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West Michigan Current Business Trends

November 7, 2024

Rate of Decline Moderates Significantly

Key Take-Aways from October 2024 Statistics:

- **NEW ORDERS Returned to Near Break-Even.**
- **National and International Industrial Economies Remain Modestly Negative**
- **A Possible "Soft Landing " Returns, But Not Yet**

	Oct.	Sept.
NEW ORDERS Index (business improvement)	- 2	-23
PRODUCTION Index (aka "output")	- 9	-28
EMPLOYMENT Index	+ 3	- 11
LEAD TIMES Index	- 11	- 9

Key Participant Comments for October:

"We are seeing heavy discounting in the machine tool market to win business."

"Automotive is very unpredictable. Some orders are up and some are way down, but we remain behind on deliveries. So for now, we are busy. Holidays will be interesting…"

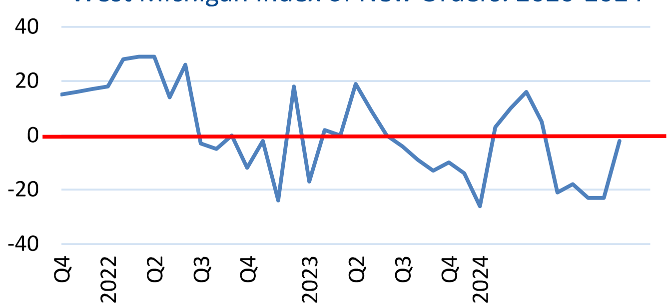
"Business has softened considerably in the last month in multiple markets. We are hopeful for an uptick once the election is behind us."

"Our business is slow right now and will likely not pick up as we go into the holiday season. Automotive EV's are not selling as the OEM's have hoped, so programs are being delayed or cancelled."

"We're steady. Not great, but moving along well."

The Local Economy. After four months of negative economic numbers, the October survey for West Michigan purchasing managers is now approaching a break-even point. NEW ORDERS, our index of business improvement, rebounded to – 2 from September's -23. The PRODUCTION Index, a.k.a. "output," remained negative but recovered to -9 from -28. Activity in the purchasing offices, our index of PURCHASES, also remained negative but rallied to -16 from -33. Although one month does not constitute a trend, we can hope that the latent fear of a recession MAY be subsiding, inflation may be stabilizing, and the widely anticipated soft landing may still be possible. However, we have not "landed" until inflation CONVINCINGLY returns to the Federal Reserve's target of 2 percent level, and we simply aren't there yet.

West Michigan Index of New Orders: 2020-2024



The Federal Reserve began raising interest rates nearly three years ago with the hope of curbing the first significant bout of inflation in over thirty years. Stopping inflation has taken much longer than the Federal Reserve had anticipated. We expected the economy to modestly soften and avoid a recession could still be avoided. If the West Michigan survey had continued to soften at the rate reported last month, we might have feared that we were inching toward the long-awaited recession that has been threatened for the last two years. Instead, the results from our survey bolster the prediction that the Federal Reserve may still be able to conquer inflation without spawning a recession. In West Michigan, our automotive parts producers are hoping that the modest uptick in auto sales will continue, and many of this month's anecdotal comments from other industries are also sounding cautiously optimistic.

The U.S. Economy. Historically, the report from the Institute for Supply Management has been a significant barometer of an impending recession. However, in most of these instances, the downtick has been much more significant than the current ISM report suggests. The October NEW ORDERS Index for the U.S. economy again posted at -9, identical to the readings from July, August, and September. ISM's PRODUCTION Index eased to -6 from -4, again at a level that is far more characteristic of a slowdown than a recession. However, inventories that were built in response to the pandemic and snarled logistics system are still being liquidated. The October INVENTORIES Index eased to -13 from -11, which implies that firms do not anticipate a pickup in the NEW ORDERS Index very soon. ISM's ORDER BACKLOG Index edged lower to -15 from -12, which also implies that many firms are justifiably concerned about future production schedules. Just like last month, the softer world economy left the ISM index of NEW EXPORT ORDERS at -9. ISM's October Manufacturing PMI, which aggregates seven of ISM's primary statistics, posted at 46.5, down from 47.2, largely because of seasonal adjustments.

