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CURRENT BUSINESS TRENDS

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Growth stabilizes. That's the latest word on the Greater Grand Rapids industrial economy, according to the data collected in the last two weeks of March, 2011. NEW ORDERS, our index of business improvement, moderated to +38, down from last month's lofty +45. In a similar move, the PRODUCTION index eased to +39 from +41. Activity in the purchasing offices, which we report as our index of PURCHASES, edged up to +34 from +33. The EMPLOYMENT index also edged up to +37 from +35. It was good to note that 41% of the firms in our survey are adding personnel. Overall, the growth rate for the local economy appears to have stabilized at a moderate rate, and confirms many of the other positive numbers that have been posted in the local media. Just for the record, we have now posted 22 months of positive reports since the recovery began in 2009. The bad news, of course, is that this is still the slowest post-war recession recovery in history.

Turning to our local industrial groups, the recovery of the office furniture industry is still very much on track. The excellent improvement in auto sales has resulted in strong business conditions for our local auto parts suppliers. At long last, there are some convincing signs that the capital equipment business is on the road to recovery. For March, performance for the industrial distributors was good but not great. The performance for the firms supporting to the aircraft industry was generally stable, but not growing.

At the national level, the results were fairly similar to our own. The April 1, 2011 press release from the Institute for Supply Management, our parent organization, reported that NEW ORDERS edged up to +33 from +32. In an identical move, ISM's PRODUCTION index rose to +34 from +33. The EMPLOYMENT index backtracked very modestly to +8 from +9. Because of statistical gyrations, ISM's overall index of manufacturing edged down to 61.2 from 61.4, which was the highest the index has been in seven years. Although the industrial sector of the US economy will continue to lead us out of this recession, no major economy on earth is totally immune to the impact of the destruction of productive capability as a result of the Japanese disaster.

At the international level, the J.P. Morgan Global Manufacturing report released on April 1, 2011, remained positive even though the growth rate moderated. It almost goes without saying that the weakest report came from Japan, which partially contributed to JPM's worldwide index of NEW ORDERS retreating to 55.1 from 59.1. Although the growth rate moderated in the UK, China and the Eurozone, the rates of expansion rose modestly in Russia and India. To no one's surprise, Greece and Spain are still not doing well. JPM's EMPLOYMENT index eased to 55.8 from 56.4. Contrary to our domestic reports, the JPM international index of PRICES retreated modestly to 75.4 from 76.0.

It almost goes without saying that this month's major economic factor is the devastation of Japan by the horrific earthquake and tsunami. Because of the manner in which the world's major economies have become increasingly interdependent, we knew the moment the earthquake hit that we would feel at least some economic impact here in the United States. The recent news has reported that almost every automotive firm with a supply chain reaching to Japan has had to curtail or halt production of at least some product lines. However, this is certainly not the first earthquake to hit Japan in recent years, and many buildings and production facilities were "earthquake resistant." Hence, many of the Japanese firms are already back on line with at least some production.

All of this begs the question of what the impact will be on the US economy. The brutal fact is that we still don't really know. We know that automobile sales will be hurt, but we do not know by how much or how long. By now, we clearly know the impact from Tier I suppliers, and some from Tier IIs. Tiers III and IV are a different story. That may take at least another month to figure out. We already know that there will be shortages in some industrial chemicals, paint pigments, and a lot of different types of electronic modules and components. For some of these things, it may simply not be possible to find alternate sources any time soon. Hence, there will be an impact on automotive well into the summer. All of this is bound to lead to a revision of the wisdom of JIT delivery of some critical items.

Other economic news at the national level related to the drop in existing home sales. For the month of February, sales plunged nearly 10% to their lowest level in nine years. Furthermore, almost 40% of the sales were distressed sales, i.e., foreclosures or short sales. Fortunately, our local housing market is a little better off than the national market, and we are beginning to see some tentative signs of price stabilization. However, we are still a LONG way away from declaring an end to the housing crisis, and we are an even LONGER way away from seeing housing prices starting to escalate again. Unemployment in the housing industry, for those people who have not already dropped out or given up, remains at about 20% with no prospect of improving any time soon. Along with the psychological and personal financial dimensions of the weak housing market, we are seeing lower than normal consumer and small business confidence. In the case of the smallest of businesses, entrepreneurs often borrow against their homes to finance business expansion. Banks are now reluctant to make those kinds of loans. This contributes to higher unemployment.

