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News Release (For Immediate Release)

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Current Business Trends

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West Michigan Growth Improves

Still growing slowly, but a tad faster than last month. That's the latest word on the West Michigan economy, according to the data collected during the last two weeks of October. NEW ORDERS, our best barometer of future growth, rose to +15 from September's +6, and considerably more optimistic than August's -4. The PRODUCTION index followed the same pattern advancing to +13 from +2. Unfortunately, the EMPLOYMENT index flattened to +0 from +10. Local employers continue to complain that qualified applicants are not available. Fortunately, industrial inflation, our index of PRICES, tells us that both the pricing and excessive speculation for industrial commodities are not problems at this time. Once again, the obvious conclusion remains that the current trend of slow growth should continue, unless there is another terrorist attack, unforeseen war, or other economic stumbling block that we do not anticipate.

For the new "outlook" statistics that we began collecting last month, the SHORT TERM BUSINESS OUTLOOK index rose to +17 from +12, despite all of the negative wrangling in Washington. However, the LONG TERM BUSINESS OUTLOOK index backed down considerably to +46 from +64. One local observer pointed out that the recent shutdown shows that Washington is "broken" and there is little hope for fixing it over the next couple of years. Hence the five year outlook may be a little more unpredictable.

Turning to local industrial groups, the resumed resurgence of auto sales has resulted in some new quoting opportunities for our local auto parts suppliers. Optimism is growing over the 2014 model year. The office furniture firms reported a slight uptick in activity in October, but the reports from the industry's Tier I suppliers and some of the smaller firms were flat. For industrial distributors, the reports were mixed, although the bias, for whatever reason, was to the down side. The reports from the capital equipment firms were generally positive, although a couple were more pessimistic. Overall, most industrial groups remain stable and profitable.

At the national level, the November 1 press release from the Institute for Supply Management, our parent organization, reported that NEW ORDERS for ISM's manufacturing index retreated slightly to +12 from +17. However, the PRODUCTION index remained virtually unchanged at +14, down from +15 in September. ISM's EMPLOYMENT index is still firmly stuck in single digits, and eased to +5 from +6. When all of these numbers are added together in a composite model, ISM's overall manufacturing index edged up very slightly to 56.4 from 56.2. At the same time, ISM's overall non-manufacturing index gained one full percentage point, and rose to 55.4 from 54.4. For what seems like the twentieth time since April of 2009, the numbers lead us to conclude that slow growth continues at the national level.

As always, a contrasting view of the U.S. economy comes from Markit.com, the British economic forecasting firm, which is gaining credibility among US economists. Markit's composite manufacturing "PMI" or Purchasing Manager's Index for the month of October dropped a full percentage point to a one year low of 51.8, down from 52.8. Although still positive, the Markit index has definitely flattered to a very slow growth rate. The survey author attributes the downtick to weaker results from the indexes of NEW ORDERS, PRODUCTION, and PURCHASES. One bright spot in the October report came from the index of NEW EXPORT ORDERS, which rose to 51.3 from 49.0. You may remember: 50.0 is the break-even point.

West Michigan is not an island, and the results from purchasing surveys around the world are very important for sustained growth. JP Morgan's "32 nation" Global Manufacturing PMI edged modestly higher to 52.1 from 51.8. Looking at some of the 32 countries that compose the JPM index, HSBC's China Manufacturing PMI rose to 50.9 from 50.2. With China being our third largest customer, even modest improvement is good news, especially in light of all the reports fretting that China's economy is slowing. For Brazil, HSBC's Manufacturing PMI filliped to positive at 50.2, up from 49.9. An unusually strong report came from Canada, where the Royal Bank of Canada's PMI bounced to 30 month high of 55.6 from 54.2. The Canadian business firms have been able to take advantage of the low worldwide interest rates. Most importantly, the Canadian economy was NOT impacted by the housing crisis that gripped the United States and several European counties.

