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West Michigan Current Business Trends

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Economy Rebounds on Newfound Optimism

Key Take-Aways from February 2024 Statistics:

- **Cautions optimism has returned to West Michigan**
- **National and International Economies Continue to Uptick**
- **Local Business Optimism Hits Two-Year High**

	Feb.	Jan.
NEW ORDERS Index (business improvement)	+ 3	-26
PRODUCTION Index (aka "output")	- 10	- 20
EMPLOYMENT Index	- 7	- 7
LEAD TIMES Index	- 5	- 7

Key Participant Comments for February:

"We have very strong sales, and have added overtime that we hadn't anticipated to maintain backlog at planned level."

"EV sales are a concern. Volumes are not being achieved, causing issues for us and our suppliers since a lot of investments have been made."

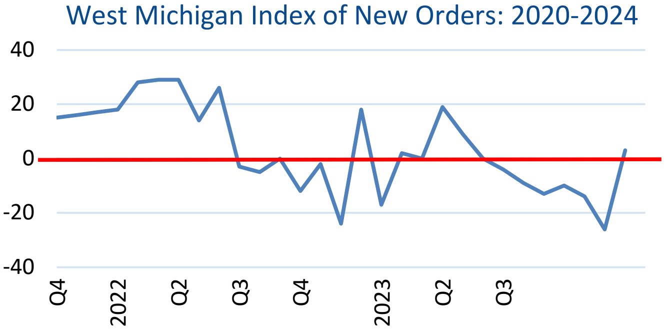
"Things are ok but slow. The next few months are going to be soft."

"We are hopeful that automotive remains strong. It is currently supporting the other segments of our business that are down."

"We are no longer working overtime, but the scheduled forecast still looks strong in the coming months."

The Local Economy. Much as we expected, last month's soft numbers turned out to be a one-off event. For February, West Michigan's NEW ORDERS, our index of business improvement, rebounded to +3 from January's abysmal -26. The PRODUCTION Index, which some economists label as "output," recovered to -10 from -20. Activity in purchasing offices, our index of PURCHASES, modestly upticked to -10 from -14. Overall, the current West Michigan economy can best be described as statistically flat, depending on which indices are prioritized, but headed in the right direction. Auto parts, our largest cyclical industry, has become more competitive in recent months, largely because the chip crisis, which constricted auto production schedules for well over two years, has subsided. Unfortunately, a few local firms supporting the new electric vehicles are now sitting on unused capital investment which was purchased to meet EV demand that has yet to materialize. The back-to-office mandates are slowly improving business conditions for the office future industry, but slower new office construction has dampened that important market segment for the office furniture industry. Overall, the optimism of our survey respondents has improved considerably, and many of this month's comments are among the most optimistic we've seen in a long time.

West Michigan Index of New Orders: 2020-2024



The U.S. Economy. After a weak ending to the last half of 2023, the February report from the Institute for Supply Management came in modestly positive for the first time since June 2022. ISM's NEW ORDERS Index posted at +7, up from -3 in January which was the first positive reading for this index since June 2022. At +1, the PRODUCTION Index for February also turned positive for the first time in many months. ISM's ORDER BACKLOG Index remained below the break-even point of +0, but recovered to -7 from -11. However, the NEW EXPORT ORDERS Index rebounded to +3 from -11.

An even more optimistic view of the U.S. economy in February came from S&P Global, the British-based economic consulting firm. S&P's Composite PMI jumped to 52.2, up from January's 50.7 and up considerably from December's pessimistic report of 47.9. Significant increases in New Orders and Output (Production) helped fuel the rebound. Most of S&P's other statistics came in at two-year highs. Chris Williamson, Chief Business Economist at S&P Global Market Intelligence, further commented:

