

West Michigan Current Business Trends

May 5, 2023

RETURN TO FLAT GROWTH

Key Take-Aways from April 2023 Statistics:

- **NEW ORDERS Turn Flat**
- **National Economy Also Turns Flat**
- **Survey Comments Grow More Pessimistic**

Key Index Results:	Apr.	Mar.
↔ NEW ORDERS Index (business improvement)	+ 0	+ 2
↑ PRODUCTION Index (aka "output")	+ 5	+13
↑ EMPLOYMENT Index	+ 3	+13
↓ LEAD TIMES Index	+ 3	+ 2

Key Participant Comments for April:

"We're slowing down a bit. We still have a great backlog, but eating away at it. Sales are slowing down or being pushed out."

"Activity in our market remains strong, but incoming orders are waning for commercial projects. Order cancellations have increased as compared to last month as well. "

"Sales orders are down 25% this month!"

"We are starting to see finished goods inventories begin to build, so manufacturers are beginning to offer special deals."

"The automotive industry seems to be slowing. Hoping things pick up soon."

The Local Economy. According to the data collected in the last two weeks of April, NEW ORDERS, our index of business improvement, came in at +0, virtually unchanged from +2 in our last report. The PRODUCTION Index, which some economists label as "output," eased to +5 from +13. Our index of PURCHASES, which measures activity in purchasing offices, edged higher to +5 from -5. For our automotive parts producers, this month's comments are beginning to be more cautious. However, despite the absence of significantly negative numbers, many of this month's comments have become increasingly cautious. We are well aware that the office furniture business remains soft, and we had hoped that the pent-up demand in automotive would help keep the West Michigan economy afloat, even if other economic segments soften. Although one month does not make a trend, we now need to be a little more cautious going forward.

The U.S. Economy. The May 1 press release from the Institute for Supply Management portrays the industrial economy as slightly negative, but not yet sliding into a recession. ISM's NEW ORDERS Index for April posted at -1, up from -5, but still below the break-even point. Fortunately, ISM's PRODUCTION (a.k.a., Output) Index flipped back to positive at +5, up from March's -2. However, ORDER BACKLOG, another key ISM index, remained negative and eased to -14 from -12. NEW EXPORT ORDERS returned to +0 from -5. After statistical adjustments, ISM's Composite Manufacturing PMI posted at 47.1, up from 46.3, but still below the all-important break-event point of 50.0.

A slightly different view of the U.S. industrial economy comes from the survey of purchasing managers conducted monthly by the British-based international consulting firm now known as S&P Global. The April S&P Composite Index posted at 50.2, up from 49.2. The S&P New Orders Index remained modestly positive, although many customers remain uncertain about the direction of the economy. The Output Index also rose to the best level in three months. Chris Williamson, Chief Business Economist at S&P Global Market Intelligence, further commented:

"U.S. manufacturing output has regained some encouraging momentum at the start of the second quarter, having stabilised in March after four months

West Michigan Index of New Orders: 2020-2023



of decline. While the upturn is in part linked to greatly improved supply chains, helping reduce backlogs of orders, April also saw a welcome upturn in new order inflows for the first time since last September. Although only modest, the rise in new orders hints at a tentative revival of demand, notably from consumers but there are also signs that fewer customers are deliberately winding down their inventory levels. The brightening demand picture was accompanied by a lifting of business confidence about the outlook and increased hiring. The downside was a reigniting of inflationary pressures, with a stronger order book encouraging more firms to pass through higher costs to customers."

The World Economy. According to the May 4 press release, the J.P. Morgan Worldwide Manufacturing Index for April posted at 49.6, slightly below the break-even point of 50.0. JPM's New Orders Index edged slightly higher to 49.5, up from 49.4. The JPM April Output Index came in at 50.6, slightly below last month's 50.8. The PMI for Canada, our largest trading partner, edged higher to 50.2 from 48.6, although a drop in the New Orders Index was reported as a negative trend going forward. The China Caixin PMI slid back into negative territory at 49.5, down from 50.0 in March and 51.0 in February. 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 April PMI surveys point to the continuation of a gradual growth path for global manufacturing production following a step out of contraction territory at the start of the year. Underlying details of the survey suggest that growth is being held back by softening investment spending and a continued drag from inventories. This dynamic is consistent with the relative weakness in North Asia, where tech sector weakness persists."

