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

May 6, 2024

Modest Growth Continues

Key Take-Aways from April 2024 Statistics:

- **NEW ORDERS and PRODUCTION Continue to Grow**
- **U.S. National Industrial Economy Shows Signs of flattening**
- **Slower Growth is Now Expected for the Rest of 2024**

	Apr.	Mar.
NEW ORDERS Index (business improvement)	+16	+10
PRODUCTION Index (aka "output")	+16	+ 2
EMPLOYMENT Index	+ 7	+ 9
LEAD TIMES Index	-15	- 2

Key Participant Comments for April:

"Business overall is still lower than our last quarter but still holding steady."

"April is shaping up to be a nice sales month compared to February and March."

"It has been slower than expected for the last part of the first quarter. We usually see an uptick in sales starting in March, but it remained the same."

"We continue to be unsure of what the future markets will look like. We are hopeful for continued strength in automotive but EV programs delays are plaguing the markets."

"Business is remaining surprisingly solid, and based on the backlog, it appears that it will remain that way at least for the short term."

The Local Economy. For the third successive month, our local economy has posted a pattern of modest growth. NEW ORDERS, our index of business improvement, edged up to +16 from +10. The PRODUCTION Index, a.k.a. "output," bounced nicely to +16 from +2. Activity in the purchasing offices, the index of PURCHASES, rose to +8 from +0. In addition, with two wars currently in progress, the world's supply chains appear to be fairly stable, and relatively few industrial goods were reported in short supply in April. Although our current statistics depict stable growth, our April anecdotal comments from the survey participants continue to grow more cautious. In general, the survey

West Michigan Index of New Orders: 2020-2024

panel appears to expect slower growth for the next few months, consistent with various forecast models which also believe that there is still a low probability of a 2024 recession. An optimistic view assumes that the Federal Reserve's monetary policy is having the desired effect of slowing the economy without creating a recession. However, even the Fed admits that using interest rates to control the economy is a "blunt instrument." Higher interest rates, in the short run, especially restrict consumer financing for housing, autos, and credit cards. In the longer term, the commercial markets face higher borrowing costs. Needles to say, the Fed is still hoping that the present policies have resulted in a so-called soft landing. In the post-war economy, this has only happened once in 1994.

The U.S. Economy. The current view of the national industrial economy is somewhat more restrained. ISM's NEW ORDERS Index remained positive but retreated to +3 from +10. The PRODUCTION Index eased to +6 from +12. ISM's ORDER BACKLOG Index slid slightly lower to -9 from -7. The index of NEW EXPORT ORDERS turned modestly negative at -3, down from +3.

While the ISM report remains marginally above break-even, the May 2 report from S&P Global, the British-based economic consulting firm which also surveys U.S. purchasing managers, depicts the April U.S. economy as completely flat. S&P's April Composite PMI slipped to the break-even point of 50.0 down from 51.9 in March. The New Orders Index fell modestly for the first time in four months. By contrast, the anecdotal comments from the survey participants reflect "…positive expectations regarding output requirements in the months ahead." Chris Williamson, Chief Business Economist at S&P Global Market Intelligence, further commented:

> "Business conditions stagnated in April, failing to improve for the first time in four months and pointing to a weak start to the second quarter for manufacturers. Order inflows into factories fell for the first time since December, meaning producers had to rely on orders placed in prior months to keep busy. However, there are some encouraging signs. The drop in orders appears to have been largely driven by reduced demand for semi-manufactured goods – inputs produced for other firms – as factories adjust their inventories of inputs. In contrast, consumer goods producers reported a further strengthening of demand, hinting that the broader consumer-driven economic upturn remains intact. Producers on the whole also seem confident enough in the business outlook to continue adding to payroll numbers at a pace that compares well with the average seen over the past two years, investing further in operating capacity. From an inflation perspective, it was also reassuring to see prices charged for goods rise at a slower rate than the 11-month high seen in March. The rate of increase nevertheless remains elevated by historical standards – and well above the average seen in the decade prior to the pandemic – as firms continued to pass higher commodity prices on to customers."

