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West Michigan Current Business Trends

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POSITIVE GROWTH RETURNS

Key Take-Aways from May 2023 Statistics:

- **An Uptick for West Michigan Industrial Economy**
- **National Economy Remains Soft**
- **Survey Comments Split Between Optimistic and Pessimistic**

	May	Apr.
NEW ORDERS Index (business improvement)	+19	+ 0
PRODUCTION Index (aka "output")	+13	+ 5
EMPLOYMENT Index	+13	+ 3
LEAD TIMES Index	+ 2	+ 3

Key Participant Comments for May:

"We are seeing a bit of a slowdown in our business, and we're hoping it does not last long!"

"Order books are down 20% for May and June."

"There is some relief in lead times for domestically produced components, but we are not yet near pre-pandemic lead times. This has pushed us to carry more raw materials in inventory to meet our customer demands in their expected lead time. We anticipate continued improvement in those raw material lead times and some reductions in on-hand inventories."

"We are still short a wide variety of workers. Production and professional workers, STEM roles such as engineers and technicians, PLC programmers, and automation engineers."

The Local Economy. For our data collected in late May, it was a pleasant surprise to have NEW ORDERS, our index of business improvement, bounce to +19, up from +0. In a more modest move, the May PRODUCTION Index, which some economists label as "output," rose to +13 from +5. The Index of PURCHASES, which measures activity in purchasing offices, also edged up to +13 from April's +5. The comments from our automotive parts producers are still "cautiously positive." Although the office furniture business remains soft, we have yet to see any major layoffs. Like last month, the general consensus by most of our panelists remains that the economy is definitely slowing, but with a few exceptions, the slowdown is still manageable. Even though various indices of "help wanted" ads have been falling for months, some firms continue to report problems filling open positions.

The U.S. Economy. Unfortunately, the report from the Institute for Supply Management turned slightly more negative in May. ISM's NEW ORDERS Index posted at -13, down from April's -1. ISM's PRODUCTION (a.k.a., Output) Index remained modestly positive at +1, but softer than April's +5. Another key ISM index, ORDER BACKLOG, dropped to a fifteen-year (repeat: 15 year) low of -25, down from -14. The Index of NEW EXPORT ORDERS remined flat at +0. After statistical adjustments, ISM's May Composite Manufacturing PMI posted at 46.9, down from 47.1. In summary, ISM's May respondents have turned increasingly pessimistic.

West Michigan Index of New Orders: 2020-2023

A similar 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 May S&P Composite Index recorded a noticeable drop to 48.4, down from April's 50.2, and below the all-important 50.0 break-even point. Even though S&P's May Output Index remained slightly positive, the New Orders Index has now turned negative for the first time in three months. However, many of the panelists remain cautiously optimistic. Chris Williamson, Chief Business Economist at S&P Global Market Intelligence, further commented:

"May saw a renewed deterioration of business in the US manufacturing economy which will add to concerns about broader economic health and recession risks. Although a record improvement in supplier delivery performance helped manufacturers fulfil back orders in May, generating a third successive monthly rise in output, the overall rate of production growth remained disappointingly meagre thanks to a further drop in new order inflows. Unless demand picks up, production growth will move into decline seen as it is clearly unsustainable to rely solely on backlogs of orders, which are now being depleted at the fastest rate for three years. We are likely to see further downward pressure on both output and prices for goods in the coming months, thanks to the demand environment which has been hit by higher interest rates, the increased cost of living, economic uncertainty and a post-pandemic shift in spend from goods to services. The one area of resilience is the labour market, as firms continued to take on more staff to fill long-empty vacancies, though we should bear in mind that employment is typically a lagging indicator. It does nevertheless point to some upward pressure on wages."

