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West Michigan Current Business Trends

April 7, 2023

RETURN TO MARGINAL GROWTH

Key Take-Aways from March 2023 Statistics:

- **NEW ORDERS Bounce Back to +2**
- **National Economy Remains Flat**
- **23 Percent of Firms Still Hiring**

Key Index Results:	Mar.	Feb.
⬆ NEW ORDERS Index (business improvement)	+ 2	-19
⬆ PRODUCTION Index (aka "output")	+13	- 7
⬆ EMPLOYMENT Index	+13	+12
⬇ LEAD TIMES Index	+ 2	-19

Key Participant Comments for March:

""Business is soft. Orders are down and we are navigating the turmoil as usual. Factory capacity has increased due to lower work volumes. "

"Suppliers are extending lead times due to labor constraints and uncertainty of material lead times."

"Technical talent, specifically engineers, software developers, and controls programmers are in short supply."

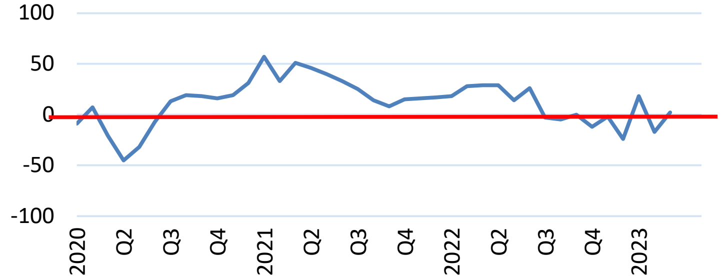
"Like last month, the office furniture trend looks soft."

"Capital investment seems to be Improving."

The Local Economy. The zig-zag pattern of our local economy continues to confound many economists. The December report was down, January bounced up, February slid backward, and March came back above break-even. According to the data collected in the last two weeks of March, NEW ORDERS, our index of business improvement, came in at +2, up from -17. In a similar move, the March PRODUCTION Index recovered to +13 from -7. The March index of PURCHASES, which measures activity in purchasing offices, edged lower to -5 from -2. As post pandemic supply chains continued to straighten out, our LEAD TIMES Index improved from September through February. However, the March report came in at a very modest +2, potentially indication that most of the supply bottlenecks are over and that we may now be returning to pre-pandemic supply chain normality. In recent months, most of our major firms are reassessing their supply chain risk factors. In order to shorten the entire chain, some survey respondents expect some gradual "reshoring" over the next few years. For our automotive parts producers, the future business outlook remains positive, even if the economy slows. For the office furniture industry, we can expect the market to continue to soften, but barring a significant recession, a sharp drop seems unlike. Although many white-collar people can now work from home, the traditional office is NOT going to disappear any time soon. For other survey respondents, any industry that is interest rate sensitive, such as construction and capital equipment, may expect business conditions to continue to soften but NOT collapse.

The U.S. Economy. According to the April 3 press release from the Institute for Supply Management, the U.S. economy remains unsettled. ISM's NEW ORDERS Index for March came in at -5, slightly below last months' -2. The March PRODUCTION (a.k.a., Output) Index modestly recovered to -2 from -5. ORDER BACKLOG, another key ISM index, remained negative and eased to -12 from -10. In part because of the strong dollar, NEW EXPORT ORDERS declined to -5 from February's +0. After statistical adjustments, ISM's Composite Manufacturing PMI posted at 46.3, down from 47.7 in February.

West Michigan Index of New Orders: 2020-2023



By contrast, the March survey of U.S. purchasing managers conducted monthly by the British-based international consulting firm now known as S&P Global offers a slightly more optimistic view of the U.S. industrial economy. The March S&P Composite Index posted at 49.2, modestly below the 50.0 break-even point, but nicely improved from the February report of 47.3. The S&P New Orders Index remained "muted," and the report attributed the modest decline to "destocking" by many customers. However, the Output Index ended a four-month negative streak and posted a modest uptick. Because of new inflation concerns, the S&P Index of Business Confidence ticked negative for the first time in three months. Siân Jones, Senior Economist at S&P Global Market Intelligence, said:

> "The U.S. manufacturing sector continued to signal concerning trends during March. Although output rose for the first time since last October, growth was fractional, and largely supported by ramping up production following an unprecedented reduction in supply chain pressures. The timely delivery of inputs allowed firms to work through backlogs, but sparse demand amid pressure on customer spending due to higher interest rates and inflation spoke to challenges ahead for goods producers if there is little change in domestic and international client appetite. Weak demand for inputs resulted in some relief for manufacturers as input cost inflation slowed again. A paucity of new orders sparked efforts to entice customers, however, as selling price inflation eased notably to the weakest since October 2020. Nonetheless, inflationary concerns weighed on business confidence once again amid pressure on margins. Encouragingly, firms were able to expand factory workforce capacity again, albeit at only a marginal pace, as skilled candidates for long-held vacancies were found."

