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Current Business Trends

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WEST MICHIGAN ECONOMY REMAINS FLAT

Key Participant Comments for August:

"I see a bit of a slowdown. Even the top customers are slowing a little bit."

"The economy appears to be catching its breath for a second. Labor remains very tight, and staffing skilled positions has been more difficult than it's been in a very long time. Upstream disruptions continue, but disruption frequencies are decreasing. Combined with a slowing economy, we might be able to reach an equilibrium again over the next 3-5 months."

"Suppliers are continuing to request increases to cover everything from raw material, labor, transportation and operating expenses."

"It feels like we are going into a deep recession. Things are starting to slow down. but the public is still spending and going deeper into debt."

Much like the rest of the world economy, the West Michigan economy continues to soften. The August index of NEW ORDERS, our index of business improvement, slipped to -5 from -3. However, the August PRODUCTION Index, which is now termed "output" by many economists, posted higher at +17, up from +7. Activity in the purchasing offices, our index of PURCHASES, remained about the same, easing to +10 from +12. As a result of improved performance in the supply chains, the August Index of LEAD TIMES posted at +16, slightly better than July's +25, and significantly lower than the record-high reading of +93 reported about a year ago. Much as we have noted for several months, even if we do fall into a recession over the next few months, our automotive parts producers are unlikely to slide very far. The pent-up demand for new cars will mostly likely keep the assembly line running for many months to come and could even bridge the entire downturn. However, our capital equipment, office furniture, aerospace, and other cyclical industries may not fare as well.

The U.S. Economy. The national economy also continues to flatten, according to the Institute for Supply Management, our parent organization. ISM's NEW ORDERS Index for August posted at -2, virtually unchanged from July's -3. The ISM PRODUCTION Index (a.k.a., "output") remained barely positive at +1, down from +8. After statistical adjustments, ISM's Composite Index came in unchanged at 52.8. Unfortunately, ISM's Composite Index has almost never reflected the future course of the industrial economy.

Similar to last month, the August view of the U.S. economy from the British-based international consulting firm now called S&P Global, reports "…subdued overall health conditions across the U.S. manufacturing sector." The S&P Output Index contracted for a second straight month, and the New Orders Index fell for a third month in a row. The seasonally adjusted S&P Global U.S. Manufacturing Purchasing Managers' Index™ (PMI™) posted 51.5 in August, down from 52.2 in July. Despite hopes of an uptick in demand, the level of optimism was weaker than the series average. Chris Williamson, Chief Business Economist at S&P Global, commented:

> "U.S. factory production was down for a second month running in August, with demand for goods having now fallen for three straight months amid the ongoing impact of soaring inflation, supply constraints, rising interest rates and growing economic uncertainty about the economic outlook. Barring the initial pandemic lockdowns months, this is the steepest downturn in U.S. manufacturing seen since the global financial crisis in 2009. Worryingly, the sharpest drop in demand was recorded for business equipment and machinery, which points to falling investment spending and heightened risk aversion. Similarly, payroll growth slowed close to stalling, reflecting a growing reticence to expand workforce numbers in the face of a deteriorating demand environment. Falling demand for raw materials has, however, taken pressure off supply chains and helped shift some of the pricing power away from sellers towards buyers. Likewise, we are seeing more manufacturers reduce their selling prices to drive sales. Although still elevated by historical standards, the survey's inflation gauges are now at their lowest for one and a half years, which should help to bring consumer price inflation down in the coming months."

