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CURRENT BUSINESS TRENDS

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Still down. That's the latest word on the Greater Grand Rapids economy, according to the data collected in the month of October. NEW ORDERS, our index of business improvement, edged lower to -24, down from -21. Although still negative, the PRODUCTION index came in at -14, a little better than last month's -24. Activity in the purchasing offices, our index of PURCHASES, sank to -35, down from -28. In line with the other statistics, the EMPLOYMENT index slid to -26 from -21. We are now in the seventh month of the downtrend for this report. Unfortunately, the statistics continue to weaken, and there is no end in sight.

With the recent announcement that GDP turned negative for the third quarter of 2008, it is now official: The United States is in a recession. Unlike the 2001 recession which was largely the fault of the dot com bust, the causes of this recession are far more complex. Hence, these problems will take much longer to correct themselves-- or to be corrected.

Looking at individual industries, there is getting to be no place to hide. The office furniture business, which had held its own until a few months ago, is now clearly falling. The auto industry continues to be hard hit. Industrial distributors are feeling the pinch of tighter budgets. Capital equipment firms were generally either flat or down. Even the red-hot aerospace industry appears to have flattened. However, a few specialty firms are still doing well, despite the current economic weakness. Without these miscellaneous additions to our survey, our number would be much lower.

Turning as we always do to the national level, the November 3, 2008 press release from the Institute for Supply Management, our parent organization, came in at the weakest level in 26 years. ISM's index of NEW ORDERS sank to -39, down from -21. In a similar move, the PRODUCTION index fell to -35, down from -13. The EMPLOYMENT level skidded to -33 from -19. ISM's composite manufacturing index dipped to 38.9, just slightly higher than the 38.8 reported in September of 1982. Unfortunately, the non-manufacturing index fared little better, falling to 44.4, down from 50.2.

Indeed, the entire world economy is now probably in some state of recession. The composite index for J.P. Morgan's Global Manufacturing Report dated November 3, 2008 fell to 41.0 from 44.2, the lowest the index has been since it was first compiled in January of 1998. Except for India, weaker numbers were reported by all countries in the survey. Unlike the 2001 recession, the fact that this downturn appears to be spreading worldwide makes the recovery considerably more difficult.

The automotive sales report for the month of October was also pessimistic. Because of a recently announced policy by GMAC to only make new car loans to buyers with credit scores of 700 or above, sales for General Motors cars and light trucks fell 45.1%, the largest drop in recent memory. With Chrysler falling 34.9% and Ford losing 32.0%, the Detroit Three finished the month very poorly. Dealer lots are jammed with unsold units, and some are being offered for as much as 50% off sticker. Unlike previous months, sales at Honda and Toyota also fell sharply, telling the auto industry that there is no place to hide.

After enduring months of seemingly insatiable price increases, it is good to report that inflation for industrial buyers is finally over. ISM's index of PRICES fell to -26 from +7, the lowest the index has been in seven years. In the Greater Grand Rapids survey, the index of PRICES fell to -7, down from +21 last month and +53 only two months ago. In Southwestern Michigan, the index eased to +7, down from +23. Despite these numbers, the list of "Prices on the UP side" at the end of this report is still quiet long. By next month, the list of "Prices on the DOWN side" should show many commodities falling in price.

The question that is now being raised: Where and when can we expect to hit bottom? The first sign that we have reached the lowest point in this cycle is when we see the prices for the world's major commodities begin to stabilize and even rise slightly. Industrial buyers have been plagued for the last three years with rampant speculation in the markets for base commodities such as lead, aluminum, tin, zinc, copper, and almost every form of steel, and of course, oil. The prices for most of these commodities have already fallen substantially. Since some of these commodities are still falling, we cannot declare stability as of yet.

Along these same lines, a second sign of optimism will be the reduction of inventory liquidation, as evidenced by our PURCHASED MATERIELS INVENTORY index at the end of this report. Our index for the Grand Rapids survey came in at -30, one of the sharpest drops in 20 years. When firms in the United States and around the world live on their existing inventories, orders for new materials are canceled, and prices fall. Until the warehouses start to get empty, billions of dollars are pulled out of the economy.

