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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

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Modest growth-- and slightly improved. That's the latest word on the Greater Grand Rapids industrial economy, according to the data collected in the last two weeks of September, 2011. NEW ORDERS, our index of business improvement, rose to +25 from +13. In a similar move, the PRODUCTION index edged up to +25 from +17. However, activity in the purchasing offices, our index of PURCHASES, backtracked to +14 from +21. The index of EMPLOYMENT remained almost unchanged, but moved up to +27 from +26. The percentage of respondents reporting staff reductions fell to 6% from 8%. Fortunately, our local statistics continue to be stronger than the rest of the country. We hope that this trend will continue.

Turning to local industry groups, the automotive parts producers are generally reporting improved business conditions, no doubt in response to the 10% improvement in auto sales for this month. The capital equipment firms are also doing better than over the past two years. The office furniture firms are still holding steady, but the recent decline in business confidence is starting to erode the prospect for future performance. For the fifth month in a row, industrial distributors came in fairly positive. In the comment section of this report, many firms are still positive, but others are speaking of an impending slowdown.

At the national level, the results remain flat, a repetition of last month. The October 3 2011 press release from the Institute for Supply Management, our parent organization, reported that NEW ORDERS remained negative at -1, but came up from the two year low of -3 reported last month. The PRODUCTION index rose to +2, up from +0. For the EMPLOYMENT index, last month's +7 improved to +6 for this month. ISM's overall index of manufacturing rose to 51.6, up from 50.6.

At the international level, the J.P. Morgan Global Manufacturing report released on October 3, 2011 continued to backtrack to a 27 month low. JPM's worldwide index of NEW ORDERS sank below the break-even point of 50.0 to 48.5, down from 49.4. JPM's overall international index declined to 49.9 from 50.2. In addition to the US, other countries that are backtracking include most of the Eurozone, Japan, and Brazil. China saw a modest uptick. The survey author is still modestly pessimistic, and notes that "...the signs point to weak growth or month-to-month declines in industrial production in the next few months."

One bright spot in this month's report is automotive sales. Chrysler led the way with a 27% gain, followed by General Motors up 20%, and Ford rising 9%. Among the foreign nameplates, Nissan was up 28% and the Hyundai group gained 14%. However, the earthquake aftermath still left Toyota down 9% and Honda lower by 8%. The automotive forecasters are now predicting that this trend should continue for at least a few more months. According to recent statistics, people are driving only about 2% less this year than last year. With the average age of the cars on the road increasing, there will be an ongoing market for new, replacement vehicles. The drop in gasoline prices is helping as well.

Industrial inflation appears to have dissipated for most products. The price of oil is down considerably from the highs of a few months ago. Copper is down 35% from earlier in the year. Aluminum is down 15% just in the past few weeks. The steel companies keep posting price increases that will be rejected. All of this would be a call for celebration if it were not for the fact that the lower prices signal a slowing of the entire world economy, which may be sliding into a recession.

With all of these conflicting statistics, where does it leave us? A recent survey of economists say that we have a one in three chance of sliding into another recession, or a double dip of the 2007-2009 recession, depending on terminology. By the statistics in our current report, the odds are probably higher than that. By the recent statistics reported in the press, many indicators are down, including those related to business and consumer confidence. However, the big problem this time is not with the United States but the rest of the world. From the J.P. Morgan report, it appears that at least some economies abroad may already be in a recession. To most global observers, the 2007-2009 recession was our doing because of the mess we created with sub-prime loans. It seems ironic that if we do slide into another recession, this time many economists will blame the Europeans. Politicians must take responsibility for starting this mess in Europe, and we pray that they can fix it.

It is again worth repeating that the accepted criteria for a recession, i.e., two continuous quarters of negative economic growth, are somewhat arbitrary. It is also worth pointing out that no two recessions are ever exactly alike. Whereas most recessions evolve as a fairly sharp downturn followed by an equally sharp recovery, it is obvious that our recent recession did not follow that recovery pattern. Indeed, many economists believe that it is the unemployment statistics in most recessions that do the most damage, both economically and personally. By these criteria, we never recovered from the 2007-2009 recession, which is the feeling among the general public.

With the relatively weak GDP reports from the first two quarters of 2011, sliding into negative growth in the third or fourth quarters is not a quantum leap. Barring a severe worsening of the European debt crisis, it appears that a GDP drift into negative territory would be relatively shallow when compared with other recessions. There is also a possibility that a slightly positive quarter could be followed by a slightly negative quarter. This means that we could see a period of stagnation which could last for a year or two. Of course, we would expect a rise in unemployment rate, and the attitudes of the consuming public, both at the industrial and retail levels, would remain negative.