The World Economy. From the current international news, we know that the world economy continues to be disrupted by the Ukrainian war as well as recurring bottlenecks in many of the world's supply chains. The J.P. Morgan Worldwide Manufacturing PMI for August has retreated to 50.3, marginally above the all-important break-even point of 50.0. The report further noted that New Orders, Output, and New Export Orders all posted declines for August. The PMI for Canada, our largest trading partner, fell to 48.7 in August, down sharply from 52.5. Mexico's August PMI, our second largest trading partner, remained unchanged at 48.5. The August PMI for China, our third largest trading customer by dollar volume, slipped from 50.4 in July to 49.5. The report further noted that "…power cuts and temporary factory closures weighed on output and sales." Bennett Parrish, Global Economist at J.P. Morgan, further noted:

> "The S&P Manufacturing Output PMI fell below 50 in August, suggesting an outright contraction in global factory output in early second half of 2022. The outlook is also increasingly weak. The orders:inventory ratio in August fell to its lowest level since May 2020, and the further deterioration in orders points to additional excess capacity building at factories. The good news from the latest surveys was a sizeable easing in the pricing PMIs, providing some respite from inflationary pressures."

The August PMI for the Eurozone came in at 49.6, down modestly from July's 49.8. The ongoing restriction of supplies from Russia has resulted in natural gas costs skyrocketing to levels unheard of just a few months ago. Although ALL of the major economies in the Eurozone posted positive PMIs as little as three months ago, only the PMIs for France, Ireland, and the Netherlands remain positive as of August. Chris Williamson further commented:

> "The Euro area's beleaguered manufacturers reported a further steep drop in production in August, meaning output has now fallen for three successive months to add to the likelihood of GDP falling in the third quarter. Forward-looking indicators suggest that the downturn is likely to intensify – potentially markedly – in coming months, meaning recession risks have risen. Falling sales have not only led increasing numbers of factories to cut production, but have also meant warehouses are filling with unsold stock to a degree unprecedented in the survey's 25-year history. Similarly, raw material inventories are accumulating due to the sudden and unexpected drop in production volumes. Weak demand and efforts to reduce high inventory levels are therefore combining to drive production lower in the months ahead. The orders-to-inventory ratio – an important indicator of future production – is in fact now signalling a downturn of an intensity not seen since 2009, barring the initial pandemic lockdown months. Some good news on inflation is provided by an easing in rates of increase for both factory input costs and selling prices, linked to weakened demand and fewer supply chain issues. However, the rate of inflation signalled remains elevated by historical standards, thanks principally to energy, the cost and supply of which presents a major unknown for the outlook for both production and inflation in the months ahead."

Automotive. For some nameplates, August sales for cars and light trucks posted the best month in the past two years. Sales at Ford rose 27.3 percent from July, and Hyundai-Kia gained 17.7 percent. By contrast, sales at beleaguered American Honda fell 37.7 percent. Of the other firms still reporting monthly, Toyota sales for August fell 9.8 percent, and Volvo dropped 23.9 percent. The average sales for all of the reporting firms for August was down by 1.8 percent, resulting in the SAAR (Seasonally Adjusted Annualized Rate) posting between 13.1 million and 13.3 million units. According to Augusto Amorim, senior manager of sales forecasting for the Americas at LMC Automotive, "The industry is still struggling with the combination of lean inventories, very expensive vehicles, and higher interest." Zack Krelle, TrueCar analyst, offers a slightly different view:

> "August is shaping up to confirm our early predictions that the industry may be turning the corner. We're seeing consecutive month-over-month increases for incentives, while average transaction prices are softening. Inventory is also slowly growing, and sales are improving slightly."

Industrial Inflation. Just as last month, many "big ticket" commodities like copper, steel, lead, zinc, and oil continue to fall in price. Our local index of PRICES eased to +26 from July's +31, down significantly from +71 three months ago. August's ISM national index of PRICES fell sharply to +5 from July's +20. Annabel Fiddes at S&P Global Market Intelligence further commented:

> "The latest price and supply indicators from S&P Global add to evidence that cost pressures and supplier shortages at manufacturers worldwide continued to ease in August amid signs of weaker output and demand. Reports of price increases were the lowest for two years, as cost pressures moderated across the vast majority of commodities monitored by the survey, notably semiconductors. There were also declines in prices for all metals commodities for the first time since May 2020. Energy and electricity bucked the wider trend and saw cost pressures pick up on the month as the Ukraine war continues to impact energy markets."

