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CURRENT BUSINESS TRENDS

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The growth rate remains modest. That's the latest word on the Greater Grand Rapids industrial economy, according to the data collected in the last two weeks of August, 2011. NEW ORDERS, our closely-watched index of business improvement, remained positive but edged lower for the third month in a row to +13 from +17. In a similar move, the PRODUCTION index retreated to +17 from +21. Activity in the purchasing offices, which we report as our index of PURCHASES, eased modestly to +21 from +23. Last month's uptick in the index of EMPLOYMENT was short lived, and the index backtracked to +26 from +37. Ominously, 8% of the respondents reported reductions in employment, the most we have seen in six months. Just as last month, our local statistics continue to be stronger than the rest of the country. The outlook for the rest of the year now looks questionable.

Turning to local industry groups, both the office furniture and automotive parts producers are generally reporting business conditions to be the same. Not declining. Not advancing. Just holding on to recent gains. The annual automotive uptick for the 2012 model year is still keeping business condition in the black. With auto sales improving, but the economy softening, production schedules for the rest of the year are unknown. For the fourth month in a row, industrial distributors came in fairly positive. Just as last month, some capital equipment firms reported a decline in business conditions, while others remain stable. Although some respondent comments at the end of this report are still positive, others are no longer euphoric. Although the auto suppliers and the office furniture firms are still keeping our local statistics positive, several firms are speaking of an impending slowdown.

At the national level, the results are either flat or modestly negative, depending on interpretation. The September 1, 2011 press release from the Institute for Supply Management, our parent organization, noted that NEW ORDERS slid negative for first time in over two years to -3. ISM's PRODUCTION index fell to the break-even point of +0, down from +4 last month. The EMPLOYMENT index remained positive but retreated to +7 from +11. ISM's overall index of manufacturing eased to 50.6 from 50.9. So much for and hope of growth picking up in the second half of the year. Even the Whitehouse says that 9% unemployment will continue through most of 2012.

Since last month, the economic news has turned jaded. Last Friday, jobs growth came in at zero. The bad news came on August 5 when Standard and Poor's downgraded the U.S. debt for the first time in history. This downgrade was not totally unexpected, but it created a barrage of rhetoric. What went almost unnoticed is that the Federal Reserve and numerous economists have downgraded their estimates for economic growth for the last half of the year—some to near zero. Consumer confidence fell again, and remains FAR below the levels of five years ago. For the first time since the beginning of the recovery, the Canadian GDP turned negative by 0.4%. The European monetary crisis remains unresolved. From

10.0% in April, Michigan unemployment has ratcheted up to 11.9%. Our local surveys remain positive, but have continued to flatten. In short, the specter of a double dip recession has reentered the realm. Current odds of a double dip: About 70%.

To review history, we have been talking about a double dip practically since the recovery began over two years ago. The generally accepted "formal" definition of a recession is two or more continuous quarters of negative economic growth as measured by GDP. Although this is the generally accepted definition, other economists complain that GDP is an abstraction to most people on the street, and the level of unemployment should somehow have a roll in the definition, especially in the determining when the recession is over. Furthermore, it takes several weeks after the end of a quarter to compute GDP, so a recession cannot officially be declared until about seven or eight months after it begins. The first quarter of 2011 grew by only 0.4%, and the second quarter by 1.0%. The results for the current quarter, which began on July 1, will not be known until late October. Based on the tepid results from our most recent quarters, it is not much of a stretch to imagine that the third quarter will show a negative GDP. A negative fourth quarter would make the recession official.

Recessions in the past have tag names associated with their root cause. For instance, there was the dot-com bust recession, the Arab oil boycott recession, and more recently, the financial and housing collapse recession. If we are now entering another recession, the root cause will be based on a lack of confidence. Recently, some of our key measures of confidence have retreated to the same levels of mid-2008. Consumer confidence leads the way down, and small business confidence is not far behind. The segments of this negativity include (1) the disheartening "debt ceiling" battle a few weeks ago, (2) the high unemployment rate, and no sign of significant improvement, (3) concerns over the European debt situation, (4) concerns over our own sovereign debt situation and the impact that it will have on the future, (5) the weak housing markets, and (6) the uneasy feeling that the tax and regulatory environment will remain unclear until after the national election 14 months from now. This could mean 14 months of gridlock.