The World Economy. In the May 2 press release, the J.P. Morgan Worldwide Manufacturing Index eased modestly to 50.3 from 50.6, but still marginally above the all-important break-even point of 50.0. Regrettably, part of the decline was attributed to a slight backtracking of JPM's index for New Orders, which eased to 50.5 from 50.9. JPM's Output Index also retreated to 51.5 from March's 21-month high of 51.9. Although international trade is a much smaller portion of the U.S. GDP than many other nations, it is still an important 27 percent segment of our economy. The April PMI for Canada, our largest trading partner, remained marginally negative at 49.4, down from 49.8. The PMI for Mexico came in at a 33-month high of 55.9 in April, up nicely from 53.6. The April PMI for China, our third most important trading partner, inched marginally higher to 51.4 from 51.1. For positive news, the production rate for the China PMI increased at the fastest pace since May 2023. However, China is still wrestling to bring the economy back to its former glory. Commenting on the overall global economy, Bennett Parrish, Global Economist at J.P. Morgan, further noted:

> "After climbing 2.5-points over the prior three months, the global manufacturing output PMI slipped 0.4-point in April. Although the latest reading took a step back, the survey remains on an upward trend consistent with a rebound in global manufacturing gathering pace. While a tick down in the new orders index is slightly concerning, the employment index showed stability in April. At the regional level, improvements across Europe and in Asia continue to close some of the gap with the U.S."

Largely because of weak performance by the PMIs for Germany and France, the Eurozone's largest economies, the Eurozone recession continues with no immediate sign of improvement. The April composite PMI compiled by the Hamburg Commercial Bank edged lower to 45.7 from 46.1. For the Eurozone's other major economies, the April PMIs for Greece, Spain, and the Netherlands remained positive, but the reports from Ireland and Italy linger slightly below the 50.0 break-even point. Dr. Cyrus de la Rubia, Chief Economist at Hamburg Commercial Bank, further noted:

> "What is going to rescue the Eurozone economy? While this is a difficult question, one thing is clear: It's not the manufacturing sector. Instead, this sector is prolonging its drawn-out recession into April. Output shrank at a similar pace as in the months before and companies have reduced their purchases at an accelerated rate. Compounding the issue, there is no sign of a turnaround in the inventory cycle, but instead we saw a sustained trend of depleting stockpiles of both purchased and final goods in April. A plethora of evidence highlights the stark absence of demand, as evidenced by a rapid decline in new orders, unmatched in speed over the past four months and devoid of international support. Of particular concern is Germany, the industrial powerhouse, grappling with a pervasive downturn spanning key sectors including capital goods, intermediate goods, and consumer goods. Spain's economic pulse diverges from the Eurozone's rhythm. This is evidenced by the sustained growth of its manufacturing sector for the third successive month, with April showcasing a noteworthy expansion. This positive momentum starkly contrasts with the subdued outcomes witnessed in Germany, France, and Italy. Bolstered by a favourable global landscape, there is anticipation that this disparity will gradually narrow in the coming months."

Automotive. Although a few manufacturers are still trying to resolve a few isolated supply chain problems, we can now declare that the chip shortage for the auto industry has finally been resolved. The April edition of *Automotive News* notes that the number of new vehicles sitting on dealer lots is up 40 percent from April 2023. In addition, North American light-vehicle production is expected to increase by 1.5 percent for the month of April. However, headwinds for higher sales are clouding the future. Vehicle prices continue to rise, interest rates are much higher, the trade-in values continue to fall. Furthermore, the so-called "pent-up demand" brought on by the pandemic and subsequent chip shortage appears to have run its course. The year-over-year SAAR (Seasonally Adjusted Annualized Rate) sales for April is estimated to be 15.5 to 15.8 million units. With all these recently acquired headwinds, some analysts are now cutting their sale expectations for 2024. For the firms still reporting monthly, April sales for Toyota rose 13.7 percent, Subaru added 9.5 percent, and Honda eked out a 0.4 percent gain. Hyundai-Kia backtracked 3.5 percent, and Ford sales eased by 2.2 percent. Going forward, an optimistic note comes from Cox Automotive Senior Economist Charlie Chesbrough:

> "Despite high interest rates and elevated vehicle prices, consumers remain resilient. Sales growth may be sluggish, but growth continues. And we expect these conditions to persist throughout the year."

Business and Consumer Confidence. The Conference Board, best known for publishing the monthly Consumer Confidence Index, reported that the April index fell to 97.0 (1985=100) from 103.1, the third consecutive monthly decline. That said, the gauge has continued to move sideways within a relatively narrow range for the past two years. A similar assessment comes from the University of Michigan's April Index of Consumer Sentiment, which eased to 77.2 from 79.4. The survey author was quick to note that even 77.2 is about 21 percent higher than the index of 63.7 reported for April 2023. Although only indirectly related, our West Michigan survey of business confidence followed a similar pattern to consumer confidence. The SHORT-TERM BUSINESS OUTLOOK Index for April, which asks local firms about their business perceptions for the next three to six months, eased to +16 from +20. The LONG-TERM BUSINESS OUTLOOK Index, which queries the perceptions for the next three to five years, backtracked significantly to +29 from +43. It is worth repeating that measures of both consumer and business confidence tend to be driven by the current news cycle. Needles to say, the current news broadcasts abound with plenty of negativity.

