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Current Business Trends

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GR Manufacturing Economy Returns to Modest Growth

Better! After five lackluster reports, the data collected in the month ending November 30 depict a return to modest growth in the Greater Grand Rapids area. NEW ORDERS, our index of business improvement, rose significantly to +17 from +6. In a similar manner, the PRODUCTION index jumped to +21, up from -1. Activity in the purchasing offices, our index of PURCHASES, came back to +8, up from -7. The EMPLOYMENT index modestly improved to +13, up from +4. Even though the future is still filled with plenty of uncertainty, this month's statistics clearly bucked the trend. For the last four years, our local economy has often been stronger than either the national or international economies, and this month's report is no exception. However, the comments at the end of this report are now starting to strike a few notes of caution, even though numerous firms are now at full capacity and reporting all-time highs in sales.

Looking at individual industrial groups, our auto parts suppliers remain positive, but at least two firms have expressed the widely held opinion that we are now nearing the top of the expansion in the auto industry. Firms that are supporting lines of smaller cars are continuing to do better than those supporting large SUVs and trucks. This month's statistics were also bolstered by the recent uptick in the office furniture business, which has resulted in several firms ending the year much better than expected. For industrial distributors, this month's performance came in mixed, although the bias was clearly to the upside. Two of our capital equipment firms reported strong sales, but now others see customers in a "wait and see" mood because of the upcoming fiscal cliff.

Our parent organization, the Institute for Supply Management, tells a different story. ISM's "Report on Business" dated December 3 still reports that the industrial market at the national level is backtracking. ISM's index of NEW ORDERS for the United States remained modestly negative at -5. The PRODUCTION index remained virtually unchanged at -1, down from -2. The weakest news came from the ISM national EMPLOYMENT index, which fell to a three year low of -7, down from +3. After statistical adjustment, ISM's overall index edged back below the 50.0 break-even point to 49.5, down from 51.7%. Although this is the fourth negative report in the past six months, the

survey author does not see us sliding into a recession if a solution can be found to the fiscal cliff.

At the international level, the December 3, 2012 J. P. Morgan international manufacturing report "stabilized" in November. JPM's Global Manufacturing PMI remained below the 50.0 break-even point, but rose to 49.7 in November, up from 48.8 in October. The slightly softer numbers from the U.S., Japan, and the Eurozone were offset by better numbers from China, Brazil, India, Russia, and the UK. The Canadian economy remains flat, primarily because of its neighbor to the south. Yet the JPM survey author is very optimistic, and believes that the current statistics "...herald faster output gains..." for the world economy. The fact remains that this tenuous assumption is based on optimism which projects success in refinancing debt in the Eurozone and the US avoiding the fiscal cliff.

At long last, the election is over. Unfortunately, little has been addressed in our nation to resolve the differences in fiscal ideology, largely because almost none of the people have changed. The Republicans still control the House, and the Democrats still control the Senate and the White House. The statistics remain the same, most of the people in decision-making positions hold the same views, and so of course the rhetoric remains the same. The hotly debated list of solutions, such as they are, still claim that each is THE best tonic. Some pundits on both sides of the isle are already looking ahead two years to the mid-term elections to be the next juncture of change.

The recovery of the beleaguered housing industry continues to be good news for the economy at both the local and national levels. Just as last month, the most recent S&P/Case-Shiller index of property values posted another significant gain. Housing starts continue to rise, partially because of the tightening of residential units available for sale, and partially because of the low interest rates. The unusually mild weather adds an extra lift. We see that higher rents have caused some people to rethink the idea of owning rather than renting. As headlines spread the news of a housing market revival, properties are beginning to be listed now that sellers feel they can expect a fair price rather than be hammered by a one-sided buyer's market. Consumer confidence also

receives a boost in part due to the strength of the housing market. It is a basic fact that many people consider their home to be their biggest financial asset. However, unlike previous housing recoveries, some specific neighborhoods that suffered under the downturn are still plagued with numerous bankruptcies and foreclosures, making it difficult, if not impossible, for these neighborhoods to participate in the Case-Shiller housing valuation revival. Excessive foreclosures in some neighborhoods will continue to contaminate the values of surrounding properties, creating problems in many sections of older cities for years to come.

In Michigan, the economic recovery continues to be driven by rising auto sales. This month's report from Automotive News bodes well for the Michigan economy. "As customers were suddenly able to find financing to keep replacing aging vehicles and with a post-storm bounce from easterners digging out from Hurricane Sandy... we are now surpassing sales records set pre-recession." Honda recorded the best November ever, with U.S. sales rising 39%. Lesser brands like VW America rose 31%. Toyota gained 17%, and Nissan rose 13%. The Detroit Three did not fare as well, with Chrysler up 17%, GM rising 3%, and Ford edging up 6%. The industry as a whole rose 15% to a SAAR rate of over 15 million units per year for the first time since 2008. Again, analysts continue to cite pent-up demand for some of the rise, but also note that good weather, loosening auto credit, and strong dealer incentives were significant factors accelerating November sales. However, some analysts have predicted that sales will soon top out, and probably settle into a SAAR rate of 14.5 to 15.0 million units per year. For Michigan, this is very good news. Our Detroit Three firms are very profitable, and most of our suppliers are very profitable. Who could ask for anything more?

