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Institute for Supply Management

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CURRENT BUSINESS TRENDS

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Growth slows. That's the latest word on the Greater Grand Rapids industrial economy, according to the data collected in the last two weeks of October, 2011. NEW ORDERS, our closely watched index of business improvement, retreated to +9 from +25. In a similar move, the PRODUCTION index edged lower to +8, down from +25. Activity in the purchasing offices, our index of PURCHASES, backtracked to +6 from +14. Even the EMPLOYMENT index came in less robust at +15, down from +27. Ominously, the percentage of respondents reporting staff reductions edged up to 13% from 6%. Despite all of these slower numbers, they are all still positive. Slow growth by any measure is still better than no growth at all. Just as last month, our local statistics continue to be stronger than the rest of the country, and even the rest of the world. We hope that this trend will continue.

Turning to local industry groups, it is the automotive parts producers that are keeping our statistics positive. In October, auto sales for the industry were up by 8%, keeping several of our local Tier 1 firms at full capacity. For capital equipment industry, the results are stable, and two firms are very positive. The office furniture firms are still holding steady, but the slowdown in the world economy is starting to erode the prospect for future performance. The industrial distributors are steady, but the slowing of the local economy has caused their sales to moderate. In the comment section at the end of this report, many firms are still doing very well, but there are some new notes of caution.

At the national level, the results remain flat. The November 1, 2011 press release from the Institute for Supply Management, our parent organization, reported that NEW ORDERS eased slightly to -3 from -1, tying the two year low reported for August. The PRODUCTION index eased to +1 from +2. The EMPLOYMENT index edged up modestly to +7 from +6. ISM's overall index of manufacturing settled at 50.8, down from 51.6. Again, and index over 50.0 is considered positive.

At the international level, the J.P. Morgan Global Manufacturing report released on November 1, 2011 continued to depict stagnation. JPM's worldwide index of NEW ORDERS remained below the break-even point of 50.0, but came back to 49.5, up from 48.5. JPM's overall international index rose modestly to 50.0 from 49.8. The euro area and the UK saw the largest declines, while very modest gains were noted in China, India, Russia, and Turkey. The survey author considers the world economy to be very stagnant and still looking for direction.

Despite the modestly positive numbers in our local survey, the caution still remains that the world economy is still slowing and many countries may soon slide into a technical recession, i.e., two continuous quarters of negative economic growth. For us, the big question remains about how much we will be drawn in if the economy for most of the rest of the world turns slightly negative. In the case of the Eurozone, the most recent GDP numbers are just barely positive, and many forecasts for the fourth quarter expect the numbers to turn slightly negative. The main problem continues to be the heightened caution over the European debt situation, which has caused businesses and consumers alike to hunker down.

For automotive, October was another good month. Just as many past months, Chrysler was the leader with a 27% gain, followed by Ford at 6% and General Motors up 2%. Among the foreign nameplates, Nissan continues to outperform most of the group, and posted a 18% gain. Hyundai was up 22%, and BMW gained 17%. Honda sales were lower by 1%, and Toyota lost 8%. Both firms are now blaming the floods in Thailand for parts shortages. In general, auto sales are expected to remain positive for at least the next few months, as long as the world economic situation remains stable and the price of gasoline continues to fall.

Since our last report, we have been inundated with economic news, some good and some bad. One item on the good side was the announcement on October 27 from the Bureau of Economic Analysis that the GDP for the third quarter has been estimated to have grown at the rate of 2.5%, up nicely from the 1.3% for the second quarter. Factors driving the GDP improvement included higher consumer spending, higher levels of capital expenditures by companies, and improved exports. Although the 2.5% is just a preliminary estimate and is subject to several revisions, it has delayed the fear that we may have already sunk into another recession. Furthermore, many of the statistics that turned slightly negative last month have now flipped back to positive. One noteworthy example that created a lot of buzz is the monthly survey conducted by the Philadelphia Federal Reserve, which posted a sharp drop for September but recovered in October.

