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CURRENT BUSINESS TRENDS

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Down again. That's the latest word on the Greater Grand Rapids economy, according to the data collected in the month of September. Our index of business improvement, which we call NEW ORDERS, retreated to -21, down from -14. The PRODUCTION index slid to -24, down from -7. Activity in the purchasing offices, which we report as our index of PURCHASES, declined to -28 from -21. Because of the declining activate for the nation as a whole, it was no surprise to see the index of LEAD TIMES flatten to +0, down from +5. Since this is now our sixth month of negative economic statistics, the Greater Grand Rapids economy is clearly under siege. It is unnerving to see our numbers continue to worsen. This implies that we are not at the bottom of our current slide.

As we look at individual industries, it is not a surprise that we have no industrial group that is expanding. Although firms that are directly or indirectly selling to the defense and aerospace industries are stabilizing at the present level, there are not enough of them to offset the losses in other industries. The office furniture business is stabile, although one firm reported an improvement in incoming business for the month. On the down side, the auto sector is being especially hard hit, given that the fall season is usually the best time of the year for the industry as a whole. Most firms associated with capital equipment are also down, and one firm noted the reluctance of customers to make commitments because of the uncertain economy future. With discretionary budgets getting tight, business conditions for our industrial distributors are below average.

Turning to the national level, the October 1, 2008 press release from the Institute for Supply Management, our parent organization, depicted one of the biggest monthly drops in recent memory. ISM's index of NEW ORDERS sank to -21, down from -6. The PRODUCTION index flipped from a positive +3 to a double digit negative reading of -13. Much as we would expect, the EMPLOYMENT index slid sharply to -19, from -3. ISM's composite manufacturing index dipped to an eight year low of 43.5, down from 49.9. As we have often stated in the past, one month's performance does not denote a trend. However, when combined with the fundamentals of current economy, it is difficult to project that next month's numbers will improve enough to bring the report back to a positives footing.

Complicating the current economic situation is the concurrent decline of the international economy. The composite index for J.P. Morgan's Global Manufacturing Report dated October 1, 2008 sank to 44.2, down from 48.6. NEW ORDERS were reported as especially weak in Spain, France, the UK, and of course, the US. Even the BRIC countries saw business conditions as less robust.

As a state still closely tied to automotive, the news about the drop in automobile sales is especially troublesome. For the month of September, sales for the entire industry dropped 25.4% to the lowest level in fifteen years. The Detroit Three were hardest hit, with Chrysler dropping 32.8%, Ford falling 36.3%, and GM falling 15.6%. However, as a sign that the entire industry is in trouble, Toyota USA posted a drop of 32.3%. This is the biggest monthly decline in the history of the company. American Honda dropped 24.0%, which is also one of the biggest declines in recent memory.

The news for inflation continues to be good. ISM's index of PRICES fell to +7, down sharply from +54. For the Greater Grand Rapids survey, the index of PRICES moderated to +21 from +53. In Southwestern Michigan, the index eased to +31, down from +76. The commodity speculation that drove prices through the roof has subsided. The bad news is that products with high petroleum content are not yet significantly lower in price, even though the escalating price of petroleum was usually used as an excuse for the insatiable price increases that buyers have endured for many months. The same is true for steel, where most of the major steel mills have not even hinted that price cuts may be offered anytime soon.

Although falling commodity prices are welcomed by all buyers around the world, there is nonetheless a down side. In the United States, we witnessed the accumulation of commodity inventories for the first time in over twenty years. However, these inventories are modest when compared with the excessive inventories in countries like China, where business leaders are just now learning modern techniques for inventory maintenance. The problem is that falling prices will now result in these inventories being liquidated over a period of months or even years. Hence, it is likely that the mining industries as well as their supporting industries will suffer from the end of the boom.

Despite congressional bailouts of Wall Street and the rest of the banking system, liquidity many be improving, but the credit crunch continues. Fortunately, our side of the state is not plagued with vast quantities partially completed and unsold houses. Even our foreclosure rate, while a significant economic concern, is not nearly as high as the rates currently being reported in the Detroit area. Once again, the housing market will not begin to improve until we work through the current inventory of unsold and foreclosed homes. At SOME point, when the prices are low enough, the potential homeowners will begin to take advantaged of the lower prices and the lower interest rates and start buying. The stabilization of home prices will then make the banks more willing to loan money, and we will begin to pull out of the housing slump.

