

West Michigan Current Business Trends

August 7, 2024

Another Negative Month

Key Take-Aways from July 2024 Statistics:

- **NEW ORDERS Index Posts Another Significant Drop; PRODUCTION Index Dropped as Well**
- **The National Industrial Economy Turns Modestly Negative**
- **Automotive Market Still Marginally Positive, But Less Certain**

	July	June
↓ NEW ORDERS Index (business improvement)	-18	-21
↓ PRODUCTION Index (aka "output")	-16	-2
↓ EMPLOYMENT Index	-3	+10
↓ LEAD TIMES Index	-8	-18

Key Participant Comments for July:

"Our sales volumes in the last several weeks are trending significantly lower. We still have a decent backlog and are hitting budget numbers. But if the sales trend continues, that won't be the case for much longer."

"We continue to see a soft market, but we are hopeful that the upcoming election will progress the economy and give consumers confidence, no matter the outcome."

"Our shop is currently very slow. No OEMs are releasing work until after the elections."

"We continue to see softness in current orders, but are forecasting increases in the coming months."

"We are seeing most prices from machine tool builders drop dramatically in order to move inventory."

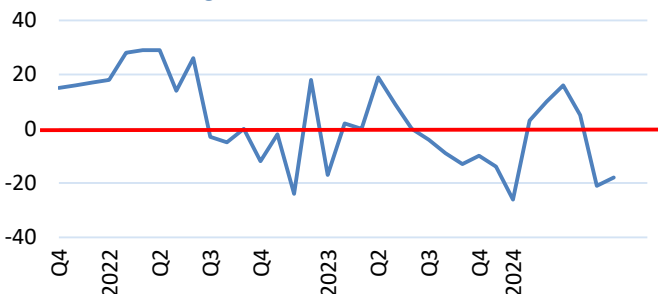
The Local Economy. Although the short-term news cycle has altered the immediate economic perspective for the last 100 years, the short-term impact has been relatively minor MOST of the time. However, since our last report, a new dimension of uncertainty over the stock market and the November election has shaken the American psyche much more than usual. Last month's survey report for the West Michigan economy resulted in NEW ORDERS for June falling sharply to -21 from May's +5. Although we had hoped that this downturn was just a "one-off" month, the July index of NEW ORDERS nonetheless came in at -18, another double-digit decline. Following suit, the July PRODUCTION Index, a.k.a. "output," fell from -2 to -16. Our July index of PURCHASES,

which measures activity in the purchasing offices, remained significantly negative at -13. Inventory liquidation may have subsided, given that the PURCHASED MATERIALS INVENTORY Index returned to +0 from June's -17. The July FINISHED GOODS INVENTORY Index, which posted at -12 in June, reversed its trend and bounced up to +11. Unfortunately, a reversal of this nature has all the earmarkings of *involuntary* inventory accumulation, i.e., inventory produced and put on the shelf hoping that it will sell. Needless to say, the written comments from this month's respondents have turned decidedly negative. Granted, we are not yet in a recession, but the future looks far less certain than even a month ago. In other words, the possibility of a recession beginning over the next few months is now back on the table.

The U.S. Economy. According to the data collected by the Institute for Supply Management (ISM), the U.S. industrial market weakened significantly in July. ISM's NEW ORDERS Index posted at -9, down from +0. In a similar move, ISM's PRODUCTION Index fell to -10 from June's +2. The survey respondents also reported that they are clearing out their excess production materials, as reflected by the INVENTORIES Index, which fell to -12 from -9. ISM's ORDER BACKLOG Index remained unchanged at -17, well below the historical average. The index of NEW EXPORT ORDERS remained modestly negative at -2. Adding all of these indexes together, ISM's composite index came in at 46.8, down significantly from June's 48.5.

