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CURRENT BUSINESS TRENDS

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Still down, but not as bad. That's the latest word on the Greater Grand Rapids economy, according to the data collected in the third and fourth weeks of January. NEW ORDERS, our index of business improvement, rebounded to +5 from -16. The PRODUCTION index remained negative at -6, but was improved from the -20 reported last month. Unfortunately, the EMPLOYMENT index showed no improvement, and declined to -23, down from -20. Activity in the purchasing offices, which we report as our index of PURCHASES, remained negative at -20, not significantly different from the -27 we reported last month. All in all, the economic slowdown is upon us.

A look at individual industries shows approximately the same pattern that we reported last month. The auto parts suppliers continue to be our biggest trouble spot, and there is no apparent end in sight. The office furniture business are holding on, but they are definitely feeling the general slowdown in business condition throughout the country. Just as last month, business conditions for capital equipment and industrial distribution remain widely mixed. In general, current slowdown is characteristically uneven, and some firms continue to report very good business conditions despite all of the gloom and doom.

At the national level, the February 1, 2008 report from the Institute for Supply Management, our parent organization, shows a similar pattern. ISM's index of NEW ORDERS, which last month dropped to -15 from +0, recovered slightly to -7. However, the PRODUCTION index rebounded to +3 from -10. The EMPOYMENT index edged lower to -10 from -7. Because of statistical adjustments, ISM's composite manufacturing index came back across the all-important break-even line of 50.0 to close at 50.7, up from 47.7. But the ISM Non-Manufacturing Index dropped significantly to 41.9 from 54.4. Most of the loss in this index can be attributed to a sharp drop in the EMPLOYMENT index to -18 from +3, and an equally severe loss in NEW ORDERS to -18, down from +0. There is no evidence that these losses are permanent, and next months numbers could show some slight improvement.

All of these numbers largely reflect the temperament of the world economic environment, as reported by the February 1, 2008 J.P. Morgan Index of Global Manufacturing. Based on modest growth from the Eurozone, China, Japan, UK, India, Brazil, and the US, the global manufacturing index edged up to 52.3 from 51.6. The author of the survey noted that "…modest acceleration in output is a positive development, but conditions in the global manufacturing sector remain relatively subdued."

The economists at the Federal Reserve continue to express concerns about inflation, and with good reason. ISM's latest index of PRICES shot up to +52 from +36. For our Southwestern Michigan survey, the PRICES index edged up to +40 from +37. The Greater Grand Rapids index fared a little better, easing to +34 from +43. J.P. Morgan's global index of PRICES came in at 71.2, the highest the index has been since July of 2006. It almost goes without saying that all of these numbers are higher than they should be, and economists all over the world are becoming concerned.

Locally, inflation at the industrial level cuts into the profitably of many of our local firms. Much as many respondents to this survey predicted, steel of all types is now going up in price. Because of the high prices for oil, the cost of diesel fuel is triggering fuel surcharges as well as escalating the cost of petroleum-based product such as plastic resins and petrochemicals. Part of the problem is based on the worldwide demand for these commodities brought on by record levels of economic expansion in countries like China and India. So far, we have not seen enough moderation in the world economy to see very much slackening of demand for many of these commodities.

Where do we stand? That's the question on everyone's mind regarding the economy. There are many crosscurrents, and assessing the impact of all of the events is difficult at best. The negative news continues to come for the housing sector, where every day seems to be bringing more bad news. Unfortunately, most analysts agree that all of the bad news is still not out, and that we can expect more write-downs, bankruptcies, foreclosures, and other surprises for at least the next few months.

On the balance, the recent passage of an economic stimulus package, while controversial, is still a positive psychological boost to the economy. Since rising rates of interest by the Federal Reserve triggered the current crisis, the recent decisive cuts in rates will clearly help to cushion the fall. Even the divisive variable rate mortgages that have received so much of the blame for the current debacle will now reset at rates significantly lower than they would have a few months ago. Because of the recent drop in the valuation of the dollar, almost every industry that is in the export business is now in the middle of any economic boom. Farming communities around the country are benefiting from record high prices for some farm products brought on by the ethanol boom.

Can the good offset the bad? Based on the aforementioned statistics, there is some very good evidence that we MAY experience no more than an economic slowdown rather than a full-blown recession. Next month's statistic should be very interesting.

COMMENTS FROM SURVEY PARTICIPANTS

"The scrap market is crazy this month. Prices are up over 30%! We are back to 2004 market volatility!"

"This is the slowest January for us in 37 months."

"Quoting activity is high. New orders are few and far between. Hopefully, some of our quotes will soon turn into orders."

"The high natural gas and oil prices continue to drive prices higher."

"The economy is going down, and steel is going up."

"Nothing left to say. Things just plain suck!

"2008 will be great! We see better sales and a strong forecast over 2007!"

"Our highest end product is selling quite well. The European market continues to grow. Looks like middle class America is on the ropes."

"Some contractors and vendors are extending their 2007 prices into 2008 just to guarantee some level of business in 2008. With most costs rising 20% or more, any time we can hold costs for another year is helping our budget woes."

"2007 was another successful year. Currently, our backlog is substantial, so 2008 should be solid for us."

"Our increase in business is seasonal."

"I'm not sure what the steel producers are trying to do by running up the price of carbon steel with the economy on the verge of recession."

"Watch out for steel increases."

"We're seeing major carbon steel increases with no demand to support it."

"All of a sudden, we have a surge of inquires and orders. Unfortunately, most of it will be going to Mexico."

"Our orders are up slightly, and we continue to be very busy. We only wish everyone else was also."

"Our orders are slowing."

	UP	SAME	DOWN	N/A	Jan. Index	Dec. Index	Nov. Index	13 Year Average
Sales (New Orders)	34%	34%	29%	3%	+ 5	-16	+ 4	+16
Production	23%	40%	29%	8%	- 6	-20	-13	+16
Employment	11%	55%	34%		-23	-20	-16	+10
Purchases	26%	28%	46%		-20	-27	-29	+ 9
Prices Paid (major commod.)	37%	57%	3%	3%	+34	+43	+17	+13
Lead Times (from suppliers)	3%	86%	11%		- 8	+10	- 3	- 7
Purchased Materials Inv. (Raw materials & supplies)	23%	45%	26%	6%	- 3	-20	-10	-10
Finished Goods Inventory	8%	52%	26%	14%	-18	-23	-17	-11

Items in shot supply: Platicizers, automotive parts, filters.

Prices on the UP side: Propylene, styrene, gasoline, steel, carbon steel, scrap steel, freight, brass fittings, polyethylene, polypropylene, TiO2, carbon black, HR & CR steel, plastic resin, gelcoat, peroxides, plastic extrusions, hydraulic & transmission fluids, brake parts, services, trucking, calcium carbonate, PVC resin, some stainless steel, anything with copper, cast iron, poly foam, plywood, polyurethane, furniture, fabrics, carpet, lighting fixtures, travel expenses, cost of living.

Prices on the DOWN side: Some stainless steel, nickel, some electronics, aluminum extrusions, construction equipment, some tires.