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CURRENT BUSINESS TRENDS

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Moderate growth continues. That's the latest word on the Greater Grand Rapids industrial economy, according to the data collected in the last two weeks of January, 2011. NEW ORDERS, our index of business improvement, eased slightly to +25, down from +31. However, the PRODUCTION index rose higher to +29, up from +19. Activity in the purchasing offices, which we report as our index of PURCHASES, advanced to +29 from +19. The EMPLOYMENT index remained virtually unchanged at +29, up from +27. Overall, the steady growth that we have reported for the past twenty months continues unabated.

Turning as we always do to our local industrial groups, the recovery of office furniture industry is still on track, although there is still a long way to go to get back to the sales levels of 2005-2006. Stronger auto sales have resulted in more business for our local auto parts suppliers, and several local firms are approaching full capacity. In general, performance for industrial distributors remains positive. Although capital equipment firms are still recovering, this month's performance was mixed. Performance for the firms related to the aircraft industry was generally down.

At the national level, the recovery from the recession picked up considerable speed. The February 1, 2011 press release from the Institute for Supply Management, our parent organization, reported that NEW ORDERS posted a near-record increase to +28, up from +9. ISM's PRODUCTION index also posted a substantial increase, and rose to +24 from +12. The EMPLOYMENT index edged up to +17 from +10. ISM's overall index of manufacturing rose to 60.8, the highest the index has been since May of 2004. Indeed, this report bodes well for the future. We will hope that February will build on this success.

At the international level, the J.P. Morgan Global Manufacturing report released on February 1, 2011, rose at a survey record pace. JPM's worldwide index of NEW ORDERS increased significantly to 59.8 from 56.4. Of the 29 countries included in the survey, noteworthy expansion came from the Germany, the Netherlands, the US, the UK, and the Eurozone. For the first time in recent months, positive reports came from Japan and Spain. Greece is still sliding. The EMPLOYMENT index rose to 55.3, the highest the survey has recorded in its twelve year history. On the negative side, the indexs of PRICES rose to a four-year high of 73.6.

This month's most significant economic news came from the Commerce Department's press release that the fourth quarter of 2010 showed a tentative growth rate of 3.2%. Although this report is up considerably from the 2.6% reported in the third quarter of 2010, it disappointed some analysts who had projected rates as high at 4.0%. Further analysis shows that the .8% uptick was fueled by increases in personal consumption expenditures and residential fixed investment for household goods of all sorts. A sharp downturn in imports for the fourth quarter also helped. GDP for all of 2011is estimated by many economists to grow at a rated 3.5%, but this number still seems optimistic. The rising cost of commodities as well as the inevitable increases in interest rates will probably limit the 2011 GDP to something less.

Another important economic consideration of this month is the ominous drum beat of higher and higher prices for most of our industrial commodities. As noted in comments section of this report, some grades of steel are up in price by 60% in the space of only two short months. Other key commodities like copper, aluminum, zinc, lead, and nickel are also rising at a rapid rate. The preliminary cause of this inflation is the resurgence of worldwide demand for all of these commodities, especially from Chinese manufactures. Even our domestic demand has risen in recent weeks. However, it is disturbing to note that SOME of these commodities have become vehicles for speculation and hoarding. Firms that had virtually eliminated raw materials inventories under the JIT banner are now starting to build stock because of the fear of higher prices. If this inventory accumulation and speculation gets out of hand, it could create another bubble, which will eventually burst. Although we are not yet at this stage, the situation bears watching.

Will industrial inflation spill over into consumer inflation? Yes, but only over the long term. Unlike the economy of 50 years ago, domestic producers of consumer goods are restricted from raising prices too rapidly because of foreign competition. The lack of acceptance of higher pricing by consumers is also a factor. Some manufacturers have turned to productivity enhancement in order to hold the price on finished products as input costs rise. So far, these measures have held consumer prices fairly constant. In fact, the U.S. has less consumer inflation than any other nation in the industrialized world.

Among the good news in recent months has been the resurgence of good old fashioned optimism. In fact, the comments at the end of this report tend to get more optimistic all the time. As previously noted, the recovery from this recession has been the slowest in 70 years. But as the recovery builds momentum, businesses are beginning to spend more on plant and equipment as well as new hires. So far, a lot of the expansion in our index of EMPLOYMENT has been from calling workers back and from employment through temp agencies. Fortunately, we are now seeing more firms hiring new permanent workers. As we head toward spring, these new hires should start to reflect lower unemployment numbers.
By the end of the summer, the unemployment situation should look better, but it still won't be great, especially for Michigan.

