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West Michigan Current Business Trends

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2025 Off to a Slow But Positive Start

Key Take-Aways from January 2025 Statistics:

- **NEW ORDERS for January upticked to a Nine-Month High**
- **National and International Industrial Economies Turn Modestly Positive.**
- **Long-Term Business Confidence Index Hits a 12-Year High**

	Jan.	Dec.
NEW ORDERS Index (business improvement)	+13	+ 4
PRODUCTION Index (aka "output")	+ 1	+ 4
EMPLOYMENT Index	- 2	- 5
LEAD TIMES Index	- 7	- 3

Key Participant Comments for January:

"We're increasing inventory to get ahead of potential tariffs, and burning down raw material inventories and converting it to finished goods to position ourselves ahead of risk of tariffs."

"More automotive program delays have been announced. I believe companies are waiting to see what the new presidential administration will do with tariffs before moving forward."

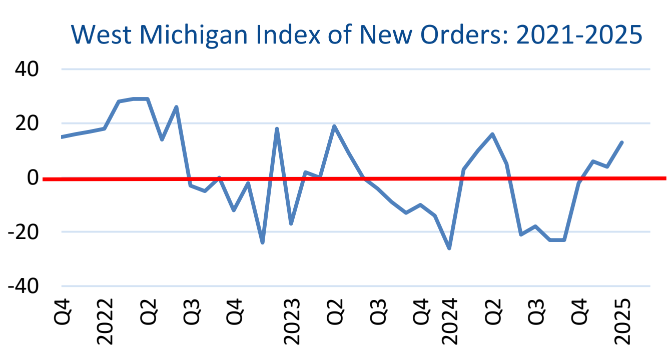
"January budget numbers are up compared to December and we are on pace to meet them. It's a good start to the year."

"We've had a busy and productive month to start the year, a significant increase in business compared to Q4/2024."

"Business conditions remain very slow."

"Steady."

The Local Economy. January is normally a back-to-work month after the holidays, and our data collected in the last two weeks of the month did not disappoint. NEW ORDERS, our index of business improvement, posted at +13 in January, up nicely from +4. The PRODUCTION Index, a.k.a. "output," remained positive but modestly backtracked to +1 from +4. However, activity in the purchasing offices, the index of PURCHASES, remained mired at -12. The role of the Federal Reserve's higher interest rates over the past three years has been to slow the economy, and with the rates still high by recent historical standards, the economy has definitely slowed from where it was in 2002. The industrial inflation has slowed to an acceptable level, but regrettably, consumer inflation has not. The slowing economy has resulted in SOME workforce reduction, but the general mood of the West Michigan industrial market remains cautiously optimistic as we continue into early 2025.



The U.S. Economy. The national economy for 2025 has started the year on a positive note, pushing back any fear of an immediate economic downturn, at least for the first part of the year. ISM's index of NEW ORDERS rose to +6 from -3, the first positive reading in seven months. In a similar but less decisive move, ISM's January index of PRODUCTION recovered to +1 from -10. Partially because of higher interest rates, gradual inventory reduction continues. ISM's index of INVENTORIES edged modestly lower to -8 from -6. Unlike the fears propagated by some of the news media, MOST firms are not building inventories in anticipation of the impending tariffs. ISM's ORDER BACKLOG Index for January modestly backtracked to -10 from -8. However, NEW EXPORT ORDERS, which has been negative for many months, came in at +5, the first positive reading since April.

Another upbeat view of the national economy comes from S&P Global, the British-based economic consulting firm which also surveys U.S. purchasing managers. The January S&P PMI for the U.S. optimistically rose to 51.2 from 49.4. Both the NEW ORDERS and PRODUCTION indices returned to positive levels. The survey author says that part of the uptick can be attributed to "… a sense that business conditions will improve under President Trump." The current month should benefit from the easing of uncertainties relating to the impact of tariffs. Chris Williamson, Chief Business Economist at S&P, further noted:

"A new year and a new President have brought new optimism in the U.S. manufacturing sector. Business confidence about prospects for the year ahead has leaped to the highest for nearly three years after one of the largest monthly gains yet recorded by the survey. Over the past decade, only two months during the reopening of the economy from pandemic lockdowns have seen business sentiment improve as markedly as recorded in January. Manufacturers report that political uncertainty has cleared and the pro-business approach from the new administration has brightened their prospects. Production has already improved after falling throughout much of the last half of 2024, amid rising domestic sales. Factories have also stepped up their hiring to meet planned growth of production capacity. However, a rise in the rate of increase of both input costs and selling prices could become a concern if this intensification of inflationary pressures is sustained in the coming months, especially as the combination of higher price pressures alongside accelerating economic growth and rising employment is not typically conducive to cutting interest rates. 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. According to the J.P. Morgan (JPM) Worldwide Manufacturing report, the January industrial economy for the world returned to a positive reading at 50.1, up for 49.8. Again, the survey author cites the apparent optimism that the Trump presidency may have on the entire world economy. All of the major subcomponents of the JPM survey modestly improved. NEW ORDERS edged higher to 50.8 from 49.5. JPM's OUTPUT Index also flipped back across the critical 50.0 break-even point to 50.8. The PMI for Canada, by far the most important international trading partner for Michigan, remained positive but edged modestly lower to 51.6 from December's 52.2. For Mexico, the second largest U.S. trading partner, the PMI ticked lower to 49.1 from 49.8. The Caixin PMI for China also backtracked to 50.1 from 50.5. Bennett Parrish, Global Economist at JPM, further noted:

"The J.P. Morgan global manufacturing output PMI rebounded back above the neutral 50-mark to 50.6 in January. Solid gains in the new orders and future output PMIs (which rose by 1.3 and 2.6pt respectively) also point to improved growth momentum at the start of the year. Regional disparities remain, however, with solid PMI levels in the U.S. and China contrasting with continued indications of weakness in the Euro Area and Japan. The improving trend is yet to be reflected in hiring, with the global employment PMI weakening 0.9pt to a four-and-a-half year low of 48.5 in January."

Although the eurozone remains the weakest area of the world economy, the January PMI report from the Hamburg Commercia Bank remained negative but improved to an eight-month high of 46.6 from 45.1, one of the best levels of improvement in 18 months. Both Germany and France, the region's two largest economies, posted eight-month highs of 45.0. Just as last month, the PMIs for both Spain and Greece remain modestly positive but represent only a small segment of the eurozone economy. The PMIs for Italy and Austria both upticked, but remained well below the 50.0 break-even point. Dr. Cyrus de la Rubia, Chief Economist at HCB, further noted:

"It's definitely too early to talk about green shoots in the manufacturing sector, but we see the increase in the HCOB PMI as a first step towards stabilisation, ending two months of the deepening of the recession. Higher input prices are a challenge for the manufacturing sector, given its weak economic position over the past two years. These higher input prices, partly due to average oil prices rising by almost 7% in January, could also pose a challenge for the ECB, as the previous easing of overall inflation was largely due to lower energy prices. Even though the new U.S. administration will likely hit the European manufacturing sector and its export industry with tariffs and other measures, confidence in the future has made a remarkable jump. The index for future output is four points higher and slightly above its long-term average. Maybe there's hope that the lethargy is ending, with general elections in Germany and possibly France, and a climate of 'the time is ripe to change things and get things done.' Despite all of Trump's tariff threats, we must remember that for most countries in the eurozone, 90% or more of exports go to countries other than the U.S."

Automotive. The February 4 edition of *Automotive News* reported that January was another "strong month" for auto sales, although cautioned that sales results varied widely by both the brand and type of vehicle. The SAAR (Seasonally Adjusted Annualized Rate) compiled by GlobalData posted at a high of 16.2 million units, down from 17.1 million units in December. Of the firms still reporting on a monthly basis, year-over-year sales at Hyundai-Kia rose 13.1 percent, Subaru, 4.1 percent, and Honda, 3.8 percent. Because of almost-empty dealer lots and underproduction, sales for Toyota were down by 1.3. Weaker crossover and SUV deliveries pushed sales at Ford down by 6.5 percent. According to David Phillips from *Automotive News*:

"Rising stockpiles and affordability are forcing automakers and dealers to hike discounts. The average incentive per new vehicle in January was on track to rise 29 percent to $3,226 from a year earlier, J.D. Power said, but fell $130 from December. The average retail transaction price for a new vehicle was on pace to total $44,636 last month, down $238, or 0.5 percent, from January 2024. Elevated pricing continues to weigh on the new-car market, analysts say, and some brands plan to offer more affordable cars and light trucks. Ford, Honda, Ram, Mini and other brands have informed dealers they will be introducing lower-priced versions of some of their most popular and entry-level models in the coming months."

