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Current Business Trends

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LOCAL, NATIONAL, AND WORLD ECONOMIES FLATTEN

- **Industrial Inflation Moderating**
- **Automotive Shows Modest Improvement**
- **Mild Recession Still Probable**

Key Participant Comments for September:

"We continue to be busy, and are revising upward our forecast for the rest of the year."

"Labor remains tight, but supply and demand are beginning to realign.

"Office furniture orders appear to be softening. One major firm has announced layoffs."

"We are holding our own on acquiring additional workers, but retaining them is still difficult."

"While incoming orders are softening, but we are still stretched to the maximum in production capacity in an effort to reduce our backlog and lead times."

The Local Economy. According to the data collected in the last two weeks of September, West Michigan is still not in a recession, despite the growing pessimism from some of the news sources. The Index of NEW ORDERS, our index of business improvement, upticked to +0 from -5. However, the September PRODUCTION Index, which is now termed "output" by many economists, backtracked to +0 from +17. Activity in the purchasing offices, our index of PURCHASES, fell to -7 from +2. Although the performance of supply chains continues to improve, the September index of LEAD TIMES held steady at +16. The market for office furniture has now turned slightly negative, but pent-up demand for new cars will mostly likely keep our auto parts suppliers and the assembly lines running for the foreseeable future.

The U.S. Economy. According to the Institute for Supply Management, our parent organization, the national economy has turned modestly negative. ISM's NEW ORDERS Index for September came in at -5, slightly below August's reading of -2. In a similar move, ISM's September PRODUCTION (a.k.a., Output) Index flattened to +0 from +1. Other key ISM indices, such as Order Backlogs, are also flattening. As a result, ISM's Composite September Manufacturing PMI registered 50.9 percent, 1.9 percentage points lower than the August report.

A contrasting view of the U.S. industrial economy comes from the British-based international consulting firm - S&P Global. The S&P Output Index contracted for a second straight month, but the New Orders index turned modestly positive for the first time in four months. The seasonally adjusted S&P Global U.S. Manufacturing Purchasing Managers' Index™ (PMI™) posted at 52.0 in September, up modestly from August's 51.5. However, despite recent declines in the cost of raw materials, many of S&P's survey respondents continue to be very concerned about inflation. Chris Williamson, Chief Business Economist at S&P Global, commented:

> "With U.S. manufacturers reporting a return to growth of order books for the first time in four months, as well as improved job gains, the September survey brings welcome news that business conditions are starting to improve again. However, even with the latest improvement, the weakness of the data in recent months still point to manufacturing acting as a drag on the economy in the third quarter, and demand will need to revive further if any meaningful positive contribution to GDP is going to be seen in the rest of the year. The brightest signs of life are coming from the domestic market, with producers of both consumer goods and, most notably, business equipment reporting improved sales to the home market. Manufacturers across the board are, however, reporting further export losses, linked to weaker economic growth abroad and the dollar's strength. While the strong dollar is curbing exports, a beneficial effect from the greenback's strength is being seen via lower import costs. With supply chain delays also easing substantially again in September and shipping costs falling, upward pressure on firms' costs has moderated sharply, which will feed through to lower goods prices to consumers."

The World Economy. It is no surprise that the Ukrainian war continues to be a drag on the world economy, although Europe continues to bear the heaviest burden. The J.P. Morgan Worldwide Manufacturing PMI for September dipped to 49.8, marginally below the all-important break-even point of 50.0. The report further noted that the New Orders Index fell to 47.7 from 48.8, and the Output Index eased to 48.8 from 49.4. Only a few months ago, the PMI reports from Canada, our largest trading partner, was remarkable strong. According to S&P Global's Canada report, New Orders and Output continue to fall, but seasonal adjustments brought the September PMI up to 49.8 from August's 48.7. Mexico's September PMI, our second largest trading partner, returned to a positive reading of 50.3, up from 48.5. The September PMI for China, our third most important trading partner, eased to 48.1 from 49.5. Bennett Parrish, Global Economist at J.P. Morgan, further noted:

"The global manufacturing PMI saw output and new orders lose further ground in September, suggesting that global industrial production is slipping into recession. The orders-to-inventory ratio fell to another multi-year low last month as excess capacity continued to build at factories. The ongoing rise in stock-building is a worrying sign that demand is faltering and will weigh on activity deeper into 2H22. The September surveys offered a few silver linings, including signs of improving supply chain conditions and resilience in the labor market."

