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West Michigan Current Business Trends

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Growth Turns Negative

Key Take-Aways from June 2024 Statistics:

- **NEW ORDERS Post a Significant Drop**
- **The National Industrial Economy Remains Marginally Positive**
- **Automotive Market Show Signs of Softening, Especially for EVs**

	June	May
NEW ORDERS Index (business improvement)	-21	+ 5
PRODUCTION Index (aka "output")	- 2	+ 2
EMPLOYMENT Index	+10	+ 7
LEAD TIMES Index	-18	-19

Key Participant Comments for June:

"Manufactured complex assemblies requiring higher grades of material and highly skilled labor are still seeing price increases. The labor pool is not as large as needed to fill the demand in many cases, and businesses are forced to compete to find someone qualified to fill certain positions."

"Automotive seems to be slowing down pretty fast. As of recently, a lot of companies are in financial stress."

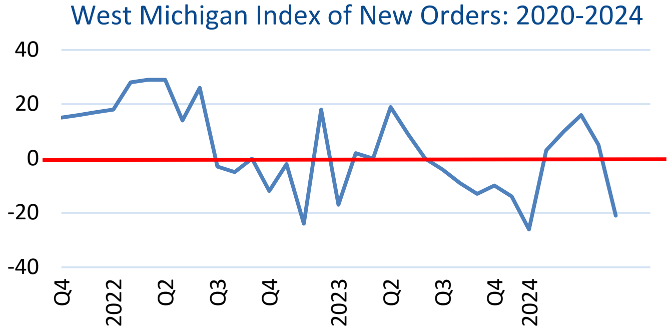
"We are running slower than forecasted, but we are still steady."

"Domestic EV production is creating a lot of waves in the industry with cancellations, delays, etc."

"Fiscal year ends this month and sales will come in just under budget which isn't terrible considering the softness of office furniture and several other markets. It seems like the economy is still hard to figure out which means budgeting for next fiscal year is proving difficult."

The Local Economy. Regrettably, the four-month winning streak for our survey of the West Michigan economy has come to an abrupt end. NEW ORDERS, our index of business improvement, fell sharply in June to -21 from May's +5. Fortunately, the PRODUCTION Index, a.k.a. "output," posted a minor change from +2 to -2. However, the index of PURCHASES, which measures activity in our purchasing offices, mirrored the decline in NEW ORDERS and dropped to -21 from +3. Because of chronic supply chain problems interrupting production schedules only a few months ago, many firm loaded up on inventories. In May, that practice abruptly stopped, and the pace of inventory liquidation increased in June. Our PURCHASED MATERIALS INVENTORY Index fell to -17, down from May's -11 and sharply lower than April's +24. The FINISHED GOODS INVENTORY Index also reported significant liquidation, but the rate of liquidation eased to -12 from -18. As early as last month, most of our survey participants were no longer bracing for a recession, but June's mood has become much more bearish. Especially for the auto parts producers supporting EVs, the sales volume has fallen enough to cause significant financial difficulties for some firms. The news cycle has raised uncertainties about the November election, as well as uncertainties about the ongoing wars in both Ukraine and Israel. These and other uncertainties about the remainer of 2024 have resulted in a considerable drop in our June SHORT-TERM BUSINESS OUTLOOK Index. Unfortunately, the possibility of a recession beginning in 2025 is now back on the table.

West Michigan Index of New Orders: 2020-2024



The U.S. Economy. For the industrial market, most economic statistics tend to bounce around. According to the data collected in the last two weeks of June, ISM's NEW ORDERS Index posted at +0, up from May's -5, but lower than April's +3. Just as it has been for many months, the U.S. industrial economy is slowing but not collapsing. The ISM PRODUCTION Index remained unchanged at +2. Regrettably, ISM's ORDER BACKLOG Index continues to slide, and posted at -17, down from -15. The index of NEW EXPORT ORDERS returned to a modestly negative reading of -3, down from +1. ISM's composite index came in at 48.5, down marginally from May's 48.7.