The World Economy. The J.P. Morgan Worldwide Manufacturing Index for May posted at 49.6, identical to April's index, and still slightly below the break-even point of 50.0. JPM's New Orders Index edged slightly lower to 49.3, down from 49.4. Because of the increased availability of many raw materials and components, JPM's May Output Index came in at 51.5, up from April's 50.8. The PMI for Canada, our largest trading partner, fell to 49.0 from 50.2. The PMI for Mexico, our second biggest trading partner, remained positive but eased to 50.5 from 51.1. The China Caixin PMI returned to positive at 50.9, up from April's 49.5. At long last, the Chinese industrial economy is reopening. Bennett Parrish, Global Economist at J.P. Morgan, further commented:

"The May PMI surveys suggest continued positive momentum in the global manufacturing sector. The global output index—boosted by a sizable gain in China—strengthened 0.7-points and is consistent with 1.6% annual rate gain in global factory output. However, the internals of the May PMIs temper the positive signal from the output index and suggest lackluster growth in goods demand. The new orders PMI ticked down again last month to remain below the 50 mark. Also concerning is that the ratio of orders to finished goods inventories held stable at 0.99, a level consistent with output declines. A move back down in the employment index reversed the April improvement."

The situation for the European economy continues to worsen. According to the report from the Hamburg Commercial Bank. the May PMI for the Eurozone posted at 44.8, down from 45.8. Significant declines in both the New Orders and Output indices are continuing to drag the composite PMI lower. The PMIs for Ireland, France, Germany, Austria, and the Netherlands all hit 36-month lows. At 51.5, only beleaguered Greece managed to post a positive PMI. Commenting on the May data, Dr. Cyrus de la Rubia, Chief Economist at Hamburg Commercial Bank, further noted:

"The weakness in demand in the manufacturing sector, which has become increasingly evident since the beginning of the year in falling PMI readings, has now led the surveyed companies to reduce their production for the second month in a row. The decline in new orders from home and abroad signals that the weakness in output is likely to persist for several more months. Data from the EU Commission, available through April, show that basically all product categories are under pressure, with the important exception of capital goods. France is standing out in particular as a poor performer. In the labor market, the downturn has not yet taken hold. On balance, the companies surveyed are still hiring more people or are reluctant to cut staff despite the poorer order situation for fear of not being able to fill the positions again when the next upturn comes."

Automotive. After many months of supply chain turmoil, the automotive industry continues to show signs of returning to normal. Not all firms post monthly data, but for those that do, the year-over-year sales gain for May was 9.3 percent. The SAAR (Seasonally Adjusted Annualized Rate) for May posted at 15.1 million units, well above the May 2022 rate of 12.7 million units. Significant amounts of May's production went to fleet buyers, many of which have been begging for over-due orders to be filled. New car shoppers are now happy to find that dealer inventories are 48 percent higher than May 2022. For the firms that still report monthly sales, Ford gained 11.8 percent, Honda chalked up a whopping 53.2 percent, and Hyundai-Kia sales rose 20.8 percent. Toyota was finally able to snap a four-month losing streak and reported May sales up 6.4 percent. David Oakley of GlobalData further commented:

"After a particularly robust result in April, it would not have been surprising if May sales were a little disappointing, but instead, we interpret May's outcome as another encouraging one for the industry. With one fewer selling day than April and two fewer than March, volumes were within 10k units of either month. The fact that the daily selling rate was the highest in two years is another indicator that conditions remain healthy despite lingering concerns over a potential recession and higher interest rates."

Industrial Inflation. For the first time in many months, the West Michigan index of PRICES has turned modestly negative at -2, down from April's +10. The May ISM national index of PRICES fell sharply to -12 from +6. Several of our local respondents reported commodities rising in price that were reported by other respondents as falling. S&P's Price Pressures Index fell to its lowest level since February 2016. Of the 26 commodities tracked by S&P, 17 registered a reduction in price. According to Usamah Bhatti at S&P Global Market Intelligence:

"The latest indicators provided the first sign that commodity prices are broadly weakening, following the sharp rises seen since the onset of the pandemic. Commodity prices were reportedly down for the first time since December 2019, with 17 of the 26 monitored commodities falling in price during May. This included falls in energy, electricity, gas and oil, all of which saw prices surge during the pandemic and the war in Ukraine. The downward trend for prices reflects a gradual easing in global input costs at manufacturers, with the latest JPMorgan Global Manufacturing PMI data signalling a reduction in input prices for the first time since May 2020. Supply chain pressures moderated to the lowest level since August 2020. Only seven of the monitored commodities saw reported shortfalls above the long-run trend during

May, with transport, semiconductors and electrical items recording the most acute shortages."