Despite the rapidly rising cost of energy, the September PMI for the Eurozone came in at 48.4, down from August's 49.8, but still not sharply negative. The ongoing disruptions of Nord Stream Pipeline from Russia has resulted in the cost of natural gas rising from the equivalent of $3.89 in June 2020 (converting to dollars from European megawatt equivalent) to the seemingly unthinkable current price of $156.90. It is worth repeating that ALL of the major economies in the Eurozone were posting positive PMIs as little as four months ago. Today, only the September PMI for Ireland is positive. Chris Williamson further noted:

"The ugly combination of a manufacturing sector in recession and rising inflationary pressures will add further to concerns about the outlook for the Eurozone economy. Excluding the initial pandemic lockdowns, eurozone manufacturers have not seen a collapse of demand and production on this scale since the height of the global financial crisis in early-2009. The downturn is being driven primarily by the surging cost of living, which is reducing spending power and hitting demand, but soaring energy prices are also increasingly limiting production at energy intensive manufacturers. Worse looks set to come, with orders slumping at a significantly steeper rate than production is being cut. Further steep production cuts look to be in the cards in the coming months unless demand revives. The combination of rising costs and slumping demand has also pushed firms' expectations for the year ahead sharply lower again in September, leading in turn to reduced input buying and lower jobs growth as firms prepare for a tough winter. The energy crisis has offset the easing of inflationary pressures from fewer supply delays in recent months. Input cost inflation re-accelerated after four months of cooling price pressures, putting further upward pressure on consumer price inflation."

Automotive. At long last, the supply of computer chips for the auto industry appears to be increasing. However, the SAAR (Seasonally Adjusted Annualized Rate) for September is improved but estimated to be between 13.3 and 13.3 million units, well below the pre-pandemic sales rate of 15-16 million cars and light trucks. For the 2022 third quarter, sales at Ford rose 16.0 percent, GM gained 24.6 percent, but Stellantis (a.k.a. Chrysler) lost 6.4 percent. For the transplant firms, Hyundai-Kia sales gained 3.8 percent but Toyota fell 7.1 percent, Nissan lost 23.3 percent, and Subaru sales declined 3.0 percent. Zack Krelle, TrueCar analyst, offers a slightly different view:

"With increasing interest rates, affordability is being tested. We're seeing consumers faced with the reality that to afford the same vehicle at the same monthly payment as last year, they are forced to increase their down payment, which is creating new affordability challenges. We are paying close attention to how the industry will react to these concerns. Perhaps there will be more incentives, longer finance terms, or a combination of these."

Industrial Inflation. Although many of the major industrial commodities like steel, copper, lead, and zinc are now about 25 percent below the prices of six months ago, industrial buyers continue to see occasional bottlenecks in the still-fragile supply chains. Because of recent news from OPEC, oil is once again rising in price. For September, our local index of PRICES remained steady at +26. At the national level, ISM national index of PRICES posted at +3, down sharply from +74 posted as recently as March. Annabel Fiddes at S&P Global Market Intelligence further commented:

"Although the latest price and supply indicators from S&P Global continued to point to relatively mild cost pressures across the global manufacturing sector during September, reports of price rises were up compared to August and were slightly above the long-run trend. Greater energy costs were a key driver of this, with reports of higher energy prices running at over 14 times the normal level as the war in Ukraine continued to impact energy markets. Increased semiconductor prices were also cited as a key source of inflationary pressure. There were further signs of supply chain pressures easing, however, with total supplier shortages at their least severe for nearly two years. Nevertheless, only 11 out of 20 raw material categories noted a reduction in supplier shortfalls, as shortages worsened for key materials such as oil, copper and semiconductors."