Consumer Confidence. For many American consumers, the post-election euphoria is clearly gone. The Conference Board Consumer Confidence Index posted in January declined by 5.4 points to 104.1 (1985=100), down from 109.5. According to Dana M. Peterson, Chief Economist at The Conference Board, "Consumer confidence has been moving sideways in a relatively stable, narrow range since 2022, and January was no exception. The Index weakened for a second straight month, but still remained in that range, even if in the lower part." In confirmation, the University of Michigan Consumer Sentiment Index retreated to 71.1 from 74.0. The U of M's survey director Joanne Hsu further noted, "Concerns over the future trajectory of inflation were visible throughout the interviews and were tied to beliefs about anticipated policies like tariffs. Consumers continued to spontaneously express motives for buying-in-advance to avoid future price increases, and robust auto and retail sales data suggest that consumers are indeed acting on these views." Needless to say, both of these surveys are apt to improve if the threat of new tariffs subside over the next few weeks.

Business Confidence. For West Michigan, confidence in the industrial market remains very strong. The SHORT-TERM BUSINESS OUTLOOK Index for January, which asks local firms about their business perceptions for the next three to six months, remained unchanged at +19, the strongest reading in over nine months. For the LONG-TERM BUSINESS OUTLOOK Index, which queries the perceptions for the next three to five years, the January index rose to +57 from +49 setting a 12-year record. At the national level, business confidence reported by S&P Global also posted a significant improvement.

West Michigan Unemployment. For West Michigan, our January index of EMPLOYMENT edged modestly lower to -2 from +5 in December, which was the same as the -2 reported in November. In general, the employment situation has remained relatively flat for the past 18 months or so. West Michigan has seen a few minor layoffs, and some firms are reducing staff by attrition. However, with the EMPLOYMENT Index MARGINALLY dipping below the break-even point for many previous reports, the dip in the official statistics from the Michigan Department of Technology, Management & Budget (DTMB) are finally being reflected in the most recent unemployment numbers. At the national level, the January ISM index of EMPLOYMENT remained negative but recovered to -1 from -11. At the international level, the JPM index of EMPLOYMENT fell to 48.5 from 49.4.

Just as last month, the official statistics from DTMB in Lansing are posting some notable increases in West Michigan unemployment. Looking at the major West Michigan counties, the December (latest month available) year-over-year unemployment rate for Ottawa County came in at 3.9 percent, up from 2.7 percent in December 2023. For Allegan County, the rate rose to 4.4 percent from 3.2 percent in 2023. The December-to-December increase for Kent County was 4.1 percent, up from 2.8 percent. The December Kalamazoo County unemployment rate rose to 4.6 percent from 3.2 percent in December 2023. The official state unemployment rate for December edged up to 5.0 percent from 4.1 percent in December 2023.

Industrial Inflation. For the industrial market, the gyrations caused by the pandemic are now long gone. Compared to many of our previous reports over the past 35 years, industrial inflation and on-time deliveries are not a significant problem for West Michigan. Obviously, all of this could change if the pending threat of tariffs materialize and sink us into any kind of a trade war. In part, as a result of the tariff threats in the news cycle, our January index for PRICES edged up to +10 from +0 in December but still slightly lower than November's reading of +11. At the national level, ISM's January index for PRICES rose to +10 from +5. 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 January ticked up to 0.8 from 0.6, a five-month high. However, S&P's January Supply Shortage Index remained at 0.5, a 60-month low. For the major commodities in our West Michigan market, copper, aluminum, corrugated containers, and freight rates were cited as rising in price. Usamah Bhatti, Economist at S&P Global Market Intelligence, further commented:

> "Price and supply pressures remained broadly subdued at the start of 2025, with both running below their respective long-run averages of 1.0. That said, reported price rises edged up slightly in January to reach the highest since last August. Electrical Items led the way, with price increases reportedly two-and-a-half times the long-run trend. Utility prices, including Electricity, Energy and Gas also saw above-average increases in prices at the start of the year. This was broadly in line with the latest JPMorgan Manufacturing Input Prices Index which, adjusted for seasonal factors, reached the highest level for five months. On the supply front, all but one of the 20 monitored items signalled below-average reports of supply shortfalls in January. The exception was PVC, where reported shortages were the highest since July 2023."

