



## Institute for Supply Management,

Greater Grand Rapids, Inc.

P. O. Box 230621

Grand Rapids, MI 49523-0321

## News Release (For Immediate Release)

January 7, 2013

# Current Business Trends

By Brian G. Long, Ph.D., C.P.M.

Director, Supply Chain Management Research

Grand Valley State University (269) 323-2359

## GR Manufacturing Economy Returns to "Almost Flat"

We've returned to an unimpressive growth pattern. Despite the optimism of our November Report, December and 2012 ended rather flat. Our closely watched index of NEW ORDERS came in at +4, considerably lower than the +17 we reported last month. The PRODUCTION index backtracked a little as well, remaining positive but coming down to +11 from +21. Activity in the purchasing offices, our index of PURCHASES, picked up slightly to +11 from +8. In a similar move, the EMPLOYMENT index rose to +14 from +13. The comments at the end of this report continue to be more and more mixed. Numerous firms are at full capacity and reporting all-time highs in sales, but others are now concerned about the future.

As we look at individual industrial groups, December was a little slower month than expected for the office furniture business. The specialty furniture firms did not have a good month at all. The auto parts suppliers remain positive, but with a couple exceptions, continue to show signs of topping out. The capital equipment firms were widely mixed, probably because of the volatile nature of year-end activity. For industrial distributors, once again the performance came in mixed, although the bias was still to the upside.

At the national level, the January 2, 2013 press release from our parent organization, the Institute for Supply Management, again came in modestly negative. ISM's national index of NEW ORDERS eased to -7 from -5. The PRODUCTION index also edged lower to -4, down from -1. The best news came from ISM's EMPLOYMENT index, which bounced back to the break-even point of +0, up from a three year low of -7. After the usual statistical adjustments, ISM's overall index edged back above the 50.0 break-even point to 50.7, up from 49.5. This is now the fifth negative report in the past six months, which the survey author generally attributes to "...uncertainty about government relations, taxes, and global economics in general as we approach 2013." In contrast, the U.S. industrial survey from the British economic firm of Market.com came in at 54.0, up from 52.8. Most of the stronger performance was attributed to gains in the PRODUCTION index. Go figure.

At the international level, the January 2, 2013, J. P Morgan international manufacturing report "held steady" at the end of 2012. JPM's Global Manufacturing PMI edged above the 50.0 break-even point and rose to 50.2, up from 49.6. For the Eurozone, business conditions continued to worsen in all countries except Ireland. The downturn accelerated in Germany, Spain, Austria, and of course, Greece. However, China, Canada, Mexico, India, and the UK posted slightly stronger performances. Many of the developing countries are also helping to boost the international economy, and the survey author believes that the strong countries will continue to MORE than offset the weak countries as we head into

2013. However, this assumption is predicated on hope that the current efforts to refinance the European sovereign debt will remain on track, and that the US will avoid a governmental shut-down over the upcoming debt ceiling negotiations.

Just as we do every year, it is time to look ahead at the factor that will define the 2013 economy:

**Automotive.** Largely because of automotive, Michigan's recovery from the Great Recession has been better than most states. After numerous tsunami-related supply interruptions, the auto firms are profitable and back on a roll. For West Michigan, the auto parts suppliers are back to profitability and some are actually growing. For 2012, U.S. auto sales were 13% higher than 2011. However, the so-called pent-up demand, which was caused by the recession and super-tight credit, is now very close to catching up with supply, and auto sales should soon top out at or near the present levels. Current projections call for a 2% to 3% growth rate in 2013.

**Industrial Inflation.** Because of the low interest rates that have prevailed for many years, many money managers have resorted to commodity speculation, resulting in periodic speculative spikes in the prices for key commodities. With the world economy now slowing, speculative spikes seem unlikely for 2013. Hence, industrial commodity prices should behave for most of the year, barring any other financial crisis which could generate another round of commodity speculation.

**Consumer Inflation.** Given the slow rate of economic growth, consumer inflation is unlikely to be a problem in 2013. The more dangerous problem of consumer deflation would become a problem only if the economy weakens significantly.