West Michigan Unemployment. For Michigan, the July (latest month available) unemployment rate edged down to 4.2 from June's 4.3 percent. Although falling unemployment numbers are always good news, it is wise to remember the lesson from Economics 101 where employment and unemployment statistics are clearly defined as economic laggards. It should also be remembered that the "headline" unemployment number, which the Bureau of Labor Statistics formally calls U-3, includes only people who are jobless and have been actively seeking employment in the last four weeks. The broadest (but seldom reported) measure of unemployment known as U-6, includes people who have been seeking work over the past year, as well as those who are marginally attached, such as engineers bagging groceries to help make ends meet, and part-time workers seeking full-time positions. For Michigan, the latest U-6 unemployment rate is estimated to be 8.0 percent, which is considerably higher than the national rate of 6.7 percent. Fortunately, the U-3 and U-6 unemployment rates in West Michigan continue to be lower than most of the rest of the state. For our West Michigan survey, the August index of EMPLOYMENT came in at +26. Despite the ongoing threat of an impending recession, many firms are continuing to hire. However, the most significant personnel shortages still remain outside of the industrial market and are seen in the hospitality and service industries. Among the local counties with falling unemployment rates are Ottawa County (3.4 percent), Kent County (3.8 percent), and Kalamazoo County (4.3 percent). As long as our cyclical industries like automotive continue to remain positive, our West Michigan unemployment statistics should continue to stabilize.

Business and Consumer Confidence. After three consecutive monthly declines, the August Conference Board's Index of Consumer Confidence Index posted a significant recovery. The Index now stands at 103.2 (1985=100), up from 95.3 in July. In confirmation, the University of Michigan's Consumer Sentiment Index rose to 58.2 in the August 2022 survey, up from 51.5 in July, and well ahead of the all-time low reading reached just two months ago. However, according to the August report from the OECD, U.S. business confidence has gradually fallen every month beginning at 100.3 in April 2021 until the current posting of 95.5. For our West Michigan survey of the industrial economy, the SHORT-TERM BUSINESS OUTLOOK Index for August, which asks local firms about the business perception for the next three to six months, posted at +2, a slight improvement over July's -2. Surprisingly, the LONG-TERM BUSINESS OUTLOOK Index, which queries the perception for the next three to five years, bounced to +28 from +12. Because both consumer and business confidence are driven by the current news cycle, at least some of our survey respondents apparently like what they are hearing.

GDP. On August 25, the Bureau of Economic Analysis revised the decline in the second quarter GDP (Gross Domestic Product) estimate to -0.6 percent from the previous report of -0.9 percent. Looking ahead to the third quarter, the Atlanta Fed's GDPNow model is predicting a gain of 2.6 percent. Both the Philadelphia Fed and The Blue Chip Consensus forecasts are predicting a 1.4 percent gain for the third quarter. The Wall Street Journal's quarterly survey of 60 economists predicts an average GDP growth rate of 1.5 percent. On the pessimistic side, the August Conference Board downgraded their third quarter estimate from 1.3 to zero percent. If these GDP estimates turn out to be correct, the current hesitant nature of the economy will be recorded as an economic slowdown, but not a recession. However, the recent accuracy of GDP forecasts, even from reputable institutions, has not been very good.