Other significant economic news came from Europe, wherein all of the financial markets gyrated with negotiations over the Greek bailout package. Although a deal was finally struck, the euphoria only lasted a day or two before it became clear that the solution was just another stopgap and not a permanent fix. As a result of cutting the value of the Greek bonds by 50%, interest rates were forced up for the other marginal Euro countries like Spain, Italy, and Portugal. Furthermore, the so-called solution assumes that all of the European economies would improve consistently over the next several years, even though the growth statistics for most of Europe are now sliding. In addition to unsupported optimism, the plan has also been criticized for too many generalities that simply don't add up to as good a solution as the proponents projected. In short, even with the so-called austerity programs that have been announced, considerable doubt remains that the budgets have really been balanced.

Then the Greek problem turned even worse. The austerity measures continued to generate demonstrations and street riots. So the prime minister decided to call for a national referendum on the austerity package agreed upon only last week. Since a majority of Greeks do not favor the package, the main creditors, namely France and Germany, have now turned understandably skeptical. Furthermore, Greece needs cash now, and the referendum vote, if it ever occurs, won't happen until January. In the mean time, the current government could collapse, requiring new elections. Adding to this commotion is the overhanging fear that Italy and Spain may have to be bailed out. Since there is not enough money to bail everyone out, the Euro itself could collapse. This would throw Europe into a recession, some of which would spread across the ocean to us. As of this writing, the situation is still changing on a daily basis. Indeed, there may be no vote at all in January for Greece. Hopefully, wiser minds will prevail.

In summary, barring an immediate collapse of the Euro, we still expect to see the current pattern of slow growth to continue in West Michigan for the next few months. If we do slide into another recession, chances are that this time we can blame it on the Europeans. As long as automobile sales remain positive, we should continue to stay modestly positive in Michigan for at least a few more months. But the fact remains that the ENTIRE western world has awakened to the fact that politicians have vastly overpromised pensions and as well as benefits to the baby boomers that are unfunded and unsustainable. Greece, the first country to run out of money, was simply the proverbial canary in the mine. Fortunately, the problem is still fixable, and the sooner we start, the better.

COMMENTS FROM SURVEY PARTICIPANTS

"This is typically a slow period for us, so the drop off in business was expected."

"We are experiencing a 20% drop off in orders for October. Hopefully it is just a blip and not a permanent correction!"

"Except for a few product lines, business has slowed down. Hopefully, this is just a short term pause."

"Our fourth quarter forecasted planning has softened. Skepticism exists that we will actually see an increase in sales. Materials may be short to fulfill sudden demands."

"We are on pace for another great month. Orders and customer confidence are still very strong. Prices are rescinding a little on carbon steel items."

"Things are holding steady, and we are looking good through the first quarter of 2012."

"The slowdown is scary. Overcapacity in industrial production is scary. At least I had time to do the survey, which I guess is a bad thing (sorry)."

"Customers still waiting on the sideline to place orders."

"We're hanging on and trying to get through next year and into 2013."

"Automotive volumes seem to continue to remain health. It should turn out to be a strong year."

"We are doing well."

"My customers have learned to do as much or more with reduced labor and equipment. The larger and more affluent companies are also going to more automation to compete."

"The energy sector business is still very strong, despite national/world trends in other markets."

"Our 2012 budget looks like 1998 all over again. Too bad the prices paid for equipment, fuels and operations don't reflect it. It will be an interesting year."

"Orders are steady, but not breaking any records."

"Business schedules have remained solid. We continue to see forecasts that are higher than the second and third quarters."

"We have one big order for \$30m and are looking to have three more by the end of the year."

"We have come to the end of a large contract, and although we are looking forward to a break, we anticipate it to be short. We have laid off some temporary workers, but are still higher in some skilled areas."

"I expect a busier holiday season than normal in automotive."

