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West Michigan Current Business Trends

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Modest Growth Continues Into 2025

Key Take-Aways from December 2024 Statistics:

- **Most December Statistic for West Michigan Remain Marginally Positive.**
- **Threat of Possible Stiff Tariffs Dampen the National and International Industrial Economies.**
- **Long Term and Short-Term Business Confidence Indices of West Michigan Remain High.**

	Dec.	Nov.
NEW ORDERS Index (business improvement)	+ 4	+ 6
PRODUCTION Index (aka "output")	+ 4	+ 6
EMPLOYMENT Index	+ 5	- 2
LEAD TIMES Index	- 3	+ 0

Key Participant Comments for December:

"We are presently moving some products out of China to the U.S. to avoid threat of additional tariffs."

"Several months of continued lower sales are starting to make a poor trend. We are waiting for automotive sales volumes improve."

"Things seem pretty stable."

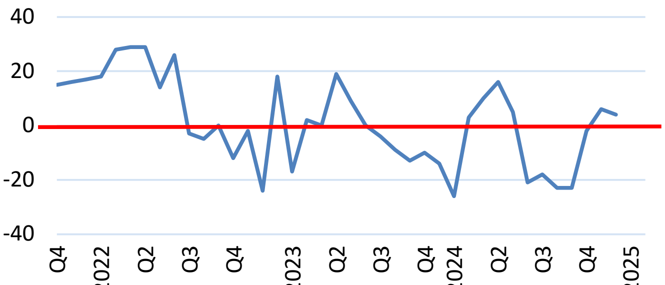
"December sales are expected to be at or above plan. Customer questions and requests related to Trump's tariff threats have increased over the last month. We're also keeping an eye on the ILA contract negotiations."

"December is always a slower month for us. We are hoping to see automotive pick up in the New Year!"

"Capital Equipment sales have hit the skids. The New Year will hopefully bring change."

<u>The Local Economy</u>. Despite some modest weakness earlier in 2024, the West Michigan economy ended the year on a positive but quiet note. NEW ORDERS, our closely-watched index of business improvement, posted at +4 in December, marginally down from +6 in the prior month. In a similar mode, the PRODUCTION Index, a.k.a. "output," also eased to +4 from +6. However, activity in the purchasing offices, reflected in our index of PURCHASES, slipped to -12 from -6, partially because December is often a transitional month wherein major decisions are postponed until early January. It has now been nearly three years since the Federal Reserve began raising interest rates to slow the economy and lower inflation to an acceptable level. Hence, it is no surprise that the industrial economy has slowed. However, the Fed admits the interest rates are a "blunt instrument." The industrial economy at both the local and national levels has slowed, and so far, has not fallen into a recession. Inflation at the industrial level has slowed to an acceptable level, but consumer inflation has not. Reviewing the comments from our survey participants, they feel that their current business has slowed but not collapsed. This is the general mood of the West Michigan industrial market as we begin 2025. A few are expecting some modest improvement in the next few months.

West Michigan Index of New Orders: 2020-2024



The U.S. Economy. For most of 2024, the national industrial economy remained slightly negative, partially reflecting the backdrop of the aforementioned higher interest rates. Later in the year, we saw a modest recovery. ISM's index of NEW ORDERS posted identical readings of -9 for four months until November's uptick to -4 and December's -3 reading. This pattern is typical of a slowdown, not a recession. Although ISM's December index of PRODUCTION eased to -10 from -5, part of the softness is seasonal. Fortunately, most of the inventory that was accumulated during the pandemic has been liquidated, so ISM's December index of INVENTORIES again posted at a fairly modest -6 for the third successive month. So far, firms are not building inventory in anticipation of the impending tariffs, at least not yet. Although still negative, ISM's ORDER BACKLOG Index recovered to -8 from -17. The ISM index of NEW EXPORT ORDERS, which has been negative for many months, came in at +0, up from -3. ISM's December PMI, which statistically combines all of these indices, came in at 49.3, up from 48.4. Hopefully, the index is headed toward the 50.0 break-even point sometime in early 2025.

