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

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Current Business Trends

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

GR Manufacturing Picks up Slightly

Modestly stronger. That's the latest word on the industrial economy in the Greater Grand Rapids area. For the month ended April 30, NEW ORDERS our index of business improvement, edged up to +24 from +15. In a similar move, the PRODUCTION index advanced to +25 from +13. The EMPLOYMENT index held its own, rising to +20 from +15. Employers continue to complain about the lack of skilled workers to hire. Overall, the current statistics are consistent with the narrow range that we have seen for the last year or so. After three years into recovery, everyone is still frustrated with the slow rate of growth, even though growth of any kind is still appreciated.

Looking at local industry groups, most of our auto parts producers are still at full capacity. Unfortunately, many of them are unable to grow and contribute more to the local economy. Regrettably, sales for the office furniture business for most firms continue to soften. For capital equipment firms, the April bias was clearly to the up side. Just like March, most of the industrial distributors had another good month. The comments at the end of this report continue to be optimistic, with a couple of exceptions.

At the national level, the statistics picked up a little momentum. The May 1, 2012 press release from the Institute for Supply Management, our parent organization, reported NEW ORDERS rising significantly to +30 from +21. The PROUCTION index was even stronger, rising to +35 from +21. The EMPLOYMENT index came in at +22, up from +13, which is the best reading we have seen in nearly a year. All of these good statistics resulted in ISM's composite index of manufacturing rising to 54.8, up from 53.4. In short, if it were not for the softness in Europe and other pockets of the world economy, we would probably be seeing some much stronger growth in the United States at this time.

The J. P. Morgan Global Manufacturing report for the month of April released May 2, 2012 posted another modest uptick at the international level. JPM's worldwide index of NEW ORDERS for April came in at 51.8, up from 51.4. The JPM Global PMI for April also rose modestly to 51.4 from 51.1. Any index number greater than 50.0 is generally considered positive. However, within the survey, the Eurozone PMI posted its lowest reading in three years, led downward by Germany, France, Italy, the Netherlands, and Greece. In addition, the UK and Spain officially slid into a state of recession. By contrast, all the BRIC countries except China were positive, along with the US and Canada.

In recent days, we have received a few disappointing numbers from government reporting agencies. First, the initial reading on GDP for the first quarter of 2012 came in at a rather tepid 2.3%, down from the 3.0% growth rate in the last quarter of 2011. One factor sighted for the mediocre performance was the unexpected rise in gas prices. A second factor relates to slower business spending, especially for capital equipment. Businesses are reluctant to commit too much money until the economic picture for the next couple of years becomes clearer. Another factor is the continued shortage of trained equipment operators. One executive was quoted as saying, "I would buy another piece of equipment, but I'm having trouble finding trained people to run the equipment already I have."

No matter what our GDP looks like, it is still primarily the unemployment numbers that have resulted in the weakest recovery we have seen since the Great Depression. In the most recent report, the national unemployment rate fell to a seasonally adjusted 8.1%, down from 8.2%. Unfortunately, the decline was primarily the result of 342,000 dropping out of the workforce. Only 115,000 new jobs were added. The percentage of people age 16-64 now working or looking for work fell to a 30 year low of 63.6%, down considerable from the 67.3% workforce of January 2000.

In general, our tepid economic recovery would be much stronger right now if it were not for Europe. Numerous European countries have officially fallen back into a recession. This has resulted in the political situation getting worse, not better. Since various austerity programs did not result in short-term fulfillment, numerous political factions in many of the countries are now calling for massive Keynesian government spending programs. The problem is, of course, that almost all of the money would have to be borrowed, and the world monetary reserves are already strained. Just raising taxes to balance their budgets won't provide nearly enough revenue. The French have dreamed up a new bailout package for the euro that calls for the Germans to pay for the French, Greek, Italian, and other European sovereign deficits. This idea is going over like the proverbial lead zeppelin on the German political scene, and could end up toppling Angie Merkel's coalition government, thus adding further uncertainty to the region. The unemployment rate for the eurozone, which was formed when the currencies merged in 1999, has risen to a record 10.9%. Of course, unemployment in Greece is very high at 19.7% and in Portugal at 14.0%. The highest rate belongs to Spain, at 24.1%. An alarming 51.1 percent of the Spanish workers under 25 are unemployed. In short, the political situation in Europe could get increasingly volatile as the summer progresses.

