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## **News Release (For Immediate Release)**

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# **Current Business Trends**

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## **GR Manufacturing economy ends 2011 on a positive note**

Still modestly positive. That's the latest word on the Greater Grand Rapids industrial economy, according to the data collected in the last two weeks of December, 2011. NEW ORDERS, our closely watched index of business improvement, advanced to +18, up from +13. In a similar move, the PRODUCTION index rose to +12, up from +7. The EMPLOYMENT remained positive, but retreated to +19 from +24. The percentage of respondents reporting staff increases remained at 30%. Since December is often a slower month, all of these numbers continue to be consistent with the slow growth we have been experiencing since our local statistics turned positive in May of 2009.

Turning as we always do to local industry groups, the December reports are always somewhat skewed because of the holiday season. Some auto parts suppliers took two weeks of downtime, but most only took a few days because of strong demand. Just as last month, our industrial distributors were strong. The office furniture firms are still holding on to recent gains, but the strong upward momentum has stopped. The mood of the respondents remains one of cautious optimism.

At the national level, the results are very modestly improved. The January 3, 2012 press release from the Institute for Supply Management, our parent organization, reported that NEW ORDERS edged up to +2 from +1. The PRODUCTION index rose very modestly to +8 from +3. Even the EMPLOYMENT index came in at +4, up from +1. All of this resulted in ISM's overall manufacturing index of manufacturing rising to 53.9, up from 52.7. Hence, we are entering 2012 on a sound footing.

At the international level, the J.P. Morgan Global Manufacturing report released on January 3, 2012 reported that the downward trend of the past few months has reversed itself. Since the break-even point for all of their indexes is 50.0, JPM's worldwide index of NEW ORDER flipped back to positive at 50.1, up from 48.8. After incrementally sliding for five months, the PRODUCTION index rose to 52.1, up from 49.7. JPM's overall international index edged up to 50.8 from 49.7. As we always caution, one month is not a trend. However, these statistics are the first that we have seen to indicate that the slowing of the world economy may not turn out to be as pronounced as previously expected.

As we always do at this time of year, it is time to look ahead to factors that will define the 2012 economy:

**Automotive.** The positive trend in auto sales should continue well into the 2012. It is now over four years since our latest round of economic troubles began, and most auto customers have paid down their auto debt considerably. Since the total miles driven have fallen very slightly in the past four years, the pent-up demand should propel auto sales for most of 2012. We are now well past the bankruptcies of the automakers, and the major firms have again turned very profitable. All of this is especially good news for our local auto parts producers. Continued positive auto sales will drive the Michigan economy forward, resulting in lower unemployment.

**Industrial Inflation.** The middle of 2011 was plagued by another round of speculation for many key commodities like copper, aluminum, zinc, lead, and nickel. As the world economy slowed beginning in mid-summer, prices for most commodities began to return to reasonable levels. Except for steel, the European recession and the slowing of economic activity in China should keep demand low enough to keep a lid on prices for most of 2012. However, in the steel industry, the limited number of producers now exhibit almost monopoly-like power over the market. With the ability to shut down mills to keep supplies tight, steel prices may edge up during the first half of 2012. For the second half of 2012, the prices for many industrial commodities will depend on the Chinese economy, since China is now the major user of almost every major industrial commodity in the world.

**Consumer Inflation.** With the slowing of the world economy, the prices for most manufactured products should remain stable. However, food prices many continue to rise, given the rising cost of agricultural production as well as the rising cost of production and distribution. Consumer services of all types will also continue to rise, primarily because of shortages of skilled labor in many fields. If the world economy continues to slow, gasoline prices should remain in a trading range between \$3.00 and \$3.50, depending on the influence of world news events.

**Interest Rates.** The European debt crisis will cause world investors to favor holding dollars rather than Euros. Hence, domestic interest rates should remain low for most of the year. With the threat of inflation not appearing to be a significant problem to the Federal Reserve, it is unlikely that we will see any credit tightening for most of 2012. This will allow the Treasury Department to continue to borrow trillions of dollars with little *short term* consequence.

