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West Michigan Current Business Trends

June 7, 2024

Fourth Month of Modest Growth

Key Take-Aways from May 2024 Statistics:

- **NEW ORDERS and PRODUCTION Softened, But Remined Positive**
- **Results For U.S. National Industrial Economy Are Mixed**
- **Ignoring Two Wars, the International Economy Upticks**

	May	Apr.
NEW ORDERS Index (business improvement)	+ 5	+16
PRODUCTION Index (aka "output")	+ 2	+16
EMPLOYMENT Index	+ 7	+ 7
LEAD TIMES Index	-19	-15

Key Participant Comments for May:

"April was a bit slower than expected. Below budget, but still higher than this time last year."

"We are nervous about electric vehicle production and demand (or lack thereof...)."

"Our business is still under 2024 budget expectations."

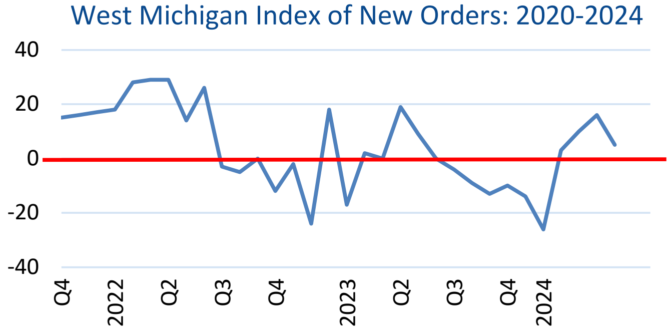
"Sales are steady, but we continue to reduce inventory. Our new fiscal year begins in July, and the forecast is for a slight increase in sales dollars, but units will remain flat."

"Questions about the proposed tariffs could potentially trigger more price increases for steel."

"We are seeing a lot of discounting of machine tools to help move inventory."

The Local Economy. For the fourth consecutive month, modest growth continues, although the rate of growth has moderated. NEW ORDERS, our closely watched index of business improvement, remained positive but edged lower to +5 from April's +16. In a similar manner, the PRODUCTION Index, a.k.a. "output," eased to +2 from +16. The index of PURCHASES, which measures activity in our purchasing offices, also remained positive but downticked to +2 from +8. With higher interest rates comes higher inventory carrying costs. Hence, the pace of inventory liquidation increased in May, especially for our PURCHASED MATERIALS INVENTORY Index which fell sharply to -11 from April's +24. In a similar pattern, the FINISHED GOODS INVENTORY Index dropped to -18 from -2. Although most of our survey participants are no longer bracing for a recession, the general mood remains somewhat subdued. A few of our local auto parts producers supporting EVs have voiced concern, given that they have geared up for sales volume that now seems much lower. Electric vehicles are still selling, but recent news has clearly indicated that the pace has declined significantly. The higher interest rates have clearly slowed the interest-rate sensitive segments of our economy and raised the costs of housing. Since 40 percent of the CPI is "shelter" or housing, higher interest rates have resulted in the Federal Reserve chasing its tail trying to reduce inflation.

West Michigan Index of New Orders: 2020-2024



The U.S. Economy. Given that the Federal Reserve wants the economy to slow in an orderly fashion, the current view of the national industrial economy is on track. ISM's NEW ORDERS Index for May returned to a modestly negative index of -5, down from +3. Again, this report indicates that the industrial economy is slowing but not collapsing. In a similar move, the ISM PRODUCTION Index eased to +2 from +6. A more ominous report comes from ISM's ORDER BACKLOG Index, which slid to -15 from -9. However, the index of NEW EXPORT ORDERS came in at +1, up from -3. ISM's composite index eased to 48.7 from 49.2.

A contrasting view of the U.S. industrial economy comes from the June 3 report from S&P Global, the British-based economic consulting firm which also surveys U.S. purchasing managers in a manner similar to ISM. S&P's May PMI rose to 51.3, up from 50.0. The New Orders Index returned to positive growth for the first time in four months, and the Employment Index remained positive for the fifth consecutive month. Although most of the numbers in this month's report are only marginally positive, the waning threat of an impending recession has resulted in the S&P Business Confidence Index continuing to rise. Andrew Harker, Economics Director at S&P Global Market Intelligence, further commented:

> "It was pleasing to see new orders return to growth in May following a blip in April. Although modest, the expansion in new work bodes well for production in the coming months. In fact, manufacturers cited confidence in the future as a factor contributing to increases in employment, purchasing activity and finished goods stocks. Cost pressures continued to build, however, with inflation on that front the strongest in just over a year. Although output prices rose at a slower pace in May, this is unlikely to be sustainable should cost burdens ramp up further in the months ahead."