The report from S&P Global, the British-based economic consulting firm which also surveys U.S. purchasing managers, came in more optimistic. The October PMI for the U.S. remained below the critical break-even point of 50.0 but rose to 48.5 from September's 47.3. Both NEW ORDERS and PRODUCTION indices remain modestly below the break-even point. Just like the ISM report, the S&P Global survey for the U.S. appears to be headed in the right direction for a soft landing, but we still have a few more months to go before declaring victory. Chris Williamson, Chief Business Economist at S&P, further noted:

> "The U.S. manufacturing downturn extended into its fourth successive month in October, marking a disappointing start to the fourth quarter for the goods-producing sector. Although the rate of decline moderated, order books continued to deteriorate at a worryingly steep pace, and a further build-up of unsold stock hints at further production cuts at factories in the coming months unless demand revives. The survey does, however, provide some encouragement that the current soft patch could prove short-lived. Hurricanes have been blamed for supply disruptions, which should therefore ease in November, and manufacturers are feeling more positive about the outlook than at any time since May, hoping that demand will pick up once the uncertainty generated by the Presidential Election clears. It's notable that orders for investment goods such as plant and machinery have fallen especially sharply in recent months. Headcounts have also been cut for a third straight month, underscoring the reluctance among firms to expand in the face of heightened geopolitical uncertainty, with firms citing tensions around the U.S. election as well as intensifying international conflicts. There is therefore some potential upside to the manufacturing sector if the political environment becomes more conducive to spending and investment after the election."

The World Economy. For October, the J.P. Morgan Worldwide Manufacturing Index remained modestly negative at 49.4 but showed improvement over September's 48.7. NEW ORDERS, which had eased modestly in September to 47.2, upticked to 48.8. By crossing the 50.0 break-even barrier, JPM's October OUTPUT Index came in marginally positive at 50.1, up from 49.2 and is the first positive reading since June. For our closest trading partners, the October composite PMI for Canada upticked to 51.1 from 50.4. For Mexico, our second largest trading partner, the PMI remained negative for the fourth successive month but rose to 48.5 from 47.3. The PMI for China edged up to 50.3 from 49.3, marking nearly two years of readings that have oscillated back and forth around the 50.0 break-even point. Bennett Parrish, Global Economist at J.P. Morgan, further noted:

> "The recent lacklustre performance of global industry contributed to subdued business optimism during October. Sentiment remained close to September's 22-month low. Job losses were registered for the third month in a row, with the rate of decline the steepest since August 2020. Cuts were initiated in China, the US and the euro area (among others), while Canada, the UK, India and Brazil were some of the regions to register jobs growth."

For the world economy, the Eurozone continues to be a soft spot. However, the PMI for October reported by the Hamburg Commercia Bank (HCB) posted a modest uptick to 46.0, up from a previous nine-month low of 45.0. This month's Eurozone average was aided by a recovery of the PMI for Germany, which bounced off September's 12-month low of 40.6 and upticked to 43.0. In addition to Spain and Greece, the PMI for Ireland also returned to the first positive reading in many months. Dr. Cyrus de la Rubia, Chief Economist at HCB, further noted:

> "There is one bit of good news in these numbers: the recession in the manufacturing sector did not deepen further in October. Production dropped at a slower pace than in the previous month, and new orders fell less sharply. As a result, according to our GDP nowcast, which takes into account numerous other indicators in addition to the PMI, industry output could shrink by 0.1% in the fourth quarter. It is not encouraging that inventory drawdowns for purchased materials continue at an unusually high pace. The COVID-19 crisis is still leaving its mark here. The ongoing reduction in inventories is obviously related to the fact that companies purchased and stockpiled materials and intermediate goods at an unprecedented scale in 2021 and 2022. Sluggish global demand gives companies no reason to restock, which in turn weighs on the economy."

