**By Brian G. Long, Ph.D., C.P.M.**
Director, Supply Chain Management Research
Grand Valley State University
(269) 870-0428

# West Michigan Current Business Trends

September 6, 2024

## A Third Negative Month; The "R" Word Looms

**Key Take-Aways from August 2024 Statistics:**

- **NEW ORDERS Index Drops for Third Successive Month. The PRODUCTION Index Also Dropped**
- **The National Industrial Economy Turns Modestly Negative**
- **Declining EV Market Could Sink the Auto Industry**

| | Aug. | July |
|---|---|---|
| NEW ORDERS Index (business improvement) | - 23 | -18 |
| PRODUCTION Index (aka "output") | - 10 | -16 |
| EMPLOYMENT Index | + 7 | - 3 |
| LEAD TIMES Index | - 18 | - 8 |

**Key Participant Comments for August:**

*"Our sales are soft. We continue to lower inventory by purchasing less."*

*"Electronic vehicle demand is nothing. OEMs are canceling program daily."*

*"We are actively re-sourcing materials out of China."*

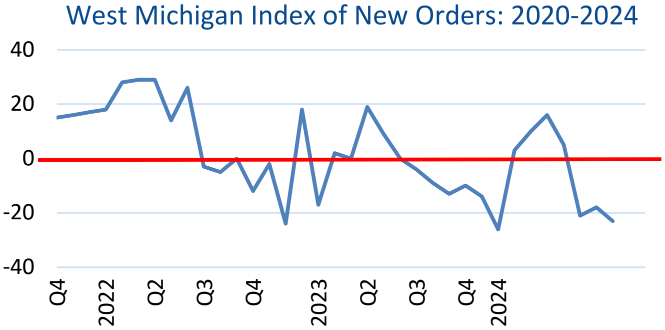
*"Overall, forecasts are lower than expectations."*

*"We have very slow sales, but things are looking better."*

*"Business is better and we remain encouraged."*

**The Local Economy.** Two months ago, the West Michigan economy ticked down for the first time in many months. We had hoped that June was just a "one-off" month, but the July report also came in negative. Regrettably, our August economic report for West Michigan is also negative. The August index of NEW ORDERS, our closely watched index of business improvement, posted at -23, down from July's -18, marking a third month of decline. In a similar mode, the August PRODUCTION Index, a.k.a. "output," posted negative at -10. Our August index of PURCHASES, which measures activity in the purchasing offices, came in at -18, virtually unchanged from July's -19 reading.

West Michigan Index of New Orders: 2020-2024




In February 2022, the Federal Reserve began raising interest rate to combat the highest rate for inflation in nearly 40 years. We hoped to see the economy "cool," not weaken. We expected SOME statistics to soften but not collapse. Granted, there remains some evidence that 30 months of higher interest rates is slowly accomplishing the Fed's "soft landing," meaning that inflation is on track to cool to near the 2 percent target rate *without* triggering a recession. Although this goal is still possible, the risk of a recession beginning over the next few months is now back on the table. Although we are not yet in a recession, the comments from our West Michigan survey participants have turned decidedly pessimistic.

**The U.S. Economy.** According to the September 3 press release from the Institute for Supply Management (ISM), the August NEW ORDERS Index for the U.S. economy posted at -9, unchanged from July. ISM's PRODUCTION Index recovered modestly to -9 from -10. The survey respondents also reported that the INVENTORIES Index returned to a positive reading of +2, up from -12. ISM's ORDER BACKLOG Index remained negative but recovered to -13 from July's -17. The index of NEW EXPORT ORDERS remained virtually unchanged at -3, down from –2. Adding all these indexes together, ISM's composite index came in at 47.2, slightly better that July's 46.8, but still below the 50.0 break-even point.

