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CURRENT BUSINESS TRENDS

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Very modestly negative. That's the latest word on the Greater Grand Rapids economy, according to the data collected in the third and fourth weeks of February. NEW ORDERS, our index of business improvement, eased to +0 from +5. The PRODUCTION index remained modestly negative at -2, but improved from last month's -6. After three negative months, EMPLOYMENT index came back to +0 from -23. Activity in the purchasing offices, our index of PURCHASES, remained negative at -8, but was improved over last month's -20. It was also good to see the index of LEAD TIMES come in at +6, up from -8. All in all, the economic slowdown is still upon us, but only a few of our key numbers are single digit negative. It is good to see that things are not getting any worse, and MAY actually be getting better.

Looking as we always do at individual industries, this month shows that the performance of almost every industry group is widely mixed. In the case of office furniture, most firms were flat, but two were decidedly down, and one was sharply up. The same was true of our automotive parts producers, where some firms reported new business coming in, while others are doing poorly. Most of our capital equipment firms reported business to be stable, although one remains sharply lower. Despite all of the gloom and doom, some firms are still seeing record sales.

At the national level, the March 3, 2008 report from the Institute for Supply Management, our parent organization, depicted very modest growth for the national economy as a whole. By far the most important statistic is ISM's index of NEW ORDERS, flipped back to positive at +2, up from the -7 we reported last month. The PRODUCTION index remained very modestly positive at +2, almost unchanged from last month's +3. The EMPOYMENT index recovered slightly to -6 from -10. But negative is still negative, and the industrial sector is still cutting jobs. As is often the case for many of ISM's reports, statistical adjustments resulted in ISM's composite manufacturing index sliding backward across the all-important break-even line of 50.0 to close at 48.7, down from 50.7. Fortunately, ISM Non-Manufacturing Index recovered to 49.3, up significantly from last month's 44.6, and is now very close to the break-even point of 50.0. Similarly, the non-manufacturing index of NEW ORDERS also came back to -2, up from -18. The non-manufacturing index of EMPLOYMENT recovered to -9 from -18, indicating that non-manufacturing firms are also laying off more people than they are hiring, but at a slower rate

At the international level, the economic softening that we have been experiencing for several months in the States is now starting to spill over to the J.P. Morgan Index of Global Manufacturing. Although remaining marginally positive, JPM's industrial index retreated to 51.1 from 52.3. Countries reporting positive growth included Germany, France, India, and, of course, China. Both Japan and the Eurozone as a whole were reported as "stabilizing." In addition to the US, weaker conditions were also noted for Spain, Italy, and the UK. JPM's global services index rebounded sharply to 51.5, up from 45.9. New business (a.k.a., new orders) for the global services index rose to 50.8, up from 46.6. At this time, it appears that the international economy is slowing, but is not sliding into an international recession.

To the Federal Reserve as well as most economists, inflation continues to be a major problem. With oil crossing $110 per barrel, prices of gasoline and diesel are edging up to record levels. For industrial buyers, higher oil prices also mean higher prices for plastic resins as well as most petrochemicals. Prices for other big-ticket commodities such as steel, copper, zinc, and aluminum are now at or near record levels. Many shipping companies are tacking on "fuel surcharges" to freight bills that are already higher than they have been in years. For agricultural commodities, wheat, corn, and soybeans are now roughly twice the prices of what they were just a year ago. Although raw commodity prices are not the major component of prices at the retail level, prices for most grocery products are rising all the same.

Theoretically, this is not the way it's supposed to be. Most economists claim that the majority of the current price increases are based on speculation. The widely publicized slowdown in the US economy as well as the world economy is SUPPOSED to result in the end of the speculation cycle, and precipitate a decline in the prices of all of the aforementioned commodities. This is the reason that many predictions were made last summer that oil should now have fallen to about $75 per barrel.

What is keeping all of these prices up? China, and to a lesser degree, India. Despite rising prices for goods being imported from China, the economy steamrolls ahead, resulting in more and more fuel and raw materials being imported by China despite the rising commodity prices. Demand for more consumer products inside China are also fueling the seemingly insatiable demand for mopeds, air conditioners, and automobiles as the wave of affluence sweeps the country. Consequently, inflation in China is roughly twice that of the United States. Theoretically, all of this should be enough to curtail growth in China. So far, it has not. However, if the bubble breaks, then commodity prices, including the price for oil, will rapidly retreat. Exactly WHEN this will occur is the enigma.