Turning to some positive news, the auto industry posted a gain of 8% for the month of August, despite predictions that sales would be flat. Leading the advance was Chrysler at 28%, followed by General Motors at 18% and Ford at 11%. Two of the Japanese name plates continued to suffer from lack of supply, with Honda losing 25%, and Toyota dropping 13%. Nissan bucked the trend, and posted a 19% gain. The SAAR rate fell to 12.13 million vehicles per year, down slightly from 12.24 million in July, and still well below the 16.5 million rates of just a few years ago.

Although it is hard to find good news on the housing market, the August 30 report from Case-Shiller showed that the home price index was up by 3.6% in the second quarter of 2011 after having fallen 4.1% in the first quarter. National, this puts home prices back to their 2003 levels. Although we will take good news any place we can find it, it is still obvious that the housing crisis is still FAR from over. Nearly 40% of all sales are still "distressed" in the form of short sales, bankruptcies, and foreclosures.

In summary, softness in the world economy is spilling over into our domestic economy, and we are not immune. Our local economy is still holding positive, but we are not an island. Without a trigger like the collapse of the Euro or a terrorist attack, it looks as though the absolute BEST we can hope for is a period of very slow growth. The statistics may dance back and forth from incrementally positive to negative. Unemployment, which has improved little since the 2007-2009 recession, may drift higher. If we encounter two consecutive quarters of negative GDP growth, it will fit the technical definition of a recession. If this happened, it would probably be one of the shallowest recessions in history. Because GDP is an abstraction to most of us, the economy would not be noticeably worse than it is now, given our already-low current GDP. As we are all aware, the national surveys show that most people feel that the 2007-2009 recession never ended.

COMMENTS FROM SURVEY PARTICIPANTS

"We've seen a slight reduction in orders for August, and we are anxious to see what September brings."

"Things continue to improve, and more new orders are being taken."

"Prices have been volatile with daily corrections."

"Things are not looking good according to the media. If they keep predicting doom, we will have it."

"We are at maximum capacity."

"We've been extremely busy the last two months, but orders appear to be slowing down."

"Parts orders are slowing down. We are waiting for the tide to turn."

"The third and fourth quarters have filled in nicely. Our year-end totals should be promising."

"I think the media is trying to talk us back into a recession. Our business has been very strong, and we are hoping this will continue."

"We are in the process of hiring three to six employees after being in a hiring freeze since 2005! Not to get excited, because we are currently down 36 employees with 6 more either retiring or off on long term medical leave by the end of the year. Hiring 6 employees would only bring us back to the current levels, so we are not really adding any new employees."

"There are lots of price pressures especially related to rubber, Teflon and most high performance materials for seals and other things."

"We are coming to the end of a large project, but so far there are not enough new orders to fill the schedule behind it."

"August is on pace to be our best month so far in 2011. Our increased sales, production, and employment numbers are expected as July usually takes a dip in automotive. But our increases hold when compared to any previous month in 2011."

"Never a dull moment."

"Office Furniture orders appear to be strong through later this year. We're finally looking to hire some new key positions. We have been able to improve manufacturing efficiency so that overtime and additional labor are not negatively impacting operations."

"Sales are softening, and we're trying to determine if it is cyclical or start of trend."

"The economy is stuck. A double dip is imminent unless something is done to help the consumer. Artificially high gas prices are not helping. We need tax relief to bolster economy."

"Business seems to be leveling off, but sustaining."

"We are busy, and it looks like we will be busier in the fall with new product launches."

"Scrap steel pricing is staying high. That is the cost driver steel companies are using to move prices back up after months of pricing going down."

"We just had our best month of the year. Customers respond, 'Steady as she goes' in looking forward."

"Steel is continuing to remain soft although there are signs that they are trying to increase prices in the near future."

"Steel suppliers are starting to announce increases again!"

