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# West Michigan Current Business Trends

December 9, 2024

## Modest Growth Returns!

### Key Take-Aways from November 2024 Statistics:

- **NEW ORDERS and PRODUCTION Returned to Positive.**
- **National and International Industrial Economies Also Improve.**
- **Long Term Index Business Outlook Index Hits a Seven-Year High.**

| | Nov. | Oct. |
|---|---|---|
| NEW ORDERS Index (business improvement) | + 6 | - 2 |
| PRODUCTION Index (aka "output") | + 6 | - 9 |
| EMPLOYMENT Index | - 2 | + 3 |
| LEAD TIMES Index | + 0 | - 11 |

### Key Participant Comments for November:

*"We had many prospects holding their decisions to purchase capital equipment until after the election. We are now seeing increased quoting activity. We believe that prospects wanted some understanding of the economic climate before moving forward."*

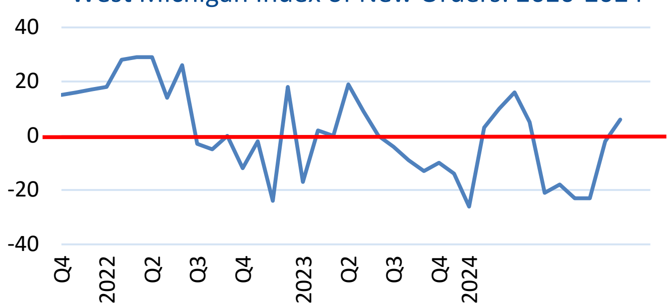
*"The automotive market has taken a big hit in this slow period. We are now waiting on revamped models that are not electric vehicles anymore to start production. This will cause us to ramp back up in work."*

*"Sales remain stable to slightly above plan. The big focus at the moment is preparing for Trump's tariffs. We expect China to be hit with additional tariffs, but we're not sure about the rest of the world."*

*"We are seeing a fourth quarter spike for the first time since Covid, which is very promising. We are cautious yet very hopeful that the post- election excitement continues in 2025 and beyond."*

**The Local Economy**. After four months of negative reports, last month's October survey for West Michigan purchasing managers approached the break-even point. For November, the report returned to positive, dismissing any notion of a pending recession. NEW ORDERS, our index of business improvement, rose to +6 from -2. In addition, our PRODUCTION Index, a.k.a. "output," bounced to +6 from -9. However, the index of PURCHASES posted negative at -6, albeit improving over October's reading of -16. Although the fear of a recession that we have been hearing from "reputable" sources for the past three years continues to subside, the Federal Reserve's battle against inflation is still not won, even though there is evidence that inflation may be stabilizing. Both major

West Michigan Index of New Orders: 2020-2024




surveys of the U.S. industrial market also continue to improve, as does the survey of the world economy. However, the geopolitical situation, with two wars that are still unsettled, could escalate and upset the economy sometime in 2025.

**The U.S. Economy**. In the industrial market, business improvement (or business decline) can be monitored by watching ISM's Index of NEW ORDERS. Past history has shown than a double-digit drop in this index has often been followed by a recession commencing within a couple of months after the drop. Most recently, ISM's NEW ORDERS Index posted at an identical reading of -9 for July, August, September, and October. Although the industrial economy was clearly slowing over this past spring and summer, the survey was still forecasting a slowdown, not a recession. The ISM November NEW ORDERS reading of -4 validates the notion of an economy that continues to slow in response to the Federal Reserve's higher interest rates. In confirmation, ISM's November PRODUCTION Index remained negative but modestly recovered to -5 from -7. ISM's November EMPLOYMENT Index also stayed negative but edged up to -6 from -11. In recent years, many firms built their production inventories to higher levels in anticipation of potential supply chain shortages. According to the November ISM index of INVENTORIES, these materials are still being liquidated, given that the index remains negative at -6. Because of the impending threat of future federal tariffs, we can expect this index to rise in coming months. ISM's ORDER BACKLOG Index edged lower to -17 from -15, which implies that many firms are justifiably concerned about future production schedules.