Summary. The world economy as well as our local economy are clearly showing signs of slowing. The problem, of course, is that the marginal rate of slowing will likely not be nearly enough to curtail the current rate of inflation. Hence, stagnation accompanied by excessive inflation could lead us to a new round of 1970's style "stagflation." Inflation at both the industrial and consumer levels is partially psychological, and if not stopped soon, 5 to 8 percent inflation may become the new norm. Employees will demand higher wages, resulting in higher prices. In economic terms, this becomes a "wage-price spiral." However, a recent speech by Jerome Powell has indicated the Federal Reserve is aware of the mistakes made back in the 1970's and appears to be ready to take the necessary action to fix the problem. However, given the current rate of inflation, the Fed will be forced to be more aggressive at the upcoming September 20-21 meeting than we have seen so far. Much as it is supposed to do, the higher interest rates will evoke a reaction from many segments of the economy, especially those that are interest-rate sensitive such as residential housing. If these markets overreact, we may have a recession. On the other hand, if the markets simply slow to manageable levels, the Fed will have achieved a so-called "soft landing." If the Fed succumbs to political pressure and fails to keep tightening, we will probably return to stagflation, and leave a mess for some future Fed committee to clean up. After the September 21 meeting, we should have a better idea about the Fed's future intent

AUGUST COMMENTS FROM SURVEY PARTICIPANTS

"The Fed interest rate adjustments don't seem to have much effect on the rate of inflation so far. It's costing us all around (materials, labor, overhead) and customers don't want to pay more (ok, neither do I). I'm surprised we haven't entered a recessionary period yet."

"Overall, automotive remains at a volume beyond what our labor shortages will allow us to meet. Demand fluctuations are causing daily firefighting. Customers can't take enough parts or push out orders due to other supply chain issues within THEIR supply chains. "

"We are having better luck hiring people, but are still struggling to get them to stay. We have a very high turnover rate."

"It feels like we are going into a deep recession. Things are starting to slow down. but the public is still spending and going deeper into debt."

"We continue to struggle to fill open positions, mostly in manufacturing."

"Suppliers are continuing to request increases to cover everything from raw material, labor, transportation and operating expenses."

"The open resin market continues to decline, while certain resins (Nylon 6,66) continue to peak."

"We're seeing a sudden, significant softening for demand in housing related business. It seems like a lot of industries are rapidly going from scrambling to get what they need to trying to manage growing raw material inventories as backorders get filled and demand softens."

"Business is steady."

"The economy appears to be catching its breath for a second. Labor remains very tight, and staffing skilled positions has been more difficult than it's been in a very long time. Upstream disruptions continue, but disruption frequencies are decreasing. Combined with a slowing economy, we might be able to reach an equilibrium again over the next 3-5 months."

"A chemical fire at one of our paint suppliers is wreaking havoc on our business. This paint supplier is unable to produce a paint technology that is widely used in the auto interior. We are scrambling to get alternatives."

"Business remains steady."

"I see a bit of a slowdown. Even the top customers are slowing a little bit."

"We continue to have issues with engineered resins and compounding lines going down, and then struggling to get caught up."

"We are seeing computer chips, boards, electronic pieces still in short supply. Our European machine manufacturers are having issues with steel supply. No steel has shipped from Russia and all European suppliers are scrambling for new steel suppliers"

"Pricewise, pretty much everything is going down."

"Computer chips, boards, electronic pieces are still in short supply. Our European machine manufacturers are having issues with steel supply, because no steel is being shipped from Russia. All European suppliers are scrambling for new steel suppliers."

"We're continue to see strong sales, and are struggling to work down the backlog. No one wants to work overtime."

August 2022 Survey Statistics

	UP	SAME	DOWN	N/A	Aug. Index	July Index	June Index	25 Year Average
Sales (New Orders)	23%	49%	28%	0%	- 5	- 3	+26	+14
Production (Gross Output)	26%	56%	9%	9%	+17	+ 7	+31	+14
Employment	35%	54%	9%	2%	+26	+27	+23	+ 8
Purchases	21%	60%	19%	0%	+ 2	+10	+12	+ 7
Prices Paid (major commod.)	40%	46%	14%	0%	+26	+31	+54	+15
Lead Times (from suppliers)	30%	56%	14%	0%	+16	+25	+40	+11
Purchased Materials Inv. (Raw materials & supplies)	35%	51%	7%	7%	+28	+30	+32	- 4
Finished Goods Inventory	28%	56%	9%	7%	+19	+ 4	+ 3	- 8
Short Term Business Outlook (Next 3-6 months)	21%	60%	19%	2%	+ 2	- 2	+ 3	-
Long Term Business Outlook (Next 3-5 years)	37%	52%	9%	2%	+28	+12	- 3	-