A third indication of the end of the crisis will, of course, be the loosening of credit. Right now, credit restrictions are tighter than any time since the early 1980s, partially because of unwillingness of lenders to take any risk at all, even if the interest rate is high enough to cover the cost of the risk. The government's huge $700 billion bail-out package has yet to get down to the street level. Banks don't even trust other banks. The good news is that some of the credit indicators are stating to act better, but all of this will take time.

A fourth sign that we have reached the bottom will be the stabilization of the housing market. The decline in new construction now dates back over a year, which implies that demand will eventually catch up with supply. At some point, probably a few months from now, a significant number of potential home buyers will begin taking advantage of the lower prices for homes and stabilize the price level. It was the collapse of the housing market that first signaled that we were in trouble, and it may well be the housing market that leads us back to where we want to be.

Finally, after two years of campaigning, the presidential election is over. We should not expect any miracles. Indeed, Jimmy Carter noted after his term in office that one of the most frustrating part of his presidency was that the executive branch of government really has very little control over the economy. Except for the proper administration bail-out package that has already been passed, there is really little that our government, the Chinese government, and the European governments can do except wait for the markets to work their way through the problems.

COMMENTS FROM SURVEY PARTICIPANTS

"Our parts sales are starting to slightly increase. We are optimistic that this momentum will continue."

"I guess we will have to wait and see what happens after the 'bailout' and the 'election!'"

"Number one grades of industrial scrap should show another large decrease in price for October."

"We seem to have hit a plateau. We are bracing ourselves for a very tough fourth quarter."

"We are experiencing another record year in sales."

"It's a very uncertain economy."

"PVC resin is still on force majeure due to Hurricane Ivan."

"Funding issues with the State and Federal governments continues to make this organization prioritize their spending and reevaluate our policies and procedures in order to stay within budget. A mild winter would help tremendously!"

"As the scrap metal market softens, so does the steel market."

"We're awaiting the new fiscal year."

"Defense and mining orders for steel fabrications are holding steady."

"Things have slowed down dramatically. This month still looks to be very good for us. However, the rest of the quarter looks to be a lot slower than normal."

"We are getting to the point whereby purchasing professionals need to start demanding price decreases due to the declining price of oil."

"We all need to keep on pushing our oil based suppliers to reduce costs. Everything is on the way down and we should recover the 20% - 30% hit we all took."

"Business is slowing down rapidly. It is going to be a long winter."

"Our company is aligning inventory levels lower to match up with our seasonal slow period."

"Things are mostly the same, but we have seen a couple of orders finally break lose. Our machine shop is doing well with work from other areas of the economy that are energy related."

	UP	SAME	DOWN	N/A	Oct. Index	Sept. Index	Aug. Index	20 Year Average
Sales (New Orders)	12%	52%	36%		-24	-21	-14	+29
Production	14%	38%	38%	10%	-14	-24	- 7	+13
Employment	10%	54%	36%		-26	-21	- 9	+ 8
Purchases	10%	45%	45%		-35	-28	-21	+ 7
Prices Paid (major commod.)	14%	65%	21%		- 7	+21	+53	+35
Lead Times (from suppliers)	10%	74%	14%	2%	- 4	+ 0	+ 5	+11
Purchased Materials Inv. (Raw materials & supplies)	5%	49%	36%	10%	-35	- 5	+ 3	- 5
Finished Goods Inventory	10%	54%	24%	12%	-14	- 7	-12	-10

Items in short supply: Polyethylene resin, butadiene, PVC resin, waxes, filters, salt, aluminum sheeting, Montan wax, paraffinic oil.

Prices on the UP side: Resins, urethanes, impact modifiers, SEBS resin, salt, filters, aluminum sheeting, steel blades, plastic resins, polyfoam, cardboard, corrugated cartons, certain plastic resins, foam, decorative glass, process aids.

Prices on the DOWN side: Aluminum, aluminum ingot, scrap metals, carbon steel, steel, stainless steel, polypropylene, brass, copper, chlorides, nickel, oil, diesel, low carbon scrap, low carbon steel, copolyester resin, small metal components, steel products, crude oil, natural gas.