As we have noted in the past, the credit crunch is extremely widespread. Even potential borrowers with good credit are being subjected to increasing scrutiny. Of course, this applies to home loans, but potential auto buyers are also under the gun. Hence, the current slump in auto sales can be partially attributed to tighter credit standards. For February, even Toyota sales slipped 2.5%. In the same period, Ford lost 5.5%, General Motors declined 6.0%, and Chrysler slid 13.1%. Obviously, this is not good news for Michigan.

COMMENTS FROM SURVEY PARTICIPANTS

"The market is getting tighter. High commodity prices don't reflect the slowing economy."

"Please buy cars, and try to find other American made stuff to buy. Maybe it will stimulate things."

"With the cost of living up more than wages, economic recovery will be very slow."

"The slow season is upon us. The year will become much more predictable in a few weeks. The Fed cutting interest rates is good, but our industry needs the stock market to rebound."

"We're experiencing a minor lull, but it was expected. We should maintain a pattern of growth of about 10% this year."

"We have a road salt shortage throughout the state, and sand supplies are dwindling. Employees are working 12 hours, 7 days a week. We are over budget $1.3 million, and there's no relief in sight."

"We are still doing fine."

"Suppliers are beginning to bring prices down as oil prices are beginning to drop."

"The steel market is getting ugly."

"Sales are expected to be flat this year. The forecast was slow to adjust in Q4 of 2007, so we face very high inventory, and are pushing out delivery from our supply chain. "

"My customers who are interested in buying are looking for 'quick delivery, nice machines, large capacity, and cheap prices.' Now wouldn't that be nice!"

"Plastic resin companies are again trying to raise prices."

"We continue to be very busy, and are looking at more hiring to keep up."

"The dollar, oil, and global demand for key commodities will make for a challenging year."

"Automotive will be slow for 2008. We have booked new business for 2009-2010. Can people afford to buy cars anymore? If the can't pay for homes, how can they buy new cars?"

"We sell machine tools. While many of our traditional metal cutting customers have historically made their living servicing automotive, they are now getting more and more military work (MRAP).   It's not enough to offset the downturn in automotive, but it is sustaining many shops."

"Quoting activity is still high. However, new orders are only trickling in. It's going to be a tough first quarter."

"Suppliers continue to push through price increases. Them market is shrinking with consolidations through acquisitions. I don't think we've seen the market bottom yet."

	UP	SAME	DOWN	N/A	Feb. Index	Jan. Index	Dec. Index	13 Year Average
Sales (New Orders)	26%	45%	26%	3%	+ 0	+ 5	+ 4	-16
Production	18%	59%	20%	3%	- 2	- 6	-20	+16
Employment	18%	64%	18%		+ 0	-23	-20	+10
Purchases	15%	62%	23%		- 8	-20	-27	+ 9
Prices Paid (major commod.)	47%	47%	6%		+41	+34	+43	+13
Lead Times (from suppliers)	12%	82%	6%		+ 6	- 8	+10	- 7
Purchased Materials Inv. (Raw materials & supplies)	18%	59%	20%	3%	- 2	- 3	-20	-10
Finished Goods Inventory	15%	64%	12	9%	+ 3	-18	-23	-11

Items in shot supply: Some electronics, some structural steel, salt, 2ns sand, low carbon steel, laminated glass, buying power.

Prices on the UP side: HR and CR steel, copper, brass, aluminum and aluminum ingot, TiO2, ABS butadiene, plastic resins, high carbon steel, low carbon steel, fuels of all types, salt, chlorides, gasoline, aggregates, fasteners, gasoline, oils, plastics, paints, finance charges, stainless steel, nickel, packaging, motors, pumps, red metals, chrome metals, silicon, manganese, scrap steel, hardware, health insurance, taxes.

Prices on the DOWN side: Some polypropylene, extrusions, PVC, some nickel, some stainless steel, co-polyester,