Consumer Inflation. Regrettably, consumer inflation is still not falling at the rate that the Federal Reserve had hoped. The Fed did not cut rates in December, and proponents hoping for another interest rate cut were notably disappointed. From the 9.1 percent "headline" Consumer Price Index reported for June 2022, the January 15 press release from the Bureau of Labor Statistics (BLS) pegs the current "headline" rate at 2.9 percent, up from December's 2.7 percent and November's 2.6 percent. Obviously, this trend is in the wrong direction. However, excluding food and energy, the "core" CPI edged marginally lower to 3.2 percent from 3.3 percent. Aside from being well above ahead of the Fed's 2.0 percent target, the rate is still RISING, not falling. In confirmation, the January 31 report from the Bureau of Economic Analysis (BEA), the "Fed preferred" inflation measure, noted that the "headline" Personal Consumption Expenditures Index or PCE upticked to 2.6 percent from the previous 2.4 percent and October's 2.3 percent. BEA's core PCE, which also excludes food and energy, remained unchanged at 2.8 percent for the third successive month.

For both reports, the cost of housing or "shelter" remains a main sticking point keeping both indices from falling. The latest Shelter CPI posted a minor drop to 4.6 percent from 4.7 percent, but this index will clearly need to come down before the Fed can claim the battle against inflation has been won. The latest Zillow Rent Increase Index edged marginally lower to 3.39 from 3.40. This is far below the 15.82 percent rate increase reported in February 2022 but still slightly higher than the pre-pandemic norm. Just like the falling CPI, the current rate of increase is well below the 12.89 percent rate of only two years ago. According to Danielle Hale, Chief Economist at Realtor.com:

> "We expect the willingness of homeowners to sell their existing home and buy a new one to wane. Put simply, potential home sellers and the market in general will still feel the effects of mortgage rate lock-in, which is more acute when rates are higher. Time will continue to be an important healer of mortgage rate lock, with only modest help from lower rates expected in 2025. Even in today's tough housing market, life happens and some households move, buying and selling in whatever conditions the market offers."

GDP. According to the BLS January 30 press release, the first GDP estimate for the now-completed 2024 fourth quarter posted at 2.3 percent, very close to the 2.4 precent forecasted by the Atlanta Federal Reserve's GDPNow mathematical model. Looking ahead to the first quarter of 2025, the GDPNow forecasts a growth rate of 2.9 percent as of February 5. This index is updated daily, so we can expect to see some variation in future forecasts. The Blue Chip GDP Realtime model for January remains unchanged at 2.1 percent. So far, S&P Global continues to stick with last month's estimate of 2.0 percent for 2025's first quarter. The Conference Board is now posting a 2025 first quarter estimate of 2.3 percent. In general, these combined forecasts call for 2025 growth to be positive and similar to the growth rate of 2024.

Looking Forward. Much as some pundits predicted, the widely-feared tariffs from the Trump administration appear to be more of a negotiation ploy to extract non-tariff concessions on a range of issues such as border security. Hence, the new tariffs that we all have feared may be "much ado about nothing." China tariffs may turn out to be another story, but even without new tariffs, our imports from China are declining and the bias against Chinese good is rising every day. Bringing production back home or "reshoring" is becoming increasingly popular, and Michigan is in a position to take advantage of some of this returning business.

Do our current positive economic numbers mean that a recession is off the table for all of 2025? Not quite. In the post-war economy, we have endured 14 recessions, averaging one every six years or so. As always, a catastrophic geopolitical event can occur that generates a recession despite an otherwise strong economy. Otherwise, our current West Michigan economy still appears strong, making the probability of a recession beginning in the immediate future highly unlikely. Looking at the last half of 2025, we need to keep an eye on the numerous economic "bubbles" that are still forming. A few such bubbles include overinvestment in AI, electric cars, and commercial real estate. However, they would all have to break at once to generate a recession. This means that our next recession may still be in the more distant future.