A slightly less optimistic report for the U.S. industrial economy in December was posted on January 2 by S&P Global, the Britishbased economic consulting firm which also surveys U.S. purchasing managers. The December S&P PMI for the U.S. eased to 49.4, down from the 49.7 reported last month. Both the NEW ORDERS and PRODUCTION indices slid further below the break-even point. The post-election euphoria is now over, and the future appear to be ladened with numerous uncertainties, some relating to the impact of tariffs. Chris Williamson, Chief Business Economist at S&P, further noted:

> "U.S. factories reported a tough end to 2024, and have scaled back their optimism for growth in the year ahead. Production was cut at an increased rate in December amid disappointing inflows of new orders. While November had seen a near-stabilization of order books as uncertainty surrounding the election passed, reviving customer demand, this respite has proved temporary. Factories are reporting an environment of subdued sales and inquiries, notably in terms of exports. Many firms are generally anticipating that business will pick up in the New Year, with respondents pinning hopes on expectations that the new administration will loosen regulations, reduce tax burdens and boost demand for U.S. made goods via tariffs. Confidence has consequently risen from a low-point last June, having jumped higher in November on the election result. However, this optimism has been pared back somewhat in December, as firms are now reporting worries over higher input prices, and are concerned that inflation may pick up again, adding to speculation that interest rates will not be cut as much as previously thought likely over the coming year."

The World Economy. Although the J.P. Morgan (JPM) Worldwide Manufacturing Index returned to the break-even point of 50.0 in November, the December index modestly backtracked to 49.6. Some analysts claim that uncertainty over the direction of the Trump administration's new policies may be having a dampening influence on the entire world economy. All of the major subcomponents of the survey appeared to modestly soften. NEW ORDERS edged lower to 49.5 from 50.1. JPM's OUTPUT Index, which had been positive for several months, also softened to 49.2 from 50.1. Canada is our biggest trading partner, and in accordance with the recent television ads, the Ontario Provence alone would be our third largest partner. Needless to say, Ontario's trade with Michigan is greater than any other state, so it is good news that Canada's December PMI edged up to 52.2 from 52.0. For Mexico, the second largest U.S. trading partner, the PMI posted at 49.8, virtually unchanged from 49.9, and almost back to the 50.0 break-even point. The PMI for China backtracked to 50.5 from 51.5, reversing course from the previous three months. Bennett Parrish, Global Economist at JPM, further noted:

> "The global manufacturing sector fell back into contraction at the end of 2024, with output and new orders declining in December following slight increases. Regional variations were again marked, with business conditions affected by the possibility of U.S. tariffs being imposed in the coming year. Although the rate of deterioration signalled by the latest figure was only modest, this was the fifth decline during the past six months. Four out of five PMI components (output, new orders, employment and stocks of purchases) were at levels consistent with a deterioration in overall operating conditions. Only a lengthening of supplier delivery times had a positive impact on the PMI."

The eurozone, which remains a drain on the world economy, ended the year on another down note. The December PMI report posted by the Hamburg Commercia Bank) edged modestly lower to 45.1 from 45.2. A big problem for the index is the PMI for Germany, the region's largest economy, which sank to 42.5 from 43.0. The PMI for France, the second largest eurozone economy, hit a 55-month low of 41.9. Fortunately, the PMIs for both Spain and Greece remain positive, and the PMIs for Ireland and the Netherlands are posting modestly below the 50.0 break-even point. Dr. Cyrus de la Rubia, Chief Economist at HCB, further noted:

> "New orders have dropped even more than in the previous two months, crushing any hopes for a quick recovery. This view is backed by the accelerated decline in order backlogs. A sign of the industry's recovery will be when companies start rebuilding their inventories of intermediate goods, but December showed no signs of this happening. Instead, inventories were reduced at a very fast rate again. Companies also sped up the depletion of their finished goods inventories, clearly expecting continued weak demand. Although the pace of job trimming slowed slightly in December, it is still relatively high, and this trend is likely to continue well into the new year given all the news about companies restructuring. Within the eurozone, Spain is doing its own thing. Its manufacturing sector continued to expand robustly at the end of the year, while the three largest eurozone countries – Germany, France, and Italy, which are Spain's top three export destinations – are stuck in an industrial recession. Lower energy costs have also helped Spain weather the crisis better. However, Spain, accounting for only about 12% of the eurozone's GDP, won't be able to pull the entire eurozone economy back up on its own."

