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News Release **(For Immediate Release)**

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Current Business Trends

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GR manufacturing economy starts 2012 positive, but slower.

Single digit positive. That's the latest word on the Greater Grand Rapids industrial economy, according to the data collected in the last two weeks of January, 2012. NEW ORDERS, our index of business improvement, remained positive but backtracked to +9 from +18. Following suite, the PRODUCTION index eased to +7, down from +12. The EMPLOYMENT index resumed a positive course, and advanced to +26, up from +19. The percentage of respondents reporting staff increases grew to 34%. Clearly, all of our numbers are still positive, but the pace has slowed a little. This is certainly no cause for concern, unless this trend would continue. The slow growth mode is still intact

Looking at local industry groups, January is usually a back-to-work month and a little stronger than December. However, the office furniture business, which had turned flat, appears to have turned slightly negative. Our automotive parts suppliers are offsetting this trend, and so are the capital goods firms. Business was good for the industrial distributors, but slower than in November and December. Judging from the respondent comments at the end of this report, the mood remains cautiously optimistic.

At the national level, the results are much stronger than expected. The February 1, 2012 press release from the Institute for Supply Management, our parent organization, reported that NEW ORDERS bounced up to +15 from +2. Given that this index was negative in August, September, and October, the current report of +15 is very good news. However, the PRODUCTION index backtracked very modesty to +7 from +8. The closely-watched EMPLOYMENT index held its own, and edged up to +5 from +4. All of this resulted in ISM's overall index of manufacturing rising to 54.1 from 53.1 (adjusted) last month. Since the industrial sector is now continuing to lead us out of the recession, these number can be regarded a good reason to believe that growth should be good for at least the next two quarters.

At the international level, the J.P. Morgan Global Manufacturing report released on February 1, 2012, reported that the downward trend of the past few months has reversed itself from the mid-2011 slide. JPM's worldwide index of NEW ORDERS strengthened to 51.6, up from an adjusted 49.3. In a more modest move, the international PRODUCTION index rose to 52.0, up from an adjusted 51.8. Considering that many of the European countries have slipped into negative growth for the fourth quarter of 2011, these numbers are encouraging. It implies that the impending European recession may be shallow and relatively short.

The biggest economic news over the past month has been the decline in the unemployment rate at both the state and national levels. After being known for many months as the state with the highest unemployment in the nation, the official unemployment rate for Michigan fell by 0.5% to 9.3% (seasonally adjusted), and down considerably from our high of 14.1% just 29 months ago. However, nearly half of the drop is the result of 12,000 residents leaving the workforce. Combining with the workers who are underutilized or discouraged enough to leave the workforce, Michigan's so-called underemployment rate now stands at 18.8%.

Even though the national rate of unemployment fell from 8.5% to 8.3%, we still have a long way to go to get back to a "normal" employment level. Resembling developments in Michigan, a portion of the nation's unemployment drop also resulted from discouraged workers leaving the workforce. Fortunately, the national "underemployment" rate fell to 15.1%, down from 15.2%. For the moment, the unemployment trend appears to be headed in the right direction.

The other big economic news came from the report for the 2011 fourth quarter GDP. The preliminary estimate, which is always subject to revision, came in at +2.8%, up considerably from the +1.8% reported for the third quarter. According to U.S. Department of Commerce, "The acceleration in real GDP in the fourth quarter primarily reflected an upturn in private inventory investment and accelerations in PCE and in residential fixed investment." In short, consumers did pick up their spending, which is almost always good news. However, businesses at the industrial level also contributed to the upswing by building inventory. Since last summer's Japanese disaster, a lot a firms are now reevaluating the wisdom of JIT systems that allow almost no cushion for anything going wrong in the supply chain.

As we have noted many times, Michigan's recovery from the recession has largely been driven by the resurgence in automobile sales. Especially on the west side of the state, many of our auto parts suppliers are now operating at full capacity, and are hiring people. Many firms would hire more people if they could find qualified candidates. The auto industry ended the year on a firm note, and the January sales report continued on the same track. Chrysler was the star, posting an 81% increase in sales. This is *on top of* the 22% increase posted a year ago. Ford gained 7%, Honda was up by 9%, and Toyota advanced 8%. Nissan rose 10%. Bucking the trend, General Motors was down 6%, primarily because of the expiration of several incentive programs.