Better news came from the ISM index of NEW EXPORT ORDERS, which remained negative but edged up to -3 from -9. ISM's October Manufacturing PMI, which aggregates seven of ISM's primary statistics, posted at 48.4, up from 46.5, largely reflecting aforementioned improved indices and seasonal adjustments.

A somewhat more optimistic report for the November industrial economy was posted on December 2 by S&P Global, the British-based economic consulting firm which also surveys U.S. purchasing managers. The latest PMI for the U.S. recovered from October's 48.5 up to the critical break-even point of 50.0. However, both NEW ORDERS and PRODUCTION indices remain modestly below the break-even point. Although the S&P survey for the U.S. is clearly headed in the right direction, we still need to see several reports above the 50.0 beak-even point before declaring the U.S. industrial economy to be positive. Chris Williamson, Chief Business Economist at S&P, further noted:

"The mood among U.S. manufacturers brightened in November, though any feel-good factor has yet to feed through to higher output on the factory floor. Optimism about the year ahead has improved to a level not beaten in two and a half years, buoyed by the lifting of uncertainty seen in the lead up to the election, as well as the prospect of stronger economic growth and greater protectionism against foreign competition under the new Trump administration in 2025. In contrast, current production levels fell for a fourth straight month in November, dropping at a rate not exceeded for nearly one and a half years. The gap between expected future output and actual current output is now the widest seen for a decade if the pandemic is excluded, underscoring the marked divergence between tough current conditions and the mounting expectation of better times to come. The promise of protectionism has meanwhile led to an increase in input buying by some U.S. producers, as they seek to front-run price hikes on imports from threatened tariffs. One in four companies reporting higher input purchases in November attributed the rise to tariff threats, underlying U.S. manufacturers' concerns over the inflationary impact of tariffs."

**The World Economy.** According to the November J.P. Morgan (JPM) Worldwide Manufacturing Index, the world economy is also headed in the right direction. After reporting 48.7 in September and 49.4 for October, the November index returned to the break-even point of 50.0 for the first time in several months. NEW ORDERS rose nicely to 50.1 from 48.9. JPM's OUTPUT Index, which upticked to 50.1 in October, rose to 50.4 in November. The PMI for Canada, our most significant trading partner, rose to 52.0 from 51.1. For Mexico, the second largest U.S. trading partner, the PMI posted at 49.9, almost back to break-even. The PMI for China edged up to 51.5 from 50.3, reflecting one of the best reports in the past two years. Bennett Parrish, Global Economist at JPM, further noted:

"November saw the global manufacturing sector stabilize following four months of contraction. At 50.0, up from 49.4 in October, the J.P.Morgan Global Manufacturing PMI signalled no change in operating conditions, albeit with marked regional differences apparent. Improved business conditions in mainland China and the rest of Asia contrasted with a deepening downturn in the Eurozone. Conditions came close to stabilising in the United States. November saw the level of incoming new business rise for the first time in five months, albeit only marginally. The trend in international trade flows remained weak, however, as intakes of new export work contracted for the sixth consecutive month."

One dark spot in the world economy continues to be the eurozone. Following a modest uptick to 46.0 in October, the PMI for November reported by the Hamburg Commercia Bank (HCB) edged lower to 45.2, fairly close to the recent nine-month low of 45.0. The PMI for Germany, the region's largest economy, posted unchanged at 43.0. The PMIs for both Spain and Greece remain positive, but the PMI for Ireland slipped to 49.9. In addition to the recent political upheaval, the PMI for France sank to a 10-month low of 43.1. Dr. Cyrus de la Rubia, Chief Economist at HCB, further noted:

"These numbers look terrible. It's like the eurozone's manufacturing recession is never going to end. As new orders fell fast and at an accelerated pace, there's no sign of a recovery anytime soon. According to our nowcast, the manufacturing sector's output is going to decrease by 0.7% in the fourth quarter compared to the previous quarter. This slump is likely going to drag into next year. The downturn is widespread, hitting all of the top three eurozone countries. Germany and France are faring the worst, and Italy is not doing much better. By main industrial grouping, it's the capital goods sector which is taking the biggest hit. The inventory cycle is not looking good. Stocks of both materials and finished goods continue to decline, extending the near two-year destocking process. When the cycle finally turns, we can expect demand to spike, but that doesn't seem to be happening anytime soon."