"Manufacturing is showing encouraging signs of pulling out of the malaise that has dogged the goods-producing sector over much of the past two years. After a long spell of reducing inventories in order to cut costs, factories are now increasingly rebuilding warehouse stock levels, driving up demand for inputs and pushing production higher at a pace not seen since early 2022. There are also signs of stronger demand for consumer goods, linked in part to signs of the cost-of-living crisis easing. Firms are consequently investing in more staff and more equipment, laying the foundations of further production gains in the coming months to hopefully drive a stronger and more sustainable recovery of the manufacturing economy. Problems with shipping disruptions and supply chains earlier in the year have eased, taking some pressure off input prices, though factory gate prices are recovering amid stronger customer demand, which will be an area to watch closely in the coming months as policymakers assess the appropriateness and timing of any interest rate cuts."

The World Economy. After the J.P. Morgan Worldwide Manufacturing Index returned to the statistical break-even point of 50.0 in January, it was gratifying to see the index edge marginally higher to 50.3 in February. JPM's index for New Orders posted at 50.4, the first time the index has been positive since June 2022. The PMI for Canada, our largest trading partner, recovered to 49.7 from 48.3. The February PMI for Mexico edged higher to 52.3, up nicely from 50.2. The February PMI for China, our third most important trading partner, remained virtually unchanged at 50.9. Although the China PMI has been marginally positive for four successive months, the long-awaited post-pandemic recovery has yet to materialize. Bennett Parrish, Global Economist at J.P. Morgan, further commented:

"The February PMI survey saw the rebound in global manufacturing gather pace. The output PMI advanced by 0.9 pts to its highest level since May 2023. The new orders index also rose above the 50-mark for the first time in 20 months. An improving orders-to-inventory ratio and upward momentum in both new export business and employment all suggest the underlying dynamics of the manufacturing sector are also moving in the right direction. Supply chain stresses seem to have faded somewhat, at least on aggregate."

The weak performance of the Eurozone continues to be a drag on the world economy. The February composite PMI compiled by the Hamburg Commercial Bank posted at 46.5, virtually unchanged from January's 46.6. Although the February PMIs for Greece, Ireland, and Spain remain positive, the PMI for Germany, the Eurozone's largest economy, fell to 42.5 from January's 45.5. Dr. Cyrus de la Rubia, Chief Economist at Hamburg Commercial Bank, further noted:

"The Eurozone's one-year industrial recession is not coming to an end. Output has declined again at the same pace as the previous month, mainly due to the heavyweights Germany and France. Spain, by contrast, is the first of the leading four-euro countries to re-enter growth territory. On a slightly more positive note, the decline in new orders in the Eurozone has softened somewhat, offering a glimmer of hope for a potential demand recovery in the future. The attacks by the Houthis on commercial vessels in the Red Sea have had a temporary impact, leading to a brief lengthening of delivery times in January, followed by a subsequent reduction in lead times in February. Prospects regarding future output remain cautiously optimistic, although the index is still slightly below the long-term average, reflecting the prevailing subdued environment. Similarly, employers are reducing their workforce, but with a reluctance to adopt overly aggressive measures in this regard. As a result, the overall sentiment is not one of anticipating an exceptionally bright future, yet firms are also not bracing for depressive times. Instead, it appears that businesses are maintaining their operations, poised to spring back into action when the signs of improvement materialise. They are in a kind of waiting position."

Automotive. As dealer inventories slowly return to normal, the year-over-year SAAR (Seasonally Adjusted Annualized Rate) sales for February posted at 15.5 million units, nicely above February 2023's 15.0 million sales pace and January 2024's 15.1 million rate. For some of the nameplates that still report on a monthly basis, Honda gained a whopping 32.3 percent, Ford, 10.7 percent, Hyundai-Kia, 1.6 percent, and Toyota, 16.2 percent. Adding together all of the firms that reported February sales, the industry gained 12.0 percent. Although all of this is good news for our local auto parts producers, dealer inventories are gradually returning to normal, and a significant portion of the "pent-up" demand for new vehicles has been met. Hence, our local parts producers are now having to sharpen their pencils to win new business. However, many of our West Michigan auto firms can still compete in the world market for automotive components. According to the March 1 edition of *Automotive News:*

"While inventory and selection continue to improve, affordability and higher interest rates remain a drag on more robust market growth. After jumping 13 percent to 15.6 million in 2023, U.S. sales are projected by analysts and economists to rise to 15.7 million to 16.1 million in 2024."