For August, S&P Global, the British-based economic consulting firm which also surveys U.S. purchasing managers, posted a more pessimistic report. S&P's August PMI dropped to 47.9, down significantly from 49.6 in July and 51.6 in June. The New Orders Index fell to a four-month low, and the Output Index turned negative for the first time in six months. The S&P's August Employment Index, which had been positive for all of 2024, also came in modestly negative. Chris Williamson, Chief Business Economist at S&P, further noted:

"A further downward lurch in the PMI points to the manufacturing sector acting as an increased drag on the economy midway through the third quarter. Forward-looking indicators suggest this drag could intensify in the coming months. Slower than expected sales are causing warehouses to fill with unsold stock, and a dearth of new orders has prompted factories to cut production for the first time since January. Producers are also reducing payroll numbers for the first time this year and buying fewer inputs amid concerns about excess capacity. The combination of falling orders and rising inventory sends the gloomiest forward-indication of production trends seen for one and a half years, and one of the most worrying signals witnessed since the global financial crisis. Although falling demand for raw materials has taken pressure off supply chains, rising wages and high shipping rates continue to be widely reported as factors pushing up input costs, which are now rising at the fastest pace since April of last year."

**The World Economy.** J.P. Morgan Worldwide Manufacturing Index for August edged marginally lower to 49.5 from 49.7, slightly below the 50.0 break-even point for the second time in 2024. The New Orders Index remained unchanged from July's reading of 48.8 from June's 50.7. JPM's Output Index fell to 49.9 from July's 50.2, and well below June's 52.3. In North America, the August composite PMI for Canada, our largest trading partner, remained modestly negative but rebounded to 49.5 from 47.8. However, the August PMI for Mexico, our second largest trading partner, fell to 48.5 from 49.6, a two-year low. The recent PMIs for China have tracked modestly above 50.0 for most of the past year, but the August reading fell to 49.9, Bennett Parrish, Global Economist at J.P. Morgan, further noted:

"The J.P. Morgan global manufacturing output PMI slipped 0.3-pt to 49.9 in August, its first reading below the 50-mark this year. In addition to a weaker output growth, survey details suggested a continued slowdown in new order intakes and the pace of hiring. Although the Euro area remained the weakest performing region, output growth slowed again in the US and a few other EM Asian economies according to the August surveys. The pricing PMIs firmed in August, likely reflecting the ongoing inflationary impact of higher shipping costs."

For the Eurozone, the news is still bad. The PMI for August, compiled by the Hamburg Commercia Bank (HCB), posted unchanged at 45.8, "…signalling another solid deterioration in operating conditions across the Euro area manufacturing sector." The August PMIs for Greece, Ireland, and Spain remained positive, but the PMIs for France, Germany, and Austria, the Eurozone's largest economies, continue to slide even further. Dr. Cyrus de la Rubia, Chief Economist at HCB, further noted:

"Things are going downhill, and fast. The manufacturing sector has been stuck in a rut, with business conditions worsening at the same solid pace for three straight months, pushing the recession to a gruelling 26 months and counting. New orders, both domestic and international, are slowing down even more, dashing any short-term hopes for a rebound. Adding insult to injury, input prices have been creeping up again since June. For the first time since April of last year, selling prices rose, driven by France, the Netherlands, Greece and Italy. This could spell trouble for the ECB, which has been grappling with persistent inflation in services while relying on falling manufacturing prices to keep disinflation on track. Higher transport costs are partly to blame for this uptick in price pressure. Although the price increase in goods is still modest, the ECB will undoubtedly keep a close eye on this development. But with such a broad downturn across the board, there is little sign that things will get better anytime soon."

**Automotive**. For most of the foreign transplant manufacturers, August sales came in very positive. The number of units sold in August exceed expectation for many nameplates, and averaged a gain of 12.8 percent for the major firms still reporting monthly. Sales gainers for August included Honda, up 25.0 percent, Toyota, 1.9 percent, Subaru, up 11.8 percent, Hyundi/Kia, 12.7 percent, and Mazda rising 36.7 percent, another record level for this nameplate. However, the Detroit Three are still trying to sort out how much of their current marketing effort should be devoted to EVs verses hybrids and traditional powered vehicles. For EV production, they have obviously overshot the mark, and dealer lots are filling with unsold units. However, sales at Ford posted an August sales increase of 13.8 percent. When reported, GM and Stellantis are not expected to do as well. Hence, the year-over-year August SAAR (Seasonally Adjusted Annualized Rate) compiled by Cox Automotive edged lower to 15.2 million from 16.0 million units. Chris Hopson, principal analyst at S&P Global Mobility. Further noted:

"New vehicle affordability remains the biggest obstacle preventing further advances in the pace of auto sales. The current environment of still-high interest rates and slow-to-recede vehicle prices are translating to still-high monthly payments and little progress for new-vehicle demand."

