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Current Business Trends

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GR Manufacturing Remains Flat

Flat again. Two months ago, we saw the Greater Grand Rapids economy slide into the minus column for the first time in three years. Although our local economy has turned very flat, the downward trend fortunately did not continue. According to the data collected in the month ending September 30, 2012, NEW ORDERS, our index of business improvement, edged up to +2 from +0. However, the PRODUCTION index turned negative at -10, down from +5. Activity in the purchasing offices, our index of PURCHASES, flatted to +0, down from +8. The EMPLOYMENT index is always a laggard in any statistical analysis, and after three months of our other numbers softening, this index eased to +4 from +18. All of these statistics continue to depict a flat economy, however, not a recession. Because we have been reporting a relatively slow economy for many months, the fact that the economy has now turned flat will probably go unnoticed by most people on the street. After four years of economic weakness, it seems as though a flat or weak economy is simply becoming the new norm for many people.

Among our local industrial groups, it is little surprise that our automotive parts suppliers are still positive. While they are no longer showing the rapid expansion of a few months ago, they are still holding their own. So far, supply has not caught up with demand in auto sale. As a group, office furniture firms remain stable; not up, not down, but stable. The industrial distributors are also stable, but this month's performance was much more mixed. Because of the current level of economic uncertainty, the capital equipment firms are not doing as well. The comments at the end of this report are showing evidence of a slowing economy.

Turning to the national statistics, the Institute for Supply Management's "Report on Business" dated October 1 reported that the national industrial market has recovered slightly. ISM's index of NEW ORDERS came back to +2 from -8, which is at least positive, albeit by only two points. The PRODUCTION index remained negative at -2 but was better than the -5 we reported last month. The national EMPLOYMENT index edged up to +5 from +3. ISM's overall index recovered to 51.5% up from 49.6. All of these statistics are characteristic of an ongoing slowdown. Although we see no statistical signs of a recession, the national industrial economy is now best described as flat.

The September international report indicates that the world economy is still negative, although the statistics managed to recover slightly. According to the JP Morgan Global Manufacturing Report released on October 1, 2012, the international index of NEW ORDERS edged up to 48.1 from 46.7. This marks the fifth month in a row that this index has been below the break-even point of 50.0. The EMPLOYMENT index flipped back to positive at 50.7, up from 49.5. JPM's composite manufacturing PMI recovered slightly to 48.9 from 48.1. Weakness continued in China, Taiwan, and most of Asia. The four major countries in the Eurozone declined, as well as Austria and Greece. Stronger reports came from Canada, India, Ireland, Russia, Mexico, the Netherlands, and Turkey.

The economic news continues to be filled with mixed signals. Noteworthy negative news in this past month included the downward revision of the second quarter GDP growth to 1.3% from 1.7%. Although some economists have cited the dry weather as a negative factor, it is more likely that the softer industrial markets have dampened the growth rate.

The European debt situation continues the pattern of jumping from one mini-crisis to another. Two weeks ago, there were more riots in Greece. The Spanish banks are still having problems, and riots in Barcelona have signaled extreme frustration over austerity measures. The European Central Bank continues to try to provide stability, but does not really have enough money to do everything that is needed. Greece has rolled out a new austerity program, but there are doubts that it will pass in parliament. In the mean time, the Greek economy shows no sign of recovery, and continues to sink further and further. All of this turmoil in the eurozone continues to be the primary reason for the economic downturn in Europe. In short, European investors lack confidence in the future.

The housing recovery continues to provide stimulus for the US economy. Just as last month, the national Case-Shiller index released on September 25 pointed toward continued recovery in 16 of the 20 surveyed market areas. The local statistics also point toward recovery, and the number of homes being sold as well as the rising average prices clearly indicates that things are finally improving. Granted, we still have a long way to go to find some new state of normality,

but the overwhelming consensus is that we have finally turned the corner. Fortunately, even modest recovery in the housing sector results in consumer confidence rising. For many families, their home is their biggest asset, and stability in home values results in people feeling more confident about their own finances. For an economic recovery, confidence is VERY important. On the caution side, we are still not out of the woods in terms of foreclosures, and some geographic areas are plagued with older real estate in disrepair. These areas, especially those with old or run-down properties, are not sharing in this recovery.

It is no secret that Michigan's recovery has largely been driven by improved auto sales. It is therefore good news that the September sales report from Automotive News came in at a four year high. For the Detroit Three, Chrysler lead the way again with a 12% sales gain compare to September 2011. GM posted a very modest 2% growth rate, and Ford came in dead flat at +0%. Among the foreign nameplates, Toyota gained 41%, Honda 44%, VW 32%, Subaru 32%, and Hyundai-Kia 23%. For the industry as a whole, sales were up 15%. We would like to see stronger sales among the Detroit Three, although many of our local parts suppliers are more and more supplying the plants of foreign brands.

In an election year, the unemployment rates are closely watched. It is therefore good news that the most recent seasonally unadjusted unemployment rates show some modest improvement. For Kent County, the jobless rate fell to 6.8% from 7.7%. In Kalamazoo County, the rate eased to 7.1% from 8.1%. Barry County, which has consistently been lower than most of our local counties, came in at 6.5%, down from 7.2%. For the entire State of Michigan, the unadjusted rate fell to 9.2% from 10.3%. However, when the seasonal adjustment factor is added, the rate translated to 9.4% rate widely reported by the media.