So where do we go from here? Many forecasts are for continued slow growth, and barring changes in the present situation, no recession. Others believe that growth in 2013 will be VERY slow, with quarterly GDP gaining less than 1% for the first two quarters. Still others feel that there are enough new taxes coming to push us into a recession. Of course there is still concern that the European debt crisis will influence our economy, but this possibility has been dogging us for many months. Needless to say, the "Fiscal Cliff" crisis remains the proverbial 2000 pound gorilla in the room. In short, the dilemma involves \$600 billion in spending cuts and tax increases that are set to automatically be triggered if a budget solution cannot be reached by January 1. A dislocation of this sort is likely to trigger another recession or a second dip in the present recession, depending on one's point of view. Until recently, most pundits were nearly certain that some kind of an agreement could be reached, even though it might be hammered out at the last minute of the last hour of the last day that congress is in session. However, there is now a movement brewing that some legislators would like to see us go over the fiscal cliff in order to secure a huge de-facto tax increase, which they have wanted for years, and a huge reduction in defense spending, which they have also wanted for years. They feel that these goals cannot otherwise be achieved for many years, given the current and probable future congressional configuration. They are willing to risk a recession and the loss of jobs for 3.4 million people in order to accomplish these goals, and suggest that the new-found revenue be used to provide extensive benefits for the newly unemployed. Of course, if there is another recession, there will be no "new-found" revenue. This scary scenario is aptly referred to as the "nuclear option." Let's hope that wiser minds will prevail.

NOVEMBER COMMENTS FROM SURVEY PARTICIPANTS

"Overall, November was a stronger month than October, even with the holiday shutdowns etc. We're still only cautiously optimistic about the fourth quarter sales totals."

"Business is still strong, however, it looks like things will slow down at the beginning of the new year."

"Most current orders are the result of Northeast's bad weather. Without that, that it is difficult to say where we would be."

"We're coming into the end of the year strong, and looks like a good, stable year in 2013."

"Let's hope we can continue to grow."

"We're seeing some sustained strength in new orders, so we're hiring again."

"We've seen very strong November and December sales orders. In additional, forecasts are very strong."

"The first and second quarter of 2013 are shaping up nicely."

"We are always slow in November and December."

"It seems we are getting a little weakening in the automotive world. Is this a vision of what the future holds?"

"Steady."

"I'm beginning to have customers put major purchases on hold due to the election and new taxes that are coming. I believe that we will see a slowdown in the first quarter until companies can get a hold of what they have to pay in new taxes/health care. We are hearing this across the country and are hoping this doesn't increase the likelihood of a greater slowdown."

"Business has continued steady. We had a good fall."

"Steel mills are still trying to put increase announcements through. At this point, no increases are gaining traction."

"Sales have decreased significantly in November."

"Business has yet to show much improvement over last month, and probably won't until January."

"Same oh, same oh."

"Business remains surprisingly strong heading into year end."

"Business is very flat, but we're holding our."

"There is a lot of sales activity happening now to see if orders can be squeezed in before year end."

"The consultants have arrived ☺."

"Some customers are busy and are moving on projects. Others are still hanging back."

"Business is up, but we are holding back on hiring not knowing what's ahead in terms of taxes and our cost structure."

"We're doing unusually well for this time of year."

"Thankfully, the fiscal cliff has not stopped our customers from ordering."

"We're waiting on many possible large orders."

"We are having a very good year. Sales now appear to be slowing somewhat, though."

"Things appear to be getting better. We just hired five new employees."

November, 2012 Survey Statistics

	UP	SAME	DOWN	N/A	Nov. Index	Oct. Index	Sept. Index	20 Year Average
Sales (New Orders)	38%	37%	21%	4%	+17	+ 6	-2	+29
Production	25%	41%	26%	8%	+21	- 1	-10	+13
Employment	21%	62%	17%		+13	+ 4	+ 4	+ 8
Purchases	25%	43%	32%		+ 8	- 7	+ 0	+ 7
Prices Paid (major commod.)	19%	66%	15%		+17	+ 4	+ 2	+35
Lead Times (from suppliers)	19%	75%	4%	2%	- 2	+15	+ 2	+11
Purchased Materials Inv. (Raw materials & supplies)	19%	47%	30%	4%	- 6	-11	+ 2	- 5
Finished Goods Inventory	17%	61%	23%	9%	- 9	- 6	+ 5	-10

Items in short supply: Machined parts, electrical components, suppliers in China, large machining capacity.

