Kalamazoo, MI 49003

National Association of Purchasing Management Southwestern Michigan
P. O. Box 2744
Kalamazoo, MI 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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Up, but not quite as robust. That's the latest word on the Southwestern Michigan economy, according to the data collected in the last two weeks of November. NEW ORDERS, our index of business improvement, remained positive but retreated to +39 from last month's near-record +50. Following the same pattern, the PRODUCTION index backtracked to +30, down from +50. The index of EMPLOYMENT flattened to +0, down from +19. Because of the slightly slower pace, activity in the purchasing offices, our index of PURCHASES, eased to +38. Even though these numbers are not setting records, they are still very positive. This is our sixth positive report since the recovery for Southwest Michigan began in June, and it is not a surprise to see this report come down to a more normal level.

Turning as we always do to individual industries, the "cash for clunkers" surge for our auto parts suppliers appears to have run its course, although better business conditions for GM and Ford have help to stabilize the market. Like many previous months, November's business for industrial distributors came in widely mixed. For capital equipment, most firms are reporting business conditions to be stable but flat. The participant comments at the end of this report are still cautiously optimistic, and there is a mood that we will mark time until we get into 2010.

At the national level, the December 1, 2009 press release from the Institute for Supply Management, our parent organization, shows that the national economy is still expanding, but the pace has leveled out. ISM's closely watched index of NEW ORDERS rose to +14 from +10. However, the PRODUCTION index backtracked modestly to +16 from +22. Unfortunately, the EMPLOYMENT index flipped back to negative at -1, down from +4. ISM's overall Index of Manufacturing declined to 53.6 from 55.7. The survey author notes that "…the recovery in manufacturing is continuing, but many are still struggling."

The news at the international level continues to be positive, although the October report was slightly less robust. The composite index for J.P. Morgan's Global Manufacturing Report dated December 1, 2009 retreated from the 39 month high of 54.4, and eased to 53.6. Manufacturing output backtracked to 56.7 from 58.3. JPM's November index for NEW ORDERS moderated to 56.4 from 56.8. Individual country reports were strong for countries like Taiwan, China and Brazil, but weak for countries like Japan. Although the Eurozone hit two year highs for PRODUCTION and NEW ORDERS, the European manufacturing sector "…continued to lag behind the global averages in November." At 49.1, JPM's index for worldwide EMPLOYMENT is still below the break-even point of 50.0.

For the auto industry, sales have turned flat. In November of 2009, the industry sold 747,086 vehicles, which is exactly 35 more than the 747,051 they sold in November of 2008. Sales at GM were down 2%, Toyota was up 3%, Honda was down 3%, and Ford was up by only 123 units. Indeed, the worst may be over for the current automotive slump, although consumers are still held back by tight credit. As consumer confidence grows, auto sales should start to edge up as we enter the first quarter of 2010. The number of miles driven by the motoring public is up so far in 2009, and sooner or later, the current fleet on the road will have to be replaced. However, sales for Chrysler fell 25% in November.

As the value of the US dollar continues to fall, there remains an underlying fear that the price of imported commodities will spiral into a new round of inflation. So far, there is no evidence in our surveys that this will be a problem any time soon. In Southwestern Michigan, our index of PRICES came in at +13. For the Greater Grand Rapids survey, PRICES retreated to a scant +2. For the ISM national survey, the index is a modest +10. In general, the world economy, although improving, has yet to strain the capacity for big ticket items like steel, aluminum, and some forms of plastic resins. However, in the age of JIT inventories, there is no buffer supply in the system, and any threat to supply could result in prices doubling overnight. Significant increases for several major commodities would fuel inflation to the point the Federal Reserve would be forced to take action.

As we head into 2010, what should we expect? First and foremost, the recovery will continue, barring some unforeseen event. Contrary to some of the financial pessimists on television, there is no evidence to suggest that this recession will have a second leg to it. For Michigan, the recovery will be helped by a partial recovery of the auto industry. Whereas it will take many years for auto sales to climb back to the 16-17 million range of 2005-2006, we should settle into a new sustainable range of about 13-14 million cars by 2011. At the present rate, Chrysler will be forced out of business, except for the Jeep brand which will probably survive. Fortunately, we do not have a lot of companies in West Michigan that are directly tied into Chrysler. Furthermore, production levels have sunk to the level that the end of Chrysler will probably be no more than a small economic ripple. Hence, overall Michigan unemployment rates will probably continue to climb until about the middle of 2010.

Unfortunately, the housing market will continue to be an economic wet blanket for the entire nation. Although there are some empty houses and foreclosed houses throughout West Michigan, the market situation on the east side of the state is much worse. Despite the ample availability of cash, the financial institutions are still very tight with credit restrictions for potential home buyers. Furthermore, mortgage delinquencies are STILL growing, which means there will be more houses thrown on the market throughout 2010.

Finally, we need to keep an eye on the State of Michigan budget, given the drop in revenues from almost every source. Although the budget is now in place for fiscal 2010, the expected shortfall for 2011 is about $20 million dollars. This will put pressure on all government services, from repairing roads to schools to social services. It will take many, many years for these revenues to come back.

COMMENTS FROM SURVEY PARTICIPANTS

"We actually have orders for several American made trucks this month-- kind of rare for us."

"Right now, the market is jittery no one really know what do. To buy inventory or not to buy?"

"For the last two weeks, business has been up!!!"

"The market is currently flat. We're anticipating increased activity in 2010."

"Our business is very strong, and we're running 24/7."

"The prognosis for next 6 months looks pretty good if our customer's forecasts hold true."

"Long lead times from suppliers continue to be an issue."

"Short deliveries to customers and longer lead times from vendors are keeping us busy, but not the 'good' kind of busy."

"Business is slow. The month started good, but didn't finish. The beginning of November is horrible."

"We're seeing slower delivery times for imported items."

"Overall, the month was much like October, although it had a very slow start."

"We are finding many suppliers that are not able to keep up with our uptick. They can't deliver in the time necessary. I just got off the phone with a vendor that didn't put some painted sheet metal under heat to speed drying because the owner said to reduce costs. Since he's out of town and not available, no one would give the OK without his approval."

	UP	SAME	DOWN	N/A	Nov. Index	Oct. Index	Sept. Index	22 Year Average
Sales (new orders)	52%	35%	13%		+39	+50	+19	+11
Production	39%	35%	9%	17%	+30	+50	+38	+10
Employment	26%	48%	26%		+ 0	+19	+12	+ 2
Purchases	39%	48%	13%		+26	+38	+15	+ 7
Prices Paid (major commod.)	17%	79%	4%		+13	+15	+15	+ 2
Lead Times (from suppliers)	43%	57%			+43	+46	+23	+27
Purchases Material Inventory (Raw materials & supplies)	17%	57%	9%	17%	+ 8	+30	+19	- 6
Finished Goods Inventory	4%	66%	13%	17%	- 9	+11	+19	- 4

Items in short supply: Wire, cable, LEDS, some packaging materials, some electronic components.

Prices on the UP side: Brass, copper, steel, plastic resins.

Prices on the DOWN side: Steel is beginning to slide, polypropylene resin had a sharp rise followed quickly by a sharp decline.