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CURRENT BUSINESS TRENDS

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Still going strong, but moderating. That's the latest word on the Greater Grand Rapids industrial economy, according to the data collected in the last two weeks of May, 2010. Our index of business improvement, which we call NEW ORDERS, retreated to +40, down from last month's near-record level of +51. In a similar move, the PRODUCTION index eased to +40 from +44. Activity in the purchasing offices backtracked +28 from +39. The EMPLOYMENT index rose to a four year high of +27, up from +22. Indeed, 35% of the survey respondents reported increases in staffing levels. All in all, our recovery remains on track. However, it is worth reminding everyone that depressed commercial and residential construction, as well as the depressed pricing for all real estate, despite some recent improvements, will limit our recovery.

Turning to individual industries, automotive is still leading the recovery, much as it has been since last year's cash for clunkers program. Because of stronger PRODUCTION numbers in recent months, our industrial distributors continue to show strength. Although the office equipment industry is still a laggard, there are now significant signs that business conditions are now starting to improve for the first time in many months. Capital equipment firms turned in a mixed performance. A review of the respondent comments at the end of this report continues to be cautiously optimistic, and several firms are at or near their all time highs.

At the national level, the June 1, 2010 press release from the Institute for Supply Management, our parent organization, continues to parallel our own local survey. ISM's index of NEW ORDERS eased modestly to +38 from +44. In a similar pattern, ISM's PRODUCTION index moderated to +39 from +42. The EMPLOYMENT index edged up to +22 from +20. Summing everything up, ISM's composite index came in slightly lower at 59.7, down from 60.4.

At the international level, the report from J.P. Morgan's Global Manufacturing report released on June 1, 2010 continues to follow the same pattern as our local survey. The index of NEW ORDERS moderated to 59.2 from 60.3. As we might expect, Greece was the only country to report a decline. Besides the US, growth was especially positive in Japan and the UK. However, the growth rate in the Eurozone and most of Asia remained positive, but retreated. The EMPLOYMENT index increased for the fifth successive month. JPM's Global Manufacturing Index came in at 57.2, just slightly below the 70 month high of 57.8 posted last month.

Automobile sales for May were again stronger than expected. Miracle of miracles, Chrysler led the way with a 33% gain, followed by Ford with a gain of 22%. General Motors posted a more modest uptick of 17%. Even the lesser brands like Subaru gained 35%. All of this is good news for our auto parts suppliers. At this time, it is also worth remembering that the Cash for Clunkers program of a year ago was the turning point. Despite the controversy, Michigan would now be FAR worse off had the program not been enacted.

Industrial inflation continues to be a problem for most of the firms in our area. However, there are now signs that the pricing for many major commodities may have topped out. For the Greater Grand Rapids survey, the index of PRICES came in at +58, almost the same as last month's +57. In Southwestern Michigan, the index eased to +39 from +43. At the national level, ISM's index of PRICES eased to +55 from +56. A couple of key commodities, namely copper and steel, now appear to be headed slightly lower. However, this apparent moderation is not the result of anything that we have done in this country. Instead, the recent softness in these markets can primarily be attributed to declining demand coming from China, the world's largest user of most of the major commodities. It's Economics 101. A drop in demand results in a drop in price. Furthermore, capacity utilization in the steel industry has risen sharply in recent months. Again, an increase in supply can result in a drop in price.

In recent days, everyone with a 401k has been disappointed to see the setback in the stock market. Although many pundits reply that the market was overdue for a correction, even they did not forecast quite this much of a drop. To make matters worse, there is renewed talk about a double dip recession. Although it is worth repeating that there is no evidence in our country that a double dip is likely to occur, the possibility still remains that we could be drawn into a recession through no fault of our own.

Two problems are currently causing a case of international economic jitters. The primary culprit continues to be the European sovereign debt situation, which appears to not yet be fully resolved. So far, all we have seen are various bail-outs aimed at keeping countries like Greece from defaulting on their loans. We have NOT seen significant spending reforms that would ensure a longer term solution. The PIGS countries (Portugal, Ireland, Greece, and Spain) could begin to fail, one by one, like dominoes. The general mood in Germany is that these countries have raised taxes, allowed labor productivity to sink, and discouraged investment to the point that they have created their own problems. When Germany's government under Angie Merkel stepped in to help, there was a huge political backlash. To make all of this worse, the European banks have not fully disclosed just exactly what their risks are regarding some of these loans to the PIGS countries. Hence, the Euro continues to fall in value.