Some of the smaller sales brands were up very sharply. Volkswagen gained 40%, Subaru 21%, and Hyundai/Kia grew by 20%. Overall, the total industry gain for January came in at a respectable 11%. An important point is worth repeating. As long as auto sales continue to improve at the present pace, Michigan's economy will continue to recover from the recession. However, we cannot expect auto sales to continue to grow at an 11% rate for too much longer. A good guess is that we will taper off to single digit growth over the next few months. Why? Because the present growth is fueled by pent-up demand, low interest rates, and the relative high price of late model used cars. Furthermore, by not purchasing during the recession, many potential buyers have paid down their car loan balances or paid their cars off altogether, allowing them to easily qualify for financing for new cars. All of this will run its course, and we will settle into a new norm for auto sales. For our local auto parts firms, the fact that all of the major auto producers are now profitable means that they are less likely to squeeze their suppliers into bankruptcy. There is also a pretense of "supplier cooperation" being floated around Detroit. We will have to evaluate the success of that theory as time goes along.

Regrettably, the biggest threat to our economy remains Europe. In fact, most of the current downturn in Europe can be traced to nervousness about (1) the stability of the European banks, (2) the fear of the potential collapse of the Euro, and (3) the fear of contagion brought on by a collapse on Greece, Portugal, Italy, Ireland, or Spain. Furthermore, non-Euro countries like Hungary are having refinancing problems of their own. As we are well aware, the news about the ongoing debt crisis changes day to day. Currently, many eyes are on March 20, when €14.4 in Greek bonds are due. Right now, the Greeks simply don't have the money, and they are still negotiating for a bailout. They are also negotiating with the bondholders over what percentage of the face value they will actually pay, which will probably come out to be something like 35%. Even if the Greeks obtain refinancing for March 20, they have a string of other bonds coming due for the next three years. The Greek economic growth rate remains very negative, unemployment remains very high, and the citizens that do have money continue to (1) buy gold and (2) move their money out of the country. All of this means that the European debt crisis is far from over. If all this consternation results in nothing more than a shallow European recession, the new-found strength of the American economy will probably be enough to keep our economy positive. However, no country is an island in today's economic world, and a severe European recession will, to some degree, negatively affect us as well.

COMMENTS FROM SURVEY PARTICIPANTS

"Merry Christmas!"

"The inquiry level has really increased, but getting customers to move on capital equipment purchases is still difficult and drawn out."

"Orders continue to come in. We have already booked more than our 2012 forecast."

"2011 is finishing as a good year for us, and 2012 is shaping up nicely. Hopefully, the world economic situation and our political 'do nothing policies' will not cause the slight grow to fall back into a recession."

"We have heard that hard drives and fans for computers will be in short supply because of flooding in Thailand, but have not had shortages affect us yet."

"We're still doing well. We have been doing our part to hire new staff."

"Steel fabrication for the energy sector (coal mining equipment) remains very strong for the near and long term."

"Our plant will be closed from 12/23/11 until 1/03/12."

"Sales are starting to slow down as we get near the end of the year. This is typical for our business. Hopefully, as our customers receive their new budgets for 2012, sales will rebound in January."

"We're seeing a typical holiday/end of year slow down. 2012 should start with a good surge of orders. Hopefully it will continue."

"It is typically slow now. We have had lots of quoting activity."

"We are busier than normal at this time of year, however...."

"I have nothing good to report this month. Who knows? We may not be in existence after the first of the year!"

"We had a solid 2011. 2012 may be soft in the first and second quarters, but we foresee no major setbacks."

"It has been a great year, and we are looking forward to an even better 2012."

"We're had another great month. Orders look solid for the first quarter as well."

"The end-of-year price increase letters are starting to arrive for 2012. I am not convinced that they all make sense."

"Auto demand continues to be good."

"We have no prolonged holiday shut down on the horizon. Instead, we have four days off versus the usual two weeks."

"Creating a lot of forward buys to find cost savings prior to the annual manufacturer's price increases, therefore receiving and inventory are up slightly. Sales remain strong up until the end of December, and are much stronger than anticipated. More capital purchasing is planned as well. We have a generally optimistic outlook on the future. Forecasted sales are up 7% in 2012 over 2011."

"We're starting to see some ramp up on new orders. We hope it continues into the New Year."

"Lead times on some items are getting longer."

"Capacity issues are pretty common in the supply chain, giving suppliers an opportunity to demand price increases. If the auto and truck business continues to expand, these constraints and price increases will get worse."

"December a little slow because of holidays, but looking strong coming back in January!!"

"2012 is a bit of a question mark."

"Carbon Steel pricing is moving up. I'm not confident there is enough demand to allow the pricing to keep moving upward."

"Annual price increases from most manufacturers of finished goods are going up approx 4%-5%."

"Everyone is going for price increase on the first of the year."