As always, a contrasting view of the U.S. industrial economy comes from the July 1 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 51.6 from 51.3, a modest three month high. The New Orders Index rose for the second time in four months, and the Employment Index remained positive for the sixth consecutive month. However, the S&P Business Confidence Index dropped to its lowest level since November 2022. Chris Williamson, Chief Business Economist at S&P, further noted:

> "The S&P Global PMI survey shows U.S. manufacturers struggling to achieve strong production growth in June, hamstrung by weak demand from domestic and export markets alike. Although the PMI has now been in positive territory in five of the first six months of 2024, up from just one positive month in 2023, growth momentum remains frustratingly weak. Factories have been hit over the past two years by demand switching post-pandemic from goods to services, while at the same time household and business spending power has been diminished by higher prices and concerns over higher-for-longer interest rates. These headwinds persisted into June, accompanied by heightened uncertainty about the economic outlook as the presidential election draws closer. Business confidence has consequently fallen to the lowest for 19 months, suggesting the manufacturing sector is bracing itself for further tough times in the coming months."

The World Economy. From the beginning of recorded history, we are told that there have been a scant six years wherein there was not a war going on somewhere in the world. Today, the world economy appears to be taking the wars raging in Gaza and the Ukraine as some kind of a "norm." Lest we forget, the U.K. and the EU have also raised interest rates to fight inflation with the same marginal results that the Fed has experienced. However, the overall world economy is still marginally positive. The J.P. Morgan Worldwide Manufacturing Index for June remined virtually unchanged at 50.9, only 0.9 points above the all-important break-even point of 50.0. JPM's New Orders Index eased to 50.8 from 51.2. In a similar move, JPM's Output Index moderated to 52.3 from 52.8. The June composite PMI for Canada, our largest trading partner, remained unchanged at 49.3. In conformance, the composite PMI for Mexico posted at 51.1, little changed from May's 51.2 reading. Just like Canada and Mexico, the June PMI for China came in virtually unchanged at 51.8, up from 51.7. Bennett Parrish, Global Economist at J.P. Morgan, further noted:

> "The PMI has remained above the neutral 50.0 mark, signalling improved operating conditions, for five months in a row. Four out of the five PMI sub-indices were at levels consistent with expansion in June, with output, new orders and employment all rising and suppliers' delivery times lengthening. In contrast, there was a slight decrease in stocks of purchases for the fourth month running. The growth rate of global manufacturing production held close to May's near two-and-a-half year high in June. Output has now increased in each of the past six months. Upturns continued in both the consumer and intermediate goods industries, whereas production fell in the investment goods category for the second time in the past three months."

Unfortunately, Eurozone PMI was cursed with another "fresh" setback in June. The June Eurozone PMI compiled by the Hamburg Commercial Bank fell from a 14-month high of 47.3 down to 45.8. Just as last month, the June PMIs for Greece, Spain, and the Netherlands remain positive but marginally lower than two months ago. However, the negative PMIs from France, Germany, Italy, and Austria, the Eurozone's largest economies, continue to hold the Eurozone PMI well below the 50.0 break-even point. The June PMI of 43.5 for Germany, the Eurozone's largest economy, hit another two-month low. Dr. Cyrus de la Rubia, Chief Economist at Hamburg Commercial Bank, further noted:

> "Is this another bull trap for the manufacturing sector, similar to the false start at the beginning of 2023 when output briefly improved only to fall back again for a longer period? Indeed, the PMI indices for all Eurozone countries, except Italy, deteriorated in June. However, we are inclined to see this more as a temporary blip rather than a sign of a prolonged downturn. Manufacturing growth was seen in other parts of the world in June, such as the United States, UK, and India, according to their respective Flash PMI. This global recovery provides a supportive backdrop for Eurozone manufacturers. Additionally, optimism about future production remains as high as it was in May, indicating that businesses are still confident about the coming year. It's rather depressing that forward-looking new orders are falling at an accelerated pace. Germany has failed to shake off its position as the worst performer among the Eurozone countries tracked by the PMI survey. Austria is doing nearly as poorly, and manufacturers in France and Italy remain in recessionary territory as well. In contrast, the Netherlands, Spain, and Greece are seeing growth in their manufacturing sectors. We attribute Germany's weak performance to its above-average exposure to the car industry, which is suffering on a global scale."

