

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

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# **Current Business Trends**

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## **GR Manufacturing Slows More**

Still growing, but slowing. That's how the industrial economy looks in the Greater Grand Rapids area, according to the data collected in the month ending June 30, 2012. Our index of business improvement, which we call NEW ORDERS, remained positive at +9, but was lower than last month's +20. The PRODUCTION index remained virtually unchanged at +6, up from +5. Because of seasonal hiring, the EMPLOYMENT index rose to +25, up from +12. In June, 32% of the respondents reported staff additions. Activity in the purchasing offices, our index of PURCHASES, remained unchanged at +11. Overall, our current statistics are still positive, but less robust than what we would like to see. Even though the local economy is still growing, the future is starting to look far less certain than it did a few months ago.

Looking at local industrial groups, it is apparent that our numbers would now be negative if it were not for automotive. Strong auto sales are still keeping the assembly line humming and our local automotive parts producers are at high levels of output. So far, the production schedules for most of the North American auto firms are positive. A mood of caution throughout corporate America has resulted in the office furniture business continuing to soften. For the industrial distributors, business conditions tapered off from previous months, although part of the effect may be seasonal. The positive performance by the automotive firms continues to keep the capital equipment firms stable, at least for now. Comments by the individual firms at the end of this report are not nearly as positive as they have been in recent months, and caution is becoming much more commonplace.

At the national level, the results are more ominous. The July 1, 2012 press release from the Institute for Supply Management, our parent organization, saw the index of NEW ORDERS go from +23 to +1. Although the +1 reading is still positive, the monthly point loss is the greatest we have seen in over three years. Among other statistics in the report, inventories, new export orders, and production all raised concern about the direction of the economy. ISM's overall index fell from 53.5 to 49.7. Since any reading below 50.0 is considered negative, the June report constitutes the first negative report since July of 2009.

The June report for the international economy is also foreboding. The JP Morgan Global Manufacturing report dated July 2, 2012 continues to depict the world economy as slowing much faster than anticipated. The index of NEW ORDERS fell to 47.8 from 51.5, a substantial drop. Again, any reading below 50.0 is considered negative. The PRODUCTION index also turned negative to 49.3 from 51.0. The Global Index fell to 48.9 from 50.6. Almost none of the 31 countries in the survey provided a source of strength, and the pace of the decline accelerated in China, Brazil, and most of Eurozone.

Just as last month and numerous months before, the financial situation in Europe remains one of the greatest threats to the world economy, as well as our national, state, and local economies. The recent Greek election, which resulted in the presumed reaffirmation on the bailout program, was good news, although the euphoria only lasted a day or two before financial people around the world began taking another look at the situation. Over the last several months, money has been flowing out of the Greek banks at an alarming rate. New investment, from both inside and outside the country, is virtually nonexistent. A large portion of the population still believes that simply raising taxes on rich will solve the problem, but "the rich" are the people who are moving their money out of the country—and out of reach of any taxes for Greece. In short, the bailout that the Europeans have promised will probably go through after some minor renegotiation, but the current estimates for future growth are far too "Keynesian" and far too optimistic. The world is now realizing that this bailout is just a stopgap measure, and will require another Greek bailout in less than a year.

The banks in Spain are another recent European problem. Just like the United States, Spain had its own version of a housing bubble, leaving the banks with a huge quantity of bad mortgages. The Spanish Government did its best, but unlike the United States, Spain lacked the ability to simply print more money to bail out the banks. Most recently, they turned to the European Investment Bank. Unfortunately, the bank (still currently rated AAA) did not have nearly enough money, so Germany had to be coerced into adding €120 billion to the reserves. In the meantime, Cypress, one of the smaller Euro members, has also requested funds. More countries are sure to follow, and the fund is simply not large enough. The European situation therefore remains precarious—and there is still no light at the end of the tunnel. When there is a light at the end of the tunnel, we will have to hope that it is not an oncoming train.

On the domestic economic scene, the Supreme Court has upheld the Affordable Care Act by a 5-4 decision. The political implications are enormous, as are the economic implications. Although the high court has ruled that the law is constitutional, there is still no agreement that the act is here to stay and cannot be overturned. It has already become a major campaign issue for the November election. Although it is now only four months until the election and six months until the new congress meets, the ACA is still a major element of uncertainty for the economy. Unfortunately, investors and potential employers don't like uncertainty. With this cloud of ambiguity, the implications of the ACA are almost impossible to assess until after the election, and will contribute to economic stagnation over the summer months.

Two other uncertainties are the potential confrontations looming over the debt ceiling, as well as proposals for another extension of the Bush tax cuts. All of these uncertainties have resulted in tepid expansion by some businesses, and in many instances, the decision to hold tight until after the elections four months from today. The absence of further investments by businesses could result in the unemployment rate rising higher as we approach the late summer.