S&P Global, the British-based economic consulting firm which also surveys U.S. purchasing managers in a manner similar to ISM, often posts an alternate view of the U.S. economy. S&P's July PMI fell to 49.6 from 51.6, and below the

West Michigan Index of New Orders: 2020-2024



all-important break-even point of 50.0 for the first time in seven months. The New Orders Index fell to a three-month low, but the Output Index remained positive because of support from the Order Backlog Index. The S&P's July Employment Index, which has now been positive for seven months, began to flatten. However, the survey author notes that much of this month's data was collected before the November election upheaval began and the stock market tanked. Chris Williamson, Chief Business Economist at S&P, further noted:

"The manufacturing recovery moved into reverse in July, though the gloomier growth picture was accompanied by a marked cooling of inflation in the goods-producing sector. Business conditions worsened in July as the first fall in new orders since April caused a near-stalling of production. Purchasing activity is falling and hiring has slowed amid concerns over weaker-than-anticipated sales. Many firms are expecting the weakness to be temporary, linked to paused spending and investment ahead of the Presidential Election. However, firms' expectations for output in one year's time remain subdued by historical standards, reflecting additional concerns over the impact of higher interest rates and persistent inflation. While orders for investment goods such as plant and machinery fell especially sharply in July, underscoring the recent pull-back in capital spending, producers of consumer goods also reported a modest fall in demand. There was better news on the inflation front. Input cost inflation cooled for a second month after having risen to a 13-month high in May. This welcome lowering of cost pressures helped take further heat out of selling price inflation, which moderated sharply in July to the lowest for a year to signal only a marginal increase in prices during the month. This near-abeyance of producer price inflation should feed through to lower consumer price inflation in the coming months."

The World Economy. Despite wars raging in Gaza and Ukraine, the overall world economy HAD remained modestly positive for many months. However, the J.P. Morgan Worldwide Manufacturing Index for July fell to 49.7, slightly below the 50.0 break-even point for the first time in 2024. The New Orders Index dropped significantly to 48.8 from June's 50.7. In a similar move, JPM's Output Index remained modestly positive at 50.2, but fell from June's 52.3. For our neighboring economies, the July composite PMI for Canada, our largest trading partner, deteriorated significantly to 47.8 from 49.3. The July PMI for Mexico, our second largest trading partner, fell to 49.6 from 51.1. From numerous news reports, we have heard that the Chinese economy has still not fully recovered from the pandemic, even though the PMIs for the past year have tracked modestly above the 50.0 break-even point. For July, the Caixin China PMI fell to 49.8, the first negative reading in 2024. Bennett Parrish, Global Economist at J.P. Morgan, further noted:

"The J.P. Morgan global manufacturing output PMI fell 2.0pt to 50.2 in July, its largest single-month drop since June 2023. In addition to a slowdown in output growth, survey details suggested declining new order intakes and moderation in the pace of hiring. Although the Euro area remained the weakest performing region, output growth slowed sharply in both the U.S. and China according to the July surveys. The pricing PMIs eased in July, but cost concerns remain, especially given the ongoing inflationary impact of higher shipping costs."

Unfortunately, the Eurozone PMI for July, compiled by the Hamburg Commercial Bank (HCB), contracted at "...the strongest rate in 2024." Earlier in the year, there was a glimmer of hope that the worst of the Eurozone stagnation might be over. However, the July Eurozone PMI compiled by HCB again posted at 45.8, well below the 14-month high of 47.3 recorded in May. Although the July PMIs for Greece and Spain remain positive, the rate of growth has now been falling for several months. The negative PMIs from France, Germany, and Austria, the Eurozone's largest economies, are also continuing to slide even further. Dr. Cyrus de la Rubia, Chief Economist at HCB, further noted:

"The weak demand situation has gotten even worse since June, meaning rising input prices can't be passed on to customers so easily. This means shrinking profit margins for businesses. If this trend keeps up, it spells trouble for investment and future growth, as companies will likely start cutting costs. On the flip side, the European Central Bank might have mixed feelings about this. Sure, rising input prices could push inflation up, but falling profit margins might help keep that inflationary pressure in check. Demand won't bounce back anytime soon. Incoming orders, which have now dropped for 27 months straight, declined even faster in July. Companies don't seem to have much hope that things will get better soon. In fact, they cut their workforces more sharply in July and their confidence in future production growth has dipped below the long-term average. Industrial activity in the Eurozone took a hit across the board in July. Among the countries covered by the PMI survey, only Greece and Spain are still seeing meaningful growth, although even there, momentum has slowed significantly. Austria and Germany are showing the greatest weakness. The widespread and steep downturn is surprising, making it more likely that the manufacturing sector will face tough times in the coming months."

Automotive. With the pent-up demand for new cars and light trucks now appeased, we are still hoping that the automotive market might be returning to normal. The year-over-year June SAAR (Seasonally Adjusted Annualized Rate) compiled by Cox Automotive edged lower to 15.5 million from 16.2 million units. However, the absolute number of units sold in July remained fairly stable, gaining 0.5 percent for the average of the major firms still reporting monthly. Ford posted a small sales decline of 0.3 percent for July, Toyota lost 5.1 percent, and Hyundai/Kia sales eased by 3.3 percent. Sales gainers for July included Honda, up 8.0 percent, Subaru, up 2.8 percent, and Mazda rising 30.2 percent, the highest sales for the nameplate on record. Just as last month, many potential customers are continuing to embrace the philosophy set forth by Toyota, namely that the plug-in hybrid (PHEV) is the most versatile choice for most buyers. However, several manufacturers like Ford are now stuck with too much capital investment tied up in all-electric vehicles. Joe Langley, associate director at S&P Global Mobility. Further noted:

"Some automakers are struggling to balance sales, production, inventory and incentive targets as the market returns to more normal dynamics than what occurred from 2020-23. Our North American light vehicle production outlook for the remainder of this year has been scaled back as automakers attempt to manage these factors."

Business and Consumer Confidence. The Consumer Confidence Index for July, published by The Conference Board, remained virtually unchanged at 100.3 (1985=100), only slightly below the initial June report of 100.4, which was later revised to 97.8. According to Dana M. Peterson, Chief Economist at The Conference Board:

"Confidence increased in July, but not enough to break free of the narrow range that has prevailed over the past two years. Even though consumers remain relatively positive about the labor market, they still appear to be concerned about elevated prices and interest rates, and uncertainty about the future; things that may not improve until next year. Compared to last month, consumers were somewhat less pessimistic about the future. Expectations for future income improved slightly, but consumers remained generally negative about business and employment conditions ahead. Statistical assessment of current availability of jobs is still quite strong, but the consumers' assessment of the current labor market situation declined to its lowest level since March 2021."

A less optimistic view of confidence was posted by the University of Michigan July Index of Consumer Sentiment, which eased to 66.4 from 68.2. Survey respondents with lower incomes continue to be concerned with rising prices for consumer necessities like rent, food, and fuel. Surprisingly, the

low-income survey respondents overwhelmingly favored the election of Donald Trump over Joe Biden, while the top 10% of the wage earners overwhelmingly favored Biden over Trump. For our West Michigan survey of the industrial market, the SHORT-TERM BUSINESS OUTLOOK Index, which asks local firms about their business perceptions for the next three to six months, remained negative but upticked to -3 from -9. However, -3 is the second negative reading in seven months. The LONG-TERM BUSINESS OUTLOOK Index, which queries the perceptions for the next three to five years, eased modestly to +37 from +41 but remained optimistic.

