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West Michigan Current Business Trends

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Economy Returns to Modest Growth

Key Take-Aways from March 2024 Statistics:

- **NEW ORDERS and PRODUCTION return West Michigan to growth**
- **National and International Economies remain modestly positive**
- **Recession unlikely in 2024**

	Mar.	Feb.
NEW ORDERS Index (business improvement)	+10	+ 3
PRODUCTION Index (aka "output")	+ 2	- 10
EMPLOYMENT Index	+ 9	- 7
LEAD TIMES Index	- 2	- 5

Key Participant Comments for March:

"Sales were slightly down in March compared to February. We're not expecting much to change (good or bad) in the next 3-6 months."

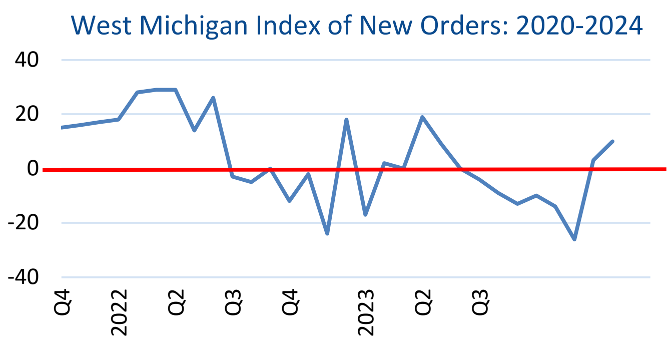
"Business is OK, but a little soft. Our short-term forecast is flat."

"Business is very strong. We are struggling to meet demand without extending lead times beyond acceptable levels."

"Business is very steady. It looking to be another great year."

"2024 is starting rough, and it looks like any sign of optimism will not come until second half of the year at the earliest."

The Local Economy. It is a relief to see our local economy return to a pattern of growth, even though the current growth is modest. After the scare from our January reading of -26, our index of business improvement, which we label West Michigan's NEW ORDERS in our West Michigan monthly survey, it posted at +10 in March, up from +3. The PRODUCTION Index, which some economists label as "output," turned positive at +2, up significantly from February's -10. Activity in the purchasing offices, the index of PURCHASES, returned to the breakeven point of +0, up from -10. Although the current statistics depict modest growth and appear to be "headed in the right direction," the March anecdotal comments from our survey participants came in more cautious. From the national news, we know that there have been some recent hiccups in the supply chains as noted by the Baltimore bridge collapse and the terror attacks in the Red Sea. So far, there appears to be enough slack in the world's supply chains to allow for work-arounds when supply chain problems like these occur. It is also worth remembering that the Federal Reserve has tightened interest rates with the hope of causing the economy to slow but not collapse. By that metric, our local economy is right where it should be.



The U.S. Economy. Much like our local economy, the March national economy continues to consolidate. ISM's NEW ORDERS Index rose to +10 from February's +7. The PRODUCTION Index jumped to +12 from +1. However, ISM's ORDER BACKLOG Index remained unchanged at -7. The index of NEW EXPORT ORDERS remained frozen at +3.

A modestly optimistic view of the March economy also comes from the April 1 report posted by S&P Global, the British-based economic consulting firm which also surveys U.S. purchasing managers. S&P's March Composite PMI remained positive but backtracked to 51.9 from February's 52.2. However, S&P's Output Index rose to a 22-month high. Chris Williamson, Chief Business Economist at S&P Global Market Intelligence, further commented:

> "The final reading of the S&P Global Manufacturing PMI signaled a further encouraging improvement in business conditions in March, adding to signs that the

U.S. economy looks to have expanded at a solid pace again in the first quarter. A key development in recent months has been the broadening-out of the upturn from services to manufacturing, with reviving demand for goods driving the fastest increase in factory production since May 2022. Jobs growth has also picked up as firms boost capacity to meet demand. Rising capex spending has likewise buoyed orders for machinery and equipment, in a further sign of firms gaining confidence in the outlook. The upturn is, however, being accompanied by some strengthening of pricing power. Average selling prices charged by producers rose at the fastest rate for 11 months in March as factories passed higher costs on to customers, with the rate of inflation running well above the average recorded prior to the pandemic. Most notable was an especially steep rise in prices charged for consumer goods, which rose at a pace not seen for 16 months, underscoring the likely bumpy path in bringing inflation down to the Fed's 2% target."