**Automotive**. We obviously do not assemble cars or trucks in West Michigan, but our automotive partes producers nonetheless comprise our largest cyclical industry. Hence, increased auto sales leads to a better economy for West Michigan. In the December 2 edition of *Automotive News*, the November SAAR (Seasonally Adjusted Annualized Rate) compiled by GlobalData posted at 16.7 million units, and the corresponding annual estimate by S&P Global has now risen to 16.0 million units, a 4 percent increase over 2023. Despite higher interest rates and escalating prices, the November year-over-year sales at Ford and Honda were both up 14.5 percent. Sales at Hyundai-Kia rose 14.7 percent, and Subaru sales gained 8.2 percent. Reversing last month's loss of 5.0 percent, sales for Toyota were up 4.0 percent. According to Charlie Chesbough at Cox Automotive:

"The consumer may surprise us a bit in the coming months. There may be more pent-up demand than we imagined, as consumers put the national election behind them and take stock of the better loan rates, improved financing deals and a lot more incentives. After a relatively slow summer, the retail market seems to be coming alive at year's end."

**Business and Consumer Confidence.** For the U.S. economy, there is an apparent new wave of optimism following the election. The Conference Board Consumer Confidence Index increased in November to 111.7 (1985=100), up 2.1 points from 109.6 in October. According to Dana M. Peterson, Chief Economist at The Conference Board, "Consumer confidence continued to improve in November and reached the top of the range that has prevailed over the past two years. November's increase was mainly driven by more positive consumer assessments of the present situation, particularly regarding the labor market. Compared to October, consumers were also substantially more optimistic about future job availability, which reached its highest level in almost three years."

Just as last month, a more modestly positive report was also posted by the University of Michigan Consumer Sentiment Index, which edged up in November to 71.8 from 70.5. 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 news is very positive. The SHORT-TERM BUSINESS OUTLOOK Index, which asks local firms about their business perceptions for the next three to six months, posted at +16, the strongest reading in over seven months. However, the LONG-TERM BUSINESS OUTLOOK Index, which queries the perceptions for the next three to five years, bounced to +53, the highest the index has been in seven years.

**West Michigan Unemployment**. After returning to a positive reading of +3 in October, our West Michigan EMPLOYMENT Index posted modestly negative at -2 in November. At the national level, the ISM index of EMPLOYMENT remained soft but modestly recovered to -6 from -11. The official statistics from the Michigan

Department of Technology, Management & Budget (DTMB) continue to depict the state unemployment rate rising, but the West Michigan unemployment continues to rise at a slower rate.

Looking at the major West Michigan counties, the October (latest month available) year-over-year unemployment rate for Ottawa County posted at 3.3 percent, slightly higher than October 2023's 2.9 percent. For Allegan County, the unemployment rate came in at 3.6 percent, Kent County, 4.1 percent, and Kalamazoo County, 4.0 percent. By contrast, the official state unemployment rate for October has risen to 4.7 percent, and the national rate currently stands at 4.2 percent. For West Michigan, much of the slight rise in unemployment can be attributed to the auto industry, although this segment of the economy is far from falling into a recession. From the national news, it is somewhat obvious that the West Michigan economy is not receiving any help from our other cyclical industries, namely office furniture and aerospace, which are stable but not expanding.