Automotive. After months of constrained production brought on by the now-infamous chip shortage, the pent-up demand for new cars and light trucks appears to have been mostly satisfied. Dealer lots are still not overflowing, but on-site inventories are now about 50 percent higher than a year ago. Although higher vehicle prices and higher interest rates have constrained sales, the July 2 edition of *Automotive News* reports that sales for the first quarter of 2024 remained at approximately the same level as the first quarter of 2023. Because of a nationwide cyber-attack on the sales software for 15,000 dealers near the end of June, at least some transactions may inflate the sales figures for July when they are finally posted. The year-over-year June SAAR (Seasonally Adjusted Annualized Rate) compiled by Motor Intelligence will probably hit 16.2 million units, depending on the severity of the recent cyberattacks. Looking at second quarter sales result for the Detroit Three, Ford posted a small loss of 4.0 percent, GM sales came in dead even at 0.0 percent, but Stellantis lost 21.0 percent. For some of the other nameplates, first quarter sales at Honda rose 3.1 percent, Toyota, 9.2 percent, and VW, 4.6 percent. Hyundi/Kia sales hit the breakeven point of 0.0 percent, and Nissan sales slid 3.1 percent for the quarter. Adding together all of the reporting firms, U.S. car and light truck sales for the first quarter of 2024 came in at 3,137,193, compared with 3,138,052 for 2023, about a close to break-even as we've seen in months. As we march through the summer buying season, many potential customers are beginning to embrace the philosophy set forth by Toyota, namely that the plug-in hybrid (PHEV) is the most versatile choice for most buyers. Even city buyers, where charging stations may be less of a problem, are skeptical about EVs. According to John Iacono, co-president of BRAM Auto Group in New York City:

> "Prospective EV buyers may have a problem with the high price. When they look at the hybrid, they can see that is a much lower price, but they're still getting some electrification. Many customers also prefer hybrids over EVs because they worry about long charging times and limited infrastructure. Climate-conscious buyers also consider hybrids a way to reduce carbon emissions. It takes care of their sensitivity to the environment, but yet doesn't alter their lifestyle."

Business and Consumer Confidence. Although last month's Consumer Confidence Index for May, published by The Conference Board, rose modestly to 102.0 (1985=100) from 97.5, the June reading eased to 100.4. The survey author noted that, "Confidence pulled back in June but remained within the same narrow range that's held throughout the past two years." After the University of Michigan index of Consumer Sentiment dropped about 10 percent to 69.1 from 77.2 in May, the June index dropped an additional 0.9 points to 68.2. The report further noted that consumers exhibited confidence that inflation will continue to moderate, but many expressed concerns about the effect of high prices and weakening incomes on their personal finances. Depending on the news cycle, our West Michigan survey of confidence continues to bounce around. For June, the SHORT-TERM BUSINESS OUTLOOK Index, which asks local firms about their business perceptions for the next three to six months, slid to -9 from +10, the first negative reading in seven months. The LONG-TERM BUSINESS OUTLOOK Index, which queries the perceptions for the next three to five years, eased much more modestly to +41 from +49.

West Michigan Unemployment. According to the most recent report from the Michigan Department of Technology, Management & Budget (DTMB), the state unemployment rate for May (latest month available) has edged up to 3.9 percent. However, the unemployment rates for most cities and counties in West Michigan continue to fall. The May unemployment rate for Ottawa County posted at 3.1 percent, followed by both Allegan and Kent Counties at 3.2 percent, Barry County, 3.4 percent, Kalamazoo Couty, 3.7 percent, and both VanBuren and Calhoun counties at 4.4 percent. For our local survey, the West Michigan index of EMPLOYMENT for June edged up to +10 from +7.

Industrial Inflation. For June, our West Michigan index of PRICES fell to -10, down from +2, and is the lowest the index has been in seven months. The June ISM national index for Prices edged lower to +4 from +14. However, worldwide industrial inflation is still a persistent problem. JPM's index of world prices crept higher to 55.3 from 54.8. S&P Global, which tracks both worldwide price pressures and supply pressures, reported that the S&P Price Pressure Index for June upticked to 1.0 from 0.8, and the Global Supply Shortage Index rose to 0.9 from 0.8. Maryam Baluch, Economist at S&P Global Market Intelligence, commented:

> "Price and supply pressures crept up during the latest survey period, with prices rising in line with the long-run average, and the latter just shy of it. While the intensification in global price pressures raises some level of concern, especially at central banks in major economies who are looking towards rate cutting, the index nonetheless remains firmly below the highs recorded in 2021. Additionally, sanctions placed on Russia as a result of the war in Ukraine, and disruptions in the Red Sea, which could prolong through to next year, could further impact supply chains and thus limit the availability of raw materials."