West Michigan Unemployment. For our local survey, the West Michigan index of EMPLOYMENT for July fell to -3 from +10. From October 2023 through February 2024, the West Michigan index of EMPLOYMENT posted as modestly negative of every month, but returned to positive until July. According to the most recent report from the Michigan Department of Technology, Management & Budget (DTMB), the June data (latest month available) has finally begun to reflect the modest erosion of employment in the West Michigan job market. The June unemployment rates for almost all cities and counties in West Michigan spiked upward for the first time in many months. For the major West Michigan counties, the June year-over-year unemployment rate for Ottawa County posted at 3.8 percent, up sharply from 3.3 in 2023, followed by Allegan County rising to 3.9 percent from 3.5 percent, and Kent County unemployment escalating to 4.0 percent from 3.5 percent. Most of the other counties on the west side of the state reported similar unemployment upticks.

Industrial Inflation. For July, our West Michigan index of PRICES remained negative but upticked to -3 from -10. The ISM national index for Prices in July edged marginally higher to +5 from +4. If the world economy is actually beginning to cool, the most recent round of inflation has probably peaked. JPM's July index of world prices crept down to 55.2 from 55.3. S&P Global, which tracks both worldwide price pressures and supply pressures, reported that the S&P Price Pressure Index for June downticked to 0.9 from 1.0, and the Global Supply Shortage Index edged lower to 0.8 from 0.9. Usamah Bhatti, Economist at S&P Global Market Intelligence, further commented:

"Pressure on global manufacturing supply chains appeared muted at the start of the third quarter of 2024, with reports of supplier shortfalls broadly in line with the long-run average. Particular emphasis was placed on shortages for Transport, Paper and Packaging. Reports of global input shortages have remained broadly similar to the historical average over 2024 so far. Cost pressures were also subdued in July, as global commodity prices rose at a pace fractionally weaker than the long-run average. The respective index dropped from June's recent high of 1.0, as three of the 26 monitored items saw reports of falling prices, led by electricity. Upward pressure came from reports of increasing prices for Paper, Transport and Electrical Items."

Consumer Inflation. On August 2, the Bureau of Labor Statistics (BLS) posted a notoriously pessimistic jobs report which resulted in the unemployment rate rising to 4.3 percent from 4.1 percent. The weak report was unexpected, which resulted in the stock market having its worst daily drop since early 2023. What's worse, it appears that the proverbial "other shoes" have not yet dropped, putting the Federal Reserve under considerable pressure to cut rates by at least a quarter point at the next meeting in mid-September or even before.

It is easy to make the case that the inflation numbers are finally headed in the right direction. The "headline" 12-month Consumer Price Index (CPI) for June, reported on July 11 by the BLS, posted at 3.0 percent, down from 3.3 percent in June, 3.4 percent in April, and 3.5 percent in March. At this rate, the Fed target of 2.0 percent would seem to be achievable in less than a year. In the same July 11 report, the "core inflation," which excludes the more volatile food and energy components, eased to 3.3 percent, down from May's 3.4 percent. However, the Federal Reserve continues to taunt that most members of the board place more emphasis on the inflation report known as

the Personal Consumption Expenditures Index or PCE compiled by the Bureau of Economic Analysis (BEA). According to the July 26 press release, the "headline" PCE eased to 2.5 percent, down from 2.6 reported in June and 2.7 percent posted in May. The core PCE, which like the BLS report, also excludes food and energy, remained unchanged at 2.6 percent.

Although not widely reported by the media, the text of both reports continue to stress that the index sub-component reported as "shelter" remains a major sticking point inhibiting further reductions in both the CPI and the PCE. That said, housing prices and rents in many parts of the county are now stabilizing. However, the June Zillow Rent Index edged up to 3.5 percent from 3.4 percent. By contrast, the Rent Index from Realtor.com again posted a modest decline of 0.3 percent. Although these statistics are good news, most rental contracts run for at least a year, and the BLS website notes that it takes 12-18 months before the current rents are finally reflected in the inflation data.