Auto sales for the month were a little disappointing. Although some of the problem can be attributed to fewer selling days than a year ago, the numbers were still below estimates. For the sixth month in a row, Chrysler led the industry with a 20% sales boost, and Toyota followed with a 12% gain. All the other majors were at zero or down. GM lost 8%, Ford eased by 5%, Honda was down by 2%, and Nissan came in at zero. Some analysts attribute the disappointing results to many dealers carrying unusually low inventories, as well as a shift in preference from light trucks to fuel-efficient cars, especially the smaller models. As long as production schedules continue to hold up, Michigan's auto parts producers will do fine. However, it now seems obvious that we cannot depend on continued growth in the auto industry to propel our economy beyond the levels we have already attained. It is worth repeating the caution that auto sales may top out this summer somewhere near the present levels. Despite the higher prices we have seen for gas, the overall number of miles we are driving remains stable. We will soon work through the so-called pent up demand, and realize the cars we buy today simply last longer than those made only a few years ago. With thousands of odometers now over 300,000 miles, we simply don't need to buy as many cars as we used to. Hence, projections that the SAARS rate will soon go to 16 million vehicles are overly optimistic.

With all of this gloom and doom, at least some of the news is positive. After worrying about the possibility of $5 gasoline a few weeks ago, prices have started to fall. For most Michigan counties, the unemployment rate on the west side of the state is well below the national average. Many firms are still hiring, although the pace has slowed in recent months. Unlike our European brethren, the state and national economies are still modestly positive, and will probably continue on the same path UNLESS there is a major political/fiscal crisis that severely threatens the euro. Because of all of the European political parties and all politicians and all of the egos, the final outcome of the European fiscal crisis is almost impossible to predict. Hence, here at home, we are stuck with the same slow growth we have been experiencing since this recovery began over three years ago. But growth is still growth, and it certainly beats the alternative.

COMMENTS FROM SURVEY PARTICIPANTS

"We are still at 100% capacity. Orders continue to look strong through June."

"Another great month. Our customers holding steady."

"We still think too much uncertainty that the last half of the year will lead to softer industrial business conditions. It is already showing that the durable goods business is slowing."

"Business is good, but somewhat flat at the moment."

"We hear that orders are coming, but haven't seen them yet."

"We're gearing up for increases for next fall."

"We are busy. Life is a lot better!"

"I'm looking forward to November when the election will be complete."

"Lead times are going out and prices going up. Just getting people to quote is hard today."

"The economy still seems to be very fragile with all of the Euro concerns as well as other world pressures."

"Business seems to be picking up again."

"Business is slowly trending down."

"We're extremely busy. The summer 'busy season' is off to an early start this year."

"We had a strong first quarter. The second quarter is starting out the same. Can it continue?"

"Sales have softened some, but we're still looking for a strong year."

"I am starting to see steel prices soften a little bit."

"It looks like this summer is going to be extremely busy."

"We're steadily continuing good sales trend."

"Steady sailing."

"Steady as she goes on our end."

"Business is picking up, however, some of our largest customers are still a little bit slow. Overall, we are slightly ahead of last year's pace, so things are pretty good."

"Our agency is busy. The State has extra money to spend, so we are doing extra work for them."

"Steel pricing has come back down a little, but there are more announcements that pricing is going to go higher. I don't see enough worldwide demand to justify higher pricing."

"Business is good, and we are adding a new paint system. Let's hope the economy continues at modest growth."

"We're seeing all sorts of increases for poly foam and plastics (HDPE & PP)."

"The shortage of plastic coatings using PA 12/Nylon-12 may affect the auto and commercial truck industry due to 50% of global production being disrupted for next 6-8 months."

April, 2012 Survey Statistics

	UP	SAME	DOWN	N/A	Apr. Index	Mar. Index	Feb. Index	20 Year Average
Sales (New Orders)	42%	38%	18%	2%	+24	+15	+16	+29
Production	38%	45%	13%	4%	+25	+13	+12	+13
Employment	27%	66%	7%		+20	+15	+13	+ 8
Purchases	35%	49%	16%		+19	+14	+06	+ 7
Prices Paid (major commod.)	24%	67%	5%	4%	+19	+29	+20	+35
Lead Times (from suppliers)	18%	73%	7%	2%	+11	+ 2	+18	+11
Purchased Materials Inv. (Raw materials & supplies)	27%	51%	18%	4%	+ 9	+ 9	+ 7	- 5
Finished Goods Inventory	16%	62%	13%	9%	+ 3	+ 2	+ 7	-10

Items in short supply: TiO2, some CRS, carbon steel, PVC resin, electronic components, heavy construction equipment, large trucks, some resins and chemicals, plastics coatings using PA 12/Nylon 12, timely information from suppliers.