Another note of caution has begun to surface regarding China. Winding its way through the senate is a bill that would punish countries like China that appear to be manipulating their currency exchange rate to their advantage. Given that the Chinese have recently allowed their currency to gradually (but slowly) rise, most pundits thought that the bill would not gain much traction. Current estimates indicate that it now costs approximately 30% more to do business in China than it did just a few years ago. Consequently, countries like India, Indonesia, and even Viet Nam are now the places of interest to importers. Unfortunately, it is still the misguided populist belief that all or most of our present problems can be traced to job losses to China. This concept is at best an oversimplification and at worst simply not true. Such thinking also ignores the fact that China has become our third best customer in the world marketplace. Bottom line: The LAST thing in the world that we need right now is to start a TRADE WAR with China. This would be like repeating the mistake of the Smoot-Hawley tariffs that helped precipitate the Great Depression.

The bright spot in all of this brings us back to the seemingly contradictory results of our local surveys, which appear to be both positive and relatively stable. Since 14% of the office furniture in the world is made in West Michigan, part of Michigan's current stability can be credited to the furniture industry which is still holding its own. However, it is the auto industry's strong showing that is keeping our local auto parts suppliers very busy. Even the industry itself seems surprised that sales have remained this strong, given the softness of other sectors and the continued restrictiveness of auto loan approvals. Hence, for the immediate future, we expect our local statistics to stay positive. We may see little or no local impact of the world economic weakness for some time.

COMMENTS FROM SURVEY PARTICIPANTS

"Looks like another solid month, less than our record last month, but to budget and growth over last year. Only 1 customer has reported a retraction in their growth forecast for third quarter. Hopefully, one event is not a trend."

"Looks like things will be stable for the next few months."

"The economy remains very fragile. The news media and market speculators are causing more harm than good to the economy. Just let manufacturing grow the economy at a slow and steady pace."

"Business looks like it is slowing down in October."

"Six months sales are running at 45% ahead of 2010. We expect the year to be 25% ahead of 2010, but we are expecting some slowdown in the last quarter. Most of what is being sold is replacements for older rolling stock. We are currently tracking miles driven, and are forecasting roughly the same activity in 2012. Operation activities are up in all location in both Europe and the US."

"Work life is '...like a box of chocolates. You never know what you are going to get.'"

"August as a calendar month was long, and resulted in our plant having the best sales month in history. We replace those sales dollar for dollar with new orders. No sign of the economy reducing the heavy truck builds in the near term. Most OEM's are increasing production schedules into the fall."

"The beginning 2011 season didn't look too promising: No money. But as we are nearing the end of our construction season, we have not been this busy since the 90's! Obviously, the stimulus or whatever you want to call it helped our organization."

"Globally there is a meltdown. Remains to be seen if it is real or perception, but perception has a way of becoming real. Crisis's of confidence are truly one of the worst global crisis one can have. On the other hand, it cools inflation and makes goods from raw materials more affordable across the world."

"Most everything is available. It seems like the supply chain is geared up for the current market."

"Plastic resins seem to have stabilized."

"We are still at record levels of sales and production. We are almost sold out of capacity through the first quarter of next year. This new level of production looks sustainable for quite some time. There's no sign of double dip recession here!"

"Forecast remains strong through the end of 2011."

"We are doing very well. Fortune 500 companies are buying capital equipment!"

"The fourth quarter appears to be flat, but we remain at the 2010 sales levels, and 2010 was a good year."

"We have come to the end of a large program, but the first and second quarter of this year were up 34% over last year! The rest of the year doesn't look bad either."

"Preparation is underway to align inventory levels to sales expectation as we begin to enter our 'Brown Season.' We are not expecting any significant improvement to the economy as we head into 2012."

"We are starting to get some really big jobs to break loose."

"We continue to take new orders. Trade skill employees are very hard to find."

"Strong orders continue through the end of the year and into 2012."

"Business is doing very well. We are back on forecast, and the Honda and Toyota production schedules back to early 2011 levels."

"We are seeing a drop in automotive build schedules. Hopefully this is just an inventory correction to the latest (lower) sales forecasts and not the beginning of another nose-dive!"

"Costs continue to rise, and need for rush deliveries has increased."

"It would help 'more' if the news media would stay out of business forecasting!"

"Sales are strong, but can the economy sustain this trend?"