Consumer Inflation. Consumers scream, "Why can't the Federal Reserve cut interest rates now so that I can afford to buy a new home?" It is again worth noting that several members of the Fed, including Chairman Powell, do not want to repeat the judgment errors made by the Fed in the 1970s. The Fed is ALWAYS under political pressure to keep rates low, and as soon as the 1970s inflation rates APPEARED to by falling, the Fed cut rates, only to find that inflation returned with a vengeance. The value of the almighty dollar, which was once backed by gold, began to falter, and its reign as the world's leading reserve currency was soon in jeopardy. To return the dollar to its glory role, Paul Volker was forced to raise rates to the highest level in history. These high rates would NOT have been necessary if the Fed had acted sooner and more decisively to keep rates high enough and long enough for inflation to be permanently defeated. Therefore, even though this is an election year, the earliest we can now expect a token quarter point rate cut is after the election.

Looking at the current inflation rate, the "headline" 12-month Consumer Price Index (CPI) for May, reported on June 12 by the Bureau of Labor Statistics, posted at 3.3 percent, down from 3.4 percent in April and 3.5 percent in March. Whereas there was some modest celebration that inflation appears to be on a declining trajectory, the rate of decline remains very slow and the current level of 3.3 percent remains far ahead of the Fed's target rate of 2.0 percent. In the same report, the "core inflation," which excludes the more volatile food and energy components, eased to 3.4 percent from 3.6 percent in April and 3.8 percent in March. 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) eased to 2.6 percent from 2.7 percent. The core PCE, which also excludes food and energy, decreased to 2.6 percent from 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. Looking ahead, there is good news that the latest Zillow Rent Index eased to 3.4 percent from 3.5 percent. In the same vein, the Rent Index from Realtor.com again posted a modest decline of 0.7 percent. The torrid post-pandemic rent increases have clearly moderated, but it will still take many more months for the cost of what the Fed calls "shelter" to fall allowing headline inflation to similarly fall to 2.0 percent. Simply put, the Fed's multiple rate cuts that were promised for 2024 now appear to be far less likely.

GDP. On June 25, the BEA posted the third and (presumably) final estimate of growth for the first quarter of 2024 at 1.4 percent, up from 1.3 percent. Forecasters are now focusing on estimates for 2024's second quarter, which will be posted by the BEA on July 25. As of July 3, the Atlanta Federal Reserve's GDPNow forecast model for Q2 has decreased to 1.5 percent, down from 2.7 percent reported on June 1. The Blue Chip GDP Realtime model for June edged lower to 1.9 percent from 2.0 percent. The second quarter growth forecast from the Federal Reserve Bank of Philadelphia remains unchanged at 2.0 percent. On a more pessimistic note, the Conference Board GDP growth estimate remains unchanged at 1.0 percent for both the second and third quarters. Finally, the 2.5 percent 2024 growth estimate for all of 2024 from S&P Global is among the more optimistic predictions.

Looking Forward. Most economic statistics, especially when reported monthly, tend bounce around. It would be imprudent to read too much into this month's sharp drop in NEW ORDERS, even though we regard this statistic as our best measure of business improvement AND our best view of the future economy. When more orders come in, it obviously means that a firm or organization needs to buy the necessary raw materials and components, hire more people, buy more equipment, and untimely produce more products or services to meet the customer's orders. However, it may be weeks or even months before the economic benefit of these new orders gets reported in the business and financial statistics. For our West Michigan economy, the automotive parts producers represent our most significant cyclical industry, and it appears that the "pent up" demand has run its course. Furthermore, the rising cost of vehicles coupled with rising interest rates for auto loans has put the purchase cost of both new and used vehicles out of the range of many buyers that are already trying to pay for rent and groceries. As one survey respondent put it, "Automotive seems to be slowing down pretty fast." Although there are currently several soft spots in the economy, it is automotive that now represents our greatest concern for West Michigan. On top of all of this is the growing numbers of uncertainties in the business environment. With two wars currently in process and others threatening, the geopolitical environment has put the stability of the world's supply chains are at risk. Domestically, the outcome of the November elections is now less predictable than any time in recent memory. No matter who wins, the polarity of our current political environment will leave the losing side in enough of a funk to leave many American consumers and business firms in a pessimistic mood. Of course, there is still no immediate sign of a recession in 2024, but there are many signs that our statistics for the remainder of the year may be choppy.