Business and Consumer Confidence. Conference Board's widely publicized Consumer Confidence Index for February eased modestly to 106.7 (1985=100), down from 110.9 in January. The survey author noted that February respondents remain concerned about the labor market situation and the U.S. political environment. In a similar move, the University of Michigan Index of Consumer Sentiment eased to 76.5 in February from 79.0 the prior month. Regrettably, the index is currently 8 points shy of the historical average of 1978-2024. For our West Michigan survey, the SHORT-TERM BUSINESS OUTLOOK Index for February, which asks local firms about their business perceptions for the next three to six months, posted a significant jump to +19 from +7, a two-year high. However, the LONG-TERM BUSINESS OUTLOOK Index, which queries the perceptions for the next three to five years, downticked to +37 from +47.

Industrial Inflation. After falling for most of 2023, the West Michigan index of PRICES repeated the January posting of +9 in February but still posted notably higher than December's reading of +0. At the national level, the February ISM index of PRICES posted at +5, virtually unchanged from +6. JPM's index of world prices edged modestly lower to 52.9 from 53.0 but still well ahead of the 50.0 break-even point. S&P's Global Price Pressure Index for February edged up to +0.3 from +0.1. The S&P Index had been negative for most of 2023, which implies that the short respite of falling prices in the industrial market may be over. A modest reading of +0.3 may also depict price stability, which implies that a recession is unlikely in the near future. However, if the index continues to rise, there will be evidence that indicates the return of industrial inflation. Although industrial inflation no longer spills over directly to the consumer market as it did 60 years ago, there is still an impact on the worldwide consumer market. Hence, higher industrial inflation may be a factor considered by the Federal Reserve when deciding when to cut interest rates. Commenting on the latest price trends, Usamah Bhatti, Economist at S&P Global Market Intelligence, added:

"February data underlined another month of stable supply conditions across the global manufacturing sector. The Global Supply Shortages Index was unchanged and revealed that total reports of supply shortages are around 20% lower than the long-run survey average. Meanwhile, manufacturers' reports also suggested a gradual build-up of commodity price pressures. The latest reading signalled that price increases were about two-fifths of the normal amount, which was the highest recorded for a year. The sharpest increase by far was seen for semiconductors, followed by electrical items, while transport prices also continued to rise at an above-trend rate."

Consumer Inflation. For many years, the Consumer Price Index, despite its shortcomings, has become the most recognized measure of inflation reported by the news media. According to the February 13 press release from the Burean of Labor Statistics (BLS), the year-over-year "headline" Consumer Price Index for January posted at 3.1 percent, down from 3.4 reported last month. What is called "core inflation," which excluded the more volatile food and energy components, came in unchanged at 3.9 percent. Recent news reports have begun to emphasize that the Federal Reserve puts more decision-making weight on the inflation depicted by the Personal Consumption Index (PCI), which is published by the Bureau of Economic Analysis (BEA), and employs a completely different methodology for computing inflation. According to the BEA's February 29 report, the "headline" PCI for January came in at 2.4 percent, down from January's 2.6 percent, and edging closer to the Fed's long-term goal of 2.0 percent. In confirmation of the trend, the core PCI, which excludes food and energy, edged lower to 2.8 percent from 2.9 percent. Just as in previous months, the text of both the BEA and BLS reports clearly note that the cost of housing or "shelter" contributed over half of the increase for both indices in February. Good news comes from the Rent Index from Zillow which posted an increase of 2.7 in January, down from December's 3.3 percent. These figures are a clear indication that the monthly increases, like the 15.6 percent "inflation-driver" report from two years ago, are now a thing of the past, or at least we hope. After six consecutive months of rent declines, prices in CoreLogic's monthly Rent Report Index ticked up 0.2 percent in February. However, the survey author still believes that rents will continue to fall in coming months. The Rent Index from Realtor.com posted a modest 0.3 percent drop as well, but the report also noted that the Nationwide Rent Index is still just 2.6% below the 2022 peak.

