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supply management**

Institute for Supply Management

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CURRENT BUSINESS TRENDS

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Steady as she goes. That's the latest word on the Greater Grand Rapids industrial economy, according to the data collected in the last two weeks of August, 2010. Our closely watched index of business improvement, which we call NEW ORDERS, remained almost unchanged at +30, down from +31. However, the PRODUCTION index rose to +42, up nicely from the +27 we reported last month. In a similar move, activity in the purchasing office, our index of PURCHASES, shot up to +46 from +23. The best news came from the index of EMPLOYMENT, which rose to a 16 year high of +46, up from +33. In all, 54% of the firm reported adding staff. Overall, except for new orders, this month's report is stronger than expected. We hope this trend will continue into the fall.

A look at individual industries is encouraging. Our automotive parts suppliers reported production to be strong for the month, but no rush of new orders. For August, GM sales were down 25%, and Ford declined 14%. This does not bode well for September. The reports for the industrial distributors were especially positive, although a couple firms were still stuck in a seasonal summer slowdown. For the office equipment and furniture industry, conditions continue to slowly improve. Two capital equipment firm noted better sales for the month, but most are still just holding their own. The respondent comments at the end of this report are slightly more positive for this month, with several firms continuing to report sales at an all time highs.

At the national level, the results followed the same pattern. The September 1, 2010 press release from the Institute for Supply Management, our parent organization, reported some of the August statistics to be slightly higher. ISM's index of NEW ORDERS remained unchanged at +7. However, the PRODUCTION index rose to +19, up from +12. It was gratifying to see ISM's index of EMPLOYMENT rise to +21, up from +18. This is the ninth month the index has been positive. All these statistics indicate that the U.S. industrial economy is expanding at a slightly faster pace. ISM's overall index rose to 56.3 from 55.5. Clearly, the national economy is still growing, even though the pace has moderated in recent months.

At the international level, the J.P. Morgan Global Manufacturing report released on September 1, 2010, did not follow the same pattern reported by ISM. For the second successive month, growth rate in the index of NEW ORDERS backtracked, this time to 52.5 from 54.0. While still positive, most of the backtracking was attributed to Japan, the UK, and the Eurozone. New export orders for the entire survey hit a 13 month low. In contrast, the international EMPLOYMENT index rose modestly to 53.7 from 53.5. JPM's Global Manufacturing Index came in at 53.8, down from 55.3. However, the survey author noted that much of the "boom rates" earlier in the year can be attributed to rebuilding of inventories. He further noted that "...conditions will continue to cool as the year progresses, but there looks to be sufficient traction remaining to sustain the recovery." This is good news.

Since our last report, some the economic news has been negative. In particular, the second quarter GDP was revised downward to +1.6 from +2.4-- a pretty substantial revision. Looking at the numbers more closely, the big problem continues to be imports, which are still rising in many categories from oil to cars to food and food products. Net imports are a SUBTRACTION to GDP, hence a major cause of the downward revision of the second quarter growth numbers. Most estimates are for the third quarter to be weaker, but still positive.

At best, the news about the housing market continues to be mixed. The financial markets responded especially negative to the July drop in new home sales. In our local survey, firms associated with the housing industry have suffered. Unfortunately, we still have a national inventory of unsold homes that is running about a million units above average. Foreclosures continue to flood the market with houses, bringing down the average sale price of all homes. Our rate of new home construction remains about half of what it was at the 2006 peak, meaning that about half of the home builders are now still out of work, retired, or out of the business altogether.

On the positive side, the August 31 release of the closely-watched Case-Shiller housing index posted a small but significant gain. Since this is the most comprehensive national index of housing prices, it is good to see the trend going in the right direction. The index number for the latest period came in at 147.81, up significantly from the low of 140.83 in May of 2009, but far, far below the high of 206.51 posted in April 2006. A little math tells us that the current index reflects a 28.4% loss in home values over the past four years. However, the trend is still modestly up, although the pundits are not sure that the trend will continue. Some of the recent improvement can be traced to government purchase incentives, which have now expired. Hence, it is worth repeating that it will be many, many years before Case-Shiller returns to the level of 2006. Homeowners now feel 28.4% poorer, and it will take some time for them to adjust to this new reality. Furthermore, the mortgages for 21.5% of all homes are now inverted, which means that more is owed on them than they are worth.