West Michigan Unemployment. The labor crunch that has been a complaint of many of our survey respondents for months is now abating. As a result, our local index of EMPLOYMENT for September posted at +4, down sharply from August's reading of +26. Hence, our EMPLOYMENT Index is now flattening at the same rate as our other statistics. However, for the government reports that we see in the news, **employment and unemployment are laggard statistics.** Hence, the Michigan unemployment rate for August (latest month available) edged down to 4.1 from August's 4.2 percent, the lowest the rate has been since January 2020. Among the local counties with falling unemployment rates are Ottawa County (3.1 percent), Kent County (3.5 percent), and Kalamazoo County (4.0 percent). However, 17 percent of our respondents for West Michigan reported workforce reductions in September, which will probably mean that the current unemployment numbers may be the best we can expect for some time.

Business and Consumer Confidence. Confidence in the future for both businesses and individuals tend to be driven by the news cycle. According to the Conference Board's (CB) Index of Consumer Confidence, consumers must like what they are hearing. CB's September index now stands at 108.0 (1985=100), up from 103.6 in August. By contrast, the University of Michigan's Consumer Sentiment Index rose to 58.6, up marginally from 58.2 in August and FAR below the 72.8 reported only one year ago. For our West Michigan survey of the industrial economy, the confidence situation has clearly worsened. The SHORT-TERM BUSINESS OUTLOOK Index for September, which asks local firms about the business perception for the next three to six months, posted at -12, a sharp drop from August's +2. By contrast, the LONG-TERM BUSINESS OUTLOOK Index, which queries the perception for the next three to five years, remained positive but eased to +17 from +28.

GDP. On September 29, the Bureau of Economic Analysis confirmed the second quarter GDP (Gross Domestic Product) estimate of -0.6 percent, the same as reported a month earlier. Looking ahead to the now-completed third quarter GDP estimate, which BEA will release on October27, the Atlanta Fed's GDPNow model is predicting a gain of 2.7 percent as calculated by the data available as of October 5th. The current Federal Reserve Bank of Philadelphia forecast stands at 1.4 percent. Blue Chip Consensus forecast for Q3 was recently reported as 1.0 percent. A more pessimistic forecast from the Conference Board calls for GDP growth of only 0.3 percent. It is important to note that all of these forecasts are positive, and based on the assumption that unemployment will not edge up until the fourth quarter.

Summary. The economy reflects a good news/bad news story. Bad news: We still stand an 80% chance of entering a recession over the next year or so. Good news: If we do enter a recession, it will probably be one of the shortest and mildest recessions in history. Continued strength in automotive will offset other areas of weakness. Consumer and business liquidity are on much firmer ground than most recessions in the past. Reshoring will help bring jobs back home, especially in the Michigan auto industry. The higher interest rates are already having an impact on interest-rate sensitive segments of the economy, such as residential housing as well as other forms of commercial borrowing that are not readily noticeable. For consumers, the cost of credit card interest is edging up, and higher car loan interest is adding to the already-high price of new and used cars. Although there are plenty of indicators that various segments of the economy are slowing, there is still little evidence that inflation is slowing enough to avoid mutating into a wage-price spiral. Hence, when the Federal Open Market Committee of the Fed meets on November 1-2, the committee will be compelled to raise interest rates again. If the Fed fails to keep tightening, we face a strong possibility of returning to stagflation.

SEPTEMBER COMMENTS FROM SURVEY PARTICIPANTS

"Office furniture orders appear to be softening. One major firm has announced layoffs."

"We are holding our own on acquiring additional workers, but retaining them is still difficult."

"Everything is the same as last month. Prices are still high and lead times still bad but not worse."