**Interest Rates.** At least for this year, rates will be held low by Federal Reserve policy. As long as the world financial markets continue to accept minimal rates for U.S. government bonds, we have nothing to fear. However, as a caution, the Greeks saw their 2007 interest rates go from about 3% to 18% in a matter of a few months when the world suddenly concluded that they would never be able to pay back their debt or even the interest on their debt if they continued to spend far more than they took in. This is the real "fiscal cliff" that we will have to face some day if we do not change course.

**Real Estate.** About a week ago, the monthly Case-Shiller was released which concluded, "...that it clear that the housing recovery is gathering strength." According to Zillow.com, the housing price index rose by as much as 10% in certain areas of West Michigan. Record low interest rates will continue to make home owning cheaper than renting for anyone with a reasonable credit score. For those that rent, the worst

of the price increases are over, but the overall rental rates will remain high for the foreseeable future. After five years, the demand for residential housing is finally catching up with the supply, and home value should continue to rise at a modest rate. However, because of the continued wave of foreclosures and bankruptcies, the housing market recovery will remain geographically spotty on a state by state, city by city, and even a street by street basis. For the new home market, the builders who have survived the Great Depression should have a vastly improved 2013, barring a new recession.

**Unemployment.** There is a high probability that unemployment will be lower at the end of 2013, but the path is less certain. As noted in the reports for the last few months, our EMPLOYMENT index has fallen from the highs in the 50% - 60% range down to the teens or even single digits. Hence, reductions in the unemployment rates are apt to be low for the first half of the year. Most of the improvement is likely to come in the June to December time period.

**Uncertainties.** We enter 2013 with one of the longest list of unknowns in history. We have a temporary deal on the fiscal cliff, but MAJOR part of the problems still have to be resolved in another two months. The sequestered funds are still unresolved for two months. The debt ceiling debate is upon us again, and just as if to keep the financial markets jittery, both sides are already posturing for a fight to the 11th hour or beyond. Numerous new taxes for Obamacare kicked in on January 1, and we do not know the reaction of businesses to these taxes. One thing is sure. Small business optimism is still very low by historical standards, and these new taxes will have a negative impact on hiring. The uncertainty is, of course, the magnitude of this impact. Small business is also struggling with the health insurance mandates

required under the law. 40% of firms under 200 people say that the insurance requirement mandate is the prevailing negative factor for hiring. Finally, the financial situation in Europe is still far from settled. Although progress has definitely been made, the world markets will continue to react to individual events throughout the year and throughout 2014 until the situation fully stabilizes. This could still take some considerable time.

**Overall Economy.** With the President and the Congress digging in their heels for the next big fight in about two months over the debt ceiling and sequester, it is hard to imagine that the poisonous atmosphere in Washington will dissipate anytime soon. In fact, it could get worse. This will tend to erode consumer confidence, which is already FAR below the levels of six years ago. Furthermore, it is difficult to assess the impact that the new health care taxes and health care insurance requirements will have on the business community and small business in particular. Historically, large tax increases have been followed by at least some degree of economic weakness. Hence, it would be easy to project economic weakness for the first half of 2013. However, offsetting this weakness will be the housing sector, wherein housing prices should continue to rise for most of 2013 in SOME geographic areas. Rising housing prices will result in enough new construction to offset some of the weakness in other sectors of the economy. Bottom line: The best we can hope for in early 2013 is very slow growth. It is most likely that we will see business conditions remain dead flat, or even decline somewhat. If the business community is able to decide how to deal with the Obamacare mandates and taxes by mid-year, we should see some additional slow growth for the last half of 2013.

## DECEMBER COMMENTS FROM SURVEY PARTICIPANTS

"We're seeing a steady end to a good year."

"Even though bookings are down, some because of the holidays, we will have a very good December and a good start for 2013."

"We have a very steady holiday season of work."

"We're holding steady. Office furniture orders continue to be strong."