Items in short supply: Electronics, microchips, semiconductor chips, electronic components, specialty resins, steel-based products, freight. Perasan, domestic rail and trucking, aluminum, custom aluminum extrusions, some steel, fasteners, machined parts, connectors, motors, explosion proof motors, casings, rubber hose, copper wire, labor.

Prices on the UP side: Steel, steel plate, stainless steel, steel CF bar, paint (pigments and chemicals), some adhesives, packaging, oil-based products, resins, glass, paper, motors, VFD, air flow switch, DDC controls, copper wire, electronic components, micro chips, specialty fasteners, 7075 grade aluminum, long shelf life dry goods, aluminum, import die cast aluminum, domestic aluminum castings, PVDF resin, Loctite, VHB tape, tubing, hydraulic items, explosion proof motors.

Prices on the DOWN side: Steel*, scrap steel, carbon steel, gasoline, polypropylene*, aluminum, copper, logistics and freight*, fuel, brass, domestic wood species, gasoline.

*Item reported as both up AND down in price.

Latest Unemployment Reports

(Except as noted, data are **NOT** seasonally adjusted)

	July 2022	July 2021	Aug. 2009	20 Year Low
State of Michigan (July)	4.2%	6.2%	14.6%	3.2%
State of Michigan (Unadj.)	4.3%	6.8%	14.1%	2.9%
Kent County	3.8%	5.6%	11.9%	2.1%
Kalamazoo County	4.3%	6.0%	11.1%	2.1%
Calhoun County	5.3%	7.8%	12.8%	2.7%
Ottawa County	3.4%	4.8%	13.3%	1.8%
Barry County	3.9%	5.2%	10.9%	2.2%
Kalamazoo City	5.4%	7.5%	15.2%	3.2%
Portage City	4.0%	5.5%	8.7%	1.3%
Grand Rapids City	5.0%	7.3%	16.1%	3.0%
Kentwood City	3.6%	5.3%	10.7%	1.4%
Plainfield Twp.	2.9%	4.2%	8.0%	1.4%
U.S. Official Rate (July)	3.5%	5.4%	9.6%	3.5%
U.S. Rate (Unadjusted)	3.8%	5.7%	9.6%	3.4%
U.S. U-6 Rate (July)**	6.7%	9.2%	22.9%	6.7%