**Industrial Inflation.** For November, the West Michigan index of PRICES bounced upward to +11 from -4. In reverse, November's ISM index for PRICES declined to +0 from +10. However, at the world level, S&P Global, which tracks both worldwide price pressures and supply pressures, reported that the S&P Price Pressure Index for November remains unchanged and "broadly muted" at a seven-month low of 0.6. The Global Supply Shortage Index for November remained unchanged at 0.6, only a notch ahead of the 58-month low of 0.5 posted in September. At present, the list of commodities rising in price is the shortest it has been in many years, implying that MOST industrial inflation currently appears to be under control. One significant exception is aluminum. Usamah Bhatti, Economist at S&P Global Market Intelligence, further commented:

> "Pressure on global manufacturing supply chains remained subdued in the penultimate month of 2024, with reports of supplier shortfalls around half the normal level. Latest data highlighted some shortages for Textiles and Aluminium, with reports on the latter rising above the long-run average for the first time since October 2023. Aluminium also saw one of the highest number of reports of increasing prices in November, with price pressures around one-and-a-half times the long-run trend. That said, this was far removed from the record levels seen three years ago, and coincided with broadly muted pressure on commodity prices across the global manufacturing sector. Prices also increased sharply for Food and Textiles, but fell for Polypropylene and Steel. In fact, steel prices have now reportedly fallen in each of the last five months."

**Consumer Inflation**. The recent news cycle on many occasions tells us that the Federal Reserve is in no hurry to drop interest rates precipitously. Like a campfire that is not fully extinguished, history from the 1970's has shown that dropping rates before inflation is FULLY subdued can result an unexpected resurgence. The November 13 report from the Bureau of Labor Statistics (BLS) stated that the "headline" Consumer Price Index (CPI) for the 12 months ending in October rose unexpectedly to 2.6 percent from 2.4 percent. Excluding food and energy, the "core" CPI remained unchanged at 3.3. In confirmation, the "Fed preferred" inflation released November 29 by the Bureau of Economic Analysis (BEA), reported that the Personal Consumption Expenditures Index or PCE unfortunately rose to 2.3 percent from 2.1 percent. Congruently, the core PCE, which also excludes food and energy, edged up to 2.8 percent from 2.7 percent. Even though inflation has clearly subsided from the stifling levels of a few months ago, the November statistics are further evidence that the fight against inflation has not yet been won. Needless to say, the Fed is waiting for BOTH the BLS and BEA inflation gauges to return to the 2.0 percent range before considering inflation under control. Unfortunately, this may put the Fed at odds with the incoming administration in January.

Looking again at the cost of housing or "shelter," which constitutes the largest part of the BLS calculation for the CPI, the October report posted at 0.4 percent, or 4.8 percent on an annualized basis. The BLS press release makes it very clear that over half of the monthly headline inflation statistic for October can be attributed to this single index component. The November Zillow Rent Increase Index edged marginally lower to 3.27 percent from 3.32 percent. Although the current rate of rental increases is FAR below the 12.89 percent rate of only two years ago, the 3.27percent reading is close to the its long-term average. In addition, the BLS makes it clear that it takes 12-18 months for the past rental contracts to expire and be reflected in the "shelter" component of the CPI. A more optimistic rental report was posted on November 22 by Realtor.com:

> "In October 2024, the U.S. median rent continued to decline year-over-year for the fifteenth month in a row, down $14 or -0.8% year-over-year for 0-2 bedroom properties across the top 50 metros, faster than the rate of -0.5% seen in September 2024. The median asking rent was $1,720, down by $23 from last month, reflecting a similar seasonal trend as observed in the for-sale market. Further, the relative steadiness in rents should translate into slower shelter inflation in the months ahead, alleviating one of the biggest recent drivers of rising prices."

