Kalamazoo, MI 49003

National Association of Purchasing Management

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

February 2, 2010

Very slow growth. That's the latest word on the Southwestern Michigan economy, according to the data collected in the last two weeks of January. NEW ORDERS, our index of business improvement, remained positive but eased to +4 from +19. The PRODUCTION index eased to +27 from +33, but this backtrack was much more modest. Regrettably, our EMPLOYMENT index fell to -23, down from -5. The index of PURCHASES eased to +0 from +9, which is disappointing. All in all, our statistics depict very slow grow, but growth is still growth. The recent announcement of the Dana closure tells us that growth may be slow for the next few months.

A look at individual industries helps to clarify the picture. In general, it was disappointing to see that almost no firms had a post-holiday bounce, which is often typical of January. Our auto parts suppliers held their own for the month, but only one recorded any significant amount of new business. The industrial distributors were also stable, but not as robust as December. One distributor posted a 19 year low. For capital equipment, most firms are still flat. Overall, the mode has grown a little more cautious as we enter the second half of the winter season.

At the national level, the February 1, 2010 press release from the Institute for Supply Management, our parent organization, shows that the national economy is expanding nicely. ISM's index of NEW ORDERS rose to +25, up from +16. The PRODUCTION index jumped to +27, up significantly from +10. It was good to see the index of EMPLOYMENT turn back to positive at +3. ISM's composite index jumped to 58.4, up from 54.9. The survey's author noted that this is the sixth consecutive month that the index has come in ahead of the break-even point of 50.0, and that it provides "…significant assurance that the manufacturing sector is in recovery.".

The news at the international level is also very good. J.P. Morgan's Global Manufacturing report released on February 1, 2010 saw the January index of NEW ORDERS rise to 59.5 from 58.3. JPM's index of PRODUCTION jumped to a 69 month high of 60.2, up significantly from 57.5. Solid gains were reported in France, Germany, Italy, and the Netherlands. Spain, Ireland, and Greece remained negative. The Eurozone and Japan showed improvement in January, the pace was well below the world average.

This month's big economic news comes from the Commerce Department which announced that the preliminary estimate for economic growth in the fourth quarter of 2009 came in at 5.7%, the highest expansion rate in six years. However, the same report notes that a whopping 3.4% of that figure was the result of halting inventory liquidation, or, conversely, rebuilding of depleted inventories at other points in the supply chain. This analysis is collaborated by the recent history of the index of INVENTORIES in our local survey, which saw firms accumulate inventories in a panic as prices and shortages skyrocketed in 2008. Commodity prices fell dramatically at the end of 2008, as speculators exited the market and industrial firms all over the world began using up the inventories that they had accumulated. In the middle of 2009, these excess inventories were depleted, the speculators were gone, and GDP as well as the statistics for this survey as well as the ISM national survey and JPM international survey began to show positive growth.

Another issue that has received attention in financial circles is the alarming rate of the increase in the federal debt. Because of the sheer strength of the dollar, we thus far have been able to float trillions of dollars of new debt on the national and international money markets with little apparent short term consequence. This has helped us fund wars in Afghanistan and Iraq, as well as huge amounts of money to bail out financial institutions and the auto industry. Under the terms of the Maastricht treaty, the European nations collaborating in the Eurodollar are restricted to relatively low budget deficits, and have no such budgetary freedom. China, which holds about $700 billion of our debt, has been especially vocal about opposition to our fiscal mismanagement. The dollar has continued to fall in value, which ironically helps our economy by making it easier to sell our products and farm commodities around the world. However, if there were to be a run on the dollar, the Fed would be forced to raise interest rates immediately to stop the collapse. This could generate a second leg to the recession. The same would be true if the foreign governments like China were to put a retaliatory freeze on additional purchases of our debt, or even worse, begin dumping the debt on the open market. This would clearly not be in their economic best interest, but the threat is still there all the same.

A third issue up for discussion is the concern over the impending return of inflation. Whereas our current indexes of PRICES in all of the surveys mentioned in this report are relatively benign at this time, they could spike up on relatively short notice. In recent months, we have noted that the list of commodity prices on the "Up" side has grown considerably, particularly for high-ticket items such as copper, aluminum, and steel. Since we import large quantities of these commodities from overseas, the falling dollar has clearly contributed to this problem. Although there may be no reason for the Fed to take action at this time, this situation could change if these price increases get out of control.

Finally, it is worthwhile to make mention of the term, "recovery." In technical (i.e., mainstream economic) terms, a recession is defined as "three continuous quarters of economic decline." Hence, the "recovery" officially began in the third quarter of last year, and some pundits said that the recession was "over" as of approximately June, 2009. In actuality, this economic terminology may be correct, but it makes far more sense to declare June of 2009 as the time that we BEGAN to dig ourselves out of a very deep hole. In fact, it may take many years before unemployment drops to the level of 2006.

In summary, improving auto sales will help, but not nearly cure, Michigan's economy. Second, the U.S. Commerce Department's announcement of 5.7% growth, even if it is only 2.3% after subtracting inventories, is still very good news. Third, the recovery at the international level continues to outpace the U.S. economy. Fourth, barring catastrophic surprises, economic growth should easily continue.

COMMENTS FROM SURVEY PARTICIPANTS

"Long lead times continue to be a problem with our resin suppliers. They are moving their lead times out without enough notice for us to cover ourselves."

"December continued the slide that began in September. The fourth quarter was the worst quarter in 19 years. At this time, I see no evidence of a recovery."

"Seasonal demand is starting to slow down."

"We're seeing an uptick in demand. Good news for a change."

"This environment is unprecedented. It has become very difficult to survive."

"Lead times are extending for both domestic and offshore steel purchases. Business has picked up slowly."

"2010 has had a nice start. Let's keep it going!"

	UP	SAME	DOWN	N/A	Jan. Index	Dec. Index	Nov. Index	22 Year Average
Sales (new orders)	38%	43%	19%		+ 4	+19	+39	+11
Production	38%	38%	5%	19%	+27	+33	+30	+10
Employment	14%	67%	19%		-23	- 5	+ 0	+ 2
Purchases	33%	43%	24%		+ 0	+ 9	+26	+ 7
Prices Paid (major commod.)	33%	67%	0%		+36	+33	+13	+ 2
Lead Times (from suppliers)	29%	66%	5%		+22	+24	+43	+27
Purchases Material Inventory (Raw materials & supplies)	19%	52%	10%	19%	+ 0	+ 9	+ 8	- 6
Finished Goods Inventory	10%	52%	19%	19%	-45	- 9	- 9	- 4

Items in short supply: Steel, some wire, LEDS, some bearings.

Prices on the UP side: Polypropylene, aluminum, ABS, steel, brass, chemicals, LLDPE, HDPE, plastics, most metals, steel ($6/cwt), steel scrap, contract machining.

Prices on the DOWN side: Gasoline, hydraulic oil, software services.