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CURRENT BUSINESS TRENDS

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Down. That's the latest word on the Greater Grand Rapids economy, according to the data collected in the third and fourth weeks of December. NEW ORDERS, our index of business improvement, sank to -16 from +4. The PRODUCTION index eased another notch to -20, down from -13. The EMPLOYMENT index also softened slightly to -20, down from -16. Activity in the purchasing offices, which we report as our index of PURCHASES, came in at -27, virtually unchanged from last month's -29. Hence, the economic slowdown that has been flooding the airwaves is upon us. This is not the way we had hoped to start 2008.

Looking as we always do at individual industries, our auto parts suppliers continue to be one of our trouble spots. The office furniture business plateaued in late 2007, and is now starting to feel the pinch of the slower economy as well as the declining rate of new office construction. Other industries are widely mixed, such as capital equipment and industrial distribution.

At the national level, the January 2, 2008 report from the Institute for Supply Management, our parent organization, has turned negative. The worst news comes from ISM's index of NEW ORDERS, which dropped to -15 from +0. In a similar move, the PRODUCTION index edged lower to -10 from +1. The EMPOYMENT index added no support, and retreated to -7 from -5. ISM's composite manufacturing index turned negative at 47.7, down from 50.8. This is the lowest the index has been since 2001. If the January numbers are also poor, then the odds of sliding into a recession will be greatly magnified. Fortunately, ISM's non-manufacturing survey remained positive at 53.9, although this month's reading came in slightly below the 54.1 reported last month.

Turning to the international level, the January 2, 2008 J.P. Morgan index of global manufacturing eased to 51.4, down from 52.2. The author of the reported noted that global manufacturing ended 2007 on a "weaker footing." Countries that were noted for expansion included France, Germany, Japan, China, India, and Australia. Laggard countries included Italy, Spain, and of course, the United States.

As we enter 2008, here is where we stand:

Automotive. For the 2007 totals reported by Automotive News, Ford lost 11.8%, General Motors lost 6.0%, and Chrysler lost 3.1%. Sales for the industry as a whole were down by 2.5%. Even Honda and Toyota reported modest sales declines for the month of December. With the recent announcement by Chrysler that financial conditions are even worse than previously estimated, the prospects for 2008 are even dimmer. To make matters worse for our local auto parts suppliers, the Big Three have put them under more pressure to move their production to "lower cost" countries around the world. This is more bad news for Michigan.

Residential Real Estate. As the result of state-wide population losses, job losses, tightening of loaning standards, and houses now for sale as a result of foreclosures, the market will obviously be soft for all or most of 2008. It is worth repeating that real estate on the west side of Michigan is not suffering from huge tracts of unsold housing like those shown on television in California and Florida. At this time, there is no evidence that the second half of the year will fare much better than the first half. Similarly, there is no evidence that there will be a collapse in the residential real estate market. The market will simply be below par.

Commercial Real Estate. Until recently, the commercial market was holding up fairly well. As the economy slows, the commercial market will continue to soften. This will cause the office furniture business to slow as well.

Consumer inflation. Since the cost of importing from China is expected to rise about 10% over the course of 2008, at least some of these additional costs will eventually be passed along in the form of higher prices for clothing, toys, tools, paper clips, and everything else that fills our retail shelves. Since we are running out of ways to control consumer inflation through productivity, it seems likely that inflation numbers will start to creep up as the year progresses.

Industrial Inflation. The worldwide economic slowdown has already resulted in lower prices for raw commodities like copper, aluminum, zinc, and nickel. However, fabricators have not always passed these lower costs down the channel. They will be forced to do so as the year goes along. However, high demand for all industrial commodities by countries like India and China will inhibit prices from falling very far.

Unemployment. Unfortunately, there is little prospect for job expansion by most firms currently operating in this state. The challenge for 2008 will be to keep the firms already in the state from moving jobs to other states where operating costs are lower. National unemployment will probably move up to about 5.6% by June.

Overall economy. At best, we are in for a period of slower growth. At the other end of the spectrum, the odds of sliding into a recession have now risen to about 70%. That said, there is still a 30% hope that the Federal Reserve can engineer a soft landing.

COMMENTS FROM SURVEY PARTICIPANTS

"Retail sales are holding steady while export sales to Europe are increasing."

"Scrap pricing went through the roof for December. Prices were up $30/ct -$40/ct with the same increase forecasted for January."

"Our quoting activity is high. However, new orders are getting scarce. It looks like a slow start in 2008."

"2008 will be a very slow year for manufacturing. The subprime mortgage mess will spread and affect many industries."

"Our business really sucks!!! No end in sight for 2008."

"No surprises here as our automotive customers prepare for the holiday shutdown. Some shutdowns have been extended 3 weeks."

"We are just maintaining without any added funds."

"We are doing well!"

"It sounds like steel is going higher."

"It must me the year end push just kicked in. We have some orders, but a lot of them will be going to southern states."

"Copper is still a big issue, along with resin for molding."

"We have had modest growth over the last month and are looking ahead to a prosperous new year."

	UP	SAME	DOWN	N/A	Dec. Index	Nov. Index	Oct. Index	13 Year Average
Sales (New Orders)	17%	47%	33%	3%	-16	+ 4	-17	+16
Production	10%	50%	30%	10%	-20	-13	-16	+16
Employment	13%	54%	33%		-20	-16	-17	+10
Purchases	13%	57%	30%		-17	-29	-16	+ 9
Prices Paid (major commod.)	43%	57%			+43	+17	+24	+13
Lead Times (from suppliers)	10%	90%			+10	- 3	+ 3	- 7
Purchased Materials Inv. (Raw materials & supplies)	10%	54%	30%	6%	-20	-10	-11	-10
Finished Goods Inventory	10%	40%	33%	17%	-23	-17	- 9	-11

Items in shot supply: Platicizers, patience, goodwill, raises, bonuses.

Prices on the UP side: Propylene, copper, gasoline, HDPE, scrap for foundry consumption, oil, carbon steel, fuel, lubricants, powder paint, fasteners, HR steel, plastic resin, bronze castings, adhesives, some plastic extrusions, stainless steel, plastic laminate, operating fluids, utilities, linear platicizers, PVC resin, epoxicized soybean oil, paraffinic oil, pigment dispersions, SEBS resin, process oils, block polymers, flame retardants, paraffinic wax, paraffinic lubricants, performance additives, polyurethane, HDPE, health care, furniture, carpet, gelcoat.

Prices on the DOWN side: Stainless steel scrap, aluminum & aluminum extrusions, nickel, copper, brass, plumbing fixtures, some maintenance items, some steel, certain metals.