**U-6 for Michigan = 8.0% for Q3 of 2021 thru Q2 2022

Index of New Orders: West Michigan

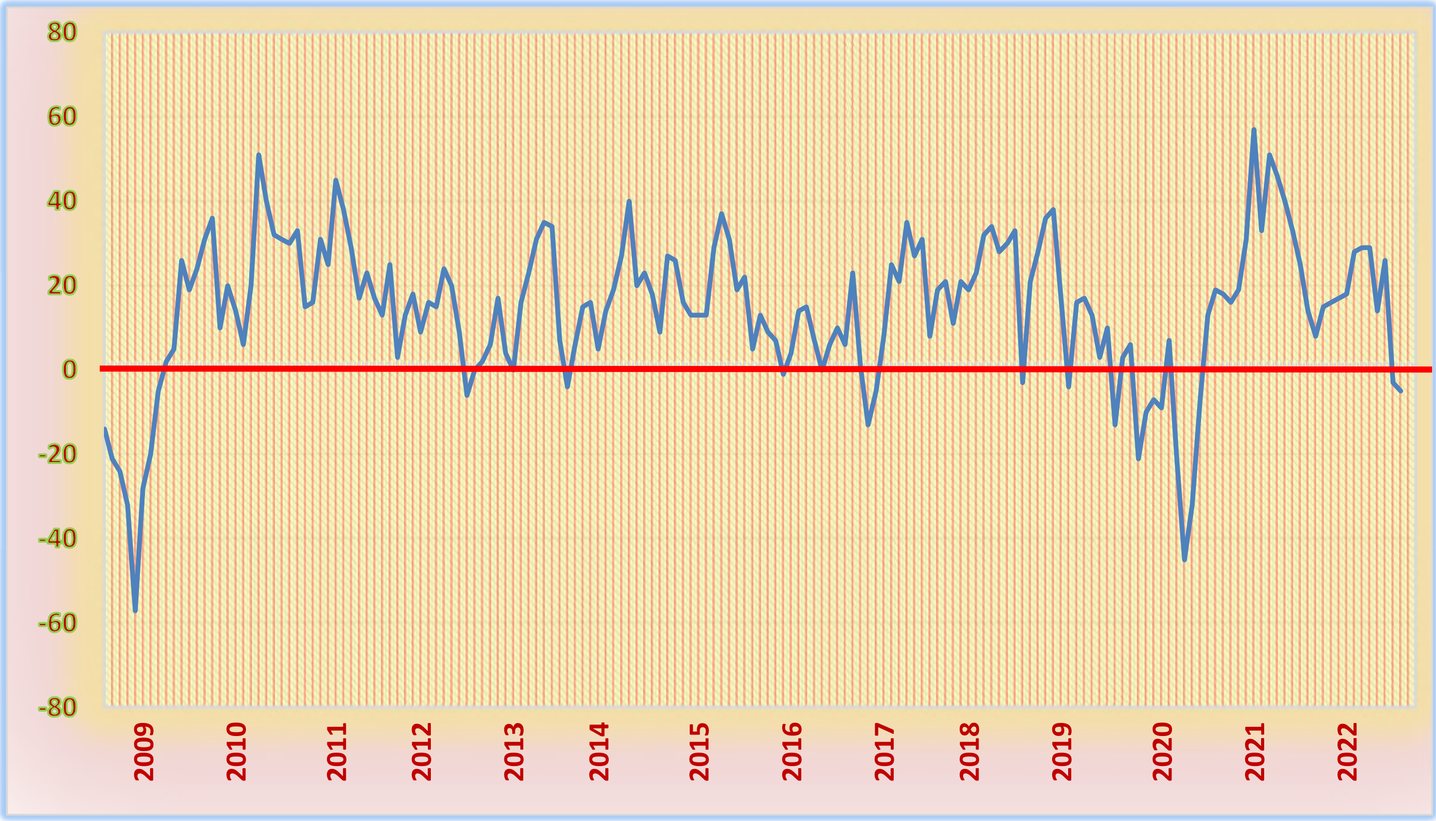
As the name implies, this index measures new business coming into the firm, and signifies business improvement or business decline. When this index is positive for an extended period of time, it implies that the firm or organization will soon need to purchase more raw materials and services, hire more 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	- 5 for the month of August, 2022
Previous Month	- 3 for the month of July, 2022
One Year Ago	+ 46 for the month of August, 2021
Record Low	- 57 for the month of December 2008
Record High	+ 57 for the month of January 2021