GDP. In January, the BEA posted an "advance" estimate of 3.3 percent growth for the fourth quarter of 2023. On February 28, the BEA revised the estimate modestly lower to 3.2 percent. As expected, all forecasters are now turning their attention to the estimates for growth in the 2024 first quarter. In recent months, the Atlanta Federal Reserve's GDPNow forecast model has been the most accurate. As of March 6, the model forecasts a 2024 first quarter growth rate of 2.5 percent, down considerably from the forecast of 4.2 percent posted 30 days ago. In conformance, the average growth rate for the Blue Chip GDP Realtime model forecasts a 2.0 percent first quarter growth rate. The forecast from The Conference Board for the first quarter has also risen to 2.0 percent growth, but the group noted that continuing headwinds of rising consumer debt and elevated interest rates will limit growth. A group of 34 forecasters surveyed by the Federal Reserve Bank of Philadelphia predicts the economy will expand at an annual rate of 2.1 percent in the first quarter. Although a slightly less positive forecast of 1.5 percent growth for the U.S. comes from the consulting group of Euromonitor International, the current consensus among all forecasters appears to be a respectable 2.0 percent growth rate for 2024's first quarter.

Looking Forward. After hearing the threat of an impending recession for over two years, it is gratifying to know that our present statistics, both local and national, clearly indicate that we are not on the threshold of another decline. However, we know that there have now been 11 recessions since the end of WWII, which averages to one every six years. In short, we are kidding ourselves if we don't think there is another recession out there somewhere. Recent recessions have been caused by economic "bubbles" or excesses that finally broke, like the dot.com bust of 1999-2000 and the housing bubble of 2007-2008, or by "black swan" events like the recent pandemic. Some recent economists that refuse to give up on their prediction of an impending recession now point out that the full force of the higher interest rates have still not fully manifested themselves. However, these rates will not result in weaker economic numbers until early 2025. Other economists continue to believe that recent increases in consumer spending and rising credit card purchases are evidence of a spending bubble that will collapse now that the proliferation of pandemic support programs have finally run their course. In addition, recent business news notes that we now have four mini-bubbles that we need to watch: the AI bubble, the EV car bubble, the commercial real estate bubble, and the alternative energy bubble. Yes, we need to be vigilant of all of these potential stumbling blocks. However, pending an unforeseen "black swan" event, the 2024 economic road still looks clear.

February 2024 Survey Statistics

	UP	SAME	DOWN	N/A	Feb. Index	Jan. Index	Dec. Index	25 Year Average
Sales (New Orders)	33%	37%	30%	0%	+ 3	-26	- 14	+14
Production (Gross Output)	16%	49%	26%	9%	-10	-20	-11	+14
Employment	12%	67%	19%	2%	- 7	- 7	- 5	+ 8
Purchases	16%	58%	26%	0%	-10	-14	- 15	+ 7
Prices Paid (major commodities)	21%	67%	12%	0%	+ 9	+ 9	+ 0	+15
Lead Times (from suppliers)	5%	83%	10%	2%	- 5	- 7	- 9	+11
Purchased Materials Inv. (Raw materials & supplies)	19%	53%	21%	7%	- 2	- 6	-22	- 4
Finished Goods Inventory	14%	51%	16%	9%	- 2	-11	-18	- 8
Short Term Business Outlook (Next 3-6 months)	42%	35%	23%	0%	+19	+ 7	+ 0	-
Long Term Business Outlook (Next 3-5 years)	49%	37%	12%	2%	+37	+47	+42	-

Items in short supply:

Construction and construction supply items, some equipment/freight delays from overseas, quarry tile, some automotive grade aluminum, controls engineers.