**Business and Consumer Confidence.** The *Conference Board's* Consumer Confidence Index rose in August to 103.3 (1985=100), from an upwardly revised 101.9 in July. According to Dana M. Peterson, Chief Economist at The Conference Board:

"Overall consumer confidence rose in August but remained within the narrow range that has prevailed over the past two years. Consumers continued to express mixed feelings in August. Compared to July, they were more positive about business conditions, both current and future, but also more concerned about the labor market. The consumer's assessments of the current labor situation, while still positive, continued to weaken, and assessments of the labor market going forward were more pessimistic. This likely reflects the recent increase in unemployment. Consumers were also a bit less positive about future income."

A similar uptick in confidence was posted by the University of Michigan July Consumer Sentiment Index, which edged up to 67.9 from 66.4. The consumer's short and long-term confidence posted at its most favorable levels since April 2024. For our West Michigan survey of the industrial market, the SHORT-TERM BUSINESS OUTLOOK Index, which asks local firms about their business perceptions for the next three to six months, declined to -12 from -3. The LONG-TERM BUSINESS OUTLOOK Index, which queries the perceptions for the next three to five years, remained positive but eased more significantly to +22 from +37. The mood of our West Michigan industrial firms is clearly dampening.

**West Michigan Unemployment**. According to the most recent report from the Michigan Department of Technology, Management & Budget (DTMB), the July data (latest month available) continues to reflect a modest erosion of employment in the West Michigan job market which we first notice in June. In the July report, the unemployment rates for almost all cities and counties in West Michigan spiked upward for the second time in many months. For the major West Michigan counties, the July year-over-year unemployment rate for Ottawa County posted at 4.1 percent, up sharply from 3.5 in 2023, followed by Allegan County rising to 4.3 percent from 3.6 percent, and Kent County unemployment rising to 4.4 percent from 3.7 percent. Most of the other counties on the west side of the state reported similar unemployment increases. For no obvious reason, our local survey, the West Michigan index of EMPLOYMENT for August posted a surprise uptick from -3 up to +7. Industrial firms appear reluctant to begin laying off the workforce that they have worked so hard to build.

**Industrial Inflation.** Our August West Michigan index of PRICES remained negative and eased further to -7 from -3. By contrast, the ISM index for Prices for August edged marginally higher to +8 from +5. JPM's August index of world prices eased to 55.0 from 55.2. S&P Global, which tracks both worldwide price pressures and supply pressures, reported that the S&P

Price Pressure Index for August downticked to 0.8 from 0.9, and the Global Supply Shortage Index edged lower to 0.6 from 0.8. These statistics indicate that if the world economy is actually beginning to cool, industrial inflation should begin to cool as well. Usamah Bhatti, Economist at S&P Global Market Intelligence, further commented:

> "Reports of both price pressures and supply shortages remained subdued midway through the third quarter, with the respective indices easing slightly on the month. In fact, manufacturers signalled that supply shortfalls were at their least marked since January 2020, as 15 of the 20 monitored commodities saw reported shortfalls ease or remain the same during the month. Meanwhile, price pressures were at their softest for three months, with 15 of the 26 commodities covered by the index either at or below their long-run average. The steepest increases were seen for Paper, Packaging and Textiles, all of which saw reported prices rise at nearly twice the usual level."

**Consumer Inflation**. Federal Reserve is under considerable pressure to cut rates by at least a quarter point at the upcoming September 17-18 meeting, and there is now speculation that the cut may even broaden to a full half point. These calls for lower rates are eerily like the calls we heard in the mid-1970's which spooked the Fed into cutting rates too much and too soon. It is obvious that the current rate of inflation is still well ahead of the Fed's target of 2.0 percent. Hence, there is also countervailing pressure to keep rates elevated in hopes of returning to the blissful era of limited inflation like we experience for the better part of forty years prior to the pandemic. On August 12, the Bureau of Labor Statistics (BLS) reported that the "headline" Consumer Price Index (CPI) for the 12 months ending in July had marginally fallen to 2.9 percent from 3.0 percent. Excluding food, and energy, the "core" CPI also downticked to 3.2 percent from 3.3 percent. In the same report, the "core inflation," which excludes the more volatile food and energy components, eased to 3.2 percent, down from June's 3.3 percent. As widely reported, most members of the Federal Reserve board place more emphasis on the "other" inflation report known as the Personal Consumption Expenditures Index or PCE compiled by the Bureau of Economic Analysis (BEA). According to the August 30 press release, the "headline" PCE remained unchanged at 2.5 percent. The core PCE, which similarly excludes food and energy, also remained unchanged at 2.6 percent.