For US exporters, Europe is still a problem, because about 6% of our GDP comes from exports to Europe. The PMI for the Eurozone rose to a modest 51.3, up from 51.1. Recent forecasts have indicated that many economists now expect this same pattern of very slow European growth to continue for some time. Since the recovery, the strongest countries that have emerged from the Euro crisis are Ireland and the Netherlands, where low corporate tax rates AND a big recruiting effort have successfully lured new domestic and foreign investments. For instance, a few weeks ago we heard that Perrigo was moving the corporate headquarters to Ireland. In addition, Austria, Germany, Spain, and even Italy are now posting positive PMIs. On the down side, the French PMI for October contracted at the fastest rate in 4 years.

Greece remains negative, and the PMI has worsened slightly for the past three reports. When assessing Greece, keep in mind that about 20% for the capital base has left the country, 25% of the GDP has been lost since 2008, and unemployment rate is stuck at about 28%. For young people, unemployment is at 58%. The Greek government reported that industrial production dropped 7.2 percent in August from the same month a year earlier. In short, the Greek Tragedy not yet over, although some Greek assets are getting so cheap that money from northern Europe is starting to buy up real estate for pennies on the Euro. The austerity program has helped stop the run-up of government debt, and SOME estimates claim that GDP might turn back to positive in 2014. Of course, these same forecasters predicted a positive GDP for 2013 and 2012. All recessions in all countries have origins, and until the problems are fixed or run out of steam, the recession continues.

Reversing last month's trend, the monthly report for automotive sales flipped back to positive. The US year-over-year sales rate rose to 10%, up considerably from the -4% reported for September. General Motors led the Detroit Three, gaining 16%. Ford added 14%, and Chrysler gained 11%. For the transplants, Honda gained 7%, Nissan was up 14%, and Toyota rose 9%. However, the seasonally adjusted SAAR rate declined to 15.2 million units from September's 15.3 million. As noted last month, a SAAR rate of about 15 million is more in line with an optimal AND SUSTAINABLE rate of growth. Overall, auto sales have grown by 8% so far in 2013, which is far ahead of the industry forecasts of a year ago. It is easy to observe that the auto industry and its suppliers are in good standing.

At our last report, Obamacare had just began on October 1. Aside from a malfunctioning website and plenty of political pushback, the economic implications are starting to surface. Locally, our smaller firms are scared by the complexity of the new requirements and the new taxes. Hence, they are not hiring or expanding as they should. Consumer confidence in government has also taken a hit, since even those who planned to join the new program are now discovering that what is available is actually very different from what was expected. However, the biggest hit may come from the supply side, wherein a recent study predicts that approximately 10% of the physicians plan to drop out of the direct care business. The results would be a considerable physician shortage.

Last but not least, the government shutdown is now over, and much as we suspected, the Michigan economy was virtually unaffected. The bad news, of course, is that the agreement only kicked the proverbial can down the road for another three months. With everyone now just catching their breath, it is daunting to imagine the negative impact of the next confrontation. The January resolution may be reached without a shutdown, but is seems obvious that such an agreement will do little to solve what the Congressional Budget Office calls an "unsustainable level of debt growth." Short run, there will be little impact of continued budget deficits. Long term, disaster is almost certain. Our European version serves as an example: The Greek economy collapsed within about 18 months following a global realization that the Greek national debt could not be repaid. Furthermore, the problem was just getting WORSE every year with no end in sight. What is sad is that MOST of the Greek electorate thought that the whole problem was just "politics," and that somehow the government would "do the right thing" and come up with a solution that would put the country on a path back to the economy of 2007. Now they know the sad truth.

October, 2013 COMMENTS FROM SURVEY PARTICIPANTS

"There's not a lot of change this month. We're still waiting on Europe to catch up."

"We are heading south. The short term does not look good."

"'Affordable health care' is preventing us from affording additional staff. The same people need to do more to maintain our margins."

"Future outlook still remains strong even with the economic hardship that has been surrounding our nation."

"It finally looks like business has decided to not let Washington politics rule its future. Great!"

"Business is strong, and automotive forecasts are still better than expected."