The World Economy. According to J.P. Morgan, the Worldwide Manufacturing Index for March edged marginally lower to 49.6, down from 49.9. JPM's New Orders Index remained below the all-important break-even point of 50.0 but rose to 49.5 from 49.3. The March Output Index came in at 50.6, virtually unchanged from last month's 50.7. The PMI for Canada, our largest trading partner, dropped significantly to 48.6 from 52.4. Slower export orders and rising inflation were cited as reasons for the sharp decline. South of the border, the PMI for Mexico, our second largest trading partner, remained unchanged at 51.0. For our third largest trading partner, despite all of the hoopla about China's reopening, the Caixin PMI posted at 50.0, down from February's 51.0. Hence, even though the Chinese consumer economy may be reopening, the industrial economy remains stagnant. Bennett Parrish, Global Economist at J.P. Morgan, further commented:

> "The March global manufacturing PMI suggests that output slipped slightly last month. That said, the PMI level remains consistent with soft global IP growth and hopes remain that the goods sector upturn that started early this year will be sustained as new order intakes stabilize and cost inflation and supply chain pressures ease further in coming months. Much will depend on whether the US and Euro area can maintain positive momentum, and if China can continue recovering once the initial boost from re-opening has abated. The signal from the bellwether Asian export economies was mixed in March."

As the Ukrainian war enters its second year, the March PMI for the Eurozone posted at 47.3, down from 48.5. Only three of the major countries in the survey now have positive PMIs. However, Germany and Austria, two of the Eurozone's largest economies, both posted PMIs of 44.7, a 34-month low. Because of the declining number of bottlenecks in supply chains, the Supplier Delivery Index posted at a record high. Input pricing fell to a 26-week low. Chris Williamson, Chief Business Economist at S&P Global Market Intelligence, further commented:

> "Eurozone manufacturing remains in troubled waters, with factories reporting a fall in demand for goods for an eleventh straight month amid the surging cost of living, tighter monetary policy, a shift to inventory destocking and subdued customer confidence. Fortunately, a record improvement in supplier lead times and greater input availability has allowed firms to fulfil orders placed in prior months, meaning output has been broadly flat over the past two months. However, this current level of output is clearly not sustainable, and it is inevitable that production will weaken in the coming months unless order book growth revives. In the meantime, the lack of demand has led to a major shift in pricing power away from the seller to the buyer. Lower energy prices are also helping to drive down costs, hence prices paid for inputs by factories are now falling sharply on average, dropping for the first time since demand collapsed in the initial pandemic lockdowns of 2020. These lower costs are feeding through to slower increases in selling prices, which should in turn feed through to lower prices paid for goods by consumers."

Automotive. For West Michigan, the collective group of automotive parts suppliers constitutes our most important cyclical industry. The monthly tallies of "light vehicle sales" published by Automotive News provide an accurate proxy of the health of this industrial economic sector for West Michigan. The ongoing constrained production brought on by the widely-publicized chip shortage is now over two years old, and the resulting pent-up demand for automobiles and light trucks has remained strong. For the first quarter of 2023, Automotive News reports that year-over-year U.S. sales increased by 8.4 percent. The SAAR (Seasonally Adjusted Annualized Rate) for March posted at 14.7 million units, slightly above February's 14.6 million but considerably below January's unexpected 16.2 million units. Although still historically low, dealer inventories are now estimated to be about 1.8 million units, up considerably from 750,000 units in March 2022. Just like previous months, many of the manufacturers appear to be giving additional preference to the fleet customers such as the rental car companies, many of which are still short units to rent. Looking at the performance of individual firms, sales for the 2023 first quarter at Ford rose 9.9 percent, GM gained 17.7, Hyundai-Kia 18.5 percent, and Honda 6.8 percent. Losers for the first quarter included Toyota, down 8.8 percent, and Stellantis (Chrysler), falling 9.1 percent. Regarding the auto market going forward, Jessica Caldwell at Edmunds commented:

> "Consumers are facing credit uncertainty as rapidly rising interest rates have created barriers to entry for even the most qualified buyers. As more consumers sit out of the market, we can expect to see pent-up demand grow even further."

