



Institute for Supply Management,
Greater Grand Rapids, Inc.
P. O. Box 230621
Grand Rapids, MI 49523-0321

News Release (For Immediate Release)

March 5, 2012

Current Business Trends

By Brian G. Long, Ph.D., C.P.M.
Director, Supply Chain Management Research
Grand Valley State University

GR manufacturing economy picks up the pace-- a little.

Modestly positive. Although it sounds very redundant, the February 2012 data follows the same pattern we have been reporting since the recovery began almost three years ago. NEW ORDERS, our closely watched index of business improvement, edged up to +16 from +9. In a similar move, the PRODUCTION index rose to +12 from +7. However, 37% of this month's respondents added staff, but 14% reduced headcount. This resulted in our EMPLOYMENT index backtracking to +13 from +26. As the chart at the end of this report indicates, this modest recovery remains in a ten-month narrow statistical range, which corresponds with the 35 positive reports we have filed since our local survey first turned positive in April of 2009. Growth is growth, but the slow pace has been frustrating.

A look at local industry groups provides another dimension. There has been little doubt that our automotive parts producers have buoyed local survey results since the 2009 "cash for clunkers" program, and February confirmed the trend. With a few exceptions, the office furniture business is still flat or even slow for specific furniture types. The capital goods firms turned mixed in February, although the bias was still to the up side. It was good to see industrial distributors pick up the pace in February. A few negative comments at the end of this report are more than offset by numerous optimistic comments. Global uncertainties certainly justify business worries about the future.

At the national level, the results continue to improve. The February 1, 2012 press release from the Institute for Supply Management, our parent organization, reported that NEW ORDERS edged up to +19 from +15. In a stronger performance, the PRODUCTION index bounced to +20 from +7, one of the best gains we have seen since last April. Good news also came from the EMPLOYMENT index, which rose to +10 from +5. The only real contrary statistic comes from ISM's composite index of manufacturing, which edged -1.7 lower to 52.4 because of seasonal adjustments. Any reading over 50.0 is generally considered positive, so the upward trend should resume next month. Overall, the national industrial economy continues to strengthen, and the pace picked up slightly in February.

Much of the world economic uncertainty is still coming from the Greek debt situation. Whereas the short term problem over refinancing the €14.4 billion bond issue (coming due on March 20) seems to have been resolved,

very few European economists outside of Greece believe that the Greeks have arrived at a long term solution. Overly optimistic estimates for future GDP play a role in this pessimism. With most of Europe now sliding into what appears to be a shallow recession, the already weakened Greek economy is apt to fare worse than most other countries in the Eurozone. A second factor is capital outflow. Greek citizens have discovered that Eurodollar balances can be transferred with a phone call. Because of the weak Greek economy and continued economic unrest, money and capital are flowing *out* of the country, and almost no money is coming back in. This imbalance will weigh heavily on the economic recovery. In fact, there will be no recovery unless this trend stops. Finally, the general population of Greece still seems unwilling or unable to confront the public sector employees in a meaningful way. Governmental cutbacks have been minimal, and yet they try to tax the private sector more to make up the difference. Unlike fifteen years ago when Greece shipped industrial products like castings and forgings all over the world, 60% higher labor costs and higher taxes have reduce exports to a mere 2% of GDP. One local survey respondent who purchases forgings from Greece has no plans to ever do business there again.

Is Europe now in a shallow recession? The evidence points in that direction, but we are not sure. The formal definition of a recession is two consecutive quarters of negative economic growth. Hence, an actual recession can only be declared after the numbers are calculated after the fact. Either way, the European economy shows definite signs of a slowdown phase, largely brought on by the Euro debt situation. Clearly, our exports to Europe have been hurt by the downturn, but so far not enough to drag our economy negative. Some of the European pundits are now claiming the worst is over, meaning the world economy MAY have dodged another bullet. It will take a few months until we know for sure.

Back in the U.S., other economic news includes an upward revision of the 2011 fourth quarter GDP to 3.0%. This is a good number, and current projects indicate that the first quarter of 2012 should be equally strong. In fact, some estimates predict a number as high as 3.6%. All of this correlates with the current reports of statistics that depict a gradual increase in the recovery pace.