Unfortunately, the European economy continues to struggle. According to the May 3 press release from the Hamburg Commercial Bank, the April PMI for the Eurozone posted at 45.8, down significantly from the March report of 47.3. The PMIs for Ireland, France, Germany, Austria, and the Netherlands all hit 35-month lows. Commenting on the PMI data, Dr. Cyrus de la Rubia, Chief Economist at Hamburg Commercial Bank, further noted:

"In the Eurozone, according to the HCOB PMI Output Index, manufacturing output fell in April. This decline has been fairly broad-based across the Eurozone, with regional PMI indices in France and Italy also showing a drop in output, while output in Germany and Spain was nearly stagnant. This weakness likely has to do with the fact that many companies built up massive inventories in the face of long-strained supply chains and are now finding that they did a bit too much of a good thing. On the one hand, the renewed significant shortening of delivery times is a sign of supply-chain normalization, but together with some other indicators it must also be interpreted as weakness in demand. This fits in with the continued decline in new orders, including those from abroad. The future business outlook was somewhat more upbeat in April. This may come as a surprise given the decline in new orders. However, according to Eurostat, order backlogs in the four major euro countries remain near historic

highs, supporting surveyed companies' view that their production should not slump in the short term."

Automotive. After 30 months of chip shortages and supply chain turmoil, the automotives sales report for April is pleasantly positive. Not all firms post monthly data, but for those who do, the year-over-year sales gain for April was 10.0 percent. Furthermore, the SAAR (Seasonally Adjusted Annualized Rate) for April posted at 16.15 million units, well above the March report of 14.7 million units. Although a significant segment of this month's deliveries went to fleet buyers, the dealer inventories are now 45 percent higher than April 2022. Looking at the performance of individual firms, April sales for Ford gained 8.2 percent, Honda 11.4 percent, and Hyundai-Kia 18.5 percent. Toyota sales were off by 6.2 percent, largely because of logistical problems at the ports. Charlie Chesbrough, Cox Automotive senior economist further commented:

"Relatively strong sales in the wake of rising interest rates and worsening economic headwinds suggests there remains some pent-up demand. Product availability has improved substantially over this time last year. Dealer lots are no longer empty, so there is far more selection for vehicle shoppers that may have been waiting to buy a particular model or configuration."

Industrial Inflation. Similar to last month, industrial inflation continues to moderate. However, the exceptions include numerous grades of steel, aluminum, and copper. For West Michigan, the index of PRICES edged up to +11 from +0. In a similar move, the April ISM national index of PRICES rose to +6 from -2. Although many commodities are still rising in price, the worldwide Commodity Price & Supply Indicators, a composite index of 26 monitored commodities compiled by S&P Global, fell to its lowest level in almost three years. According to Laura Denman at S&P Global Market Intelligence:

"With the global picture for demand still subdued, April data signalled a further alleviation in price and supply pressures currently faced by manufacturing firms across the globe. Reports of price increases were the lowest in almost three years, with nearly half of all monitored commodities posting fewer mentions when compared to March. News remained positive on the energy front with prices reportedly falling for the second month in a row, in stark contrast to the sharp increases recorded over the course of 2022. The lack of demand also supported supply chains' continued return to normalisation, as signalled by the lowest number of supplier shortfall reports since September 2020."