Automotive. The latest edition of *Automotive News* reports that the October SAAR (Seasonally Adjusted Annualized Rate) compiled by GlobalData posted at 16.0 million units, and the corresponding annual estimate by S&P Global remained at 15.9 million units. Despite higher interest rates and escalating prices, the widely feared weakening of auto sales has not yet materialized. For the firms still reporting monthly, October year-over-year sales at Ford were up 15.4 percent, Hyundai-Kia, 17.4 percent, and Subaru, gaining 1.5 percent. Sales for Toyota were down by 5.0 percent, largely because of almost-empty dealer lots caused by underproduction. Looking forward, Jessica Caldwell, Edmunds' head of insights, further noted:

> "November traditionally marks the beginning of the holiday sales event season for the automotive industry. This period often sees a focus on premium vehicles, accompanied by manufacturer-backed lease incentives and pricing discounts. As the number of leases expiring in November and December is projected to be nearly 40 percent lower than the same period a year ago, this holiday season may require innovative strategies to entice customers into acquiring a new vehicle."

Business and Consumer Confidence. On October 29, the *Conference Board* announced that the Consumer Confidence Index has now risen to 108.9, up sharply from September's 99.2. Quoting Dana M. Peterson, Chief Economist at The Conference Board, "Views on the current availability of jobs rebounded after several months of weakness, potentially reflecting better labor market data. Compared to last month, consumers were substantially more optimistic about future business conditions and remained positive about future income." A more modestly positive report was also posted by the University of Michigan Consumer Sentiment Index, which edged up in October to 70.5 from 70.1. Striking a cautiously optimistic note, the survey author noted, "Year-ahead inflation expectations were unchanged from last month at 2.7%. The current reading falls within the 2.3-3.0% range seen in the two years prior to the pandemic. Long-run inflation expectations edged down from 3.1% last month to 3.0% this month." 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, remained negative at -9, but up from August's -14. However, the LONG-TERM BUSINESS OUTLOOK Index, which queries the perceptions for the next three to five years, rose nicely to +35 from +22. Again, these numbers confirm the feeling that the current minor softness in the economy is temporary.

West Michigan Unemployment. After dipping to -11 in September, our West Michigan EMPLOYMENT Index for October returned to a positive reading of +3. Hence, we can consider our present local employment situation to be stable. At the national level, the ISM index of EMPLOYMENT remained soft but recovered modestly to -11 from -15. According to the official statistics from the Michigan Department of Technology, Management & Budget (DTMB), the unemployment rate in West Michigan continues to edge higher. Looking at the major West Michigan counties, the

September (latest month available) year-over-year unemployment rate for Ottawa County posted at 3.3, slightly higher than the September 2023 reading. of 3.1 percent. For Allegan County, the unemployment rate posted at 3.4 percent, Kent County, 3.5 percent, and Kalamazoo County, 4.0 percent. Bowing to higher interest rates, all of our local cities and counties in the September DTMB reported modest increases in unemployment.

Industrial Inflation. For October, the West Michigan index of PRICES posted at -4, marginally changed from September's -2. At the national level, the ISM index for PRICES bounced from -4 up to +10. However, S&P Global, which tracks both worldwide price pressures and supply pressures, reported that the S&P Price Pressure Index for October remains unchanged and "broadly muted" at 0.6, a six-month low. The Global Supply Shortage Index dropped to 0.5, a 58-month low. For October, the GSSI index edged up to 0.6. Industrial inflation appears to be under control, and the lists of commodities in short supply or rising in price continues to shorten. Usamah Bhatti, Economist at S&P Global Market Intelligence, further commented:

"Price and supply pressures remained subdued in October, with both metrics solidly below their respective long-run averages. The broadly muted reading of global price pressures was in line with a gradual easing of input price inflation across the global manufacturing sector, which PMI data showed was unchanged from September's six-month low and softer than the pre-pandemic average. Bucking the wider trend in October was a renewed rise in reported shortfalls of transport. Pressure on transport capacity came amid global reports of extreme weather, including hurricanes in the US and typhoons across the Asia-Pacific region."