Prices on the UP side: Fuel, paint, oil based products, TiO2, carbon black, gasoline, plastics, poly foam, plastics (HDPE & PP), carbon steel, welding wire, industrial gases, copper wire, steel products, poplar, coatings, ocean freight, rare earth metals, polypropylene, process aids, powder paint, aggregate, trucking, emulsion, asphalt, freight, melamine, TPU, fuel surcharges, stainless steel, components with Teflon, forgings and castings, engineered friction material.

Prices on the DOWN side: Scrap steel, copper, electronics, value-added outside processes, aluminum, electronic components, magnets.

Latest Unemployment Reports

(not seasonally adjusted)

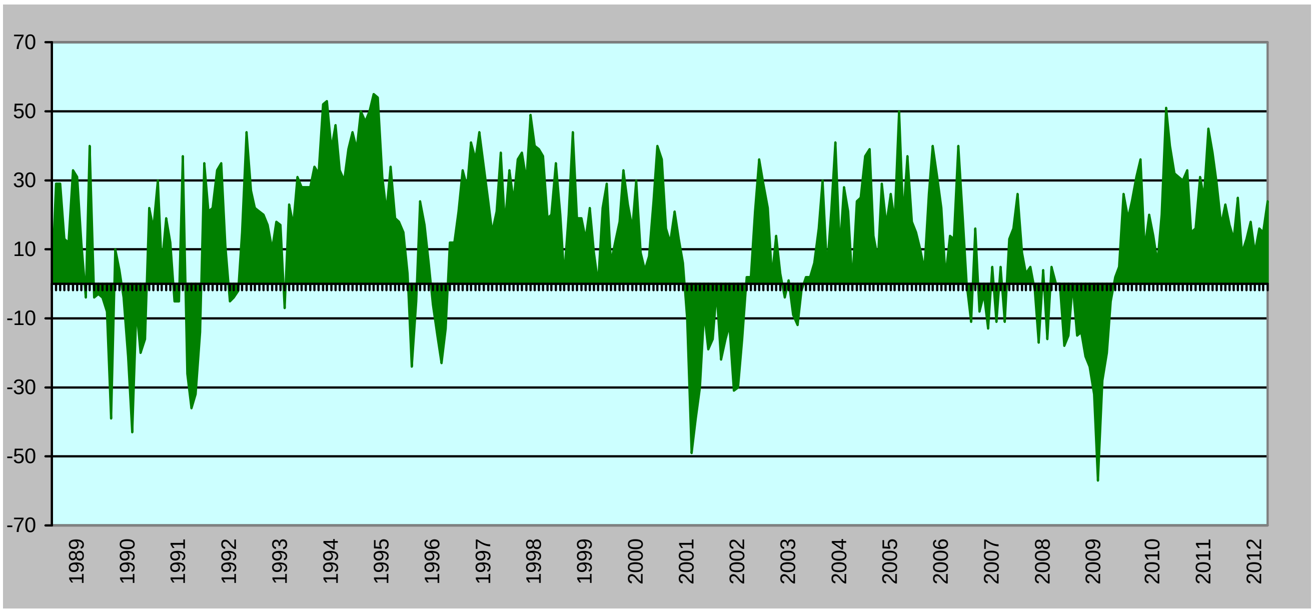
	March 2012	March 2009
State of Michigan	9.0%	13.3%
Kent County	6.9%	10.6%
Kalamazoo County	7.0%	9.4%
Ottawa County	7.1%	12.6%
Barry County	6.7%	10.3%
Kalamazoo SMAS	7.8%	10.3%
Grand Rapids SMSA	7.2%	11.1%
Holland-Grand Haven SMSA	7.1%	12.6%
U.S. National Rate	8.4%	9.0%

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	+24 for the month of April, 2012
Previous Month	+15 for the month of March, 2012
One Year Ago	+26 for the month of April, 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 Only