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# News Release (For Immediate Release)

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# Current Business Trends

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## WEST MICHIGAN ECONOMY REMAINS FLAT TO MODESTLY NEGATIVE

### Key Take-Aways from November 2022 Statistics:

- Employment Upticks
- U. S. Economy Softens
- Industrial Inflation Waning

Key Index Results:

| | |
|---|---|
| NEW ORDERS Index (business improvement) | - 2 |
| PRODUCTION Index (aka "output") | + 7 |
| EMPLOYMENT Index | +20 |
| LEAD TIMES Index | - 5 |

### Key Participant Comments for November:

"Despite lots of negative chatter, our business is doing ok and remains steady."

"Sales are softening, although we still have a huge backlog to work through. However, we are still keeping a close eye on incoming orders."

"We don't see our market changing in any way, but believe a downturn is coming."

"Automotive demand is rather high for certain items but remains very up and down as the supply chains gradually return to normal."

"We are having to compete on price to retain our customers."

**The Local Economy.** The West Michigan industrial economy remains marginally negative, although there are still no signs of an impending economic Armageddon. According to the data collected in the last two weeks of November, NEW ORDERS, our index of business improvement, remained negative but recovered to -2, up from -12. The November PRODUCTION Index, which is now termed "output" by many economists, came in modestly positive at +7, up from +5. Activity in the purchasing offices, the index of PURCHASES, remained negative for the third successive month but recovered to -2 from -12. Many of the supply chain problems and bottlenecks of the past two years have been resolved. As a result, the LEAD TIMES Index, which reached an all-time high of +83 just a few months ago, has turned modestly negative at -5. Although business conditions for our local office furniture firms remain soft, there is still no sign that any sort of industry retrenchment is pending. Although more people will do more work from home, the traditional business office is not going away anytime soon. Sales for the auto industry continue to modestly improve, which is good news for our local auto parts suppliers. The comments from our survey participants appear to be slightly less tenuous than last month, although some firms are still worried about a possible recession in the impending future.

**The U.S. Economy.** The December 1 press release from the Institute for Supply Management (ISM), our parent organization, continues to depict the national economy as slowly contracting, but not collapsing like we have witnessed at the onset of previous downturns. ISM's NEW ORDERS Index, which began softening four months ago, posted at -12, down from October's -7. In contrast, ISM's November PRODUCTION (a.k.a., Output) Index remained narrowly positive at +2, unchanged from October. However, Order Backlogs, another key ISM index, dropped sharply to -20 from -9. After statistical adjustments, ISM's Composite November Manufacturing PMI came in at 49.0, the first negative reading since the post-pandemic recovery.

The monthly purchasing manager's survey from British-based international consulting firm now called S&P Global, is considerably more pessimistic. The S&P Composite Index came in at 47.7, down sharply from October's reading of 50.4. Both the Output and New Orders indexes posted significant declines. Although S&P's index of Lead Times improved at the fastest rate since June 2013, the advancement was attributed to significantly lower demand and greater "excess capacity at the suppliers." The survey respondents raised new concerns regarding inflation, interest rates, and future customer demand. Chris Williamson, Chief Business Economist at S&P Global Market Intelligence, further noted:

> "A combination of the rising cost of living, higher interest rates and growing recession fears have led to slumping demand for goods in both the home-market and abroad. Companies are consequently cutting production at a rate not seen since the global financial crisis, if the initial pandemic lockdowns are excluded. However, even with the latest production cuts, the downturn in demand has still led to one of the largest increases in unsold stock recorded since survey data were first available 15 years ago, which suggests that companies will continue to reduce production in the coming months to bring these inventories down to more manageable levels. Likewise, companies are slashing their purchases of inputs and raw materials at a rate not seen outside of the pandemic since the global financial crisis. This slump in demand is increasingly manifesting itself in a shift from a sellers'- to a buyers'-market for a wide variety of goods, as evidenced by improving supply chains, meaning price pressures are now abating rapidly. While supply chain worries persist, notably in relation to China's lockdowns, companies'

concerns are increasingly moving away from the supply side to focusing on the darkening outlook for demand, meaning the business mood remains among the gloomiest seen over the past decade."

