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West Michigan Current Business Trends

October 7, 2024

A Fourth Negative Month; Economy at a Turning Point

Key Take-Aways from September 2024 Statistics:

- **NEW ORDERS and PRODUCTION Indexes Drop for the Fourth Successive Month**
- **National and International Industrial Economies Remain Modestly Negative**
- **Auto Sales are Still Critical to the West Michigan Industrial Economy**

	Sept.	Aug.
NEW ORDERS Index (business improvement)	- 23	-23
PRODUCTION Index (aka "output")	- 28	-10
EMPLOYMENT Index	- 11	+ 7
LEAD TIMES Index	- 9	- 18

Key Participant Comments for September:

"Automotive continues to soften and drive lower sales as well as the overall outlook for the organization and economy."

"I just returned from a large trade show for machinery. Most machinery dealers and builders commented that business was down and expected it to be down for several more months."

"Things seem to be busier than ever. There's a lot of new customer requirements and demands, especially with new and increasing tariffs and duties."

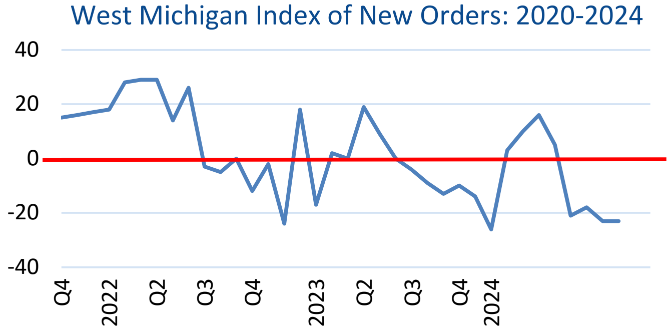
"Our sales department isn't backing off their forecast, but we've now had two straight months of underperformance. I'm not seeing any signs of that changing soon. We are still trying to reduce inventory."

"It's crazy times right now. Everyone is afraid... elections, wars, new tariffs, etc."

The Local Economy. For the fourth successive month, the West Michigan economy has again ticked downward. The September index of NEW ORDERS, indicating business improvement (or lack of improvement), came in at -23, the same as last month's reading. The PRODUCTION Index, a.k.a. "output," posted negative at -28, down from -10. Activity in the purchasing offices, our index of PURCHASES, fell to -33, the sharpest drop since the pandemic.

Although it might appear that we should be close to declaring a recession, a deeper analysis of the September data says that we are no QUITE there yet. We have three major cyclical industries in West Michigan, namely automotive, office furniture, and aerospace. Most of this month's softness can be attributed to our automotive parts suppliers. Mainly at the request of the Detroit Three, some local firms invested in additional capacity to support overly optimistic estimates of EV sales. The dealer lots are now filling with unsold EVs, and many major orders have been cut back or cancelled. Furthermore, because of higher interest rates and higher vehicle prices, sales for all cars and light trucks continue to stagnate. Unfortunately, with all of the recession fears still floating around, neither the office furniture or aerospace cyclical industries can offset the decline. As we have noted in previous reports, the West Michigan economy may now be softer than the rest of the nation. A note on the positive side is that many of the comments from our survey participants expect the economy to slow over the next few months but resume a normal course in early 2025. This is consistent with the Fed's goal of a "soft landing."

West Michigan Index of New Orders: 2020-2024



The U.S. Economy. The October 1 press release from the Institute for Supply Management (ISM) reports that the September NEW ORDERS Index for the U.S. economy in September posted at -9, unchanged from both July and August. Historically, this index has been a significant indicator of an impending recession, but only when it drops below the current level. ISM's PRODUCTION Index recovered modestly to -4 from -9, which indicates that the national economy has softened but not collapsed. However, the September INVENTORIES Index returned to a negative reading of -11, down from August's +2. This is not a good sign for the NEW ORDERS Index going forward. ISM's ORDER BACKLOG Index remained negative but recovered modestly to -12 from -13. The world economy is clearly slowing as evidenced by the ISM index of NEW EXPORT ORDERS which edged lower to -9 from -3. ISM's composite index, which aggregates all of September's statistics, came in unchanged at 47.2, but still below the 50.0 break-even point.