	UP	SAME	DOWN	N/A	Oct. Index	Sept. Index	Aug. Index	20 Year Average
Sales (New Orders)	31%	45%	22%	2%	+ 9	+25	+13	+29
Production	28%	48%	20%	4%	+ 8	+25	+17	+13
Employment	28%	59%	13%		+15	+27	+26	+ 8
Purchases	26%	50%	20%	4%	+ 6	+14	+21	+ 7
Prices Paid (major commod.)	15%	59%	20%	6%	- 5	+27	+14	+35
Lead Times (from suppliers)	15%	79%	4%	2%	+11	+23	+13	+11
Purchased Materials Inv. (Raw materials & supplies)	19%	52%	20%	9%	- 1	+ 6	+10	- 5
Finished Goods Inventory	15%	61%	13%	11%	+ 2	+ 0	+ 2	-10

Items in short supply: Electronic components, some hardware items, PTFE resin, rare earth materials, heavy wall tube steel, 4140/4340 alloy bar, gears, specialty details, supplier capacity, heavy equipment, some stainless steel, some copper components, some plastic and adhesives products, titanium dioxide.

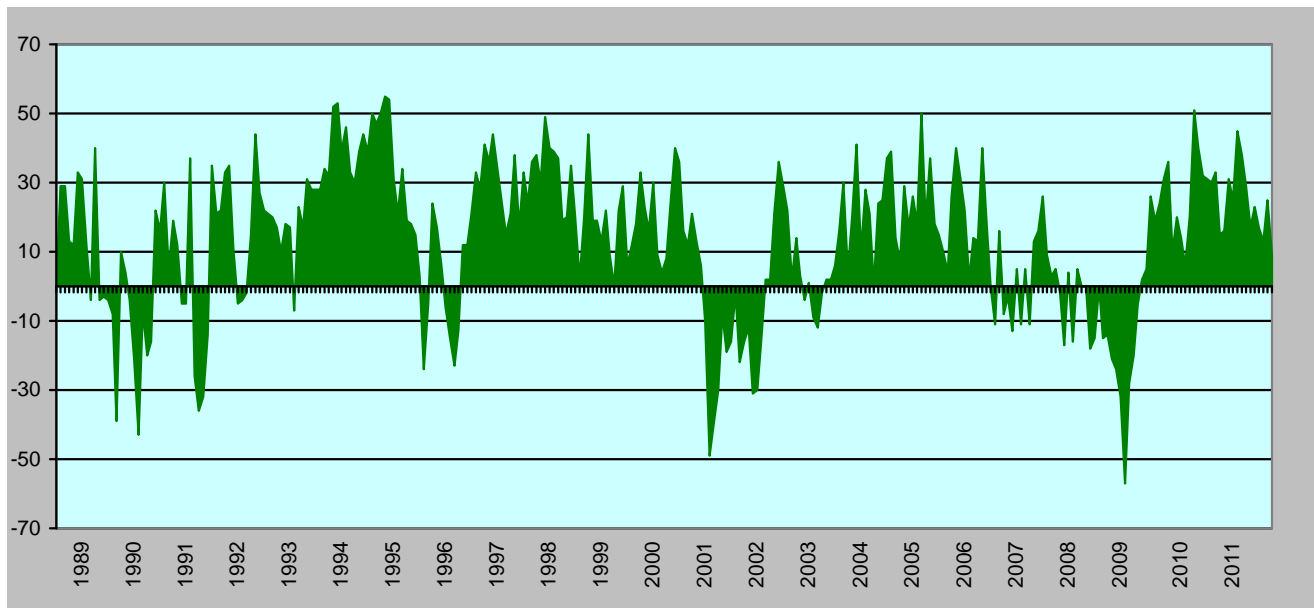
Prices on the UP side: Ferrosilicon, powder paint, electronic components, some packaging items, PTFE resin, rare earth materials, alloy b, steel tube, paint, power transmission components, chains, belts, gear reducers, electric motors, some steel, polypropylene, special polymers, Teflons, sealing material, fittings, hose, tractor trailer combinations, sand, vehicles, services, some stainless steel, copper anything, wood finish, pigment.

Prices on the DOWN side: Carbon steel, tube steel, cold rolled steel, hot rolled steel, stainless steel, steel scrap, aluminum, chemicals, paper, aluminum, copper, nickel, machined parts, fuel, fuel surcharges, brass, chlorides, polypropylene resin, fabric, PVC resin, plasticizer.

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 +9 for the month of October, 2011
Previous Month +25 for the month of September, 2011
One Year Ago +15 for the month of October, 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