West Michigan Unemployment. Although our West Michigan statistic of EMPLOYMENT has remained significantly positive for the past 28 months, the April reading remained positive but eased to +3, down from +13 in March. In addition, the percentage of firms adding personnel eased to 16 percent from 23 percent. Until now, many firms have apparently been backfilling vacancies that have been open for months. However, this trend may have run its course. According to the Michigan Department of Technology, Management & Budget (DTMB), the March (latest month available) seasonally adjusted year-over-year unemployment rate for Michigan stands at 4.1 percent compared to 4.4 percent as recently as January. At a rate of 3.5 percent, two of our West

Michigan counties, Kent and Ottawa, remain well below the state average. However, it is worth reminding everyone that unemployment is a lagging indicator. Based on the current state of the economy, we can expect the unemployment rate for West Michigan to begin rising late in the summer.

Business and Consumer Confidence. The most recent Conference Board Consumer Confidence Index posted at 101.3 (1985=100), down from 104.2 in March. By contrast, the April University of Michigan Index of Consumer Sentiment upticked to 63.5 from 62.0. The survey author further commented, “While consumers’ relatively favorable assessment of the current business environment improved somewhat in April, their expectations fell and remain below the level which often signals a recession looming in the short-term.” Locally, the West Michigan SHORT-TERM BUSINESS OUTLOOK Index for April, which asks local firms about their business perceptions for the next three to six months, eased modestly to -3 from March’s +0. The LONG-TERM BUSINESS OUTLOOK Index, which queries the perceptions for the next three to five years, remained positive but eased to +16 from +33. Needless to say, the apparent escalation of the current banking crisis appears to be raising a new cause for concern.

GDP. For the first quarter of 2023, the U.S. economy grew at a rate of 1.1 percent, according to April 27 press release from the Bureau of Economic Analysis. Although 1.1 percent is posted as a “preliminary” estimate, the BEA’s preliminary GDP report has grown increasingly accurate in more recent years. Given that the “final” estimate of the fourth quarter 2022 GDP came in at 2.6 percent, the first quarter report continues to depict an economy that is slowing. Looking ahead to the second quarter, the Atlanta Federal Reserve’s GDPNow model forecasts a growth rate of 1.7 percent, which is far more optimistic than the April Blue Chip estimate of negative

0.1 percent. Another pessimistic forecast of negative 1.8 percent comes from the Conference Board. The Philadelphia Fed’s research forecasts a growth rate of 1.0 percent for the second quarter but expects the GDP to turn slightly negative in the third quarter. Just as previous months, the estimates are spread fairly wide.

Looking Forward. The Consumer Price Index will continue to slowly fall as we roll into the summer, and the major culprit reminds to be cost of housing. Although anecdotal evidence abounds that the cost of housing is beginning to fall, it will take many months before the market returns to normal. In the most recent press release, the BLS clearly states, “The index for shelter was by far the largest contributor to the monthly “all items” increase. This more than offsets a decline in the energy index...” However, altogether too many of the current news reports focus on individual commodities, not the major cost drivers.

For West Michigan, another thing to watch is the negotiation of labor contracts over the next few months. With the rate of inflation still running high, union wage demands may well exceed the ability of some firms to pass along the higher costs. Hence, there is the possibility of a few strikes to haunt the summer economy, especially in the automotive industry.

By reviewing the last eight recessions, almost every one of them had some kind of a catalyst or “black swan” event that broke a bubble. There was the dot com bust of 2000, the housing crisis of 2009, and the pandemic lockdown of 2020. As of a week or two ago, we thought that the “regional bank” problem was limited to two or three banks in the San Francisco area. Over the next few weeks, the most important thing to keep an eye on is the financial condition of ALL of the regional banks. If the contagion continues to spread, we have a big problem.