"We are seeing a big increase in new orders that are due before the end of the year."

"We are just about to wrap up a 20,000 square foot expansion with another 20,000 to start shortly."

"Business looks strong for the balance of the year."

"We continue to see things soften in our markets. We're cutting production levels another 15% for October."

"We continue to do well, and are taking market share from US competitors."

"Oh, stop the madness."

"We have finally revised down our forecast for this fiscal year. Inventories are growing."

"It seems like our machine tool sales are slowing a bit. We are usually very busy at this time of the year as people get ready for end of year purchases (for tax savings). However, this year is way off. The guys I'm talking to are still busy, but are sitting on their cash."

"Due to higher profitability of Michigan plant, our beef production facility will see an increase in volume for the coming year while others expect to see a decrease."

"October is better than expected after a lower than expected month of September. There are concerns about short-term (3 month) sales, but we're looking for 2014 to equal 2013."

"Business is still up and continues to increase but has steadied off higher than forecasted."

"Steel mills are trying very hard to get upward movement on pricing. Business has been very strong."

"The government shutdown, if it continues, may impact more markets."

"Our typical seasonal slowdown is approaching. Sales are a bit above last year."

"Business is very brisk. We currently have about an 8 - 9 month backlog. It feels like the good old days."

"Some active electronic manufacturers lead times are increasing to 4 - 6 weeks."

"We finally hired a few new employees to fill empty spots due to death and retirement. Our workforce is still down about 15%, but due to the lack of funding and government uncertainty, we will have to make do."

"Sales numbers for September were almost exactly the same as August, and that means business is good. Tomorrow is fiscal cliff day. Let's hope the morons in Washington don't takes us all over the cliff."

"We've had a slight slowdown, but are doing much better now.

"Business remains strong and should remain the same for 2014. Let's hope we can maintain the prosperity."

"We continue to have strong automotive sales, and we are hiring for open positions. Increased customer sample requests suggest promising future sales."

"We are adding suppliers to keep up with the demand. Finding the time to do that properly is hard at this time."

"Our business remains steady. We are having a strong, solid year."

""We're looking forward to the fourth quarter numbers, which are forecasted to be our best quarter of the year. We'll see how well that shakes out."

"It would help if the jug heads in Washington would get act together and stop acting like a bunch of two year olds."

"We're concerned about the impact of the recent budget talks. Uncertainty is growing about the US maintaining its leadership in the world."

October, 2013 Survey Statistics

	UP	SAME	DOWN	N/A	Oct. Index	Sept. Index	Aug. Index	20 Year Average
Sales (New Orders)	35%	41%	20%	4%	+15	+ 6	- 4	+29
Production	28%	46%	15%	9%	+13	+ 2	- 6	+13
Employment	18%	64%	18%		+ 0	+10	+ 0	+ 8
Purchases	27%	57%	14%	2%	+13	+ 4	- 3	+ 7
Prices Paid (major commod.)	13%	79%	3%	5%	+10	+ 8	+12	+35
Lead Times (from suppliers)	22%	74%	3%	1%	+19	+ 2	+16	+11
Purchased Materials Inv. (Raw materials & supplies)	18%	56%	19%	7%	- 1	+ 4	+ 7	- 5
Finished Goods Inventory	20%	55%	10%	15%	+10	+ 3	+ 9	-10
Short Term Business Outlook (Next 3-6 months)	35%	45%	18%	2%	+17	+12	-	-
Long Term Business Outlook (Next 3-5 years)	50%	38%	4%	8%	+46	+64	-	-

Items in short supply: Specialty bearings, capacity at some foundries, cattle, engineers, slag aggregate, some resins, good employees.

Prices on the UP side: Polypropylene, polyethylene, plastics, custom designed products, regular steel (trying), cold rolled steel, electronic components, paraffinic oil, cattle feed, corrugated.

Prices on the DOWN side: Polypropylene*, transportation, stainless steel, nickel, aluminum, scrap steel, commodity solvents such as ethanol and methanol, oil based solvents, aluminum, steel*, nickel, copper, moly, silver, gold, salt, PET, some chemicals, acetone, wages.