"With our high Government spending, it is only going to get very bad. We need to look back at the Carter years>

"While incoming orders are softening, we are still stretched to the maximum in production capacity in an effort to reduce our backlog and lead times."

"Labor remains tight, but supply and demand are beginning to realign. We are concerned about global freight flows and port congestion during holiday season may negatively impact imports of needed materials which could result in the scarcity of some items."

"We continue to be busy, revising up our forecast for the rest of the year. We need to work down our sales backlog in September/October before we run into vacations and holidays during November and December."

"We continue to have strong orders but we also continue to get customer shutdowns without much notice. We continue to struggle to fill open positions."

"Business is very steady."

"Our business is soft with a slight slowdown."

"We are doing well despite supply chain issues. It's a constant battle to keep things in stock. Some vendors have become completely unreliable."

"We are starting to see increases in some machinery prices, however, these are smaller increases than what we have seen in the past."

"Operating costs, i.e. labor, electricity continue to drive higher prices overall."

"Oil based products, including fuel, are slowly decreasing in price."

"We were seeing improvements in supply chain, but things now seem to be sliding."

September 2022 Survey Statistics

	UP	SAME	DOWN	N/A	Sept. Index	Aug. Index	July Index	25 Year Average
Sales (New Orders)	26%	48%	26%	0%	- 0	- 5	- 3	+14
Production (Gross Output)	17%	57%	17%	9%	- 0	+17	+ 7	+14
Employment	21%	62%	17%	0%	+ 4	+26	+27	+ 8
Purchases	17%	59%	24%	0%	- 7	+ 2	+10	+ 7
Prices Paid (major commod.)	36%	54%	10%	0%	+26	+26	+31	+15
Lead Times (from suppliers)	26%	64%	10%	0%	+16	+16	+25	+11
Purchased Materials Inv. (Raw materials & supplies)	21%	58%	14%	7%	+ 7	+28	+30	- 4
Finished Goods Inventory	21%	58%	14%	7%	+ 7	+19	+ 4	- 8
Short Term Business Outlook (Next 3-6 months)	17%	54%	29%	0%	-12	+ 2	- 2	-
Long Term Business Outlook (Next 3-5 years)	29%	57%	12%	+ 2	+17	+28	+12	-

Items in short supply: Steel, stainless steel, corrugated, LVT flooring, paint, electric motors, explosion-proof motors, electric supplies, aluminum, domestic aluminum sand, permanent mold castings, domestic aluminum extrusions, electronic components, microchips, fabric, amber glass vials, machined parts, fresh perishable items, electronic board components, variable frequency drives, oil-based products, drives and sprockets, Blue Huck towels, PVDF resins, black pigments, toll services, new employees, labor, skilled labor, service vendors (maintenance, skilled trades).

Prices on the UP side: Corrugated, cartons, paper related products, freight, hardware, aluminum, outside services, electronics, labor, energy, aerosol, paint, electronics and electrical, stainless steel, international sourced lumber.

Prices on the DOWN side: Steel (HR and CR)*, carbon steel, stainless steel*, steel coils, aluminum*, domestic lumber, magnesium, Aluminum, propylene, freight, transportation, fuel, oil-based products, some plastics, fuel surcharges, copper, some plastics.

*Item reported as both up AND down in price.

Latest Unemployment Reports

(Except as noted, data are **NOT** seasonally adjusted)

	Aug. 2022	Aug. 2021	Aug. 2009	20 Year Low
State of Michigan (Aug.)	4.1%	6.0%	14.6%	3.2%
State of Michigan (Unadj.)	4.0%	6.1%	14.1%	2.9%
Kent County	3.5%	4.7%	11.9%	2.1%
Kalamazoo County	4.0%	5.2%	11.1%	2.1%
Calhoun County	5.2%	6.7%	12.8%	2.7%
Ottawa County	3.1%	4.0%	13.3%	1.8%
Barry County	3.6%	4.2%	10.9%	2.2%
Kalamazoo City	5.0%	6.4%	15.2%	3.2%
Portage City	3.7%	4.7%	8.7%	1.3%
Grand Rapids City	4.6%	6.3%	16.1%	3.0%
Kentwood City	3.3%	4.5%	10.7%	1.4%
Plainfield Twp.	3.2%	4.1%	8.0%	1.4%
U.S. Official Rate (Sept.)	3.5%	5.2%	9.6%	3.5%
U.S. Rate (Unadjusted)	3.3%	4.6%	9.6%	3.4%
U.S. U-6 Rate (Sept.)**	6.4%	8.1%	22.9%	6.7%