The World Economy. Despite wars still raging in Gaza and the Ukraine, the world economy continues to improve. The J.P. Morgan Worldwide Manufacturing Index for May edged modestly higher to 50.9 from 50.3, marginally above the all-important break-even point of 50.0. JPM's New Orders Index rose to 51.0 from 50.4. In a similar move, JPM's Output Index advanced to 52.8 from 51.4, a 22-month high. The composite PMI for Canada, our largest trading partner, posted at 49.3, only 0.7 below the 50.0 break-even point. The composite PMI for Mexico came in at 51.2, up only two basis points from April's 51.0. The May PMI for China, our third most important trading partner, rose to 51.7, up from 51.4 in April, but still disappointing when compared to pre-pandemic levels. Commenting on the overall global economy, Bennett Parrish, Global Economist at J.P. Morgan, further noted:

> "The PMI Output Index rose by 1.2pt to 52.6 in May, its highest level since December 2021 and consistent with a solid expansion in production volumes. Uplifts in the new orders and employment PMIs are also providing positive reinforcement to the strength of the upturn moving ahead. The base of the revival is also broadening, with output growth accelerating in the US, China and the UK, while rates of contraction eased in Japan and the euro area. Sector signals are also positive with production rising across the consumer, intermediate and investment goods categories."

Needless to say, the weak performance by the Eurozone PMIs continue to impede JPM's composite statistics for the world economy. However, the May Eurozone PMI compiled by the Hamburg Commercial Bank edged up to a 14-month high of 47.3 from 45.7. The May PMIs for Greece, Spain, and the Netherlands remain positive and are now near two-year highs. However, the negative PMIs from France, Germany, Italy, and Austria continue to hold the Eurozone PMI well below the 50.0 break-even point. Dr. Cyrus de la Rubia, Chief Economist at Hamburg Commercial Bank, further noted:

> "This could be the turning point for the manufacturing sector. The industry is on the verge of halting the production decline that has persisted since April 2023. This is largely supported by more favourable trends in intermediate and capital goods. Additionally, more companies are reporting positive developments in order intakes from both domestic and international markets, although this is still being offset as a larger proportion saw declines in May. Encouragingly, business confidence regarding future production is at its highest level since early 2022. Optimism is growing, but companies remain cautious. They continue to reduce personnel and hold back on purchasing intermediate goods. This caution may also be reflected in the accelerated decrease in inventories of produced goods. This suggests that some companies were surprised by recovering demand, which they couldn't or didn't want to immediately meet with increased production."

Automotive. According to the June 3 edition of *Automotive News,* the May sales report for the auto industry posted its strongest performance so far this year. The year-over-year SAAR (Seasonally Adjusted Annualized Rate) compiled by Motor Intelligence posted at 16.08 million units, well above most estimates. At the present rate of production, the American auto industry is building more cars than are being sold, so dealer lots now have 53 percent more vehicles than in May 2023. For the firms still reporting monthly, May sales for Toyota rose 15.7 percent, Subaru added 7.0 percent, Mazda advanced 6.9 percent, and Honda rose 6.4 percent. Reversing a weak sales month, May sales for Ford gained 11.4, up from an April loss of 2.2 percent. Hyundai-Kia gained 8.5 percent in May sales, a significant improvement over last month's 3.5 percent loss. Elizabeth Krear, vice president of the electric vehicle practice at J.D. Power, further noted:

> "We're seeing a 'low tide moment' for EVs right now, but it's unclear how long it will last. EV market share peaked at 8.8 percent in April, with May expected to be down 0.4 percentage points. This year, 24 percent of shoppers say they are 'very likely' to consider purchasing an EV, which is down from 26 percent a year ago. Shoppers who are rejecting EVs point to lack of charging station availability, purchase price, limited driving distance per charge, time required to charge and inability to charge at home or work."