Industrial Inflation. The pricing for most major commodities continues to moderate, although the spot prices for a few key commodities such a steel, aluminum, and some plastic resins are still rising. However, SOME grades of steel, corrugated, plastic resins, and freight are reported to be falling in price. For March, the West Michigan index of PRICES held steady at +13. However, the February ISM national index of PRICES retreated modestly to -2 from +3. According to Usamah Bhatti at S&P Global Market Intelligence:

> "Global manufacturers signalled a further moderation in both price and supply pressures during March. Latest data indicated that reports of higher prices were the joint-lowest since June 2020 and below the historical average. Noteworthy reductions in price were reported, including for oil, gas, energy and semiconductors. In fact, energy prices were reported as falling for the first time since August 2020, a far cry from the severe rises in the second half of last year. Manufacturers will also be buoyed by the first reported drop in semiconductor prices since the start of 2020. The reduction in semiconductor prices comes as reported shortfalls of the commodity eased to the lowest since September 2020. Overall, reports of supply shortages softened to the lowest since mid-2020, providing evidence that supply chains are continuing on their path to normalisation."

West Michigan Unemployment. One West Michigan statistic that has remained consistently positive in recent months has been our index of EMPLOYMENT. Although numerous news sources have noted that the "help wanted" listings have fallen sharply since the beginning of the year, at least some firms are still backfilling vacancies that have been open for months. However, the number for firms reporting staff reductions increased in March, which probably indicates that the EMPLOYMENT Index may flatten as we roll into summer. However, many of our local firms have worked hard to build their current workforces, and layoffs will come only when absolutely necessary. According to the Michigan Department of Technology, Management & Budget (DTMB), the January (latest month available) seasonally adjusted year-over-year unemployment rate for Michigan actually improved to 4.3 percent compared to 4.4 percent in January 2022. At a rate of 3.5 percent, two of our West Michigan counties, Kent and Ottawa, remain well below the state average. Even if the economy does slide into a shallow recession, the West Michigan unemployment will probably rise very slowly.

Business and Consumer Confidence. The March 28 Conference Board Consumer Confidence Index posted at 104.2 (1985=100), up from 103.4 in February but down from January's 106.0 reading. By contrast, University of Michigan's March index of Consumer Sentiment backtracked to 62.0 from February's 67.0. The survey author repeated last month's warning that "…our data revealed multiple signs that consumers increasingly expect a recession ahead." Locally, the waning confidence we reported for February has been reversed. The West Michigan SHORT-TERM BUSINESS OUTLOOK Index for March, which asks local firms about their business perceptions for the next three to six months, returned to the break-even point of +0 from -8. The LONG-TERM BUSINESS OUTLOOK Index, which queries the perceptions for the next three to five years, upticked to +33 from +19. It is worth repeating that all measures of future confidence are driven by the news cycle, as well as the performance of the financial markets. Fortunately, the current banking crisis appears to be having a minimal impact on business confidence. Unlike the financial crisis on the eve of the Great Recession, it appears that only a few banks are involved. The rest of the banking system shows no significant sign of widespread collapse.

GDP. On March 30, the Bureau of Economic Analysis posted the "final" estimate of the fourth quarter 2022 GDP at 2.6 percent, which was a minor revision from the previous estimate of 2.7 percent. With the first quarter of 2023 now complete, the Fed will post the "preliminary estimate" for the quarter later this month. As always, there are multiple first quarter forecasts ranging from high to low. In the Atlanta Federal Reserve's April 3 report, the GDPNow model forecasts the first quarter of 2023 to grow at a rate of 1.7 percent, down from last month's 2.6 percent. The March Blue Chip estimate has risen to 0.9 precent from near zero two months ago. In a similar forecast, the Conference Board is currently estimating a 1.0 percent growth rate for the first quarter. The Conference Board was calling for a shallow recession for the first part of 2023, but recent events have resulted in a more optimistic outlook. At 0.6 percent, the growth rate from the Philadelphia Fed's research appears in line with many of the other forecasts. According the St. Louis Federal Reserve, we should not expect the economy to turn negative until the third quarter and even then, for only one quarter.

