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CURRENT BUSINESS TRENDS

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Modest growth. That's the latest word on the Greater Grand Rapids economy, according to the data collected in the last two weeks of January. NEW ORDERS, our index of business improvement, eased to +14 from +20. However, the PRODUCTION index rose to +22 from +14. The back-to-work mood of the post-Christmas season resulted in the index of PURCHASES bouncing to +17, up from +0. The EMPLOYMENT index slid back to +0, down from +8. Just as last month, all of this bodes well for a pattern of slow but steady growth, even though the pace of the recovery has slowed since the summer and early fall of 2009.

A look at individual industries provides a little different view. First, the undisputed stars of this month's report are the automotive parts suppliers. Thanks to improved auto sales, these auto suppliers are starting to dig out of one of the worst slumps in recent history. Capital equipment manufactures and distributors are also showing significant signs of improvement, although margins remain very slim. All of this is offset by the office furniture business, which appears to have taken a slight dip as we enter the New Year. For industrial distributors, the results were very mixed, with some firms very busy, while others are still stuck at recession-level sales. A review of the respondent comments at the end of this report tells us that most firms are still cautiously optimistic about 2010, and growth is expected to be slow.

At the national level, the February 1, 2010 press release from the Institute for Supply Management, our parent organization, shows that the national economy is expanding nicely. ISM's index of NEW ORDERS rose to +25, up from +16. The PRODUCTION index jumped to +27, up significantly from +10. It was good to see the index of EMPLOYMENT turn back to positive at +3. ISM's composite index jumped to 58.4, up from 54.9. The survey's author noted that this is the sixth consecutive month that the index has come in ahead of the break-even point of 50.0, and that it provides "…significant assurance that the manufacturing sector is in recovery.".

The news at the international level is also very good. J.P. Morgan's Global Manufacturing report released on February 1, 2010 saw the January index of NEW ORDERS rise to 59.5 from 58.3. JPM's index of PRODUCTION jumped to a 69 month high of 60.2, up significantly from 57.5. Solid gains were reported in France, Germany, Italy, and the Netherlands. Spain, Ireland, and Greece remained negative. The Eurozone and Japan showed improvement in January, the pace was well below the world average.

This month's big economic news comes from the Commerce Department which announced that the preliminary estimate for economic growth in the fourth quarter of 2009 came in at 5.7%, the highest expansion rate in six years. However, the same report notes that a whopping 3.4% of that figure was the result of halting inventory liquidation, or, conversely, rebuilding of depleted inventories at other points in the supply chain. This analysis is collaborated by the recent history of the index of INVENTORIES in our local survey, which saw firms accumulate inventories in a panic as prices and shortages skyrocketed in 2008. Commodity prices fell dramatically at the end of 2008, as speculators exited the market and industrial firms all over the world began using up the inventories that they had accumulated. In the middle of 2009, these excess inventories were depleted, the speculators were gone, and GDP as well as the statistics for this survey as well as the ISM national survey and JPM international survey began to show positive growth.

Another issue that has received attention in financial circles is the alarming rate of the increase in the federal debt. Because of the sheer strength of the dollar, we thus far have been able to float trillions of dollars of new debt on the national and international money markets with little apparent short term consequence. This has helped us fund wars in Afghanistan and Iraq, as well as huge amounts of money to bail out financial institutions and the auto industry. Under the terms of the Maastricht treaty, the European nations collaborating in the Eurodollar are restricted to relatively low budget deficits, and have no such budgetary freedom. China, which holds about $700 billion of our debt, has been especially vocal about opposition to our fiscal mismanagement. The dollar has continued to fall in value, which ironically helps our economy by making it easier to sell our products and farm commodities around the world. However, if there were to be a run on the dollar, the Fed would be forced to raise interest rates immediately to stop the collapse. This could generate a second leg to the recession. The same would be true if the foreign governments like China were to put a retaliatory freeze on additional purchases of our debt, or even worse, begin dumping the debt on the open market. This would clearly not be in their economic best interest, but the threat is still there all the same.

