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West Michigan Supply Management: A Year in Review

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Onward and upward. As we wrap up 2012, the year can be characterized as yet another twelve months of recovery from the 2007–2009 economic downturn that will always be referred to as the “Great Recession.” Resembling the situation of 2010 and 2011, the pace of the recovery continues to be very slow by historical standards, and now shows signs of topping out.

At the onset of 2012, we read warnings in trade publications that office furniture, one of our region’s largest industries, would probably experience a modest decline of about 2% as the year unfolded. Fortunately, the forecasters were wrong, and the office furniture industry will finish the year with a small gain. Part of this progress can be attributed to a slight recovery in commercial construction and the desire of new tenants to furnish new office space with equally new furniture. This year, as in 2011, industry analysts noted that the industry’s growing diversification into the medical furniture business has become as a growing component of the industry’s success. It is no secret that the cash positions of many firms enabled many firms to decide that now is the time to invest in long-promised new office furniture.

A slow but steady increase in the sales of new motor vehicles in North America has been one of the major catalysts in creating the demand for the production of automotive parts, our second largest industry in West Michigan. Indeed, the industry ended the calendar year with sales about 13% higher than last year. Despite the high price of gas, the miles driven throughout our nation remain very high. In addition, the average age of vehicles on the road continues to grow. Industry analysts refer to “pent up demand” finally being unleashed. Now that standards for auto loans have loosened by the financial institutions, customers are drawn to the automobile showrooms. The price of a good used car remains fairly high, so considering a new car could well be a better financial choice than repairing old ones. Lucrative rebates and other incentives by the major manufacturers have also been a draw. The bottom line is simple: The recovery of the automotive industry has been the primary driver of the economic recovery in the state of Michigan, and to a lesser degree, West Michigan as well.

In July of 2012, for the first time since the local recovery began in April of 2009, the industrial economy in the Greater Grand Rapids area slid into the minus column. A trend is never determined by a single month, and the next three reports turned flat, but not declining. As other industries were showing signs of topping out, the West Michigan area was simultaneously blessed with an upturn in both the residential and commercial housing markets.

As the year drew to a close, the Michigan legislature passed a landmark piece of legislation known as “Right to Work.” For the first time since the labor movement amassed power in Michigan, workers in private firms and public institutions will no longer be required to join a union and pay union dues if they choose not to. Michigan now joins 23 other states that have enacted similar measures. Despite the bitter protests from almost all of the unions in the state, the advantages will not be as pronounced as either side may suggest. In many states that have passed “Right to Work” legislation, large numbers of workers have not elected to leave the union. Although the measure is easily recognized as pro-growth by the business community, it is only one factor in a decision by a firm to relocate. Of course, the measure can also be repealed at some future time, so it will be necessary for Michigan to now deliver the promised growth if “Right to Work” is to survive.

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 56 purchasing managers from ISM-Greater Grand Rapids, and 20 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 is designed to focus on business improvement or decline by assessing new business coming into the firm. 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. Consequently, an increase results in billions of dollars being added to the 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.
As the 2012 year began in the Greater Grand Rapids area, the index of New Orders for January came in at a rather modest +9. From here, business conditions picked up in response to improved business conditions for the nation as a whole. The relentless monthly growth in auto sales continued to keep many of our local auto parts producers at full capacity. In the case of many foreign nameplates, the recovery from the 2011 tsunami resulted in an equal recovery for their Michigan suppliers. However, at +24, our best month for the New Orders index was April. While still very positive, this reading came in far below the +51 index we recorded two years earlier in the recovery cycle.

In mid-summer, the index fell to +8 in June. In the month ended July 31, we recorded -6, our first negative reading in three years. The recovery was starting to look like it may have run its course. At the national level, New Orders index from the Institute for Supply Management declined to -9, further confirming our suspicions. Fortunately, the statistical dip did not continue, and our local index of New Orders ended the year with a slight bounce.

**Production**

As many firms approached full capacity in 2012, it was not surprising to see our Production index become more subdued. Although the production schedules varied widely between different types of manufacturing firms, modernization of production methods and computer software have removed much of the seasonality experienced in years gone by. In the auto industry, the annual “model changeover,” becomes less pronounced with each passing year.

Beyond factory output, the Production index is a limited forecaster for increases and decreases in the Employment index. The strength of our survey is that of being a “real time” report. Hence, an increase in production will result in an increase in hiring activity, but it will take several months before these statistics are finally reflected in the government statistics. Since we ended 2012 with a slight bounce in Production, we can hope that it will carry through to generate more jobs in 2013.

**Industrial Inflation**

In the middle of 2011, the index of Prices escalated to its highest level in the 24 year history of the survey. To make matters worse, the inflation centered on “big ticket” commodities like steel, aluminum, magnesium, corrugated, plastic resins, and all oil-related products. Industrial buyers scramble to find better pricing for these commodities, but most were unable to hold back the tide. Unfortunately, much of the problem was caused by speculation.