*These items are reported as both up AND down in price.

Latest Unemployment Reports

(Note: Data are **NOT** seasonally adjusted)

(Second Note: October data were blocked by the government shutdown)

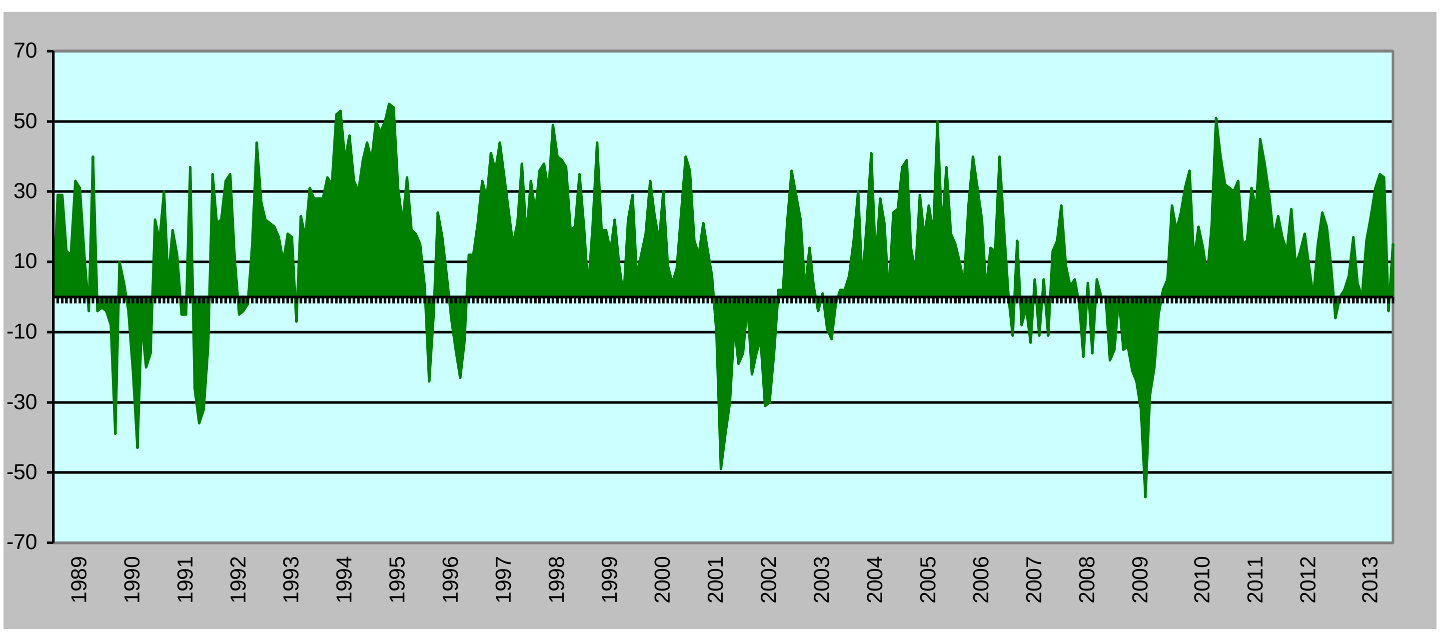
	Aug. 2013	July 2013	Aug. 2009	20 Year Low
State of Michigan	8.7%	9.7%	14.8%	3.1%
Kent County	6.4%	7.2%	11.9%	2.1%
Kalamazoo County	7.2%	8.3%	11.1%	2.1%
Calhoun County	7.4%	8.5%	12.8%	7.2%
Ottawa County	6.5%	7.7%	13.3%	1.8%
Barry County	5.8%	6.5%	10.9%	2.2%
Kalamazoo City	9.9%	11.4%	15.2%	3.2%
Portage City	5.5%	6.4%	8.7%	1.3%
Grand Rapids City	8.9%	9.7%	16.1%	3.0%
Kentwood City	5.7%	6.5%	10.7%	1.4%
Plainfield Twp.	4.2%	4.8%	8.0%	1.4%
Holland City/Allegan	2.7%	3.1%	3.7%	0.9%
U.S. National Official Rate	7.3%	7.7%	9.7%	3.6%
U.S. U-6 Rate	13.6%	14.0%	16.7%	8.0%