There is also good news regarding automobile sales for January. Of the major firms, GM and Chrysler led the way with increases of 22% and 23%. Ford was up 9%. Toyota posted the best results in months at +17%. Honda was up 13%. Of the lesser brand, Nissan gained 15%, VW 7%, and Subaru 21%. For the industry as a whole, sales were up 17%. All of this is good news for our auto parts suppliers.

Finally, the recovery from this recession is far enough along that there is now very little talk about the fear of a "double dip." However, global events could upset this balance. Sustained financial instability in any of the so-called European PIIGS countries could put the Euro into a tailspin and take the rest of the world with it. The recent trouble in Egypt shows how quickly the world economy can be thrown into turmoil. As noted many times, we more and more live in a world economy. Trouble in the Middle East can easily be reflected in the price of oil. All-out war in the Middle East will run the price of oil up to record levels.

COMMENTS FROM SURVEY PARTICIPANTS

"Sales forecast still looks strong through first six months of 2011. All commodities are increasing in price. Steel products are increasing at an alarming rate."

"The next three months show excellent sales figures, well above last years. We're very optimistic for automotive, and have recently picked up an additional $9 million in unanticipated sales."

"Signs seem to show continued business growth for the coming year."

"We're just waiting to see what effect the new governor will have on our organization."

"We're slightly down on Sales Orders. Lead times are getting extremely long on certain materials."

"If the sales forecast is more accurate than the weather forecasters then we will have a good 2011."

" 2010 ended very hot, but 2011 is stating slow. Hopefully it will pick up."

" Most every company 'says' their business is coming back, but when asked, 'Are you going to buy equipment this year,' the answer is, 'We still have idle equipment. Let's wait and see.'" This is such a frustrating business!"

"Producers of finished product, especially products with heavy percentages of metal content, will undoubtedly be forced to raise prices to the consumer. Appliance, auto part suppliers, and construction projects are going to cost a lot more in the first half of 2011 and possibly beyond."

"We have a very solid schedule through most of the coming year."

"January is historically slow for us, but usually not this bad."

"This quarter is starting off a little slower than the previous two. However, business is still strong."

"Producers of finished product, especially product with heavy percent of metal content, will undoubtedly be forced to raise prices to the end consumers. Appliances, autos, and construction projects are going to cost a lot more in the first half of 2011 and possibly beyond.

"Great start to the New Year!"

"2011 sales forecast is strong."

"Order book started out the year strong. Can we sustain?"

"Demand for steel fabrication for the defense, oil, and gas industries is very strong. Rising prices will start to erode profit margins very soon."

"I'm very concerned with escalation of steel and oil prices. It seems like the large corporations are greedy and not concerned with the affect the higher prices will have on the economy. This could very well slow the automotive recovery."

"In many cases suppliers are recognizing their pricing power in areas where supply is tight. They are taking advantage of the improving business climate to raise prices rather than increase capacity. A large part of our business is for heavy commercial trucks. That business could grow 70% from last year due to the Class 8 truck build forecast increase. That will be a 250% change from 2009."

"DOM tubing lead times are still very long. Pricing on steel is getting to look a lot like 2008, even more aggressive. Orders are up, but this dramatic increase in price may slow the recovery."

"These are challenging times."

"We are off to a great start in 2011. This is shaping up to be the best January we have had in a decade."

"Increased testing requirements for overseas shipments are causing price inflation."

"We are enjoying a significant back log and have begun hiring."

"All steel prices are showing an increase, especially overseas due to the weak dollar, as the suppliers try to stabilize margin erosion. Domestic producers are following suit as the economy heats up.