"We continue to grow steadily. Manufacturing is alive and well in West Michigan."

"The softening of demand is reducing the price or stabilizing the price of some commodities."

"December is stronger than usual on the sales side, at least MTD. November was stronger than October. Sales remain more than the prior year, but below sales goal."

"We have a typical business cycle, and are slowing at the end of the year."

"Steel pricing continues to show signs of decline."

"December is going as planned, which is relatively flat in terms of sales. January is looking the same way. 2013 Sales forecast as a whole is pretty positive, though."

"2012 is going out with a whimper. We are taking extra steps to lean out cost before entering 2013."

"We are seeing a big push to ship products before the end of the year."

"There is much concern in the future as we face the "fiscal cliff." Automotive continues to look strong. We're keeping inventory levels in check due to the uncertain future. Will our "do nothing" government do something?"

"Business is starting to slow, but it's still very strong. Steel mills continue to push for higher prices but the user is not paying higher prices."

"Some manufactures are real busy, but others are still holding on to see what 2013 brings."

"Everyone is talking an increase of 3.5% after the first of the year."

"The oil and gas sector is doing very well, but the coal sector is heading south."

"Things are slower this month, only due to the upcoming holidays. Sales remain strong in the coming months."

"December volume is pacing ahead of plan by 20%, and December is a traditional slow period in our industry."

"Orders are still steady. Many big orders are pending."

"The cost of doing business is increasing daily while budgets dollars are being restricted and or reduced. Something has to give!"

"Outside of the East Coast storms driving up our current business, durable good orders are not good (fiscal cliff and Holidays) as evidenced by short lead times at steel mills. This indicates weak durable goods orders for all but automotive."

"We're gearing up for increased business in early 2013."

"December is slowing down, but 2012 has been a record year. 2013 looks like it will be similar."

"We are hearing a lot of companies worried about the effects of new taxes and health care rules. Many are holding major purchases until they know the playing field."

"It's been our slowest December for sales since 2009, but January does look a little busier!"

"The fiscal cliff is still providing much uncertainty."

"There are rumblings of a PET increase for sheet stock. Resin suppliers have sent out notices of 5 cent/lbs increase to extruders. Chem Data is reporting similar numbers, so we are likely to see an increase implemented in January."

# December, 2012 Survey Statistics

	UP	SAME	DOWN	N/A	Dec. Index	Nov. Index	Oct. Index	20 Year Average
Sales (New Orders)	37%	26%	33%	4%	+ 4	+17	+6	+29
Production	31%	43%	20%	6%	+11	+21	- 1	+13
Employment	22%	70%	8%		+14	+13	+ 4	+ 8
Purchases	33%	45%	22%		+11	+ 8	- 7	+ 7
Prices Paid (major commod.)	16%	71%	12%		+ 4	+17	+ 4	+35
Lead Times (from suppliers)	4%	94%	2%		+ 2	- 2	+15	+11
Purchased Materials Inv. (Raw materials & supplies)	22%	48%	20%	10%	+ 2	- 6	-11	- 5
Finished Goods Inventory	22%	48%	18%	12%	+ 4	- 9	- 6	-10

**Items in short supply:** Some aluminum grades.

**Prices on the UP side:** Some pigments, steel, stainless steel, aluminum, aluminum extrusions, industrial gases, laminate, metal components, plywood, veneer, phenolic resin laminates, PET resins, gold, copper, copper wire, linerboard, industrial gases (oxygen), scrap metal, carbon steel, limestone, gravel, slag, salt, concrete pipe, drill bits, saws, leather gloves, hydraulic oils.

**Prices on the DOWN side:** Fuel, powder paint, plastic – HDPE & PP\*, gasoline, machined metal parts, computers, steel\*, natural gas, some paper products, petroleum products, brake parts, propane, plastic resins\*, CR steel\*, HR steel\*.