The September report from S&P Global, the British-based economic consulting firm which also surveys U.S. purchasing managers, is more pessimistic. S&P's September PMI edged lower to 47.3 from 47.9. The NEW ORDERS, OUTPUT, AND EMPLOYMENT indices all posted significant drops. Just like the ISM report, these numbers are still not in recession range but are getting close. Needless to say, the next few reports will be critical. Chris Williamson, Chief Business Economist at S&P, further noted:

> "The September PMI survey brings a whole slew of disappointing economic indicators regarding the health of the US economy. Factories reported the largest monthly drop in production for 15 months in response to a slump in new orders, in turn driving further reductions in employment and input buying as producers scaled back operating capacity. However, companies are sensing that at least part of the drop in demand is likely to be temporary, as spending, investment and inventory building have been paused in many cases amid the uncertainty caused by the Presidential Election. The prospect of lower interest rates has meanwhile raised confidence in the longer-term outlook, with firms anticipating that demand will be rekindled by lower borrowing costs if the political environment improves. Hence, despite the deterioration in the current business situation, business expectations about the year ahead have in fact improved. While the current weak demand environment has helped keep cost pressures low in the manufacturing sector, the potential for geopolitical events to drive energy prices higher alongside possible spikes in shipping prices poses upside risks to the inflation picture."

The World Economy. Just like many of our other statistics, the J.P. Morgan Worldwide Manufacturing Index for September edged marginally lower to 48.8 from August's 49.5 and from July's 49.7. Since June, most of JPM's indices have been below the 50.0 break-even point. A more critical drop came from JPM's index of New Orders, which slipped to 47.3 from August's 48.9. JPM's September Output Index eased to 49.4 from a revised 50.0. For our closest trading partners, the September composite PMI for Canada returned to positive at 50.4, up from 49.5 in August. For Mexico, our second largest trading partner, the PMI fell to a 32-month low of 47.3, down from 48.5. Although most of the 2024 PMIs for China have tracked modestly above 50.0, the September PMI return to a marginally negative reading of 49.3, down from 50.4. Bennett Parrish, Global Economist at J.P. Morgan, further noted:

> "The fourth straight decline in the global manufacturing output PMI points to a weakening in global industry. The 0.6pt move down in September lowered the output index to a nine-month low of 49.4, marking its first reading below the 50-mark this year. Underlying details were also weak: the new orders, employment, and future output PMIs all saw sizable September declines. At the national level, a depressed Euro area output PMI points to a very weak industrial sector while China looks to be stagnating. Even the US output PMI, which stood out with a modest step up in its earlier flash estimate, saw this improvement wiped away in today's final release."

The economic situation for the Eurozone continues to worsen. The PMI for September, which is now reported by the Hamburg Commercia Bank (HCB), fell to a nine-month low of 45.0, down from 45.8. The PMI for Germany, the largest economy in the region, fell to a 12-month low of 40.6. Spain and Greece remain the only large Eurozone economies with positive PMIs. Dr. Cyrus de la Rubia, Chief Economist at HCB, further noted:

> "It is a real shame that Spain is only the fourth-largest economy in the Eurozone. While handling the global manufacturing downturn surprisingly well, Spain just does not have enough weight to lift the rest of the eurozone with it. The worsening industrial slump in Germany, for example, is too big for Spain's momentum in September to make much of a difference. According to our nowcast model, Eurozone industrial production will likely drop by around 1% in the third quarter compared to the last one. With incoming orders plummeting fast, we can expect another dip in production by year-end. The European Central Bank (ECB) will be pleased to see that purchase prices fell in September, especially after three months of rising prices. The drop in oil and natural gas prices helped bring down input costs, and companies passed some of that savings on to their customers. But let's not get too comfortable – these price declines might not last. With the situation in the Middle East heating up, there's always the chance that energy prices could spike again. What started as a slow trickle of job cuts in the middle of last year has now turned into a pretty significant reduction in employment. This will probably show up soon in the less timely official unemployment statistics, which have been fairly stable so far. The ongoing geopolitical tensions are obviously taking their toll here."