Business and Consumer Confidence. After three consecutive monthly declines, the Consumer Confidence Index for May, published by The Conference Board, rose modestly to 102.0 (1985=100) from 97.5. Analysts note that the index has continued to move sideways within a relatively narrow range for the past two years, indicating that consumers remain marginally cautious. Following three consecutive months of very little change, the University of Michigan's April index of Consumer Sentiment dropped about 10 percent to 69.1 from 77.2. Respondents to the U of M survey expressed rising concerns that unemployment rates will soon rise and that income growth will slow. The news cycle influences both consumer and business confidence, so it is not surprising to see the numbers from our West Michigan survey bounce around. For May, the SHORT-TERM BUSINESS OUTLOOK Index, which asks local firms about their business perceptions for the next three to six months, remained positive but eased to +10 from +16. However, the LONG-TERM BUSINESS OUTLOOK Index, which queries the perceptions for the next three to five years, bounced to +49 from +29.

West Michigan Unemployment. From basic economics, we learned that unemployment is a "laggard" statistic, meaning that it normally rises several months after the economy softens, and conversely stays stubbornly high even after the economy improves. According to the most recent report from the Michigan Department of Technology, Management & Budget (DTMB), the unemployment rate for most of West Michigan counties continued to fall through March 2024, even though our index of NEW ORDERS had been softening for many months. However, according to DTMB's April (latest month available) report, the West Michigan unemployment rate has finally started to edge higher. Although Ottawa County posted the lowest West Michigan unemployment rate of 2.8 percent for April 2024, the pace was noticeably higher than the 2.4 report from April 2023. In the same time period, the unemployment rate for Kent County rose to 3.0 percent from 2.6 percent. For our local survey, the most recent West Michigan index of EMPLOYMENT came in unchanged at +7 for May. At the national level, the ISM Employment Index remained modestly positive at +3, up from +1. From a political standpoint, rising unemployment rates like we saw in the 70s usually pressure the Federal Reserve to prematurely cut interest rates. The cuts were too soon, resulting in the Fed exacerbating "stagflation" and weakening the U.S. dollar. In 2024, the Fed is obviously trying to avoid making the same mistake, despite numerous calls for lower rates. At least for the present, the stable employment rates provide plenty of cover for holding interest rates steady. As soon as unemployment rates begin to rise at the national level, we can expect a deafening chorus of demands for the Fed to *prematurely* cut rates.

Industrial Inflation. For West Michigan, our May PRICES Index fell to +2 from +24, the sharpest drop we have seen so far this year. As we have noted in previous reports, the list of commodities rising in price remains fairly modest compared to the 44-year history of this report. The May ISM national index for Prices edged higher to +14 from +9. In a similar vein, JPM's index of world prices crept higher to 54.8 from April's 54.1. S&P Global, which tracks both worldwide price pressures and supply pressures, reported that the S&P Price Pressure Index for May remined unchanged at 0.8 but the Global Supply Shortage Index eased to 0.8 from 1.0. According to the May 14 report from the Bureau of Labor Statistics, the year-over-year headline Produce Price Index for May rose to 2.2 percent, marginally higher than the 2.1 percent rate reported for April. According to Christopher Rupkey, chief economist at FWDBONDS, "Inflation at the producer level is back on the front burner." For the analysts looking for the next interest rate move by the Federal Reserve, there is still the possibility that industrial and wholesale prices will stabilize at the present level, and hopefully begin to edge lower. Maryam Baluch, Economist at S&P Global Market Intelligence, commented:

> "Price and supply pressures both remained subdued in May, running 20% below their long-run averages. There were signs of easing supply pressures as the impact of the Red Sea disruptions earlier this year appeared to diminish. The respective index ticked down for the first time since November last year. That said, manufacturers noted that the degree of commodity price rises was unchanged from April and the joint-highest in 19 months. Copper and aluminium saw the strongest rises in prices during May. Meanwhile, energy was the only commodity segment where overall prices dropped, and for the fifth time in six months."