Consumer Inflation. Clearly, the rate of inflation is sluggishly falling. However, the Federal Reserve continues to warn that we are still not at the point that interest rates can be precipitously dropped like some have hoped. The most recent report from the Bureau of Labor Statistics (BLS) reported that the "headline" Consumer Price Index (CPI) for the 12 months ending in September fell to 2.4 percent from 2.5 percent. However, excluding food and energy, the "core" CPI which is always included in the same press release, rose to 3.3 percent from 3.2 percent. Needless to say, the Fed is waiting for BOTH of these measures to return to the 2.0 percent range before considering inflation under control. The companion inflation report, the Personal Consumption Expenditures Index or PCE compiled by the Bureau of Economic Analysis (BEA) posted a decline to 2.1 percent from 2.3 percent. The core PCE, which also excludes food and energy, remained unchanged at 2.7 percent. Again, it is still too soon to declare that inflation has been conquered.

The cost of housing or "shelter," which constitutes the largest part of the BLS calculation for the CPI, is very slowly heading in the right direction. Quoting the second paragraph of the BLS press release, "The index for shelter rose 0.2 percent in September, and the index for food increased 0.4 percent. Together, these two indexes contributed over 75 percent of the monthly "all items" (headline) increase." Rents are now rising at a more normal rate, and the September Zillow Rent Increase Index edged marginally lower to 3.31 percent from 3.35 percent. As always, a more optimistic rental report comes from Realtor.com which posted a modest rental rate decline of -0.5 percent, slightly better than last month's -0.3 percent downtick. Improvement in this part of the CPI is on the way, but it is worth repeating that the closely watched headline CPI is a year-over-year calculation, and it takes 12-18 months before the lower rents are finally reflected in the current inflation data.

GDP. For the overall health of the U.S. economy, this month's big news is that the BEA's "advance" estimate for third quarter growth in the U.S. economy came in at 2.8 percent, only a scant below the 3.0 percent growth rate for the second quarter. It is noteworthy that many of the professional forecasters were predicting a less optimistic growth rate, and the higher number was attributed to more consumer spending. As always, the forecasters now focus on the possible GDP for the fourth quarter. Barring a cataclysmic event, a recession starting in the fourth quarter seems almost impossible. As of November 5, the Atlanta Federal Reserve's GDPNow mathematical forecast model for Q4 rested at 2.4 percent growth. A slightly less optimistic Q4 forecast of 1.9 percent growth comes from this month's Blue Chip GDP Realtime model. The Federal Reserve Bank of Philadelphia, which conducts a survey of professional forecasters, lowered this month's Q4 forecast to a growth rate of 1.7 percent from 1.9 percent. Given that many forecasters were surprised by the strong third quarter performance, they generally feel that the year will end slightly less robust. Looking much farther ahead, the economists at Deloitte Research are predicting a GDP growth rate of 2.5% per year on average for all of 2024–2028. This is 0.5 percentage points higher than Deloitte's previous forecasts and does not take into consideration all the changes that may occur in the economy, both good and bad, over this extended period. At some point, it seems inevitable that higher interest rates and higher prices should restrict the growth rate more than they have so far. However, to quote Yogi Berra, "It's tough to make predictions, especially about the future."

Looking Forward. Finally, the election of 2024 is over. Despite the uptick in the stock market, history has shown that most changes promised by an incoming president take time. It was Jimmy Carter in one of his post-term interviews that lamented that the executive branch of government can do little to influence the short-term economy, except to be a cheerleader. However, he noted that the president CAN influence long-term economic policy, but these actions usually take months or years before the impact can be registered.

Our focus now shifts to scrutinizing all the incoming economic data with the hope that inflation continues to return to normal while the economy remains stable. The Federal Reserve has clearly stated that some softness in employment should be expected, and so far, the national unemployment rate of 4.1 percent is not excessive. In fact, some economists now argue that 4.0 percent unemployment should now be considered full employment. To be on the safe side, the Fed is expected to again lower interest rates by a quarter point. Overall, we are on track to finish 2024 on a positive note.