Automotive. Many manufacturers now report only quarterly, so the latest edition of *Automotive News* details the sales for the first three quarters of 2024. For all makes and models, sales for 2024 are so far up by only a scant 0.7 percent, largely because of the weak performance by the Detroit Three, especially Stellantis. Historically, the number of miles driven by both domestic and commercial drivers continues to rise, generating more demand for vehicles of all types. However, rising prices and higher interest rates have limited sales growth. The year-over-year September SAAR (Seasonally Adjusted Annualized Rate) compiled by GlobalData posted at 15.8 million units, and the corresponding annual estimate by S&P Global has now risen to 15.9 million units. Looking at year-over-year sales gainers for the first nine months for the major brands, Mazda led the way with a 15.0 percent gain, followed by Honda at 8.8 percent, Toyota, up 6.2 percent, Suburu, 5.6 percent, and Ford, up 2.7 percent. For the same period, Hyundai-Kia sales fell 0.3 precent, General Motors, 1.0 percent, and Stellantis (Chrysler), 16.9 percent. Commenting on the overall market, Jessica Caldwell, Edmunds' head of insights, further noted:

> "This is an overall healthy place for the industry to be in compared to automakers' pre-pandemic habits of overproduction and inventory glut. It unfortunately has also limited potential discounts or promotions for shoppers."

Business and Consumer Confidence. According to the September 24 press release, the *Conference Board's* Consumer Confidence Index has now fallen to 98.7, down from 105.6 in August, reflecting the biggest one-month decline since August 2021. According to Dana M. Peterson, Chief Economist at The Conference Board, "The deterioration across the Index's main components likely reflected consumers concerns about the labor market and reactions to fewer hours, slower payroll increases, fewer job openings—even if the labor market remains quite healthy, with low unemployment, few layoffs and elevated wages." However, a very different view of consumer confidence was posted by the University of Michigan Consumer Sentiment Index, which edged up in September to 70.1 from 67.9. In sharp contrast, the survey author notes, "While sentiment remains below its historical average in part due to frustration over high prices, consumers are fully aware that inflation has continued to slow. Sentiment appears to be building some momentum as consumers' expectations for the economy brighten." 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 modestly to -14 from -12. However, the LONG-TERM BUSINESS OUTLOOK Index, which queries the perceptions for the next three to five years, rose to +35 from +22.

West Michigan Unemployment. Our West Michigan EMPLOYMENT Index first dipped negative in mid-2023 and remained modestly soft until March 2024 when it turned positive for four months. After a small dip in July, our August reading posted at +7. Despite reports of abundant open positions, the September UNEMPLOYMENT Index came in at -11. Notwithstanding all of last year's negative readings, it took until just three months ago for the official statistics from the Michigan Department of Technology, Management & Budget (DTMB) to finally began softening. According to the August data (latest month available) from DTMB, the unemployment rates for almost all cities and counties in West Michigan again spiked upward. Looking at the major West Michigan counties, the August year-over-year unemployment rate for Ottawa County posted at 3.8 percent, up sharply from 3.4 percent in 2023, followed by Allegan County jumping to 3.9 from 3.4 percent, and Kent County unemployment rising to 4.0 from 3.5 percent. The City of Grand Rapids posted one of the sharpest unemployment upticks, rising to 5.3 percent from 4.6 percent in August 2023. Without exception, all of our other cities and counties in the August DTMB report reported significant unemployment increases. However, it is noteworthy that most of the recent unemployment has come from attrition, i.e., the decision not to fill open positions rather than mass layoffs which are more typical of a recession onset.

Industrial Inflation. According to our West Michigan survey, industrial inflation remains subdued. The index of PRICES eased to -2, marginally changed from August's -7. For the first time in 2024, the ISM index for Prices edged marginally negative to -4 from August's +8. JPM's September index of world prices dropped to 53.3 from 55.0. S&P Global, which tracks both worldwide price pressures and supply pressures, reported that the S&P Price Pressure Index for September downticked to 0.6 from 0.8, and the Global Supply Shortage Index dropped to 0.5, a 58-month low. Clearly, industrial inflation is beginning to cool. Usamah Bhatti, Economist at S&P Global Market Intelligence, further commented:

> "Price and supply pressures were muted at the end of the third quarter of 2024, with both running below their respective long-run averages. In fact, supply shortages were reportedly half the usual level across the All-Items Index, which was the lowest since January 2020. On the price front, four of the 26 monitored commodities signalled a reduction in price during September. The sharpest reduction was for semiconductors, where on average, prices reportedly fell over three times quicker than they normally rise. This was the first reduction since September 2023 and a far cry from the record price markups seen at the start of 2022."