There is no good news for industrial inflation. In fact, conditions worsened during the month of March. At the national level, ISM's index of PRICES rose to the June, 2008 level of +70, up from +64. For Greater Grand Rapids, our uptick was from +71 to +73. In Southwestern Michigan, the index leaped from +56 to +72. The lists of commodities in short supply and rising in price continue to grow with no immediate end in sight. Furthermore, the items listed include almost all of the big ticket industrial commodities, such as copper, brass, aluminum, steel, stainless steel, castings, and almost every type of plastic and plastic resin Although the pricing situation is still not quite as bad as 2008, there is no sign that we have topped out. What is also bad is that our index of RAW MATERIALS INVENTORIES continues to rise to near record levels. Historically, recessions have been spawned by inventory liquidation, so this situation bears watching.

For the month of March, auto sales for the industry as a whole were up 20% compared to last March. For a change, Chrysler led the way with a 31%, followed by Honda at 24%, Ford at 16%, and GM at 10%. Sales declined for Toyota, partially because of reduced dealer incentives and partially because the company still has a cloud over its head. Despite considerably higher gas prices, pickups are selling at a much faster rate than expected. One dealer attributed the increased showroom traffic to fears of availability and selection now that the automotive supply chain has been interrupted. If this is true, then we may expect that sales for at least the next few months will not be as strong.

In summary, as the GDP and our own recent statistics show, the economy is definitely still growing, and the pace appears to be modestly accelerating. The frustration remains that the economic rebound is slow and unevenly distributed. We expect some disruption over the next few months because of the Japanese disaster, but the severity is still unknown.

COMMENTS FROM SURVEY PARTICIPANTS

"Pricing and lead times for raw materials are day to day, especially red metals."

"Things were looking up before the situations in Japan. Now who knows..."

"Fortune 500 companies are buying capital equipment again. Our business is doing well."

"We've had another very good month and a good backlog for the next. A majority of our customers are reporting that their business looks strong for the foreseeable future as well."

"I am disappointed in "MY" business trend. I'm starting to wonder why? My customers are still not "knocking" on my door. When they do ask about equipment, I find it, and then it dies. Are users still leery or is it just me?"

"No shortages now, but we have longer lead times and limited capacity for additional expansion. Our forecast increases to supply chain last fall are providing material now to support business. Japan is concern - not an issue yet."

"I'm very concerned about fuel prices, inflation and the possible stalling of progress in the economy. Our company is being very proactive."

"These are very uncertain times due to higher oil and commodity costs as well as the disaster in Japan. How will higher costs affect the auto industry?"

"Manufacturing capacity is down, and lead times are up in all of the supply chains."

"The disaster in Japan will no doubt affect the lead times and pricing of electronic components and related products. With inventory levels held to a minimum due to the economic atmosphere, I think that will not take long to hit us. Do you have an opinion on that?"

"It is tough right now. The challenge continues to be the lack of funding."

"Business is strong with a few of our customers, and we are doing very well with them. If some of the others come around, things could get very interesting."

"Industrial inflation is alive and well."

"Prices are continuing to rise. Hopefully, it stops before we hit 2008 levels."

"We ended 2010 11% over what we did in 2009. Q1 2011 is a screaming, fast pace, exciting start up for OT in 2011. Hang On! It is not slowing down for Medical Packaging any time soon."

"The tragedy in Japan will affect a number of our end customers, and some supply chain as well. Couple that with Middle East upheaval and oil price spikes, it is a wild card to what will happen to the economy over the next two quarters."

"Orders are on the rise, and so are concerns about the impact of the earthquake and tsunami on the supply base. Not a good mix."

"We continue to see increases in forecasts. Great news!! There is still concern about increase in steel pricing."

"Raw material pricing continues to stifle profits."

"We are very busy! We should have a great ending to the first quarter and beginning of the second quarter."

"A local major firm moving a plant to Mexico brings a large amount of uncertainty."

"I think things are going to slow again, but I'm not sure why. The stock market is bouncing along top, quantitative easing is coming to an end, natural disasters, China slowing, consumer confidence hit because of gasoline, and fast ups and downs are becoming the norm. I think commodities are going to edge down based on supply and demand."

"We are having the best year from FY October 2010 until now that we have had since 2001."

"Vendors continue to convey that process oils such as rust inhibitions, hydraulic oil and quench oil prices are on the rise. Also, process gases such as methanol are also on the rise above seasonal trends."

"It seems like everyone is trying to get on the 'raise prices' bandwagon using oil as the usual excuse. Same old song and dance."