APRIL 2023 Survey Statistics

	UP	SAME	DOWN	N/A	Apr. Index	Mar. Index	Feb. Index	25 Year Average
Sales (New Orders)	30%	40%	30%	0%	+ 0	+ 2	-17	+14
Production (Gross Output)	27%	46%	22%	5%	+ 5	+13	- 7	+14
Employment	16%	70%	11%	0%	+ 3	+13	+12	+ 8
Purchases	24%	57%	19%	0%	+ 5	- 5	- 2	+ 7
Prices Paid (major commodities)	8%	68%	19%	5%	+11	+ 0	+ 2	+15
Lead Times (from suppliers)	11%	81%	8%	0%	+ 3	+ 2	-19	+11
Purchased Materials Inv. (Raw materials & supplies)	8%	62%	27%	3%	-19	-12	- 9	- 4
Finished Goods Inventory	14%	59%	22%	5%	- 8	+ 3	- 9	- 8
Short Term Business Outlook (Next 3-6 months)	27%	43%	30%	0%	- 3	+ 0	- 8	-
Long Term Business Outlook (Next 3-5 years)	30%	51%	14%	5%	+16	+33	-19	-

Items in short supply:

Electronics, copper products, fuel, foundry capacity, garments, domestic casting capacity, motors, sprockets, packaging materials, nylon tubing, casters, stainless steel, some aluminum.

Prices on the UP side:

Steel, cold rolled steel, hot rolled steel, carbon steel, stainless steel, aluminum, copper, fuel, freight, sodium hypochlorite 12.5%, rubber air brake hose, polypropylene, electronic components, customer service fees.

Prices on the DOWN side:

Steel *, aluminum *, plastics, spot quoted transportation, petroleum derivatives, production support items (PPE etc.), corrugated packaging, pallets, metal surcharges, lumber, PA6, PA66, ABS, polycarbonate, steel wire rod, sodium hydroxide 50%, membrane, paper.

*Item reported as both up AND down in price

Latest Unemployment Reports:

(Except as noted, data are NOT seasonally adjusted)

	Mar. 2023	Mar. 2022	Aug. 2009	20-Year Low
State of Michigan (Mar.)	4.1%	4.1%	14.6%	3.2%
State of Michigan (Unadj.)	4.1%	4.5%	14.1%	2.9%
Kent County	3.6%	3.6%	11.9%	2.1%
Kalamazoo County	4.1%	4.0%	11.1%	2.1%
Calhoun County	5.1%	5.2%	12.8%	2.7%
Ottawa County	3.5%	3.4%	13.3%	1.8%
Barry County	4.5%	4.2%	10.9%	2.2%
Kalamazoo City	5.2%	5.0%	15.2%	3.2%
Portage City	3.8%	3.6%	8.7%	1.3%
Grand Rapids City	4.8%	4.8%	16.1%	3.0%
Kentwood City	3.4%	3.4%	10.7%	1.4%
Plainfield Twp.	2.7%	2.7%	8.0%	1.4%
U.S. Official Rate (Mar.)	3.5%	3.6%	9.6%	3.5%
U.S. Rate (Unadjusted)	3.5%	3.8%	9.6%	3.4%
U.S. U-6 Rate (Mar.)**	6.7%	6.9%	22.9%	6.7%

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

APRIL COMMENTS FROM SURVEY PARTICIPANTS

"The RV/OEM peak season has further softened, while inventory positions in the ensure supply chain remain high."

"Except for steel and copper, most major commodities continue to drop in price."

"Downstream customers have reset their inventories and are preparing for a new rebalanced position. Price pressures have continued as supply chains are more or less stabilized, and raw material markets will soften."

"Sales orders are down 25% this month!"

"We don't see the rate of inflation going down. Interest rates are going to continue rising, making everything more expensive thanks to our government policies."

"Not much change from last month. Sales are steady, but production is now caught up to current demand. If sales decline over the summer, we will have to build inventory for fall."

"We are starting to see finished goods inventories begin to build, so manufacturers are beginning to offer special deals."

"Activity in our market remains strong, but incoming orders are waning for commercial projects. Cancellations increased as compared to last month as well. Direct to consumer demand remains weak."

"The automotive industry seems to be slowing. Hoping things pick up soon."

"We're slowing down a bit. We still have a great backlog, but eating away at it. Sales are slowing down or being pushed out."

"We continue to bounce along, hoping that things will start to brighten up."