The cost of housing, which the BLS calls shelter, is the largest factor that continues to inhibit the fall of the CPI and the PCE. In the most recent report, the BLS clearly notes that "…the index for shelter rose 0.4 percent in July, accounting for nearly *90 percent* of the monthly increase in the all-items index" (italics added). For some reason, this fact seems to be underreported by the news media. However, the good news is that housing prices and rents in many parts of the county are now stabilizing. The July Zillow Rent Index edged lower to 3.4 from 3.5 percent. The year-over-year "Rent Index" from Realtor.com again posted a modest decline of 0.7 percent. However, the same survey noted that the rent for identical units rose by 19.8 percent over the last five years. Looking forward, it is worth repeating that the BLS website clearly notes that it takes 12-18 months before the current rents are finally reflected in the inflation data. Hence, at least part of this inflation segment should correct itself over time.

**GDP.** As of August 29, the BEA posted a revised "second estimate" of 3.0 percent for the GDP growth in the second quarter of 2024. Because of a slight increase in consumer spending, the "revised estimate" came in ahead of the 2.8 percent estimate posted last month. As usual, the economists are now focusing on estimates for 2024's third quarter. As of September 4, the Atlanta Federal Reserve's GDPNow forecast model for Q3 rested at 2.1 percent growth. Although still positive, this estimate obviously anticipates that the economy will slow in the second half of the year. In a similar report, this month's Blue Chip GDP Realtime model for Q3 remains unchanged at 1.9 percent. A confirmation of both forecasts comes from the Federal Reserve Bank of Philadelphia, which now predicts a third quarter growth rate of 1.9 percent, down from 2.0 percent. The Conference Board GDP estimate is much more pessimistic, noting that "…consumers and businesses are likely to continue cutting spending and investments ahead, suggesting economic growth decelerated to 0.6 percent annualized in Q3 2024." However, the same forecast expects the fourth quarter to expand at "a tepid pace of about 1 percent." Unlike previous forecasts from the Conference Board, they see no recession in 2024.

**Looking Forward.** Based on the zig-zag results and renewed softness from this month's statistics, the possibility of the Federal Reserve's "soft landing" has again been called into question. Various segments of the economy locally and around the world have obviously softened, but that is what higher interest rates were supposed to accomplish without slowing the economy too much and generating a recession. A soft landing may still be possible, but we need to rise a flag of caution. So far, our statistics have softened but not collapsed. This is what a soft landing is supposed to do. However, if these same soft statistics begin to accelerate, then we may need to reassess the situation. In addition, the weakening of the major European economies adds another factor to consider going forward.

For West Michigan, we also need to consider the possibility that the local economy may backtrack faster than the national economy. Automotive parts, our largest cyclical industry, has hit a soft spot, primarily because of overemphasis on EVs. Economic uncertainty has not helped our local office furniture manufacturers, and other firms seem to be stuck in a wait-and-see mode before committing additional resources to capital expenditures and new hires.

With the presidential election now only two months away, it is worth repeating that the poisonous atmosphere in Washington raises the possibility that there will be no good outcome to the election. Regardless of which party wins, roughly half of the electorate with be elated, with the other half disheartened. In addition, a win for either party will leave more questions than answers about the future path of the economy.

