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West Michigan Current Business Trends

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Economy Still Positive, But Uncertainties Abound

Key Take-Aways from February 2025 Statistics:

- **NEW ORDERS for February Remain Positive.**
- **Tariff Threats Put Many New Programs on Hold.**
- **Short and Long-Term Business Confidence Indices Remain Strong.**

	Feb.	Jan.
NEW ORDERS Index (business improvement)	+11	+13
PRODUCTION Index (aka "output")	+ 1	+ 1
EMPLOYMENT Index	- 8	- 2
LEAD TIMES Index	- 9	- 7

Key Participant Comments for February:

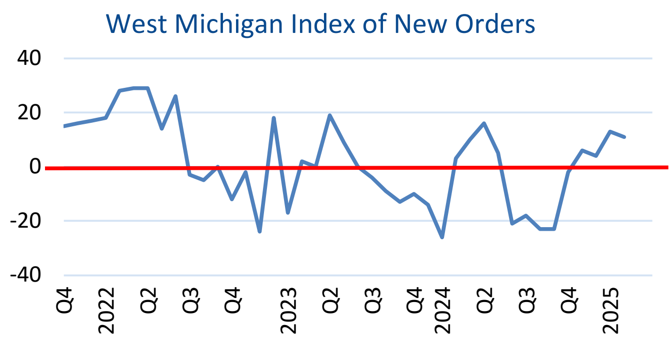
"The Trump tariffs are now in full swing. To state the obvious, planning with seemingly hour-to-hour policy changes is impossible. Customers are also concerned that this will paralyze their decision-making as they navigate uncertainty. Sales remain above expectations to start the calendar year, which is a bright spot."

"We are growing inventory due to concerns over lack of clarity of tariff impacts. Our inventory is up for normal seasonality level loading."

"We are seeing discounting for capital equipment still happening. We have seen up to 30% discounting in order to move inventory."

"2025 has been off to a very slow start, but we are seeing things starting to pick back up in February. We are hoping to still see growth for the year."

The Local Economy. Despite numerous economic uncertainties, modest growth in the West Michigan economy continued into February. NEW ORDERS, our closely watched index of business improvement, marginally eased to +11 from +13. Our PRODUCTION Index, a.k.a. "output," remained unchanged at +1. Regrettably, the activity in the purchasing offices, the index of PURCHASES, slid further to -17 from -12. With the escalating on and off threat of tariffs, the Michigan economy is especially vulnerable, primarily because of the tariff impact on the auto industry. Millions of dollars' worth of auto parts cross the Ambassador Bridge between Winsor and Detroit in BOTH directions every day, and the enforcement of a new tariff would probably upset the business model for firms on both sides of the border. We had somewhat assumed that the threat of new tariffs was being used to extract commitments for more border security. Now we do not know for sure what might happen in coming months. As a result, our survey participants are growing increasing



uncertain about the future business environment. The post-election euphoria reflected a feeling that the new administration would usher in a more positive business environment. Now, many businesses are not so sure.

The U.S. Economy. The national industrial economy for February 2025 remained positive but slightly softened over the past month. The February survey results posted by the Institute for Supply Management (ISM) noted that the index of NEW ORDERS eased to +3 from +6. ISM's February index for PRODUCTION edged up to +2 from +1. Unlike previous reports, gradual inventory reduction has given way to inventory accumulation, probably because of the ongoing threat of tariffs on a wide range of imported industrial goods. However, ISM's index of INVENTORIES posted at +2, up from -8, which is still not as dramatic as we might have expected. ISM's ORDER BACKLOG Index for February modestly recovered to -6 from -10. NEW EXPORT ORDERS for February posted at +3, slightly softer than +5 in the January report. The ISM composite index, a compilation of all the aforementioned indices, came in at 50.3, down from January's 50.9, but still marginally positive.

