



**National
Association of
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Association of Purchasing Management in Michigan

49003

CURRENT BUSINESS TRENDS

Dr. Brian G. Long, C.P.M.
Director, Supply Chain Management Research
Seidman College of Business
Grand Valley State University
(616) 331-7491

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Still modestly improving. That's the latest word on the Southwestern Michigan economy, according to the data collected in the last two weeks of July. Our closely watched index of NEW ORDERS edged up to +17 from +8. However, the PRODUCTION index retreated back to +0 from +21. The EMPLOYMENT index remained negative, but moderated to -13 from -25. Our index of PURCHASES also moderated to -8 from -16. Despite these mixed signals, the strength in NEW ORDERS is enough to rank this month's performance as "modest improvement."

Looking as we always do at individual industries, SOME auto parts suppliers are starting to see some modest improvement in business conditions. For the industrial distributors, the month was fairly flat. Capital equipment firms are still down, although the rate of decline has clearly subsided. We also have a few miscellaneous firms in our area that are doing well, which helps to keep our numbers up.

At the national level, the August 3, 2009 press release from the Institute for Supply Management, our parent organization, shows the national economy is modestly improving. ISM's index of NEW ORDERS came in at +11, up from +4, the highest this index has been since July 2007. The PRODUCTION index moved up to +16 from +10, the highest the index has been since June of 2007. The EMPLOYMENT index remained negative, but moderated to -8 from -16. The overall Index of Manufacturing came in at 48.9, up considerably from 44.8, but still not to the break-even point of 50.0.

The news at the international level continues to be positive. The composite index for J.P. Morgan's Global Manufacturing Report dated August 3, 2009 rose to 50.0, up from 46.9. NEW ORDERS rose to 53.3, up from 49.0. Countries reporting business condition as improving included China, India, and the UK. Although still declining, moderation in the rate of decline was noted in countries like Germany, France, the Netherlands, and Australia. Ireland and Brazil were cited as countries where conditions are still worsening. The EMPLOYMENT index stayed below the break-even of 50.0, but moderated to 45.1 from 42.3. Although only China and Turkey posted EMPLOYMENT readings above the break-even point of 50.0, the survey author noted that "... signs are that the worst of the labour market retrenchment may be behind us."

Since last month, the big news for Michigan has been the "Cash for Clunkers" program, officially known as the Car Allowance Rebate System (CARS). Although the program was supposed to start on July 1, it took the NHTSA three weeks to get the 136 page rule book written and the web-based computer approval system in place. The framer vastly underestimated the impact that \$3,500 to \$4,500 would have on the car market. The initial \$1 billion was used up in just six days, and as of this writing, the bill to extend the program by another \$2 billion has been passed by the House and sent to the Senate. Some dealers have had their lots stripped of all vehicles eligible under the program, and there is talk among the Detroit Three of bumping up the production schedules of the 2010 models-- just to get cars back on the dealer lots. Clearly, this is great news for Michigan, and especially good news for our local auto parts suppliers.

It is no real surprise that the CARS program resulted in a boost for automobile sales for the month of July. At +2.4%, Ford posted its first positive sales increase in 19 months. The losses for the other major firms are less than they would have been had it not been for the "clunker" program. General Motors dropped by 19.4%, Chrysler fell 9.4%, Honda slipped 17.3%, and Toyota was down by 11.4%.

At the national level, there was some good news for the housing market. Although it received only modest media attention, Case-Shiller, the national index of housing prices in 20 major metropolitan areas again saw the rate of decline subside by about a half percentage point. More importantly, The Detroit market posted a similar uptick for the first time in many months. Again, year-over-year prices are still falling in all markets, but the rate of the decline is definitely moderating. This has resulted in some analysts to suggest that the overall housing market may have bottomed out last January or February.

The news for the inventory situation is good at the local level, but ISM's index of INVENTORIES is still a problem. At -35, ISM's index of INVENTORIES remained near a record low. However, the Greater Grand Rapids index of PURCHASED MATERIAL INVENTORY recovered to -17 from -28. For Southwestern Michigan, the index turned positive at +4, up from -6. All in all, the prices for "big ticket" commodities like steel, copper, and aluminum are starting to rise, indicating that liquidation may be ending and that prices will stabilize. It is again worth noting that price stabilization is essential to economic recovery.

In summary, the long-awaited recovery has arrived, but a slow recovery should still be expected. The "Cash for Clunker" program may have been the catalyst that the auto industry needed to stage a turnaround, but time will tell. The worldwide economy is improving, which will help our domestic economy, especially for firms that do a lot of export business. All of this could still be tripped up by the massive treasury funding and refunding that we expect the world to purchase over the next few months. Finally, we should not expect the jobs to come roaring back any time soon. Employment is always a laggard in any recovery, and this one will be no exception.

COMMENTS FROM SURVEY PARTICIPANTS

"We had a rush of orders for June, 30% over forecast. We are now scrambling for raw material. We wonder if this is a bubble or longer term."

"Things were looking better last month (June). Sales have slowed again."

"We are fortunate to have been able to pick up business on the east side of the state in significant volumes because of the failure of several former competitors to plan better and adjust to the difficult economic times. We continue to predict modest growth throughout 2009 due to the customer's desire for cost effective products, programs and service. The business is there for those who go beyond and offer exceptional service and products. We are also fortunate to be in S.W. Michigan, where our basic economy is better diversified and the overall attitude is much more positive, upbeat and realistic."

"This is our typical seasonal upswing."

"Overall, June was a strong month for order entry, although it was weighted on the front end pretty heavy. As the month progressed, it got pretty slow. July is off to a slow start, so the every other month up/down cycle looks to be holding."

"July has picked up a bit. Let's hope the trend continues into August!!!"

"We were off Saturday 7/4 for the Holiday & 7/11 for company picnic. Otherwise, we are running full capacity, 6 days per week."

"Some suppliers are raising minimum buys to compensate for lower volumes and lower material prices."

"Lead times from suppliers are still abnormally long because the need to hold less inventory is emphasized."

"Steel numbers are on the rise. We will see how long it last given that there is still very little demand."

"Petro-goods costs are unpredictable."

	UP	SAME	DOWN	N/A	July Index	June Index	May Index	22 Year Average
Sales (new orders)	38%	41%	21%		+17	+ 8	- 7	+11
Production	21%	41%	21%	17%	+ 0	-21	- 4	+10
Employment	8%	71%	21%		-13	-25	-21	+ 2
Purchases	25%	42%	33%		- 8	-16	-26	+ 7
Prices Paid (major commod.)	12%	84%	4%		+ 8	- 8	-21	+ 2
Lead Times (from suppliers)	29%	46%	25%		+ 4	+ 9	- 9	+27
Purchases Material Inventory (Raw materials & supplies)	21%	41%	17%	21%	+ 4	- 9	- 4	- 6
Finished Goods Inventory	17%	59%	12%	12%	+ 5	+ 0	-11	- 4

Items in short supply: Stainless steel pipe, some wire.

Prices on the UP side: Copper, LLPE, HDPE, polypropylene, brass, ABS, PC/ABS, metal prices and surcharges.

Prices on the DOWN side: Energy related commodities, gasoline, some poly bags, some steel.