# August 2024 Survey Statistics

| | UP | SAME | DOWN | N/A | Aug. Index | July Index | June Index | 25 Year Average |
|---|---|---|---|---|---|---|---|---|
| Sales (New Orders) | 20% | 34% | 43% | 3% | -23 | -18 | -21 | +14 |
| Production (Gross Output) | 20% | 40% | 30% | 10% | -10 | -16 | + 2 | +14 |
| Employment | 20% | 67% | 13% | 0% | + 7 | - 3 | +10 | + 8 |
| Purchases | 15% | 52% | 33% | 0% | -18 | -19 | -22 | + 7 |
| Prices Paid (major commodities) | 13% | 67% | 20% | 0% | - 7 | - 3 | -10 | +15 |
| Lead Times (from suppliers) | 5% | 72% | 23% | 0% | -18 | - 8 | - 18 | +11 |
| Purchased Materials Inv. (Raw materials & supplies) | 28% | 41% | 23% | 8% | + 5 | + 0 | - 17 | - 4 |
| Finished Goods Inventory | 18% | 56% | 18% | 8% | + 0 | +11 | - 12 | -2 |
| Short Term Business Outlook (Next 3-6 months) | 18% | 52% | 30% | 0% | -12 | - 3 | - 9 | - |
| Long Term Business Outlook (Next 3-5 years) | 35% | 49% | 13% | 3% | +22 | +37 | + 41 | - |

## Items in short supply:

Machined parts, container bookings to the East Coast, industrial forklifts to rent, hemp, electrical components, hydraulic pumps, hydraulic valves, steel, active electronic components, glass.

## Prices on the UP side:

Aluminum, steel, paint, non-ferrous metals products, polyol, titanium dioxide, container bookings to the East Coast, transportation, fuel, plastics, polypropylene, PA6, ABS, hemp, ocean freight, PCBA, hardware.

## Prices on the DOWN side:

Steel*, fuel, oil related emulsions, aluminum*, ocean fright*, transportation*, copper, optical lens & filters.

*Item reported as both up AND down in price

## Latest Unemployment Reports:

(Except as noted, data are NOT seasonally adjusted)

| | July 2024 | July 2023 | Aug. 2009 | 20-Year Low |
|---|---|---|---|---|
| State of Michigan (July) | 4.4% | 3.8% | 14.6% | 3.2% |
| State of Michigan (Unadj.) | 5.8% | 4.3% | 14.1% | 2.9% |
| Kent County | 4.4% | 3.7% | 11.9% | 2.1% |
| Kalamazoo County | 5.0% | 4.3% | 11.1% | 2.1% |
| Calhoun County | 6.3% | 5.0% | 12.8% | 2.7% |
| Ottawa County | 4.1% | 3.5% | 13.3% | 1.8% |
| Barry County | 4.7% | 3.9% | 10.9% | 2.2% |
| Kalamazoo City | 6.3% | 5.9% | 15.2% | 3.2% |
| Portage City | 4.6% | 3.9% | 8.7% | 1.3% |
| Grand Rapids City | 5.9% | 4.9% | 16.1% | 3.0% |
| Kentwood City | 4.2% | 3.5% | 10.7% | 1.4% |
| Plainfield Twp. | 3.3% | 2.9% | 8.0% | 1.4% |
| U.S. Official Rate (June) | 4.3% | 3.5% | 9.6% | 3.4% |
| U.S. Rate (Unadjusted) | 4.5% | 3.8% | 9.6% | 3.1% |
| U.S. U-6 Rate (July)** | 7.8% | 8.2% | 22.9% | 6.7% |

***U-6 for Michigan = 7.4% for the previous four quarters*

# AUGUST COMMENTS FROM SURVEY PARTICIPANTS

*"Overall, forecasts are lower than expectations."*

*"Construction activity seems to be slowing, especially in California due to economic and political uncertainty."*

*"Electronic vehicle demand is nothing. OEMs are canceling program daily."*

*"Sales are stronger, compared to last month but trending downward. We expect to be softer through fall."*

*"We continue to struggle with the "leaky bucket" of business. As quick as we fill it, something else leaks out."*

*"As the hemp industry continues to fight for regulations in the industry, the U.S. Regulatory Association has approved hempseed waste as feed for laying hens. baby steps."*

*"We have very slow sales, but things are looking better."*

*"BASF factory in Germany is impacting the chemical market with a Force Majeure issued."*