West Michigan Unemployment. Locally, our EMPLOYMENT Index has remained significantly positive for the past 28 months, although the April reading eased to +3. For May, the index resumed double-digit growth at +13. It was good to see the percentage of firms adding personnel edge up to +25 from +16. The summer season is often busy for many firms, and the vacation schedules often require additional people to fill in. Even though the economy is clearly slowing, it is not unusual to see numerous firms with unfilled jobs. According to the Michigan Department of Technology, Management & Budget (DTMB), the April (latest month available) seasonally adjusted year-over-year unemployment rate for Michigan stands at 3.8 percent compared to 4.4 percent as recently as January. For West Michigan, the unemployment rate for Ottawa County has now fallen to 2.3 percent, followed by Kent County at 2.6 percent, Allegan County, 2.8 percent, and Kalamazoo County, 2.9 percent. Although we still expect our unemployment numbers to edge up later in the year, it is obvious that West Michigan continues to fare better than the rest of the state.

Business and Consumer Confidence. According to the May 30 press release, the most recent Conference Board Consumer Confidence Index fell to 102.3 (1985=100), down from 103.7. In a similar move, the May University of Michigan Index of Consumer Sentiment downticked to 59.2 from to 63.5. Joanne Hsu, Surveys of Consumers Director, further commented, "While current incoming macroeconomic data show no sign of recession, consumers' worries about the economy escalated in May alongside the proliferation of negative news about the economy, including the debt crisis standoff." For our local survey, the SHORT-TERM BUSINESS OUTLOOK Index for May, which asks local firms about their business perceptions for the next three to six months, edged up to +7 from April's -3. The LONG-TERM BUSINESS OUTLOOK Index, which queries the perceptions for the next three to five years, came in at +33, up from +16. When assessing the current outlook for most of our panelist's firms, it is worth remembering that both consumer and business confidence are driven in part by the current news cycle. Hopefully, with the debt ceiling crisis now resolved, our confidence numbers for June will improve.

GDP. According to the May 25 press release from the Bureau of Economic Analysis BEA), the "second" estimate of 2023 First Quarter GDP growth rose to 1.3 percent from last month's "preliminary" estimate of 1.1 percent. It is again worth noting that the BEA's preliminary and revised GDP reports have grown increasingly accurate in more recent years, so we should not expect a major revision when the final number is posted in late June. Looking ahead to the second quarter, it is not surprising to see that the forecasts for reputable institutions are all over the map. The June 1 press release from the Atlanta Federal Reserve's GDPNow model forecasts a growth rate of 2.0 percent, up from last month's estimate of 1.7 percent. A less optimistic growth forecast of only 0.85 percent comes from Wolters Kluwer N.V.'s Blue Chip model. The Conference Board's second quarter forecast continues to be negative, although the most recent press release upgraded the decline from -1.8 percent to -0.6 percent. The Philadelphia Fed's research forecast, published on May 15, continues to predict a growth rate of 1.0 percent for the second quarter, but continues to hold out the possibility that the GDP will turn slightly negative in the third quarter.

Looking Forward. The "debt ceiling" crisis has now been resolved, auto sales are continuing to rise, and both of our local indices of business confidence are again rising. That's the good news. On the down side, inflation remains high, higher interest rates are starting to take a bite out of the economy, and numerous other important statistics continue to soften. We have built several bubbles, such as the price of housing is some parts of the country, the price of some commodities, and excessive inventories in the industrial markets. If we were to encounter some kind of a catalyst or "black swan" event, these bubbles could all collapse at once. Alternatively, the 20 percent possibility of a "soft landing" might still be accomplished by the Fed. Right now, the statistics do not show us to be on the edge of a recession. In another six months, all of this could change.