Consumer Inflation. According to the May 15 report from the Bureau of Labor Statistics, the year-over-year "headline" Consumer Price Index (CPI) for April posted at 3.4 percent, down from 3.5 precent. This downtick celebrates that inflation is falling, but the rate of decline is obviously very slow. The so-called "core inflation," which excludes the more volatile food and energy components, eased to 3.6 percent from 3.8 percent. In a similar pattern, the "other" significant measure of inflation compiled by the Bureau of Economic Analysis (BEA) known as the Personal Consumption Index (PCE) came in unchanged at 2.7 percent in their May 30 report. The core PCE, which also excludes food and energy, also registered unchanged at 2.8 percent. Both reports continue to stress that the index sub-component reported as "shelter" remains a major sticking point inhibiting further reductions in both the CPI and the PCE. The headline reports by the news organizations are almost always year-over-year aggregations, not the less-glamorous statistics for the individual months. However, the Federal Reserve is most likely paying closer attention to the *monthly* numbers, such as shelter, which has remained virtually unchanged for the past year. There is good news that the latest Zillow Rent Index remained virtually unchanged at 3.58 percent, a small fraction of what it was only a few months ago but still rising. Conversely, the Rent Index from Realtor.com posted a modest decline of 0.7 percent, down from last month's 0.3 percent. Several news organizations have applauded these positive reports, but at least one reminded us that rental contracts are usually for at least a year and that it takes 12-18 months for lower rents to finally be reflected in either the CPI or the PCE. Therefore, it is worth repeating that unless several other components of the inflation indexes drop dramatically, it will probably be well into 2025 before the Federal Reserve can declare that inflation has returned to an acceptable level. For home buyers, Bankrate's 30-year average mortgage rate has eased modestly to 7.07 percent, down from April's 7.31 percent. However, the most recent Case-Shiller Index for the cost of purchasing a home continues to rise, although the rate of increases has clearly moderated for the past six months.

GDP. On May 30, the BEA posted 1.3 percent as the "second" estimate of growth for the first quarter of 2024. The report cited the "decelerations in consumer spending" as the reason for the slippage from the preliminary estimate of 1.6 percent. With forecasters now looking ahead to 2024's second quarter, the Atlanta Federal Reserve's GDPNow forecast model stands at 2.7 percent as of June 1. The Blue Chip GDP Realtime model for May continues forecasting a 2.0 percent second quarter growth rate. The Conference Board GDP growth estimate remains unchanged at 1.0 percent for both the second and third quarters, although previous forecasts from this organization have been notoriously pessimistic. At 2.5 percent, the 2024 growth estimate from S&P Global is among the more optimistic predictions. However, there remains plenty of variation in all of the forecasts.

Looking Forward. Barring a geopolitical surprise, the probability of a 2024 recession remains virtually off the table. Despite the Federal Reserve rapidly tightening interest rates starting two years ago, the higher rates did not result in a recession as some forecasters had predicted. Although several reputable forecasters having called for a recession for over two years, some of these same forecasters are now ready to declare that the Federal Reserves may be on the verge of accomplishing an elusive "soft landing," meaning that inflation returns to normal without a recession and despite higher interest rates. However, even though the headline CPI report has dropped from 8.5 percent to 3.4 percent, we have not yet "landed" until we get much closer to the Fed's target of 2.0 percent. Given inflation's protracted rate of decline, even a rate of 2.5 percent looks improbable until we are well into 2025. That said, the unemployment rate will probably continue to rise over coming months, but the *rate* of increase will be much slower than previous increases. Even though we are now nearly two years into tighter money, some forecasters point out that the full impact of higher rates has not yet been felt. The crisis in commercial real estate brought on by higher rates has yet to be resolved, the rise in credit card interest rates has not reduced consumer spending, and the rising cost of housing brought on by higher mortgage rates has not yet peaked. Other forecasters also point out that we have overspent on AI, electric cars, and alternative energy. Again, we may be headed for a soft landing, but we have NOT yet landed.