GDP. On July 25, the BEA posted a first "estimate" of the GDP growth for the second quarter of 2024. At 2.8 percent growth, the posting came in well ahead of most estimates, and the markets celebrated that the U.S. economy may be poised once and for all to avoid the recession that has been touted by many reputable forecasters for at least the last two years. Given the current data prior to the sharp downtick in the stock market, the economists at S&P Global were convinced that their prediction of a 2.5 percent growth rate for calendar 2024 was very much on track. As usual, the forecasters are now focusing on estimates for 2024's third quarter. As of August 3, the Atlanta Federal Reserve's GDPNow forecast model for Q3 rested at 2.8 percent growth, the same as the second quarter posting from the BEA. The Blue Chip GDP Realtime model for Q3 now stands at 1.9 percent, slightly lower than last month's 2.0 percent reading. The third quarter growth forecast from the Federal Reserve Bank of Philadelphia remains unchanged at 2.0 percent. The Conference Board GDP third quarter growth estimate also remains unchanged but at a less optimistic 1.0 percent. Unfortunately, almost all of these forecasts have not factored in the most recent geopolitical activities in the Middle East, the uncertainties raised by the most recent shake-ups in the November U.S. presidential race, and the unexpected plunge in the stock market.

Looking Forward. A dictionary definition of "uncertainty" reads, "... not confident, assured, or free from hesitancy." Businesses in particular hate uncertainty, especially about the direction of the economy. Personnel decisions and capital equipment purchases are especially dependent on some degree of certainty about the future direction of sales and the cost of doing business. Whereas the Federal Reserve's "soft landing" looked entirely possible just a few weeks ago, the current news cycle has again given rise to the specter of a possible recession. Furthermore, the poisonous atmosphere in Washington raises the possibility that there will be no good outcome to the November election regardless of which party wins. For West Michigan, our automotive parts producers represent the most significant cyclical industry. Fortunately, except for EVs, auto sales are still holding their own, despite the rising cost of most new vehicles and the sharp escalation of the cost of auto loans brought on by higher interest rates. This could change in coming months, resulting in auto sales beginning to decline. Although sales for office furniture, another West Michigan cyclical industry, have remained muted since the onset of the pandemic, there is still no sign that the industry is collapsing. Outside of West Michigan, the geopolitical environment has also become FAR less stable in the Middle East as well as the Far East, so the stability of the world's supply chains may also be at risk. Granted, the majority of these problems have been hanging around for the past two years, and have had a minimal impact on the economy, especially for West Michigan. Regrettably, that situation could soon change.

July 2024 Survey Statistics

	UP	SAME	DOWN	N/A	July Index	June Index	May Index	25 Year Average
Sales (New Orders)	23%	36%	41%	0%	-18	-21	+ 5	+14
Production (Gross Output)	15%	49%	31%	5%	-16	- 2	+ 2	+14
Employment	10%	77%	13%	0%	- 3	+10	+ 7	+ 8
Purchases	15%	54%	28%	3%	-19	-22	+ 3	+ 7
Prices Paid (major commodities)	10%	77%	13%	0%	- 3	-10	+ 2	+15
Lead Times (from suppliers)	5%	79%	13%	3%	- 8	-18	- 19	+11
Purchased Materials Inv. (Raw materials & supplies)	13%	64%	13%	10%	+ 0	-17	- 11	- 4
Finished Goods Inventory	21%	59%	10%	10%	+11	-12	- 18	-2
Short Term Business Outlook (Next 3-6 months)	23%	51%	26%	0%	- 3	- 9	+ 10	-
Long Term Business Outlook (Next 3-5 years)	39%	59%	2%	0%	+37	+41	+ 49	-

Items in short supply:

Electronic components, some aluminum items, PEG/liquid sweeteners, steel, certain complex machined parts, parts machined from castings, gear pumps, controls engineers.

Prices on the UP side:

Aluminum, ocean freight, electronics, some specialty steels, corrugated, PP, PA6, ABS, engineered resins, hemp textiles, overseas freight, copper.

Prices on the DOWN side:

Steel*, hot rolled and cold rolled steel, aluminum*, non-ferrous metal products, CBD from hemp, plastics.