West Michigan Unemployment. According to the most recent report from the Michigan Department of Technology, Management & Budget (DTMB), the March (latest month available) seasonally adjusted year-over-year unemployment rate for Michigan held steady at 3.9 percent. For West Michigan, Ottawa County posted the lowest unemployment rate at 3.0 percent, followed closely by Kent County at 3.1 percent, Allegan County at 3.4 percent, and Kalamazoo County edging slightly higher to 3.5 percent. Although unemployment statistics are lagging indicators, it is important to note that the employment situation for most West Michigan counties was still improving as of March, and that most unemployment rates are nonetheless only marginally higher than their 20-year lows. Furthermore, after six months of negative reports, both our March and April West Michigan Indexes of EMPLOYMENT came in modestly positive at +7. We may still see the West Michigan unemployment rates rise marginally higher over the next few months, but the two key words are "may" and "marginally."

Industrial Inflation. For West Michigan, industrial inflation continues to rise. Our April index of PRICES came in sharply higher at +24, up from +9 in both February and March. Just as previous months, the list of commodities rising in price still remains fairly modest. At the national level, April ISM index for Prices eased to +9 from +12. By significant contrast, JPM's index of world prices edged higher to 54.0 from March's 52.4. S&P's March Global Price Pressure Index rose to 0.8 from 0.6, the fourth monthly increase. According to the Bureau of Labor Statistics April 11 report, the year-over-year Produce Price Index headline PPI "accelerated" from 1.6% in February to 2.1% in March, the highest level since April 2023. Andrew Harker, Economics Director at S&P Global Market Intelligence further noted:

> "Although reports of price pressures from manufacturers worldwide remained relatively subdued in April, there is clear upward momentum in prices, with the index now having risen in four consecutive months. This comes amid a generally stable supply picture, however, suggesting that at least part of the pressure on prices is coming from the improving demand picture we've seen in the global manufacturing sector in recent months."

Consumer Inflation. On April 10, the Burean of Labor Statistics (BLS) reported that the year-over-year "headline" Consumer Price Index for March came in at a disappointing 3.5 percent, up from 3.2 in the previous report, and also up from 3.1 percent reported for February. Inflation HAD been falling, but the last two reports are not going the in right direction. Fortunately, "core inflation," which excluded the more volatile food and energy components, came in unchanged at 3.8 percent. A similar view of inflation was posted on April 26 by the Bureau of Economic Analysis (BEA), which publishes the Personal Consumption Index (PCI). The current "headline" PCI posted at 2.7 percent, up from 2.5 percent, and still well ahead of the Federal Reserve's target rate of 2.0 percent. The core PCI, which excludes food and energy, came in unchanged at 2.8 percent. Given that the cost of housing or "shelter" in both reports continues to be a major sticking point, the Rent Index compiled by Zillow posted a modest increase to 3.57, up from 3.54. This is not good news. By contrast, the Rent Index from Realtor.com posted another modest drop of 0.3 percent. Given that the increased cost of housing or "shelter" came in at 5.7 percent in the latest CPI report and 5.8 percent in the PCE, it will probably be well into 2025 before the Federal Reserve can declare that inflation has returned to an acceptable level. Furthermore, with Bankrate's 30-year average mortgage rate currently at 7.31 percent, cost of purchasing a home remains much higher than it did just 18 months ago.

GDP. For GDP watchers, the big news on April 25 when the BEA posted that the "preliminary" measure of growth for the first quarter of 2024 came in at 1.6 percent, well below the estimates published by most of the forecasting agencies. With the forecasters now looking ahead to 2024's second quarter, the Atlanta Federal Reserve's GDPNow forecast model stands at 2.8 percent as of May 2. The Blue Chip GDP Realtime model for April forecasts a 2.0 percent second quarter growth rate. Citing higher consumer debt and higher interest rates, The Conference Board GDP growth estimate for both the second and third quarters are now predicted to be about 1.0 percent. Hence, a slower growth rate for the rest of 2024 appears increasingly likely, but none of the major forecasts are predicting a 2024 recession.