A contrasting view of the U.S. economy comes from S&P Global, the British-based economic consulting firm which also surveys U.S. purchasing managers. Unlike ISM's February report, the S&P composite PMI for the U.S. rose nicely to 52.7 from 51.2. Although notable improvements in both the NEW ORDERS and PRODUCTION indices augmented the uptick, the survey author also noted that some of the increase in activity can easily be attributed to rising prices, potential tariffs, and possible supply disruptions because of tariffs. Chris Williamson, Chief Business Economist at S&P, further noted:

> "A rise in the PMI to a 32-month high signals an improvement in the health of the manufacturing sector which may only be skin deep. Although manufacturing production grew at the strongest

rates since May 2022 and new orders increased at the best pace in a year, there's much to suggest that this improvement could be short lived. Production and purchasing were often buoyed by companies and their customers building inventory to beat price hikes and supply issues caused by tariffs. Exports have meanwhile slumped and supplier delivery delays were the most common since October 2022 amid disruptions to trade caused by tariff worries. Business optimism about the year ahead has consequently fallen compared to the buoyant mood evident in January, with February seeing an increase in the number of companies citing concerns over tariffs and other policies introduced by the new Trump administration. Worries have noticeably swelled in relation to the inflationary impact of tariffs, which were widely reported as having caused factory input costs to spike higher in February. These higher costs are being passed on to customers, resulting in the strongest factory gate price inflation recorded for two years, which manufacturers fear may in turn not only damage sales in the coming months but also encourage the Fed to take a more hawkish view of inflation."

The World Economy. The J.P. Morgan (JPM) Worldwide Manufacturing report for February declared that the world industrial economy is "gathering pace." JPM's composite index posted at 50.6, up from 50.1 in January. The survey author credits most of the upturn to the continued improvement in the beleaguered eurozone economy, as well as positive PMIs for India, China, Indonesia, Brazil, and of course, the U.S. For the PMI sub-indices, NEW ORDERS edged higher to 51.3 from 50.8. JPM's OUTPUT Index rose to 51.5 from 50.6. For Michigan, Canada is our most important international trading partner, and the fear of new tariffs, even though they were not levied in February, resulted in the Canadian PMI taking a nosedive to 47.8 from 51.6. For Mexico, the second largest U.S. trading partner, the PMI also ticked lower to 47.6 from 49.1 over feal of impending tariffs. Bucking the trend, the Caixin PMI for China upticked to 50.8 from 50.1. Bennett Parrish, Global Economist at JPM, further commented:

"The global manufacturing output PMI continued to lift in February, climbing 0.9-pt to an eight-month high of 51.5. At this level, the index is more aligned with a recent perk up in hard data on global factory output. The improvement in output last month was accompanied by slightly more modest gains in the new orders and employment components of the surveys. A jump in the orders/inventory ratio to a three-year high of 1.06 is consistent with signs of broad building growth momentum. Future output expectations however firmed less than the other survey components, perhaps reflecting elevated trade-policy uncertainties."

Although the eurozone has been an ongoing weak spot in the world economy for the past three years, the February report from the Hamburg Commercia Bank remained negative but recovered to a 24-month high of 47.8, up from January's 46.6. Germany and France remain the region's weakest performers, but positive PMIs from Greece, Ireland, and the Netherlands continue to keep the eurozone PMI from sliding any farther. 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 still too early to call it a recovery, but the PMI hints that the manufacturing sector might be finding its footing. New orders are falling at the slowest pace since May 2022, and production is edging closer to stabilising. So, after almost three years of recession, we could see a bit of growth in the coming months. A quick formation of a government in Germany, political stability in France, and a deal with the U.S. on key tariff issues would definitely help. Job cuts sped up in February, but it's not uncommon for layoffs to continue even after a recession ends. So, this doesn't necessarily mean a recovery is far off. As for the four big eurozone countries, Spain is still showing growth in production, but its Manufacturing PMI, which has been doing rather well for the past three years, dipped below the 50-mark due to declining new orders. Most companies are staying optimistic about the future. The confidence index is just above the long-term average. This is surprising considering the tariff threats from the U.S., but companies know that a recession is usually followed by a recovery. There are also signs that Russia's war against Ukraine might end this year, and the expected political stabilisation in Germany is certainly a positive element, too."