The second problem is China. In part, the government is trying to rein in some of the runaway segments of the Chinese economy, namely housing. They do not want to create a housing bubble like the one that devastated our economy in 2008. Unfortunately, China has become our third best customer in the world, and any kind of a slowdown will mean that our sales are reduced. Because of the lack of data, even the Chinese government is uncertain what is happening. Over the longer term, avoiding a boom-bust cycle is positive. Short term, reduced demand by a major customer is negative.

Although the news of the oil spill in the Gulf of Mexico continues to be a major concern for the environment, the short term economic consequences are relatively minor. In terms of worldwide oil production the Gulf is only a small factor. Psychologically, it could result in rising costs for gasoline in the summer months. In the longer term, increased restrictions on offshore drilling as well as increased regulation could force us to import more oil from foreign sources. The timing of this spill is very bad, given that it came just at the time when the Obama administration was starting to warm up to more offshore drilling.

COMMENTS FROM SURVEY PARTICIPANTS

"We've had another great month, but we are seeing capacity issues both domestically and overseas. Transit times are increasing due to full cargo ships and reduced capacity. We are still tentative as it pertains to hiring additional staff, and would rather incur overtime at this point."

"We surpassed our goals for first quarter and are on track to do it again in the second. This entire year is looking strong, with moderate growth across the board!"

"Things seem to be steadying along. Once again, we are remaining cautiously optimistic."

"Business continues to pick up. The pricing is following with raw material increase as justification for price changes."

"I have been told 'just hang in there, times will get better.' I am seeing an increase in inquires, but with 'guarded optimism.'"

"We have hit a lull in sales. Capital equipment doesn't seem to be moving as well as it was. Customers normally are ordering by now for delivery in the third and fourth quarters. Hopefully, things bust loose soon."

"We have been on a downhill slide for the past couple of weeks. Hopefully, this is short lived."

"Sales are rebounding nicely. Can it continue?"

"It's not a favorable cycle we are in right now."

"We have very steady business from all sectors."

"Who's buying all of the auto parts? Are car sales really there to support these high production levels? Are we headed for a 'cliff event' later this summer?"

"We had a great Q1, and back orders for Q2 are strong. Low inventories and lengthening supplier lead times pose challenges for this year."

"It's hard to put up much resistance to the onslaught of price increases when you 'gotta have it now.' Lead times for plastic resins are crazy, with sales allocations becoming routine."

"The poly foam increase that suppliers were trying to push through didn't happen."

"In these challenging times we are trying to be financially responsible by containing our expenses, foregoing raises (five years in a row) and limiting our capital purchases, while still providing an acceptable level of service."

"As I have been talking to people, some things are up, but other still are down."

"Business is picking up. I don't know if it is sustainable!"

"Economy is still very unsettling. Automotive seems to be leveling off."

"Certain suppliers do not seem willing to meet increasing demand by restoring the capacity they reduced in 2009. Instead, they are managing demand by raising prices or quoting higher."

"New bookings were a little soft in the early part of this month. However, we are still on a record pace for the year."

"The PIGS situation is affecting world economy. The bubble is bursting in Europe, and the currency is devaluing daily. The dollar is strengthening not on its own merit but on Europe's problems. Commodity prices will go south for the next few of months."

"Steel is beginning to flatten in price."

"For MRO items like motors, lead times are up. The inventory doesn't seem to be there or they are carrying less of it."