October 2024 Survey Statistics

	UP	SAME	DOWN	N/A	Oct. Index	Sept. Index	Aug. Index	25 Year Average
Sales (New Orders)	27%	44%	29%	0%	- 2	-23	-23	+14
Production (Gross Output)	9%	69%	18%	4%	- 9	-28	-10	+14
Employment	16%	71%	13%	0%	+ 3	- 11	+ 7	+ 8
Purchases	11%	62%	27%	0%	-16	-33	-18	+ 7
Prices Paid (major commodities)	9%	78%	13%	0%	- 4	- 2	- 7	+15
Lead Times (from suppliers)	2%	85%	13%	0%	-11	- 9	-18	+11
Purchased Materials Inv. (Raw materials & supplies)	11%	56%	22%	11%	-11	- 12	+ 5	- 4
Finished Goods Inventory	13%	54%	24%	9%	-11	- 7	+ 0	- 2
Short Term Business Outlook (Next 3-6 months)	20%	51%	29%	0%	- 9	-14	-12	-
Long Term Business Outlook (Next 3-5 years)	51%	42%	7%	4%	+44	+35	+ 22	-

Items in short supply:

Fabric, colorant (masterbatch), hemp, controls, electrical engineers.

Prices on the UP side:

Steel, fuel (gasoline and diesel), PA6 nylon, aluminum, logistics charges, international container charges.

Prices on the DOWN side:

Steel*, carbon steel, aluminum*, copper, brass, freight cost*, polypropylene, ABS resin, machine tools.

*Item reported as both up AND down in price

Latest Unemployment Reports:

(Except as noted, data are NOT seasonally adjusted)

	Sept. 2024	Sept. 2023	Aug. 2009	20-Year Low
State of Michigan (Sept.)	4.5%	4.1%	14.6%	3.2%
State of Michigan (Unadj.)	4.2%	3.8%	14.1%	2.9%
Kent County3.5%	3.2%	11.9%	2.1%	
Kalamazoo County	4.0%	3.7%	11.1%	2.1%
Calhoun County	4.9%	4.2%	12.8%	2.7%
Ottawa County	3.3%	3.1%	13.3%	1.8%
Barry County	3.6%	3.3%	10.9%	2.2%
Kalamazoo City	5.0%	4.6%	15.2%	3.2%
Portage City	3.7%	3.4%	8.7%	1.3%
Grand Rapids City	4.7%	4.3%	16.1%	3.0%
Kentwood City	3.3%	3.1%	10.7%	1.4%
Plainfield Twp.	2.7%	2.4%	8.0%	1.4%
U.S. Official Rate (Sept.)	4.1%	3.8%	9.6%	3.4%
U.S. Rate (Unadjusted)	3.9%	3.6%	9.6%	3.1%
U.S. U-6 Rate (Sept.)**	7.7%	7.0%	22.9%	6.7%

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

OCTOBER COMMENTS FROM SURVEY PARTICIPANTS

"We are seeing heavy discounting in the machine tool market to win business."

"Hemp continues to be hard to come by. In 2018 many farms converted to hemp, and that saturated the market with an overabundance of hemp. So, they dropped out. Now we have very few farms growing hemp. However, the demand is growing while the supply goes down."

"We continue to seek new and different opportunities to try and offset the current downward trend for existing sales and products."

"Automotive is very unpredictable. Some orders are up, and some are way down, but we remain behind on deliveries. So, for now, we are busy. Holidays will be interesting…"

"Generalized nervousness about election outcomes and the Fed's strategy on interest rates/inflation are weighing heavy. Investments in inventory and capital equipment (outside of what's required to maintain current demand volumes) are on hold for both us and our customers until the picture clears a bit."

"We're steady. Not great, but moving along well."

"Business has softened considerably in the last month in multiple markets. We are hopeful for an uptick once the election is behind us."

"Overall, there's no big changes in the hemp world. We are hopeful that hemp continues to grow as a sustainable resource. Hemp clothing, bags, hats, jewelry as well as medicine continue to sell well. Hempcrete (like concrete) is growing in popularity as well as hemp wood, fuel and food are continuing to gain more attention for its sustainable properties."