The World Economy. For March, the J.P. Morgan Worldwide Manufacturing Index edged higher to 50.6, up from 50.3 in February and marginally above the all-important break-even point of 50.0. Part of the gain was fueled by JPM's index for New Orders which rose to 50.9 from 50.4. JPM's Output Index rose to a 21-month high of 51.9. The March PMI for Canada, our largest trading partner, remained marginally negative at 49.8, but the index has recovered for the past 11 months. The PMI for Mexico posted virtually unchanged from February's 52.3. The March PMI for China, our third most important trading partner, inched marginally higher to 51.1 from 50.9. Despite China's convalescent PMI recovery, business confidence rose to its highest level in nearly a year. Bennett Parrish, Global Economist at J.P. Morgan, further commented:

"The March surveys point to an upturn in global manufacturing gaining traction, with solid gains in both the output and new orders indexes. The output index advanced 0.7-pt to 51.9, its highest level since June 2022. The recovery also looks to be broadening by both sector and region, with gains seen across the consumer, intermediate and investment goods industries and in most of the major economies covered by the survey. This is also filtering through to the labor market, with the employment index breaking above the 50-mark for the first time in seven months."

Unfortunately, the weak performance of the Eurozone continues with no immediate sign of improvement. The March composite PMI compiled by the Hamburg Commercial Bank edged lower to 46.1 from 46.5. For the Eurozone's major economies, the March PMIs for Greece, and Spain remained positive, and the PMIs for Ireland and the Netherlands continued to linger slightly below the 50.0 break-even point. However, Germany and France, the Eurozone's largest economies, continue to pull the Eurozone average into negative territory. Dr. Cyrus de la Rubia, Chief Economist at Hamburg Commercial Bank, further noted:

"It's a bit disheartening: over the last eight months, the manufacturing industry has been gradually climbing the Output PMI ladder, but it still finds itself on the basement staircase. However, progress to the next floor has yet to materialise, largely owing to the underperformance of the German and French industries. Given this, it comes as no surprise that our GDP nowcast model, incorporating PMI data, predicts a continuation of the recession in the manufacturing sector of the Eurozone. The Eurozone's manufacturing sector usually runs on several cylinders, mainly the Euro-4 countries of Germany, France, Italy and Spain. Together they account for three quarters of the Eurozone's manufacturing industry. We currently have the unusual situation that two cylinders, Germany and France, are more or less out of action. Italy and Spain, on the other hand, started to pick up again in March and February respectively, according to the PMI. So far, however, this is not enough to bring the Eurozone as a whole back into growth mode. A sustainable economic turnaround can only be expected once all cylinders are back in motion. In the first quarter, the pace of the decline in incoming orders slowed considerably. However, there are still significantly fewer orders coming in than in the previous month. It is therefore to be expected that the industry is on the verge of surpassing the longest contraction spell for incoming new orders in the survey history, which was 25 months during the euro crisis in 2011 to 2013. This does not speak for a quick turnaround in activity."

Automotive. Although some auto firms still report monthly sales, all firms file a report for quarterly sales. The year-over-year SAAR (Seasonally Adjusted Annualized Rate) sales for the first quarter of 2024 came in at 15.5 million units, a little lower than expected. For the Detroit Three, only Ford posted a first quarter gain at +7.0 percent. Sales for GM were down 1.5 percent, and Stellantis lost 9.6 percent. For some of the other nameplates, first quarter sales at Honda rose 17.5 percent, Toyota, 20.3 percent, Nissan, 7.2 percent, and VW, 4.6 percent. Hyundi/Kia sales slipped 0.8 percent, partially because of discontinuing the Reo model from the firm's lineup. Adding together all of the firms, U.S. car and light truck sales for the first quarter of 2024 came in at +5.6 percent. As we head into the second quarter, Jessica Caldwell, Edmunds' head of auto industry sales and insights, projects:

"In this era of sky-high interest rates, affordability is the name of the game, and consumers are laser-focused on monthly payments. Automakers that can offer compelling vehicles at competitive price points will see the most success."