	UP	SAME	DOWN	N/A	Aug. Index	July Index	June Index	20 Year Average
Sales (New Orders)	34%	43%	21%	2%	+13	+17	+23	+29
Production	30%	51%	13%	6%	+17	+21	+26	+13
Employment	34%	58%	8%		+26	+37	+34	+ 8
Purchases	32%	57%	11%	2%	+21	+23	+29	+ 7
Prices Paid (major commod.)	23%	62%	9%	6%	+14	+23	+46	+35
Lead Times (from suppliers)	17%	77%	4%	2%	+13	+16	+29	+11
Purchased Materials Inv. (Raw materials & supplies)	21%	62%	11%	6%	+10	+13	+13	- 5
Finished Goods Inventory	17%	57%	15%	11%	+ 2	+ 6	+ 2	-10

Items in short supply: Ceramics containing Zircon, butadiene, montan wax, processed materials, manufactured components, electronic components.

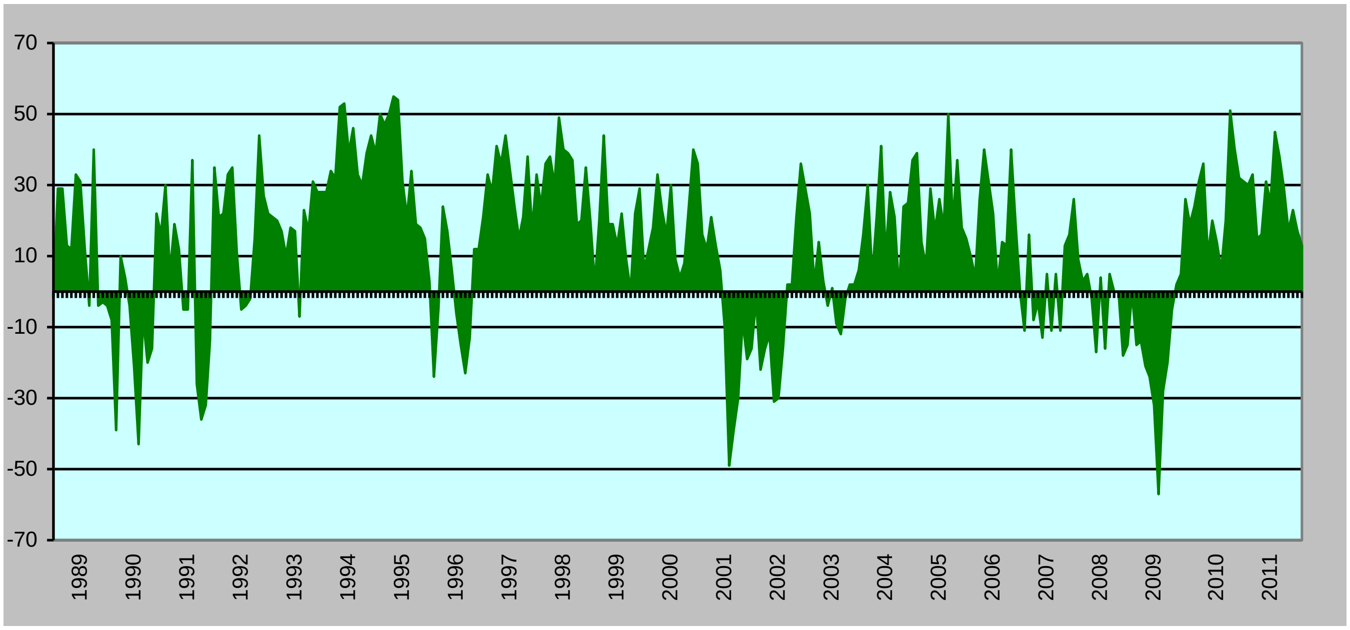
Prices on the UP side: Resins, some steel, hardwood plywood, janitorial supplies, particle board, copper, copper pipe, copper wire, molded poly foam. scrap steel, finishing materials, Allen Bradley electrical components & motors, powder paint, capital equipment, hydraulic fluids, salt, PVC resin, paraffinic oil, polypropylene, seals, o-rings, friction materials, rubber and rubber based products, services, aluminum, chemicals, plastic components, plastics, wood core, transportation.

Prices on the DOWN side: Some scrap steel, CR & HR steel, HDPE & Poly Pro, carbon steel, steel tube, liquid chlorides, plasticizers, some aluminum, brass, copper, electronics (actives), fuel, some chemicals, stainless steel.

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	+13	for the month of August, 2011
Previous Month	+17	for the month of July, 2011
One Year Ago	+30	for the month of July, 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