January 2025 Survey Statistics

	UP	SAME	DOWN	N/A	Jan. Index	Dec. Index	Nov. Index	25 Year Average
Sales (New Orders)	34%	45%	21%	0%	+13	+ 4	+ 6	+14
Production (Gross Output)	21%	55%	20%	4%	+ 1	+ 4	+ 6	+14
Employment	16%	66%	18%	0%	- 2	+ 5	- 2	+ 8
Purchases	9%	70%	21%	0%	-12	-12	- 6	+ 7
Prices Paid (major commodities)	14%	71%	11%	4%	+10	+ 0	+11	+15
Lead Times (from suppliers)	2%	89%	9%	0%	- 7	- 3	- 0	+11
Purchased Materials Inv. (Raw materials & supplies)	16%	57%	20%	7%	- 4	- 5	- 3	- 4
Finished Goods Inventory	16%	54%	23%	7%	- 7	- 5	- 3	- 2
Short Term Business Outlook (Next 3-6 months)	39%	50%	11%	0%	+19	+19	+16	-
Long Term Business Outlook (Next 3-5 years)	57%	41%	0%	2%	+57	+49	+53	-

Items in short supply:

"Polypropylene, hemp, custom packaging materials, control engineers, purchasing professionals.

Prices on the UP side:

Aluminum, corrugated containers, paint, freight rates, polyols (oil derivatives), hemp, copper products.

Prices on the DOWN side:

Polypropylene*, PA6 and ABS resins, ceramics, electronics, overseas steel, some steel and tube items.

*Item reported as both up AND down in price.

Latest Unemployment Reports:

(Except as noted, data are NOT seasonally adjusted)

	Dec. 2024	Dec. 2023	Aug. 2009*	25-Year Low
State of Michigan (Dec.)	5.0%	4.1%	14.6%	3.2%
State of Michigan (Unadj.)	5.0%	3.5%	14.1%	2.9%
Kent County	4.1%	2.8%	11.9%	2.1%
Kalamazoo County	4.6%	3.2%	11.1%	2.1%
Calhoun County	5.8%	4.0%	12.8%	2.7%
Ottawa County	3.9%	2.7%	13.3%	1.8%
Barry County	4.6%	3.3%	10.9%	2.2%
Kalamazoo City	5.8 %	4.0%	15.2%	3.2%
Portage City	4.2%	2.9%	8.7%	1.3%
Grand Rapids City	5.4%	3.7%	16.1%	3.0%
Kentwood City	3.8%	2.6%	10.7%	1.4%
Plainfield Twp.	3.1%	2.1%	8.0%	1.4%
U.S. Official Rate (Dec.)	4.1%	3.8%	9.6%	3.4%
U.S. Rate (Unadjusted)	3.8%	3.5%	9.6%	3.1%
U.S. U-6 Rate (Dec.)**	7.5%	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*

JANUARY COMMENTS FROM SURVEY PARTICIPANTS

"From a sales perspective, January is looking stronger than expected. Trump tariff watch is officially underway. As evidenced by the recent threat and pullback of tariffs against Columbia, we are attempting to expect the unexpected - easier said than done."

"We're increasing inventory to get ahead of potential tariffs, and burning down raw material inventories and converting it to finished goods to position ourselves ahead of risk of tariffs."

"We're waiting on the impact of the Trump Tariffs."

"We've had a busy and productive month to start the year, a significant increase in business compared to Q4/2024."

"Steady."

"January budget numbers are up compared to December and we are on pace to meet them. It's a good start to the year."

"2025 may define the hemp industry. It will all come down to government regulations or lack thereof."

"We're expecting 2025 to start slowly but gain momentum as the year progresses, especially if we get continued FED rate cuts."

"We started 2025 with neutral PPV (Purchase Price Variance) slated."

"Business conditions remain very slow."

"The supply chain is expressing a more aggressive stance for getting awarded new work. I believe the pricing on some items should start to reflect cost savings."

"We're waiting on tariffs"

"Sales are picking up a bit. We're still driving our inventory down, and we are now back to pre-COVID level, at least on an inflation adjusted basis."

