By Brian G. Long, Ph.D., C.P.M.
Director, Supply Chain Management Research
Grand Valley State University
(269) 870-0428

West Michigan Current Business Trends

January 8, 2024

MODESTLY NEGATIVE, BUT STABLE

Key Take-Aways from December 2023 Statistics:

- **Economy is Remains Modestly Negative, but Not Yet in Recession Range**
- **National Industrial Economy Continues to Soften.**
- **Both Commodity Pricing and Lead Times Have Stabilized.**

	Dec.	Nov.
NEW ORDERS Index (business improvement)	-14	-10
PRODUCTION Index (aka "output")	- 11	- 4
EMPLOYMENT Index	- 5	- 5
LEAD TIMES Index	- 9	- 8

Key Participant Comments for December:

"We're steady. Not amazing, but keeping the plants running and hitting targets."

"There are plenty of domestic and international storylines to monitor as we head into 2024. "

"For automotive, EV sales are horrible. Firms have cut production. There is now a massive delay in new programs. We are very concerned about this segment of our business."

"We are now able to get most items like computer chips without difficulty. Right now, we really don't have many commodities in short supply."

"Business levels are down 25% compared to this time last year."

The Local Economy. For 2023, the year ended on several positive notes. Most of the bottlenecks in the supply chains have been cleared, most employers are having less trouble filling open position, the UAW strike is now history, and most commodity prices have returned to normal. As a result of some of the highest interest rates in decades, the West Michigan economy continues to slow at a fairly orderly rate. Although our statistics have now been negative for several months, we are still not in a recession. Of course, as past reports have warned, this situation can often change very quickly. NEW ORDERS, West Michigan's all-important index of business improvement, edged lower in December to -14 from -10. The PRODUCTION Index, which some economists label as "output," fell more sharply to -11 from -4. The index of PURCHASES, which measures activity in purchasing offices, sagged to -15 from -12. After nearly two years of warning about an impending recession, many survey participants remain in a "wait and see" mode. For many firms, business conditions have retreated, but most see no sign of an impending collapse.

West Michigan Index of New Orders: 2020-2023

The U.S. Economy. The latest report from the Institute for Supply Management continues to depict the U.S. economy as drifting modestly lower. ISM's NEW ORDERS Index posted at -11, slightly below November's -8. The PRODUCTION Index for December (a.k.a., Output) edged lower to -8, down from -2. ISM's closely-watched ORDER BACKLOG Index recovered to -10, up from -21, but still below the break-even point of +0. The NEW EXPORT ORDERS Index recovered to the break-even point of +0, up from -8. After adding seasonal adjustments, ISM's composite index for December posted at 47.4, up from November's 46.7.

A more pessimistic view of the U.S. economy comes from the British-based economic consulting firm now called S&P Global. S&P's Composite PMI for December posted at 47.9, down from 49.4 reported last month and down significantly from the break-even point of 50.0 reported as recently as October. The S&P's index of New Orders was lower for the seventh successive month and fell at the sharpest rate since August. Chris Williamson, Chief Business Economist at S&P Global Market Intelligence, further commented:

"U.S. manufacturers ended the year on a sour note, according to S&P Global's PMI survey. Output fell at the fastest rate for six months as the recent order book decline intensified. Manufacturing will therefore likely have acted as a drag on the economy in the fourth quarter. The slowdown is spreading to the labor market. Payrolls were cut for a third month running as increasing numbers of firms grew concerned about the development of excess operating capacity. The fourth quarter has consequently seen factories reduce employment at a pace not seen since 2009 barring only the early pandemic lockdown months. With factories also cutting back sharply on their purchases of inputs in December, suppliers were also less busy on average, again hinting at the development of spare capacity. Potential supply chain disruptions need to be monitored, however, notably in terms of shipping, as the survey has clearly demonstrated in the past how supply chain tensions quickly feed through to higher prices."