MAY 2023 Survey Statistics

	UP	SAME	DOWN	N/A	May Index	Apr. Index	Mar. Index	25 Year Average
Sales (New Orders)	41%	37%	22%	0%	+19	+ 0	+ 2	+14
Production (Gross Output)	31%	45%	18%	6%	+13	+ 5	+13	+14
Employment	25%	63%	12%	0%	+13	+ 3	+13	+ 8
Purchases	33%	47%	20%	0%	+13	+ 5	- 5	+ 7
Prices Paid (major commodities)	14%	64%	16%	4%	- 2	+11	+ 0	+15
Lead Times (from suppliers)	12%	74%	14%	0%	- 2	+ 3	+ 2	+11
Purchased Materials Inv. (Raw materials & supplies)	20%	49%	23%	8%	- 3	-19	-12	- 4
Finished Goods Inventory	8%	59%	31%	2%	-23	- 8	+ 3	- 8
Short Term Business Outlook (Next 3-6 months)	25%	57%	13%	0%	+ 7	- 3	+ 0	-
Long Term Business Outlook (Next 3-5 years)	45%	41%	12%	2%	+33	+16	+33	-

Latest Unemployment Reports:

(Except as noted, data are NOT seasonally adjusted)

	Apr. 2023	Apr. 2022	Aug. 2009	20-Year Low
State of Michigan (Apr.)	3.8%	4.0%	14.6%	3.2%
State of Michigan (Unadj.)	4.1%	4.5%	14.1%	2.9%
Kent County	2.6%	3.2%	11.9%	2.1%
Kalamazoo County	2.9%	3.6%	11.1%	2.1%
Calhoun County	3.7%	4.4%	12.8%	2.7%
Ottawa County	2.3%	3.0%	13.3%	1.8%
Barry County	3.0%	3.6%	10.9%	2.2%
Kalamazoo City	3.7%	4.5%	15.2%	3.2%
Portage City	3.2%	6.4%	8.7%	1.3%
Grand Rapids City	3.4%	4.3%	16.1%	3.0%
Kentwood City	2.4%	3.0%	10.7%	1.4%
Plainfield Twp.	1.5%	2.4%	8.0%	1.4%
U.S. Official Rate (Apr.)	3.4%	3.6%	9.6%	3.5%
U.S. Rate (Unadjusted)	3.1%	3.3%	9.6%	3.4%

Items in short supply:

Certain types of steel, stainless steel, reducers, electrical safety components, some electrical and electronic, computer chips, some aluminum, some freight items, petroleum-based products from the EU, liquid cough/cold and liquid allergy formulations, domestic casting capacity, outside material such as garments, gears, some metallic parts, castings, forgings.

Prices on the UP side:

Steel, stainless steel, powder coating, brass fittings, nylon tubing, freight, phosphates, engineered components, electronics dampers, actuators, copper, aluminum.

Prices on the DOWN side:

Steel*, carbon steel, scrap steel, steel wire rod products, fasteners, sodium hydroxide, phosphoric acid, oil derivatives, silanes (domestic and Asian), aluminum*,staffing*, PA6, ABS, polycarbonate, polypropylene.

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

MAY COMMENTS FROM SURVEY PARTICIPANTS

"We are still short a wide variety of workers. Production and professional workers, STEM roles such as engineers and technicians, PLC Programmers, and Automation Engineers."

"Freight pricing is dropping. We are now seeing some machines build in inventory and manufacturers starting to selectively discount prices to move inventory."

"We are seeing a bit of slowdown in our business, and we're hoping it does not last long!"

"April was a strong sales month. We hope that this trend continues, but continue to be skeptical."

"Order books are down 20% for May and June."

"Things are starting to slow down in the industry."

"Similar to last month, we're seeing some additional demand in some markets."

"We have a good balance between our demand and capacity right now. Hence, little overtime needed. We have months left in the fiscal year, and looks like we will end up with a record year, tempered somewhat by slowing sales."

"Business continues to be steady, and we struggle to get the right quantity of direct labor."

"There is some relief in lead times for domestically produced components, but we are not yet near pre-pandemic lead times. This has pushed us to carry more raw materials in inventory to meet our customer demands in their expected lead time. We anticipate continued improvement in those raw material lead times and some reductions in on-hand inventories."

"If this administration and the government keeps in the same path, we will be in a recession by the end of the year."

"Most items are available, but lead times again appear to be stretching a bit. Demand is recovering, and there is growing concern about a 'gold rush' back to suppliers upstream which could initiate more (temporary) bottlenecks."