**Inflation.** It is obvious that excessive industrial inflation is a problem for most firms, given that rising costs in today's competitive world are very difficult to pass along and often cut into profitability. However, FALLING prices can foreshadow an economic downturn. In the latest ISM report, the index of PRICES fell to -26, the same level as October 2008. Confirming the national index, PRICES in the Grand Rapids survey fell to -16, although the Southwestern Michigan report came in neutral at +0. At the international level, the J.P. Morgan international index for PRICES fell to its lowest level in 37 months, dropping very sharply from 50.2 to 44.2. Almost all major countries in the 31 nation survey reported lower prices. At the end of our local report, the list of commodities falling in price has grown considerably, and includes most of the big ticket items such as copper, corrugated, steel, plastic resins, aluminum,

nickel, and even freight. At the distributor level, some firms have reported that inventories are being cut in anticipation of an economic slowdown and falling prices. This is not good news.

In summary, the worldwide slowdown is getting worse, and growing more severe than originally anticipated. Almost all of the problems still stem from the consequences associated with the European debt crisis, and the realization that the problems are FAR from over. Every time there is good news from Greece, Spain, Italy, or any of the other PIIGS countries, the euphoria only lasts a day or two until the financiers of the world realized that almost all of the solutions enacted so far are just temporary fixes. In addition to fears of Europe drawing the United States into their mess, our domestic economy continues to suffer from uncertainty over the cost and viability of the Affordable Care Act, the cost of the regulatory environment, and the tax situation for 2013 and beyond. The many economic statistics for June were far below expectations, and July remains uncertain. The remaining strength of the Michigan economy is still related to auto sales, but it is almost impossible for the current growth rate of 22% to be maintained. We are still expecting auto sales to flatten out late in the summer. However, if sales turn negative, so will the Michigan economy.

## JUNE COMMENTS FROM SURVEY PARTICIPANTS

"Finally, we see a little downward movement in our PET and PVC sheet prices, as well as our SBS and CCNB board/roll stock for printing."

"All steel is trending downward in price, and probably will continue to decline throughout the year."

"Quoting is still very active, but sales are down. I suspect corporate America is taking a pause to see where European economy is heading and how the November election will pan out."

"Lead times are going up from suppliers as they take their inventories to bare bone levels."

"Things seem to have leveled off for a while."

"Summer months usually get a little slower for large capital purchases as personnel take vacations. Some of the downturn is expected. We do hear more talk about companies slowing down."

"Business has been great. We recorded a two million dollar month, and sales are expected to exceed our expectations and profit margins. The future looks strong with the OEMs. The addition of our new paint system will bring new opportunities. Let's pray for continued success."

"We are very stable here, and are soon expecting another boost in sales. We have grown considerably over the past two years, so we are a bigger animal to feed now. We have lots of employees."

"When it rains it pours."

"Steel fabrication demand has leveled out in the energy industry. Profitably is still there, but in fewer sectors."

"Business is steady, but we are starting to some slowing in the quoting activity."

"With the projects booked, it will be a busy summer."

"Employment is up, but staffed with temps."

"New orders still slow in coming. We are still staying busy with quotes and our backlog."

"We're having a normal spring/summer increases. Demand is cyclical."

"We are very happy with the strength of the automotive industry. Can they sustain?"

"Steady as she goes."

"Everyone is going up with pricing for any reason. Something has to stop the increase."

"More of the same, with no real improvement. Orders are gradually slowly dropping off."

"Scrap steel took a substantial price drop for June. Buyers and sellers are anxious to see what develops in July. Is this the start of the "slowdown" that everyone has been anticipating?"

"We're seeing softening commodity prices across the board. Could it be foreshadowing of a downward market?"

"It's a very busy season, with more work to do than we have employees or money."

"The softening world economy is helping commodity pricing."

"Sales for our new markets have been good."

"Actually, we are seeing strong international orders."

"Business is starting to pick up with other customers that have been slow for quite some time. The summer should be very busy."

"Overall, May was a mediocre month. Not terrible, but not what was planned or hoped for. There's no doom and gloom yet, but the purse strings are getting a bit tighter than earlier in the year."

"As I have been saying for months, things are slowing across the board, here as well as for other manufacturing companies. The exception is auto sales, which is heavily related to the average age of automobiles. Europe, along with the uncertainty in American tax policy, the proposed medical care changes, and uncertain political direction will bleed the economy for the second half of 2012 of any potential economic strength."

"So far, our business continues to follow its normal cycle and has been strong. Everyone seems to be holding their breath to see what happens with Europe."

"It's nice to see fuel prices ease."

"Business is still remaining strong."

"We have seen a slight slowdown, but are still having a relatively good year. It's not as strong as 2011, but still pretty good. We see some slowing in our German parent company, which is possibly Euro related."

