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CURRENT BUSINESS TRENDS

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Continued modest growth. That's the latest word on the Greater Grand Rapids economy, according to the data collected in the last two weeks of February. NEW ORDERS, our closely-watched index of business improvement, eased to +6, down from +14. In a similar move, the PRODUCTION index backtracked to +8 from +22. Activity in the purchasing offices, which we record as our index of PURCHASES, remained positive but came in at +14, down slightly from last month's +17. The best news for the month came from the EMPLOYMENT index, which jumped to +9 from +0. All in all, the pace of the recovery continues to slow. Although there is no evidence at this time to suggest any fundamental new problems, the recovery will probably continue to be restrained.

Turning as we always do to a look at individual industries, it almost goes without saying that any of our auto firms that supply Toyota had a rough month. For Grand Rapids, that was only a couple of firms, and the remainder of the auto parts suppliers filed positive reports. Conditions were seasonally weaker for several of our capital equipment firms. The performance of our distributors came in mixed. The slight dip for the office furniture business has extended into a second month. Unfortunately, this industry lacks a catalyst for turning it around. Overall, a review of the respondent comments at the end of this report tells us that many firms are not quite as optimistic as they were a couple of months ago.

At the national level, the March 1, 2010 press release from the Institute for Supply Management, our parent organization, shows that the national economy is also experiencing a little moderation. ISM's index of NEW ORDERS retreated modestly to +21 from +25. In a less modest move, the PRODUCTION index eased to +18 from +27. It was good to see the index of EMPLOYMENT move up to +12 from +3, the best level since January of 2005. However, averaging everything together, ISM's composite index eased to 56.5, down from 58.4. The survey's author noted, "…this is the third consecutive month of growth in the EMPLOYMENT Index," and "… NEW ORDERS and PRODUCTION still show significant month-over-month growth.

The news at the international level shows a similar pattern. J.P. Morgan's Global Manufacturing report released on March 1, 2010 saw the February index of NEW ORDERS ease to 56.9 from 59.5. From last month's 69 month high of 60.2, the international PRODUCTION index backtracked to 57.4. Growth in the Eurozone countries hit a three year high. Output in the UK rose at the fastest pace since September 1996. However, the well-publicized troubles in Greece continue to be a wet blanket for economic growth in Western Europe.

This month's big economic news of course came from Europe, where the Greek economy flirted with collapse over the government's huge budget deficit. Although Greece's Eurodollar deficit amount is small by US standards, it constituted a huge breach of the Maastricht currency agreement which limited all countries that converted their currencies to the Euro to an annual budget deficit of no more than 3%. Germany and France could easily bail out Greece, if it were not for the broader problem that Greece is one of the so-called "PIGS" countries (Portugal, Ireland, Greece, Spain), all of whom are running deficits over the 3% level. Help one, and you may have to help them all. By the time all of the deficits are covered, the Euro could be devastated. A total collapse in the Maastricht agreement would result in all of the European countries reforming their original currencies. But the chaos would spread worldwide, and push most of the world back into a recession. Europe cannot afford to let this happen, so it will be stopped, even if the French and Germans have to ante up.

Auto sales for February were disappointing, although some kind of a drop seemed almost certain. Although part of the drop is clearly attributed to the Toyota fiasco, the other manufacturers did not pick up the slack. Part of the lack of sales was the record snowfalls and bad weather in many parts of the country. Who thinks of buying a car during a snowstorm, or while digging out from two feet of snow? Another part of the problem can also be blamed on the softer-than-expected consumer confidence numbers currently being reported. Consumers need to feel confident about the future before they make major commitments. The good news from all of this is that most automotive analysts think this trend is temporary, and that March and April auto sales numbers should look better.

The recurring problem of inflation continues to weave its way through the financial news media. However, ISM's index of PRICES moderated this past month to +34, down from +40. Locally, we did not fare as well, given that the Greater Grand Rapids index of PRICES jumped to +40 from the subdued +17 we previously reported. For the Southwestern Michigan Survey, the index edged up to +41 from +36. Aside from the statistics, the list of "big ticket" items reported as rising in price constitutes a greater cause for concern. Specifically, almost every type of steel is now going up in price at a rate more resembling a boom period than a period of recovery from a recession. The Chilean earthquake escalated the price of copper, which was already going up. Aluminum and zinc, which did appear to stabilize, are also rising faster than expected. Despite relatively stable oil prices, most manufacturers of plastic resins are posting price increases.

When asked about the cause of these price increases, many economists point to the world economic recovery for the reason that demand is rising. Others note that some countries like China are accumulating reserves of basic commodities in anticipation of higher prices in the not-to-distant future. Finally, at least some evidence exists that American firms are reverting to behavior of the 1960s and are building inventories in anticipation of higher prices. With the current interest rates so low, accumulation of inventory is FAR less costly. However, if all of this gets out of hand, we could be in for a serious round of inflation across the entire economic spectrum. This situation bears watching.

In summary, the auto sales dip is probably temporary, and better auto sales later in the year will help, but not cure, some of the problems in Michigan's economy. Second, the weak commercial and residential real estate markets will continue to restrain our recovery for many months to come. Third, the international economic recovery will continue to augment our own recovery. Fourth, a meltdown of the Euro, although unlikely, would cause chaos for the financial system of the entire world. Fifth, a double dip to the current recession is possible, but still unlikely.