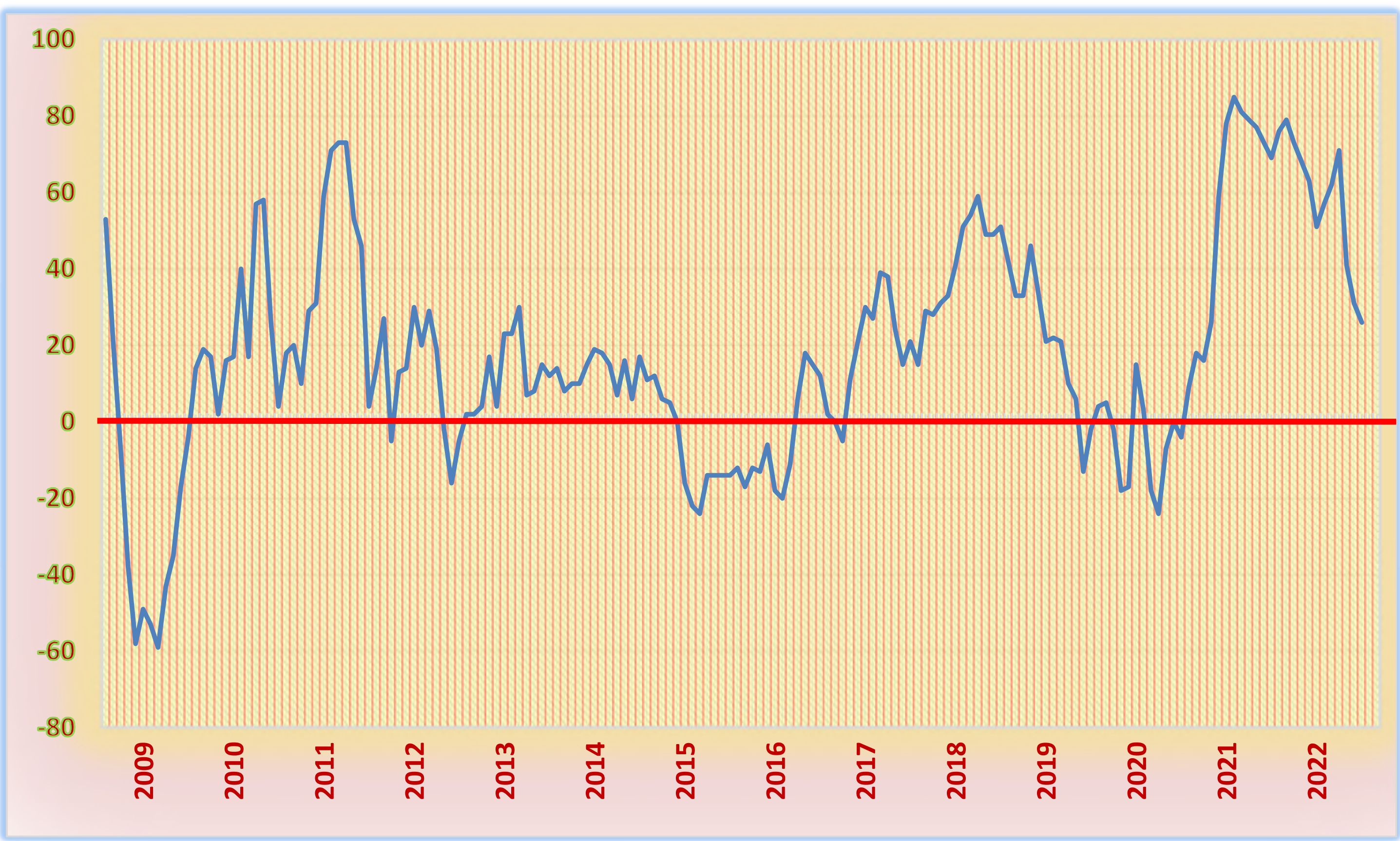
Great Recession
First Recovery + 3 in April 2009