*Item reported as both up AND down in price

Latest Unemployment Reports:

(Except as noted, data are NOT seasonally adjusted)

	June 2024	June 2023	Aug. 2009	20-Year Low
State of Michigan (June)	4.1%	3.7%	14.6%	3.2%
State of Michigan (Unadj.)	5.0%	4.1%	14.1%	2.9%
Kent County	4.0%	3.5%	11.9%	2.1%
Kalamazoo County	4.5%	4.1%	11.1%	2.1%
Calhoun County	5.5%	4.6%	12.8%	2.7%
Ottawa County	3.8%	3.3%	13.3%	1.8%
Barry County	4.3%	3.7%	10.9%	2.2%
Kalamazoo City	5.7%	5.1%	15.2%	3.2%
Portage City	4.2%	3.8%	8.7%	1.3%
Grand Rapids City	5.3%	4.6%	16.1%	3.0%
Kentwood City	3.8%	3.3%	10.7%	1.4%
Plainfield Twp.	3.0%	2.6%	8.0%	1.4%
U.S. Official Rate (June)	4.0%	3.7%	9.6%	3.4%
U.S. Rate (Unadjusted)	4.1%	3.6%	9.6%	3.1%
U.S. U-6 Rate (June)**	7.4%	6.9%	22.9%	6.7%

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

JULY COMMENTS FROM SURVEY PARTICIPANTS

"We're running into capacity issues for outside processes."

"We are seeing most prices from machine tool builders drop dramatically in order to move inventory."

"Our shop is currently very slow. No OEMs are releasing work until after the elections."

"We continue to see softness in current orders, but are forecasting increases in the coming months."

"Our sales volumes in the last several weeks are trending significantly lower. We still have a decent backlog and are hitting budget numbers. But if the sales trend continues, that won't be the case for much longer."

"Business has softened, but we still have a good long-term outlook."

"We continue to see a soft market, but we are hopeful that the upcoming election will progress the economy and give consumers confidence, no matter the outcome."

"Business is steady, but below expectation."

"We've had a slow start to the new fiscal year, and we continue to push inventories lower."

"Finding quality skilled workers is tough, and getting younger workers (both office and factory) to be to work on time is tough."

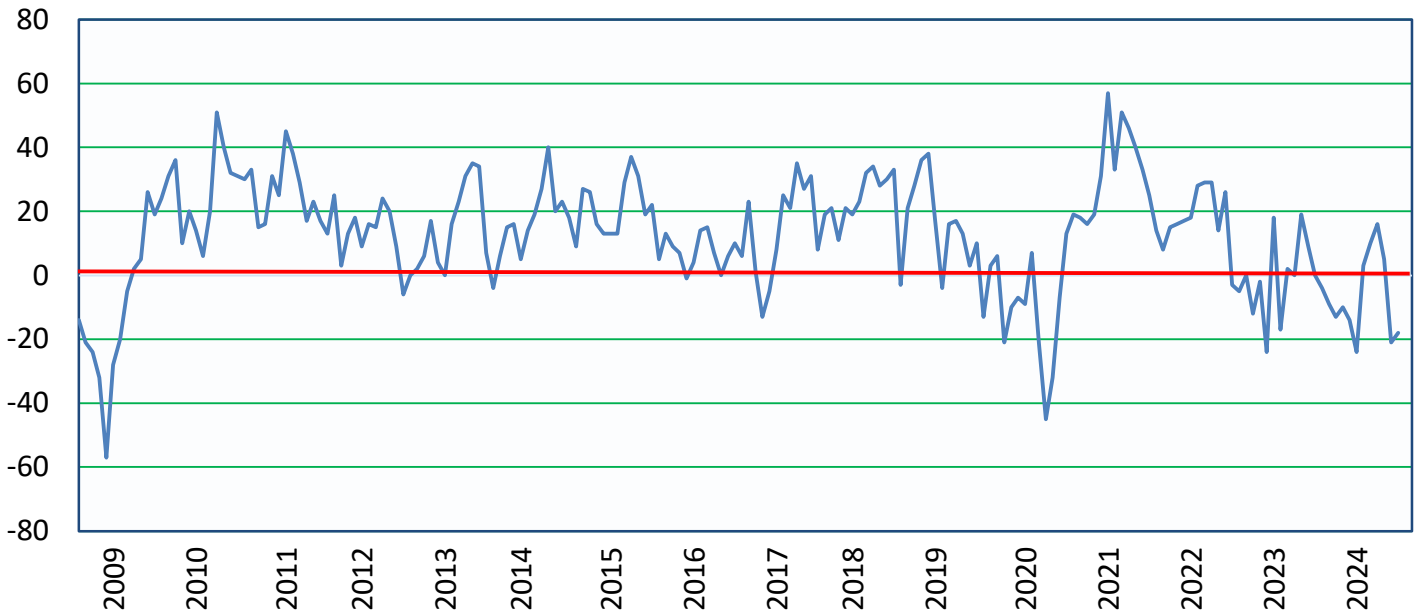
"We've had a boring July."