**The World Economy.** For November, the J.P. Morgan Worldwide Manufacturing PMI contracted for the fourth successive month. JPM's New Orders Index fell to 46.8, virtually unchanged from October's 46.9. In a similar mode, the Output Index eased to 47.8 from 48.7. The Employment Index turned negative for the first time since the pandemic. At 49.6, the PMI from Canada, our largest trading partner, remained below the all-important break-even point of 50.0 but improved from Octobers reading of 48.8. For Mexico, our second largest trading partner, the November PMI came in at 50.6, up marginally from 50.3. Although the strict government-imposed pandemic restrictions continue to weigh on China, our third largest trading partner, the November PMI came in at 49.4, a much stronger performance than we might have expected. Bennett Parrish, Global Economist at J.P. Morgan, further noted:

> "The November PMIs point to an intensification of the global manufacturing downturn, as the output index fell to a new low since June 2020. The decline in output was accompanied by a tick down in new orders as rising inventories have put the brakes on production. There was some positive news on the price front, however, as price pressures continued to ease. The delivery times index also improved, consistent with the signal from high frequency shipping cost indicators that show supply chain conditions normalizing."

As the Ukrainian war drags on, it is hardly surprising that the entire European economy continues to suffer. However, the November PMI for the Eurozone posted slightly higher at 47.1, up from 46.4. For the first time in the 15-year history of the survey, the PMIs for all of the major economies are now negative. As expected, the survey respondents continue to fear higher inflation, higher interest rates, and much higher energy costs. The only real bright spot is that the Employment Index is still modestly positive at 50.2, although it is doubtful that the index will remain above the 50.0 mark for much longer. Chris Williamson from S&P Global further commented:

> "The PMI signals some welcome moderation in the intensity of the Eurozone manufacturing downturn in November, which will support hopes that the region many not be facing a winter downturn as severe as previously anticipated by many. However, the survey's production index is continuing to run at one of the lowest levels recorded over the past decade. At these levels the survey is indicative of a marked annualised rate of contraction of approximately 4%. While official manufacturing data have been more buoyant – and more volatile – in recent months, such weak PMI readings have always been followed by commensurate steep declines in the official statistics. There also seems to be no immediate respite in sight for the plight of manufacturers, given that order books continue to deteriorate at a worryingly steep pace, contracting at a far faster rate than firms are cutting production. Inventories of unsold stock are therefore rising further and follow on from the largest build-up of finished goods inventories in the quarter century history of the survey in recent months. Such a stock build-up will inevitably be followed by further production capacity cuts, absent a revival in demand. How manufacturers fare over the winter months will of course be conditional to a large extent on the weather, with any cold snaps likely to fuel concerns over energy resources and potentially hitting production and supply chains further."

**Automotive**. At what seems like a glacial pace, the computer chip shortage which has plagued the auto industry for the past two years continues to improve. The year-over-year November auto sales for the U.S. posted a modest 9.7 percent growth rate. However, the SAAR (Seasonally Adjusted Annualized Rate) for November came in at 14.4 million units, slightly below October's rate of 14.9 units. Of the firms that are still reporting monthly, year-over-year sales at Toyota sales gained 12.2 percent, a disappointing report compared to October's increase of 27.7 percent. Apparently, Toyota's chip shortage is not fully resolved as predicted by a company spokesperson a few months ago. The November sales at Subaru gained a stellar 51.7 percent, and Hyundai-Kia sales improved by 32.1 percent. However, Honda continues to have chip and production problems, resulting in sales falling 6.1 percent. Although Ford had been showing some modest sales improvement, November sales fell by 7.9 percent. Zack Krelle, industry analyst at TrueCar, commented:

> "Inventories are on pace for a fourth consecutive month of double-digit increases. Consumers, however, continue to face affordability challenges and high monthly payments, keeping many on the sidelines. To maintain sales momentum, manufacturers appear to be shifting some of the new supply to non-retail sales. We expect to see some deterioration in per unit pricing and profitability in the coming months. 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 our survey respondents continue to report falling prices for many commodities, our local November index of PRICES remined positive and rose to +10 from +7. At the national level, ISM's national index of PRICES by contrast came in at -14, a significant drop from October's -7. Although commodity prices for the world market are also improving, the Ukrainian war continues to keep world commodity prices relatively high. The November J.P. Morgan world index of Prices eased modestly to 59.2 from 61.1, but the index is still a long way from the 50.0 equilibrium point. Commenting on the latest results, Laura Denman at S&P Global Market Intelligence said:

> "Global manufacturers signalled a further moderation in both price and supply pressures in November. The latest survey data signalled that reports of higher prices were the joint-lowest since June 2020 and remained softer than the historical average. Led by polyethylene, seven of the 25 monitored commodities signalled a reduction in price levels. In contrast, semiconductors recorded the greatest number of higher price reports since July, and energy inflation seemingly remained a feature of the global manufacturing economic landscape. At the same time, reports of supplier shortfalls were at the lowest level in just over two years with exactly half of the monitored commodities registering a lower number of shortage reports. Shortages in transport, however, were marked and the most pronounced in five months."

