

CURRENT BUSINESS TRENDS

by

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Still slightly down. That's the latest word on the Southwestern Michigan economy, according to the data collected in the last two weeks of April. NEW ORDERS, our index of business improvement, continued to moderate to the level of -4, up from -20. Although still negative, our PRODUCTION index came up to -12 from -24. Activity in the purchasing offices, our index of PURCHASES, moderated to -22 from -40. The EMPLOYMENT index backtracked to -39 from -26. All in all, there are signs that we are getting near the bottom of the recession, but we have still not entered the recovery phase. Since the Grand Rapids "Current Business Trends" survey is coming in a little stronger than ours, we can hope that we will begin to see some positive numbers in a month or two. The unemployment rate in Kalamazoo County is 9.6%, which is still the fourth lowest rate of the 83 counties in Michigan.

Turning to individual industries, it is no surprise to find that some of our auto parts suppliers are struggling just to keep the lights on. Automotive firms that primarily supply Honda and Toyota, although better off than most, are still having difficulties because of the slump in the entire industry. Just like last month, business conditions for distributors continue to be mixed, depending on the nature of the product or service they provide. Capital equipment firms continue to be down. All in all, we appear to be stabilizing, and there continues to be evidence that the worst may now be behind us for most of our industrial groups... EXCEPT automotive.

At the national level, the May 1, 2009 press release from the Institute for Supply Management, our parent organization, is still paralleling our local survey, much as it has since last fall. Just like our survey, ISM's index of NEW ORDERS came back to positive. At +2, this index was nicely improved over the -13 we reported last month. The PRODUCTION index remained negative, but recovered to -13, up from -27. The EMPLOYMENT index moderated to -28 from -43, indicating that the rate of layoffs is lessening. All of this should have resulted in considerable improvement in ISM's index of manufacturing. However, because of statistical variations, the April index only edged up to 40.1 from 36.3.

At the international level, the news is good. The composite index for J.P. Morgan's Global Manufacturing Report dated May 4, 2009 rose to 41.8 from 37.2, its highest level in seven months. Although well below the breakeven point of 50, this constitutes the largest increase in the twelve year history of the survey. Considerable improvement was noted in the index of NEW ORDERS, NEW EXPORT ORDERS, and EMPLOYMENT.

For an automotive state like ours, it almost goes without saying that this month's big news is the bankruptcy at Chrysler. With the help of \$6 billion in additional money from Washington, the company HOPES to form a partnership with Fiat to produce fuel efficient cars. Immediately after the announcement, the company promptly closed all of its plants and sent its entire workforce home for the duration of the bankruptcy. Some suppliers had already stopped shipping parts to the firm for fear that they would not get paid. Since Chrysler sales are down about 46% over last year, the dealer lots are already full of enough cars to last more than the length of the bankruptcy, which is supposed to last no more than 60 days. Fiat will emerge with 20-35% ownership of the company, and the UAW will net a 55% stake. The remaining stock will be held by the US and Canadian governments. With the June 1 deadline for General Motors looming, what path the Chrysler bankruptcy takes will probably form a pattern for the reorganization of GM, whether through a pre-planned bankruptcy or a government-refereed reorganization.

There are several big problems with the government's plan. First, Fiat is far from being a stable company by itself, and has already been propped up by the Italian government. Hence, they bring almost no useful management expertise to the table. Second, the plan for restructuring calls for Chrysler to gain access to Fiat's expertise in manufacturing small, fuel efficient vehicles. However, with gas now just over \$2 per gallon, fuel-efficient vehicles are no longer selling nearly as fast as a year ago. The Toyota Prius is now selling at a discount, and the firm is introducing a third generation of the vehicles in October which are reported to improve fuel efficiency even more. The new Honda Insight is already in the showrooms. This is really tough competition. Finally, no one seems to be addressing the issue of whether anything the Chrysler produces will actually sell when it finally gets to the showroom. Except for irritating television ads, the auto industry has ignored Marketing 101 principals for years. Given this entire situation, Chrysler will probably be back to ask for MORE government money.

Last month, we discussed the problem of inventory liquidation. The end of inventory liquidation is and has been a key to the end of this or any other recession in the past 80 years. Fortunately, the news media in recent weeks has been filled with news that inventories around the world are declining significantly, both for raw materials and finished goods. As a result of the inventory glut finally being worked down, aluminum ingot is up 15% just since March, and copper is up 62% since December. Unfortunately, steel is still being overproduced around the world, so prices have not yet stabilized. Furthermore, the raw material inventories being held by firms are still too high. ISM's April index of INVENTORIES came in at -31, which indicates that many firms are still overstocked and still trying to work those inventories down. Similarly, the Greater Grand Rapids index of PURCHASED MATERIAL INVENTORY came in at -25, and the index for Southwestern Michigan was at -26 for April.

Finally, the national media reports are starting to talk about evidence of modest improvements in our national economy, even though home prices are still falling. It is worth repeating that the United States may pull out of the recession, and leave Michigan still mired in the same state-wide recession that began three years ago. However, the economy on the west side of the state will continue to outperform the economy of the Detroit-Flint-Saginaw area.

COMMENTS FROM SURVEY PARTICIPANTS

"We've received many calls from new suppliers wanting business. They're looking for anything to quote."

"Volumes are seeing a good trend upward."

"Another round of layoffs is going to be hitting us on Friday. Sales are off by about 50% at this point. Things are not looking good."

"January started off with a bang. However, February and March proved to be much quieter months. April is shaping up to much the same, though we look for things to improve in late May and into the summer. Lots of activities on the sales side are uncovering opportunities which are setting us up nicely as things slowly improve (and they will despite the daily barrage of doom and gloom...)."

"All we can do is hang on and pray."

"Business is better than expected, but not near last year's level. We are experiencing increased activity in the aftermarket that is supporting our production."

"Business is strong, in spite of seasonal slump."

"We are moving tools at several suppliers. This is worse than 1984."

"We're back to the zig-zag up-down pattern that was so prevalent in the last year. Business overall is still far below what I would call normal levels, but with cutbacks, we are holding our own. It would be nice to see two UP months in a row."

"The beginning of April was the slowest it has been."

	UP	SAME	DOWN	N/A	Apr. Index	Mar. Index	Feb. Index	22 Year Average
Sales (new orders)	26%	44%	30%		- 4	-20	-35	+11
Production	17%	27%	39%	17%	-12	-24	-23	+10
Employment	4%	53%	43%		-39	-26	-31	+ 2
Purchases	17%	44%	39%		-22	-40	-39	+ 7
Prices Paid (major commod.)	4%	57%	35%	4%	-31	-20	-38	+ 2
Lead Times (from suppliers)	26%	48%	26%		- 0	-28	-23	+27
Purchases Material Inventory (Raw materials & supplies)	4%	44%	30%	22%	-26	-20	-26	- 6
Finished Goods Inventory	9%	39%	39%	13%	-30	-24	-30	- 4

Items in short supply: None reported

Prices on the UP side: Plastic resins, forgings.

Prices on the DOWN side: Brass, most metals, fuel oil, gasoline, lubrication products, you name it.