



## Institute for Supply Management,

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## News Release (For Immediate Release)

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# Current Business Trends

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## GR Manufacturing Turns Flat

Flat. In last month's report, we reported the industrial economy in the Greater Grand Rapids area had slid into the minus column. Fortunately, this month turned out a little better. According to the data collected in the month ending August 31, 2012, NEW ORDERS, our closely watched index of business improvement, returned to +0 from -6. The PRODUCTION index flipped back to positive at +5, up from -5. Much as expected, the EMPLOYMENT index remained unchanged at +18. Activity in the purchasing offices remained in single digits, and rose to +8, up from +4. In short, a slowdown is upon us, and it still remains to be seen just exactly how slow we are going to get.

Looking at local industrial groups, our automotive parts suppliers are still positive, but none are showing the rapid expansion we have had for most of the last there years. Despite the strong sales figures for autos, there are still considerable questions about the automotive production schedules for the rest of the year. Most major firms in the office furniture business continue to be stable. No up, not down, but stable. With last month's positive report from Mike Dunlop's "Furniture Industry Index," it is possible that the office furniture business will finish the year a little stronger than earlier industry projections. The industrial distributors are also stable for the month. The capital equipment firms are more widely mixed, with some still up, but others fading. The comments at the end of this report are mixed, but show much more caution than just a few months ago.

At the national level, the slight downturn we saw in last month's numbers has continued. According to the Institute for Supply Management's "Report on Business" dated September 4, the national index of NEW ORDERS remained negative at -8, about the same as last month's -9. The PRODUCTION index fell slightly lower to -5, down from -4. The EMPLOYMENT index is still eking out a gain at +3, only a little below last month's +5. ISM's overall index retreated to 49.6, down from 49.8. At this level, the nation's economy is not in a recession, but is very much in a slowdown.

To no one's surprise, the August international report indicates a continued sag in the world economy. According to the JP Morgan Global Manufacturing Report released on September 4, 2012, the international index of NEW ORDERS retreated to 46.8 from 47.1. Since 50.0 is considered the break-even point, this marks the fourth month of decline for this index. The EMPLOYMENT index eased slightly to

49.3 from 49.5. JPM's composite manufacturing PMI eased to 48.1 from 48.4, the lowest the index has been in 39 months. In addition to the United States, weakness continued in Eurozone, the UK, and most of Asia. Stronger reports came from Canada, India, Ireland, Russia, Mexico, and Turkey. In any recession, an economy must first hit bottom before the recovery can begin, and looking at Greece, there is still no bottom in sight. With money, resources, and talented people leaving the country, some forecasters say that this bleeding may make it necessary to provide some of the population with humanitarian aid in a few months if the situation does not improve.

For the past few weeks, the European debt situation appears to have quieted down. The value of the euro has come up a little. The European Central Bank has taken some limited action to ensure the stability of some of the shaky banks. Greece seems to be trying to adhere to its austerity program, and has gotten off the television screens. However, we cannot be fooled by the current tranquility. With most of the European countries still sliding into recession, the problems for Europe are far from over. Right now, we are just between storms. It is still going to take a LOT more work to solve the European sovereign debt crisis.

Some of the best news for the month came from the housing sector. First, the closely watched Case-Shiller price indices were all up. According to the August 28 press release, the 10 Cities Composite, 20 Cities Composite, and the all-important U.S. National Composite indices each turned positive for the first time in over two years. Michigan's year-to-date sales are up 10%, and prices are up nearly 5%.

The recent housing upturn has been influenced by several factors. First, there is pent-up demand. Some buyers that have been waiting many months for the market to finally bottom out have decided that now is the time to buy. This long wait has allowed the buyers to accumulate a larger down payment, which also pleases the lending institutions. This trend has been augmented by less stringent lending requirements, including the lowering of minimum credit scores and more reasonable and more optimistic appraisals by the lenders. In that same context, buyers have gotten better at shopping around for better mortgage deals, and traditional competition is coming back to the lending markets. Lastly, we must remember that mortgage rates still very low, and may never be this low again.

Another factor driving the housing market is the fact that fewer homes are now on the market. On August 23, the National Association of Realtors index of existing-home sales rose 10.4 percent from July 2011. After four long years, most areas of the country have whittled down their inventories of unsold new houses. Locally, builders that survived the Great Recession have optimism that business conditions are getting better.

During the month of August, auto industry sales remained surprisingly strong. For the Detroit Three, Chrysler remained the "fastest growing" auto company with a 14% gain compared to August of 2011. Ford gained 13%, and GM was up by 10%. Building on last month, the biggest gainers were Honda, up 60%, and Toyota, adding 46%. The industry as a whole posted a 20% gain, making August one of the best sales months so far this year.

The unemployment reports at the local level continue to be troublesome. Seasonally unadjusted unemployment rates in most recent report were again higher across the board. The jobless rate in Kent County rose to 7.7% from 7.2%. In Kalamazoo County, the rate jumped to 8.0% from 7.4%. Barry County, which has been better off than most, saw the rate rise to 7.2% from 6.2%. For the entire State of Michigan, the unadjusted rate rose to 10.3% from 9.2%. From a statistical standpoint, it is interesting to watch a segment of Allegan County which encompasses part of Holland. The current unadjusted rate rose to 3.2% from 3.0%. However, the 20 year low of this statistical segment is a scant 0.9%, and the high point in the most recent recession was 3.7%. There aren't many

places in the country where things are better than this.