**U-6 for Michigan = 8.0% for Q3 of 2021 thru Q2 2022

Index of New Orders: West Michigan

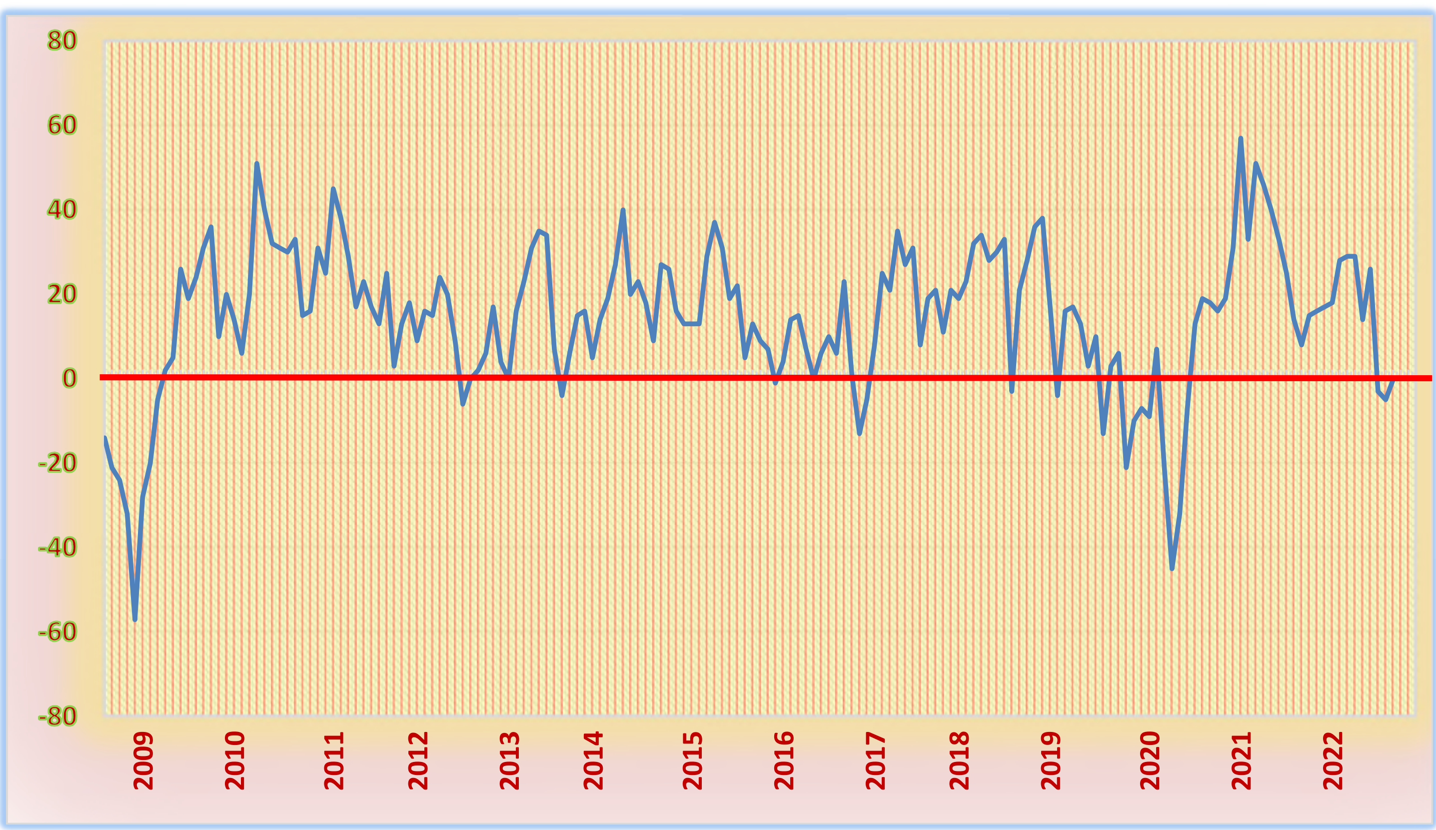
As the name implies, this index measures new business coming into the firm, and signifies business improvement or business decline. When this index is positive for an extended period of time, it implies that the firm or organization will soon need to purchase more raw materials and services, hire more 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.