**West Michigan Unemployment**. Once in a while, we get a statistical surprise. Our November index of EMPLOYMENT posted at +20, up sharply from October's -2. There is no obvious explanation for the sudden bounce except to say that all statistics can sometimes jump around. The Michigan unemployment rate for October (latest month available) rose modestly to 4.2 from 4.1 percent. Among the local counties with falling unemployment rates are Ottawa County (3.0 percent), Kent County (3.2 percent), and Kalamazoo County (4.5 percent). It is wise to remember that unemployment statistics are laggards, and we are soon likely to see the employment rates start to rise. However, this time the rate of increase will be fairly slow.

**Business and Consumer Confidence**. According to the November 29 press release, the Conference Board's Index of Consumer Confidence now stands at 100.2, down modestly from October's 102.5 (1985=100) and down from the revised 107.8 reported in September. The University of Michigan's November Consumer Sentiment Index inched lower to 56.8, down from 59.9. The index turned more pessimistic because of rising borrowing costs, declining asset values, and what is perceived to be a weakening labor market. It is worth repeating that U of M's index is still FAR below the reading of 72.8 reported only a year ago. For our West Michigan survey of the industrial economy, the confidence continues to edge slightly lower. The SHORT-TERM BUSINESS OUTLOOK Index for November, which asks local firms about the business perception for the next three to six months, posted at -22, down from October's -14. However, the LONG-TERM BUSINESS OUTLOOK Index, which queries the perception for the next three to five years, bounced to +22 from October's +5. Again, all statistics can sometimes jump around.

**GDP.** This month's big news is that the first estimate for GPD growth for the third quarter came in at 2.9 percent, up from the modestly negative growth rate of 0.6 percent for the second quarter. At 2.7, the Atlanta Fed's GDPNow prediction of 2.7 percent growth turned out to be fairly accurate. Looking ahead to the 2022 fourth quarter the GDPNow model is predicting a fourth quarter gain of 2.8 percent as of December 1. A similar forecast of 2.2 percent growth comes from the OECD. By contrast, the Conference Board GDP estimate still calls for a negative fourth quarter growth rate of 0.5 percent. Just as last month, most forecasters are assuming that the unemployment rate will edge up very slowly, and the recession, if there is one in 2023, will be relatively shallow. As always, these predictions assume that there are no new military actions from North Korea or China, or that Russia decides to escalate further in Ukraine. By contrast, it also assumes that that the Ukrainian war will not abruptly end in the fourth quarter or even in early 2023 by an unlikely overthrow of the Putin regime.

**Summary.** As we have now noted for several months, we predict that the West Michigan economy will continue to slowly soften. There is no sign that inflation will be tamed anytime soon, so we should expect an additional rate hike when the Federal Open Market Committee (FOMC) meets on December 14 and again on January 25. Of course, the FOMC would like to have the economy slow but not collapse. However, in today's world, there are too many "moving parts" to accurately assess the impact that rising interest rates will have on the economy. For instance, the U.S. Dollar Index (DXY) currently stands at 104.5, down from 112.8 a month ago. As the Fed continues raising rates, higher interest rates will attract more overseas investors. However, a strong dollar makes our products, and especially our farm commodities, more expensive to the rest of the world. Conversely, a stronger dollar makes foreign goods cheaper here in the U.S. Higher interest rates obviously impact any industry reliant on borrowing, especially residential construction and car sales. The higher rates have already reduced the demand for new and used homes, resulting in home prices beginning to fall. For many Americans, their home is their greatest asset. Hence, declining home prices make many homeowners feel a little less secure. It seems complicated, but the Fed wants the homeowner to feel less secure so that they will reduce spending and help reduce inflation. To accomplish this goal, the Fed may have to continue to raise rates much higher than they are now, and hope that the chips will fall where they are supposed to fall. An old Chinese says, "May you live in interesting times." In today's world, we are certainly living in "interesting times."