The World Economy. The J.P. Morgan Worldwide Manufacturing Index for December came in at 49.0, slightly below last month's reading of 49.3. Despite two significant wars continuing to disrupt the global order, the world economy is more resilient than might be expected. JPM's New Orders Index edged slightly lower to 48.6 from 48.9. In a similar move, JPM's Output Index eased to 49.5 from 49.9. The PMI for Canada, our largest trading partner, fell significantly to 45.5 from 47.7. The Canadian PMI has now been negative for eight successive months. The December PMI for Mexico, our second largest trading partner, remained positive but eased to 52.0 from 52.5. The PMI for China, our third largest trading partner, edged up to 50.8 from 50.7. The post-pandemic recovery China had hoped for remains elusive. Maia Crook, Global Economist at J.P. Morgan, further noted:

"The global manufacturing output PMI slipped 0.4-point in December, and ends 2023 in modest contraction territory. Last month's decline was broadly based across economies. Output slipped in Europe after a promising rise in November, and the US took a step downwards. Global new orders and employment also ticked down last month, falling 0.4-point and 0.5-point respectively. Future output was one of the few bright spots in the report, alongside a modest firming in indicators of pricing and delivery times."

According to the monthly report from the Hamburg Commercial Bank, the December composite PMI for the Eurozone registered at 44.4, up marginally from 44.2. However, the Ukrainian war and the new emerging paradigm some are calling "Cold War, Part Two" continues to cloud the future. Of the major Eurozone economies, only the PMI for Greece remains positive. Germany, the largest economy in the composite calculation, remains sharply negative at 43.3. Dr. Cyrus de la Rubia, Chief Economist at Hamburg Commercial Bank, further noted:

"Amid a relentless slump in the manufacturing sector of the Eurozone, the HCOB PMI has shown little improvement compared to November. This indicates a sustained decline in both activity and demand for manufactured goods. The sluggishness of new orders echoes the gloom, retreating almost as swiftly as the previous month. Our Nowcast model aligns with this pessimistic trend, strongly suggesting a contraction in GDP for the fourth quarter. If this holds true, it paints a bleak picture for the eurozone and would mean that the Eurozone entered a recession in the third quarter. The destocking process is showing no signs of letting up. Stocks of purchases are shrinking at an accelerated pace and for the eleventh straight month, surpassing the rate observed in the previous month Companies may also look for lower energy prices as another potential factor contributing to their hopeful outlook. As for the top four eurozone economies, December's ranking by manufacturing sector performance made for ugly reading. The least ugly was Spain. Here the PMI is signalling a fall of economic activity that is less pronounced than in Italy, whose industry, in turn, is shrinking at a slower pace than Germany's. France is carrying the red lantern."

Automotive. The December sales reported by *Automotive News* estimates that the year-over-year SAAR (Seasonally Adjusted Annualized Rate) for 2023 posted at 15.6 million units, well below the record of 17.6 million units set back in 2016, but up 12.9 percent from 2022. Looking at the annual 2023 sales from some of the major nameplates, General Motors gained 14.1 percent, Honda added 33.0 percent, Hyundai-Kia, 11 percent, Nissan, 23.2 percent, VW, 28.0 percent, Ford, 7.0 percent, and Toyota, 6.6 percent. Among the major 2023 losers was Stellantis, which backtracked 1.3 percent. Randy Parker, CEO of Hyundai Motor America commented:

"The competition is going to be arguably very heated in 2024. Everybody is going to have inventory. Everybody's going to be back marketing and advertising, sales promoting, merchandising, putting incentives in the marketplace. It's going to be monthly hand-to-hand combat versus our key competitors."

West Michigan Unemployment. The December 28 press release from the Michigan Department of Technology, Management & Budget (DTMB) reported that the November (latest month available) seasonally adjusted year-over-year unemployment rate for Michigan edged up to 4.3 percent. At 2.5 percent, Ottawa County posted the lowest unemployment rate in Michigan, followed closely by Kent County at 2.6 percent, both Allegan and Barry Counties at 2.8 percent, and Kalamazoo County at 3.0 percent. However, our December West Michigan Index of EMPLOYMENT remained negative at -5. For December, 18 percent of the survey respondents reported staff reductions. Because of the economic "laggard" effect, we can expect our local employment situation to soften in coming months, but not collapse.