Automotive. Despite the rising vehicles prices, high interest rates, election year jitters, and weather catastrophes, the January 3 edition of Automotive News reports that total sales for the U.S. new car and light truck market are expected to tally very near 16 million in 2024, up from 15.6 million in 2023, and well ahead of the forecasts posted at the beginning of the year. Although all of the numbers are not fully tallied, most of the major brands posted annual gains in the range of 3 to 4 percent. The glaring exception is Stellates (Chrysler), where annual 2024 sales fell by 14.6 percent. For the other Detroit three, annual sales for General Motors rose by 4.3 percent and Ford by 4.2 percent. For the major transplant companies, 2024 Honda sales rose 8.8 percent, Hyundai-Kia, 3.4 percent, VW, 3.3 percent, and Toyota, 3.7 percent. Sales at Nissan, which may be merging with Honda, rose 4.8 percent. Most of the current forecasts expect the current sales trend to continue well into 2025, although some are more cautious. According to Tyson Jominy, vice president of data and analytics at J.D. Power:

> "Higher transaction prices have pushed many consumers out of the new-vehicle market, which is keeping sales in the 16 million range. Most consumers gauge affordability by the monthly payment, rather than total purchase price. Average monthly payments are now $740 a month. That's $15 a month higher than year-ago levels, and $150-plus higher than 2019, and that's really where consumers feel it."

Business and Consumer Confidence. For some U.S. residents, the post-election euphoria continued into December, but for others, not so much. The Conference Board Consumer Confidence Index posted on December 23 dropped 8.1 points to 104.7 (1985=100). According to Dana M. Peterson, Chief Economist at The Conference Board, "Compared to last month, consumers in December were substantially less optimistic about future business conditions and incomes. Moreover, pessimism about future employment prospects returned after cautious optimism prevailed in October and November." By contrast, the University of Michigan Consumer Sentiment Index edged up to 74.0 from 71.8. According to U of M's survey director Joanne Hsu, "Consumer sentiment confirmed its early-month reading, rising for the fifth consecutive month and reaching its highest value since April 2024." Needless to say, these surveys are giving mixed signal about the consumer expectations for 2025, primarily because of the confusing signal coming from the news media. However, unlike previous surveys from both of these organizations, neither appear to be worried that a recession is just around the corner.

According to most economic analysts, about 60 percent of all employment comes from small businesses. In the most recent pre-Christmas report from National Federal of Independent Business (NFIB), post-election business confidence has skyrocketed. However, Bill Dunkelberg. NFIB chief economist, further noted, "Although optimism is on the rise on Main Street, small business owners are still facing unprecedented economic adversity. Low sales, unfilled jobs openings, and ongoing inflationary pressures continue to challenge our Main Streets."

For our local West Michigan survey of the industrial market, the news remains 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 +19, the strongest reading in over eight months. For the LONG-TERM BUSINESS OUTLOOK

Index, which queries the perceptions for the next three to five years, the December index modestly retreated to +49 from last month's seven-year high of +53.

West Michigan Unemployment. According to our West Michigan EMPLOYMENT Index, the employment situation has remained relatively flat for the past 18 months or so. After posting at +3 in October and ticking down to -2 in November, the December index edged up to +5. Although there have been no major layoffs, some firms have reduced staff by attrition. Regrettably, there are still numerous unfilled jobs in the West Michigan industrial market, although almost all of them require some form of technical training. At the national level, the December ISM EMPLOYMENT Index eased to -11, down from -6.

Much as we expected, the negative employment numbers in much of our 2024 West Michigan surveys are finally being reflected in the most recent official statistics from the Michigan Department of Technology, Management & Budget. Looking at the major West Michigan counties, the November (latest month available) year-over-year unemployment rate for Ottawa County posted at 3.4 percent, slightly above October's 3.3 percent, but noticeably higher than 2.9 percent reported a year ago. For Allegan County, the November unemployment rate came in at 3.7 percent, Kent County, 3.6 percent, and Kalamazoo County, 4.2 percent. The official state unemployment rate for November edged up to 4.8 percent from 4.7 percent, and the national rate currently stands at 4.2 percent.