Automotive. According to the latest edition of *Automotive News,* sales for February were good but somewhat disappointing given the more optimistic trend of the past several months. It appears that the higher prices for vehicles and higher interest rates may finally be muffling at least some sales. However, the February SAAR (Seasonally Adjusted Annualized Rate) compiled by GlobalData posted at a high of 16.6 million units, up from 16.0 million units in January. For the firms still reporting monthly, year-over-year sales at Hyundai-Kia rose 5.5 percent and Subaru 4.1 percent. On the downside, Honda sales fell by 2.8 percent, Ford, 8.8 percent, and Toyota, 4.9 percent. According to Edison Yu and Winnie Dong, auto analysts at Deutsche Bank:

"We continue to be surprised by pricing resilience since its run-up over the last few years, though with companies' focus on inventory levels, we will watch price closely. That said, we do note that industry incentives have risen over the last 12 months from 5.7 percent of ATP to 6.9 percent, though we note that the industry incentive has averaged about 7 percent since July 2024."

Consumer Confidence. Because of numerous levels of uncertainty growing throughout the nation and the world, the Conference Board's Consumer Confidence Index declined to 98.3 (1985=100), down from January's 104.1 and December's 109.5. According to Stephanie Guichard, a senior economist at the Conference Board, "In February, consumer confidence registered the largest monthly decline since August 2021. This is the third consecutive month on month decline, bringing the Index to the bottom of the range that has prevailed since 2022." In confirmation, the University of Michigan Consumer Sentiment Index retreated to 64.7 from 71.1. Until recently, many consumers were holding out hope that the threat of tariffs was a negotiation ploy to force Mexico, Canada, and China to try MUCH harder to reduce the flow of illegal drug into our country and help secure our border from illegal immigration. The U of M's survey director Joanne Hsu further noted that, "…fears of tariff-induced price increases are imminent."

Business Confidence. At the national level, the Small Business Optimism Index published on February 14 by the National Federation of Independent Businesses (NFIB) fell to 102.8 in January 2025 from 105.1 in December 2024, noting that "uncertainty is on the rise." U.S. business optimism reported by S&P Global slumped to its lowest level since December 2022. So far, almost none of this pessimism has spilled over to our West Michigan survey. For February, the SHORT-TERM BUSINESS OUTLOOK Index, which asks local firms about their business perceptions for the next three to six months, edged up to +20 from +19. For the LONG-TERM BUSINESS OUTLOOK Index, which queries the perceptions for the next three to five years, the February index rose to +58 from +57, setting another 12-year record high.

West Michigan Unemployment. According to our local business news media, West Michigan has recently seen a few minor layoffs and plant closures. Some firms have also reduced staff by attrition. Despite signs of the economy continuing to slow, the West Michigan employment situation has remained relatively stable for the past 18 months, although the official unemployment numbers from Lansing are beginning to rise. For February, our West Michigan index of EMPLOYMENT edged lower to -8 from -2. At the national level, ISM's February index of EMPLOYMENT also remained modestly negative and eased to -5 from January's -1. At the international level, the JPM index of EMPLOYMENT remained slightly below the 50.0 break-even point but edged up to 49.2 from 48.5.

Industrial Inflation. Until recently, industrial inflation seemed to be under control. The supply chain disruptions caused by the pandemic had subsided, and the list of commodities rising in price also declined considerably. However, the pending threat of tariffs and the possibility of some kind of worldwide trade war pushed our local February index for PRICES up to +25 from +10. At the national level, ISM's February index for PRICES also jumped to +25 from +10. According to the most recent J.P. Morgan report, the World Price Index rose to 55.6 from 54.5. In confirmation of the trend, S&P Global, which tracks both worldwide price pressures and supply pressures, reported that the S&P Price Pressure Index for February grew to 1.0, an eight-month high. S&P's February Supply Shortage Index edged up to 0.6 from what was a 60-month low of 0.5. Usamah Bhatti, Economist at S&P Global Market Intelligence, further commented:

> "While supply pressures remained subdued during February, price pressures showed signs of picking up midway through the first quarter as the Global Price Pressures Index came in at the long-run average. Electrical Items and Semiconductors saw the steepest reports of price increases, the former seeing reports three times above the long-run trend. The uptick in global price pressures came as the latest PMI data signalled the steepest rise in global input prices for 25 months. On the other hand, supply shortages remained largely muted in February. Reported shortfalls have now been below the long-run average for a year-and-a-half, with only five of the monitored commodities seeing above-average reports of shortages in the latest month, led by Stainless Steel."

