Institute for Supply Management
Greater Grand Rapids, Inc.
P. O. Box 230621
Grand Rapids, MI 49523-0621

# CURRENT BUSINESS TRENDS

Dr. Brian G. Long, C.P.M.
Director, Supply Chain Management Research
Seidman College of Business
Grand Valley State University
(616) 331-7491

July 5, 2011

Moderate growth resumes. That's the latest word on the Greater Grand Rapids industrial economy, according to the data collected in the last two weeks of June. NEW ORDERS, our closely watched index of business improvement, edged up to +23 from +17. The PRODUCTION index remained unchanged at +26. Activity in the purchasing offices, our index of PURCHASES, also rose modestly to +29, up from +25. The EMPOLYMENT index continued its strength of recent months, but the growth rate moderated to +34, down from +45. Overall, our statistics indicate that we are on track for continued economic growth, even though the rate of growth may slow in the second half of the year

Turning to our local industry groups, the office furniture sector is still fairly positive, although some firms are clearly doing better than others. For our automotive parts producers, the schedule reductions resulting from the Japanese parts shortages appear to be over and business conditions look positive going into the summer months. For the second month in a row, industrial distributors came in fairly positive. Some capital equipment firms reported a decline in business conditions, while others remain stable. The respondent comments at the end of this report remain positive, but there are still some cautions comments worth noting.

At the national level, the results are slightly less positive. The July 1, 2011 press release from the Institute for Supply Management, our parent organization, reported that NEW ORDERS backtracked modestly to +11 from +14. ISM's PRODUCTION index remained unchanged at +16. The EMPLOYMENT index came in with a modest uptick to +24 from +22. ISM's overall index of manufacturing rose modestly to 55.3 from 53.5. In short, it appears that the sharp drop in the ISM's numbers was influenced by the convergence of several negative economic factors in April and May, fueling another round of speculation for a double dip recession. Fortunately, we are now in its 23rd consecutive month of expansion, and it now appears that the threat has passed.

At the international level, the J.P. Morgan Global Manufacturing report released on July 1 remained modestly positive but backtracked to a 23 month low. JPM's worldwide index of NEW ORDERS eased to 50.9 from 51.8. Expansions were noted in Germany, France, Austria, and the Netherlands. Modestly weaker conditions were reported Japan, China, India, Brazil, Russia, and the UK. Greece continues to slide at an accelerated rate. Despite all of this backtracking, the survey author notes that "…there are tentative signs that the PMI is nearing a bottom, consistent with the recent firming of some of the official data on manufacturing output." The JPM international index of PRICES retreated sharply to 60.8 from 66.8. JPM's overall index eased to a 23 month low of 52.3 from 53.0. Again, any number above 50.0 is considered positive.

Since the recession recovery began two years ago, we have constantly been bombarded with threats of a so-called double dip. For the last couple of months, we have received numerous reports about various sectors of the economy starting to soften. With this month's statistical uptick, it now appears likely that there will be no double dip. Slow growth will continue.

Why did we have a slight dip in April and May? Several factors converged at once. First, the price of fuel skyrocketed to the levels of 2008 right before the crash. Part of the current bubble was caused by speculators taking advantage of the Libyan crisis, and part of the problem was a simple imbalance in supply and demand. Needless to say, oil prices are now down over 20% from the highs of three months ago, and this problem appears to have passed, at least for now. A hurricane in the Gulf could change this overnight.

The second problem was the shock to the supply chains that imported products from Japan, especially for the auto industry. The Japanese firms now expect to be back to near-normal by September, much earlier than previously forecast. In short, the impact of the Japanese disaster on the US economy is almost over.

The U. S. spring economy was also impacted by unusually destructive weather. Some of the worst tornados in history devastated towns and cities in the South. Flooding from the Mississippi river and its tributaries is still causing problems.

Finally, the Greek financial crisis has been abated, at least for a year or two. This has helped to stabilize the financial markets and restore business confidence around the word.

This month's big economic news is the passage of Michigan's new budget for FY 2012, which incorporates some of the biggest changes in taxation since the Hedley Amendment many years ago. With the goal of closing a huge budget gap, the new budget incorporates some controversial cuts in education as well as benefit cuts for state workers. Most important, the complicated Michigan Business Tax has been replaced with a simplistic 6% flat rate tax on profits. Will this new tax structure attract new business to the state as the proponents have claimed? Yes, of course. But it may take years before the major impact is felt. Indeed, the most immediate benefit to Michigan will be to retain jobs from firms that would otherwise move out of the state. This means that the *total cost of business* will now be reduced just enough to keep some firms in business or from seeking more favorable tax environments elsewhere. The simplicity of the new tax for planning purposes is also a plus. Hence, we should see some moderate improvement in unemployment rate over the next couple of years. However, this should not be regarded as a total fix. Michigan must still continue to diversity its economy by balancing our automotive concentration with new industries over the long term.