COMMENTS FROM SURVEY PARTICIPANTS

"I recently had two well established, long time vendors go out of business last month due to the economy--not a good thing. I hope it is not a sign."

"We had another slight increase in new order intake. We are hopeful the trend continues."

"Requests for price increases are coming in from commodity suppliers. Some announcements are holding, and others are being held off."

"Business will pick up in the spring and summer."

"We're holding our own."

"We are treading water and hoping to rise. We are having a tough first quarter."

"It's our fifth consecutive month of positive numbers."

"Things just don't want to bust loose, but the tone is still positive in the market place."

"After our best January in years, February has been rather disappointing. Orders from our non-automotive customers have been strong, but our automotive business is seeing the lull we expected last month. March orders appear to pick back up, so we won't panic yet."

"How long will the current automotive push last? Getting a good automotive forecast is very difficult. We'll take the uptick for now."

"Business is steady and slowly increasing."

"There's not much activity going on. It is usually like this in Jan/Feb every year. We have some quoting activity, but nothing serious."

	UP	SAME	DOWN	N/A	Feb. Index	Jan. Index	Dec. Index	20 Year Average
Sales (New Orders)	29%	45%	23%	3%	+ 6	+14	+20	+29
Production	29%	45%	17%	9%	+ 8	+22	+14	+13
Employment	20%	66%	11%	3%	+ 9	+ 0	+ 8	+ 8
Purchases	31%	49%	17%	3%	+14	+17	+ 0	+ 7
Prices Paid (major commod.)	40%	54%	0%	6%	+40	+17	+16	+35
Lead Times (from suppliers)	34%	63%	3%		+31	+16	+14	+11
Purchased Materials Inv. (Raw materials & supplies)	20%	60%	17%	3%	+ 3	+14	-11	- 5
Finished Goods Inventory	14%	63%	14%	9%	+ 0	- 6	+ 3	-10

Items in short supply: Poplar KD lumber, carbon steel, stainless steel, aluminum, coated and HSLA steel, resins, olefins pigments.

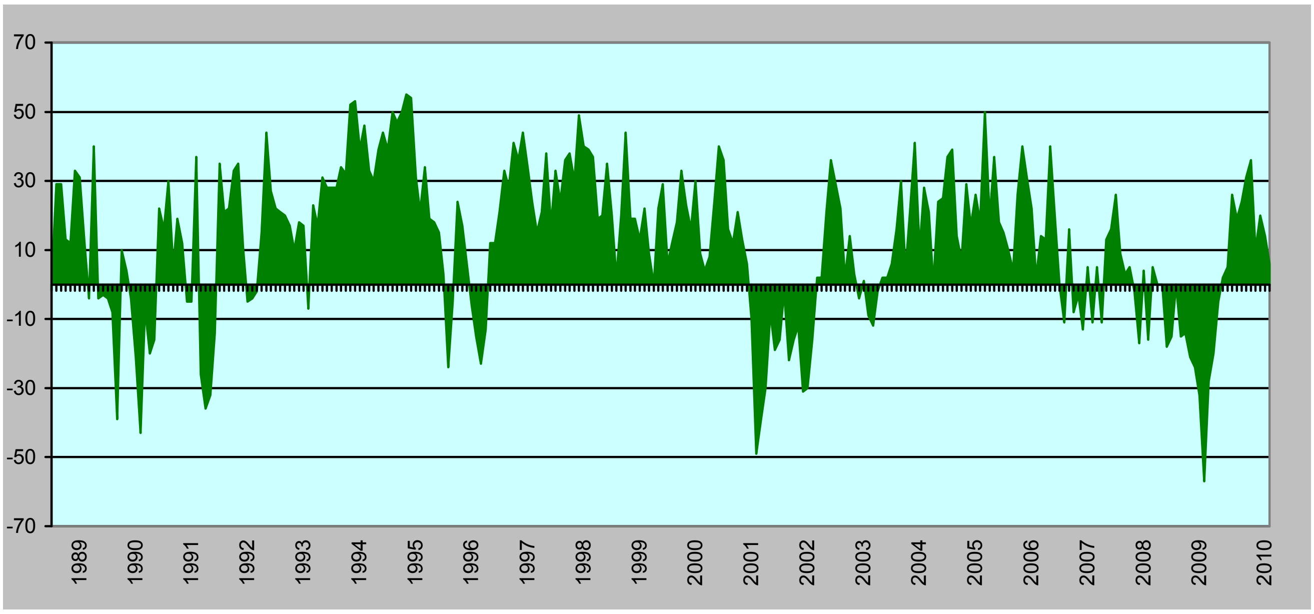
Prices on the UP side: Aggregate, steel, stainless steel, carbon steel, paper products, aluminum, corrugated, HDPE, polyurethane, Styrofoam, nickel, copper wire, brass fittings, corrugated packaging, machined parts, lumber, ABS, PBT, polypropylene, nylon, PP, PE, and ABS resins.

Prices on the DOWN side: PCBA, sand, concrete, some construction equipment, tempered glass, services of all types.

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.

Latest Report	+ 6 for February 2010
One Year Ago	-20 for February 2009
Record Low	-57 for December 2008
Record High	+55 for September 1994



Index of New Orders: 2004 - 2010 only