Recovery from the automotive slump may take longer. The poor automotive sales we have been reporting for several months are partially the result of the end of sub-prime auto loans. Higher gas prices have also resulted in fewer miles being driven, and therefore a reduction in the need to replace aging vehicles.

As America and the rest of the world recovers from the 2007-2008 credit debacle, it is wise to remember that sub-prime loans and easy credit for customers with low credit ratings really worked against the people that were supposed to be helped. High risk customers paid high interest rates, resulting in their purchasing power being severely taxed by the banking industry. While it lasted, it was a great way for Wall Street to make money. Hence, when it all shakes out, the low income consumer will actually end up having more purchasing power since no one will be in there pockets changing those high sub-prime rates of interest.

Finally, does any hope remain that we can still avoid a recession? For Michigan, the answerer is obviously no. But since the formal definition of a recession is two continuous quarters of negative economic growth, avoiding a recession at the national level is still possible. However, with the negative tone of this month's statistics, the probability of a recession is now much higher.

COMMENTS FROM SURVEY PARTICIPANTS

"Times are not good. We are expecting 'smart sizing' any day now."

"Scrap pricing for September should take a dramatic fall from the historical high prices we have seen over the last several months."

"We are still very soft in our parts sales. This is not a good sign. We hope this is all due to the upcoming election."

"Our budget is very tight for 2009, as it is with other governmental agencies. Therefore, we will not be buying any capital equipment and will purchase limited commodities and services for the year."

"We are holding our own. There's no hiring and no laying off."

"We are doing well."

"Business is really starting to pick up. We will have a very busy fourth quarter coming up."

"Does anyone answer their phone any more?"

"The housing market seasonality is entering the slow phase of the year. The market overall is down."

"Certain metals are starting to show signs of stabilizing."

"Relief from oil price falling has not shown up in the raw materials markets at the same rate that increases were levied."

"Steel pricing has been level for a few months, and we believe there will be shorter lead time and lower prices for the next several months."

"We finally landed a couple new orders. Maybe their is hope. Also, quoting is robust."

"With oil on the downside and natural gas falling as well, we all need to push together to get our plastic resin suppliers to get things moving downward."

	UP	SAME	DOWN	N/A	Sept. Index	Aug. Index	July Index	13 Year Average
Sales (New Orders)	16%	40%	37%	7%	-21	-14	-15	+16
Production	9%	46%	33%	12%	-24	- 7	-26	+16
Employment	5%	67%	26%	2%	-21	- 9	-19	+10
Purchases	7%	55%	35%	2%	-28	-21	-21	+ 9
Prices Paid (major commod.)	35%	44%	14%	7%	+21	+53	+66	+13
Lead Times (from suppliers)	9%	80%	9%	2%	+ 0	+ 5	+ 2	- 7
Purchased Materials Inv. (Raw materials & supplies)	14%	56%	19%	12%	- 5	+ 3	-20	-10
Finished Goods Inventory	9%	59%	16%	16%	- 7	-12	-12	-11

Items in short supply: Some chemicals, road salt, clear tempered glass, PVC resin, butadiene, SEBS resin, 465 and 455 stainless steel.

Prices on the UP side: Polyurethane foam, fuel surcharges, anything petroleum based, clear acrylics, foundry coke, steel, valves, molded rubber, road salt, asphalts, emulsions, guardrails, plastic resins, corrugated cartons, paper, electricity, HR & CR Steel, clear tempered glass, styrene, ASA plastic, plastic resin, pallets, transportation, freight cost, SEBS resin, waxes, pigments, steel materials, heavy carbon plate, garment fiber.

Prices on the DOWN side: Cleaning services, ferrous scrap metal, brass, some carbon steel, stainless steel surcharges, scrap metal, carbon steel, nickel, fuel, propylene, glass, aluminum, natural gas, copper, polypropylene, polyolefins, polypropylenes, steel surcharges, bronze, some structural steel, plastic resin, morale.