	UP	SAME	DOWN	N/A	Sept. Index	Aug. Index	July Index	20 Year Average
Sales (New Orders)	44%	35%	19%	2%	+25	+13	+17	+29
Production	37%	48%	12%	4%	+25	+17	+21	+13
Employment	33%	61%	6%		+27	+26	+37	+ 8
Purchases	31%	50%	17%	2%	+14	+21	+23	+ 7
Prices Paid (major commod.)	33%	57%	6%	4%	+27	+14	+23	+35
Lead Times (from suppliers)	27%	67%	4%	2%	+23	+13	+16	+11
Purchased Materials Inv. (Raw materials & supplies)	13%	63%	19%	4%	+ 6	+10	+13	- 5
Finished Goods Inventory	12%	68%	12%	8%	+ 0	+ 2	+ 6	-10

Items in short supply: Some CRS, electronic components, castings, heavy equipment and parts for heavy, phosphor, high carbon alloy bar & heavy wall steel tube, capacities at steel mills, some grades/sizes of SBQ steels, titanium dioxide, butadiene, some resins, patience.

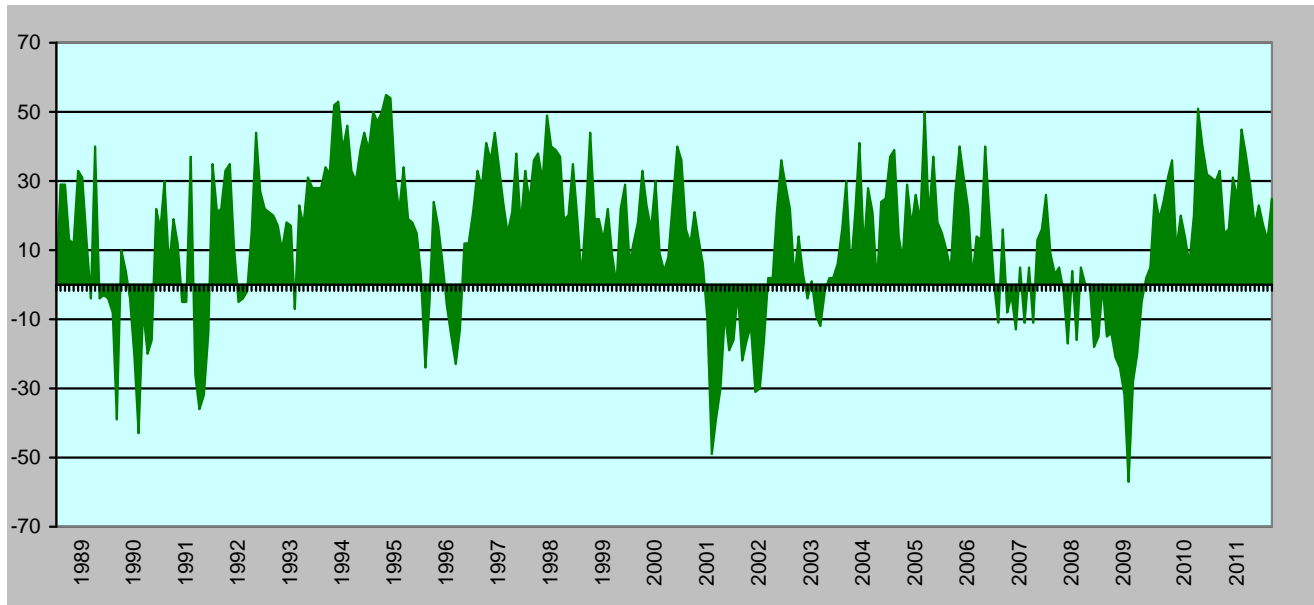
Prices on the UP side: CRS, aluminum, powder paint, hardware, nylon, rubber, brass, silicone fluid, some bearings, Teflon seals, import glass mirrors, finishing materials, carbon steel, grader blades, emulsions, bituminous, paper products, plastic pipes, molded foam, resin coated sand, paints, solvents, everything petroleum based, some stainless steel, gold, specialty resins, lighting, wood core, rare earth material (magnets), ocean freight, titanium dioxide, SEBS resin, mirrors, plywood, fuel.

Prices on the DOWN side: Some carbon steel, some stainless steel, some nickel, liquid chlorides, sand, aggregates, aluminum, zinc, copper, oil, plastics, chromium, molybdenum, PVC resin, chemicals.

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 +25 for the month of September, 2011
Previous Month +13 for the month of August, 2011
One Year Ago +33 for the month of September, 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