Business and Consumer Confidence. December Consumer Confidence, as reported by the December 20 press release from the Conference Board, bounced to 110.7 (1985=100), up from a revised 101.0 in November. In confirmation, the December University of Michigan Index of Consumer Sentiment rose 16.6 percent to 69.7, up from 61.3, erasing the declines of the previous four months. For our local survey, the SHORT-TERM BUSINESS OUTLOOK Index for December, which asks local firms about their business perceptions for the next three to six months, returned to the break-even point of +0. However, the LONG-TERM BUSINESS OUTLOOK Index, which queries the perceptions for the next three to five years, upticked nicely to +44 from +36, the highest the index has been since 2018.

Industrial Inflation. For December, our West Michigan index of PRICES returned to the breakeven point of +0, up from -2. By contrast, the December ISM index of PRICES fell to -10, down from +0. JPM's index of world prices edged up to 52.4 from 52.1. At 0.7, the S&P's Global Supply Shortage Index for December was unchanged. Of the 26 major commodities that S&P monitors, 15 fell in price. Commenting on the latest price trends, Usamah Bhatti, Economist at S&P Global Market Intelligence, added:

"December data signalled a sustained alleviation of price and supply pressures faced by manufacturing firms across the world, amid further weakness in the global manufacturing economy. Reports of price stability continued for a third month in a row, with 15 of the 26 reported commodities indicating a fall in price at the end of 2023. News was positive on the energy front, where overall prices fell for the first time since August. The muted demand picture for manufacturing supported a continued easing in supply chain difficulties, as signalled by the Supply Shortages Index which was unchanged from the previous survey period and slightly below the long-run average for the fourth consecutive month. This is a far cry from the levels seen over the past three years, with some of the most notable improvements seen in semiconductor and transport shortages."

Consumer Inflation. In mid-December, the U.S. Burean of Labor Statistics reported that the year-over year "headline" Consumer Price Index for November came in at 3.1, down modestly from 3.2. Excluding the more volatile components of food and energy, the "core" CPI posted at 4.0 percent, unchanged from October. By contrast, the December 22 Bureau of Economic Analysis reported that the November Personal Consumption Index posted at 2.6, down from 2.9, and closer to the Federal Reserve's target of 2.0. Excluding food and energy, the index came in at 3.2 percent, down from 3.4 percent. The press releases for both indices continued to stress that the "shelter" component, also known as rent or rent equivalent, continues to be the main component keeping the indices from easily declining. However, anecdotal evidence suggests that the worst of the rent hikes are over, although it may take many months before the index returns to normal. The most recent interest rate hikes ARE having the desired impact of slowing the economy, so further rate increases are most likely unnecessarily.

GDP. On December 21, the Bureau of Economic Analysis revised the growth rate estimate for the third quarter GDP downward to 4.9 percent from 5.2 percent. However, a similar economic measure, GDI, or Gross Domestic Income, remained unchanged at 1.5 percent. Because both indices should come out close to the same, several reputable economists have raised concern that the gap between the two indices hasn't been this large since the eve of the Great Recession in 2007. Other economists note that the economic turmoil created by the pandemic has changed the outlook for many economic factors, and that previous rules may simply not apply in 2023.

Analysts are now turning their attention to the estimates for growth in the fourth quarter of 2023. As of January 3, the Atlanta Federal Reserve's GDPNow model forecasts a fourth quarter growth rate of 2.5 percent, up significantly from last month's estimate of only 1.2 percent. However, the average growth rate for the Blue Chip GDP Realtime model remains virtually unchanged at 1.0 percent. The Conference Board also expects a GDP of 1.0 percent for the fourth quarter but continues to forecast a shallow recession to begin in the first two quarters of 2024.

Looking Forward. The headline from a recent J.P. Morgan publication reads, "A soft landing is in sight, but recession risks remain." Those few words capture what many analysts are thinking as we cross the threshold into 2024. Higher interest rates are raising the cost of home loans, auto loans, construction loans, and corporate loans. Most analysts also agree that the full impact of these higher rates has yet to be seen. Hence, almost all of the forecasts call for the 2024 economy to slow, and a few economists still believe that the rate of decline will accelerate until we ultimately slide into a recession. Based on our most recent statistics, this leaves the probability of a 2024 recession at about 30 percent.