"Overall, the outlook for 2025 is positive."

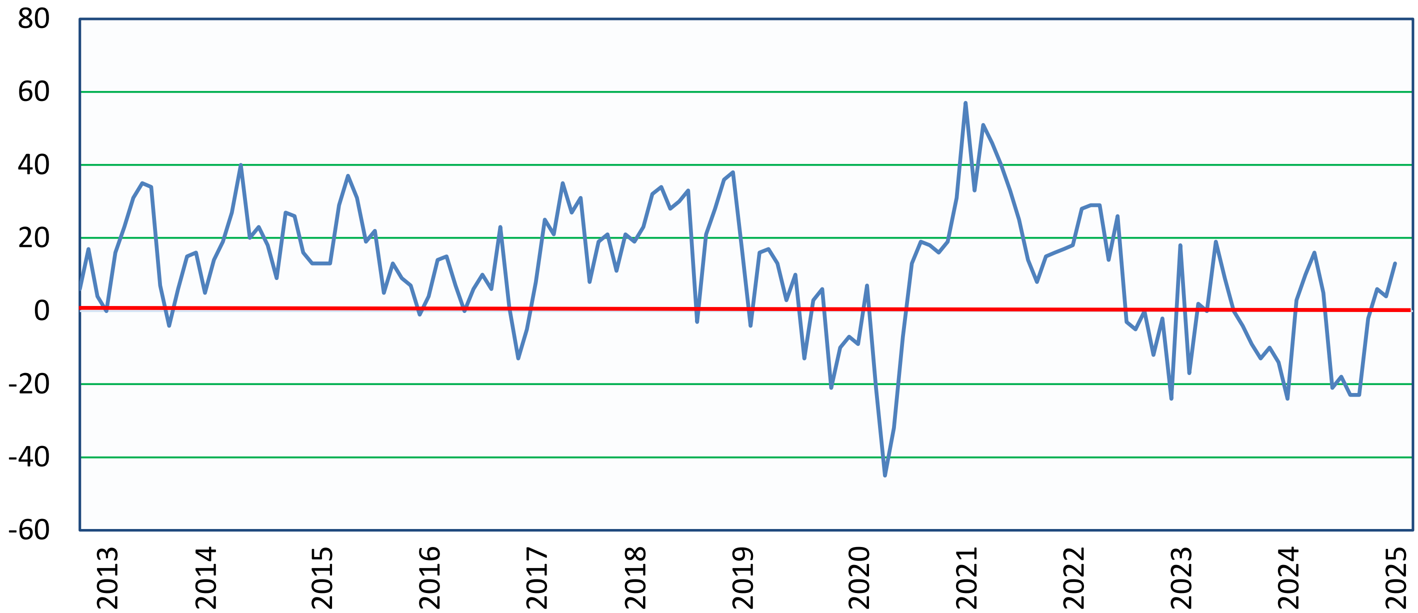
"More automotive program delays have been announced. I believe companies are waiting to see what the new presidential administration will do with tariffs before moving forward."

"Hemp prices will stay up until the hemp industry starts making more hemp products for the mainstream shopper."

"Passing on increased costs on to customers is becoming more difficult."