Although inflation continues to moderate for most of the industrial market, the month of August saw a slight uptick. ISM's index of PRICES rose to +23, up from +15. In greater Grand Rapids, the index rose to +18, up from +4. In the Southwestern Michigan survey, we saw a slight decline from +30 to +23. Some of the big ticket items like copper, stainless steel, and plastic resins were generally the cause for the modest increase. Since we now live in a global economy, prices are also influenced by the international markets. Following the same pattern as our local surveys, J.P. Morgan's index of world PRICES rose to 58.5 from 56.9.

Given all of this information, where do we stand with the possibility of the DDR, a.k.a., the Double Dip Recession? It is worth repeating the previous projected odds of 30%. It is also worth repeating that the biggest cause of a DDR will be that we talked ourselves into it. A more likely scenario is that we will simply slide into a period of slow growth, with GDP falling to about 1% for one or even several quarters. Businesses remain worried about the impact of tax increases. Bankers continue to keep credit tight at all levels, and are worried about the impact of the massive overhaul of the financial system recently passed by congress. Business confidence and consumer confidence are still low. Industry wide auto sales for the month of August were down 21%. There will probably be no double dip recession, but welcome to the 2010-2011 slowdown!

COMMENTS FROM SURVEY PARTICIPANTS

“Lead times from the steel mills and alloy foundries are beginning to move out to 8-12 weeks or more.....I hope this is a good sign of economic rebound.”

“Sales and production are picking up as usual for third and fourth quarters.”

“Business continues to look good. Hopefully, we'll continue through the end of the year.”

“We are starting to get very busy. We hope this continues.”

“We just had another great month! Some softening is being talked about for August. Hopefully it will not be a self-fulfilling prophecy. Remain positive and be mindful of expenses, especially as the new healthcare policies come into play.”

“I think the general economy is a question mark. It would be nice to know what is going to happen with expiring tax cuts which affects every American worker and, unfortunately, will probably be manipulated for votes.

“The hesitation to bigger ticket purchases seems to be easing, leading to greater overall sales. Upward pricing pressure seems to be easing.”

“We're having a good summer in automotive.”

“Quoting has increased, but orders have not!”

“We had a great second quarter. And are on pace for a great year.”

“Business is steady, with lots of quoting activity.”

“We have various suppliers struggling with Tier II and III level sub suppliers that are not able to meet current production requirements or have long lead times. There seems little willingness on the part of segments of our supply base to address capacity issues.”

“The past few months have been very busy, but will fall off sharply in the 4th quarter.”

“Tourists numbers are up this summer, but people aren't necessarily spending more money while they are on vacation.”

“It's been a nice ride so far in the automotive industry compared to last year.”

“It is not pretty. Reductions have been confirmed.”

“We are very busy. It looks like we will have a record year.”

“There still is the uncertainty of what the future will bring. Will we continue to gain slowly, or are we headed into the double dip?”

“Steel mills are again announcing price increases. They are trying to prop up pricing, from the last few months of moderately lower pricing.”

	UP	SAME	DOWN	N/A	Aug. Index	July Index	June Index	20 Year Average
Sales (New Orders)	44%	40%	14%	2%	+30	+31	+32	+29
Production	46%	42%	4%	8%	+42	+27	+30	+13
Employment	54%	38%	8%		+46	+33	+36	+ 8
Purchases	48%	42%	10%		+38	+23	+34	+ 7
Prices Paid (major commod.)	26%	62%	8%	4%	+18	+ 4	+26	+35
Lead Times (from suppliers)	32%	64%	2%	2%	+30	+27	+30	+11
Purchased Materials Inv. (Raw materials & supplies)	24%	58%	14%	4%	+10	+15	- 2	- 5
Finished Goods Inventory	20%	60%	10%	10%	+10	+ 0	- 2	-10

Items in short supply: Plastic resin, fabric, some electrical components, stainless steel, plasticizer, butadiene, some pigments, electronics (semiconductors, capacitors), specialty steels, ball and needle bearings, benzene, program start ballasts, overseas transportation from Asia to the US, ABS plastic, DOM tubing, raises/bonuses, funds.

