

## Current Business Trends: A Product of the Great Depression

The monthly West Michigan Current Business Trends report has its roots in the era of post-WWII economic expansions and declines. In this story report, author Brian Long recounts the origins of the publication, which has become a key input for the community.



In 1932, our nation was in the grips of a historic economic downturn that we now call the Great Depression. In Washington, the U.S. government vowed that it was now necessary to revise the way economic data were collected, as well as revise the methodology for gauging employment, unemployment, economic growth, and census data. At the onset of the Great Depression, there were very few ways of measuring the industrial economy, and the federal government had no system for polling private industrial firms. As a stopgap measure, the U.S. Department of Commerce petitioned the National Association of Purchasing Agents (now the Institute for Supply Management) to conduct a monthly survey of its membership for the purpose of gathering data on the health of the industrial economy. The initial questions called for an assessment of five categories, namely (1) New Orders, (2) Production, (3) Employment, (4) Prices Paid, and (5) Lead Times. They wanted to keep the survey easy, so the reply to the questions for each month was a simple “Same,” “Up,” or “Down” for each category. The survey was conducted by mail, the results were tabulated at the NAPA headquarters in New York, and a monthly press release was issued. Although the Department of Commerce and *The Wall Street Journal* repeatedly stated that they found the survey results to be useful, the survey itself initially appeared to have its own problems of lost data as well as inconsistent tabulation in the early years. It is no surprise that the data stream during WWII was especially erratic.

In 1948, the survey was completely reorganized and reprioritized. Several new categories of questions were added, resulting in a stable methodology and a consistent set of data. In the late 1940s, the national press,

especially *The Wall Street Journal*, began to regularly publish the monthly press releases. The prestige of the survey began to grow, and some economists, including Alan Greenspan, built their economic careers around the survey.

In the mid-1950's, many of the local NAPA associations began conducting local surveys closely patterned after the national survey. The goal, of course, was to provide local economic information as a public service, but more importantly, to provide publicity for their respective local purchasing associations. At one time, there were as many as 30 or so of these local surveys conducted by the local associations, including one for Grand Rapids. Because of the timeliness of the information, *The Grand Rapids Press* frequently reported the monthly survey results. For the business editors of most local newspapers, national economic numbers are nice, but LOCAL economic reports are far more relevant to local business readers.

The first Grand Rapids survey conducted by the local purchasing association began about 1960 and lasted until 1972. At the time, a conscious effort was made to include a cross-section of industrial firms, including manufacturers, distributors, and industrial service companies. Unfortunately, the survey committee chairs were all volunteer members of the local purchasing association, and the survey was dropped for the next 17 years, in part for the lack of a volunteer to keep it going.

In 1989, the survey was expanded to include Grand Rapids, although each survey was initially reported as a separate entity. *The Grand Rapids Press* resumed coverage of the survey in 1990 and usually wrote a short monthly article detailing the latest survey results. In 1999, both the Kalamazoo and Grand Rapids surveys were merged into one survey of business conditions for all of West Michigan under the title of "Current Business Trends." Fortunately, the articles in *The Grand Rapids Press* continued until the business reporting was greatly reduced due to declining circulation.

In 2007, Brian Long moved part of the responsibility for the survey to the Seidman College of Business at Grand Valley State University. At the same time, he began to expand the monthly report from two pages to six pages, which allowed for color graphs and other local information relating to the West Michigan economy. The public relations staff of GVSU was given the responsibility of producing a monthly press release as well as creating a monthly podcast, which is now frequently picked up by the local radio stations.

Although the initial survey was conducted by mail, the availability of easy-to-use commercial internet surveys made it possible to begin conducting the survey electronically. By the same token, the monthly press releases, most of which were sent out by mail, could now also be sent as emails. In addition to the local TV and radio stations, the local banks and financial institutions were among the most ardent users of the data. In addition, the Michigan branch of the Federal Reserve Bank located in Chicago utilizes the report as one of many indicators of the health of the Michigan Economy.