# June, 2012 Survey Statistics

	UP	SAME	DOWN	N/A	June Index	May Index	Apr. Index	20 Year Average
Sales (New Orders)	34%	39%	25%	2%	+ 9	+20	+24	+29
Production	27%	48%	21%	4%	+ 6	+ 5	+25	+13
Employment	32%	61%	7%		+25	+12	+20	+ 8
Purchases	32%	47%	21%		+11	+11	+19	+ 7
Prices Paid (major commod.)	9%	64%	25%	2%	-16	- 2	+19	+35
Lead Times (from suppliers)	11%	82%	7%		+ 4	- 4	+11	+11
Purchased Materials Inv. (Raw materials & supplies)	21%	55%	18%	5%	+ 3	-12	+ 9	- 5
Finished Goods Inventory	21%	59%	11%	9%	+ 6	- 4	+ 3	-10

**Items in short supply:** Gears, electronics, aggregates, well brine, good skilled workers.

**Prices on the UP side:** Some cold rolled steel and hot rolled steel, plastics, titanium dioxide, pigment, iron castings, forgings, aggregates, emulsions, ocean freight, powder paint, hardware, stainless steel, wood core.

**Prices on the DOWN side:** All metals, copper, corrugated, some industrial gases, steel, steel tubing, copper wire and pipe, carbon steel, stainless steel\*, PVC resin, plasticizers, SEBS resin, polypropylene, aluminum, aluminum alloy, scrap steel, nickel, gold, citrate solutions, freight.

\*These items are reported as both up AND down in price.

## Latest Unemployment Reports

(Note: **NOT** seasonally adjusted)

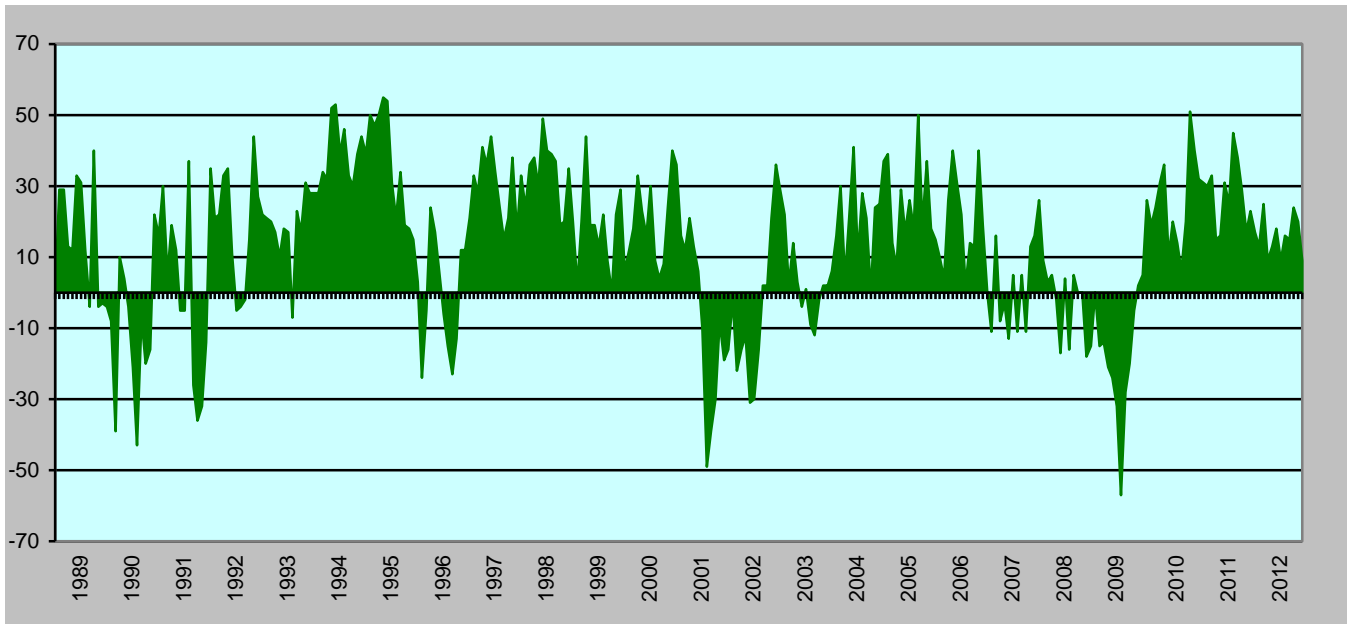
	May 2012	May 2009
State of Michigan	8.6%	13.4%
Kent County	6.4%	10.6%
Kalamazoo County	6.8%	9.8%
Ottawa County	6.4%	12.3%
Barry County	5.9%	10.2%
Kalamazoo City	9.4%	13.4%
Grand Rapids City	9.0%	14.6%
Holland City	8.4%	15.7%
U.S. National Rate	7.9%	9.1%

## 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	+ 9 for the month of June, 2012
Previous Month	+20 for the month of April, 2012
One Year Ago	+23 for the month of June, 2011
Record Low	-57 for the month of December, 2008
Record High	+55 for the month of September, 1994
First Recovery	+3 for April of 2009 and forward

# Index of New Orders 1988 - 2012



## Index of New Orders: 2005-2012 Only