June 2024 Survey Statistics

	UP	SAME	DOWN	N/A	June Index	May Index	Apr. Index	25 Year Average
Sales (New Orders)	20%	39%	41%	0%	-21	+ 5	+16	+14
Production (Gross Output)	20%	49%	22%	9%	- 2	+ 2	+ 16	+14
Employment	20%	70%	10%	0%	+10	+ 7	+ 7	+ 8
Purchases	10%	58%	32%	0%	-22	+ 3	+ 8	+ 7
Prices Paid (major commodities)	7%	76%	17%	0%	-10	+ 2	+ 24	+15
Lead Times (from suppliers)	2%	78%	20%	0%	-18	-19	- 15	+11
Purchased Materials Inv. (Raw materials & supplies)	10%	51%	27%	12%	-17	-11	+ 24	- 4
Finished Goods Inventory	12%	52%	24%	12%	- 12	-18	- 2	- 8
Short Term Business Outlook (Next 3-6 months)	20%	51%	29%	0%	- 9	+10	+ 16	-
Long Term Business Outlook (Next 3-5 years)	46%	49%	5%	0%	+41	+49	+ 29	-

Items in short supply:

Hemp, particle board, steel, controls engineers.

Prices on the UP side:

Particle board, aluminum, ocean freight, energy, paper products, plastics.

Prices on the DOWN side:

Steel, scrap steel, all base metals, machine tools, rubber products, brass, Fx rates.

Latest Unemployment Reports:

(Except as noted, data are NOT seasonally adjusted)

	May 2024	May 2023	Aug. 2009	20-Year Low
State of Michigan (May)	3.9%	3.6%	14.6%	3.2%
State of Michigan (Unadj.)	4.1%	3.8%	14.1%	2.9%
Kent County	3.2%	3.3%	11.9%	2.1%
Kalamazoo County	3.4%	3.0%	11.1%	2.1%
Calhoun County	4.4%	4.4%	12.8%	2.7%
Ottawa County	3.1%	3.2%	13.3%	1.8%
Barry County	3.4%	3.5%	10.9%	2.2%
Kalamazoo City	4.6%	4.8%	15.2%	3.2%
Portage City	3.3%	3.5%	8.7%	1.3%
Grand Rapids City	4.3%	4.4%	16.1%	3.0%
Kentwood City	3.0%	3.1%	10.7%	1.4%
Plainfield Twp.	2.4%	2.5%	8.0%	1.4%
U.S. Official Rate (May)	4.0%	3.7%	9.6%	3.4%
U.S. Rate (Unadjusted)	3.7%	3.4%	9.6%	3.1%
U.S. U-6 Rate (May)**	7.4%	7.1%	22.9%	6.7%

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

JUNE COMMENTS FROM SURVEY PARTICIPANTS

“Most products continue to increase in price slightly over the year.”

“Manufactured complex assemblies requiring higher grades of material and highly skilled labor are still seeing price increases. The labor pool is not as large as needed to fill the demand in many cases, and businesses are forced to compete to find someone qualified to fill certain positions.”

“Automotive seems to be slowing down pretty fast. As of recently, a lot of companies are in financial stress.”

“Sales are up slightly, and we continue to reduce inventory. Our fiscal year ends this month and should set a record for sales dollars, but quantities are actually down.“

“CBD from hemp continues to sell at the same price that it has been for the past 4 years.”

“We are seeing discounting from the machinery builders that we represent. They are hoping to move inventory.”

“We are running slower than forecasted, but we are still steady.”

“After the boom in 2018, thousands of farms tried their hand at growing hemp. They flooded the market with first year hemp products, the industry has since tanked. The majority of the growers could not sell off all of their hemp. Now we do not have enough farmers growing it. As hemp apparel continues to grow in popularity, the price is still high because the lack of hemp.”