**GDP.** Calculation of the GDP by the BLS has clearly improved in recent years, resulting in fewer significant revisions. Hence, the second estimate for the growth of the U.S. GDP posted on November 27 came in unchanged at 2.8 percent. With only a few days to go in the last quarter of 2025, many forecasts are now being posted. According to the Atlanta Federal Reserve's GDPNow mathematical forecast model, the projected Q4 estimate stands at 3.2 percent. As always, a less optimistic forecast comes from this month's Blue Chip GDP Realtime model which now posts at 2.1 percent. The Federal Reserve Bank of Philadelphia, which conducts a monthly survey of professional forecasters, predict the economy will expand at an annual rate of 2.2 percent in the current quarter and 1.9 percent in the first quarter of 2025. Although many forecasters were surprised by the strong third quarter performance and still feel that the year will end slightly less robust, the post-election wave of confidence may bring a surprise.

**Looking Forward.** Businesses hate uncertainty. Regardless of the November 5 outcome, we expected to feel relief that the election was over, resulting in the path forward now being at least more predictable. However, almost no one anticipated the magnitude of the positive reactions that have emerged over the past four weeks to another Trump presidency. The stock market has boomed, and the industrial market indices at the national and international levels have significantly improved. Consumer confidence has also picked up. Locally, West Michigan survey returned to positive for the first time in six months, and our index depicting the outlook for the next 3-5 years hit a seven-year high. The incoming Trump presidency has already grabbed the media spotlight, and the reaction to *some* of his cabinet picks has been positive. Even though it is another five weeks to the inauguration, some news media have been treating Trump as though he is already the president. A few of his actions tend to confirm this feeling here at home as well as around the world.

As we head into 2025, which is now just a few days away, the outlook for the West Michigan industrial economy is obviously positive. So, what could go wrong? The most obvious caveats relate to some form of a catastrophic escalation of the ongoing wars in Isreal and the Ukraine. The incoming president's exaggerated statement that the war in Ukraine would end in a "few hours" after his inauguration implies that he may have a peace plan, but like many plans, it may not work, and the war could drag on for many more months. Another risk is inventory accumulation brought on by fear of the impending tariffs. Past history has shown that excess inventory accumulation, which can be **many billions** of dollars just in West Michigan, and can result in a recession if liquidated all at once. However, so far, NO new tariffs have actually been assessed, and may only be a negotiation ploy. But as the *Four Seasons* put it over 60 years ago, "Talking is cheap, people follow like sheep, even though there is nowhere to go."

# November 2024 Survey Statistics

| | UP | SAME | DOWN | N/A | Nov. Index | Oct. Index | Sept. Index | 25 Year Average |
|---|---|---|---|---|---|---|---|---|
| Sales (New Orders) | 38% | 30% | 32% | 0% | + 6 | - 2 | -23 | +14 |
| Production (Gross Output) | 28% | 40% | 22% | 10% | + 6 | - 9 | -28 | +14 |
| Employment | 15% | 68% | 17% | 0% | - 2 | + 3 | -11 | + 8 |
| Purchases | 22% | 50% | 28% | 0% | - 6 | -16 | -33 | + 7 |
| Prices Paid (major commodities) | 13% | 85% | 2% | 0% | +11 | - 4 | - 2 | +15 |
| Lead Times (from suppliers) | 8% | 79% | 8% | 5% | + 0 | -11 | - 9 | +11 |
| Purchased Materials Inv. (Raw materials & supplies) | 17% | 50% | 20% | 13% | - 3 | - 11 | - 12 | - 4 |
| Finished Goods Inventory | 22% | 43% | 25% | 10% | - 3 | -11 | - 7 | - 2 |
| Short Term Business Outlook (Next 3-6 months) | 38% | 40% | 22% | 0% | +16 | - 9 | -14 | - |
| Long Term Business Outlook (Next 3-5 years) | 55% | 43% | 2% | 4% | +53 | +44 | + 35 | - |

## Items in short supply:

Large aluminum poles, electrical controls, electrical engineers, laminate, hemp for textiles.