Industrial Inflation. Except for a few commodities, industrial inflation and on-time deliveries are not a significant problem for West Michigan, even though our statistics tend to bounce around. Our December index for PRICES posted at +0, down from November's +11, but still slightly higher than October's -4. At the national level, ISM's December index for PRICES rose to +5 from +0, somewhat better than October's posting of +10. 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 December remained unchanged at an eight-month low of 0.6. S&P's December Supply Shortage Index returned to a 59-month low of 0.5. For the major commodities in our West Michigan market, aluminum and a few plastic resins are among the only trouble spots. However, the threat of impending tariffs could quickly result in problems for steel and many other industrial commodities. Usamah Bhatti, Economist at S&P Global Market Intelligence, further commented:

> "Reports of both price pressures and supply shortages remained subdued at the end of 2024, with the respective indices coming in below the long-run average of 1.0 in December. In fact, manufacturers signalled that supply shortfalls were at their least extent for three months, as eight of the 20 monitored commodities saw reported shortages ease on the month. On the other hand, three commodities - Transport, Aluminium and Food - saw above-average reports of supply shortages during December. Meanwhile, price pressures remained unchanged. 17 of the 26 commodities covered by the index reported below their long-run average. Within this, five commodities signalled falling prices, led by Semiconductors. On the other hand, Aluminium saw reported price pressures reach twice the normal level, the highest in six months."

Consumer Inflation. No one obviously questions the fact that inflation has currently fallen far below the 9.1 "headline" rate reported for June 2022, but some observers, especially politicians, question whether it is necessary for inflation to come all the way down to the Federal Reserve's target 2.0 rate before easing monetary policy at a more significant rate. Unfortunately, the December 12 report from the Bureau of Labor Statistics (BLS) stated that the "headline" Consumer Price Index (CPI) for the 12 months ending in November edged up to 2.7 percent from 2.6 percent in October and 2.4 percent in September. Excluding food and energy, the "core" CPI remained unchanged at 3.3 for the third successive month. The contrasting report released December 20 from the Bureau of Economic Analysis (BEA), the "Fed preferred" inflation measure, noted that the Personal Consumption Expenditures Index or PCE upticked to 2.4 percent from last month's 2.3 percent and October' 2.1 percent. BEA's core PCE, which also excludes food and energy, remained unchanged at 2.8 percent. After falling in every month for many months after June 2022, inflation now appears to be edging in the wrong direction, even though the 2.0 percent goal seems to be close. This recent trend from both the BEA and the BLS would imply that if inflation is again rising that the Fed should be cautious about dropping rates too soon.

Both press releases from the BLS and the BEA stress that the cost of housing or "shelter" remains a main sticking point holding up both indices from falling to the 2.0 rate. The December Zillow Rent Increase Index edged marginally higher to 3.38 percent from 3.27 percent. This is far below the 15.82 percent rate increase reported in February 2022 while still slightly higher than the pre-pandemic norm. Just like the CPI, the current rate of increase is well below the 12.89 percent rate of only two years ago. However, with the current national housing shortage of about 3-4 million houses and apartments, we cannot expect the rate to fall much lower without adding to the housing stock. According to the "2025 Housing Forecast" posted by Realtor.com:

> "New multifamily supply will remain a key factor shaping the rental market in 2025. In the third quarter of 2024, the annual pace of newly completed multifamily homes reached 658,000 units, pushing the rental vacancy rate up to 6.9%. Looking ahead, a robust multifamily construction pipeline is expected to continue driving rental supply growth in 2025, which is likely to push the vacancy rate back toward its long-term average. While the surge in new multifamily supply offers renters more options, the large renter population will dampen any significant impact on rental prices. The median asking rent in 2025 is expected to be only slightly lower than in 2024 (-0.1%), indicating that affordability will continue to be a challenge for many."

GDP. On December 19, the BLS released the third and final estimate for 2024's third quarter GDP. Although the second estimate came in unchanged at 2.8, the most recent estimate upticked to a growth rate of 3.1 percent. With all of the contradictory year-end statistics floating around, the forecasters are now busy trying to predict the growth rate for the now-completed 2024 fourth quarter. One of the most accurate forecasts in recent months has come from Atlanta Federal Reserve's GDPNow mathematical forecast model, which projects a Q4 growth rate of 2.4 percent. This month's Blue Chip GDP Realtime model for December remains unchanged at 2.1 percent. A similar estimate of 2.0 percent growth has been reported by S&P Global. In short, with the post-election euphoria now over, most forecasters are now guesstimating that the fourth quarter will end 2024 slightly less robust than the 3.1 percent growth rate of the third quarter.

Looking Forward. As the West Michigan economy begins 2025, we need to keep a close watch on automotive, our major cyclical industry. So far, the outlook is still positive. Office furniture, our second largest cyclical industry, may be getting a minor boost from the numerous back-to-office mandates floating among some firms as well as many governmental units. However, in the ever-expanding computer era, SOME workers will remain working more effectively from home, and some will work "hybrid" and split the work week between home and the office.

