

**National  
Association of  
Purchasing  
Management**

**National Association of Purchasing  
Management Southwestern Michigan**  
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## **CURRENT BUSINESS TRENDS**

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Slow growth. That's the latest word on the Southwestern Michigan economy, according to the data collected in the last two weeks of December. NEW ORDERS, our closely-watched index of business improvement, retreated to +19 from +39. However, the PRODUCTION index rose modestly to +33 from +30. Regrettably, our EMPLOYMENT index turned slightly negative a -5, down from +0. In a reflection of the holiday mode, activity in the purchasing offices, our index of PURCHASES, eased to +9 from +26. All in all, our statistics still depict slow but steady growth, even though the pace of the recovery has slowed since the summer and early fall of 2009.

Turning as we always do to individual industries, several of our auto parts suppliers are continuing to post better results, although there is still a lot of nervousness about the rest of 2010. For industrial distributors, the results were unusually strong for December, probably because of heavier maintenance schedules for the holiday down time. For capital equipment, most firms are still flat, although business outside of the state seems to be picking up. Overall, the mode is still cautiously optimistic for the start of 2010.

At the national level, the January 4, 2010 press release from the Institute for Supply Management, our parent organization, shows that the national economy is still expanding at a fairly modest rate. ISM's index of NEW ORDERS rose very slightly to +16, up from +14. Just as last month, the PRODUCTION index backtracked to +10 from +16, although part of this reduction is seasonal. The EMPLOYMENT index remained negative at -1. ISM's composite index rose to 55.9 from 53.6, which bodes well for 2010. This is the fifth consecutive month for the index to come in ahead of the break-even point of 50.0.

At the international level, the results are slightly better. JPM's December index of NEW ORDERS edged up to 58.2 from 56.8. For the first time since March of 2008, the EMPLOYMENT index turned positive. The composite index for J.P. Morgan's Global Manufacturing Report dated January 4, 2010 rose to a 44 month high of 55.0. China, France, Brazil, Taiwan, and India were countries reporting better business conditions, but the euro area lagged behind. Although worldwide pricing pressures are rising, the author noted that "... if a rebound in the labour market can be maintained, this should aid with sustaining a broader recovery."

Taking a look at 2010, here's where we stand:

**Automotive.** It could be many, MANY years before we return to a sales rate of 2005. However, people are still driving almost as much as they used to, so the existing cars will some day need to be replaced. The July "Cash for Clunkers" program marked a turnaround in the industry, and unit sales have continued to improve. Hence, modest sales growth should prevail in most of 2010.

**Industrial Inflation.** The 2008 collapse of the commodity speculation bubble resulted in many industrial commodities falling to inflation-adjusted record lows. Over the past year, the worldwide recovery from the recession has escalated prices for key commodities like copper, aluminum, zinc, lead, and nickel back to normative levels. Unfortunately, 2010 will probably see a continuation in the rise of industrial commodities for at least the first half of the year. With increasing amounts of the steel manufacturing capacity being owned by fewer and fewer mega firms, the prices for many grades of steel may be held artificially high. To a lesser degree, the same scenario may be true for plastic resins and some industrial chemicals.

**Consumer Inflation.** Although there is always a lag time, industrial inflation eventually spills over into consumer inflation. With the high unemployment rate, consumer borrowing still relatively low, and the Chinese Yuan apparently pegged near its present level, consumer inflation should remain moderately low for the first half of 2010. If the economy continues to improve at its present rate, we will probably begin to see more consumer inflation in the second half of the year. With the price of natural gas relatively low, the cost of home heating for the national as a whole should be relatively low for the 2010 season, but may rise considerably for 2011.

**Interest Rates.** Any attempt to raise rates at this time would shake consumer confidence and depress the stock market. Even though rates are now artificially low, the FED will wait until there is compelling evidence of the return of inflation before experimenting with some incremental increases. So far, the Treasury Department has had very good luck throwing trillions of dollars in new debt on the market. As the world economic recovery unfolds, this luck could run out, resulting in the world credit markets pushing our domestic rates higher. A small increase could probably be absorbed, but a large increase in rates would stall our recovery in its tracks.

**Real Estate.** With mortgage rates near record lows and government tax incentives still in effect, home sales will modestly increase for the first half of 2010. Given the likelihood that new incentives will be activated when the old ones run out April 30, this trend should continue for the rest of the year. However, more bankruptcies and foreclosures for the foreseeable future will continue to add more houses to the market. Would-be buyers will continue to demand lower prices. Just like automotive, it could be many, MANY years before we return to a real estate market like 2005.

**Unemployment.** If it hasn't already done so, the national unemployment rate should peak in the first few months of 2010. The unemployment picture for Michigan will remain negative, and probably escalate with plant closures. Although there will be new jobs in some sectors, these gains will be offset by the loss of manufacturing jobs.

**Overall Economy.** For 2010, we expect the industrial economy to continue modest improvement on the west side of the state. However, the continued cutbacks in automotive will keep the State of Michigan fiscal budget in the red. Another reminder: One successful terrorist attack and all bets are off. We will slide back into a second leg of the recession.

## COMMENTS FROM SURVEY PARTICIPANTS

"Acquisition has netted additional purchasing leverage. Suppliers that were "small" players are now large in the portfolio. Rule of thumb: Suppliers need to take a proactive approach with customers to sustain long term prosperity. Otherwise, they will be put to the curb."

"Business has really increased in the last three weeks"

"We're continuing to run at elevated production levels."

"We're seeing a pretty strong finish to the year end. Hope it lasts."

"What recovery???? November was the worst new order entry month in 19 years. This slowdown started back the last week of September. October was bad, and then it declined to horrible in November. Personally I think all this talk of a recovery is wishful thinking. It's NOT reality. Just because politicians say it is so, does not make it so."

"December stayed pretty steady with not much of a change in volume from November."

	UP	SAME	DOWN	N/A	Dec. Index	Nov. Index	Oct. Index	22 Year Average
Sales (new orders)	38%	43%	19%		+19	+39	+50	+11
Production	38%	38%	5%	19%	+33	+30	+50	+10
Employment	14%	67%	19%		- 5	+ 0	+19	+ 2
Purchases	33%	43%	24%		+ 9	+26	+38	+ 7
Prices Paid (major commod.)	33%	67%	0%		+33	+13	+15	+ 2
Lead Times (from suppliers)	29%	66%	5%		+24	+43	+46	+27
Purchases Material Inventory (Raw materials & supplies)	19%	52%	10%	19%	+ 9	+ 8	+30	- 6
Finished Goods Inventory	10%	52%	19%	19%	- 9	- 9	+11	- 4

**Items in short supply:** Electronic components, aluminum extrusions, some wire, LEDS.

**Prices on the UP side:** Aluminum extrusions, some plastic resins, steel, copper, plastics and plastic resin, polypropylene, brass, electronic parts.

**Prices on the DOWN side:** Some resin based products.