Prices on the UP side:

Overseas steel, polypropylene, oil derivatives, emulsions, asphalt, repair parts for IT equipment and HVAC equipment, ABS, paper, international freight, cutting tools, non-ferrous metal products, copper, brass, stainless steel, aluminum, electronics, diesel.

Prices on the DOWN side:

Most food prices, aluminum*, freight, steel, scrap steel, corrugated packaging, some machine inventories.

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

Latest Unemployment Reports:

(Except as noted, data are NOT seasonally adjusted)

	Dec. 2023	Dec. 2022	Aug. 2009	20-Year Low
State of Michigan (Dec.)	4.3%	4.3%	14.6%	3.2%
State of Michigan (Unadj.)	3.5%	3.8%	14.1%	2.9%
Kent County	2.8%	3.0%	11.9%	2.1%
Kalamazoo County	3.2%	3.5%	11.1%	2.1%
Calhoun County	4.0%	4.3%	12.8%	2.7%
Ottawa County	2.7%	2.9%	13.3%	1.8%
Barry County	3.2%	3.7%	10.9%	2.2%
Kalamazoo City	4.0%	4.4%	15.2%	3.2%
Portage City	2.9%	3.2%	8.7%	1.3%
Grand Rapids City	3.7%	4.1%	16.1%	3.0%
Kentwood City	2.6%	2.9%	10.7%	1.4%
Plainfield Twp.	2.1%	2.3%	8.0%	1.4%
U.S. Official Rate (Dec.)	3.7%	3.7%	9.6%	3.5%
U.S. Rate (Unadjusted)	3.5%	3.3%	9.6%	3.4%
U.S. U-6 Rate (Jan.)**	7.2%	6.7%	22.9%	6.7%

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

FEBRUARY COMMENTS FROM SURVEY PARTICIPANTS

"Most major commodity prices are back down in the pre covid 2019 pricing range. Many suppliers of raw materials are soft in orders which is leading to the price reductions."

"Cutting tooling pricing for machinery is up. Tool requires a lot of Cobalt which is also used in EV's. This has driven the price of cutting tools is up by about 40%."

"Transportation costs are up and down depending on the region and mode."

"EV sales are a concern. Volumes are not being achieved, causing issues for us and our suppliers since a lot of investments have been made. "

"January revenue was slightly ahead of budget and operating expenses were slightly below budget. We are 37% ahead on orders compared to prior year."

"February is on track to be slower than January but not terrible. We'll be watching container costs now that that Lunar New Year has come and gone."

"Small business continues to struggle with input prices on goods going up, but we try to keep our prices steady. Hopefully, the 2nd quarter will be strong."

"Business is picking up."

"We have very strong sales, and have added overtime that we hadn't planned to maintain backlog at planned level."

"Business is pretty steady."

"Business is stronger than anticipated, and we expect that to continue through the year."

"Finding qualified skilled trades people is tough in West Michigan."

"We talked to several employees about an apprenticeship program and they decline because they'll start out make less money than advertised. But they don't have the skills to hire them as tradesmen, so they lose out both short term and long term - as do we."

"Our business continues to have a strong outlook."

"There's not much change from last month, with sales and production steady. We are still lowering inventory and making progress on a quantity basis, but continued up-creep in labor and material costs are keeping the dollar value of the inventory unchanged."

"We are hopeful that automotive remains strong. It is currently supporting the other segments of our business that are down."