Seidman College of Business | Grand Valley State University

December 2023 Survey Statistics

	UP	SAME	DOWN	N/A	Dec. Index	Nov. Index	Oct. Index	25 Year Average
Sales (New Orders)	22%	42%	36%	0%	- 14	-10	- 13	+14
Production (Gross Output)	13%	54%	24%	9%	-11	- 4	- 4	+14
Employment	13%	67%	18%	2%	- 5	- 5	-10	+ 8
Purchases	16%	53%	31%	0%	-15	-12	-17	+ 7
Prices Paid (major commodities)	16%	63%	16%	0%	+ 0	- 2	- 14	+15
Lead Times (from suppliers)	4%	81%	13%	2%	- 9	- 8	- 17	+11
Purchased Materials Inv. (Raw materials & supplies)	7%	53%	29%	11%	-22	- 10	- 6	- 4
Finished Goods Inventory	13%	52%	31%	4%	-18	- 7	+ 2	- 8
Short Term Business Outlook (Next 3-6 months)	20%	60%	20%	0%	+ 0	+ 3	- 4	-
Long Term Business Outlook (Next 3-5 years)	44%	50%	2%	4%	+42	+36	+28	-

Items in short supply:

Some aluminum materials, steel, seasonal items, casing and hoppers, Nitronic 60 bar stock, Xerox printers, machine builders, engineers, supply chain professionals.

Prices on the UP side:

IT telecom equipment, steel wire rod, Asian steel pricing, Nitronic 60 steel, powder coat, casters, fasteners, aluminum, steel, steel products, electronics, beef, pork, polyols (oil derivatives), polypropylene, ABS, barrels, CBD.

Prices on the DOWN side:

Wood, aluminum*, cardboard/corrugated, POM, PA6, TPO/TPU, lumber, fuel, some produce, poultry, motors, rubber, plastics, chemicals, trucking.

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

Latest Unemployment Reports:

(Except as noted, data are NOT seasonally adjusted)

	Nov. 2023	Nov. 2022	Aug. 2009	20-Year Low
State of Michigan (Nov.)	4.3%	4.4%	14.6%	3.2%
State of Michigan (Unadj.)	3.6%	3.5%	14.1%	2.9%
Kent County	2.6%	3.0%	11.9%	2.1%
Kalamazoo County	3.0%	3.5%	11.1%	2.1%
Calhoun County	3.5%	4.2%	12.8%	2.7%
Ottawa County	2.5%	2.9%	13.3%	1.8%
Barry County	2.8%	3.3%	10.9%	2.2%
Kalamazoo City	3.7%	4.3%	15.2%	3.2%
Portage City	2.7%	3.2%	8.7%	1.3%
Grand Rapids City	3.5%	4.0%	16.1%	3.0%
Kentwood City	2.5%	2.8%	10.7%	1.4%
Plainfield Twp.	2.0%	2.3%	8.0%	1.4%
U.S. Official Rate (Nov.)	3.7%	3.6%	9.6%	3.5%
U.S. Rate (Unadjusted)	3.5%	3.4%	9.6%	3.4%
U.S. U-6 Rate (Nov.)**	7.0%	6.7%	22.9%	6.7%

***U-6 for Michigan = 7.1% for Q4 2022 thru Q3 2023*

DECEMBER COMMENTS FROM SURVEY PARTICIPANTS

"We are having a very slow end of year. Oct/Nov is when a lot of smaller companies find out what their tax obligations will be and then purchase equipment to offset taxes. This is much lower this year."

"Business is coming back strong after the UAW contracts were finalized. Q1 forecast are better than expected."

"We had a slow finish to the year, but the future still looks promising for growth."

"We're slower this month, but that is typical and is reflected in our budget. We are tracking close to expectations."

"We are getting ready for snow to drop and are ready for the season ahead. We are stocking up on raw materials anticipating a snowfall in the coming weeks."

"December was a pretty quiet month."

"We anticipate slower business in the next 3 months due to seasonal slowdowns."

"As inventory levels are increasing, we are seeing a drop in machine tool pricing."

"We are now able to get most items like computer chips without difficulty. Right now, we really don't have much in short supply."

"Supply chain shortages and longer lead times are a direct result of the shortage of transportation and delivery labor."