Needless to say, the threat of potential tariffs is a major "background" issue as we assess the stability of the 2025 industrial markets. The new Trump administration has yet to take over, and so far, the new tariffs are only a threat. In fact, they may never happen. We also forget that SOME tariffs from the first Trump administration are still in place and have been throughout the Biden administration. It is consensus among economists that tariffs, or any other restrictions from free trade, are a threat to the 2025 economy. Hence, Trump does not want to impose these tariffs, but he needs to get the attention of some of the countries he's trying to deal with to fix some serious problems like trade imbalances and unregulated border crossings. An old adage says that mules always obey, but you have to hit them with a 2x4 between the eyes to get their attention. The tariffs are Trump's 2x4. We hope the mule won't kick back.

December 2024 Survey Statistics

	UP	SAME	DOWN	N/A	Dec. Index	Nov. Index	Oct. Index	25 Year Average
Sales (New Orders)	36%	37%	32%	0%	+ 4	+ 6	- 2	+14
Production (Gross Output)	24%	46%	20%	10%	+ 4	+ 6	- 9	+14
Employment	20%	65%	15%	0%	+ 5	- 2	+ 3	+ 8
Purchases	20%	48%	32%	0%	-12	- 6	-16	+ 7
Prices Paid (major commodities)	10%	80%	10%	0%	+ 0	+11	- 4	+15
Lead Times (from suppliers)	7%	83%	10%	0%	- 3	+ 0	-11	+11
Purchased Materials Inv. (Raw materials & supplies)	15%	55%	20%	10%	- 5	- 3	-11	- 4
Finished Goods Inventory	15%	58%	20%	7%	- 5	- 3	-11	- 2
Short Term Business Outlook (Next 3-6 months)	39%	41%	20%	0%	+19	+16	- 9	-
Long Term Business Outlook (Next 3-5 years)	54%	41%	5%	0%	+49	+53	+44	-

Items in short supply:

"Buy America" iron and steel, some steel grades, pulp derivatives, hemp textiles and raw hemp, controls engineers, laminate, machining capacity, drivers for freight delivery.

Prices on the UP side:

Some steel, citrus (5-25%), hemp, containers from Asia, bearings, fasteners, screws, clamps, connectors, ABS plastic, labor rates, environmental costs, utilities, tariffs (possibly).

Prices on the DOWN side:

Some steel*, machine tools, polypropylene, PA6, PC, styrene.

*Item reported as both up AND down in price

Latest Unemployment Reports:

(Except as noted, data are NOT seasonally adjusted)

	Nov. 2024	Nov. 2023	Aug. 2009*	25-Year Low
State of Michigan (Nov.)	4.8%	4.1%	14.6%	3.2%
State of Michigan (Unadj.)	4.8%	3.3%	14.1%	2.9%
Kent County	3.6%	2.6%	11.9%	2.1%
Kalamazoo County	4.2%	2.9%	11.1%	2.1%
Calhoun County	5.0%	3.5%	12.8%	2.7%
Ottawa County	3.4%	2.5%	13.3%	1.8%
Barry County	3.8%	2.8%	10.9%	2.2%
Kalamazoo City	4.2%	3.7%	15.2%	3.2%
Portage City	3.8%	2.7%	8.7%	1.3%
Grand Rapids City	4.8%	3.4%	16.1%	3.0%
Kentwood City	3.4%	2.4%	10.7%	1.4%
Plainfield Twp.	2.7%	1.9%	8.0%	1.4%
U.S. Official Rate (Nov.)	4.2%	3.7%	9.6%	3.4%
U.S. Rate (Unadjusted)	4.0%	3.5%	9.6%	3.1%
U.S. U-6 Rate (Nov.)**	7.8%	7.0%	22.9%	6.7%

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

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

DECEMBER COMMENTS FROM SURVEY PARTICIPANTS

“The strong cough and cold season on OTC pharma side is looking positive for the closing of 2024 and favorable to start of 2025.”

“We are up slightly for the month compared to last month.”

“Capital equipment sales have hit the skids. The New Year will hopefully bring change."

“Several months of continued lower sales are starting to make a poor trend. We are waiting for automotive sales volumes improve.”

“Things seem pretty stable.”

“Sales are ticking up somewhat. We continue to bring inventory levels down by closely watching what we buy.”

“The metals markets have been holding flat to slightly weaker at present. Like many manufacturers, our customers are trying to maintain low inventories heading into the holidays, but expect to pick back up after the New Year.”