*"Container lead times from Asia are increasing. The threat of strikes in the rail yards of Canada and the East Coast ports is not helping as importers adjust to avoid these destinations. The container explosion in the port of Ningbo, China is causing additional disruptions. All of this happening in conjunction with record-setting import levels suggests that container prices are likely to stay elevated."*

*"Sales are soft. We continue to lower inventory by purchasing less."*

*"Getting 'quality' workers that want to work and help an organization succeed is difficult. Some of our younger employees want to be paid more for less work."*

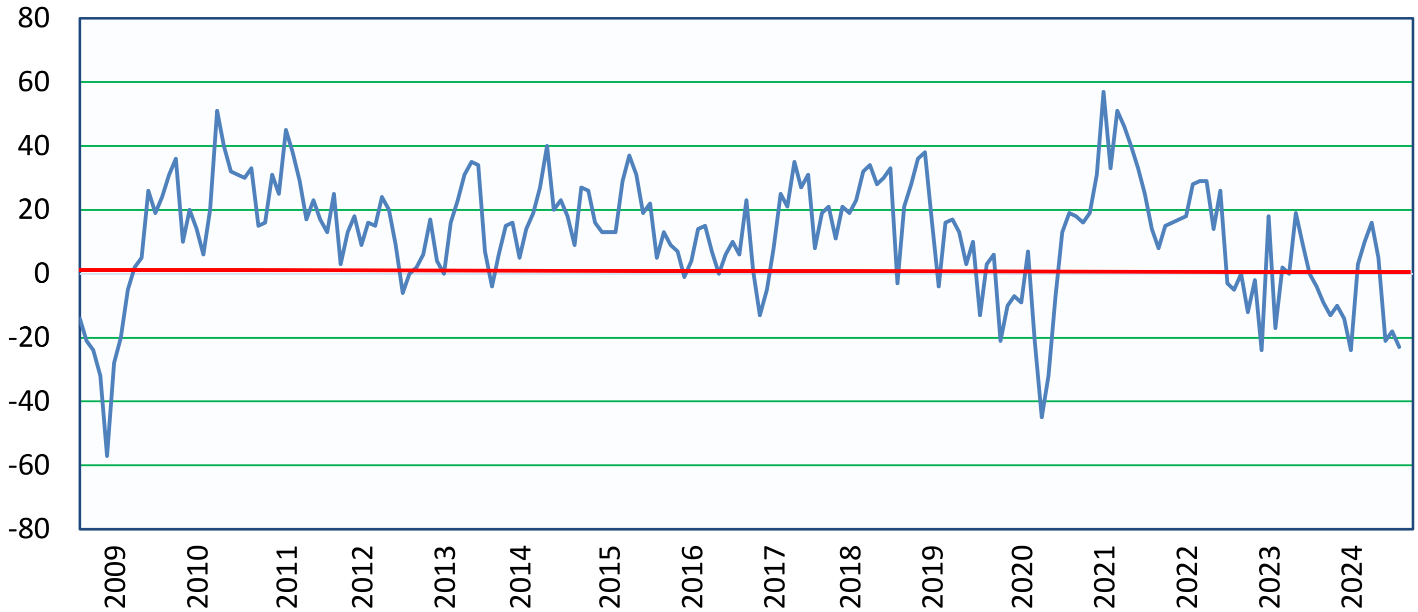
*"We are actively re-sourcing materials out of China."*