Consumer Inflation. According to the February 12 data posted by the Bureau of Labor Statistics (BLS), the "headline" CPI inflation rate came in at 3.0 percent, well ahead of the Fed's widely publicized target of 2.0 percent. However, the headline rate reported in January was 2.9 percent, November, 2.7 percent, and October, 2.6 percent. For this widely observed measure of inflation, the trend is still running in the WRONG direction. Since the dollar is no longer backed by gold, silver, or any other hard asset, keeping inflation low is critical to the sanctity of the dollar as the world's primary reserve currency. According to economic theory, SOME inflation is good because it encourages spending and investments, although some economists feel that inflation as low as 1.0 percent would still encourage growth. The bottom line is that the Fed is unlikely to cut rates until it is safe to do so, and a couple of token cuts is the most we can expect for the rest of the year. However, the CPI from the BLS is only one measure on inflation. The "Fed preferred" inflation measure, the Personal Consumption Expenditures Index or PCE released on February 28 by the Bureau of Economic Analysis (BEA), downticked to 2.5 percent from 2.6 percent. This is still disappointing, given that the PCE had been as low as 2.1 percent in September. BEA's core PCE, which also excludes food and energy, downticked to 2.6 percent from 2.9 percent. It is noteworthy that the Fed's "preferred" inflation measure may be the PCE, but the CPI still has a significant role to play in the Fed's decision making.

Fortunately, the cost of housing or "shelter," the most troublesome component of both the CPI and the PCE, appears to be slowly returning to normal. The latest Shelter CPI from the BLS posted at 4.4 percent, down from 4.6 percent in the prior month. However, the latest Zillow "Rent Increase Index" edged marginally higher to 3.46 percent from 3.40 percent, year over year. The February 18 rent index report from Realtor.com posted a year-over-year decline of 0.2 percent. The latest Case-Shiller Index reported home prices to be rising at a 3.9 percent rate. All of these statistics imply that the cost of shelter is beginning to normalize, but the rate of decline continues to be relatively slow. Assessing the housing market, Danielle Hale, Chief Economist at Realtor.com commented:

> "Inventory growth continued, but newly listed homes increased by only half as much as in January and weekly data showed softening new listings growth as the month progressed. Among transaction indicators, new home sales declined in January and pending home sales also fell. While sales slowed across the board, new construction homes, which have comprised a larger than usual share of inventory and sales, outperformed. New home sales registered on par with a pace near what was typical in 2022 and 2023, while the pending home sales index hit its lowest level since counting began in 2001–suggesting this trend will continue."

GDP. On February 27, the BEA released the second GDP estimate of 2.3 percent growth for the now completed 2024 fourth quarter, an upward revision of 0.1 percent. This modest uptick primarily reflects increases in consumer and government spending. However, looking ahead to forecasts for the first quarter of 2025, the Atlanta Fed's GDPNow model turned negative at -2.8 percent as of March 3, a sharp decline from a projected growth rate of +2.9 percent posted as recently as February 5. The Atlanta Fed has always been quick to point out that GDPNow is a mathematical model with no subjective inputs, and that a huge surge in pre-tariff imports compounded by a corresponding fall in exports accounts for most of the radical downward computation. Other analysts added that end of the quarter is still a month away, and much of the variation may correct itself when the entire quarter is added up. Fortunately, the Blue Chip GDP Realtime model for February remains unchanged at 2.1 percent growth for the first quarter. In addition, forty forecasters surveyed by the Federal Reserve Bank of Philadelphia predict the first quarter economy will expand at an annual rate of 2.5 percent.

Looking Forward. Numerous variables cloud the future direction of the economy for the next few months. With the new administration making announcements on a daily basis, the future is increasingly uncertain. For instance, a new agreement to end the war in Ukraine could soon be announced, and the world economy would breathe a sigh of relief. On the other hand, the peace talks could be unsuccessful, and the war could escalate out of control. Since the NAFTA agreement was signed thirty years ago, trade with Mexico and Canada has expanded exponentially, especially in the auto industry. However, with the threat of devastating tariffs and an ensuing trade war still a possibility, the future for the Michigan economy remains uncertain. By the same token, a new trade agreement could be signed with Canada and Mexico, and the tariffs between the three counties could be brought down to a reasonable level. Because Michigan's economy is still very dependent of the auto industry, free trade between all three countries is especially good for our state.