Looking Forward. For the past two years, it has been a major frustration for the Federal Reserve to find that the pace of the economy has generally ignored the rise in interest rate. With most measures of inflation still running ahead of the Fed's target for a healthy economy, it was a relief to see that at least some of our major economic indicators are beginning to show signs of moderating. At some point, the 69 percent of the consumers that do NOT pay off their credit cards every month will begin to feel the bite of the current average interest rate of 24.66 percent. Although the cost of borrowing varies widely across the entire country, the average monthly cost of a mortgage has risen about $150 over the past two years simply because of higher mortgage rates. Except for as couple of banks in California, the negative impact of higher rates on the financial community has so far not impacted the general public. Higher rates have also thrown a wrench into many plans for many kinds of real estate expansion, especially for larger housing and apartment projects. At least some housing projects already underway are facing collapse. However, fewer new houses and fewer new apartments raises the cost of housing or "shelter," leaving the Fed chasing its own tail as it tries to reduce inflation.

April 2024 Survey Statistics

	UP	SAME	DOWN	N/A	Apr. Index	Mar. Index	Feb. Index	25 Year Average
Sales (New Orders)	37%	42%	21%	0%	+16	+10	+ 3	+14
Production (Gross Output)	29%	53%	13%	5%	+16	+ 2	- 10	+14
Employment	18%	68%	11%	2%	+ 7	+ 9	- 7	+ 8
Purchases	24%	60%	16%	0%	+ 8	+ 0	- 10	+ 7
Prices Paid (major commodities)	29%	65%	5%	0%	+24	+ 9	+ 9	+15
Lead Times (from suppliers)	3%	82%	16%	0%	-15	- 2	- 5	+11
Purchased Materials Inv. (Raw materials & supplies)	29%	58%	5%	8%	+24	+14	- 2	- 4
Finished Goods Inventory	16%	63%	18%	3%	- 2	- 2	- 2	- 8
Short Term Business Outlook (Next 3-6 months)	29%	58%	13%	0%	+16	+20	+17	-
Long Term Business Outlook (Next 3-5 years)	34%	61%	5%	0%	+29	+43	+37	-

Items in short supply:

Construction items, construction equipment, hemp, all Ferrous and non-ferrous metal products, casters, fasteners, some electronics used in lighting, control engineers.

Prices on the UP side:

Motors, engineered resins, polypropylene, PA6, ABS, Lexan, gasoline, fuel, transportation prices/freight, steel, copper, aluminum, food, anything insurance related.

Prices on the DOWN side:

Nickel, aluminum*, steel, stainless steel.

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

Latest Unemployment Reports:

(Except as noted, data are NOT seasonally adjusted)

	Mar. 2024	Mar. 2023	Aug. 2009	20-Year Low
State of Michigan (Mar.)	3.9%	3.7%	14.6%	3.2%
State of Michigan (Unadj.)	3.9%	4.0%	14.1%	2.9%
Kent County	3.1%	3.3%	11.9%	2.1%
Kalamazoo County	3.5%	3.7%	11.1%	2.1%
Calhoun County	4.4%	4.6%	12.8%	2.7%
Ottawa County	3.0%	3.1%	13.3%	1.8%
Barry County	3.7%	3.9%	10.9%	2.2%
Kalamazoo City	4.3%	4.7%	15.2%	3.2%
Portage City	3.2%	3.4%	8.7%	1.3%
Grand Rapids City	4.1%	4.2%	16.1%	3.0%
Kentwood City	2.9%	3.1%	10.7%	1.4%
Plainfield Twp.	2.3%	2.5%	8.0%	1.4%
U.S. Official Rate (Apr.)	3.9%	3.5%	9.6%	3.4%
U.S. Rate (Unadjusted)	3.9%	3.6%	9.6%	3.1%
U.S. U-6 Rate (Apr.)**	7.4%	6.7%	22.9%	6.7%

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

APRIL COMMENTS FROM SURVEY PARTICIPANTS

“Most machinery builders are dropping prices and running specials in order to spur activity.”

“April is shaping up to be a nice sales month compared to February and March. Budgeting activities are underway for our next fiscal year (starting July 1) and feedback from customers suggests many expect flat to moderate growth in the next 6 - 12 months.”

“It has been slower than expected for the last part of the first quarter. We usually see an uptick in sales starting in March, but it remained the same. Hemp apparel is picking up in sales while CBD sales have been flat. We are optimistic with sales picking up as we develop some new products. CBD shampoo and Conditioner will be added to our shelves as well as CBD shampoo for pets and CBD Dog Treats all under the Blue Lake CBD brand.”