**Real Estate.** According to the latest Case-Shiller report, home prices are still falling at the national level. Locally, there is credible evidence that prices may have bottomed out. The market is increasingly fragmented, and some neighborhoods may even see some MODEST improvement. However, in neighborhoods where there are still more bankruptcies and foreclosures for the foreseeable future, prices will continue to be under pressure. Mortgage rates should remain near record lows for the first half of the year, but lending standards will remain tight. Overall, West Michigan is still better off than the rest of the state and new home construction should improve modestly. Unfortunately, the prices for many types of building materials did not come down with the recession, so the high cost for building materials will inhibit growth. In all probability, much of the new construction will center on multi-family housing. Apartment rental rates will probably continue to climb. On the balance, we may be defining a new norm, which will be very different than the market we saw in the 2001-2005 housing boom.

**Unemployment.** The national unemployment rate should continue to edge lower, but will still end the year in the 8.0%-8.5% range. Unemployment in Michigan will probably drop faster than the national rate if the automotive industry continues to improve.

**Overall Economy.** If it were not for Europe, we could have easily hoped that the U.S. recovery would begin to pick up significant steam in 2012. With the upticks we have seen in recent statistics, it could have been our best year since the recovery began. However, we now live in a world economy and with the European economy either slowing or sliding into a recession, our growth will be moderated. The Chinese economy could also be a wild card. Hence, 2012 will most probably be another year of continued modest GDP growth in the range of 3%. The stock market will continue to be plagued by daily events as the Europeans continue "kicking the can down the road" in search of a long term debt solution. This situation is politically volatile. We have to hope that no one stumbles. If we reach the end of the year with no European debt solution, the markets will not respond favorably. When kicking the can down the road, everyone sooner or later runs out of road. A collapse of the euro would be more than the recent strength of our economy could offset and we would probably slide into a recession. Europe, on the other hand, would be in *total* disarray.

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## COMMENTS FROM SURVEY PARTICIPANTS

"Merry Christmas!"

"The inquiry level has really increased, but getting customers to move on capital equipment purchases is still difficult and drawn out."

"Orders continue to come in. We have already booked more than our 2012 forecast."

"2011 is finishing as a good year for us, and 2012 is shaping up nicely. Hopefully, the world economic situation and our political 'do nothing policies' will not cause the slight grow to fall back into a recession."

"We have heard that hard drives and fans for computers will be in short supply because of flooding in Thailand, but have not had shortages affect us yet."

"We're still doing well. We have been doing our part to hire new staff."

"Steel fabrication for the energy sector (coal mining equipment) remains very strong for the near and long term."

"Our plant will be closed from 12/23/11 until 1/03/12."

"Sales are starting to slow down as we get near the end of the year. This is typical for our business. Hopefully, as our customers receive their new budgets for 2012, sales will rebound in January."

"We're seeing a typical holiday/end of year slow down. 2012 should start with a good surge of orders. Hopefully it will continue."

"It is typically slow now. We have had lots of quoting activity."

"We are busier than normal at this time of year, however...."

"I have nothing good to report this month. Who knows? We may not be in existence after the first of the year!"

"We had a solid 2011. 2012 may be soft in the first and second quarters, but we foresee no major setbacks."

"It has been a great year, and we are looking forward to an even better 2012."

"We're had another great month. Orders look solid for the first quarter as well."

"The end-of-year price increase letters are starting to arrive for 2012. I am not convinced that they all make sense."

"Auto demand continues to be good."

"We have no prolonged holiday shut down on the horizon. Instead, we have four days off versus the usual two weeks."

"Creating a lot of forward buys to find cost savings prior to the annual manufacturer's price increases, therefore receiving and inventory are up slightly. Sales remain strong up until the end of December, and are much stronger than anticipated. More capital purchasing is planned as well. We have a generally optimistic outlook on the future. Forecasted sales are up 7% in 2012 over 2011."

"We're starting to see some ramp up on new orders. We hope it continues into the New Year."

"Lead times on some items are getting longer."

"Capacity issues are pretty common in the supply chain, giving suppliers an opportunity to demand price increases. If the auto and truck business continues to expand, these constraints and price increases will get worse."

"December a little slow because of holidays but looking strong coming back in January!!"

"2012 is a bit of a question mark."

"Carbon Steel pricing is moving up. I'm not confident there is enough demand to allow the pricing to keep moving upward."

"Annual price increases from most manufacturers of finished goods are going up approx 4%-5%."

"Everyone is going for price increase on the first of the year."