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

## Latest Unemployment Reports

(Note: Data are NOT seasonally adjusted)

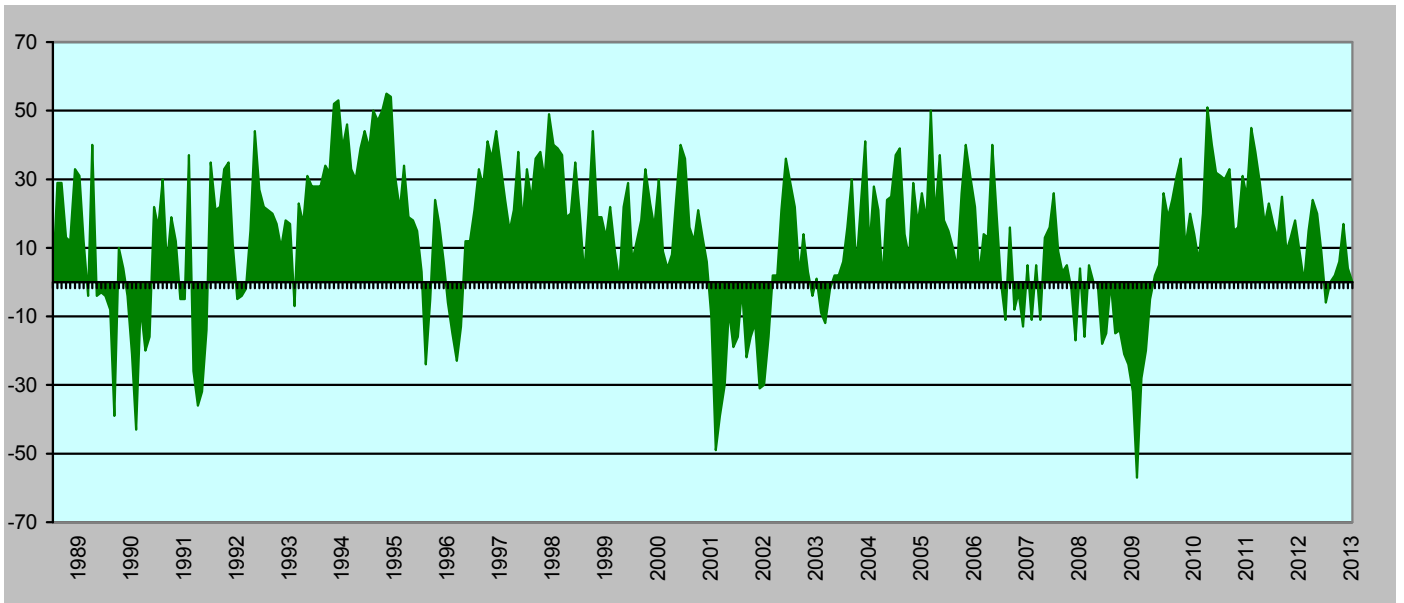
	Nov. 2012	Oct. 2012	Aug. 2009	20 Year Low
State of Michigan	7.9%	8.3%	14.8%	3.1%
Kent County	5.5%	5.5%	11.8%	2.1%
Kalamazoo County	5.9%	5.9%	11.1%	2.1%
Ottawa County	5.5%	5.5%	13.3%	1.8%
Barry County	5.0%	5.0%	10.9%	2.2%
Kalamazoo City	8.2%	8.2%	15.2%	3.2%
Portage City	4.5%	4.5%	8.7%	1.3%
Grand Rapids City	7.7%	7.7%	16.1%	3.0%
Kentwood City	5.0%	5.0%	10.7%	1.4%
Plainfield Twp.	3.6%	3.6%	8.0%	1.4%
Holland City/Allegan	2.3%	2.3%	3.7%	0.9%
U.S. National Rate	7.4%	7.5%	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	+4 for the month of December, 2012
Previous Month	+17 for the month of November, 2012
One Year Ago	+18 for the month of December, 2011
Record Low	-57 for the month of December, 2008
Record High	+55 for the month of September, 1994
First Recovery	+3 in April of 2009 and forward

### Index of New Orders 1988 - 2012



### Index of New Orders 2005 - 2012 Only