## Prices on the UP side:

Nylon (plastic), computers and automation components, ABS, aluminum and aluminum products, building rents, insurance, travel expenses, sub-contractors, raw materials, paper stock.

## Prices on the DOWN side:

Steel, carbon steel, aluminum*, brass, oils, coolants, polypropylene, PA6, POM, foam.

*Item reported as both up AND down in price

## Latest Unemployment Reports:

(Except as noted, data are NOT seasonally adjusted)

| | Oct. 2024 | Oct. 2023 | Aug. 2009* | 20-Year Low |
|---|---|---|---|---|
| State of Michigan (Oct.) | 4.7% | 4.2% | 14.6% | 3.2% |
| State of Michigan (Unadj.) | 4.6% | 3.8% | 14.1% | 2.9% |
| Kent County | 4.1% | 3.4% | 11.9% | 2.1% |
| Kalamazoo County | 4.0% | 3.7% | 11.1% | 2.1% |
| Calhoun County | 4.9% | 3.9% | 12.8% | 2.7% |
| Ottawa County | 3.3% | 2.9% | 13.3% | 1.8% |
| Barry County | 3.9% | 3.1% | 10.9% | 2.2% |
| Kalamazoo City | 5.1% | 4.3% | 15.2% | 3.2% |
| Portage City | 3.8% | 3.1% | 8.7% | 1.3% |
| Grand Rapids City | 4.8% | 4.0% | 16.1% | 3.0% |
| Kentwood City | 3.4% | 2.8% | 10.7% | 1.4% |
| Plainfield Twp. | 2.7% | 2.3% | 8.0% | 1.4% |
| U.S. Official Rate (Oct.) | 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 (Oct.)** | 7.7% | 7.2% | 22.9% | 6.7% |

** August 2009 = low point of the Great Recession*

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

# NOVEMBER COMMENTS FROM SURVEY PARTICIPANTS

*"The automotive market has taken a big hit in this slow period. We are now waiting on revamped models that are not electric vehicles anymore to start production. This will cause us to ramp back up in work."*

*"We had a rapid slowdown in new orders leading up to the election."*

*"Our backlog is getting smaller, and new orders are slower. Hopefully, this will swing around now the election is over."*

*"We are steady."*

*"Most major commodities are down in price, and suppliers' sales are soft. We are now negotiating for the lower price!"*

*"We are seeing price cuts from machinery builders to move machinery as we get to year's end."*

*"We are continuing to see price increases from sub-contractors who claim their costs have increased."*

*"Sales remain stable to slightly above plan. The big focus at the moment is preparing for Trump's tariffs. We expect China to be hit with additional tariffs, but we're not sure about the rest of the world."*

*"We are seeing a fourth quarter spike for the first time since Covid, which is very promising. We are cautious yet very hopeful that the post- election excitement continues in 2025 and beyond."*

*"We are waiting to see what happens with the new administration, especially as it relates to tariffs."*

*"Sales have been running under forecast for three months in a row. We are busy, but not meeting sales expectations."*

*"We've seen no major changes month over month, and expect a flat trend into December."*

*"Sales are picking up some. Our inventory is still too high, so we continue to watch purchases closely. Projects are supposed to start to cut loose now that election is over."*

*"We are still recovering from the hurricane."*

*"Hemp continues to grow in popularity. Hemp textiles are in high demand, and the price of material is still a bit high for most people."*