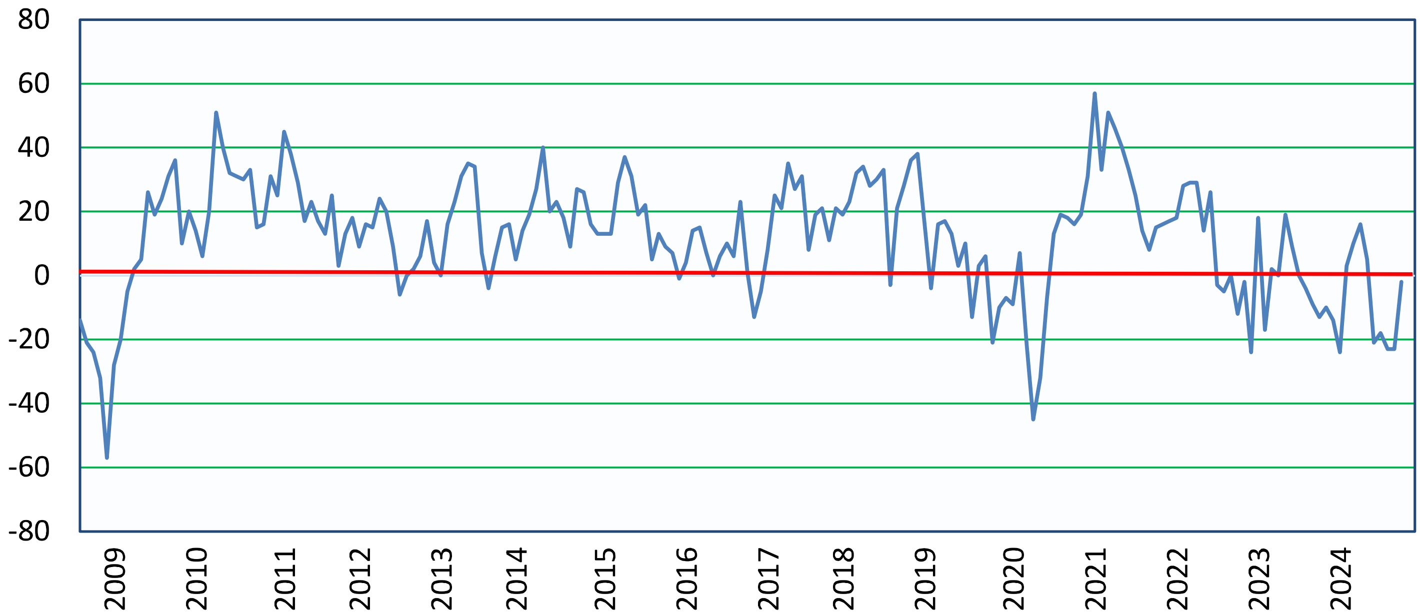
"Hurricanes are driving a spike in demand for certain storm related items."

"Incoming orders have been below forecast for 4 months straight. Sales staff is still saying they will make it up, but it seems unlikely. The election is holding up quite a few projects that would really help."

"Our business is slow right now and will likely not pick up as we go into the holiday season. Automotive EV's are not selling as the OEM's have hoped, so programs are being delayed or cancelled."