# NOVEMBER 2022 Survey Statistics

| | UP | SAME | DOWN | N/A | Nov. Index | Oct. Index | Sept. Index | 25 Year Average |
|---|---|---|---|---|---|---|---|---|
| Sales (New Orders) | 22% | 54% | 24% | 0% | - 2 | - 12 | + 0 | +14 |
| Production (Gross Output) | 19% | 59% | 12% | 10% | + 7 | + 5 | + 0 | +14 |
| Employment | 27% | 64% | 7% | 2% | +20 | - 2 | + 4 | + 8 |
| Purchases | 15% | 68% | 17% | 0% | - 2 | -12 | - 7 | + 7 |
| Prices Paid (major commodities) | 27% | 56% | 17% | 0% | +10 | + 7 | +26 | +15 |
| Lead Times (from suppliers) | 22% | 51% | 27% | 0% | - 5 | - 5 | +16 | +11 |
| Purchased Materials Inv. (Raw materials & supplies) | 7% | 61% | 27% | 5% | -20 | -19 | + 7 | - 4 |
| Finished Goods Inventory | 15% | 51% | 24% | 10% | - 9 | - 2 | + 7 | - 8 |
| Short Term Business Outlook (Next 3-6 months) | 12% | 54% | 34% | 0% | -22 | -14 | -12 | - |
| Long Term Business Outlook (Next 3-5 years) | 32% | 56% | 10% | 0% | +22 | + 5 | +17 | - |

## Items in short supply:

Various semiconductor chips and components, electronic board components, electric motors, explosion proof electric motors, engineered fasteners, glass, casters, some aluminum, some high strength steel, varies sizes of steel tubing, reducers, sprockets, phosphoric acid 75%, sodium gluconate 60%, aluminum castings, some steel-based products.

## Prices on the UP side:

Chemical and janitorial supply items, oil-based products, steel-based products, high alloy steel bars, heavy hot-rolled steel plate, heavy streel wall tubing, stainless steel, wood, electric motors, some freight charges, certain engineered resin, pulp, corrugated and packaging materials, electronic components, glass.

## Prices on the DOWN side:

Steel *, carbon steel, stainless steel*, some low carbon steel bar, scrap steel, base metals, plastic resin, common electrical components, aluminum, copper, brass, polypropylene, foreign currency, plywood, ABS plastics, HDPE plastic, polycarbonate, spot market transportation, metal surcharges, nitrile gloves.

**Item reported as both up AND down in price*

## Latest Unemployment Reports:

(Except as noted, data are NOT seasonally adjusted)

| | Oct. 2022 | Oct. 2021 | Aug. 2009 | 20-Year Low |
|---|---|---|---|---|
| State of Michigan (Oct.) | 4.2% | 5.4% | 14.6% | 3.2% |
| State of Michigan (Unadj.) | 3.7% | 4.5% | 14.1% | 2.9% |
| Kent County | 3.2% | 3.4% | 11.9% | 2.1% |
| Kalamazoo County | 3.6% | 3.7% | 11.1% | 2.1% |
| Calhoun County | 4.5% | 5.0% | 12.8% | 2.7% |
| Ottawa County | 3.0% | 3.0% | 13.3% | 1.8% |
| Barry County | 3.3% | 3.2% | 10.9% | 2.2% |
| Kalamazoo City | 4.5% | 4.7% | 15.2% | 3.2% |
| Portage City | 3.3% | 3.4% | 8.7% | 1.3% |
| Grand Rapids City | 4.2% | 4.6% | 16.1% | 3.0% |
| Kentwood City | 3.0% | 3.2% | 10.7% | 1.4% |
| Plainfield Twp. | 2.4% | 2.6% | 8.0% | 1.4% |
| U.S. Official Rate (Oct.) | 3.7% | 4.6% | 9.6% | 3.5% |
| U.S. Rate (Unadjusted) | 3.4% | 4.3% | 9.6% | 3.4% |
| U.S. U-6 Rate (Nov.)** | 6.7% | 7.7% | 22.9% | 6.7% |

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

# NOVEMBER COMMENTS FROM SURVEY PARTICIPANTS

*"We don't see our market changing in any way, but believe a downturn is coming."*

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*"In the outdoor recreation market, outlook has not yet changed from a dramatic downward swing."*

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*"Prices are coming down and supply is coming back, but we are working with weaker than expected sales."*

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*"Business is good."*

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*"Volume down significantly from last quarter and from same period year last year. We are expecting some pick up after the first of the year but still down significantly from prior years."*