COVID-19 Recession
First Recovery +12 in July 2020

ISM-West Michigan Index of New Orders: 2008-2022

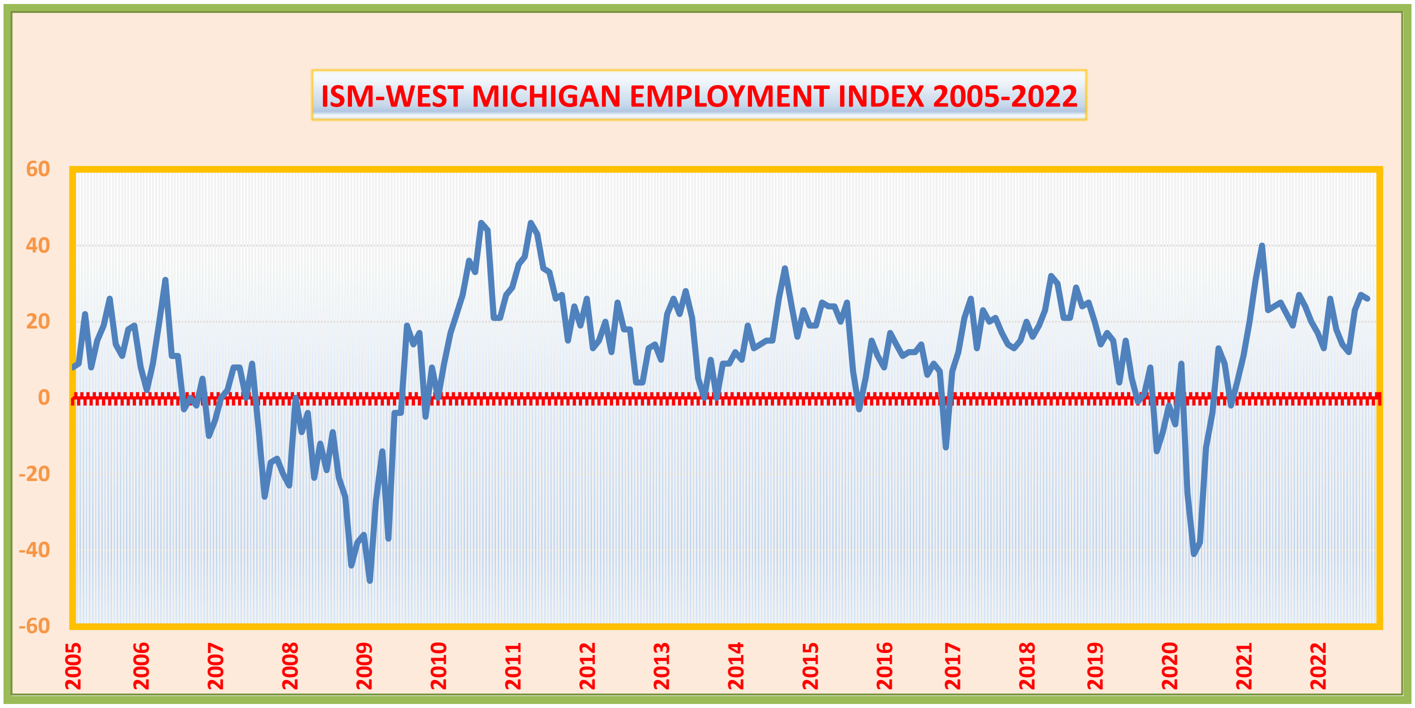


ISM-West Michigan Index of PRICES: 2008-2022



ISM-WEST MICHIGAN INDEX OF EMPLOYMENT

The index of EMPLOYMENT measures the firm's increases and decreases in staffing, including permanent workers and temps. After economic downturns, it measures 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 reduction in industrial unemployment for West Michigan. Normally, there is about a month or two in lag time between this report and the payroll numbers being reflected 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 laying off staff only after a downturn in orders appears to be certain for the foreseeable future.



ISM-West Michigan Future Business Outlook

The indexes of LONG-TERM BUSINESS OUTLOOK and SHORT-TERM BUSINESS OUTLOOK provide a glimpse at current and future attitudes of the business community. Traditionally, most businesses are more optimistic about the long term, although current event can result in perceptions changing very rapidly. Both short and long-term attitudes reflect current business conditions, and are usually higher when sales, production, and employment are positive.