“December sales are expected to be at or above plan. Customer questions and requests related to Trump's tariff threats have increased over the last month. We're also keeping an eye on the ILA contract negotiations.”

“November was horribly slow, and December has started same.”

“We are looking forward to a strong 2025.”

“We are presently moving some products out of China to the U.S. to avoid threat of additional tariffs.”

“October, November, and now December sales are stronger than planned. We are hoping that this trend continues into 2025!”

“December is always a slower month for us. We are hoping to see automotive pick up in the New Year!”

“Dull and steady. Whew!”

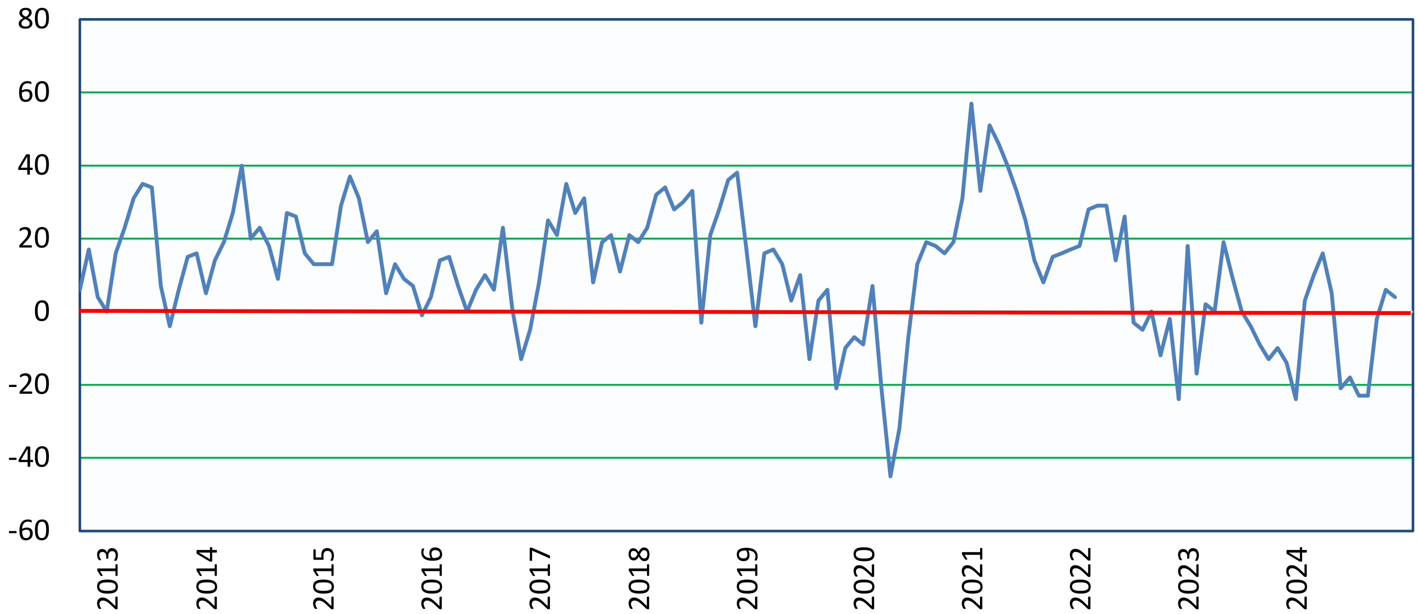
“We've struggled to secure some of the ‘Buy America’ iron and steel.”

“We are seeing many machine tool companies providing large discounts to move inventory. Inventories are still high.”

“Several months of continued lower sales are starting to make a poor trend. We are waiting for automotive sales volumes improve.”

