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Current Business Trends

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GR Manufacturing Turns Slightly Lower

Slightly negative. For the first time since the local recovery began in April of 2009, the industrial economy in the Greater Grand Rapids area has slid into the minus column. According to the data collected in the month ending July 31, 2012, NEW ORDERS, our index of business improvement, came in at -6, down from last month's +9. The PRODUCTION index also flipped negative to -5, down from +6. Because of its laggard nature, the EMPLOYMENT index remained positive at +18, but was not as robust as the +25 in the month of June. Activity in the purchasing offices, our index of PURCHASES, remained barely positive at +4, and a little softer than +11 in our last report. As we have warned in previous reports, the future now looks far less certain than it did just a few months ago.

Looking at local industrial groups, it is not a surprise to find that our automotive parts suppliers are not sailing as high as they were a few months ago. Although July is a traditionally slow month for automotive, the September-October production schedules to not look as positive as they were once projected to be. There is now more caution in the wind. The office furniture business continues to be soft for some firms, but most are stable and one firm is actually quite positive. On a positive note, Mike Dunlop's "Furniture Industry Index" for the second quarter rose to 54.58 compared to 52.62 for the first quarter. The industrial distributors are stable, but most reported flat business conditions. The automotive firms continue floating, the capital equipment firms, but we don't know for how much longer. Some comments at the end of this report are still very positive, but others are more cautious. In fact, caution is becoming much more commonplace.

Nationally, we see a slight downturn in last month's numbers. According to the Institute for Supply Management's "Report on Business" dated August 1, 2012, the national index of NEW ORDERS dropped significantly from +1 to -9. In a similar move, the PRODUCTION index fell to -4 from +8. The EMPLOYMENT index is still positive at +5, but is less promising than last month's +15. ISM's overall index remained virtually unchanged at 49.8, up from 49.7.

The international situation continues to worsen in the latest report. According to the JP Morgan Global Manufacturing report released on August 1, 2012, the NEW ORDERS index retreated to 47.2 from 48.1. 50.0 is considered the break-even point. The EMPLOYMENT index turned negative at 49.5, down from 51.0. The manufacturing PMI indexes for both the Eurozone and the UK sank to their lowest levels in over three years. It is unsettling to see the four major European economies sinking further into the recession. Greece continues to look even worse.

Some pundits have suggested that humanitarian aid may be necessary if the Greek economy continues on its downward path for two more years. However, countries like Canada, Mexico, Ireland, South Africa, and Indonesia fared much better than the rest of the world. The JPM overall Global PMI decline to 48.4, down from 49.1.

Among the economic headlines for the past month was the announcement of the GDP estimate of 1.5% for the second quarter of 2012, down from a revised growth rate of 2.0% in the first quarter. By comparison, the 2004-2009 average growth rate was 3.95%. We can conclude that our current rate of growth is well below where we need to improve the unemployment situation and to fully recover from the "Great Recession."

Several economic reports addressed the closely-watched unemployment rates. At the national level, the rate increased to 8.3% from 8.2%, even though 163,000 jobs were added. At least part of this uptick can be attributed to new people entering the workforce, as well as some previously discouraged workers returning to look for work. The economy added an average of 225,000 jobs per month in the first quarter of 2012. But even this good news fails to provide the growth stimulus that the economy really needs.

At the local level, the seasonally unadjusted unemployment rates reported for the month of June were higher across the board. The Kent County rate rose to 7.2% from 6.4%. Kalamazoo County fared no better with a rise to 7.4% from 6.8%. Among the counties in our local area, Barry County continues to fare better than most, but the unemployment rate still rose to 6.2% from 5.9%. For the state as a whole, the rate edged up to 9.2% from 8.6%. Although some of this variation can be attributed to seasonality, these numbers still reflect Michigan's limit in the amount of growth we can anticipate from the auto industry.

Auto industry sales reports for the month of July were positive, but only for some firms and not for others. For the Detroit Three, Chrysler led the way with a 13% y/y sales gain. But Ford backtracked by -4, and GM came in at -6. The overall industry advanced by 9%, largely due to restored production of parts by manufacturers hit by last year's tsunami. Honda rose 45%, and Toyota was better 25%. Despite the easing of gas prices, Toyota's Prius posted a gain of 110% over 2011. Of the smaller brands, Nissan advanced 16%, Hyundai/Kia rose 5%, and Volkswagen added 28%.

The price of gasoline is now approaching \$4 per gallon, causing some concern about where the current

round of price increases will end. Fortunately, the problem appears to be a temporary setback resulting from a recent refinery fire in Indiana and a break in a major pipeline which has slowed crude deliveries to several key refineries. We consume about 5 billion (that's billion with a "b") gallons of gasoline per year in Michigan, so even a small supply disruption can send prices upwards. Right now, it appears that gasoline should be down considerably over the next few weeks. The slowdown in the world economy should result in the price of crude starting to fall as the summer wears on.