May 2024 Survey Statistics

	UP	SAME	DOWN	N/A	May Index	Apr. Index	Mar. Index	25 Year Average
Sales (New Orders)	33%	39%	28%	0%	+ 5	+16	+10	+14
Production (Gross Output)	23%	47%	21%	9%	+ 2	+16	+ 2	+14
Employment	23%	59%	16%	2%	+ 7	+ 7	+ 9	+ 8
Purchases	19%	65%	16%	0%	+ 3	+ 8	+ 0	+ 7
Prices Paid (major commodities)	16%	70%	14%	0%	+ 2	+24	+ 9	+15
Lead Times (from suppliers)	2%	75%	21%	2%	-19	- 15	- 2	+11
Purchased Materials Inv. (Raw materials & supplies)	12%	56%	23%	9%	-11	+24	+14	- 4
Finished Goods Inventory	12%	51%	30%	7%	- 18	- 2	- 2	- 8
Short Term Business Outlook (Next 3-6 months)	26%	58%	16%	0%	+10	+16	+20	-
Long Term Business Outlook (Next 3-5 years)	51%	47%	2%	0%	+49	+29	+43	-

Items in short supply:

Hemp, aluminum, aluminum extrusions, steel, high strength steel, controls engineers.

Prices on the UP side:

Glass, eggs, brass, copper, polyresins, paper, some services, steel, copper-based products, general supplies (cleaning, toner), aluminum, labor based outside services.

Prices on the DOWN side:

Aluminum*, steel, exchange rates (in our favor), fuel, freight prices, fabrications, steel*, most raw materials, capital equipment, polyproline.

**Item reported as both up AND down in price*

Latest Unemployment Reports:

(Except as noted, data are NOT seasonally adjusted)

	Apr. 2024	Apr. 2023	Aug. 2009	20-Year Low
State of Michigan (Mar.)	3.9%	3.6%	14.6%	3.2%
State of Michigan (Unadj.)	3.8%	3.1%	14.1%	2.9%
Kent County	3.0%	2.6%	11.9%	2.1%
Kalamazoo County	3.4%	3.0%	11.1%	2.1%
Calhoun County	4.3%	3.7%	12.8%	2.7%
Ottawa County	2.8%	2.4%	13.3%	1.8%
Barry County	3.5%	3.0%	10.9%	2.2%
Kalamazoo City	4.2%	3.7%	15.2%	3.2%
Portage City	3.1%	2.7%	8.7%	1.3%
Grand Rapids City	4.0%	3.4%	16.1%	3.0%
Kentwood City	2.8%	2.4%	10.7%	1.4%
Plainfield Twp.	2.3%	1.9%	8.0%	1.4%
U.S. Official Rate (Apr.)	3.9%	3.4%	9.6%	3.4%
U.S. Rate (Unadjusted)	3.5%	3.1%	9.6%	3.1%
U.S. U-6 Rate (Apr.)**	7.4%	6.7%	22.9%	6.7%

***U-6 for Michigan = 7.1% for all of 2023*

MAY COMMENTS FROM SURVEY PARTICIPANTS

“April was a bit slower than expected. Below budget, but still higher than this time last year.”

“We are nervous about electric vehicle production and demand (or lack thereof...).”

“Orders have slowed slightly, but are still well above projections. We are ramping up production just to try to clear the accumulated backlog.”

“I would love to start a hemp fiber facility in West Michigan. The demand is there.”

“The new aluminum anti-dumping executive orders from Mexico and the tariffs on microchips will raise pricing for many things in the very near term.”

“Our business is still under 2024 budget expectations.”

“Sales continued holding steady in May after a strong April. Container rates appear to be ticking up a bit, and we're watching potential disruptions due to strikes by Canadian railroad workers. Tariff announcements by the Commerce Department in early May on aluminum extrusions will impact our sourcing strategies.”

“Customers are rethinking everything and are being slow to release new PO's. It must be an election year.”

“Sales are steady, but we continue to reduce inventory. Our new fiscal year begins in July, and the forecast is for slight an increase in sales dollars, but units will remain flat.”

“There seems to be a general slowness in new IT work in our market. However, ongoing support work is stable.”

“Demand for industrial hemp continues to grow. Hemp apparel, bags, hats, jewelry is expected to grow 5000% in the next 5 years. CBD from hemp continues to grow in popularity. Education is the biggest factor in hemp sales.”