	UP	SAME	DOWN	N/A	Jan. Index	Dec. Index	Nov. Index	20 Year Average
Sales (New Orders)	47%	29%	22%	2%	+25	+31	+16	+29
Production	45%	31%	16%	8%	+29	+19	+18	+13
Employment	39%	51%	10%		+29	+27	+21	+ 8
Purchases	45%	39%	16%		+29	+19	+16	+ 7
Prices Paid (major commod.)	59%	39%		2%	+59	+31	+29	+35
Lead Times (from suppliers)	37%	63%			+37	+27	+16	+11
Purchased Materials Inv. (Raw materials & supplies)	35%	47%	16%	2%	+19	+19	+10	- 5
Finished Goods Inventory	22%	43%	25%	10%	- 3	+ 2	+ 9	-10

Items in short supply: Vacuum metalizing, competent plastic chrome plating suppliers, USA-made products, filters, steel plate, steel forgings, heavy walled steel tubing, TiO2, polyolefin resins, DOM tubing, SEBS resin, some cold rolled steel, some stainless steel, ductile iron castings, ball bearings, hot forgings.

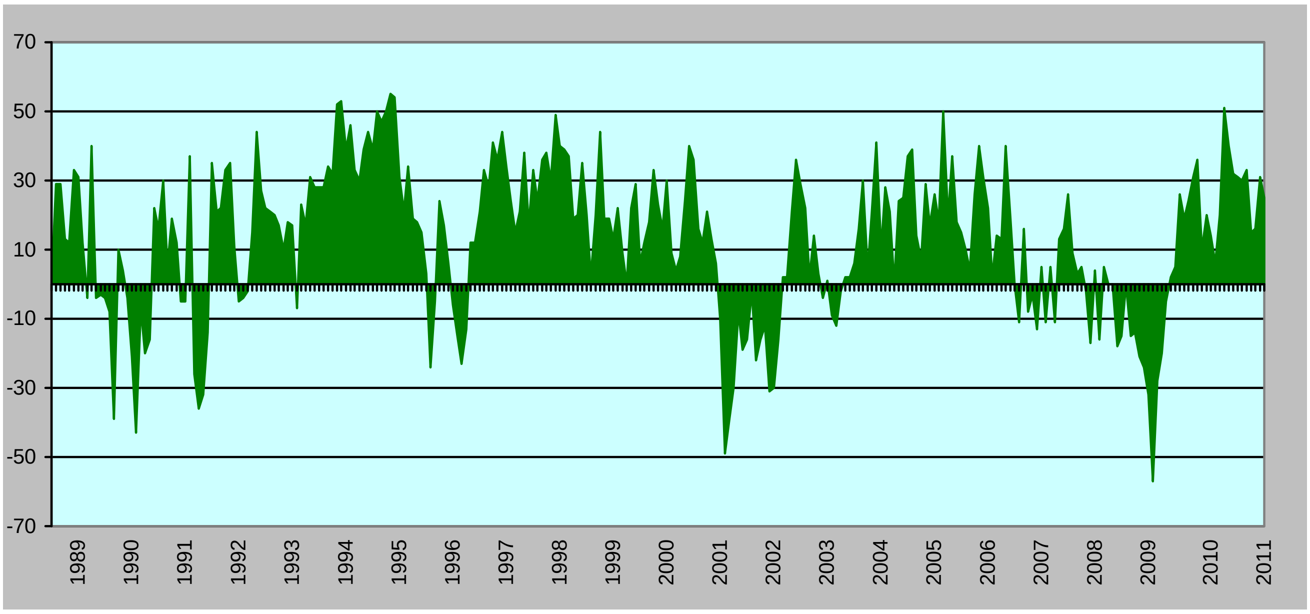
Prices on the UP side: Copper, brass, and copper products, steel (up 60% in 2 months), steel products, stainless steel, scrap steel, coal, foundry coke, greases, polypropylene, fuel, resin based products, guardrail, patching materials, concrete culverts, sheet steel, diesel, propane, drywall, fabric, carbon steel, plastics packaging, nickel surcharges, carpet, oil based products, PVC, board stock, aluminum, freight, plastic parts, steel tubing, SEBS resin, plasticizer, ABS, steel bar stock, industrial supplies, welding wire, paint supplies, aluminum die castings, stampings, Chinese currency, CR steel.

Prices on the DOWN side: PTFE, pallets, some packaging.

Index of New Orders - Greater Grand Rapids
1988 - 2011

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	+25	for the month of January, 2011
Previous Month	+31	for the month of December, 2010
One Year Ago	+14	for the month of January, 2010
Record Low	-57	for the month of December, 2008
Record High	+55	for the month of September, 1994



Index of New Orders: 2005-2011 Only