	UP	SAME	DOWN	N/A	Mar. Index	Feb. Index	Jan. Index	20 Year Average
Sales (New Orders)	52%	32%	14%	2%	+38	+45	+25	+29
Production	48%	38%	9%	5%	+39	+41	+29	+13
Employment	41%	55%	4%		+37	+35	+29	+ 8
Purchases	43%	46%	9%		+34	+33	+29	+ 7
Prices Paid (major commod.)	73%	22%		5%	+73	+71	+59	+35
Lead Times (from suppliers)	41%	54%	2%	4%	+39	+57	+37	+11
Purchased Materials Inv. (Raw materials & supplies)	34%	57%	7%	2%	+27	+23	+19	- 5
Finished Goods Inventory	25%	52%	16%	7%	+ 9	+10	- 3	-10

Items in short supply: Alloy bars, heavy wall tubing, heavy HRS plate, ductile iron, bearings, PD poly, outsourced machining capacity, all steel, copper wire, butadiene, antimony oxide, titanium dioxide, paraffinic oil, some coated steel, stainless and special alloy steel bar, rubber, components from Japan, TiO2, polypropylene, electronic cables, controllers, switches.

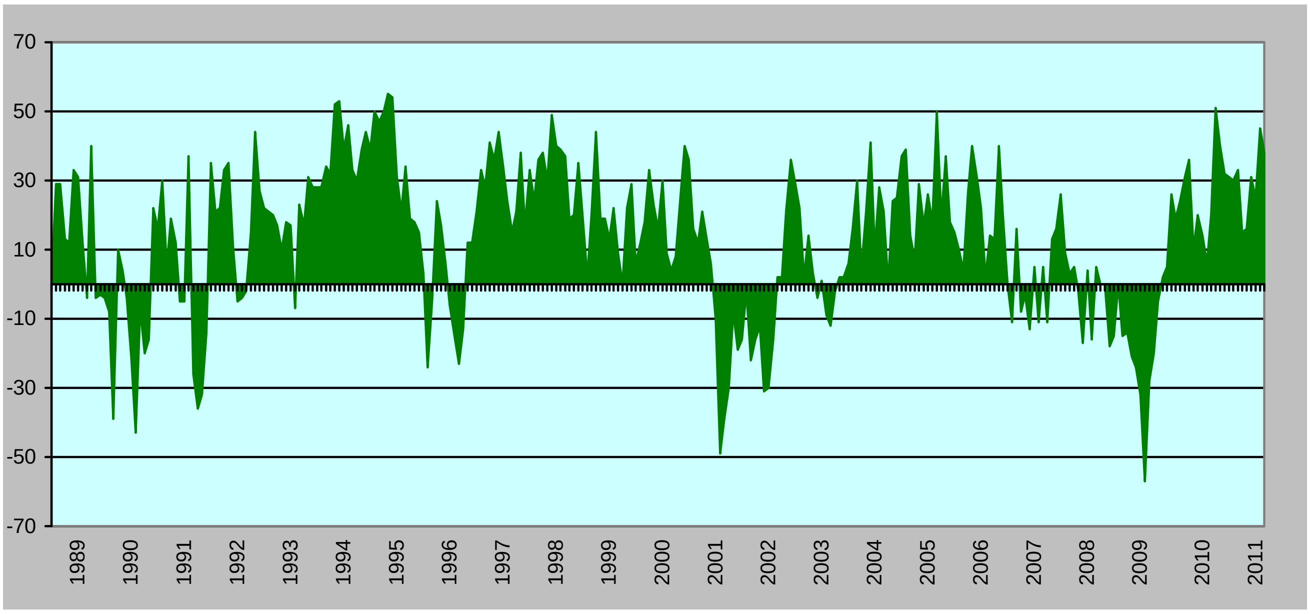
Prices on the UP side: All steel, copper, brass, electric motors, overseas products, energy, aluminum, ductile and gray iron castings, fuel, fuel surcharges, chemicals, polypropylene, oil, CRS, plate steel, stainless steel, welding wire, powder paint, freight, plastic parts, electronic parts, stretch wrap, drywall, PVC, fabric, rubber products, brass fittings, nylon tubing, carbon steel, calcium carbonate, plasticizer, paraffinic oil, titanium dioxide, pigments, antimony oxide, stabilizers, acrylic modifiers, polymers.

Prices on the DOWN side: None reported.

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	+38	for the month of March, 2011
Previous Month	+45	for the month of February, 2011
One Year Ago	+20	for the month of March, 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