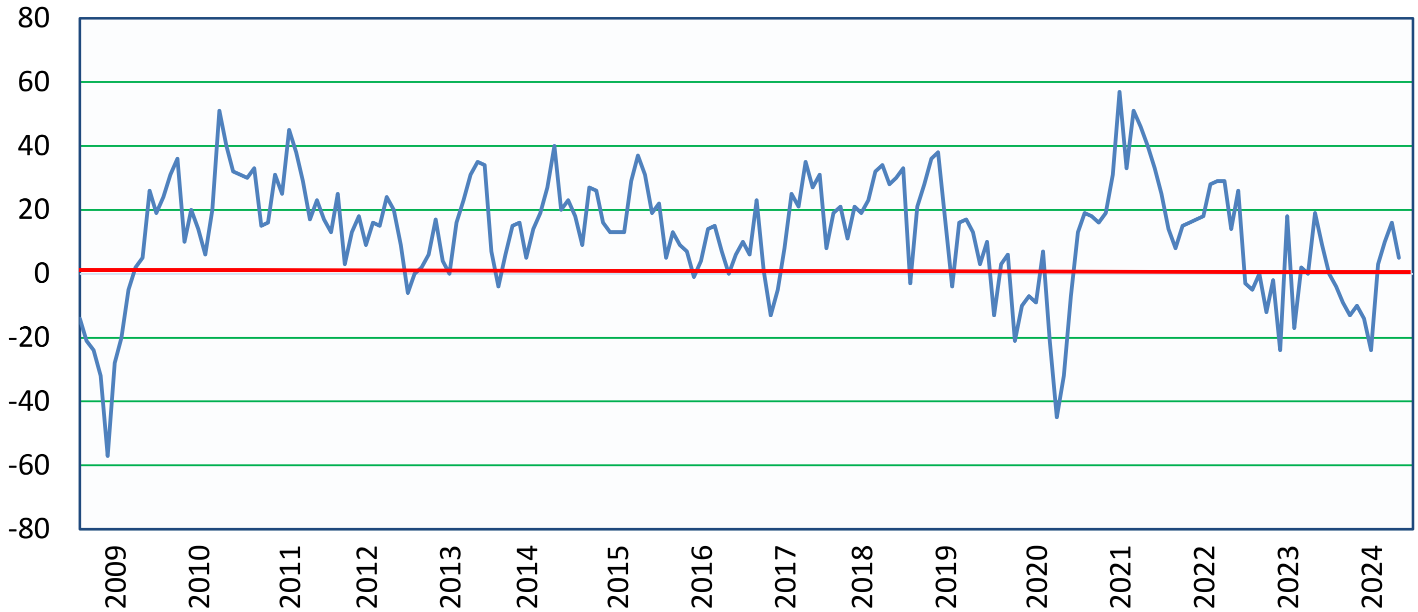
“Questions about the proposed tariffs could potentially trigger more price increases for steel.”

“Most raw material suppliers are soft, which is driving down our commodities prices.”

“We are seeing a lot of discounting of machine tools to help move inventory. Many large brands have a lot of inventory and are willing to offer discounts of 20-30% to move the machines.”