	UP	SAME	DOWN	N/A	May Index	Apr. Index	Mar. Index	20 Year Average
Sales (New Orders)	50%	38%	10%	2%	+40	+51	+20	+29
Production	40%	52%		8%	+40	+44	+30	+13
Employment	35%	58%	8%		+27	+22	+17	+ 8
Purchases	38%	52%	10%		+28	+39	+17	+ 7
Prices Paid (major commod.)	58%	37%		5%	+58	+57	+42	+35
Lead Times (from suppliers)	48%	48%	2%	2%	+46	+32	+30	+11
Purchased Materials Inv. (Raw materials & supplies)	22%	60%	8%	10%	+14	+37	+20	- 5
Finished Goods Inventory	12%	64%	12%	12%	+ 0	+ 3	+13	-10

Items in short supply: P201 SS, some types of medium carbon wire, some coated and HSLA steel, butadiene, plasticizer, PVC resin, process aids, paraffinic oil, specialty steel bar, semiconductors, ABS, powdered metal parts. iron castings, bearings.

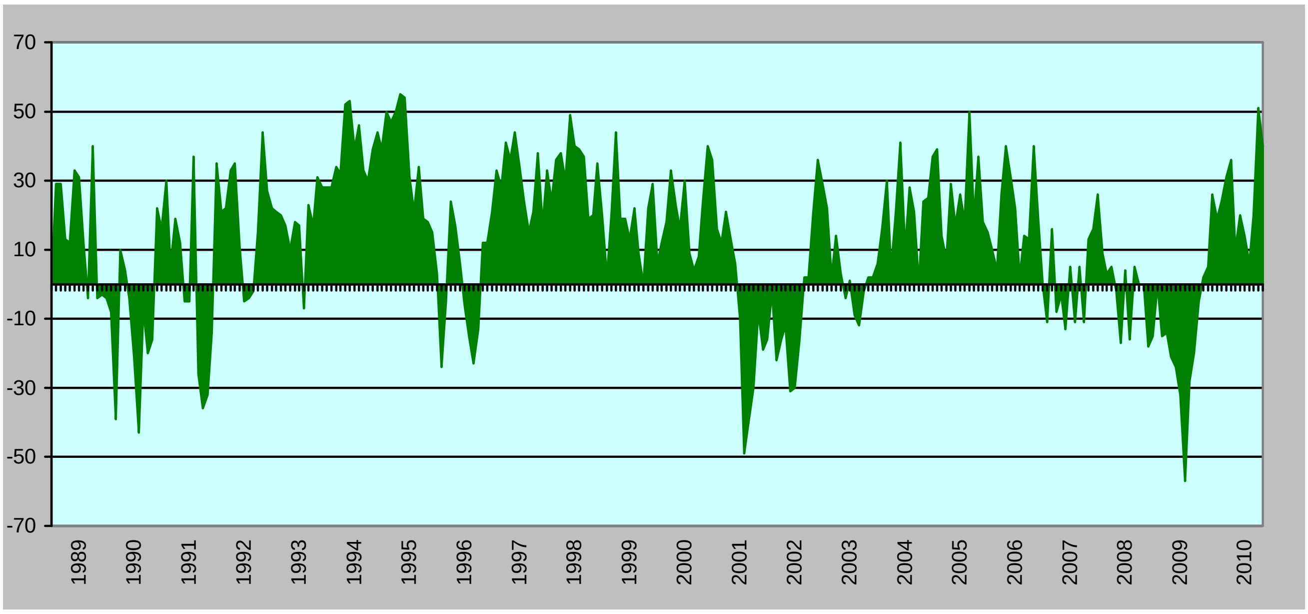
Prices on the UP side: Metals, wood, plastics and plastic resins, all steel, stainless steel products, stainless steel surcharges, carbon steel products (both domestic and international), chemicals, packaging, poly bags, paper, plasticizer, SEBS resin, ABS, process aids, paraffinic oil, products with heavy steel content, corrugated, electronics, drywall, PVC, industrial supplies, steel surcharges, pig iron, nickel, vanadium, molybdenum, semiconductors, capacitors, aluminum, polypropylene, HDPE, PBT, glass filled PP, HDPE, fuels, gases, salt, petro based items, CRS, imported materials.

Prices on the DOWN side: Some polypropylene, some gasoline and other fuels, natural gas, copper, scrap steel, gravel, trucking services, office machines.

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	+40	for the month of May, 2010
One Year Ago	+ 5	for the month of May, 2009
Record Low	-57	for the month of December, 2008
Record High	+55	for the month of September, 1994



Index of New Orders: 2005-2010 Only