As we look at auto sales for June, we are still feeling the impact of the Japanese disaster. Sales at GM were up 11%, Ford gained 10%, and Chrysler rose 30%. The transplants took the hit, with Toyota and Honda both down 21%, largely because of depleted dealer inventories. Nissan gained 11% as they try to gain share on Honda and Toyota. Overall industry sales were up a modest 7%. However, with the Japanese crisis now subsiding, we should see some significant improvement in auto sales as we head toward the 2012 model year.

Finally, our fears of runaway industrial inflation continue to subside. In Greater Grand Rapids, the index of PRICES eased to +46 from +53. For Southwestern Michigan, the index moderated to +46 from +54. ISM's index of PRICES fell from +53 to +36. Regarding specific commodities, the prices for almost all grades and types of steel are moderating or falling. The same is true of some grades of plastic resin. With the price of oil now lower, most organic chemicals and fuels are edging down in price.

In summary, the expansion of the world economy continues to slow, but there is no evidence pointing to a double dip recession. In fact, the problems that raised concern have waned over the past month. Nevertheless, bank credit will remain tight, the housing market show no sign of recovery. Hence, national economy will probably slow in the second half of the year. If automotive sales pick up later in the summer, economic growth Michigan could begin to outpace the national economy.

## COMMENTS FROM SURVEY PARTICIPANTS

"The media is helping to push entire economy down."

"We are still doing quite well. New orders seem to have slowed some. Uncertainty seems to be creeping back into the picture. Companies are buying capital equipment. "

"There are more inquires coming in, but the orders are still coming hard. Manufactures are hiring again, so hopefully the equipment needs will follow."

"Material prices continue to escalate out of control. This will be a big problem by the end of the year. We anticipate orders to be reduced moving into the 4th quarter."

"We're looking at our fourth reduction in two years. Times continue to be tough."

"The stock market decline is making us very nervous of another possible decline in business."

"Another robust month for our company, and future orders remain strong. Conversations with customers are still very positive on their outlook as well. Initial healthcare renewal discussions have started, and it looks like a 12-18% bump for next year even as many of the components of ObamaCare are not completely finalized."

"The world is getting busy, which is making lead times longer and pricing harder to negotiate down."

"Had a record month in May, but starting to slow down a little in June."

"Currency exchange continues to be brutal on the dollar. We still maintain a solid forecast, but margins will take a percent hit for this factor."

"Record orders. We're booked out weeks in advance."

"We are busy. The first couple of weeks this month are a little slower than last month. However, business is looks to be increasing rapidly over the next month or so."

"We're in our busy time of year as normal. The nice story here is that back in last November 2010 we weren't expecting to be this busy."

"Things are better than expected last four weeks.

"Recycled plastic commodity price is strong, but we have heard prices may start to decline."

| | UP | SAME | DOWN | N/A | June Index | May Index | Apr. Index | 20 Year Average |
|---|---|---|---|---|---|---|---|---|
| Sales (New Orders) | 42% | 37% | 19% | 2% | +23 | +17 | +29 | +29 |
| Production | 38% | 46% | 12% | 4% | +26 | +26 | +35 | +13 |
| Employment | 42% | 50% | 8% | | +34 | +43 | +46 | + 8 |
| Purchases | 42% | 43% | 13% | 2% | +29 | +25 | +51 | + 7 |
| Prices Paid (major commod.) | 52% | 38% | 6% | 4% | +46 | +53 | +73 | +35 |
| Lead Times (from suppliers) | 33% | 63% | 4% | 2% | +29 | +38 | +34 | +11 |
| Purchased Materials Inv. (Raw materials & supplies) | 25% | 57% | 12% | 6% | +13 | +16 | +24 | - 5 |
| Finished Goods Inventory | 17% | 58% | 15% | 10% | + 2 | - 7 | + 9 | -10 |

**Items in short supply**: Bearings, outsourced heavy machining capacity, resins, nylon tubing, butadiene, some electronics.