Business and Consumer Confidence. The widely publicized index of Consumer Confidence Index, compiled monthly by the Conference Board, posted at 104.7 (1985=100) in March, essentially unchanged from a downwardly revised 104.8 in February. The survey author noted that "Consumers' assessment of the present situation improved in March, but they also became more pessimistic about the future." The University of Michigan Index of Consumer Sentiment rose modestly to 79.4 in March, up slightly from 76.5 in February. For our West Michigan survey, the SHORT-TERM BUSINESS OUTLOOK Index for March, which asks local firms about their business perceptions for the next three to six months, posted another two-year high at +20, up from +19. The LONG-TERM BUSINESS OUTLOOK Index, which queries the perceptions for the next three to five years, resumed its positive pattern rising to +43, up from +37.

Industrial Inflation. As a further sign that a recession seems unlikely in the near future, the West Michigan index of PRICES came in at +9 for the third month in a row. However, the list of commodities rising in price still remains fairly modest. At the national level, the March ISM index for Prices rose to +12 from +5. By contrast, JPM's index of world prices edged modestly lower to 52.4 from February's 52.9. For the second successive month of modest escalation, S&P's March Global Price Pressure Index rose to 0.6 from 0.4. According to the March 25 press release from the Bureau of Labor Statistics (BLS), the year-over-year Producer Price Index has risen a modest 1.6 percent. Although industrial prices both at home and around the world are once again beginning to rise, industrial inflation no longer spills over directly to the consumer market as it did 60 years ago. However, any measure of inflation may be considered by the Federal Reserve when deciding when to cut (or raise) interest rates. Commenting on the latest price trends, Usamah Bhatti, Economist at S&P Global Market Intelligence, added:

"Pressure on global manufacturing supply chains appeared to pick up at the end of the first quarter of 2024, with reports of supplier shortfalls running broadly in line with the long-run average. The latest reading was the highest since last August, with particular emphasis on shortages for Transport, Electrical Items and Timber. That said, reports remained considerably lower than the levels seen over the past four years. Cost pressures were subdued in March, as global commodity prices rose at a pace weaker than the long-run average. The respective index reached its highest in nearly one-and-a-half years, however, as 21 of the 26 monitored items saw reports of higher prices, led by the chemical commodities of Polyethylene and Polypropylene. Downward pressure came from reports of a renewed decrease in energy prices and the most marked fall in electricity prices for eight months."

Consumer Inflation. According to the March 12 press release from the BLS, the year-over-year "headline" Consumer Price Index for February posted at 3.2 percent, up modestly from 3.1 percent reported last month. However, "core inflation," which excluded the more volatile food and energy components, came in at 3.8 percent, down modestly from 3.9 percent. A contrasting view of inflation comes from the Bureau of Economic Analysis (BEA), which publishes the Personal Consumption Index (PCI). According to their February 29 press release, the current "headline" PCI posts at 2.5 percent, up modestly from 2.4 percent, and the core PCI, which excludes food and energy, came in unchanged at 2.8 percent. Just as in previous months, it is the cost of housing or "shelter" that continues to be a major sticking point keeping inflation high. The bad news for March comes from the Rent Index compiled by Zillow which posted an increased rate of 3.53 percent, up from 3.45 percent in last month's report. By Zillow and other measures, the cost of rent HAD been falling. With interest rates now 5-7 percentage points higher for construction of new rental housing, the cost of rent is unlikely to fall and may even continue to edge higher. However, the Rent Index from Realtor.com posted another modest drop of 0.4 percent drop. Given that the increased cost of housing or "shelter" came in at 5.7 percent in the latest CPI report, and given that shelter, along with the cost of utilities, is 40 percent of the CPI, it remains obvious that rents and the purchase price of homes must come down in order for the Federal Reserve to get near their target of 2 percent inflation.

GDP. On March 28, the BEA reported a growth rate of 3.4 percent to be the final estimate for the fourth quarter of 2023. With the first quarter of 2024 now complete, the professional forecasters are publishing numerous estimates of what the BEA will post on April 23 for a "preliminary" growth estimate for the first quarter of 2024. As of April 1, the Atlanta Federal Reserve's GDPNow forecast model stands at 2.8 percent, just slightly higher than the model's projection last month. The Blue Chip GDP Realtime model for March forecasts a 2.0 percent first quarter growth rate. Although the forecasts from The Conference Board have not been especially accurate in the last few years, the current estimate of 2.2 percent is in line with other forecasts. 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. Hence, a growth rate of 2.2-2.3 percent for 2024's first quarter is the current consensus among all forecasters.