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*"Sales are softening, although we still have a huge backlog to work through. However, we are still keeping a close eye on incoming orders."*

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*"Sales levels are mostly unchanged from last month, although overall softening is still expected. As an importer, we are watching Asia country PMIs (Taiwan, Vietnam, China) that indicate lower activity and exports in the month of October."*

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*"Our business through October was pretty good. Now that we are midway through November, it has slowed a lot, except for the usually mid-November deer season stall."*

*"We continue to carry more raw material inventory than planned, but we are now working the levels down to more closely match current lead times. It's taking time and effort, and we are locking up cash at the end of the year."*

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*"Material shortages have been replaced with availability and shorter lead times. We are having to compete on price to retain our customers."*

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*"Some manufactures have raised prices on specific CNC machinery that they are having issues getting components. However, most of the product lines have stabilized."*

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*"Automotive demand is rather high for certain items but remains very up and down as the supply chains gradually return to normal. Our major concerns are about long lead time items such as steel as well as limiting our financial risk if the demand slows based on struggling a economy."*

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*"Suppliers of machined and custom components are still raising prices due to higher operating and labor costs."*

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*"Despite lots of negative chatter, our business is doing ok and remains steady."*

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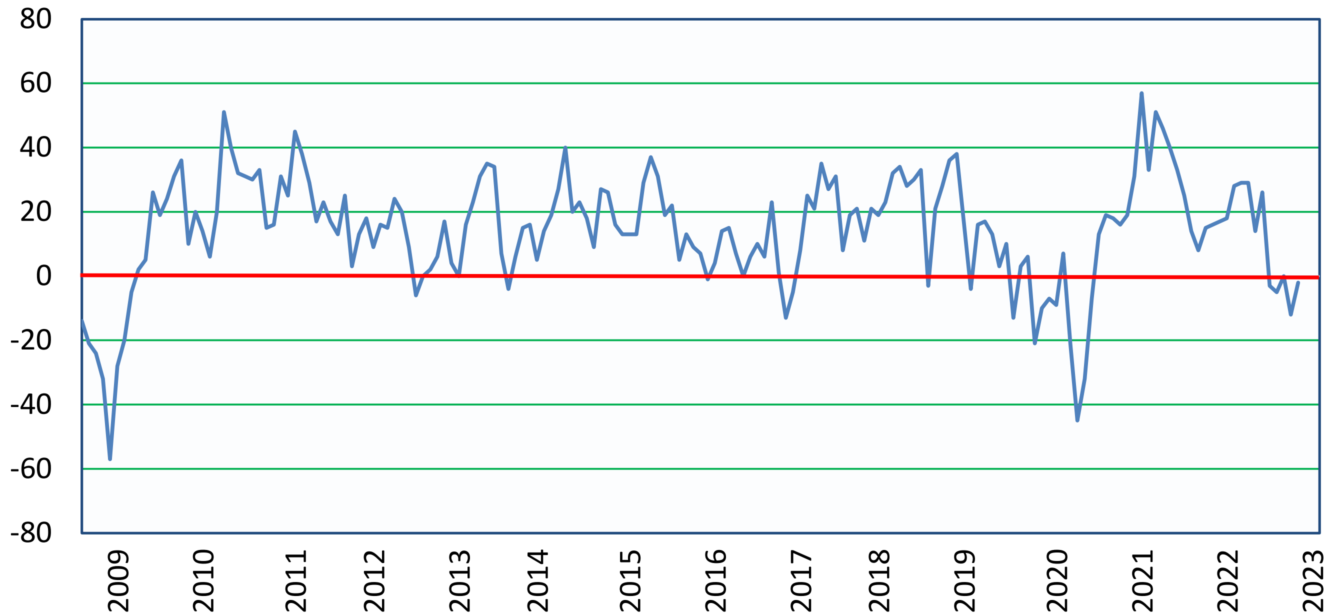
*"We are a service organization specializing in engineering resources, so there is still a steady demand for what we do because of the current labor market."*