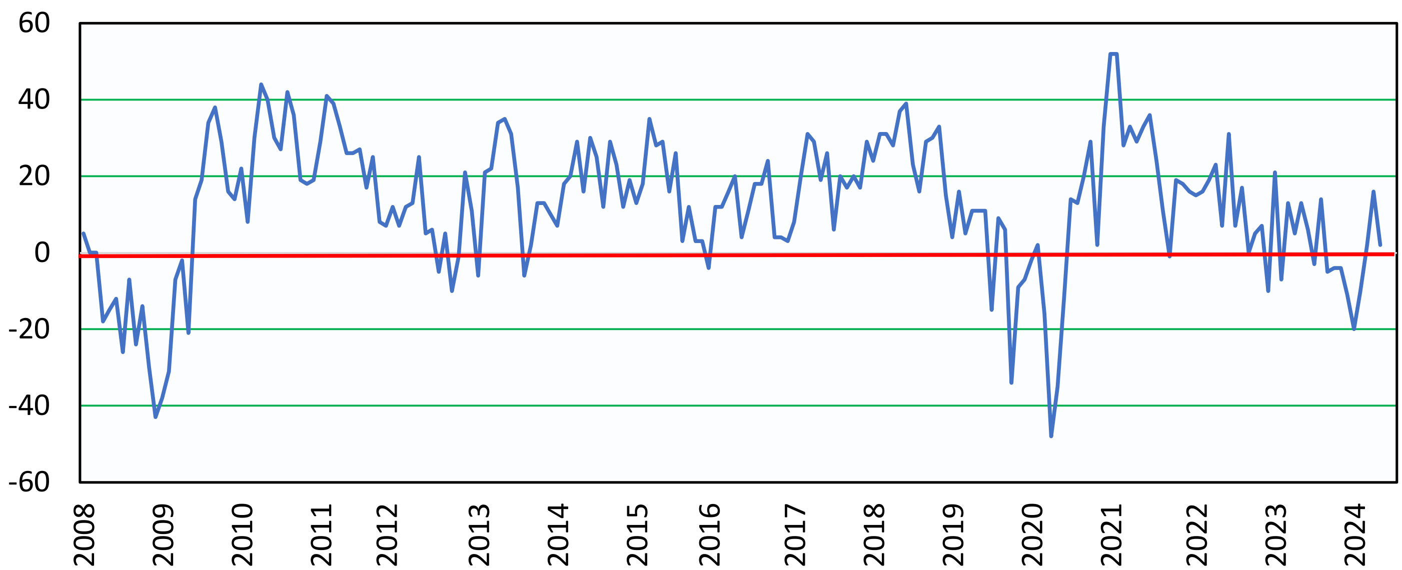
West Michigan Index of New Orders: 2008-2024

As the name implies, the NEW ORDERS 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.



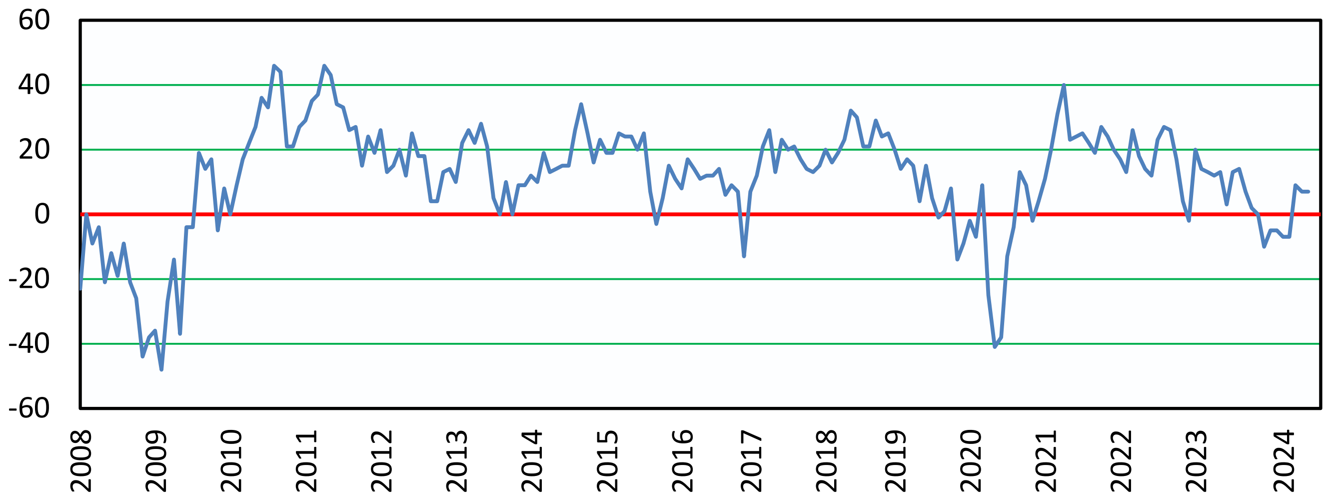
West Michigan Index of Production (Output): 2008-2024

As new orders come in and materials arrive at the loading dock, production schedules are posted to meet the customer's needs. Although production schedules respond to demand, they also respond to seasonal factors such as holidays as well as bad weather, materials shortages, or other external influences.



West Michigan Index of Employment: 2008-2024

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.



West Michigan Future Business Outlook: 2013-2024

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.