"We are steady/busy. We will be challenged on capacity this month with employees using up vacation time. We still have a lot of issues with castings/forgings, and the suppliers seem to be struggling with labor force and quality. We continue to push inventory levels down as we try to bring our inventory turns back to pre-covid levels."

"For automotive, EV sales are horrible. Firms have cut production. There is now a massive delay in new programs. We are very concerned about this segment of our business."

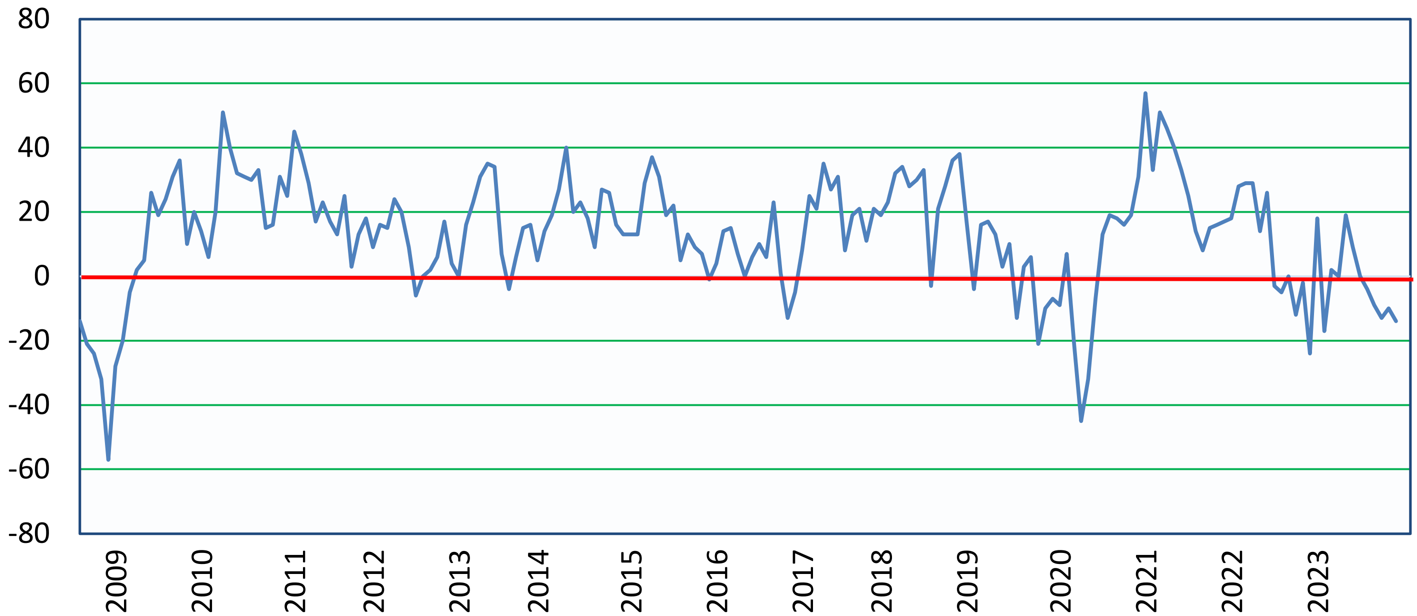
"Business levels are down 25% compared to this time last year. "

"The calendar year will end with lower-than-expected sales related more to product launch timing vs. the economy. Lead times and costs for overseas containers have continued to normalize to pre-Covid levels. There are plenty of domestic and international storylines to monitor as we head into 2024. "

"We're steady, not amazing, but keeping the plants running and hitting targets."