Turning to auto sales, it was another good month. Partially because of a mild winter, the SAAR statistic

(Seasonally Adjusted Annual Rate) rose to a three-year record of 15.1 million units for February. For the Detroit Three, Chrysler led the way with a 40% gain. Ford came in at a respectable 14% gain, but GM could only claim a 1% advance. Transplants such as Honda rose 16%, Toyota 12%, Hyundai 26%, and Nissan 16%. Industry wide, sales were up 16%. All of this is good news for the Michigan auto industry. Although the industry outlook still looks encouraging, it is doubtful that this record upward pace will continue for many more months. Sales will eventually hit a saturation point, and we will settle into a stable growth rate. At this level, our auto companies will remain very profitable and our local parts suppliers should benefit.

Industrial inflation, for the most part, remains in check. Without the monopoly power of some major steel producers, the softer markets around the world should have resulted in prices falling. At best, steel prices have moderated. Some commodities like copper are becoming speculative reserves, resulting in stable prices when they should be falling as demand declines. Our indexes of PRICES for both of our local surveys remain in the low 20's, and ISM's national PRICES index

edged up in February to +23 from +11. Our biggest inflation risk comes from a declining dollar. It's a complicated prognosis, but if the Europeans get their house in order, the Euro will rally, the dollar will decline, and industrial inflation for many commodities will rise because more dollars will be needed to buy the same quantity of goods.

This brings us to the inevitable question: Where do we go from here? Aside from Iran, Syria, Egypt, and North Korea, our biggest economic obstacle remains Europe. Right now, it appears that the Europeans debt managers have kicked the proverbial can down the road far enough to create some limited optimism that the worst may be over. Of course, it isn't "over," but at least enough confidence has been regained to stop the slide. Our domestic numbers have continued to improve, and the upward economic momentum appears to be positive well into the summer months. However, we remain vulnerable to another stumbling block in the European debt crisis. We know other stumbling blocks are out there, but we don't know how big they are. Furthermore, as previously noted, Michigan's auto recovery will begin to show signs of topping out in a few months, albeit at a fairly solid level. At that time, the wave of hiring we have seen from the auto firms and the auto parts producers will taper off, and we will need to start depending on more industrial diversification for future employment growth.

COMMENTS FROM SURVEY PARTICIPANTS

"In general, we have lots of upward pressure on pricing. There is reluctance on the part of most suppliers to increase capacity -- at least in automotive supply chain."

"Economy feels like it's getting a little soft again."

"Finally. My business has picked up!"

"The winter has been kind to our budget - we will have to see what will be left over for construction season."

"Order from some of the new products are going well."

"I will be glad when the election is over."

"Business looked like it was pulling back at the start of February, but we have received additional orders for the month putting us back to 100%."

"Business steady. We've seen a slight softening in sales, especially for defense. The energy sector still going strong."

"Business looks slow for February and March."

"First of the year price increases are hard to contain. Most industrial goods slightly up in price. Rare earth magnets doubled in price!"

"Announcements/pricing letters are out on some of our plastics. We will be seeing increases in prices on our PET and HIPS roll stock on March 1."

"January sales closed higher than last year for same period, but came in about 4% below the forecast for the month."

"After seeing a seasonal drop off, we are seeing our demands increase and are hopeful they will continue. The impact of the European markets will play a big part in whether the strong business trend continues."

"Automotive seems to be fairly strong for now. There are still plenty of financial concerns around the world. We need to ignore the day to day ups and downs in the stock market and focus on long term solutions and economic improvement."

"Looks like a flat to down year for 2012."

"We've had a slow start for Q1. If marketing does not have control of the channel, it sure is felt in real dollars."

"Sales are holding strong and still exceeding last year and budget."

"We are doing an alignment of inventory to seasonal expectation. 2012 growth is expected over 2011."

"We are still doing quite well. We have been hiring across the board for the past six months. We expect sales to continue strong through 2012. New marketing strategies are paying dividends."

"After a relatively slow start to the year, it seems that business is picking up."

"The price of steel has gone up but the increase seems to be slowing. We have been able to avoid most of this rise because of some locked in agreements from Q4."

"All our suppliers are busy, as are we. It's a good/bad problem to have."

"Business is good and steady. Oil/fuel is a concern."

"Steady she goes thus far in 2012!"

"Sales are up over last year and over prior month. Let's hope this trend continues!!"

"Overall prices of raw materials are up."