Looking Forward. Although a few analysts are now projecting a recession to begin sometime in 2025, none of the major forecasters are expecting a recession in 2024. Past recessions have occurred when one or several "bubbles" burst. The current "mini-bubbles" that should be monitored include (1) the AI bubble, (2) the EV car bubble, (3) the commercial real estate bubble, and (4) the alternative energy bubble. Pending an unforeseen "black swan" event, none of the present forecasts expect any of these four bubbles to break in 2024 to generate a recession. Although the monetary policies of the Federal Reserve constitute another wild card, the current projections for a year of modest growth appear to be as accurate as we can expect.

March 2024 Survey Statistics

	UP	SAME	DOWN	N/A	Mar. Index	Feb. Index	Jan. Index	25 Year Average
Sales (New Orders)	30%	50%	20%	0%	+10	+ 3	- 26	+14
Production (Gross Output)	20%	53%	18%	9%	+ 2	-10	- 20	+14
Employment	23%	61%	14%	2%	+ 9	- 7	- 7	+ 8
Purchases	18%	64%	18%	0%	+ 0	-10	- 14	+ 7
Prices Paid (major commodities)	20%	69%	11%	0%	+ 9	+ 9	+ 9	+15
Lead Times (from suppliers)	9%	77%	11%	2%	- 2	- 5	- 7	+11
Purchased Materials Inv. (Raw materials & supplies)	25%	57%	11%	7%	+14	- 2	- 6	- 4
Finished Goods Inventory	14%	63%	16%	9%	- 2	- 2	-11	- 8
Short Term Business Outlook (Next 3-6 months)	34%	52%	14%	0%	+20	+19	+ 7	-
Long Term Business Outlook (Next 3-5 years)	50%	41%	7%	2%	+43	+37	+47	-

Items in short supply:

Plastic sealant cartridges, some aluminum grades, talc, polyethene glycol, some dry grocery items, hemp for textiles, building supplies, fuel, some medicines, some resins, controls engineers.

Prices on the UP side:

Electronics, hemp, polypropylene, energy, packaging, corrugated, copper-based products, gasoline, powder coat.

Prices on the DOWN side:

Steel, scrap steel, steel products, electronics*, aluminum, industrial machinery.

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

Latest Unemployment Reports:

(Except as noted, data are NOT seasonally adjusted)

	Feb. 2024	Feb. 2023	Aug. 2009	20-Year Low
State of Michigan (Dec.)	3.9%	3.8%	14.6%	3.2%
State of Michigan (Unadj.)	4.2%	4.4%	14.1%	2.9%
Kent County	3.1%	3.4%	11.9%	2.1%
Kalamazoo County	3.6%	3.9%	11.1%	2.1%
Calhoun County	4.5%	4.9%	12.8%	2.7%
Ottawa County	3.1%	3.3%	13.3%	1.8%
Barry County	3.8%	4.3%	10.9%	2.2%
Kalamazoo City	4.5%	4.9%	15.2%	3.2%
Portage City	3.6%	3.6%	8.7%	1.3%
Grand Rapids City	4.2%	4.6%	16.1%	3.0%
Kentwood City	3.0%	3.2%	10.7%	1.4%
Plainfield Twp.	2.4%	2.6%	8.0%	1.4%
U.S. Official Rate (Dec.)	3.9%	3.6%	9.6%	3.5%
U.S. Rate (Unadjusted)	4.2%	3.9%	9.6%	3.4%
U.S. U-6 Rate (Feb.)**	7.3%	6.8%	22.9%	6.7%

***U-6 for Michigan = 7.1% for all of 2023*

MARCH COMMENTS FROM SURVEY PARTICIPANTS

“Sales were slightly down in March compared to February. We’re not expecting much to change (good or bad) in the next 3-6 months.”

“Our sales are seasonal based on the construction industry, and despite economic uncertainty, March has been as busy as expected.”

“Business is OK, but a little soft. Our short-term forecast is flat.”

“Business is slowing, but long-term trends are still positive.”

“Business is very strong. We are struggling to meet demand without extending lead times beyond acceptable levels.”

“Our light segment had a record month for new orders. Other segments, like our residential and luxury outdoor furniture, were down.”