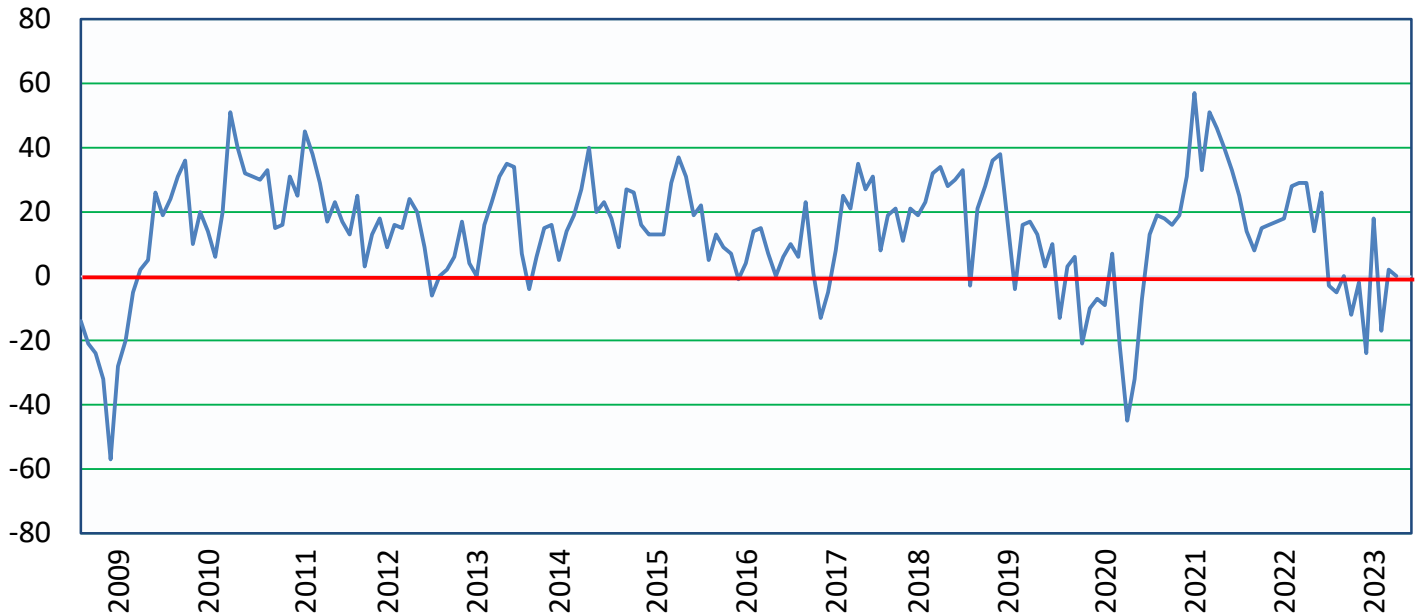
"For our industry, capital investment seems to be doing good."

"Business is down with a tough short-term forecast."

"Business continues to be strong but slowing when compared to plan."