	UP	SAME	DOWN	N/A	Feb. Index	Jan. Index	Dec. Index	20 Year Average
Sales (New Orders)	42%	30%	26%	2%	+16	+ 9	+18	+29
Production	35%	37%	23%	5%	+12	+ 7	+12	+13
Employment	37%	49%	14%		+13	+26	+19	+ 8
Purchases	35%	46%	19%		+ 6	+13	+11	+ 7
Prices Paid (major commod.)	32%	54%	12%	2%	+20	+30	+14	+35
Lead Times (from suppliers)	23%	72%	5%		+18	+17	+23	+11
Purchased Materials Inv. (Raw materials & supplies)	26%	50%	19%	5%	+ 7	+ 2	+ 9	- 5
Finished Goods Inventory	23%	53%	16%	9%	+ 7	+ 4	+ 6	-10

Items in short supply: Computer hard drives, ductile iron, motor graders, construction equipment, specialized paper products, grader blades, bushings, electronic components, butadiene, linear rail, general bushings, TiO2.

Prices on the UP side: Electric motors, copper wire, ductile iron, rare earth elements, North American machining, aluminum, construction equipment, emulsions, blades, corrugated metal, slag and aggregate, steel parts, parts from China, nylon, polypropylene films, aluminum, bulk oxygen, steel, stainless steel, cold rolled steel, hot rolled steel (P&O), powder paint, electronic components, PVC, HDPE & PP, FX, rare earth magnets, brass, paper, chemicals, fuel, SEBS resin, plasticizer.

Prices on the DOWN side: Steel*, scrap steel, scrap stainless steel, fuel*, some plastic*, textiles, computers, packaging, resins*, ESO.

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

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 +16 for the month of February, 2012

Previous Month + 9 for the month of January, 2012

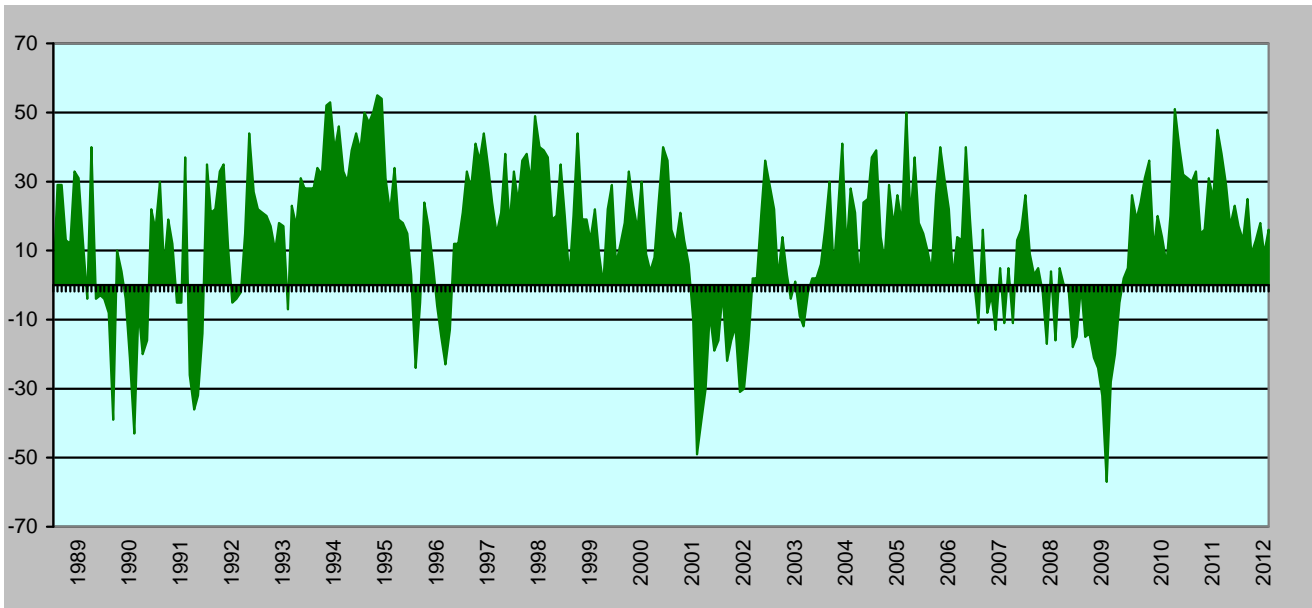
One Year Ago +45 for the month of February, 2011

Record Low -57 for the month of December, 2008

Record High +55 for the month of September, 1994

First Recovery +3 for April, 2009 and forward

Index of New Orders 1988 - 2012



Index of New Orders: 2005-2012

