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Current Business Trends

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GR Manufacturing Shows Minor Improvement

Flat again. Very modestly up. Our local economy has been very flat for the last three reports, so even a modest uptick is good news. According to the data collected in the month ending October 31, NEW ORDERS, our index of business improvement, edged up to +6 from -2. However, the PRODUCTION index remained negative at -1, although improved over the -10 we reported last month. Activity in the purchasing offices, our index of PURCHASES, slid back to negative at -7, down from +0. The EMPLOYMENT index remained unchanged at +4. Although an EMPLOYMENT index of +4 is modestly positive, it is still far below the +46 we reported 18 months ago. It is worth repeating that our current statistics do not show us sliding into a recession even though the economy may be flat. However, the future is still filled with plenty of uncertainty with the so-called Taxmageddon showdown now less than two months away. According to the Congressional Budget Office, IGNORING the situation will probably lead to a recession. We can only hope that the lame duck congress understands it has lots of work to do before adjourning, and pray that they are up to the task.

Turning as we always do to individual industrial groups, most of our auto parts suppliers are positive, although a couple firms have reported slower sales because of the particular vehicle lines they are supporting. The automotive recovery has favored the gas economy of smaller cars because of higher fuel prices, and some lines of trucks and SUVs have not sold as well. Part of the recent strength of our local economy relates to the uptick in the office furniture business, which shows significant gains for several firms. For industrial distributors, this month's performance can best be described as mixed. Ditto the capital equipment firms, who are complaining that some of their customers are now in a "wait and see" mood. Just like last month, the comments at the end of this report show evidence of a slowing industrial economy, but no one is talking about a recession.

At the national level, the Institute for Supply Management's "Report on Business" dated November 1 reported that the national industrial market has again backtracked. ISM's index of NEW ORDERS fell to -5 from +2. The PRODUCTION index remained unchanged at -2. The ISM national EMPLOYMENT index remained positive but eased to +3 from +5. After statistical adjustment, ISM's overall index edged up to 51.7% from 51.5%. Repeating the status from last month, the national industrial economy is now best described as flat.

Historically, from 1947 until 2012, the United States GDP growth rate averaged 3.25 percent. Since our last report, the Commerce Department reported that the preliminary estimate of the GDP for the third quarter came in at 2.0%, up from a revised 1.7% in the second quarter. The sobering fact is that if we continue at a 2.0% growth rate, it will take five or six years to get back below 6.0% unemployment.

It is of little surprise that many of the international reports are still negative, although some countries are bucking the trend. According to market.com, business conditions over the past month have improved in countries like Russia, India, Ireland, Mexico, and Turkey. Output in Brazil rose to a seven month high. But business conditions in the 17 nation Eurozone continues to slide, as does China and South Korea. Even the otherwise strong Canadian economy is turning flat primarily because of its neighbor to the south.

After three quarters of mildly negative economic growth, the UK has emerged from a recession with the report of +1.0% GDP for the third quarter. Twenty years ago, the British wisely decided not to go in on the Eurodollar for fear that some of the participants would not adhere to the terms of the agreement. Good decision. However, most of the foreign customers for UK goods are among the 17 nations of the Eurozone that compose the Eurodollar. Clearly, prospects for growth in the UK are limited.

On the European continent, the news obviously is not very good. Taken as a group, the 17 nation Eurozone is our largest export customer. According to Eurostat, the European Union's statistical agency, the jobless rate in September rose to a record 11.6%. But 11.6% is the AVERAGE. In Germany and Austria, the rate is 5.4%, leaving Spain and Greece at about 25% at the other end of the scale. The agency went on to say that the debt crisis is now "entering its fourth year with no full resolution in sight. Commercial lending has dwindled, and investors have taken flight." The (shaky) coalition government in Greece, where the crisis began, is still grappling with another punishing round of austerity cuts demanded by international lenders. In the traditional battle of the "haves" verse the "have nots," some Greek and Spanish politician are demanding that the Germans bail them out. One rational: Germany owes Greece "war reparations" for the Second World War. You can imagine how this goes over with the German electorate.

On the good news side, the beleaguered housing industry continues to show signs of significant recovery. As we have noted for many months many months, the housing market has been a huge drain on the economy. The glut in unsold real estate has not only been a disaster for the construction industry and its supply chain, it has also inhibited the sale of homes and options for new opportunities. The most recent S&P/Case-Shiller index of property values in 20 cities rose 2 percent from August 2011, the biggest year-to-year gain since July 2010, after climbing 1.2 percent the prior month. One of our local counties, Kent County, reported housing starts up 32% over a year ago. With the housing market now nicely recovering from an apparent bottom, potential buyers are taking advantage of the record low mortgage rates. Another factor is the more optimistic outlook of bankers coupled with less stringent lending requirements. A third factor is the skyrocketing cost of rent, which now makes it financially advantageous to own rather than rent. For the first time in five years, homeowners feel more financially secure because their home values are now stable or rising. We expect these modest increases in housing prices to help reduce the 31% of all Michigan mortgages still under water. However, all of this optimism needs to be tempered with the fact that we have not seen the end of bankruptcies and foreclosures resulting from the bad loans made over the past twenty years. Unfortunately, excessive foreclosures in a neighborhood will drag down the values all of the surrounding homes. This could well be the long-term legacy of the housing crisis.

The news from the auto industry also remains good, although the double digit y/y market gains are now a thing of the past for many firms. The hurricane on the East Coast, which struck about a quarter of the US market, probably shaved a few percentage points from month end sales. GM reported a +5% gain, but Ford was flat at +0. Chrysler added 10%, Volkswagon 23%, and Toyota 16%. As long as automotive sale stay up, our auto parts suppliers on this side of the state will be busy.