Consumer Inflation. Nine out of ten of the post-war recessions have been preceded by an "inverted" treasury bond yield curve, wherein the short-term rates run higher than long term rates. Since our last report, the Federal Reserve has lowered interest rates by a half point, a quarter point more than many analysts had predicted. As a result, the current short-term treasury 6-month rates have eased to 4.46 percent from August's 4.87 percent, but the long-term rates have risen from 3.62 percent to 4.26 percent for the 30-year bond. These rates are now fairly flat, and if the trend continues, the yield curve will soon return to normal. This one more piece of evidence augmenting the case that the Fed may have achieved a so-called "soft landing."

On September 11, the Bureau of Labor Statistics (BLS) reported that the "headline" Consumer Price Index (CPI) for the 12 months ending in August remained unchanged at 2.9 percent. Excluding food and energy, the "core" CPI also remained unchanged at 3.2 percent. However, the "other" headline inflation report known as the Personal Consumption Expenditures Index or PCE compiled by the Bureau of Economic Analysis (BEA) posted a decline to 2.2 percent from 2.5 percent. By contrast, the core PCE, which similarly excludes food and energy, actually rose to 2.7 percent from 2.6 percent. Yes, the inflation statistics are coming down but at a much slower rate than some news organizations are reporting. We are still above the Fed's target rate of 2.0 percent and at risk of bowing to political pressure and repeating the mistakes made in the 1970s by dropping rates too soon.

The cost of housing, which the BLS calls shelter, continues to keep inflation above normal, and the news media persists in under-reporting what the BLS analysts are pronouncing. In the most recent report, the BLS clearly notes that "…the index for shelter rose 0.5 percent in August and was the main factor in the all-items increase." The good news is that the September Zillow Rent Index again edged lower to 3.3 percent from 3.4 percent, continuing a steady, 18-month-long slowdown in the annual rental growth rate since hitting a record-high 16% in February 2022. An even more optimistic rental report comes from Realtor.com which again posted a modest decline of 0.3 percent. Rental relief is on the way, but it takes 12-18 months before the lower rents are finally reflected in the current inflation data.

GDP. On September 26, the BEA reported that the final estimate of GDP growth in the second quarter of 2024 came in unchanged at 3.0 percent, up from the first quarter reading of 1.6 percent. Since the GDP is the most important factor in declaring a recession, the nation's economists are now focusing on estimates for 2024's third quarter. As of October 2, the Atlanta Federal Reserve's GDPNow mathematical forecast model for Q3 rested at 2.2 percent growth. In a similar report, this month's Blue Chip GDP Realtime model for Q3 remains unchanged at 1.9 percent. The Federal Reserve Bank of Philadelphia, which conducts a survey of professional forecasters, is sticking with their previous estimate of a third quarter growth rate of 1.9 percent. The economists at Delloitte Research are predicting a 2.2 percent third quarter growth rate, but caution that "..risks like geopolitical tensions and persistent high inflation remain." The Conference Board, which has not had the best forecasting record in recent months, now posts a confirming estimate of 2.4 percent GDP growth rate for all of 2024. The same report expects the impact of higher interest rates and higher prices will restrict the growth rate for all of 2025 to about 1.7 percent. In short, the Conference Board is now joining the "soft landing" chorus.

Looking Forward. What is a "soft landing?" An airplane pilot will tell you that it means that the airplane has not only settled on the runway but that the aircraft has slowed to the point that it can be easily steered without tipping over. If we continue to use this analogy for the economy like we are hearing from most of the current news reports, it now appears that we are still a few feet off the runway. The national and world economies continue to slow, but this is consistent with the world-wide effort by all of the major central banks to curb inflation. However, from our news reports, it seems obvious that any of a number of geopolitical events could get out of hand and upset the world order. Although we have apparently dodged a major shutdown of the eastern ports, there are still some lingering issues with the regional banks that have not been resolved. Some analysts fear that we are approaching an overinvestment in both AI and alternative energy, although neither of these bubbles are nearly as large as the recession caused by the dot.com collapse 25 years ago. Higher interest rates have resulted in credit card default rates that are beginning to climb significantly, which could soon start to restrict consumer spending. Other analysts fear that the full impact of higher interest rates has yet to be felt. At this point in the economic cycle, any one of these issues could still be a problem. Using the airplane analogy, we haven't landed yet.

