The recovery continues. In April of 2009, Grand Rapids began recovering from one of the worst recessions in recent history. For 2010, the recovery continued unabated for the entire year. However, as of the end of the year, the lofty economic levels of 2006 were still far from reach. Because of this unusually slow recovery, the 2007–2009 economic downturn will always be referred to as the “Great Recession.”

Among our key local industries, the office furniture business began to show new signs of life in the summer of 2010. Whereas most industrial groups in Greater Grand Rapids began to improve in mid-2009, it was well into 2010 before we could declare that the recovery was starting to take hold for office furniture.

Several factors contributed to this slow recovery. First the purchase of new office furniture is obviously one of those decisions that can easily be deferred. As business conditions improved and firms began accumulating cash, the market for office furniture began turning the corner in the months of June and July. However, part of the slow sales in office furniture rests with the sharp decline in commercial construction. New buildings are often furnished with new furniture, and the lower rates of new office construction have hurt the market. Hence, there is still a long way to go before office furniture sales will return to the lofty levels of 2004–2005.

Our second largest industry, automotive parts, continued on the recovery path set in motion by the 2009 “Cash for Clunkers” program. Because of record low rates for auto financing and the aging of the fleet of cars currently on the road, expectations were high. However, the 2010 industry improvement was good, but far more modest than many of the projections based on previous recessions. Although the prices for new cars are very high when compared with average household incomes, the quest for quality has finally resulted in cars that simply have a longer life expectancy. It now appears that the industry may have to adjust to a new norm of selling fewer vehicles than were sold in the 2002–2006 time period.

About the Survey
The monthly survey of business conditions, published under the title of “Current Business Trends,” first debuted in Kalamazoo in February of 1979 and was expanded to Grand Rapids in 1988. At present, the survey encompasses 53 purchasing managers from ISM-Greater Grand Rapids, and 25 from N.A.P.M. Southwestern Michigan. For both surveys, the respondents are purchasing managers from the region’s major industrial manufacturers, distributors, and industrial service organizations.

Patterned after the nationwide survey conducted by the Institute for Supply Management, the strength of the survey is its simplicity. Each month, the respondents are asked to rate eight factors as “SAME” or stable, “UP” or improving/rising, OR “Down” as in declining/falling.

New Orders
This index measures new business coming into the firm, and signifies business improvement or business decline. When this index is positive for an extended period of time, it implies that the firm or organization will soon need to purchase more raw materials and services, hire more people, or possibly expand facilities. This results in billions of dollars being added to the local economy. Conversely, billions of dollars are pulled from the economy when the index turns negative. Depending on the firm, a significant portion of this money ends up being spent in the local community.

We entered 2010 with a modest New Order index of +14 for January. The index eased to +6 in February. Fortunately, New Orders continued to grow higher in March. In April, the index rose to +51, a 16-year high. Given the numerous problems which still permeate the economy, it was not possible to maintain this lofty level of growth, although the remainder of the year remained fairly positive. As noted in Figure 1, the growth of New Orders tapered off in the latter part of the year. However, growth is growth, and the zig-zag nature of these reports over the past five years says that we should expect some variation from one month to the next.

Figure 1: 2009–2010 New Orders
Percent “Up” vs. “Down”

Production
Just as most years, the production schedules varied widely among different types of manufacturing firms. Automotive is
usually weaker in the summer months, although the annual “model changeover” continues to become less pronounced with each passing year. However, a glance at Figure 2 clearly reflects a less robust level of production in the months of June and July of 2010. In this same context, many of our local manufacturers show a decreased level of production in the season surrounding Thanksgiving and Christmas. Other holidays, bad weather, and material shortages may also constitute uncontrollable influences for the production index.

When the production index remains positive for several months, it almost always results in an increase in the employment index. Conversely, a decline in production for several months in a row will almost always result in layoffs. Hence, the fact that the production index remained positive for the entire year bodes well for 2011. Although many firms still seem to have at least some difficulty adjusting to market demand, the wave of cautious optimism that started back in 2009 continues to roll forward as we enter 2011.

Second, countries like China bought up raw materials in anticipation that prices will soon be higher and/or that some commodities may be in short supply or unavailable. In other words, they thought it was a better business decision to store money in copper ingots than store it in Euros that were falling in value or in dollars that pay almost no interest.

Third, given that the cost of carrying raw commodity inventories is now relatively low, the buying policies of many domestic companies called for discarding the 1990s religion of JIT. Furthermore, predications of higher prices and potential shortages loomed on the horizon. These same firms were watching the Chinese, and jumping on the wagon.

Last but not least, the speculators decided to get back into the commodity markets. With interest rates around the world at record lows and the stock markets now seeming top heavy, the hedge funds and the big money speculators started creeping back into the commodity markets, especially for big ticket commodities like steel, aluminum, magnesium, lead tin, nickel, all oil related products, and many farm commodities like corn, rice, wheat, and soybeans.