A third issue up for discussion is the concern over the impending return of inflation. Whereas our current indexes of PRICES in all of the surveys mentioned in this report are relatively benign at this time, they could spike up on relatively short notice. In recent months, we have noted that the list of commodity prices on the "Up" side has grown considerably, particularly for high-ticket items such as copper, aluminum, and steel. Since we import large quantities of these commodities from overseas, the falling dollar has clearly contributed to this problem. Although there may be no reason for the Fed to take action at this time, this situation could change if these price increases get out of control.

Finally, it is worthwhile to make mention of the term, "recovery." In technical (i.e., mainstream economic) terms, a recession is defined as "three continuous quarters of economic decline." Hence, the "recovery" officially began in the third quarter of last year, and some pundits said that the recession was "over" as of approximately June, 2009. In actuality, this economic terminology may be correct, but it makes far more sense to declare June of 2009 as the time that we BEGAN to dig ourselves out of a very deep hole. In fact, it may take many years before unemployment drops to the level of 2006.

In summary, improving auto sales will help, but not nearly cure, Michigan's economy. Second, the U.S. Commerce Department's announcement of 5.7% growth, even if it is only 2.3% after subtracting inventories, is still very good news. Third, the recovery at the international level continues to outpace the U.S. economy. Fourth, barring catastrophic surprises, economic growth should easily continue.

COMMENTS FROM SURVEY PARTICIPANTS

"We are experiencing slow growth in our backlog. We hope this continues."

"The early part of this month was very busy from orders carrying over from December. Late January and February are looking lighter at this time. Hopefully, things will change."

"Day to day orders are slow, but some large projects are helping to fill in the gaps."

"There is increased interest in the marketplace. Customers are still close to the vest with the purse strings and looking for bargains. We will never return to the 1990s"

"We're in our slow time of year, and expect total dollar sales this year to be less than 2009."

"Sales have been surprisingly strong. Maybe we have hope for 2010."

"The first of the year is starting out slowly, but that's not so uncommon for us."

"We sell capital equipment, and saw a nice flurry of orders at the end of 2009 - mostly for tax reasons. We're a little concerned, however, about orders in Q1. I think we just pulled business ahead, and may not see much increase until Q2 or even Q3."

"We're still showing signs of slow growth."

"The pricing and lead time continue to be problems for steel. Volumes are not up but capacities at steel mills have been reduced."

"The mild January has helped our budget some and we are looking at several Federal and State grants for added funds for 2010 & 2011."

"We are working through a reduction in workforce, coupled with a relatively new application system at one of our major customers."

"We finished strong, and 2010 has a backlog, so we are seeing a slow but improving trend!"

"Sales backlog continues to build slowly. We are buying with very little visibility beyond the 10-12 week period."

"We're slowly seeing things pick up. Nothing spectacular, but it's moving upward at least. We're still cautiously optimistic."

"The recent Toyota recall and production halt has adversely affected our order flow."

"Inventory and production levels have increased due to anticipated elevated sales volume for the coming busy season (March)."

"The atmosphere is upbeat, but PO's are still very slow in coming."

	UP	SAME	DOWN	N/A	Jan. Index	Dec. Index	Nov. Index	20 Year Average
Sales (New Orders)	39%	30%	25%	6%	+14	+20	+10	+29
Production	36%	42%	14%	8%	+22	+14	+16	+13
Employment	22%	56%	22%		+ 0	+ 8	- 5	+ 8
Purchases	36%	45%	19%		+17	+ 0	+10	+ 7
Prices Paid (major commod.)	17%	80%	0%	3%	+17	+16	+ 2	+35
Lead Times (from suppliers)	19%	78%	3%		+16	+14	+14	+11
Purchased Materials Inv. (Raw materials & supplies)	31%	49%	17%	3%	+14	-11	- 8	- 5
Finished Goods Inventory	11%	61%	17%	11%	- 6	+ 3	- 5	-10

Items in short supply: Aluminum, stainless steel, some steel sheets, linear trimellitate plasticizers.

