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CURRENT BUSINESS TRENDS

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The recovery continues. That's the latest word on the Greater Grand Rapids economy, according to the data collected in the last two weeks of October. NEW ORDERS, our index of business improvement, rose to +36, up from +31. The PRODUCTION index remained positive, but backtracked to +29 from +38. Activity in the purchasing offices moderated to +21, down from +24. The index of EMPLOYMENT rose modestly to +17 from +14. For the third successive month, 31% of the firms responding to this survey reported that employment levels are rising. This is offset by 14% of the respondents that are still cutting jobs. All in all, our statistics continue to be very positive. For this survey, we are now in our seventh month of recovery.

Turning to individual industries, it almost goes without saying that much of our current economic strength can be attributed to the auto parts suppliers. This success spilled over to the industrial distributors which serve the auto industry. However, non-automotive distributors continue to struggle. The capital equipment firms turned in a mixed performance for the month. The same was true for the major office furniture companies, with some firms reporting increases in orders, while others reported a drop. Most remain stable. All in all, the participant comments at the end of this report are still cautiously optimistic.

At the national level, the November 1, 2009 press release from the Institute for Supply Management, our parent organization, shows that the national economy has lost a little steam but is still expanding. ISM's index of NEW ORDERS, which had been as high as +27 two months ago, moderated to +10. The PRODUCTION index regained some lost ground and came in at +22, up from +18. The good news came from the EMPLOYMENT index, which came in at +4, the first positive reading since 2007. ISM's overall Index of Manufacturing rose to 55.7, up from 52.6. The survey author notes that "…inventories are balanced and manufacturing is in a sustainable recovery mode."

The news at the international level continues to be positive. The composite index for J.P. Morgan's Global Manufacturing Report dated November 1, 2009 came in at a 39 month high of 54.4, up nicely from 53.0. Manufacturing output rose at the highest rate since July of 2004. JPM's October index for NEW ORDERS backtracked modestly to 56.9 from 57.0. Strong reports came in from countries like China, Taiwan, India, Germany, France, and the UK. However, at 49.7, JPM's index for worldwide EMPLOYMENT is still below the break-even point of 50.0. Overall, the world economy continues to bounce back from the recession even faster than the U.S.

Unfortunately, we are still waiting for better news from the automotive scene. A November 2 story from Reuters notes that we may never return to the 2005 sales level of nearly 17 million units. The article further notes that the inflated sales in the 2003-2006 time periods were inflated by the auto industry's unique version of "subprime" financing, and lenders are unlikely to repeat the mistakes of the past. For October, sales were up 3% at Ford and 5% at GM, but Chrysler was down 30%.

On the inflation watch, many buyers are concerned about the increasing number of "big ticket" items that are rising in price. Commodities like copper, nickel, plastic resins, and aluminum have rebounded from their recession lows of just a few months ago. Most forms of steel are both in short supply and up in price. However, in the case of many grades of steel, anecdotal evidence has begun to surface that enough mills are now back on line to more than cover the existing worldwide demand, despite the increase in demand resulting from the worldwide economic recovery. If this is true, steel prices should stabilize at the current level, or even begin to fall.

In terms of general industrial inflation, ISM's index of PRICES came in at +30. For the Southwestern Michigan, the index came in at +15. For Greater Grand, our current index is +17. Since any rapid escalation in PRICES index has usually been follow by tightening on the part of the Federal Reserve, we will continue to monitor the prices of all commodities more closely in coming months. Right now, there is no cause for concern.

It almost goes without saying that this month's big economic news is the announcement that the Q3 GDP rose to 3.5%, apparently marking the end of the recession. However, with Michigan's unemployment rate at 15.3%, it doesn't seem like a recovery is anywhere in sight. Although we certainly don't always like the laws of economics, it remains a fact that employment is a laggard in any and all recessions. Looking at previous recessions where the ends were marked by a positive GDP report, we find that the unemployment rated continued to climb for 12-18 months AFTER the economists trumpeted that the recession was over. The jobs will eventually come, but the wait may be painful.

Our report, which reflects the manufacturing of industrial products and their accompanying industrial distributors and industrial services, is really a look into the economic future. For our local survey, the closely watched index of NEW ORDERS indicated that new business coming into the firm has now returned to the pre-recession levels of 2005-2006. But incoming orders are just the beginning of the industrial process. Very often, no money will actually change hands for weeks or even months into the future. However, with an increase in new orders, the firm will begin ordering raw materials and components-- and people-- necessary to fulfill the order. Hence, adding one production worker may ultimately create as many as ten additional jobs throughout the entire supply chain. In the case of distributors, it will be necessary to place orders to restock the shelves, although tough economic times may cause the firm to delay reordering for a month or two just to make sure the economic recovery is real. Again, MONEY does not actually move for weeks or months.

Another corollary problem is the so-called jobless recovery. Except for JPM, all of the surveys mentioned in this report are reporting EMPLOYMENT indexes that are positive. Unfortunately, these statistics in the recovery phase of a recession often reflect workers being called back, not new jobs that have been created. Firms that have been running four day weeks are now shifting back to standard 40 hour weeks. With the widespread use of temp agencies, many firms prefer to bring in temporary workers rather than bring in new workers that my not be needed in a few weeks or months.

COMMENTS FROM SURVEY PARTICIPANTS

"We are seeing a slow growth in new orders. We hope it continues."

"We're in a natural cycle trend of orders falling off in the last quarter of this year, followed by a slow start for next year. This doesn't appear to be as severe of a drop as in years past. The good news is our backlog is still good."