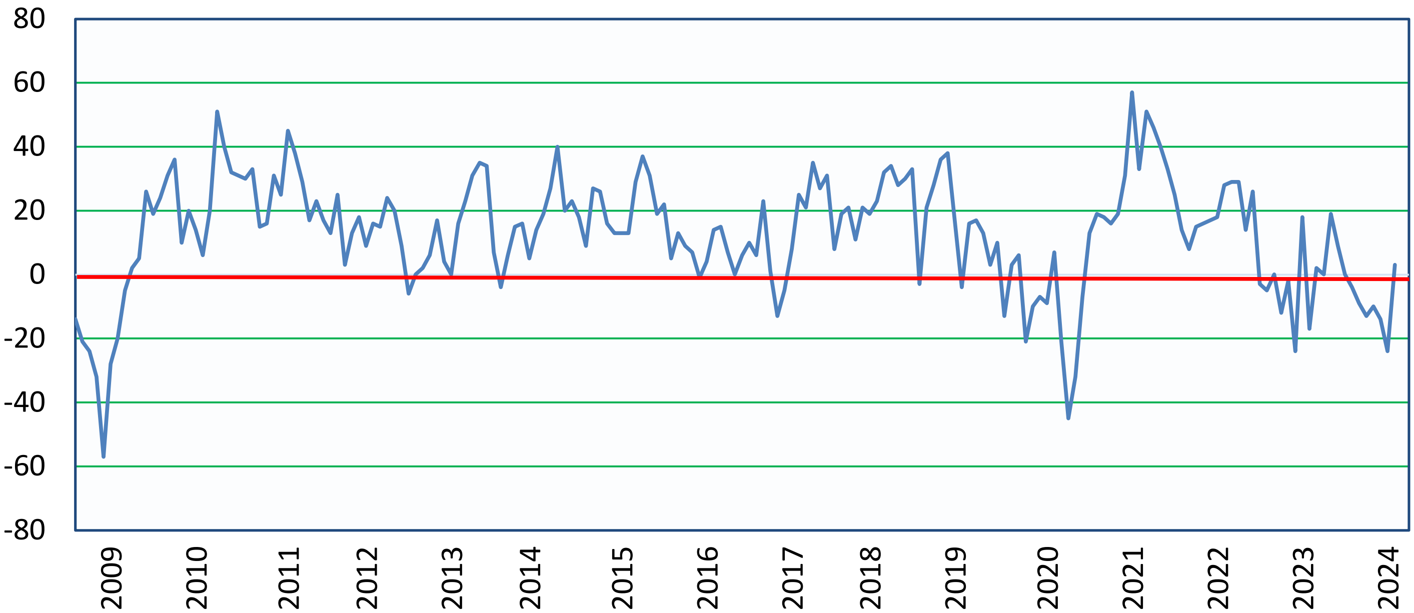
"We are no longer working overtime, but the scheduled forecast still looks strong in the coming months."

"Business has picked up across all of our customer industries (construction and OEM manufacturing) since Feb 1."

"Things are ok but slow. The next few months are going to be soft."