So where are we now? An old adage says that if you have one foot in the cold water and the other in the hot water, on the average, you should be comfortable. At best, the industrial economy is now drifting sideways. Since the industrial economy has been the main force behind the recovery for over the past three years, a serious decline would throw us back into a recession. However, the current up tick in the housing sector when combined with slightly stronger consumer spending may be enough to keep the economy flat and keep us from sliding into another recession. If the consumer economy remains positive and the industrial economy turns slightly negative, on the average, we will be flat. There have been very few times in economic history that the economy has stayed dead flat without trending up or down, but this could be one of those times.

Every recession in history has had a root cause. In the 1973-1975, it was oil. In 2001, it was the dot com bust. In 2007-2009, it was the collapse of the housing market. A depression occurs when several of these "root causes" all come together at once. By the broadest measure, the biggest problem facing us right now is the realization that our local, state, and national governments have overcommitted on retirement benefits, both in the form of pensions and health care. At this stage, the problem is still fixable, but it won't be easy. If, however, it becomes apparent that the problem is not fixable because of politics, then we could be in for trouble. Could we become another Greece? Of course. All we have to do is do nothing.

## AUGUST COMMENTS FROM SURVEY PARTICIPANTS

"Things have slowed. Hopefully, it is only temporary."

"We're very busy, and year looks like it will end strong. Let's hope the economy continues to go forward, even though it's slow. A new paint system will bring new opportunities and growth next year."

"There seems to be a nice slow sales volume recovery from our dismal July numbers. Sales are making a 5% improvement from July, month to date. We're hoping the remainder of August shows a little more pep from the July slowdown."

"Sales for the first half of the year have just been OK. We are hoping for better sales in the second half of the year!"

"Orders are steady, but not overloading us. Most lead times are coming down also."

"I'm getting the feeling that things are VERY gradually deteriorating, but can't be sure of this."

"I'm not sure if this slowing trend is just related to our business or that of the market. Commodities prices have dropped and we are generating lower cost."

"We have seen the first noticeable dip in orders."

"Steady as she goes...."

"Raw foil aluminum (thin gauge) extended lead times are at 18-24 weeks! It's just like 2010. The nightmares on expediting this material started this June."

"We've had lots of quoting activity. Business is picking up again after a short lull in July."

"Regulated industries are taking a deep breath and waiting to see what happens in November. More regulations mean more indirect staff that ultimately reduce margins and company long term health."

"Everyone wants it now, but our shop is full as are our suppliers. Lead times are moving out."

"Business has dropped approximately 10% this month and next. Time will tell if we will settle in at that number."

"The economy still seems to be up and down depending on today's news headlines. What will the new president do to help the economy?"

"We continue to do well."

"I cannot wait for the election to be over."

"Good bidding activity, but the 4th quarter orders and 2013 forecasted down."

"Steel mills continue to announce increases, and we are starting to see it in the spot market, not on contract business."

"Sales have been flat for the last 3 months."

"Is it November yet and is the election over?"

"We're about to start a new large project."

"August has been a strong sales month for us. 3 out of 4 of the fiscal weeks this month ranked 2nd, 3rd and 4th for us for this year in term of sales dollars."

"Things are slowing up, however, this is a typical occurrence of our business cycle."

"Overall business is good. However, it is with only a few customers. We need more of our other customers to get off the fence."

# August, 2012 Survey Statistics

|                                                     | UP  | SAME | DOWN | N/A | Aug. Index | July Index | June Index | 20 Year Average |
|-----------------------------------------------------|-----|------|------|-----|------------|------------|------------|-----------------|
| Sales (New Orders)                                  | 27% | 42%  | 27%  | 4%  | + 0        | - 6        | + 9        | +29             |
| Production                                          | 25% | 50%  | 20%  | 5%  | + 5        | - 5        | + 6        | +13             |
| Employment                                          | 32% | 54%  | 14%  |     | +18        | +18        | +25        | + 8             |
| Purchases                                           | 29% | 46%  | 21%  | 4%  | + 8        | + 4        | +11        | + 7             |
| Prices Paid (major commod.)                         | 11% | 75%  | 9%   | 5%  | + 2        | - 5        | -16        | +35             |
| Lead Times (from suppliers)                         | 7%  | 84%  | 7%   | 2%  | + 0        | +15        | + 4        | +11             |
| Purchased Materials Inv. (Raw materials & supplies) | 27% | 55%  | 14%  | 7%  | +13        | - 5        | + 3        | - 5             |
| Finished Goods Inventory                            | 11% | 60%  | 20%  | 9%  | - 9        | - 2        | + 6        | -10             |

**Items in short supply:** Helium, some aluminum, gears, electronic components, some resins, knowledgeable work force with experience, steel products from India, consumer confidence, lead times from customers.