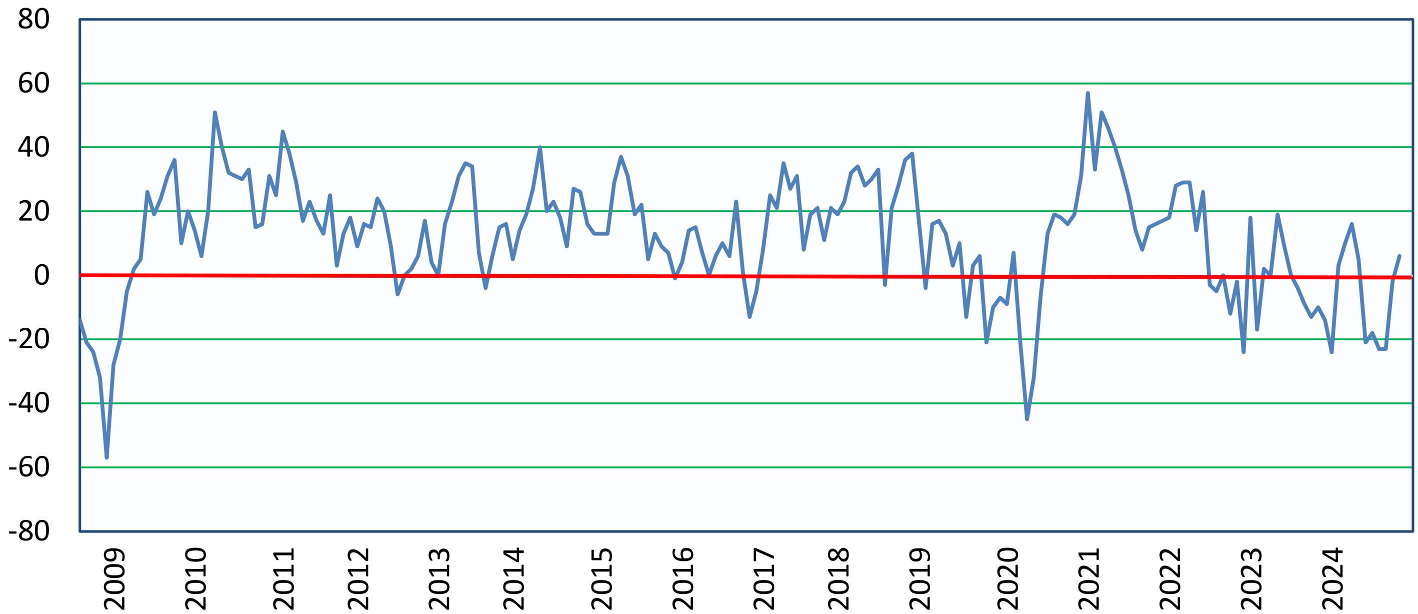
*"The automotive industry remains stagnant. OEMs are delaying and cancelling new programs, especially for electric vehicles, as sales have not been what they expected. We anticipate the rest of the year will be slow for our business."*

*"Sales and production down this month, but in line with budget projections as we are entering our slow season."*

*"We had many prospects holding their decisions to purchase capital equipment until after the election. Now that the election is over, we are seeing increased quoting activity. We believe that prospects wanted some understanding of the economic climate before moving forward."*

