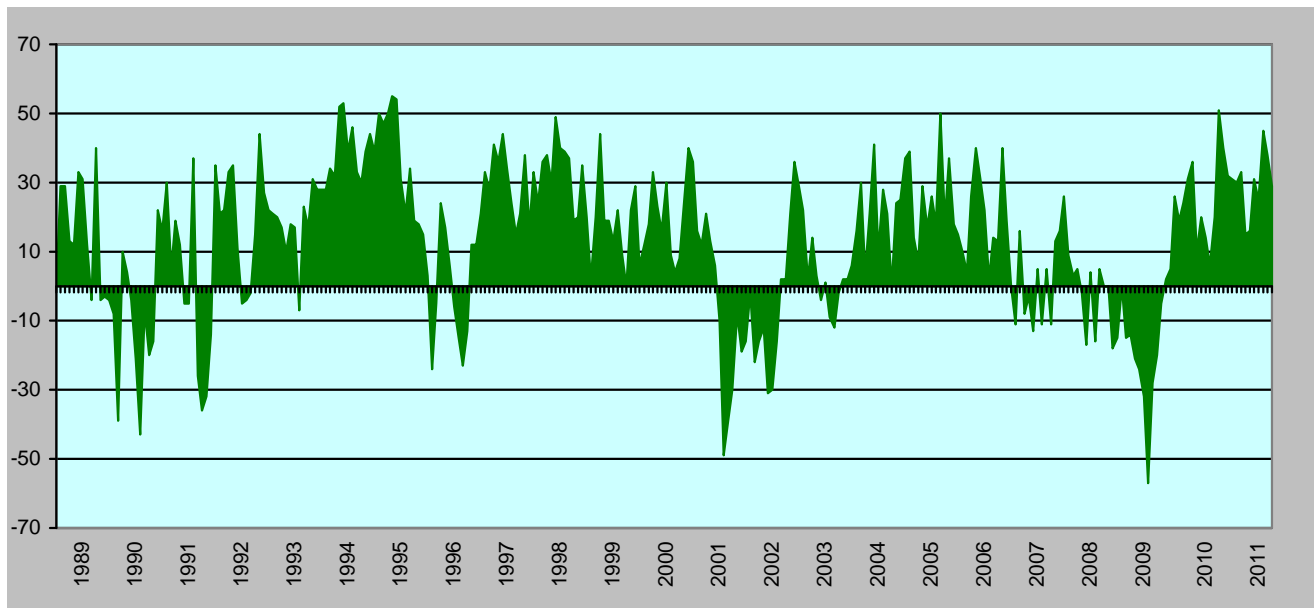
**Prices on the UP side:** Polypropylene, HDPE, cast iron, steel, logistics cost on containers from China, fuel, fuel surcharges, finishing materials, metal hardware, PVC extrusions, aluminum, freight, CR and HR steel, resins, polycast resin, emulsions, geosynthetics, geoweb, plastic pipe, slag, natural aggregate, lumber, transportation, stainless steel, strip steel, brass, copper, nylon tubing, stainless steel hose clamps, brass fittings, bronze, heavy carbon plate, heavy wall tube, alloy bars, surfactants, powder paint, oil, copper, electric motors, natural rubber (50% from 2010), fabric, semiconductors, plastic resin, nickel, Rust-o-leum, quench oils, VCI bags, stretch wrap, transportation/delivery costs.

**Prices on the DOWN side:** Chlorides, ready mix concrete, construction services, respirators, disposable garments, 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 +29 for the month of April, 2011  
Previous Month +38 for the month of March, 2011  
One Year Ago +51 for the month of April, 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