*"Business is better and we remain encouraged."*

*"Manufactured hemp prices have gone up, likely due to payrolls going up."*

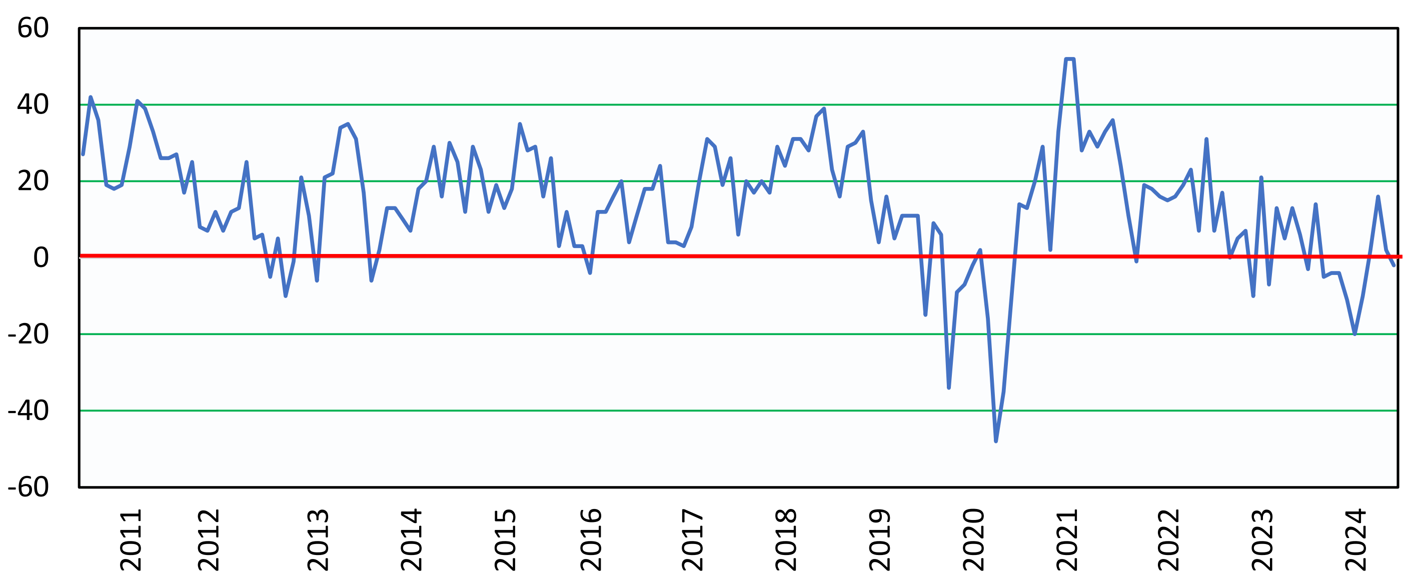
## West Michigan Index of New Orders: 2008-2024

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.



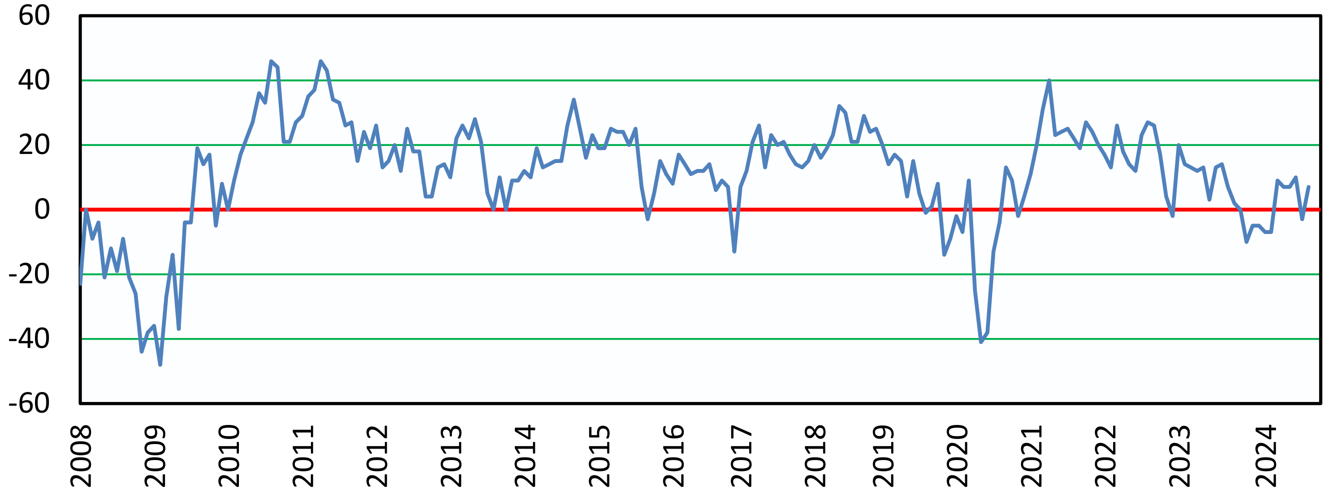

## West Michigan Index of Production (Output): 2008-2024

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.