By the time of our next report, the long-awaited presidential election will be over. It is worth repeating the possibility that there will be no good outcome to the election, at least in the short term. Regardless of which party wins, roughly half of the electorate with be elated, with the other half disheartened. However, a review of the history of presidential elections tells us that we have had numerous elections that were hotly contested and polarized. Two were stormily decided by the House of Representatives, not the Electoral College. One election outcome in 1860 resulted in the Civil War. However, our constitution actually works, and people forget that Gerald Ford was not directly elected president by anyone. After January 20, it may take the proverbial first 100 days of the new administration before we have a clearer direction about the future path of the economy. Hopefully, we will then resume some kind of normality.

Seidman College of Business | Grand Valley State University

September 2024 Survey Statistics

	UP	SAME	DOWN	N/A	Sept. Index	Aug. Index	July Index	25 Year Average
Sales (New Orders)	19%	39%	42%	0%	-23	-23	-18	+14
Production (Gross Output)	7%	51%	35%	7%	-28	-10	-16	+14
Employment	12%	65%	23%	0%	-11	+ 7	- 3	+ 8
Purchases	9%	49%	42%	0%	-33	-18	-19	+ 7
Prices Paid (major commodities)	12%	77%	14%	0%	- 2	- 7	- 3	+15
Lead Times (from suppliers)	7%	77%	16%	0%	- 9	-18	- 8	+11
Purchased Materials Inv. (Raw materials & supplies)	9%	61%	21%	9%	-12	+ 5	+ 0	- 4
Finished Goods Inventory	14%	56%	21%	9%	- 7	+ 0	+11	-2
Short Term Business Outlook (Next 3-6 months)	16%	54%	30%	0%	-14	-12	- 3	-
Long Term Business Outlook (Next 3-5 years)	47%	41%	12%	0%	+35	+22	+ 37	-

Items in short supply:

Some aluminum grades, hemp, certain steel, some hydraulic components, controls, electrical engineers, time.

Prices on the UP side:

Aluminum, PCBAs, plastics, polypropylene, PA6, ABS, non-ferrous metal products, ocean freight, hemp, long distance transportation, some commodities, energy, exchange rate with the Euro.

Prices on the DOWN side:

Steel*, aluminum*, copper, brass, soybean oil, diesel, fuel, plastic resin*.

*Item reported as both up AND down in price

Latest Unemployment Reports:

(Except as noted, data are NOT seasonally adjusted)

	Aug. 2024	Aug. 2023	Aug. 2009	20-Year Low
State of Michigan (Aug.)	4.5%	4.0%	14.6%	3.2%
State of Michigan (Unadj.)	4.5%	4.2%	14.1%	2.9%
Kent County	4.0%	3.5%	11.9%	2.1%
Kalamazoo County	4.5%	4.0%	11.1%	2.1%
Calhoun County	5.6%	4.6%	12.8%	2.7%
Ottawa County	3.8%	3.4%	13.3%	1.8%
Barry County	4.2%	3.6%	10.9%	2.2%
Kalamazoo City	5.7%	5.0%	15.2%	3.2%
Portage City	4.2%	3.7%	8.7%	1.3%
Grand Rapids City	5.3%	4.6%	16.1%	3.0%
Kentwood City	3.7%	3.3%	10.7%	1.4%
Plainfield Twp.	3.0%	2.6%	8.0%	1.4%
U.S. Official Rate (Aug.)	4.2%	3.8%	9.6%	3.4%
U.S. Rate (Unadjusted)	4.4%	3.9%	9.6%	3.1%
U.S. U-6 Rate (Aug.)**	7.9%	7.1%	22.9%	6.7%

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

SEPTEMBER COMMENTS FROM SURVEY PARTICIPANTS

“Construction related purchases in SW and West regions are reported to be down significantly, but our business remains up over 10% YTD, including September.”

“Automotive continues to soften and drive lower sales as well as the overall outlook for the organization and economy.”

“Purchasers appear to be buying conservatively and running their inventory tighter.”

“Things seem to be busier than ever. There’s a lot of new customer requirements and demands, especially with new and increasing tariffs and duties.”

“In 2018, there was a surplus of hemp suppliers, but they sat on the hemp because they did not have enough buyers. Now we do not have enough growers for industrial hemp. One area of need is hemp textiles (apparel), Hempcrete (concrete made with hemp), Hemp Wood, Hemp Oil (can replace fuel), Hemp Medicine. While supplies are low, prices are high.”

“Business seems to have slowed.”

“Business is okay, just slowing some.”

“Things are flat.”

“We recently landed some nice new foreign & domestic OEM PO's.”