The path forward for the economy is paved with numerous statistical indicators. For all of the local, national, and international PMIs, we need to watch all of the NEW ORDERS indices, which signify business improvement or business decline weeks or months BEFORE any money actually moves. A positive NEW ORDERS report implies that the firm or organization will soon need to purchase more raw materials and services, hire more people, or possibly expand facilities. By contrast, when the NEW ORDERS indices turn sharply negative, it is a sign that the economy is in trouble. Right now, we are not near that point.

February 2025 Survey Statistics

	UP	SAME	DOWN	N/A	Feb. Index	Jan. Index	Dec. Index	25 Year Average
Sales (New Orders)	38%	35%	27%	0%	+11	+13	+ 4	+14
Production (Gross Output)	28%	35%	27%	7%	+ 1	+ 1	+ 4	+14
Employment	15%	62%	23%	0%	- 8	- 2	+ 5	+ 8
Purchases	15%	53%	32%	0	-17	-12	- 12	+ 7
Prices Paid (major commodities)	30%	65%	5%	0%	+25	+10	+ 0	+15
Lead Times (from suppliers)	3%	83%	12%	2%	- 9	- 7	- 3	+11
Purchased Materials Inv. (Raw materials & supplies)	32%	35%	20%	13%	- 4	- 4	- 5	- 4
Finished Goods Inventory	20%	47%	25%	8%	- 5	- 7	- 5	- 2
Short Term Business Outlook (Next 3-6 months)	35%	53%	15%	0%	+20	+19	+19	-
Long Term Business Outlook (Next 3-5 years)	58%	40%	0%	2%	+58	+57	+49	-

Items in short supply:

Construction aggregates, special grades of aluminum, eggs, hemp, qualified labor.

Prices on the UP side:

Aluminum, paint, steel, pallets, fabric, eggs, polypropylene, ABS plastics, cement, coarse aggregates, electronics.

Prices on the DOWN side:

Polypropylene*, polyethylene, capital equipment, electronic components*.

*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*

FEBRUARY COMMENTS FROM SURVEY PARTICIPANTS

"We are dealing with uncertain times. Businesses are reluctant to spend money."

"Hemp continues to have higher prices as more and more farmers have been getting out of the industry since the 2018 Farm Bill. Regulations continue to hamper the hemp industry growth."

"Trade actions (and uncertainty about future actions) are spiking the all-in cost of commodity metals. All-in pricing on aluminum is up 20% from the start of the year, and steel prices have increased more than 20% from the January averages."

"We are now starting to hear potential effects of tariffs on pricing and possible material shortages. Nothing specific yet, but steel is a concern."

"We are still seeing discounting for capital equipment still happening. We have seen up to 30% discounting in order to move inventory. "

"2025 has been off to a very slow start, but we are seeing things starting to pick back up in February. We are hoping to still see growth for the year."

"The new administration will have an impact 6-9 months out with everything as they adjust policies. Everyone needs to be nimble to adjust."

"We are still looking for the expected across-the-board uptick in construction to really begin a little later this year."

"West Michigan is still living in somewhat of a construction bubble with major projects ongoing, strong population growth, and income growth in the region. "

"Tariffs. They are changing every day."

"Very concerned about the impact of tariffs."

"We are concerns about what tariff the impact will be on raw material pricing and availability."

"Tariffs could have an impact on costs for both imports and domestic production."

"The Trump tariffs are now in full swing. To state the obvious, planning with seemingly hour-to-hour policy changes is impossible. Customers are also concerned that this will paralyze their decision-making as they navigate uncertainty. Sales remain above expectations to start the calendar year, which is a bright spot."

"Hemp can make a huge impact on the world. Hemp is very sustainable. Hemp requires no pesticides, hemp fibers are 10X stronger than cotton, hemps deep roots help preserve topsoil, hemp uses less water than cotton, hemp doesn't deplete the soil, hemp produces up to 4X more fiber than cotton on the same amount of land, hemp requires only half the acreage of cotton, hemp can grow almost anywhere in the world, and hemp can be used for textiles, construction materials, oils, foods, and medicine."