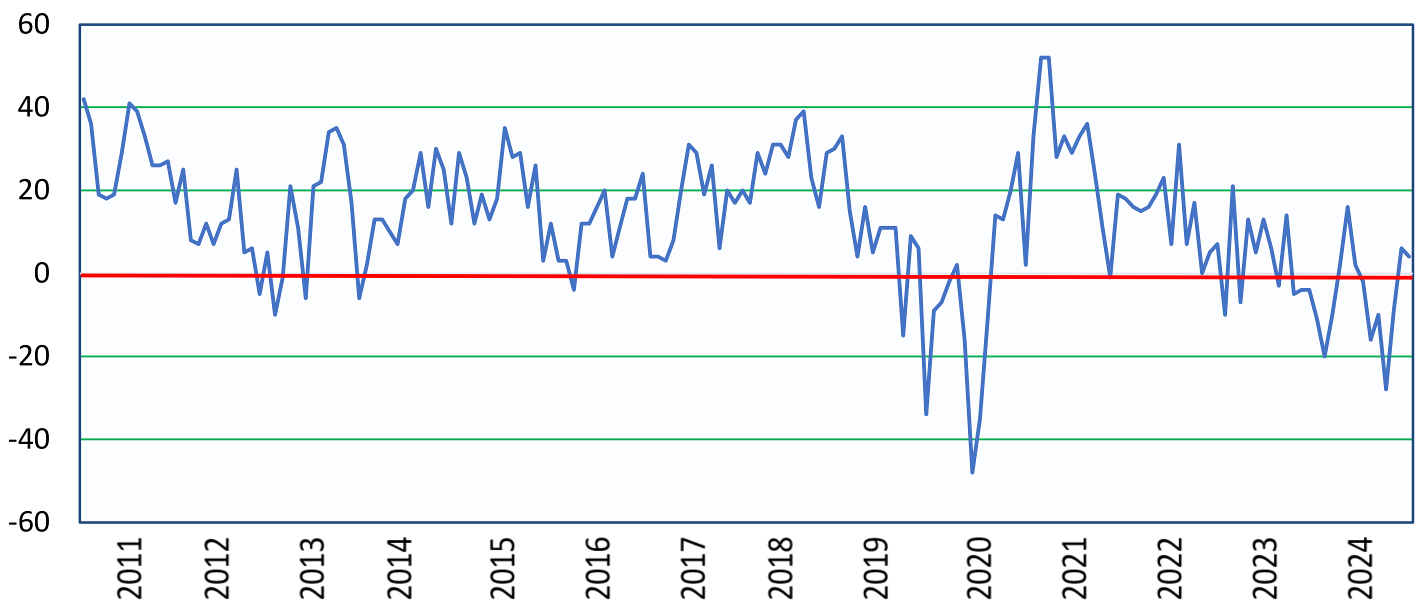
West Michigan Index of New Orders: 2013-2024

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.



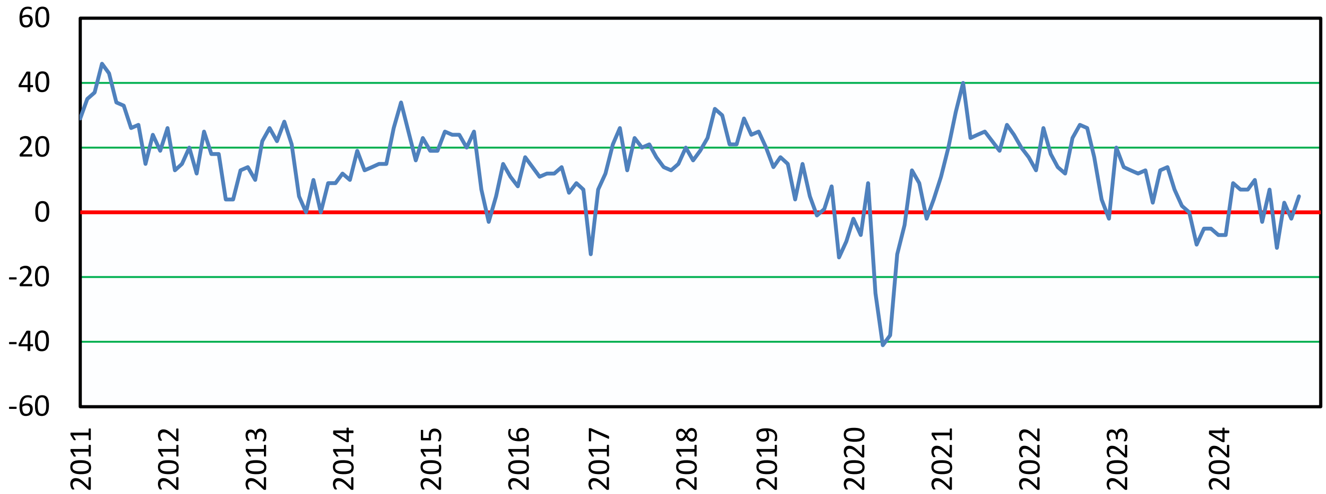
West Michigan Index of Production (Output): 2008-2024

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: 2011-2024

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.