“There is a considerable tightness in the Talc market. Also, there is a continued limited supply of polyethene glycol There are multiple force majeures still in effect causing disruption.”

“Business is very steady. It looking to be another great year.”

“We continue to see machine builders offer lower pricing as incentives to move inventory.”

“2024 is starting rough, and it looks like any sign of optimism will not come until second half of the year at the earliest.”

“We continue to see difficulty among many different markets, but we are hoping to see some improvement later into 2024.”

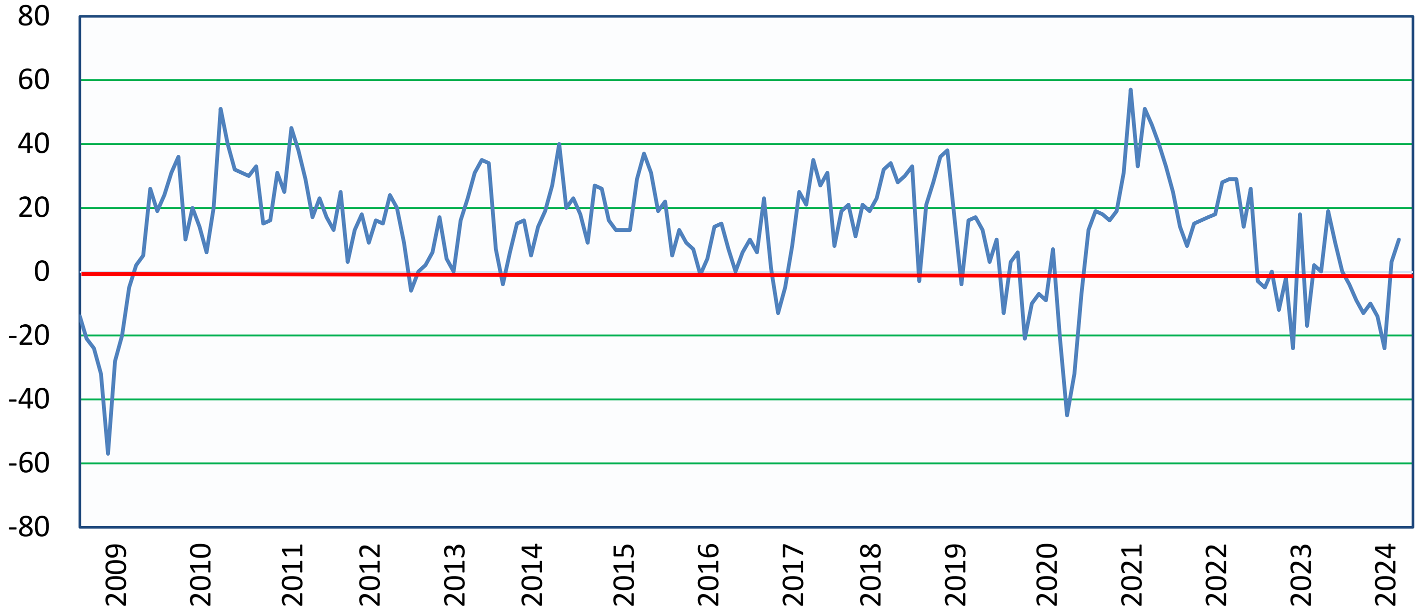
“Buy more hemp products. It is very sustainable. Great for you, your pets, and the earth. Thank you!”

“Higher interest rates are slowing machine financing and causing owners to hold off on purchases.”

“Sales are steady. We continue to concentrate on reducing inventory.”