"We continue to experience some supplier uncertainty over their true lead times for raw materials."

"For February, we are budgeted to be down somewhat vs. January and are tracking to budget. So far, the year is going as projected."

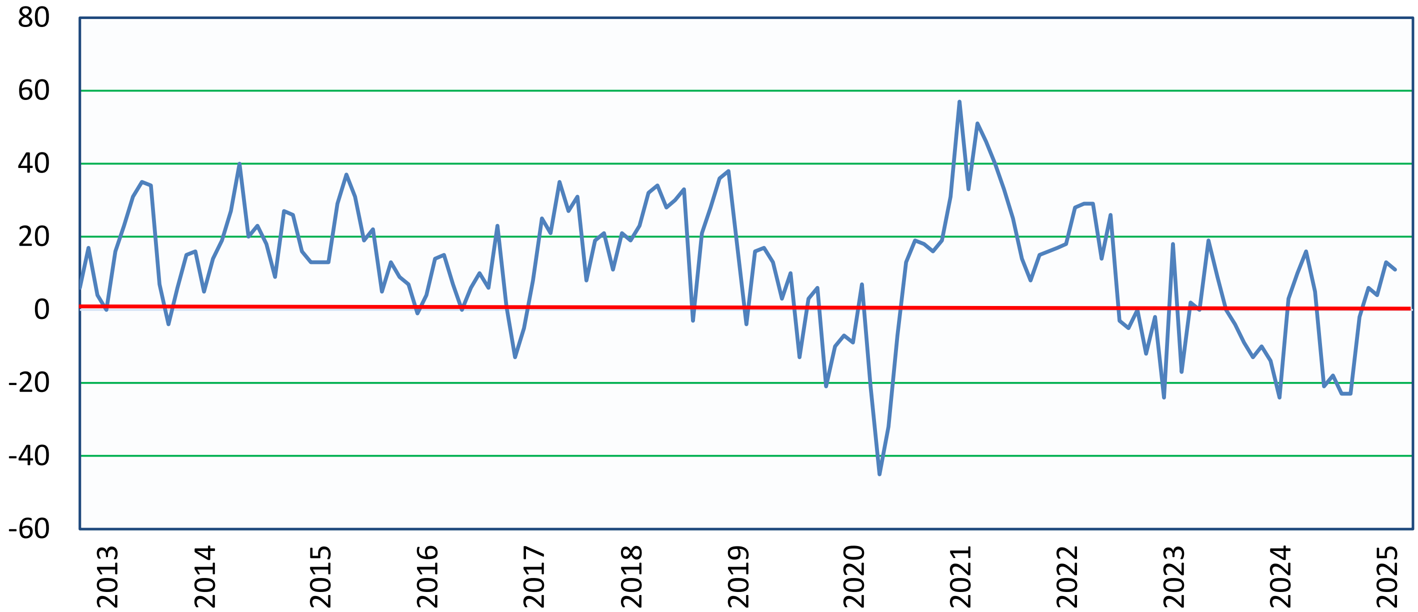
"We are growing inventory due to concerns over lack of clarity of tariff impacts. Our inventory is up for normal seasonality level loading."

"We've had an unexpected slowdown in new orders for February, but it is likely caused by seasonality. We expect a big bounce back in March. "

"We are still assessing the impact of the tariffs. There's so much uncertainty right now."