“Sales isn't backing off their forecast, but we’ve now had two straight months of underperformance. I’m not seeing any signs of that changing soon. We are still trying to reduce inventory.”

“It’s crazy times right now. Everyone is afraid...elections, wars, new tariffs, etc.”

“Business has slowed down a bit. We’re hoping for a rebound soon.”

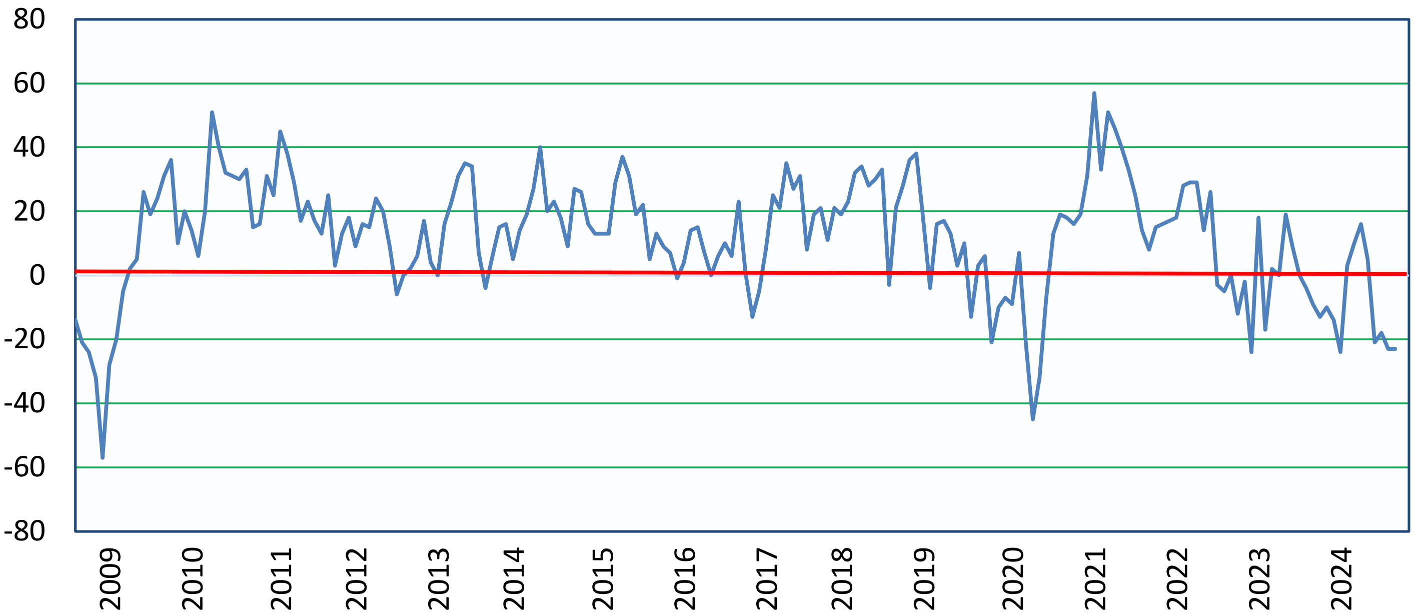
“This year the FDA said that hemp CBD does not harm the liver or kidney, and now doctors are starting to recommend their patients to take CBD vs Aspirin. Aspirin has been found to do more harm to your body than good. This is a step in the right direction for the hemp industry.”

“I just returned from a large trade show for machinery. Most machinery dealers and builders commented that business was down and expected it to be down for several more months.”

“September sales are down about 5% from plan and the third quarter are down about 3% from plan. This makes for a flat to 2023.”