Because of the importance of the industrial economy, the main advantage of the survey is that it provides one of the best pictures of the entire economy looking forward. For all U.S. industrial firms, an average of 56% of the firm's budget is spent by purchasing managers, making industrial purchasing the largest dollar control area. For key industries like automotive and office furniture, the supply chains can be very long and involve many layers of secondary suppliers. Hence, one job at a local office furniture company may be supported by as many as ten other jobs down the supply chain. For the West Michigan survey, the aggregate of purchasing managers spends about \$15 billion per year. Hence, a 10% drop in spending can amount to a \$1.5 billion drop in the economy. Over several weeks, the impact of industrial spending, both up and down, cascades through the entire supply chain and ultimately through the national economy. Hence, the industrial economy tends to lead the entire national economy, not just for West Michigan, but for the entire world.

One of the most important statistics, entitled simply "New Orders," asks about the flow of new business coming into the firm or organization. When the index of New Orders turns positive, it means that local firms may begin hiring, purchasing new capital equipment, and ordering more raw materials and supplies. The reason this index is so important is that the government and financial statistics will not pick up the changes, good or bad, for weeks or even months.

A second important statistic is entitled "Production." Some firms run steadily all year long, while others may have seasonal spurts. Hence, some variation in Production is expected, but when the index turns sharply positive, it is an indication that the firms or organizations (as a group) will hopefully have more people and production materials on board to meet the new demand. A sharply negative index of Production obviously foreshadows reduced demand for production material, but when it runs significantly lower for several months, the index often foreshadows the dreaded announcement of layoffs. Again, the financial and government statistics will not pick up these changes for weeks or even months.

A third index, entitled "Employment," depicts the trend in adding or subtracting staff and personnel at all levels in the firm or organization. For most months, this index will remain relatively neutral. When the economy is expanding, the index obviously turns positive and will remain positive until most of the open positions in the West Michigan economy have been filled. Conversely, the index turns negative well in advance of economists finally declaring that we are in a recession. Once again, the resulting unemployment will not be picked up by the government statistics for weeks or months.

A fourth index, "Prices," obviously reflects the prices paid for raw materials and supplies in the industrial markets. The Bureau of Labor Statistics publishes a familiar monthly statistic called the Producer Price Index, but the tabulation is based on asking price, also known as sticker price in some markets. Unfortunately, almost no one in the industrial market pays the asking (or book) price for most products. There are multiple layers of discounts available, and most prices in the industrial market are fully negotiable. In tight markets,

surcharges may be added for fuel, weather, supply chain disruptions, and other means of recovering costs. In addition to being more “real-time,” the West Michigan index of “Prices” provides a more accurate picture of industrial pricing for our local firms. A monthly list of industrial prices on the “up” side as well as the “down” side is also compiled.

Although other survey data are collected every month, one of the more important contributions of the survey is the use of open-ended questions. Participants are invited to voice their opinions about market trends, supply chain problems, and candid comments about the current direction of their respective firms. However, the comments are generic, and individual firms are NEVER identified.

In the past, the primary respondents to the survey have been members of the local purchasing associations in Grand Rapids and Kalamazoo. Going forward, the survey has expanded to include non-members who have a pulse on the trends in their respective firms. Because of the survey’s simplicity (Same, Up, Down), the basic monthly survey can be completed in about two minutes. Of course, completing any of the open-ended questions requires additional effort, but seldom does the time commitment exceed five minutes per month. For the survey participants to benefit from observing the trend in the entire industrial market, the monthly report becomes something like a very candid computer chat room. Upon receiving the monthly report, some participants immediately peruse the commodities that are reported to be up or down in price to compare with their own market experience. Others begin by reading the candid comments set forth by the other participants. Hence, “Current Business Trends” becomes one more tool for successful supply chain management.

If you or a member of your organization would like to contribute to this monthly report, please reach out to us by completing this short form so that we can connect:

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