Latest Report	- 0 for the month of September, 2022
Previous Month	- 5 for the month of August, 2022
One Year Ago	+ 46 for the month of September, 2021
Record Low	- 57 for the month of December 2008
Record High	+ 57 for the month of January 2021

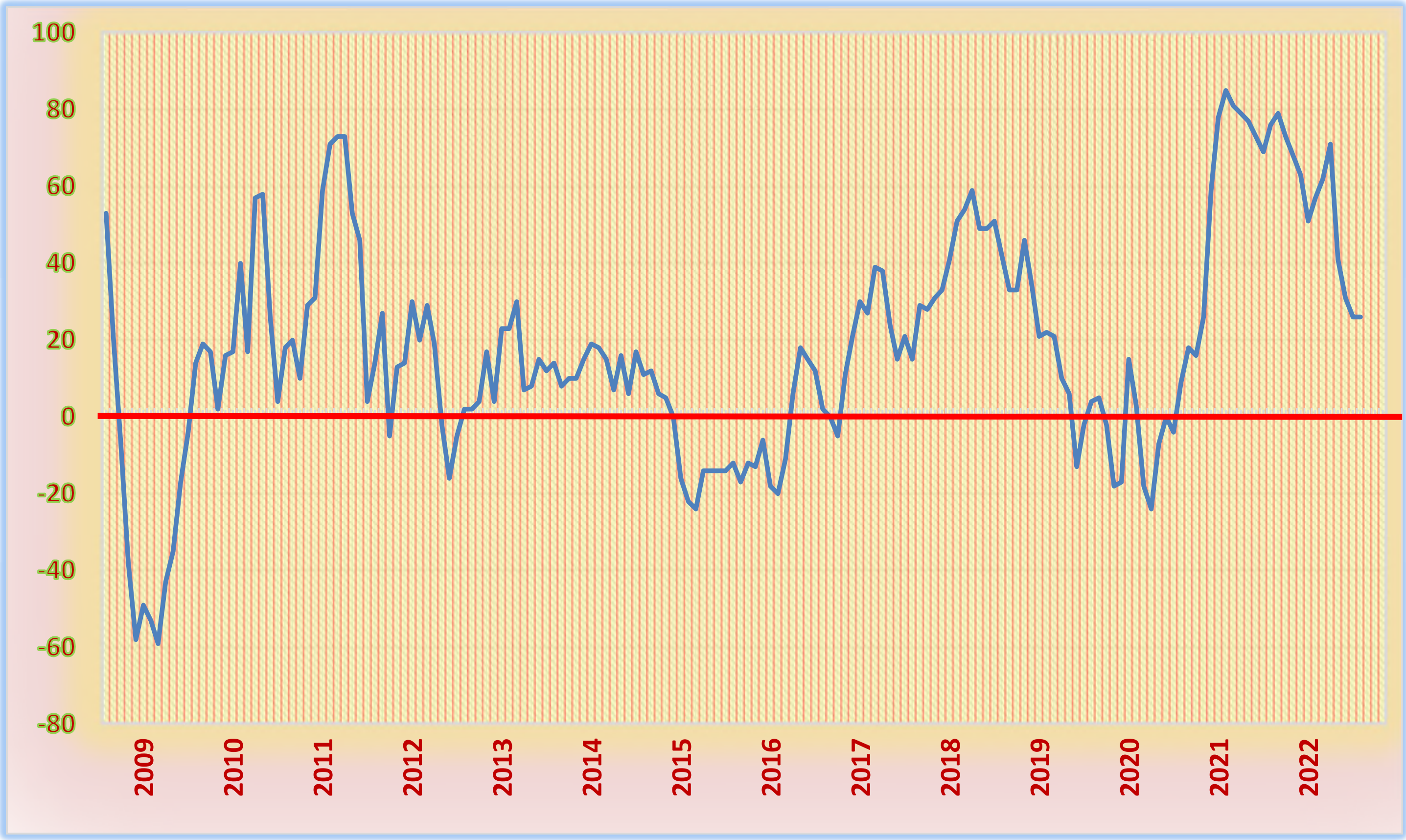
Great Recession
First Recovery + 3 in April 2009