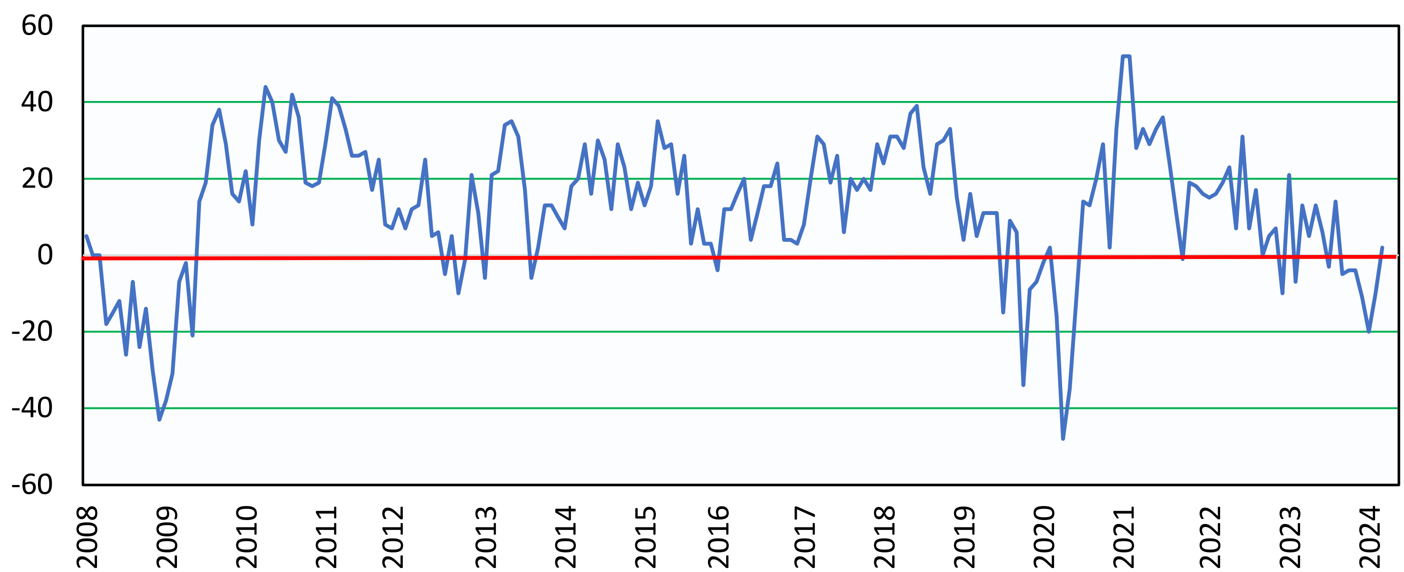
West Michigan Index of New Orders: 2008-2024

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.



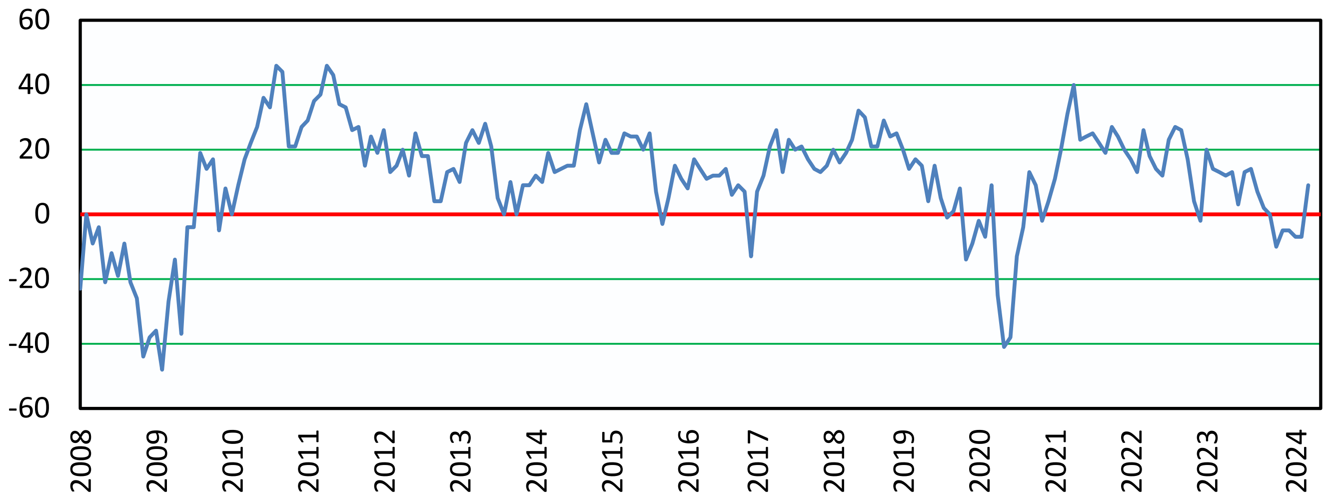
West Michigan Index of Production (Output): 2008-2024

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.