Looking Forward. The continued flat/zig-zag nature of many of our statistics suggests that the Fed's dream of a "soft landing" MAY still be intact. Given that some economists now consider 4.0 percent unemployment to be "full employment," the current reading of 3.6 percent is a bonus. That said, the possibility of a shallow recession is still very possible, although the difference between a "soft landing" and a "shallow recession" is marginal. Next week, the Bureau of Labor Statistics will release the latest Consumer Price Index for the month of March. We can expect some modest improvement over the February rate of 6.0 percent. The CPI, sometimes called the "headline" inflation rate, is used to adjust some labor contracts as well as the annual Social Security recalculation. However, the Federal Reserve has declared that more weight should be put on their own Personal Consumption Expenditures Price Index, or PCE. The PCE press release on April 28 will probably show some modest improvement over the February rate of 5.0. However, with the current CPI inflation rate at 6.0 percent and the PCE at 5.0 percent, we still have a LONG way to go to meet the Fed's target rate of 2.0 percent.

MARCH 2023 Survey Statistics

	UP	SAME	DOWN	N/A	Mar. Index	Feb. Index	Jan. Index	25 Year Average
Sales (New Orders)	30%	42%	28%	0%	+ 2	-17	+18	+14
Production (Gross Output)	35%	38%	22%	5%	+13	- 7	+21	+14
Employment	23%	67%	10%	0%	+13	+12	+13	+ 8
Purchases	20%	55%	25%	0%	- 5	- 2	-+11	+ 7
Prices Paid (major commodities)	15%	70%	15%	0%	+ 0	+ 2	+ 0	+15
Lead Times (from suppliers)	10%	80%	8%	2%	+ 2	-19	-16	+11
Purchased Materials Inv. (Raw materials & supplies)	13%	60%	25%	2%	- 12	- 9	- 9	- 4
Finished Goods Inventory	28%	42%	25%	5%	+ 3	- 9	- 5	- 8
Short Term Business Outlook (Next 3-6 months)	20%	60%	20%	0%	+ 0	- 8	+ 6	-
Long Term Business Outlook (Next 3-5 years)	45%	40%	12%	3%	+33	-19	+10	-

Items in short supply:

Some chemicals, some molded shipping cases, plastic packaging, electronics, computer chips, casters, aluminum casting capacity, machinery coming from Europe, various janitorial items, motors, reducers, sprockets, good people.

Prices on the UP side:

Steel, overseas steel, HR and CR steel, scrap steel, polypropylene, labor, various janitorial supplies, EPDM, rubber hose, carbon black for resins, aluminum, glass.

Prices on the DOWN side:

Steel *, stainless-steel, stainless-steel scrap, aluminum*, metal surcharges, oil and oil derivatives, plastics, transportation and freight charges, transportation fuel surcharges and base rates, lumber, machinery, wood, most major commodities, chemicals, corrugated, ABS, polycarbonate, Nylon 6.

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

Latest Unemployment Reports:

(Except as noted, data are NOT seasonally adjusted)

	Jan. 2023	Jan. 2022	Aug. 2009	20-Year Low
State of Michigan (Jan.)	4.3%	4.4%	14.6%	3.2%
State of Michigan (Unadj.)	4.8%	5.0%	14.1%	2.9%
Kent County	3.6%	3.7%	11.9%	2.1%
Kalamazoo County	4.1%	4.1%	11.1%	2.1%
Calhoun County	5.1%	5.4%	12.8%	2.7%
Ottawa County	3.5%	3.5%	13.3%	1.8%
Barry County	4.5%	4.4%	10.9%	2.2%
Kalamazoo City	5.1%	5.1%	15.2%	3.2%
Portage City	3.8%	3.7%	8.7%	1.3%
Grand Rapids City	4.7%	4.9%	16.1%	3.0%
Kentwood City	3.4%	3.5%	10.7%	1.4%
Plainfield Twp.	2.7%	2.8%	8.0%	1.4%
U.S. Official Rate (Mar.)	3.5%	3.8%	9.6%	3.5%
U.S. Rate (Unadjusted)	3.9%	4.1%	9.6%	3.4%
U.S. U-6 Rate (Feb.)**	6.8%	7.2%	22.9%	6.7%

***U-6 for Michigan = 6.8% for all of 2022*

MARCH COMMENTS FROM SURVEY PARTICIPANTS

"Like last month, the office furniture trend looks soft."

""Downstream customers have been systematically de-stocking surplus inventories for the last 3-5 months, and customers likely have an inventory position that is insufficient to meet their own demand forecasts. The primary concern is that demand may recover more quickly than anticipated, leading to a rush on supply which could re-create the bottlenecks we've experienced the last couple of years. "

"Orders remain soft, but production continues to grow as we work our backlog towards pre-pandemic levels."