	UP	SAME	DOWN	N/A	Dec. Index	Nov. Index	Oct. Index	20 Year Average
Sales (New Orders)	36%	44%	18%	2%	+18	+13	+ 9	+29
Production	30%	46%	18%	6%	+12	+ 7	+ 8	+13
Employment	30%	59%	11%		+19	+24	+15	+ 8
Purchases	29%	53%	18%		+11	+11	+ 6	+ 7
Prices Paid (major commod.)	23%	64%	9%	4%	+14	+13	- 5	+35
Lead Times (from suppliers)	27%	67%	4%	2%	+23	+ 9	+11	+11
Purchased Materials Inv. (Raw materials & supplies)	25%	52%	16%	7%	+ 9	+ 7	- 1	- 5
Finished Goods Inventory	18%	59%	12%	11%	+ 6	+ 8	+ 2	-10

**Items in short supply:** Gears, castings, electrical components, some fasteners, lights, transmission filters, roadway posts, specialized heavy equipment tools, motor graders, forging steel, PTFE, import sprockets, shock absorbers, MRO gift items, Thompson linear rail, patience.

**Prices on the UP side:** Steel tubing, bulk oxygen, scrap steel, cold rolled steel, hot rolled steel (P&O), carbon steel, custom resin, industrial gases, stainless steel, aluminum sheets, powder paint, freight, electrical components, aluminum extrusions, motor graders, paper products, metal culverts, pavement marking paint, sand, gravel, vehicles, rare earth metals, base prices on steel (surcharges used for additives), hot forgings, plastics, polypropylene, foundry coke.

**Prices on the DOWN side:** Aluminum,\* stainless steel,\* cold rolled steel,\* copper wire,\* corrugated, carbon steel,\* polypro resin,\* copper,\* nickel,\* carbon steel (import)\* resin,\* steel,\* steel surcharges, PVC resin, SEBS resin, PET resin.

\*Note: All items marked with an asterisk are reported as BOTH **up** AND **down** by different survey participants.

## 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.

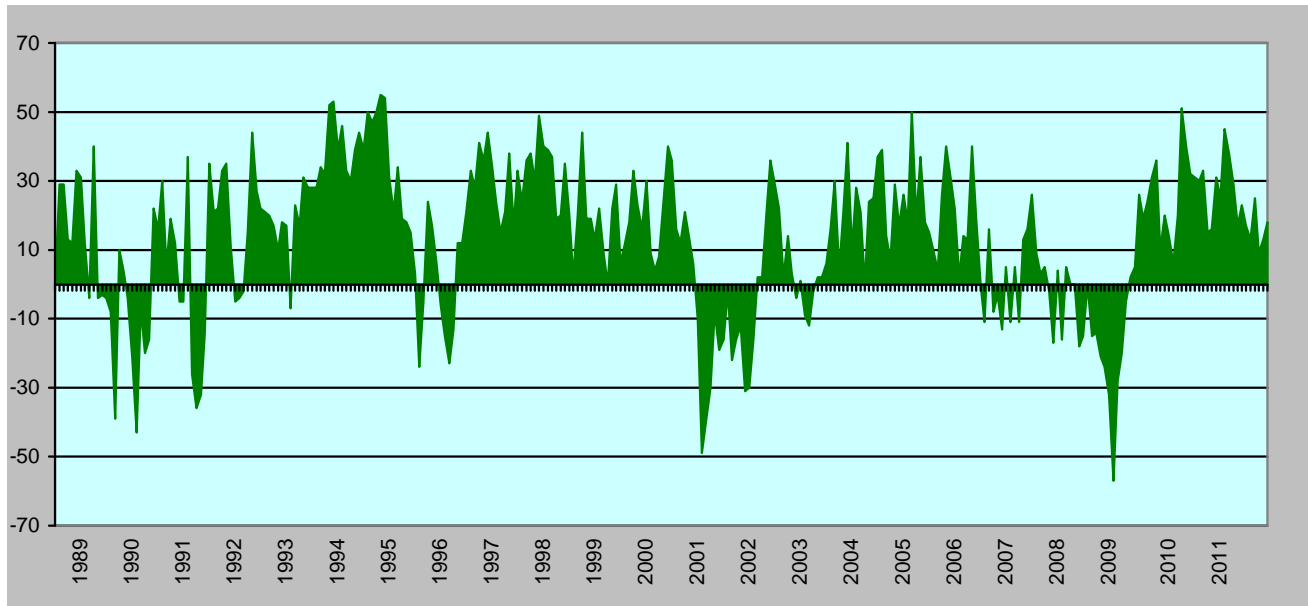
Latest Report +18 for the month of December, 2011

Previous Month +13 for the month of November, 2011

One Year Ago +31 for the month of December, 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