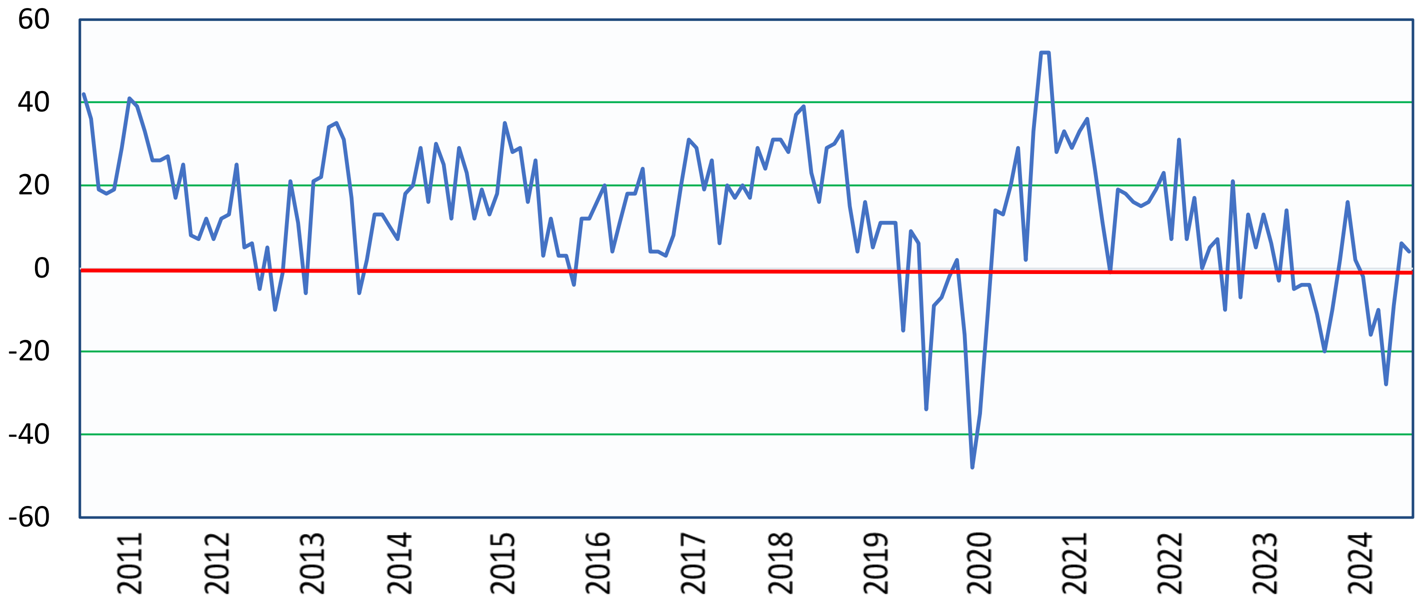
West Michigan Index of New Orders: 2013-2025

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.



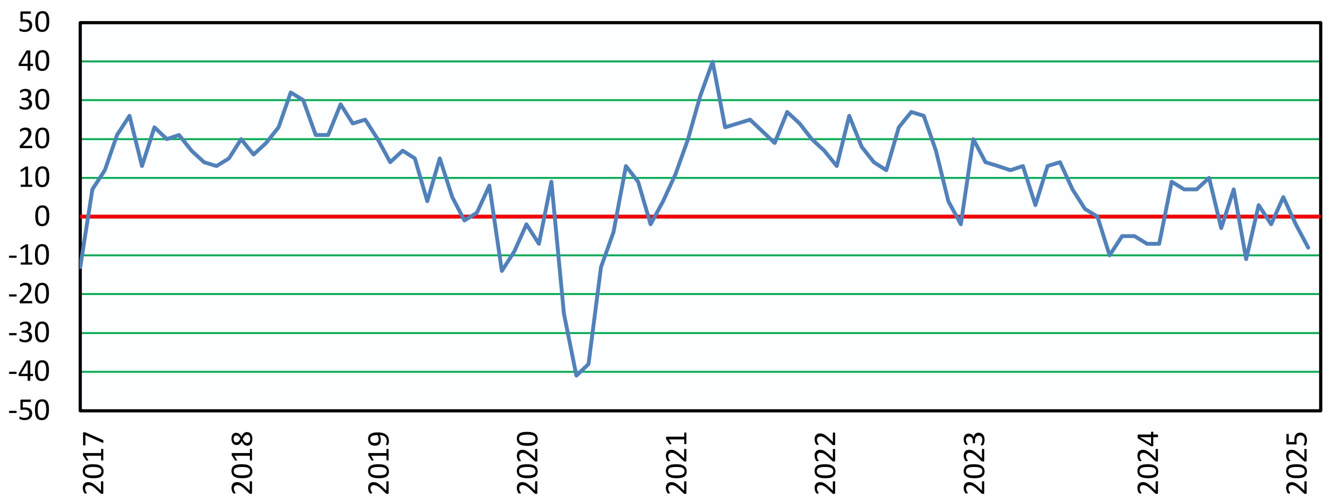
West Michigan Index of Production (Output): 2008-2025

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: 2017-2025

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.