In summary, the industrial market remains flat, partially because of the deteriorating export markets in Europe and partially because many firms have reached capacity and are not expanding. Many businesses are waiting until after the election and after the Taxmageddon situation has been resolve before committing new resources. Businesses do not like to expand or hire new people in an environment of extreme uncertainty, and the way forward should be more defined in January. Any weakness in exports to Europe will probably be offset by the new strength in housing and construction, leaving us with the same pattern of slow growth that we have come to expect.

OCTOBER COMMENTS FROM SURVEY PARTICIPANTS

"October has turned out to be a softer sales month than anticipated. Not horrible, yet not trending up. Sales are just in a mediocre holding pattern. Stagnated."

"Business has slowed slightly. However, we are still having a record year."

"We have all of a sudden seen a 20-25% drop in business over the last 4-6 weeks. We are now running production four days a week. Hopefully, this is a short term slowdown or at minimum does not get any worse."

"The new products and a good High Point Furniture Market are helping our sales."

"We are growing significantly! Business is very good!"

"Our business outlook is strong. The automotive industry is still experiencing growth."

"We're holding steady in a tough, unpredictable economy."

"Most material prices seem to be holding fairly steady. "

"After an exceptionally busy August, September and October are more normal. We are meeting our plan."

"Large sales orders are starting to break free for capital items."

"For steel, which is a barometer of the industrial economy, lead times are short."

"It seems like the manufactures are waiting to see how the elections will come out. Inquiries are down."

"Seems like we are seeing a little slowdown, but we're anticipating that it will only be short term."

"I see everyone waiting on the election and a new day!!!! And stop this spending to no end!!!"

"Automotive order book seems to be getting weaker as the year rolls on."

"It's still a scary market out there, and getting suppliers to take note of certain business tactics is alarming."

"We're experiencing strong sales and expecting it to continue through year end at least."

"Steady as she goes."

"Historically, the 4th calendar quarter is a slower time, and this year is no exception."

"Things have slowed up for the month of October."

"We're getting some pressure from corrugated liner board suppliers to increase prices."

"We're seeing somewhat of a slowdown in sales, most likely due to the upcoming election. Everyone is waiting to see what happens."

"Steady as she goes."

"The linerboard companies have zero justification for an increase, but seem intent on jamming an increase down our throats."

"Right now, I'm getting price down if I order by the end of the year."

"Scrap steel continues to fall. Supply is exceeding demand at the moment."

"The corrugated container producers have implemented anywhere from 5-7% increase in prices after the industry publications firmed up the raw material increase announcement."

"Carbon steel price increases have been announced at the mill level. The steel mills are trying to stop the downward slide in pricing."

October, 2012 Survey Statistics

	UP	SAME	DOWN	N/A	Oct. Index	Sept. Index	Aug. Index	20 Year Average
Sales (New Orders)	36%	30%	30%	4%	+ 6	- 2	+ 0	+29
Production	25%	41%	26%	8%	- 1	-10	+ 5	+13
Employment	21%	62%	17%		+ 4	+ 4	+18	+ 8
Purchases	25%	43%	32%		- 7	+ 0	+ 8	+ 7
Prices Paid (major commod.)	19%	66%	15%		+ 4	+ 2	+ 2	+35
Lead Times (from suppliers)	19%	75%	4%	2%	+15	+ 2	+ 0	+11
Purchased Materials Inv. (Raw materials & supplies)	19%	47%	30%	4%	-11	+ 2	+13	- 5
Finished Goods Inventory	17%	61%	23%	9%	- 6	+ 5	- 9	-10

Items in short supply: Some aluminum, skilled machining houses, rare earth metals, good electronic suppliers.

Prices on the UP side: Aluminum , aluminum castings, steel, stainless steel, aluminum, corrugated, some resins, packaging (up 8%), stainless steel, carbon steel , cold rolled steel, brass, gas, fuel, polypropylene, nylon film, specialty laminations, sand, transportation, vehicles, bituminous materials, wood core, PVC resin, plasticizer, copper products, HRP&O steel, zinc, paper, weld wire, linerboard.

Prices on the DOWN side: Scrap steel , steel,* carbon steel,* aluminum Ingot, steel plate, non-ferrous metals, computers, plastic resin for thermo molding,* vending competitors, salt, process aids, acrylics, some plastics.*

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

Latest Unemployment Reports

(Note: NOT seasonally adjusted)

	Sept. 2012	Aug. 2012	Aug. 2009	20 Year Low
State of Michigan	8.2%	9.2%	14.8%	3.1%
Kent County	5.9%	6.8%	11.8%	2.1%
Kalamazoo County	6.1%	7.1%	11.1%	2.1%
Ottawa County	5.8%	6.7%	13.3%	1.8%
Barry County	5.5%	6.5%	10.9%	2.2%
Kalamazoo City	8.5%	10.3%	15.2%	3.2%
Portage City	4.7%	5.4%	8.7%	1.3%
Grand Rapids City	8.3%	9.4%	16.1%	3.0%
Kentwood City	5.3%	6.1%	10.7%	1.4%
Plainfield Twp.	3.9%	4.5%	8.0%	1.4%
Holland City/Allegan	2.4%	2.8%	3.7%	0.9%
U.S. National Rate	7.6%	8.2%	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	+ 6	for the month of October, 2012
Previous Month	- 2	for the month of September, 2012
One Year Ago	+9	for the month of October, 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