Much of the recovery boom was attributed to replacing depleted inventories. By mid-summer, it appeared that the world economy had gotten ahead of itself. For the remainder of the year, commodity prices eased considerably. With the pace of the worldwide economy continuing to slow, we ended the year with inflation returning to normal levels for most industrial commodities. However, some selected commodities like corn hit record highs because of the lack of any good places for the speculators to go with their money.

**Industrial Inflation**

For many industrial buyers, 2008 will be remembered as the year that worldwide speculation drove many commodities to record levels. As the proverbial bubble burst in 2009, most buyers saw many major industrial commodities post record declines. Commodity speculators, frustrated by the world financial markets, were forced out of the market.

By the beginning of 2010, the pricing for most commodities had returned to normal, or so we thought. Unfortunately, the middle of 2010 saw another round of inflation for big ticket commodities like steel, aluminum, magnesium, corrugated, plastic resins, and all oil related products.

Several factors were responsible for the resumption of commodity inflation. First, many countries in the rest of the world recovered from the recession much faster than the United States. Hence, worldwide commodity demand picked up very quickly in February and March of 2010.
Greater Grand Rapids area has remained excessively high, despite the recovery by our local industrial sector.

For our 2010 survey, the year began dead flat with an index of +0. However, as the indexes of New Orders and Production expanded, the Employment index posted moderate to substantial gains for the remainder of the year. In August, the Employment index rose to a twenty-year high of +46. Indeed, half of the firms in our survey reported adding personnel.

With these statistics, it would seem that the unemployment rate in the local area should be much lower. However, several key factors are causing problems. First, in past recessions, the expansion of New Orders has been followed by expansion of the business itself in the form of new product lines, capital investment, new construction, and acquisitions. In this recovery, business owners remain worried about the future, including concerns over new taxes, new regulation, and rhetoric of a possible double dip to the recession. When their business brings in cash, they prefer to hold it rather than reinvest in the uncertain future.

Second, our survey covers only the industrial sector, and the consumer sector has not shown as much promise. Again, retailers and other service-related firms are uncertain about the future, and prefer not to expand. In this same context, the consumers themselves have become considerably more fragile, and the percentage of income-devoted savings has grown considerably in recent months.

Last but not least, there is the problem of new construction. A significant portion of our unemployment problems relates to carpenters, electricians, and plumbers who were drawn into the 2002–2006 housing boom and are still out of work. With new construction now half what it was a few years ago, the employment in this sector remains weak. With so many unsold properties available in the form of both residential houses and commercial buildings, the construction segment of the economy will continue to underperform for years to come. Furthermore, the supply chains that service these industries are also underperformers.

Looking Ahead to 2011
The outlook for the industrial economy in 2011 is positive, although some segments of the overall economy, namely residential construction, will continue to restrain economic growth at both the national and local levels. Because of the on-going decline in commercial construction, the office furniture business will also be restrained. New buildings are often furnished with new furniture, and the lower rates of new office construction have hurt the industry.

Almost from the time that the recovery began, there has been talk about the possibility of a double dip recession. Whereas a double dip is still possible, it is not probable. However, growth throughout 2011 will be inhibited by a weak construction sector, mediocre auto sales, and low consumer confidence. Furthermore, we are still dependent on China as well as other creditor nations to continue to buy our ever-growing treasury debt. If we get into any kind of currency war or trade war with China, this could start to generate a second down-leg to the recession.

A bigger problem with economic growth relates to the inability or unwillingness of firms to expand. Unlike most recoveries in the past, many firms that are at full capacity are not expanding for several reasons. First, credit for small firms, even those that have been around for a long time, is still very tight. Because of the sweeping new regulations that have just been enacted, the financial institutions say that it may take months before the full impact of the new regulations are interpreted and understood. Since much of the legislation favors the borrowers over the lenders, they do not want to get trapped. Hence, banks are now only loaning money to borrowers who can prove that they don't really need it.

Second, there is a feeling among many firms that expansion is simply not necessary. Rather than incur a bunch of new debt, a lot of firms seem to be content to stay right at their current size. In this same context, these firms now seem to be more risk averse. In the case of Tier I automotive, they are also resisting pressure from their customers to expand.

A third problem is pessimism. Since consumer confidence is now almost as low as it was at the peak of the recession, it stands to reason that businesses, especially those with small businesses, remain pessimistic about the future. They feel that Washington and Lansing are out of touch. They fear the impact of the higher taxes that are coming their way, and they fear that more budget shortfalls at all levels of government may lead to even more taxes.

Last but not least, we need to be vigilant of surprises or catastrophes that may be out of our immediate control. Many terrorist acts have been subverted since 9/11, but a major terrorist act that could slip through the cracks could shake our confidence and force us back into a recession.