Turning to industrial inflation, there is good news: Prices at the industrial level continue to fall. There is also bad news: Prices at the industrial level continue to fall. ISM's national index of PRICES came in at -21, the Grand Rapids survey yielded -5, and our Southwestern Michigan survey broke even at +0. While industrial buyers certainly appreciate the price relief, they recognize that these numbers are similar to those reported back in 2008 at the onset of the recession. Much of the drop in prices can be attributed to the worldwide economic slowdown and the new economic recession now gripping some countries. Actually, the international index of PRICES has been falling steadily for five months, and is now at 44.5, or roughly -11 in terms of our local statistics. From an overall economic standpoint, commodity prices falling at this rate is not really good news.

Finally, housing market has provided some good news. According to the real estate search engine Zillow.com, the national residential housing market "...appears to have bottomed, posting its first year-over-year increase since 2007, fueling more talk of a real estate recovery." Checking local markets on the Zillow website confirms significant increases in certain areas and marginal increases in other places. You can expect to see some local regions on Zillow.com that are still plagued with foreclosures and are not even beginning to recover. But on the average there are signs that the nation may have finally hit bottom and will now begin the long process of recovery—if the economic slowdown does not get out of hand.

Huge questions loom ahead. Despite the softer statistics, it is still possible that we may get away with nothing more than a flat, mushy economy but no real recession. Our economy could dance back and forth across the zero growth line for several quarters before finally resuming a slow recovery. Many future directions are possible and will be influenced by congressional actions as the election approaches, including post election legislation during the "lame duck" session. The scheduled military cuts will devastate some firms if the budget problem cannot be solved while tax increases could snuff out incentives for future investment. Of course, even slow progress assumes that the ominous European debt situation continues to move toward long term resolution and that the Eurodollar does not collapse.

JULY COMMENTS FROM SURVEY PARTICIPANTS

"Commodities continue to get weaker globally. Tax policy and political uncertainty plague USA."

"June finished very strong. The good news is that year to date we are up 10% in sales from this time last year."

"July is starting out slow. However, it may still finish strong and be a good month. August and September are usually some of our strongest months, so things should start to get a lot busier."

"The roller coaster ride continues..."

"As a machinery distributor, we are seeing some customers that are very busy, but are reluctant to purchase based on what they are hearing in the media and the upcoming election."

"We are busy. The problem is finding machinery!"

"The world economy appears to be softening slightly. Europe still seems to be very uncertain as to their outcome. On the domestic front, will the auto industry be able to continue to support our growth?"

"Sales have softened."

"The orders have slowed. The orders we do get are rush or breakdown. All our suppliers are full of work as is our own shop."

"Steady as she goes, but there are too many unknowns political and economic to have any confidence in a sustained recovery."

"Sales have slowed down the last 2 months."

"Business has gone from strong to somewhat mixed. We're still hitting projected sales."

"Underground coal equipment sales have tanked."

"The hiring that is being done are contract positions. Prices are going up because the volumes are going down."

"It feels like we may see new volume increases."

"I think there is a lot of optimism in the auto industry that people will continue to buy cars even if the economy gets worse. I don't share in that optimism."

"New opportunities are out there, but customers are a bit slow to move ahead with projects."

"We are still doing quite well and expect to have another record year in sales."

"June is very busy for fiscal year end which makes July slow."

"General business seems to be slowing as it relates to total manufacturing. I believe July production was down due to excessive heat. Overall, the economics surrounding manufacturing are down, and should bounce back after heat waves are over, BUT remain cautiously optimistic."

"We're very busy. Business is good, and expanding."

"We have more work to do than we have money and employees!"

"Business remains strong, and forecast looks good. But there are still indications of things slowing down towards the end of the year."

"Steel prices and scrap have come down. The steel mills are making more price increase announcements to stop the price erosion. We're having some success getting price reductions on items made from steel. Lead time on DOM tubing has come down a lot in the last several months."

"It's a little harder to push prices down when economy goes soft, but it is coming."

"We continue to see a slight relaxing in price in our plastics (roll stock PET)."

July, 2012 Survey Statistics

	UP	SAME	DOWN	N/A	July Index	June Index	May Index	20 Year Average
Sales (New Orders)	23%	44%	29%	4%	- 6	+ 9	+20	+29
Production	18%	52%	23%	7%	- 5	+ 6	+ 5	+13
Employment	32%	54%	14%		+18	+25	+12	+ 8
Purchases	27%	48%	23%	2%	+ 4	+11	+11	+ 7
Prices Paid (major commod.)	18%	55%	23%	4%	- 5	-16	- 2	+35
Lead Times (from suppliers)	20%	73%	5%	2%	+15	+ 4	- 4	+11
Purchased Materials Inv. (Raw materials & supplies)	16%	56%	21%	7%	- 5	+ 3	-12	- 5
Finished Goods Inventory	18%	48%	20%	14%	- 2	+ 6	- 4	-10

Items in short supply: Electronic components, rental equipment, gears, helium, potting resin from UK.