"Sales are strong and the future looks good."

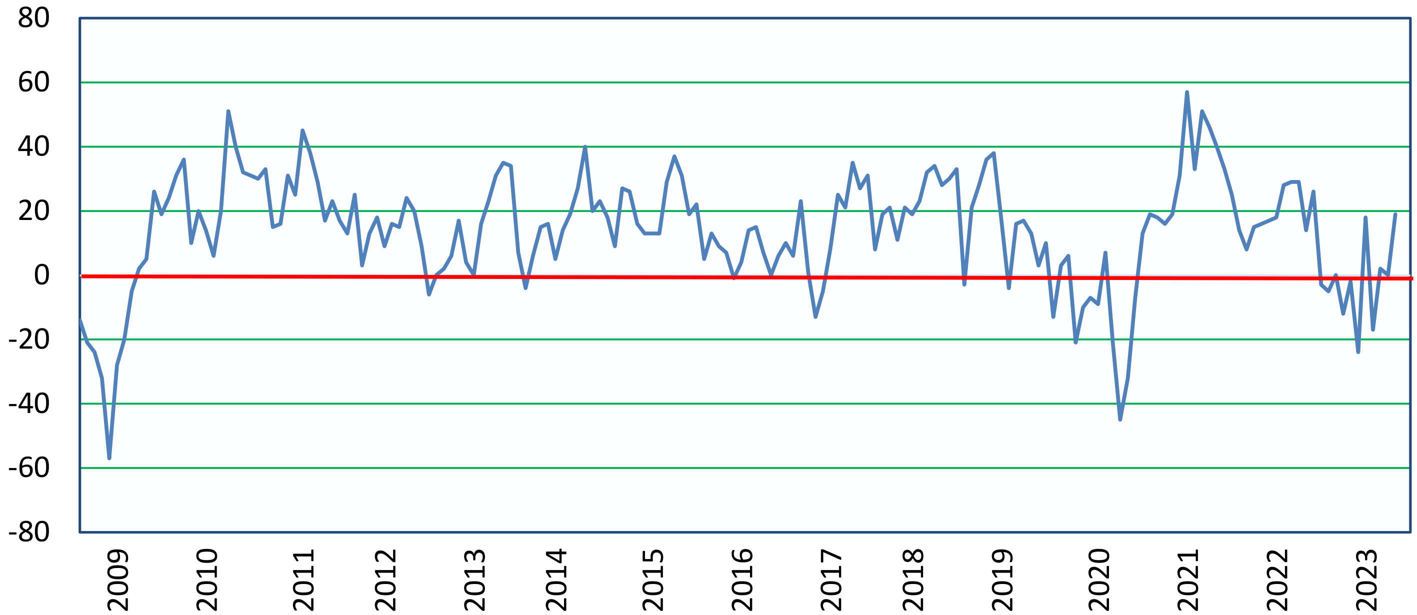
"Prices for most major commodities continue to drop. Suppliers are trying to hang onto increases posted over the past 3 years but they are failing."

"EU-produced raw material prices are falling as energy surcharges are expiring or flattening."

"We're still seeing some electronics with long lead times. Older servo motors to support existing machinery repairs are in short supply."