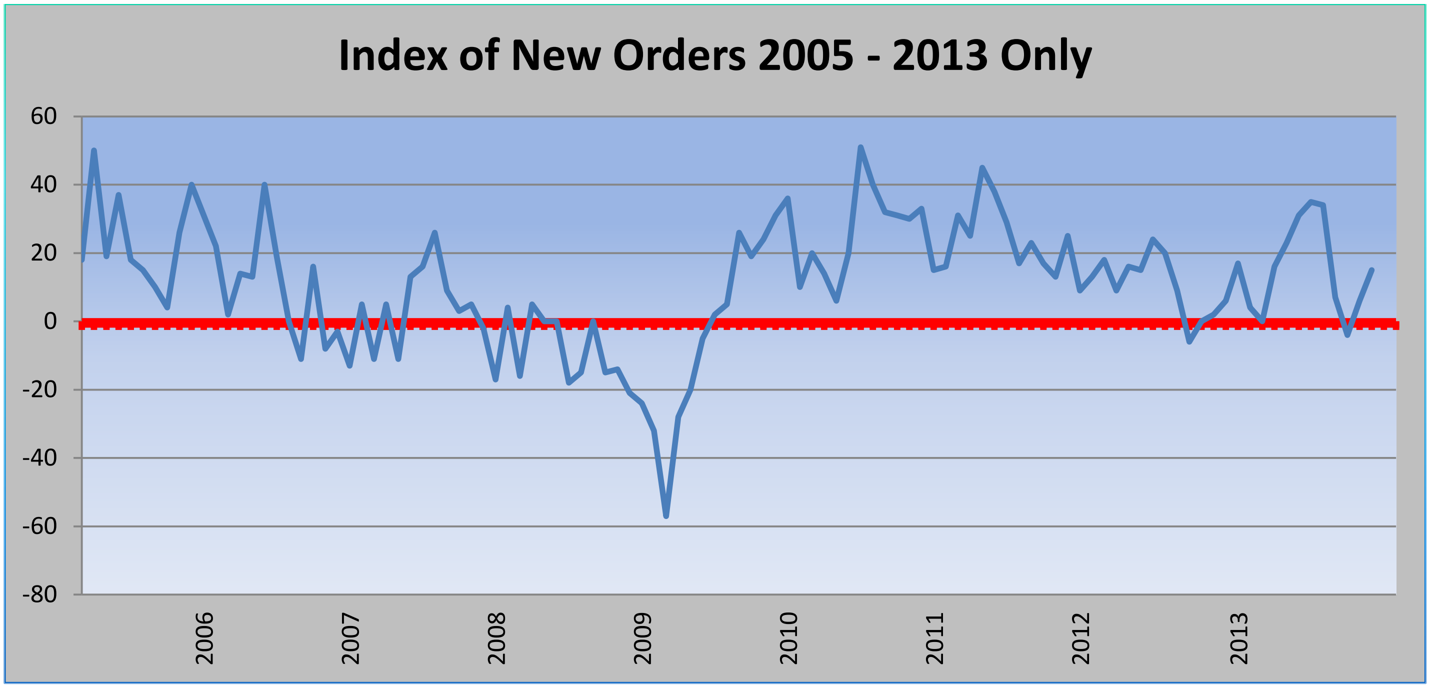
Index of New Orders: West Michigan

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	+15 for the month of October, 2013
Previous Month	+ 6 for the month of September, 2013
One Year Ago	+ 6 for the month of October, 2012
Record Low	-57 for the month of December, 2008
Record High	+55 for the month of September, 1994
First Recovery	+3 in April of 2009 and forward