Prices on the UP side: Aluminum, aluminum extrusions, steel, stainless steel, plastic components, plastic laminate, corrugated, plastic resins, paper, PET sheets, carbon steel, vehicles, emulsion, asphalt, trucking, road materials, PVC resin, some additive chemicals, HDPE, scrap steel, cast resin, coating, poplar, plywood, MDF, imported parts, fabric, freight, carbon steel scrap, some industrial supplies, 42lb linerboard, copper products.

Prices on the DOWN side: Fuel*, salt, chlorides, gasoline, titanium dioxide, polypro, some carbon steel**, some aluminum*, computers, copper*.

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

Latest Unemployment Reports

(Note: NOT seasonally adjusted)

	Oct. 2012	Sept. 2012	Aug. 2009	20 Year Low
State of Michigan	8.3%	8.2%	14.8%	3.1%
Kent County	5.5%	5.9%	11.8%	2.1%
Kalamazoo County	5.9%	6.1%	11.1%	2.1%
Ottawa County	5.5%	5.8%	13.3%	1.8%
Barry County	5.0%	5.5%	10.9%	2.2%
Kalamazoo City	8.2%	8.5%	15.2%	3.2%
Portage City	4.5%	4.7%	8.7%	1.3%
Grand Rapids City	7.7%	8.3%	16.1%	3.0%
Kentwood City	5.0%	5.3%	10.7%	1.4%
Plainfield Twp.	3.6%	3.9%	8.0%	1.4%
Holland City/Allegan	2.3%	2.4%	3.7%	0.9%
U.S. National Rate	7.5%	7.6%	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 +17 for the month of November, 2012

Previous Month +6 for the month of October, 2012

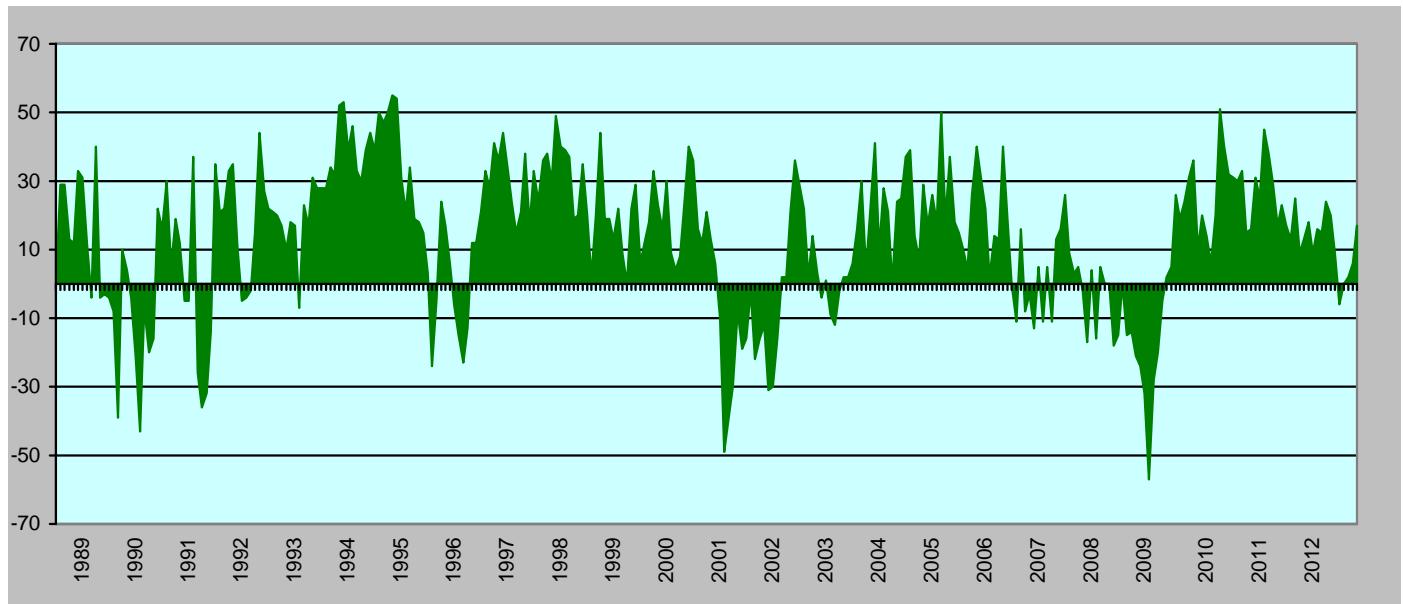
One Year Ago +13 for the month of November, 2011

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