"Inquiries are increasing. However, customers are still looking for bargains. The orders that are coming are hard fought and very lean."

"Business is steady."

"Business is turning down again. Lead times on some critical items are growing due to low supplier inventory levels."

"We've rebounded nicely the last couple of months. The question is how long it will last."

"Contractors have been very aggressive with their bidding due to the bad economy. Prices have been coming in at or below last years, which may help our budget issues."

"We're into a new fiscal year and waiting for contract awards to unthaw."

"October is turning out to be a lot stronger than we originally expected. November and December still look lean."

"Two good months are very helpful. The 'cash for clunkers' program is causing a spike in expedited purchases, and probably will result in inflated inventories when the supply chain settles back to normal levels."

"We still see small steps of increased sales."

"It's still a very confusing economy. How long will the upturn last?"

"Orders and production remain steady."

"Sales continue to strengthen with our backlog stabilizing at a level significantly higher compared to the first half of 2009."

"I predict the automotive parts manufacturing world is moving quickly towards another cliff that we will fall off come late November."

"It was a pretty flat this month, but we're still doing well."

"Pricing of steel has gone up, but we see signs of it coming back down."

	UP	SAME	DOWN	N/A	Oct. Index	Sept. Index	Aug. Index	20 Year Average
Sales (New Orders)	43%	45%	7%	5%	+36	+31	+24	+29
Production	36%	50%	7%	7%	+29	+38	+34	+13
Employment	31%	55%	14%		+17	+14	+19	+ 8
Purchases	31%	59%	10%		+21	+24	+33	+ 7
Prices Paid (major commod.)	24%	67%	7%	2%	+17	+19	+14	+35
Lead Times (from suppliers)	36%	57%	7%		+29	+21	+19	+11
Purchased Materials Inv. (Raw materials & supplies)	19%	60%	14%	7%	+ 5	+10	+ 5	- 5
Finished Goods Inventory	10%	61%	17%	12%	- 7	+ 0	- 5	-10

Items in short supply: Some carbon steel, certain types of welding wire, some safety supplies, stainless steel, 36" wide steel sheets, electronic components, cold rolled steel, aluminum, specialty stainless steel bar, steel mill capacity, some coated steel and HSLA grades, die cast suppliers.

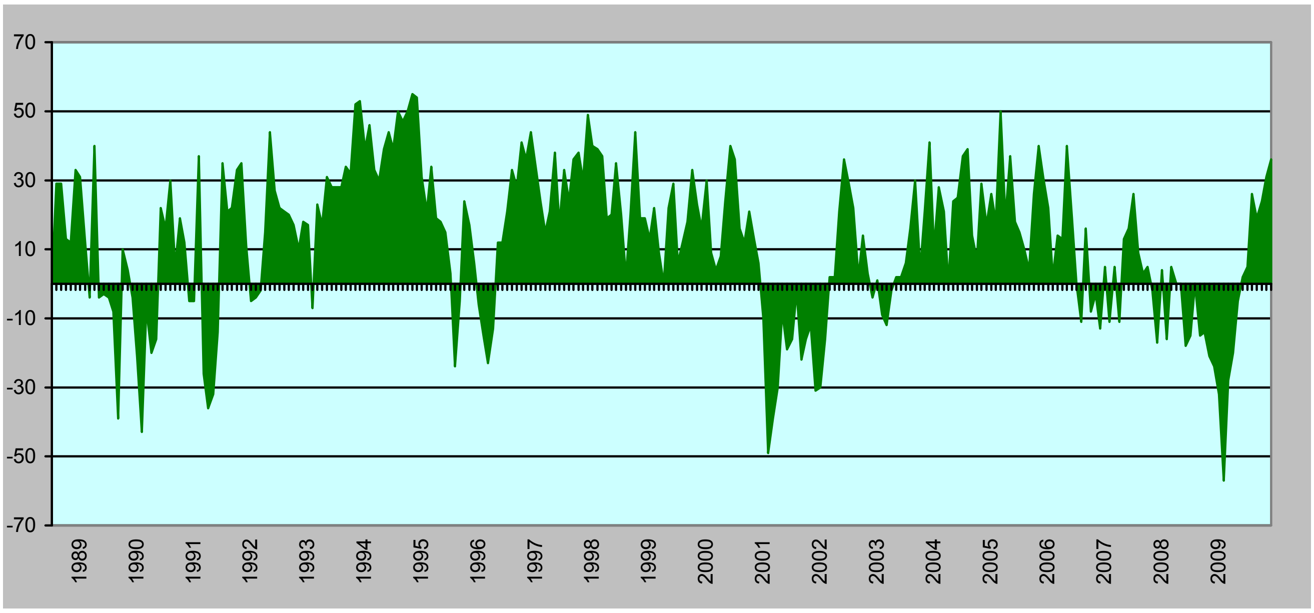
Prices on the UP side: Transportation, steel, carbon steel, HR steel, stainless steel, leaded steel, some plastics, fuels, salt, trucking, copper, brass, wire and cable, aluminum, acrylic, fuel, aluminum ingot, oil, plasticizer, spare parts, freight costs, nickel, resins, some polypropylenes, gas.

Prices on the DOWN side: Sand, computers and related items, corrugated packaging, some steel, electrical components, some polypropylene, some chemicals.

Index of New Orders - Greater Grand Rapids
1988 - 2009

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.

October Report: +36
Record Low -57 for December 2008
Record High +55 for September 1994



Index of New Orders: 2004 - 2009 Only