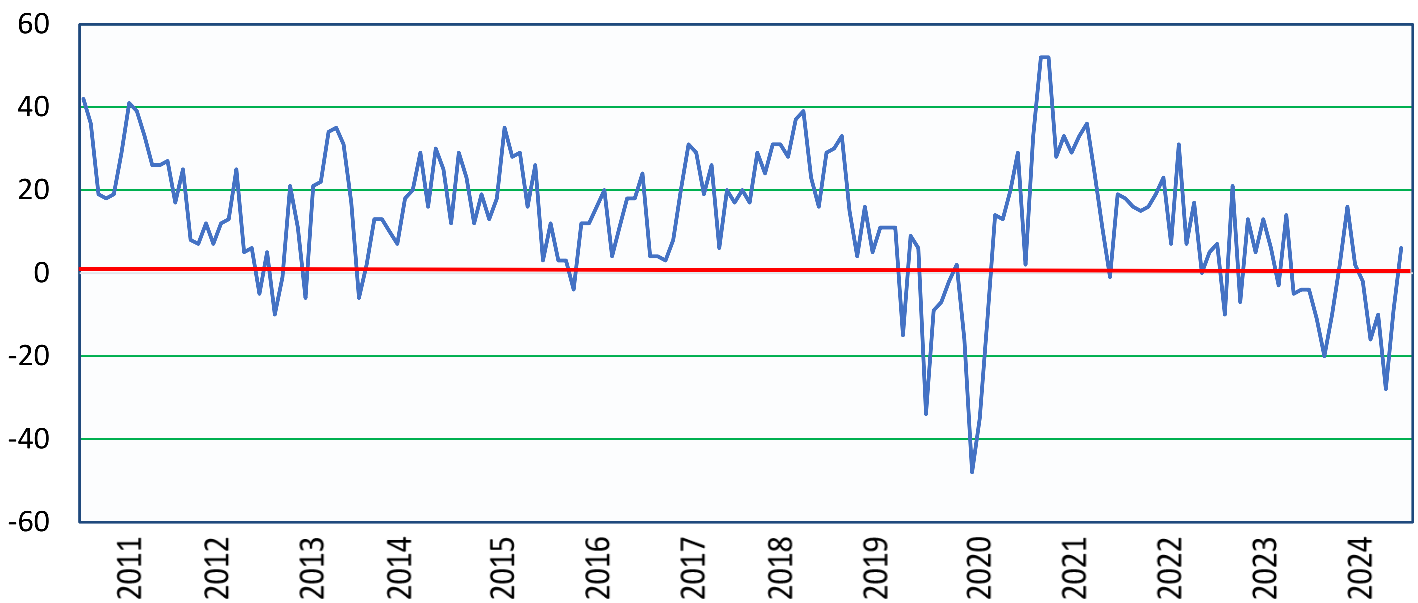
## West Michigan Index of New Orders: 2008-2024

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.



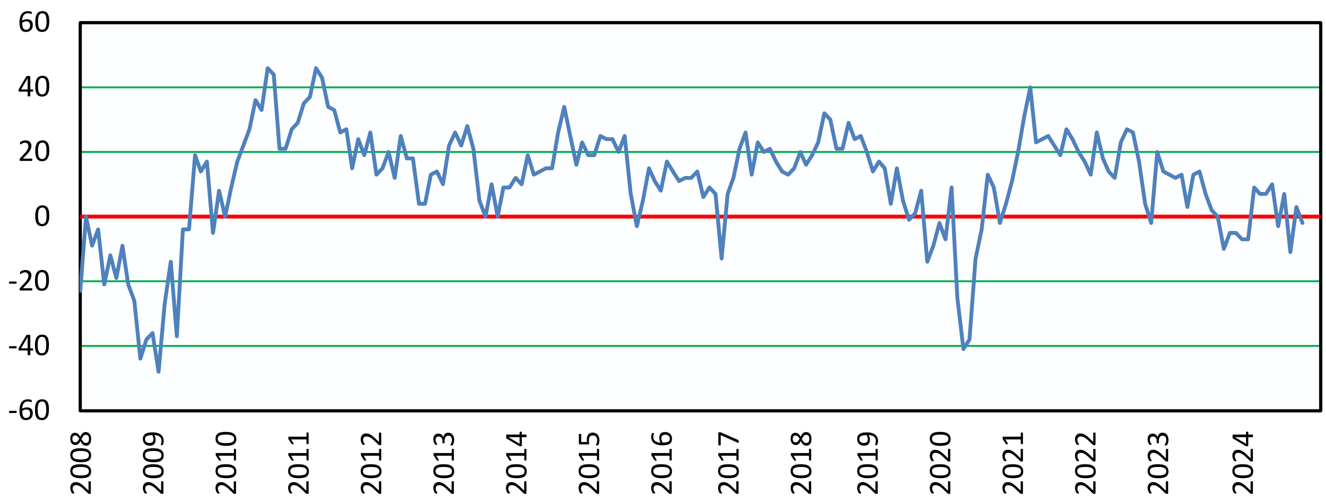

## West Michigan Index of Production (Output): 2008-2024

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.