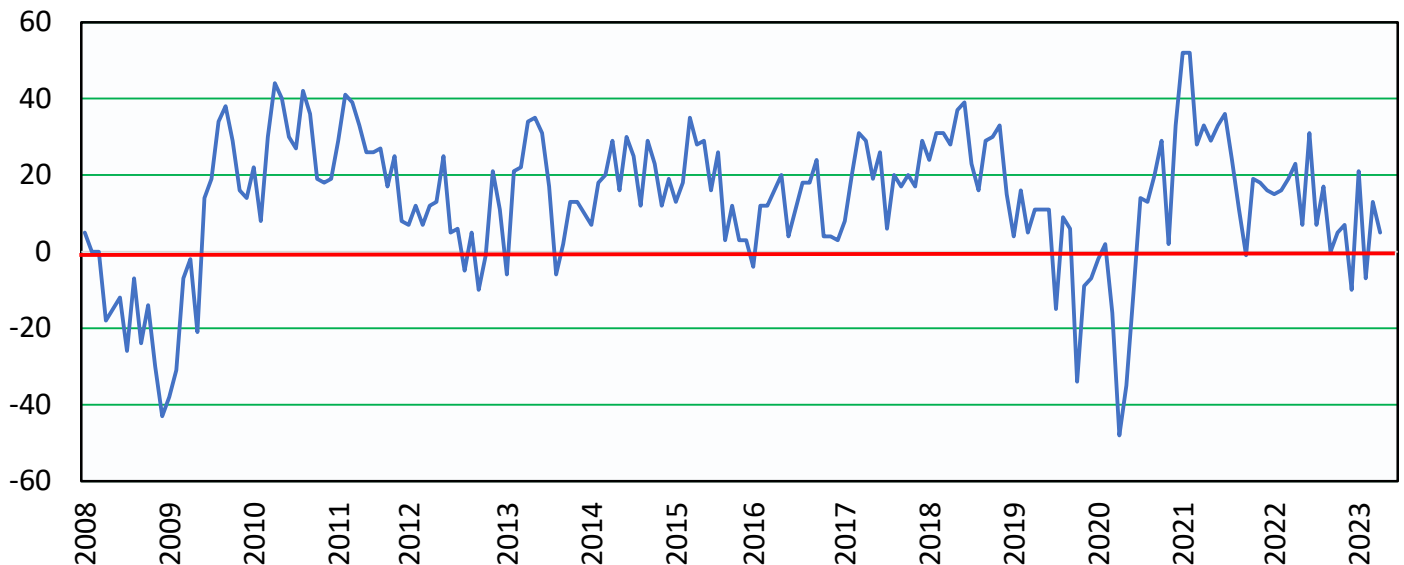
West Michigan Index of New Orders: 2008-2023

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.



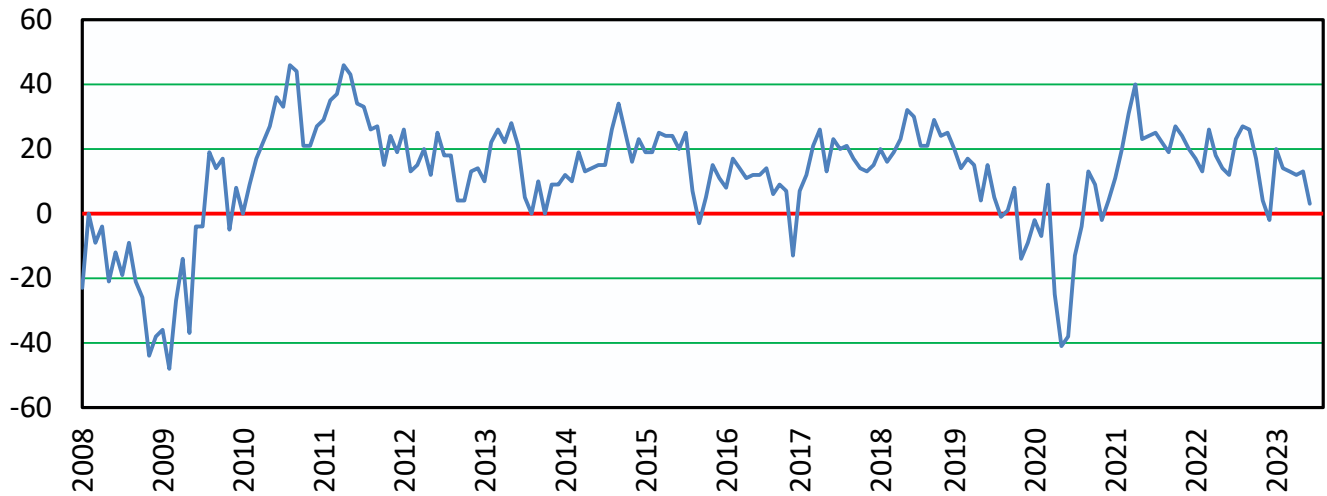
West Michigan Index of Production (Output): 2008-2023

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.

LONG TERM BUSINESS OUTLOOK (3-5 YEARS)
SHORT TERM BUSINESS OUTLOOK (3-6 MONTHS)