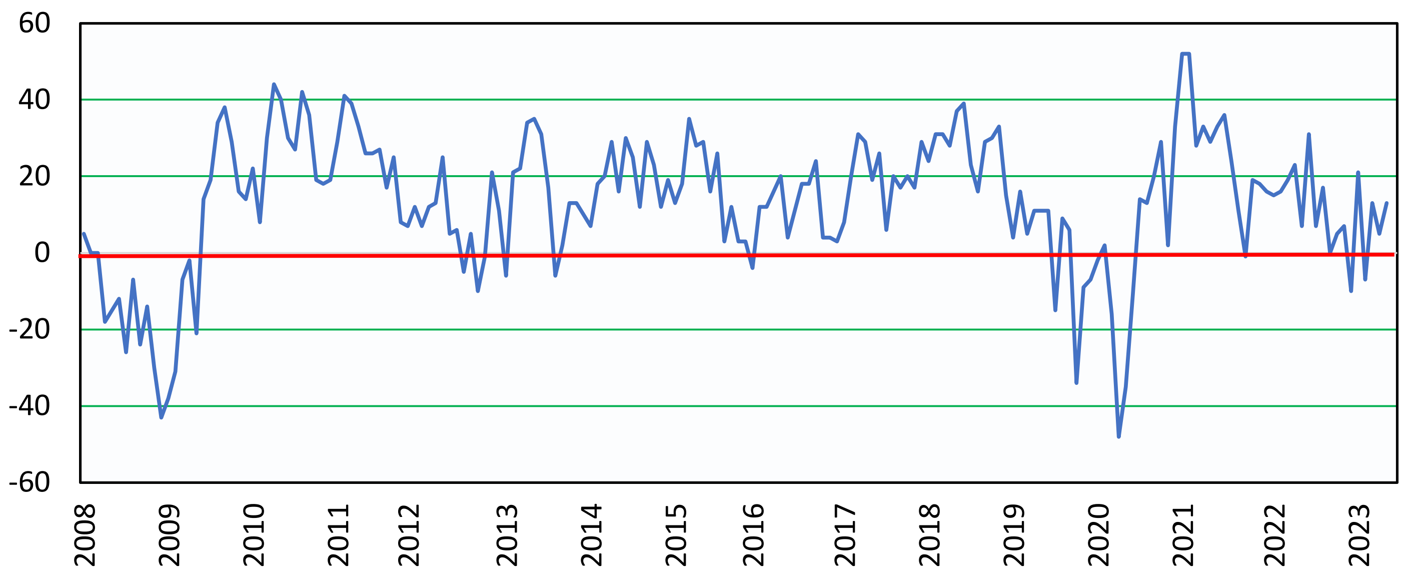
West Michigan Index of New Orders: 2008-2023

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.



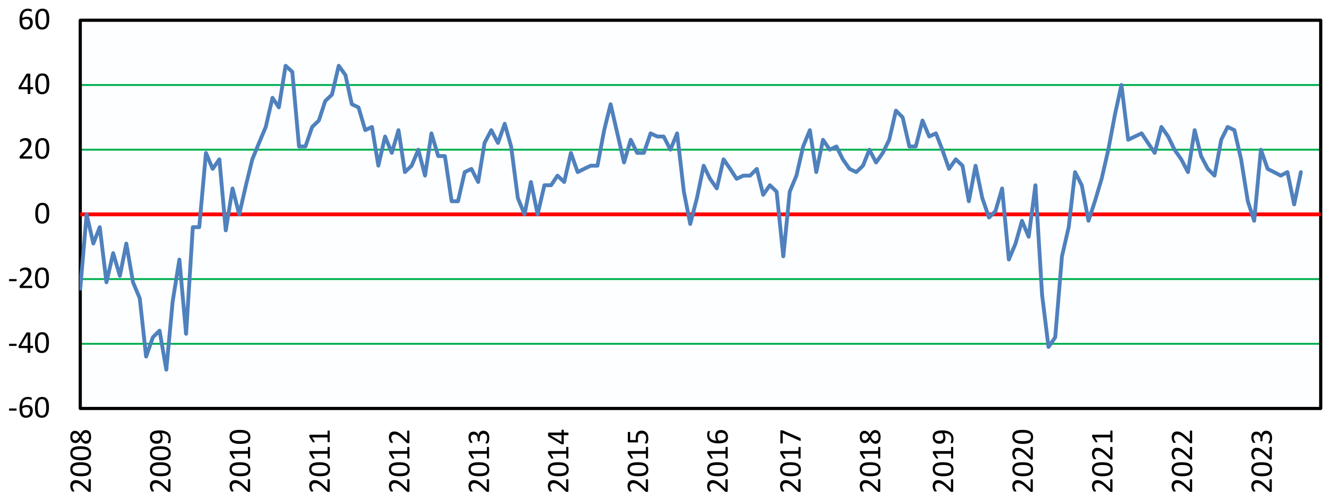
West Michigan Index of Production (Output): 2008-2023

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.