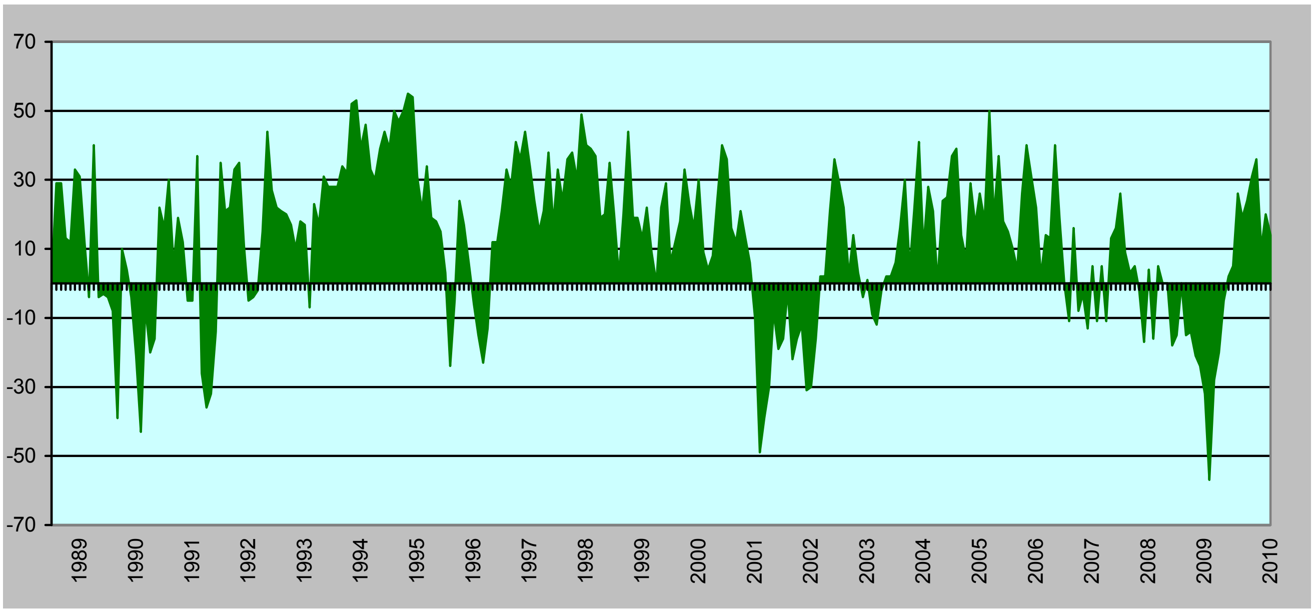
Prices on the UP side: Resin, transportation, steel sheets, aluminum sheets, stainless steel, aluminum extrusions, freight, scrap steel, plastics, polypropylene resin, carbon steel, copper wire, brass rod, brass fittings, all industrial goods, Parker Hannifin products, hydraulics, pneumatic components, polyolefins, engineering resins, corrugated, carbon steel, nickel surcharges, salt, fuels, paper products, insurance, isopropyl isobutate, M solv 100, chemicals, PVC resin, SEBS resin, plasticizer, impact modifiers, acrylics, PP, paraffinic oil, corrugated, import glass.

Prices on the DOWN side: Gasoline, hydraulic oil, software services.

Index of New Orders - Greater Grand Rapids
1988 - 2010

As the name implies, this index measures new business coming into the firm, and signifies business improvement or business decline. When this index is positive for an extended period of time, it implies that the firm or organization will soon need to purchase more raw materials and services, hire more people, or possibly expand facilities. Since new orders are often received weeks or even months before any money is actually paid, this index is our best view of the future.

January Results +14
Record Low -57 for December 2008
Record High +55 for September 1994



Index of New Orders: 2004 - 2010 only