	UP	SAME	DOWN	N/A	Dec. Index	Nov. Index	Oct. Index	20 Year Average
Sales (New Orders)	**36%**	**44%**	**18%**	**2%**	**+18**	**+13**	**+ 9**	**+29**
Production	**30%**	**46%**	**18%**	**6%**	**+12**	**+ 7**	**+ 8**	**+13**
Employment	**30%**	**59%**	**11%**		**+19**	**+24**	**+15**	**+ 8**
Purchases	**29%**	**53%**	**18%**		**+11**	**+11**	**+ 6**	**+ 7**
Prices Paid (major commod.)	**23%**	**64%**	**9%**	**4%**	**+14**	**+13**	**- 5**	**+35**
Lead Times (from suppliers)	**27%**	**67%**	**4%**	**2%**	**+23**	**+ 9**	**+11**	**+11**
Purchased Materials Inv. (Raw materials & supplies)	**25%**	**52%**	**16%**	**7%**	**+ 9**	**+ 7**	**- 1**	**- 5**
Finished Goods Inventory	**18%**	**59%**	**12%**	**11%**	**+ 6**	**+ 8**	**+ 2**	**-10**

Items in short supply: Gears, castings, electrical components, some fasteners, lights, transmission filters, roadway posts, specialized heavy equipment tools, motor graders, forging steel, PTFE, import sprockets, shock absorbers, MRO gifty items, Thompson linear rail, patience.

Prices on the UP side: Steel tubing, bulk oxygen, scrap steel, cold rolled steel, hot rolled steel (P&O), carbon steel, custom resin, industrial gases, stainless steel, aluminum sheets, powder paint, freight, electrical components, aluminum extrusions, motor graders, paper products, metal culverts, pavement marking paint, sand, gravel, vehicles, rare earth metals, base prices on steel (surcharges used for additives), hot forgings, plastics, polypropylene, foundry coke.

Prices on the DOWN side: Aluminum,* stainless steel,* cold rolled steel,* copper wire,* corrugated, carbon steel,* polypro resin,* copper,* nickel,* carbon steel (import)* resin,* steel,* steel surcharges, PVC resin, SEBS resin, PET resin.

*Note: All items marked with an asterisk are reported as BOTH **up** AND **down** by different survey participants.

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.

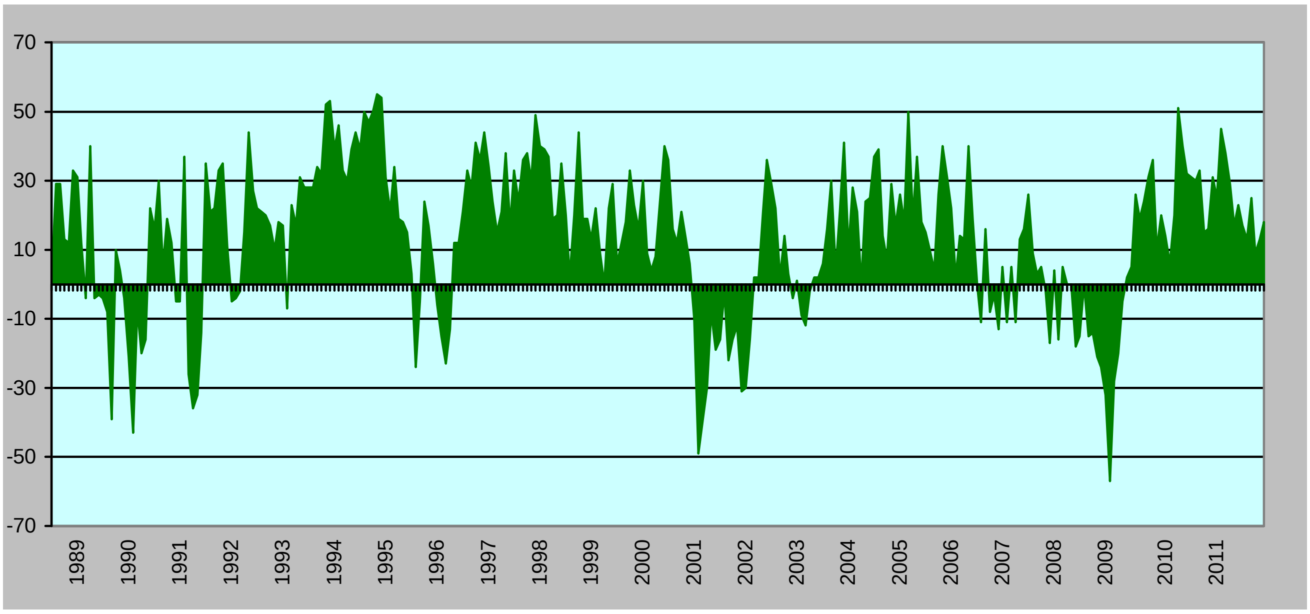
Latest Report +18 for the month of December, 2011

Previous Month +13 for the month of November, 2011

One Year Ago +31 for the month of December, 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