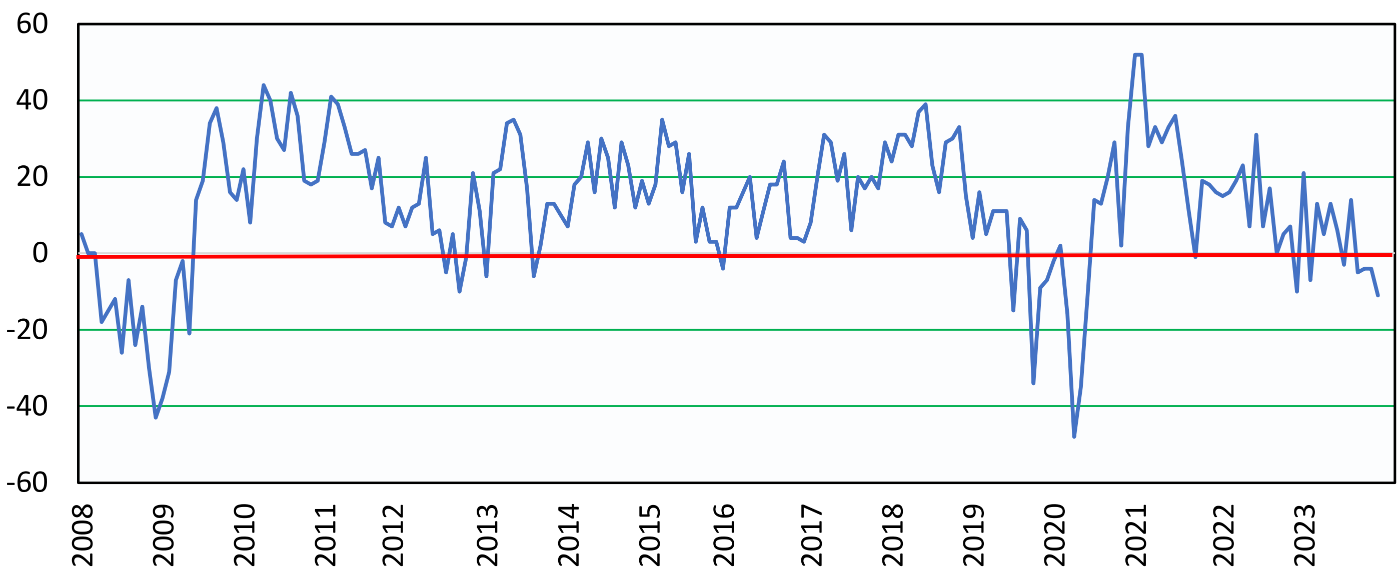
West Michigan Index of New Orders: 2008-2023

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.



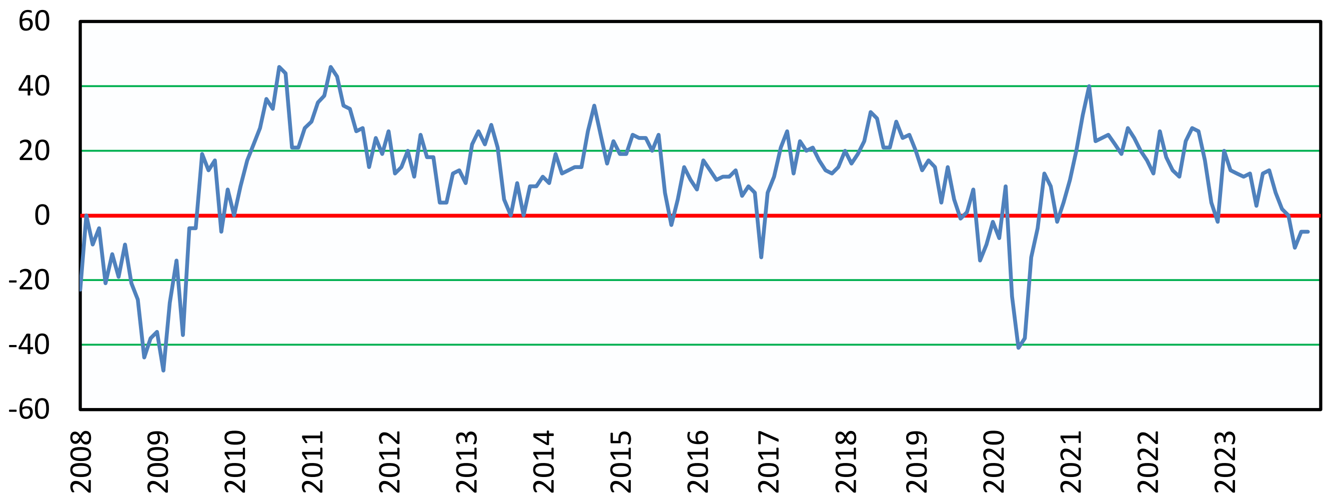
West Michigan Index of Production (Output): 2008-2023

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.