**Prices on the UP side:** Fuel, Indian steel, shipping rates from Asia, linerboard, flat glass, natural gas, cold rolled steel, HRPO steel, carbon steel, scrap steel, Fuel, wood, transportation, glass filled PP, helium, grader blades, spot steel pricing, nylon tubing, brass fittings, plastics, fuel surcharges, petroleum based products, powder paint, freight.

**Prices on the DOWN side:** Most steel\*, alloys, aluminum, copper, zinc, nickel, HR steel, electronic components, paraffinic oil, process aids, copper wire, some carbon steel,\* tin, copper, pig Iron, polypropylene, metals, HDPE, salt, brass rod, zinc, wood core, fabric, corrugated, TiO2, LLDPE.

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

## Latest Unemployment Reports

(Note: NOT seasonally adjusted)

|                      | July 2012 | June 2012 | July 2009 | 20 Year Low |
|----------------------|-----------|-----------|-----------|-------------|
| State of Michigan    | 10.3%     | 9.2%      | 14.8%     | 3.1%        |
| Kent County          | 7.7%      | 7.2%      | 11.8%     | 2.1%        |
| Kalamazoo County     | 8.0%      | 7.4%      | 11.1%     | 2.1%        |
| Ottawa County        | 7.9%      | 7.2%      | 13.3%     | 1.8%        |
| Barry County         | 7.2%      | 6.2%      | 10.9%     | 2.2%        |
| Kalamazoo City       | 10.3%     | 10.3%     | 15.2%     | 3.2%        |
| Portage City         | 6.2%      | 5.7%      | 8.7%      | 1.3%        |
| Grand Rapids City    | 10.6%     | 10.0%     | 16.1%     | 3.0%        |
| Kentwood City        | 6.9%      | 6.5%      | 10.7%     | 1.4%        |
| Plainfield Twp.      | 5.1%      | 4.8%      | 8.0%      | 1.4%        |
| Holland City/Allegan | 3.2%      | 3.0%      | 3.7%      | 0.9%        |
| U.S. National Rate   | 8.6%      | 8.4%      | 9.7%      | 3.6%        |

## 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 +0 for the month of August, 2012

Previous Month - 6 for the month of July, 2012

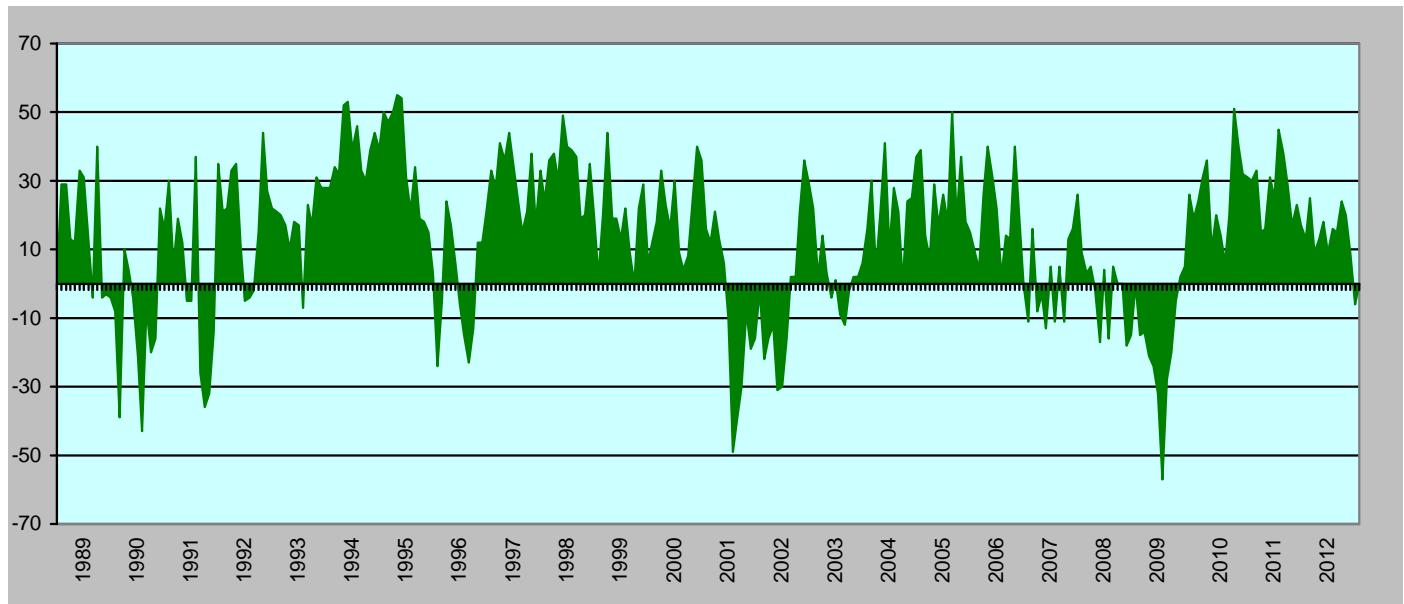
One Year Ago +13 for the month of August, 2011

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