For industrial inflation, 2012 was a different kind of year. It is obvious that excessive industrial inflation is a problem for most firms, given that rising costs in today’s competitive world are very difficult to pass along and often cut into profitability. However, FALLING prices can foreshadow an economic downturn. At the international level, the J.P. Morgan international index for Prices fell to its lowest level in 37 months. In our local report, the list of commodities falling in price grew considerably and included most of the big ticket items such as copper, corrugated, steel, plastic resins, aluminum, nickel, and even freight. With worldwide demand for most commodities still weak, industrial inflation is unlikely to be a problem in 2013, unless there is another financial crisis that manifests itself in another round of commodity speculation.

**Employment**

In 2011, our survey’s index of Employment hit a 20 year high and was very positive for the entire year. In 2012, our index of Employment remained positive, but the results were not as strong as in 2011. The automotive parts producers were among the firms to begin reaching capacity, and as a result, stopped hiring at the rate of previous months. According to some employers, the main reason for the slower job growth continues to be the lack of qualified
candidates. The fact remains that almost all of the new hires require some kind of skill, and firms are unwilling to run their own training programs like they did in the past. Smaller firms are even more reluctant to hire, and view the future with much more caution.

However, all of our months of positive reports have finally spilled over into the official unemployment statistics for the Greater Grand Rapids area. For instance, the local SMSA began the year at a 7.5% unemployment rate and ended the year close to a rate of 5.6%. Granted, at least some of this improvement was the result of people dropping out of the workforce and others accepting jobs below their trading and experience.

In 2013, the employment situation in the Greater Grand Rapids area will probably continue to improve, but at a slower rate. Our September and October Employment reports slowed to single digits for the first time in many months, probably foreshadowing slower growth for the first quarter of 2013.

Looking Ahead to 2013
Overall, barring the collapse of the Euro, we still expect to see the current pattern of slow growth to continue in West Michigan for 2013. Looking at the big picture, the largest obstacle facing us right now is the realization that our local, state, and national governments have overcommitted on retirement benefits, both in the form of pensions and health care. At this stage, the problem is still fixable, but it won’t be easy. If, however, it becomes apparent that the problem is mired in political wrangling and is therefore not fixable, then we could be in for trouble.

We had hoped that the November 2012 election would clarify the business picture for the next few years. Instead, it left most questions still unanswered. Little has happened to resolve the differences in fiscal ideology, largely because almost none of the people have changed. The Republicans still control the House, and the Democrats still control the Senate and the White House. The statistics remain the same, most of the people in decision-making positions hold the same views, and so, of course, the rhetoric remains the same. The hotly debated list of solutions, such as they are, still claim that each is THE best tonic. Some pundits on both sides of the isle are already looking ahead two years to the mid-term elections to be the next juncture of change.

Another major uncertainty remains the implementation of the Affordable Care Act. This legislation imposes numerous new regulations and numerous new taxes on the business community, and the reaction to all of this new legislation is very difficult to assess.

In 2013, the recovery of the beleaguered housing industry will continue to be good news for the economy at both the local and national levels. For the past few months, the S&P/Case-Shiller index of property values has posted significant gains because of several factors. First, there is pent-up demand. Some buyers who have been waiting many months for the market to finally bottom out have decided that now is the time to buy. This long wait has allowed the buyers to accumulate a larger down payment, which also pleases the lending institutions. This trend has been augmented by less stringent lending requirements, including the lowering of minimum credit scores and more reasonable and more optimistic appraisals by the lenders. In that same context, buyers have gotten better at shopping around for better mortgage deals, and traditional competition is coming back to the lending markets. Also, there is a tightening of residential units available for sale. From a practical standpoint, higher rents have caused some people to rethink the idea of owning rather than renting. As headlines spread the news of a housing market revival, properties are beginning to be listed now that sellers feel they can expect a fair price rather than be hammered by...
a one-sided buyer's market. However, the recovery is not uniform across the national, state, and local geographies wherein abnormal levels of foreclosures will still be a problem for many more years.

For the industrial sector, we enter 2013 with at least some degree of uncertainty. Locally, our statistics have ended the year on a high note. However, the national statistics from the Institute for Supply Management and the international statistics from the J. P. Morgan Global Manufacturing reports remain modestly negative. We remain mired in a world-wide economic slowdown, which still threatens to spill over into the United States.

Just like last year and the year before, the financial situation in Europe remains one of the greatest threats to the world economy, as well as to our national, state, and local economies. In 2012, at least some progress was made toward solving the crisis in countries like Italy and Ireland, but then there is Greece. The Greek government will probably continue to meet the targets of the bailout programs, but financial managers around the world are always watching the situation. Over the last half of 2012, money was flowing out of the Greek banks at an alarming rate. New investment, from both inside and outside the country, is virtually nonexistent. A large portion of the population still believes that simply raising taxes on rich will solve the problem, but “the rich” are the people who are moving their money out of the country and out of reach of any taxes for Greece. In short, the Greek bailouts from the Europeans will have to continue in 2013, and the current estimates for future growth are far too “Keynesian” and far too optimistic. We also cannot forget that Spain is the next country to follow in the Greek footsteps, and that the 2013 news will probably be filled with various bail-out proposals to keep this country afloat.