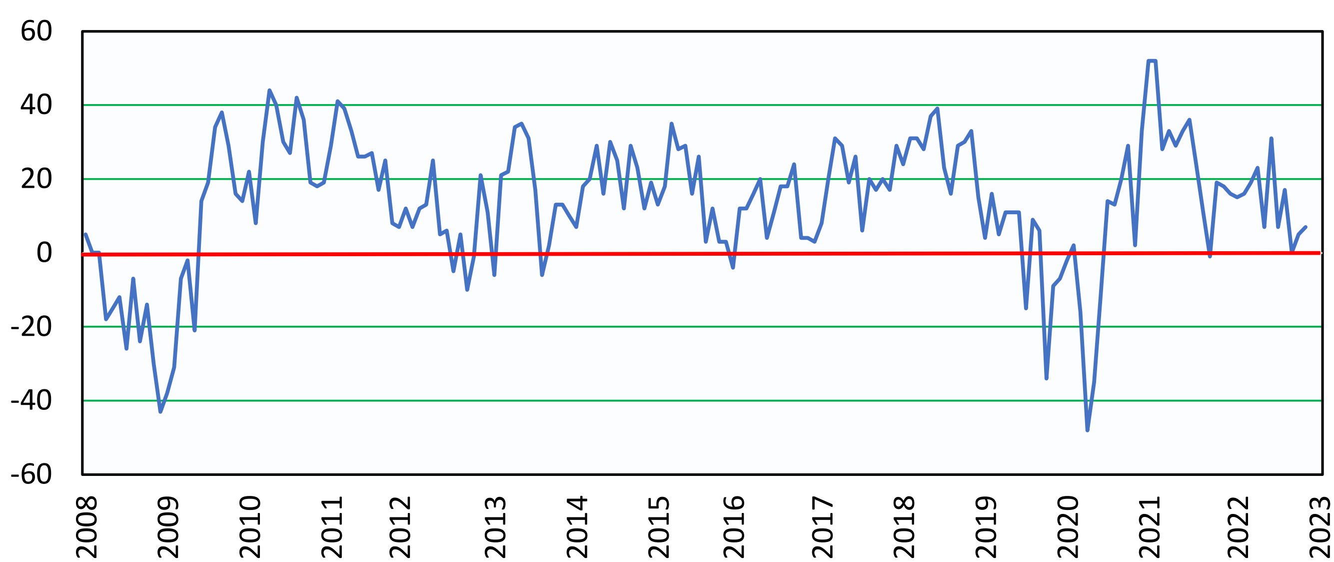
## West Michigan Index of New Orders: 2008-2022

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.



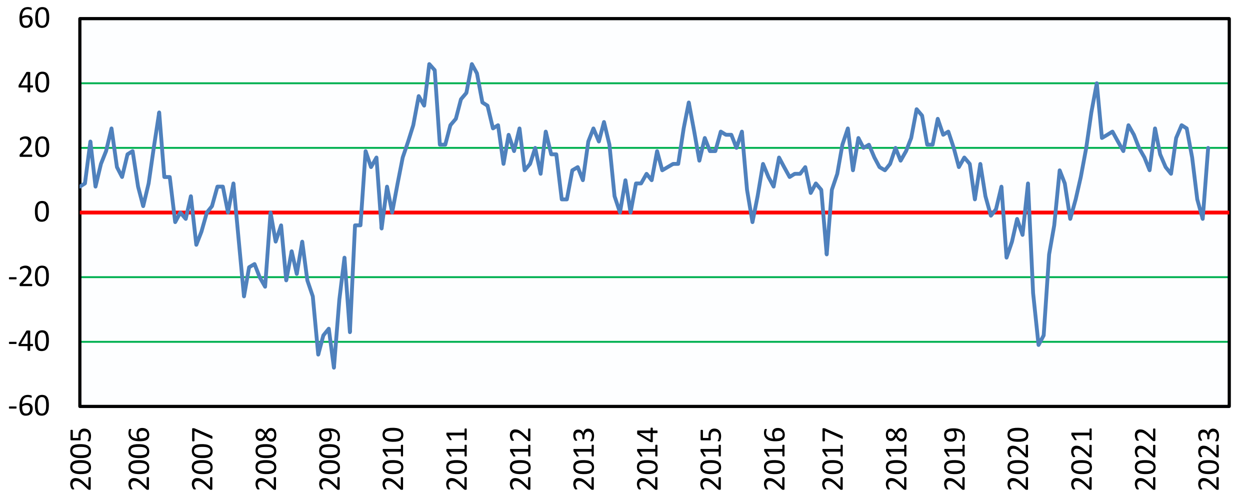

## West Michigan Index of Production (Output): 2008-2022

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.



## ISM-West Michigan Index of Employment: 2005-2022

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: 2013-2022

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.