“We continue to be unsure of what the future markets will look like. We are hopeful for continued strength in automotive but EV programs delays are plaguing the markets.”

“Business is remaining surprisingly solid, and based on the backlog, it appears that it will remain that way at least for the short term.”

“We have a very strong forecast for future sales.”

“Q2 is demonstrating more of the same feel as Q1 despite optimistic view of increase or uptick in sales.”

“Slow month. While sales dollars are up over previous year, unit volumes are down. We continue to slowly chip away at inventory. Our fiscal year ends in June, the salespeople are predicting the next fiscal year to be flat on unit volume with a slight uptick in dollars due to price increases.“

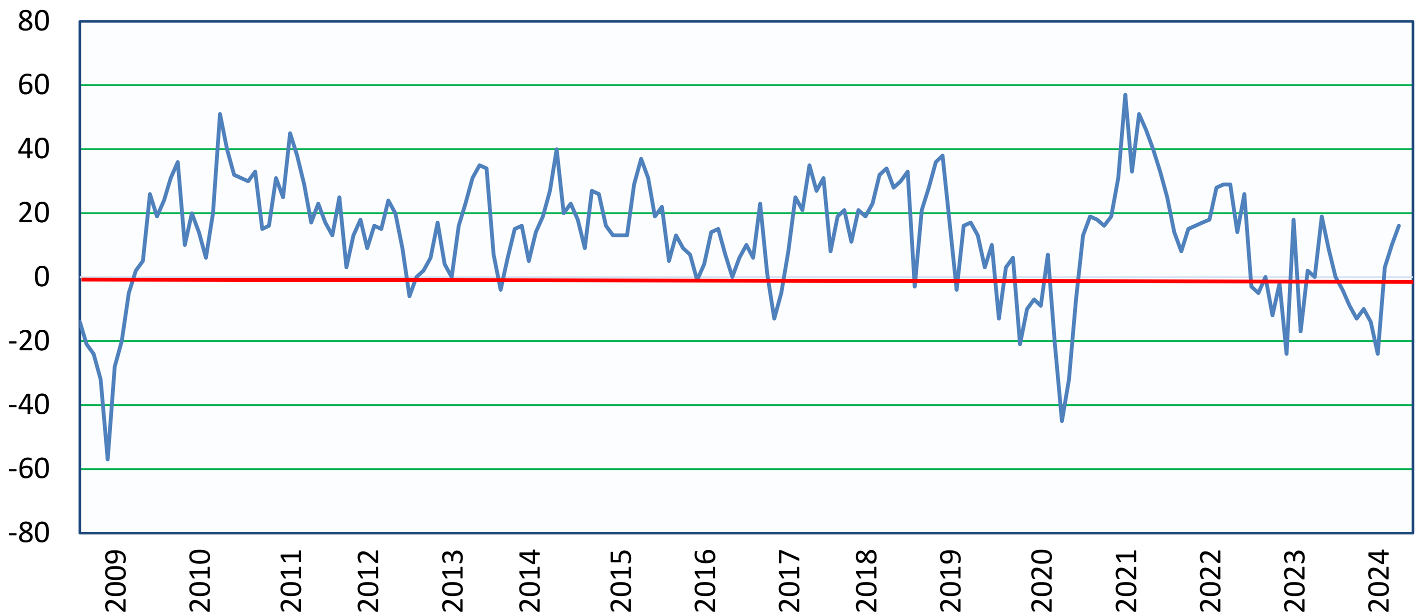
“It is tough to find skilled labor with ‘qualified’ experience for the printing industry (flexo presses).

“The students coming out of school do not have the same work ethic as the generation before them, i.e., the office starting time is 8am and they typically stroll in about 8:10-ish and they think they are ‘on time’ and then take 10-15 minutes to ‘get to work’”.

“Business overall is still lower than our last quarter but still holding steady.”