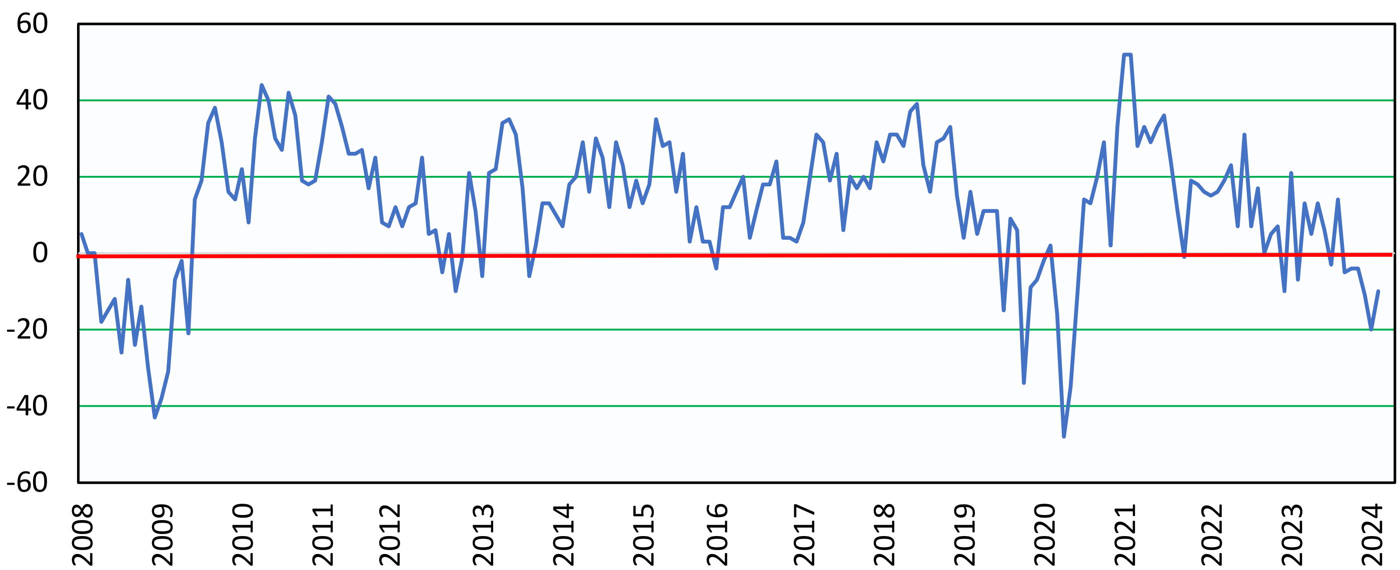
West Michigan Index of New Orders: 2008-2024

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.



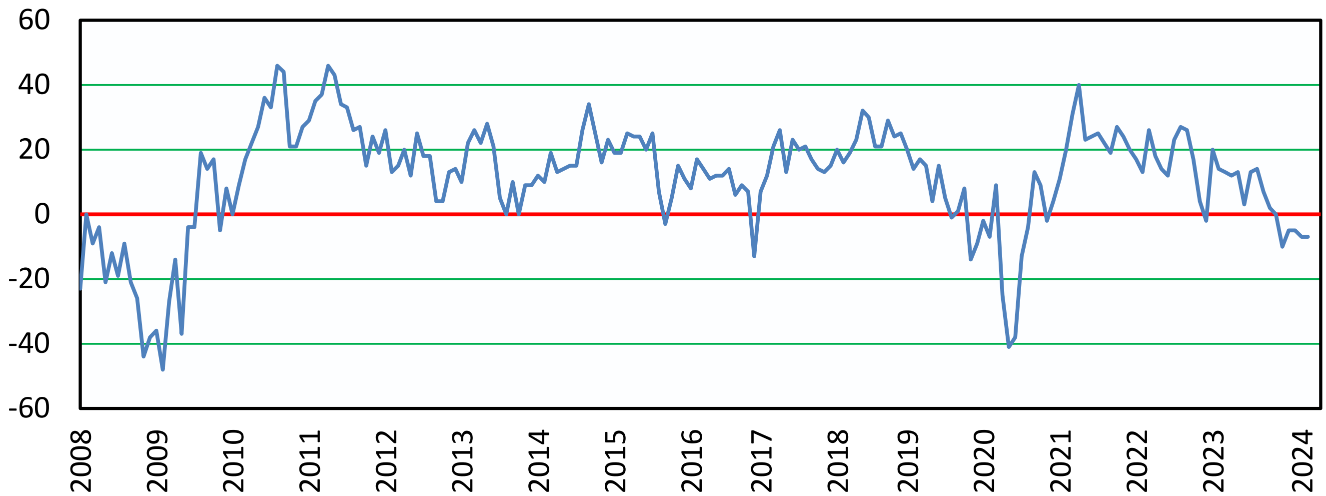
West Michigan Index of Production (Output): 2008-2024

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: 2008-2024

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.



West Michigan Future Business Outlook: 2013-2024

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.