“Our sales have dropped in the past 30 days, but our customer longer term forecast is still strong.”

“Seems slow.”

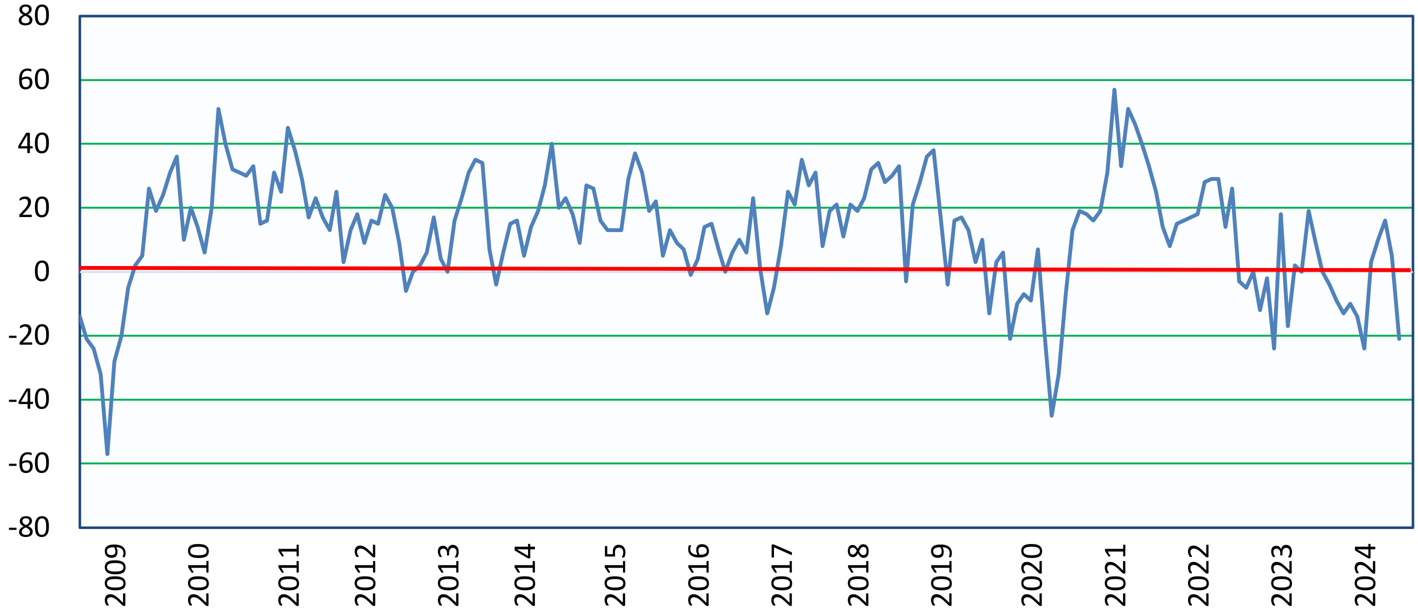
“Domestic EV production is creating a lot of waves in the industry with cancellations, delays, etc.”

“Hemp needs to be looked at more closely as an alternative to fuel, building materials, food, medicine and more. It is extremely sustainable and can help solve a lot of the world’s issues.”

“Fiscal year ends this month and sales will come in just under budget which isn't terrible considering the softness of office furniture and several other markets. It seems like the economy is still hard to figure out which means budgeting for next fiscal year is proving difficult.”