Prices on the UP side: Powder paint, extruded aluminum, electronic components, copper*, natural gas*, corn, melamine, freight, labor rates, poplar, ash, fuel*, trucking, wood core.

Prices on the DOWN side: Steel sheets, stainless steel sheets, aluminum sheets, aluminum*, oil, ethylene, CR steel, zinc, copper products, resins, steel, carbon steel, natural gas*, textiles, copper*, nickel, oil, band HR steel, HDPE steel, plasticizer, PVC resin, PP, SEBS resin, paraffinic oil, process aids, impact modifiers, aluminum extrusions, polypropylene, diesel fuel*, ferrous scrap, polypropylene, iron and steel castings, almost all steel grades.

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

Latest Unemployment Reports

(Note: NOT seasonally adjusted)

	June 2012	May 2012	May 2009
State of Michigan	9.2%	8.6%	13.4%
Kent County	7.2%	6.4%	10.6%
Kalamazoo County	7.4%	6.8%	9.8%
Ottawa County	7.2%	6.4%	12.3%
Barry County	6.2%	5.9%	10.2%
Kalamazoo City	10.3%	9.4%	13.4%
Grand Rapids City	10.0%	9.0%	14.6%
Holland City	9.4%	8.4%	15.7%
U.S. National Rate	8.4%	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 -6 for the month of July, 2012

Previous Month +9 for the month of June, 2012

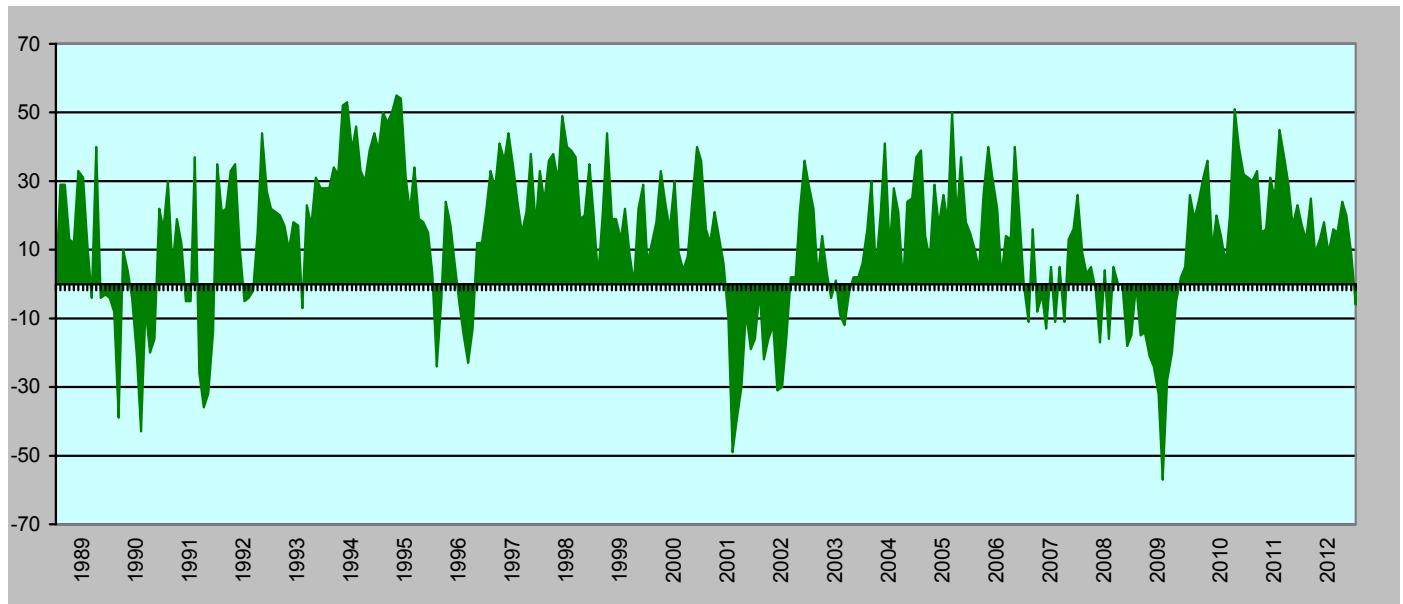
One Year Ago +17 for the month of July, 2011

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