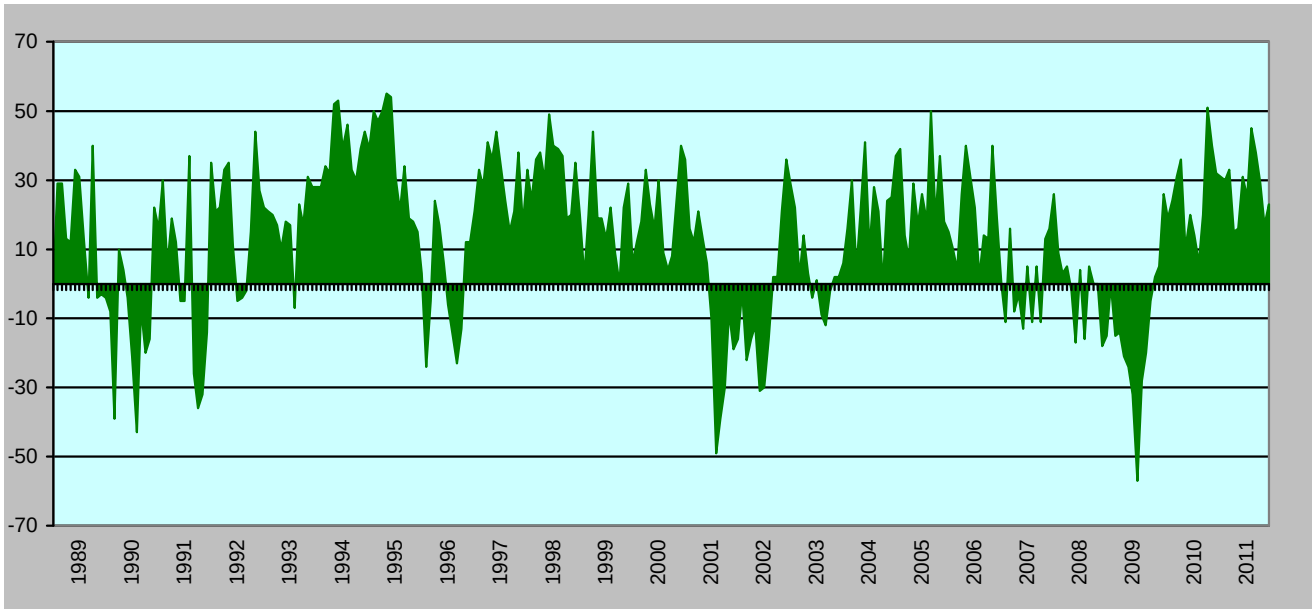
**Prices on the UP side:** Industrial components, copper wire, resins (PC, ABS, PVC, SEBS), zircon sand, scrap steel, ferrosilicon, poly products, coatings, vinyl wrapped drawers, fuel, rubber products, semiconductors, specialty steels, fittings and other brass items, processing costs, transportation, polypropylene ( highest historical level ever!), powder paint, chemicals, corrugated, hardware, plastic parts, nylon 11 and nylon 12 resins, nylon tubing, citric cleaners, grader blades, salt, aggregates, rubber, fuel surcharges, plasticizer, paraffinic oil, process aids, calcium carbonate fillers, fabric, aluminum.

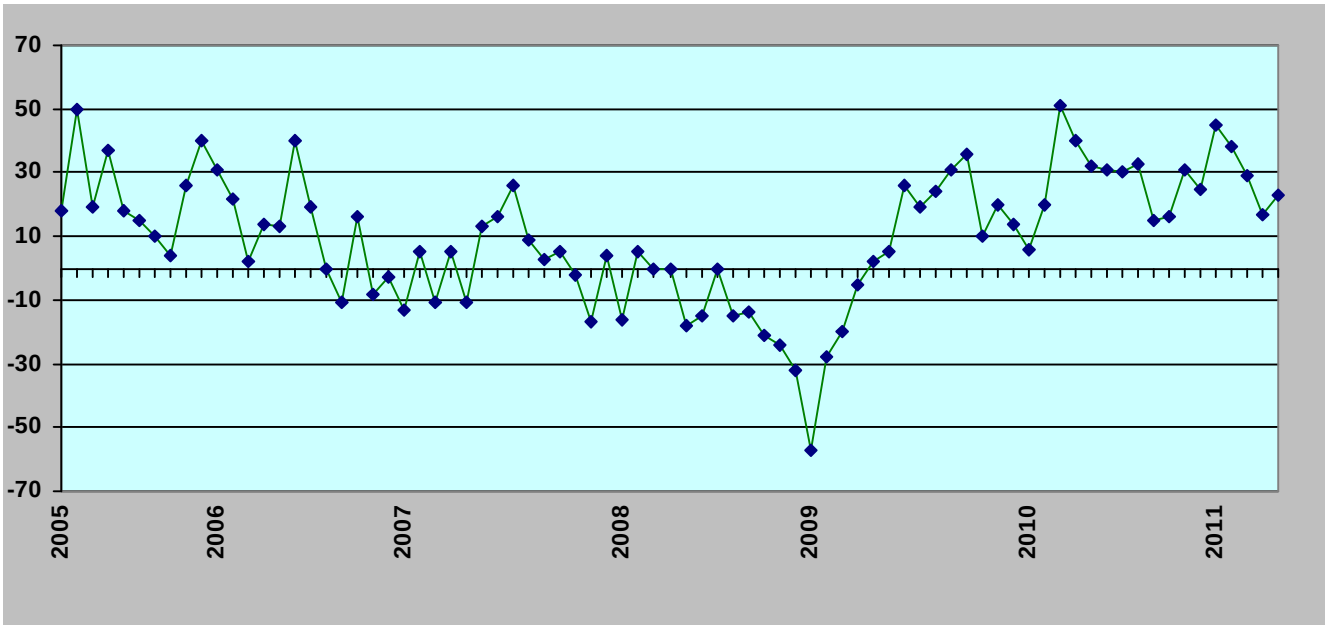
**Prices on the DOWN side**: Some carbon and other steels, steel tubing copper wire, stainless steel, foam, packaging, aluminum, brass, bituminous asphalt, antimony oxide, some polypropylene.

# 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 | +23 | for the month of June, 2011 |
| Previous Month | +17 | for the month of May, 2011 |
| One Year Ago | +32 | for the month of June, 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