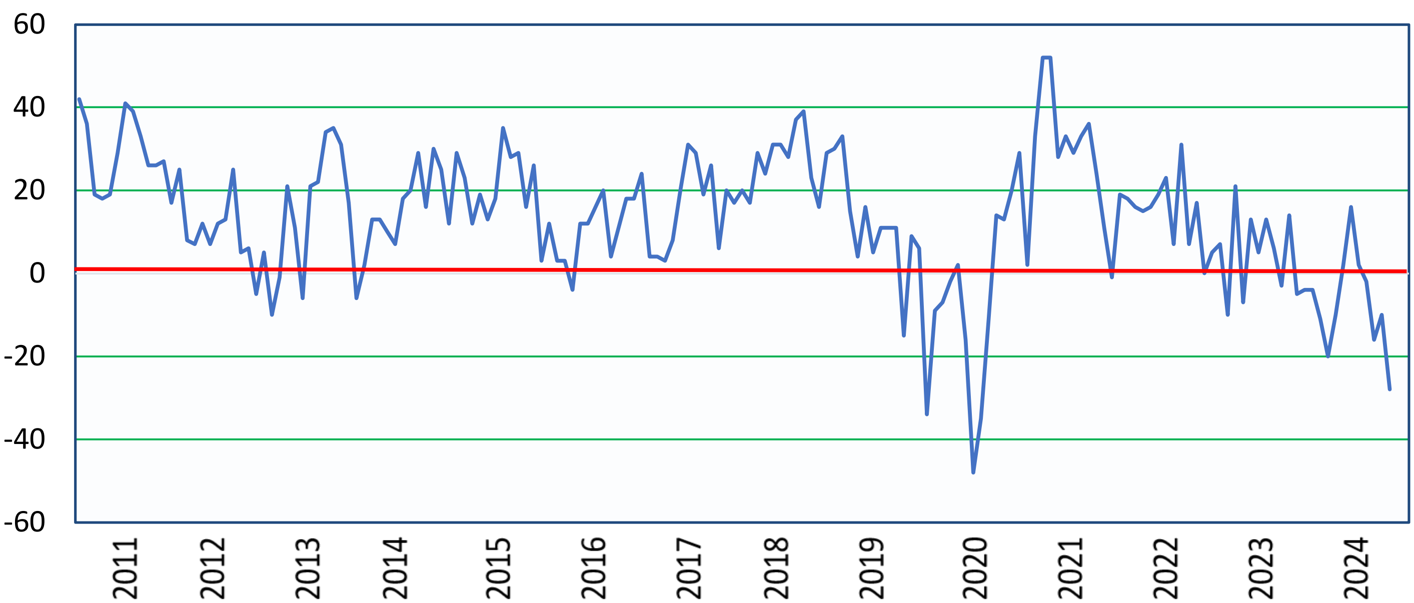
West Michigan Index of New Orders: 2008-2024

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.



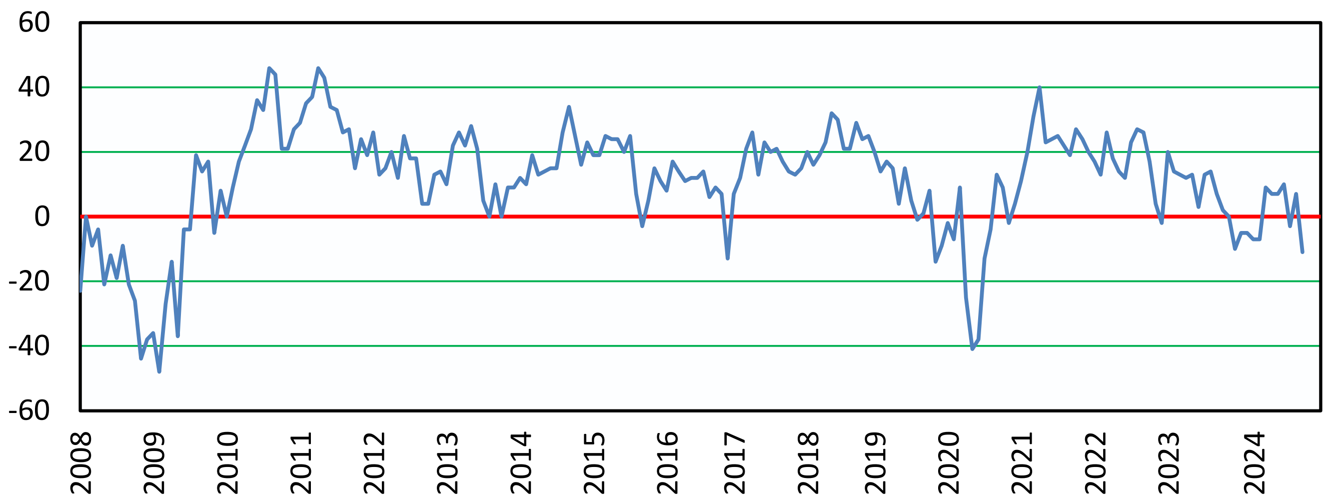
West Michigan Index of Production (Output): 2008-2024

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.