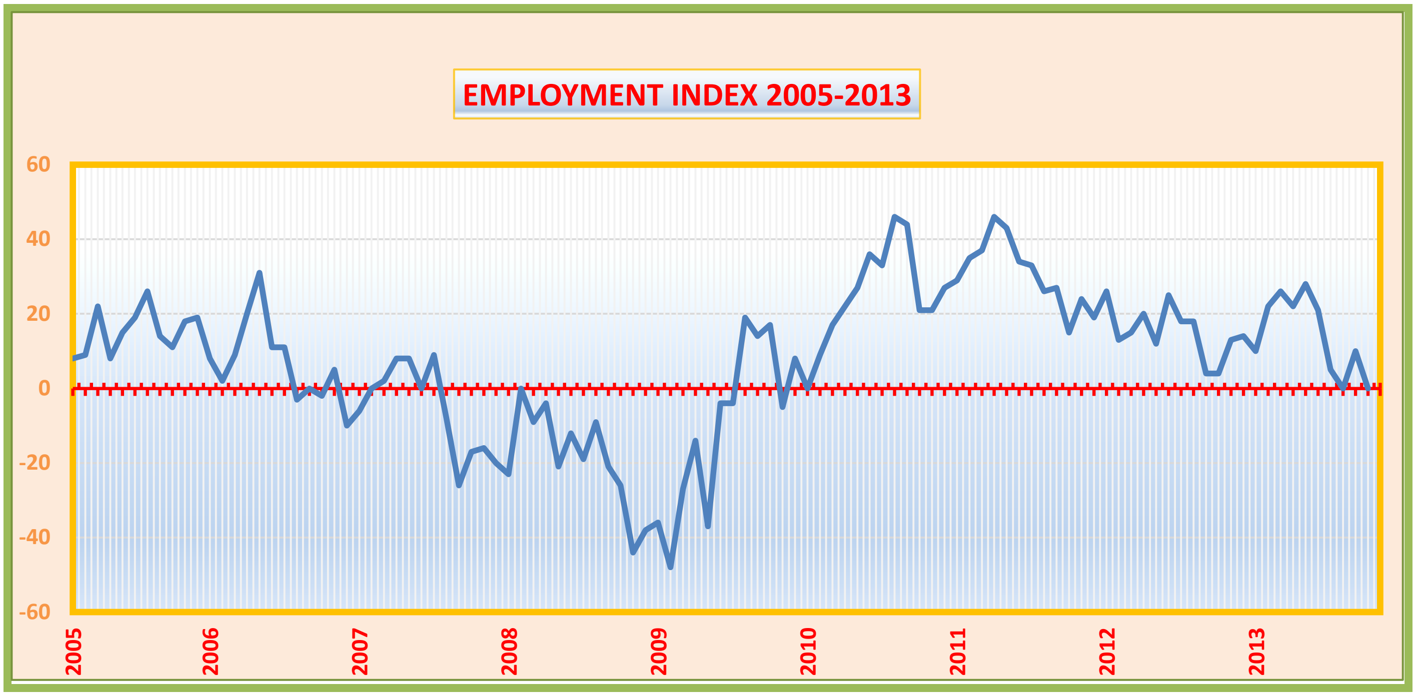
Index of New Orders 1988 - 2013





Index of Employment: West Michigan

The index of EMPLOYMENT measures the firm's increases and decreases in staffing, including permanent workers and temps. After economic downturns, it measure new hires as well as previous workers called back to work. When this index is positive for an extended period of time, it almost always signals a downturn in industrial unemployment for West Michigan. Normally, there is about a month in lag time between this report and the payroll numbers being picked up by the government statistics. However, almost all employment indexes are laggards, meaning that firms often wait until upticks in orders are confirmed before adding staff, and conversely lay off staff only after a downturn in orders appears to be certain for the foreseeable future.


EMPLOYMENT INDEX 2005-2013
60
40
20
0
-20
-40
-60
2005
2006
2007
2008
2009
2010
2011
2012
2013