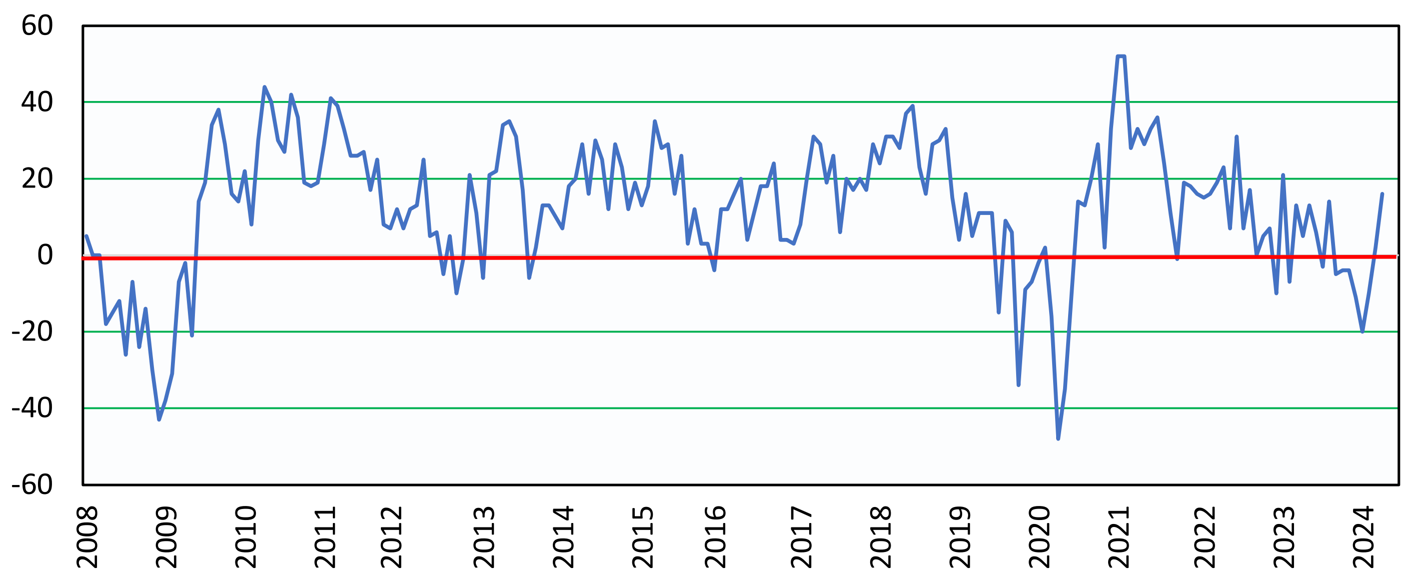
West Michigan Index of New Orders: 2008-2024

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.



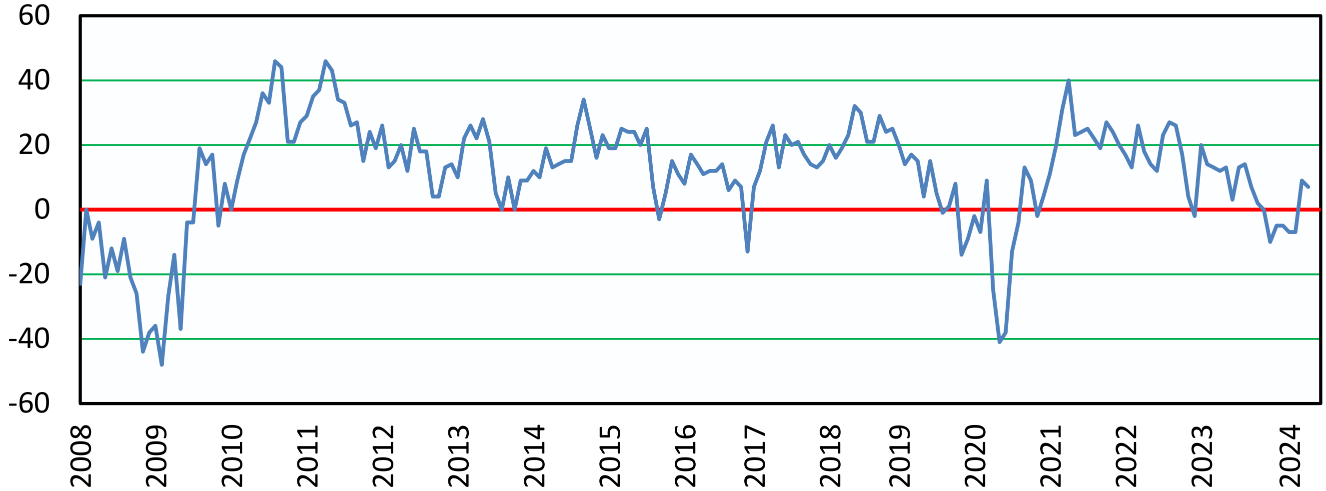
West Michigan Index of Production (Output): 2008-2024

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.