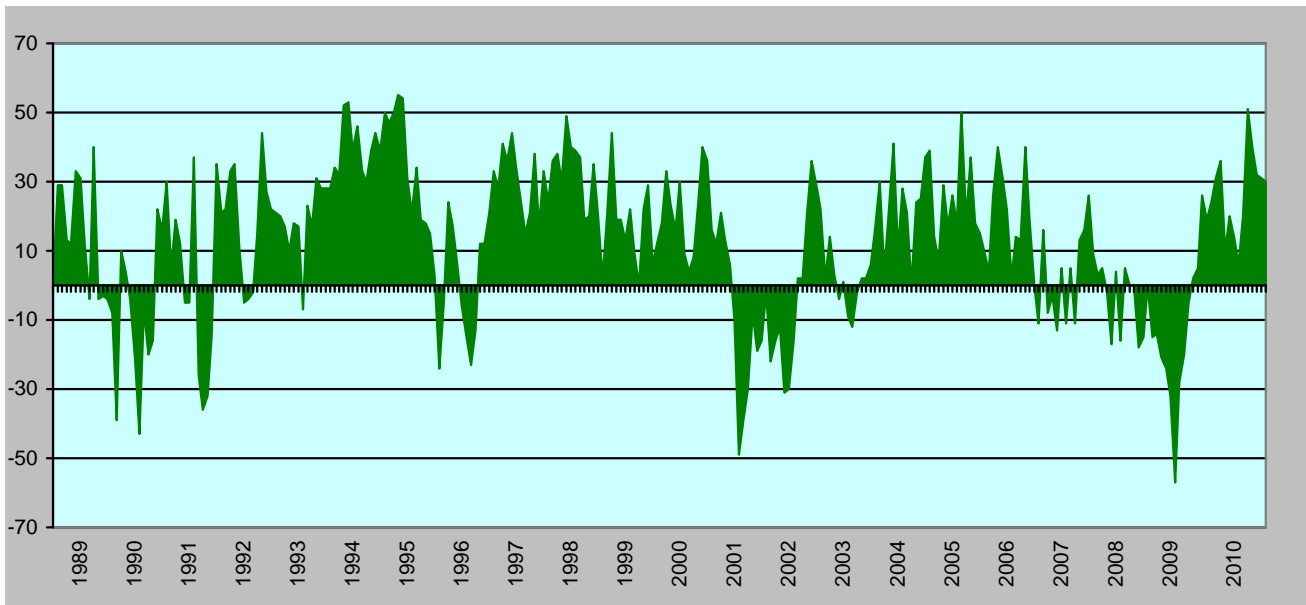
Prices on the UP side: Resins, corrugated, scrap steel, ferromoly, copper, glass (domestic & import), packaging, healthcare, drywall, foam, basic commodities, plasticizer, chlorinated polyethylene, culverts, grader blades, paper products, aluminum, bearings, certain raw materials for steel production, copper, brass, steel, PET film, printing inks, solvents, copper wire, carbon steel, powder paint, aluminum, DOM tubing.

Prices on the DOWN side: Some grades of steel, medium carbon steel, stainless steel, natural gas, gasoline, nickel, PVC resin, polypropylene, some industrial supplies, textile (uniform services), polypropylene film cartons.

Index of New Orders - Greater Grand Rapids 1988 - 2010

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	+30 for the month of August, 2010
Previous Month	+31 for the month of July, 2010
One Year Ago	+24 for the month of August, 2009
Record Low	-57 for the month of December, 2008
Record High	+55 for the month of September, 1994



Index of New Orders: 2005-2010 Only