"This has been a pretty steady month for our business."

"Sales dollars are holding steady, but a larger portion were long dated projects. We are starting to build some finished goods inventory as our labor force has finally stabilized."

"Capital investment seems to be improving."

"We are trying to be optimistic about the future, but there are a lot of uncertainties."

"We are seeing a 20% reduction in our sales orders for March and April."

"Business is soft. Orders are down and we are navigating the turmoil as usual. Factory capacity has increased due to lower work volumes. "

"Suppliers are extending lead times due to labor constraints and uncertainty of material lead times."

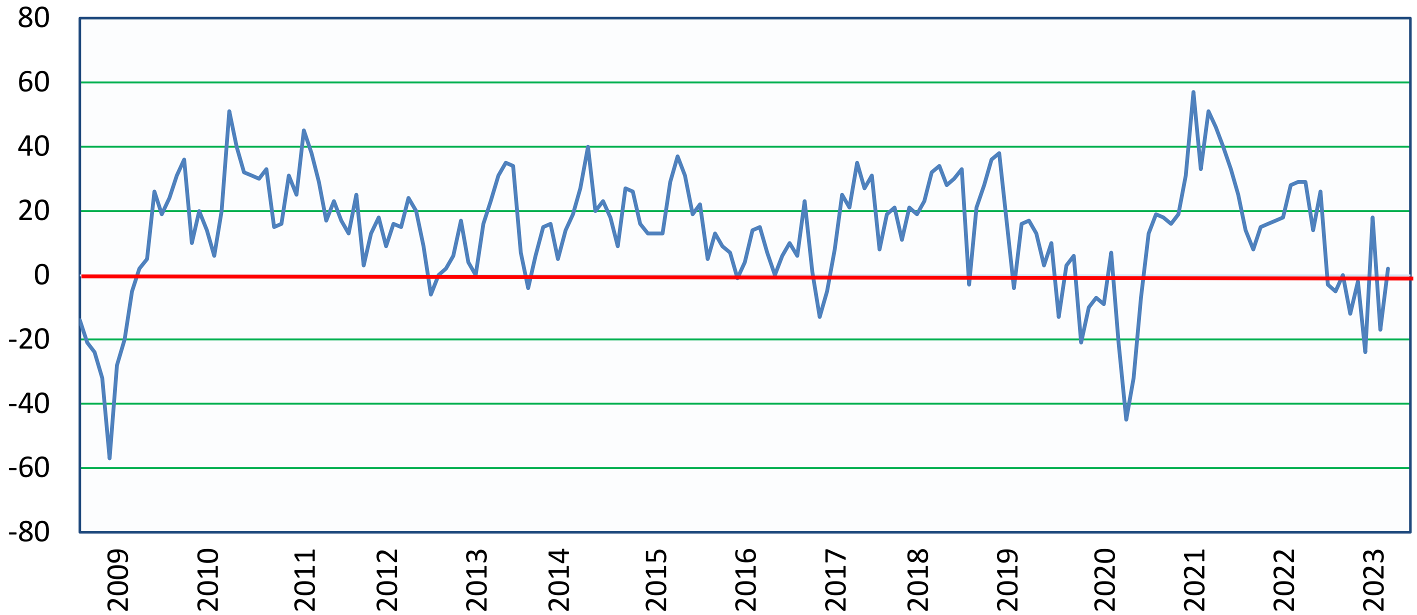
"Technical talent, specifically engineers, software developers, and controls programmers are in short supply."

"Since the last month, we have bid out some of our paving and emulsion requirements, and prices are about 1-6% down from last year. As a result of falling oil prices, this is a plus."

"Anything with copper is up in price because of our government and the green new deal. That is going to put this country in the biggest recession we have seen, because our power grid cannot handle it with what is going on."