COVID-19 Recession
First Recovery +12 in July 2020

ISM-West Michigan Index of New Orders: 2008-2022

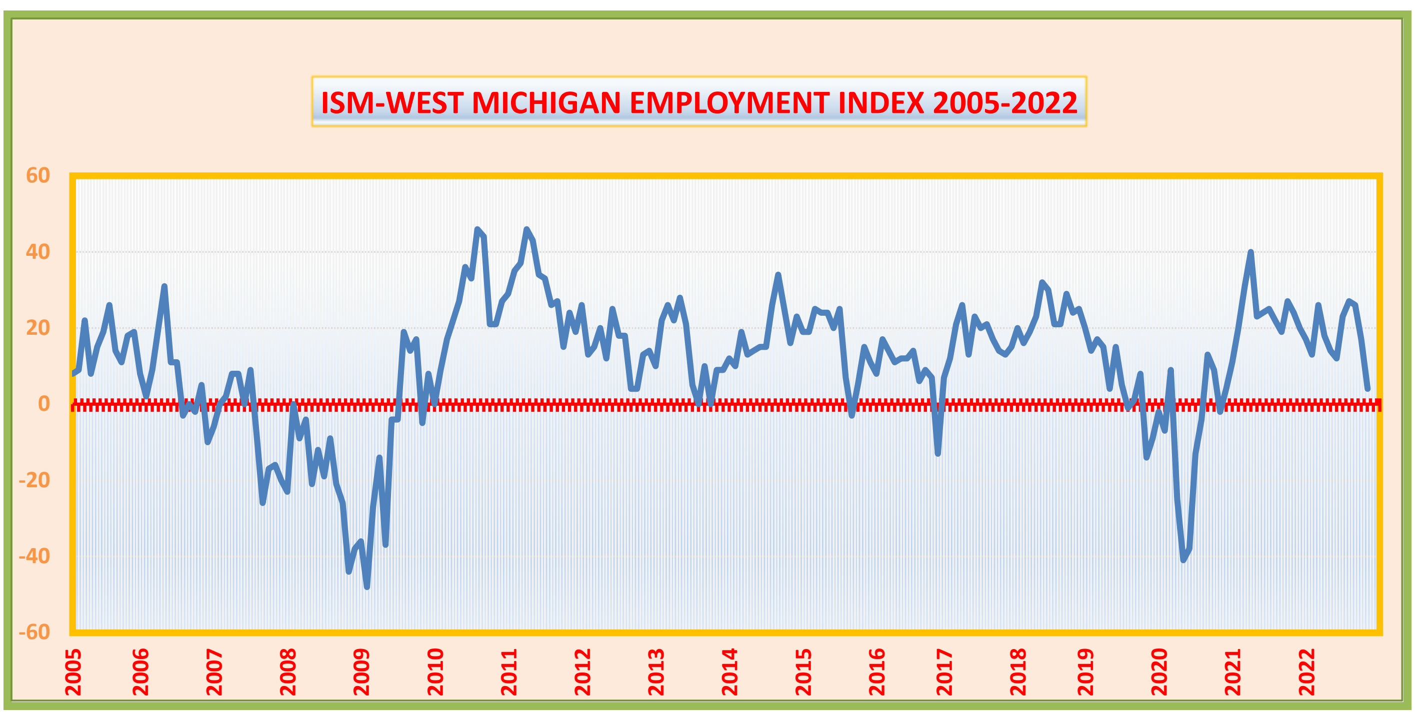


ISM-West Michigan Index of PRICES: 2008-2022



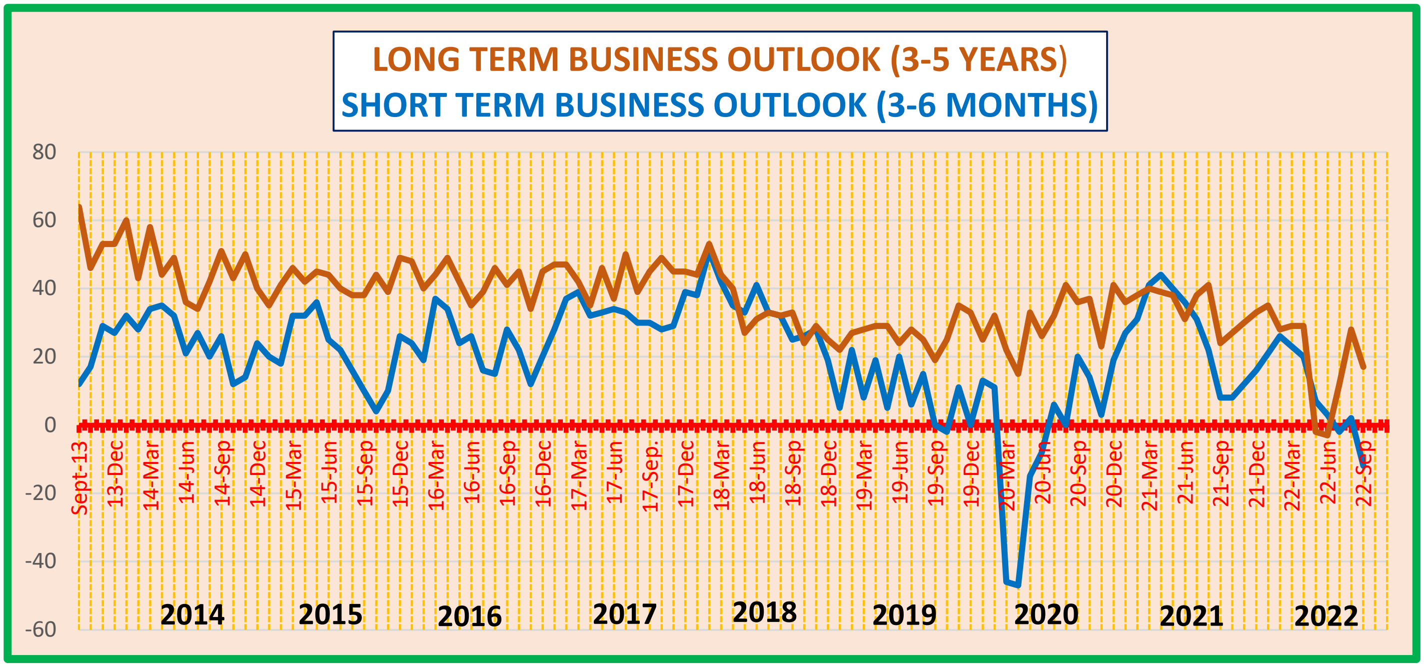
ISM-WEST MICHIGAN INDEX OF EMPLOYMENT

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.



ISM-West Michigan Future Business Outlook

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.



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