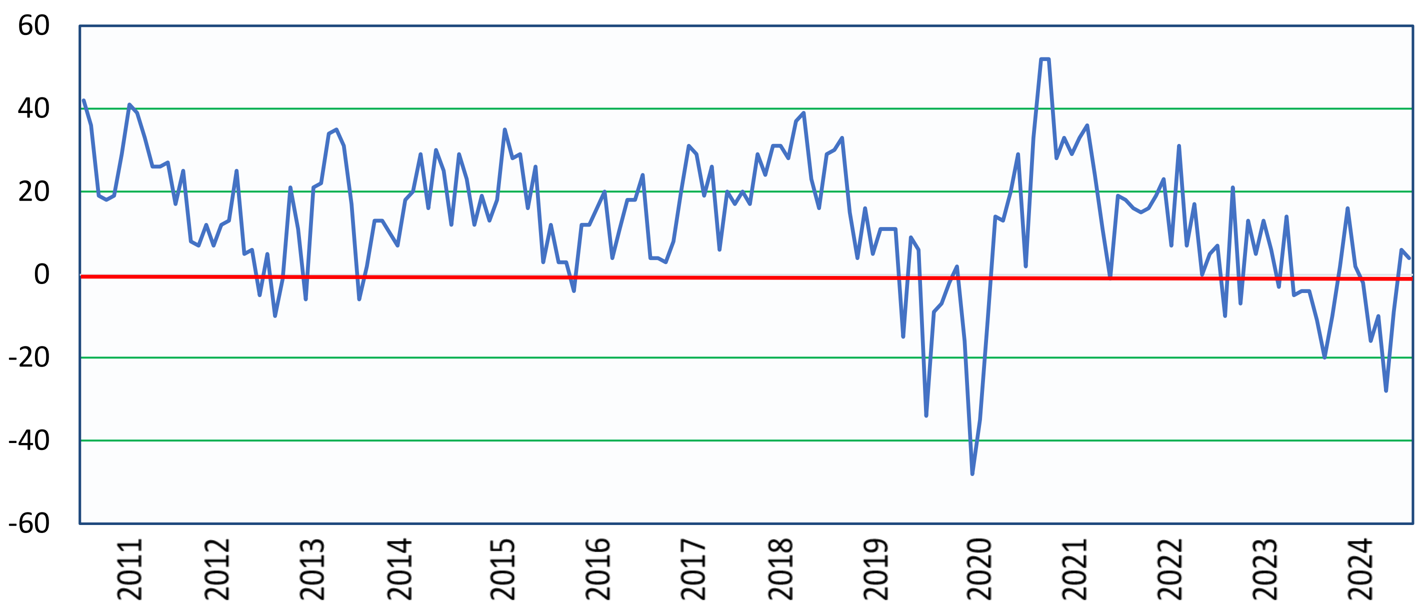
West Michigan Index of New Orders: 2013-2025

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.



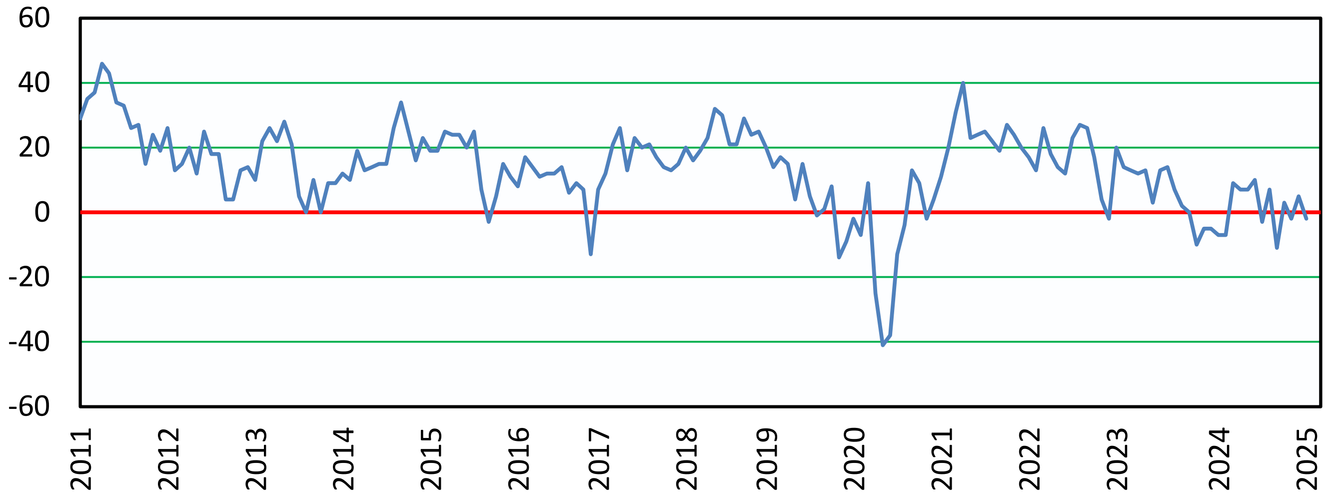
West Michigan Index of Production (Output): 2008-2025

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: 2011-2025

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: 2013-2025

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.