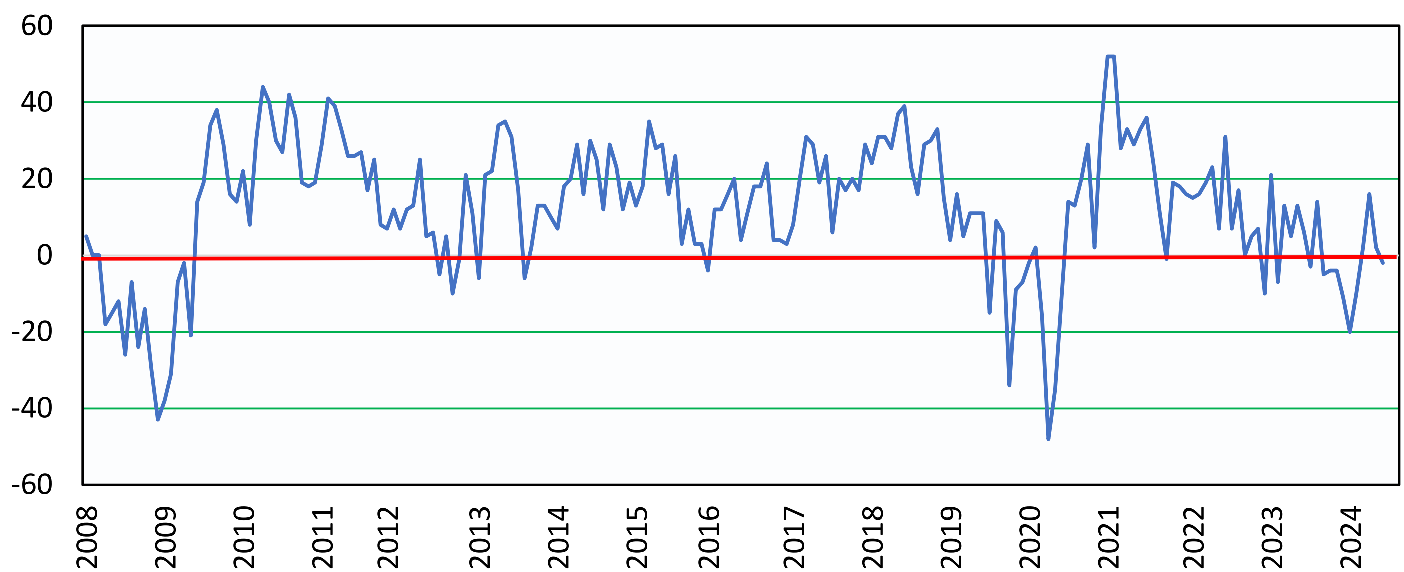
West Michigan Index of New Orders: 2008-2024

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.



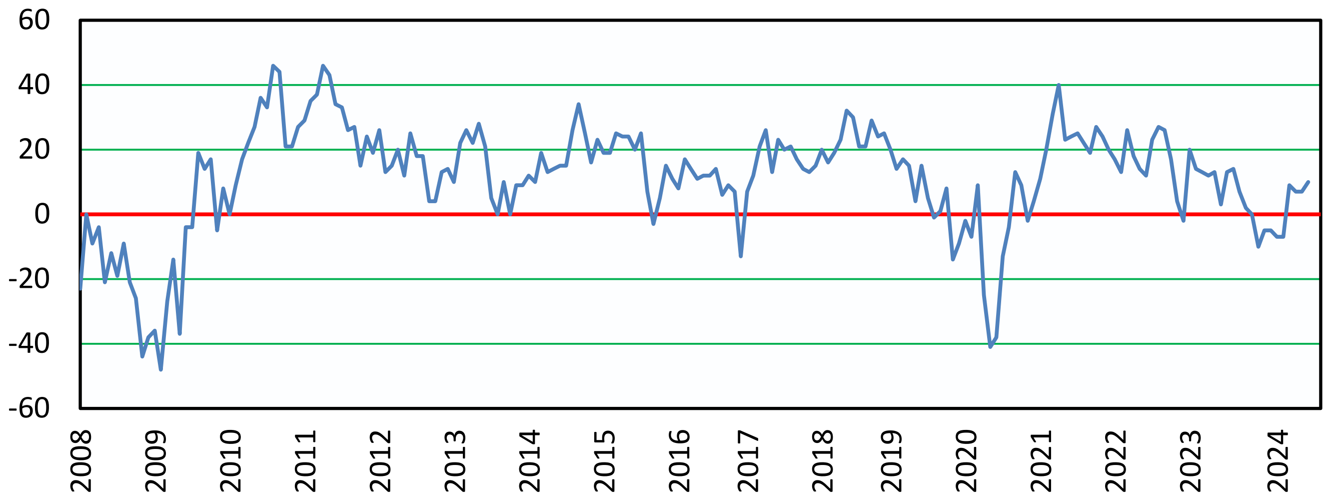
West Michigan Index of Production (Output): 2008-2024

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.