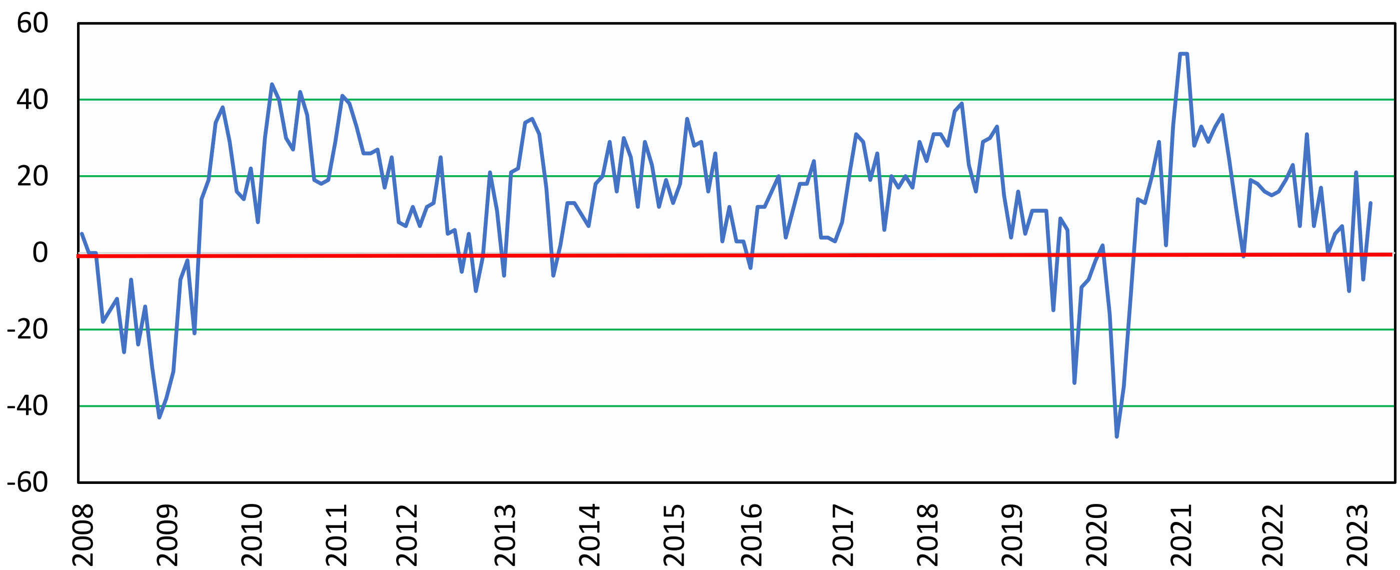
West Michigan Index of New Orders: 2008-2023

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.



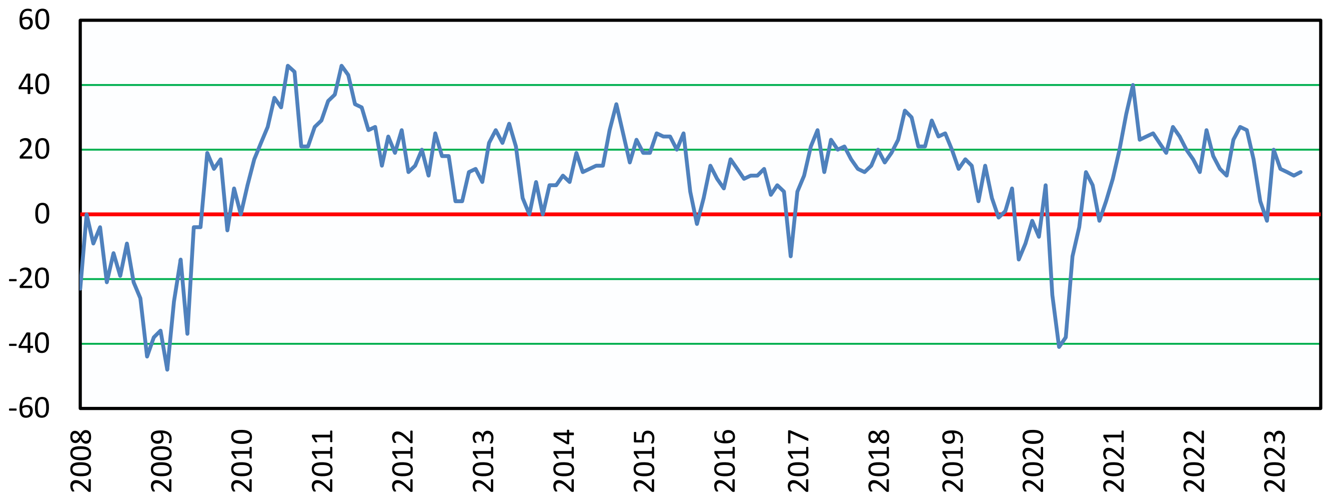
West Michigan Index of Production (Output): 2008-2023

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: 2008-2023

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.



Michigan Future Business Outlook: 2013-2023

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.