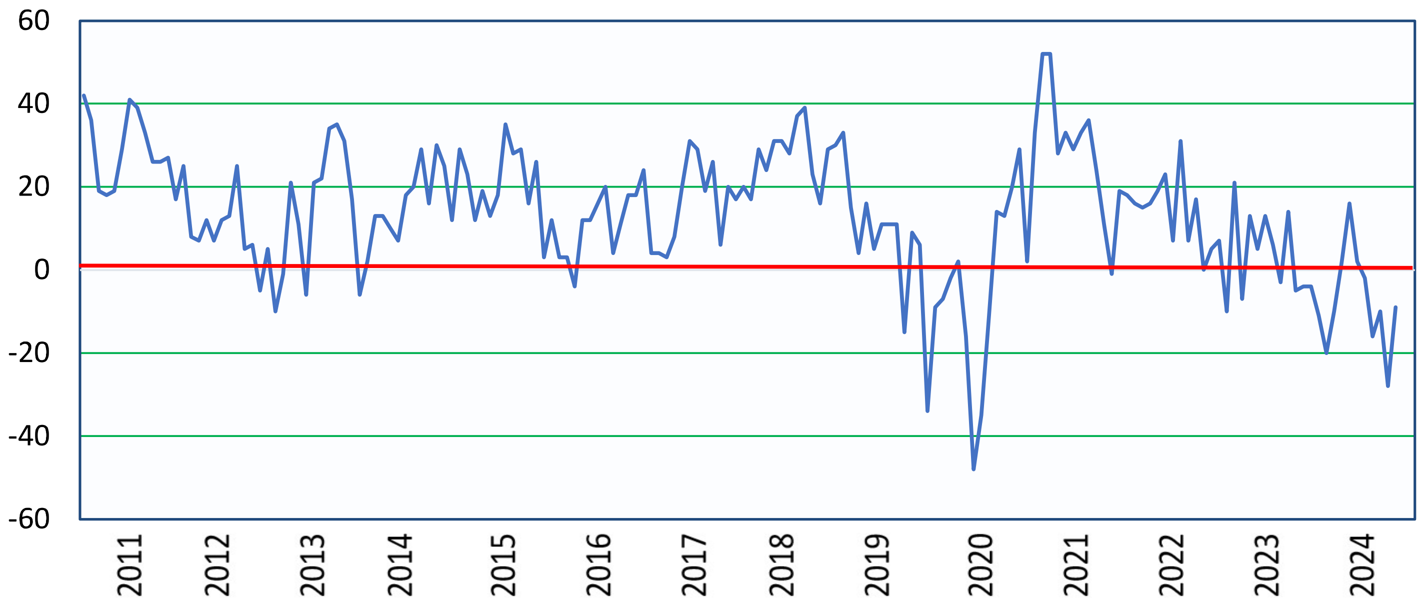
West Michigan Index of New Orders: 2008-2024

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.



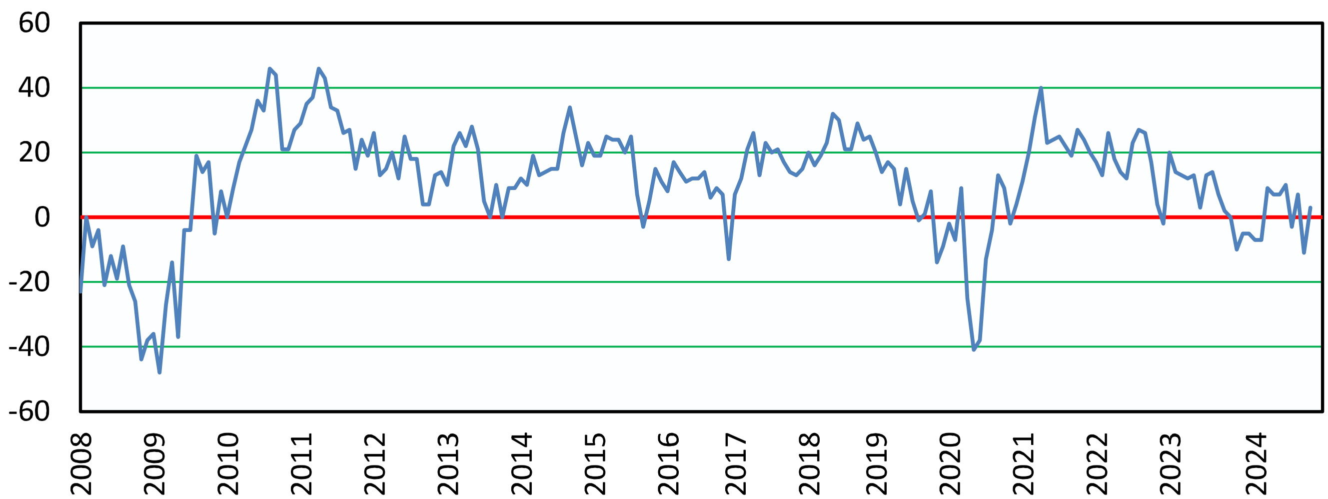
West Michigan Index of Production (Output): 2008-2024

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.