In summary, where do we stand? In just a few more days, the election will be over, our TV ads will turn back to normal, and we will have a clearer picture regarding which direction our nation will go for the next four years. The European situation will continue to influence our domestic economy, but with the multitude of political parties and personalities among the various countries, no solution is imminent. In fact, some experts say that long term solutions for Europe may be many years away. The industrial sector will probably remain flat for at least a couple more months, but there is no evidence at this time of a serious downturn. The improvement in the housing sector will help offset weakness in other sectors. Barring a collapse of the euro, a terrorist act, or a subsequent new war, there is no concrete evidence that another recession is imminent. We ARE, however, continuing on a path of very slow economic growth. This path will probably change in 2013.

SEPTEMBER COMMENTS FROM SURVEY PARTICIPANTS

"Some extruded plastic sheet pricing is lowering (PVC) while others (PET) are warning of increases. Board suppliers for printing process have announced decreased pricing."

"Corrugated suppliers have announced potential increases, supported by the announcement in Pulp and Paper Weekly."

"We are very busy right now. As a company tied to providing packaging for accessories for the iPhone 5, we've been hit with a crushing flood of orders for our product."

"Sale remain on a very slow and steady climb out of a July stall-out and reduction. We are ahead YTD over last year, but the first quarter was still the strongest of all three."

"Business looks be a little softer this month, but the fourth quarter looks to be very busy.'

"We are assessing 2012 to develop 2013 plan."

"Finally, we are in the process of hiring a couple of drivers! We are still down about 32 employees. The average age of our employees is 54! We have several employees well over 62 but because we have a 401K retirement plan, they have no plans to retire soon!"

"The election is starting to scare some customers. I'm hearing that they would like to wait and see what they will be up against."

"No major changes one way or the other to speak of."

"We continue to do well in the ETO/OEM markets that we are in. "

"I guess we will have to wait for the elections to be over to see what happens now."

"We just can't get people to spend money to make big orders."

"I cannot wait to get past the election."

"We're in a mixed mode right now, but have solid bookings for the next two months."

"It seems everyone is waiting to see what will happen in the economy."

"Economy seems to be in a wait and see mode."

"Business is still solid in the auto industry."

"It's hard to keep on time with our customers as our suppliers are not able to keep up. We have added many new suppliers over the past few months attempting to help ourselves."

"We're slowing down, and seeing smaller jobs verses larger projects."

"Some plastic resins will be increasing by a few pennies."

"Business is steady, but the impression is that the economy is slowing."

"I think things are going to get bad. The economy slowing terribly, and soon it will also be autos. The steel market is indicative of it."

"Scrap steel pricing rebounded last month but corrected downward this month. Demand was less than anticipated leaving buyers/sellers questioning a slowdown in the near future."

"Our normal seasonal slowing is beginning."

"Economy appears to be slowing over continued concerns around the world. We continue to see upward price pressures on the commodities, steel, oil and aluminum ingot."

"Looks like our typical sales pattern is holding. Slow 4th quarter of calendar year."

September, 2012 Survey Statistics

	UP	SAME	DOWN	N/A	Sept. Index	Aug. Index	July Index	20 Year Average
Sales (New Orders)	29%	36%	31%	4%	- 2	+ 0	- 6	+29
Production	21%	42%	31%	6%	-10	+ 5	- 5	+13
Employment	19%	66%	15%		+ 4	+18	+18	+ 8
Purchases	23%	52%	23%	2%	+ 0	+ 8	+ 4	+ 7
Prices Paid (major commod.)	12%	74%	10%	4%	+ 2	+ 2	- 5	+35
Lead Times (from suppliers)	12%	76%	10%	2%	+ 2	+ 0	+15	+11
Purchased Materials Inv. (Raw materials & supplies)	23%	52%	21%	4%	+ 2	+13	- 5	- 5
Finished Goods Inventory	17%	60%	12%	11%	+ 5	- 9	- 2	-10

Items in short supply: Electronic components, gears.

Prices on the UP side: India steel products, steel, steel products, carbon steel, fuel, freight, plastic components, grader blades, chlorides, services, brass, PVC resin, plasticizer, corrugated, polypropylene, paper, oil and oil products, aluminum ingot.

Prices on the DOWN side: Stainless steel, aluminum,* aluminum sheets, plastic resin, electronic passive/active components, scrap steel, carbon black, steel,* HDPE.

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

Latest Unemployment Reports

(Note: NOT seasonally adjusted)

	Aug. 2012	July 2012	Aug. 2009	20 Year Low
State of Michigan	9.2%	10.3%	14.8%	3.1%
Kent County	6.8%	7.7%	11.8%	2.1%
Kalamazoo County	7.1%	8.1%	11.1%	2.1%
Ottawa County	6.7%	7.9%	13.3%	1.8%
Barry County	6.5%	7.2%	10.9%	2.2%
Kalamazoo City	10.3%	10.3%	15.2%	3.2%
Portage City	5.4%	6.2%	8.7%	1.3%
Grand Rapids City	9.4%	10.6%	16.1%	3.0%
Kentwood City	6.1%	6.9%	10.7%	1.4%
Plainfield Twp.	4.5%	5.1%	8.0%	1.4%
Holland City/Allegan	2.8%	3.2%	3.7%	0.9%
U.S. National Rate	8.2%	8.6%	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 - 2 for the month of September, 2012

Previous Month + 0 for the month of August, 2012

One Year Ago +25 for the month of September, 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