"Hemp in America is still in short supply. Hemp building materials are quickly growing in demand as well as hemp textiles."

"Sea shipments (availability) are getting backlogged again."

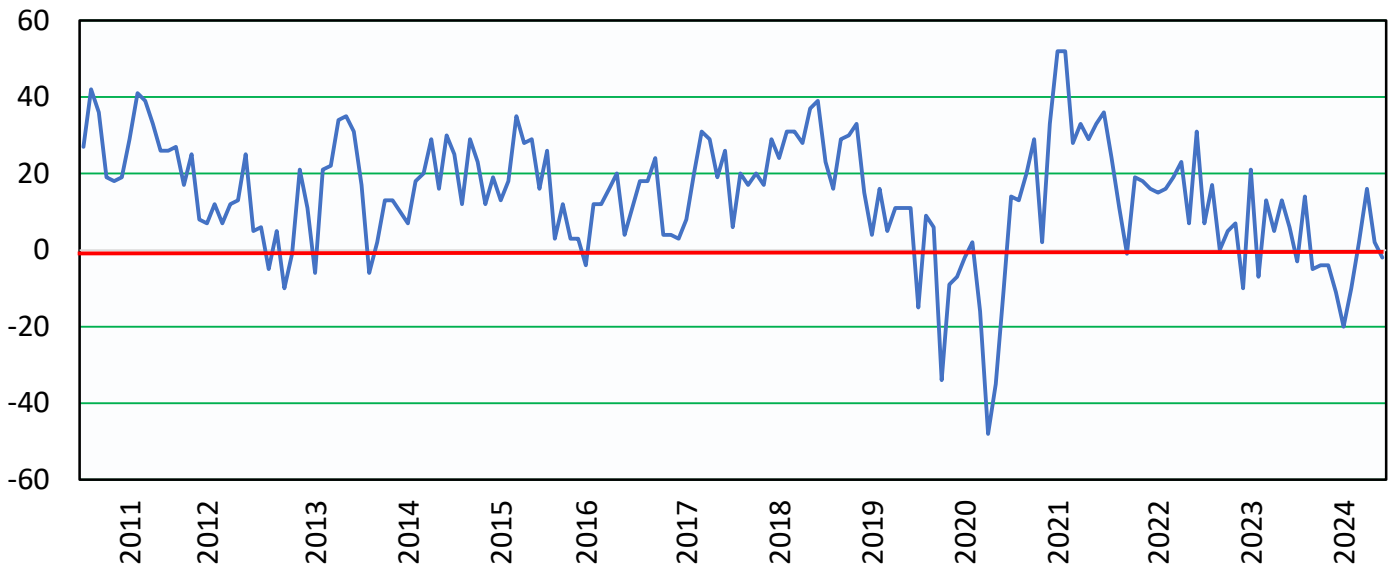
West Michigan Index of New Orders: 2008-2024

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.



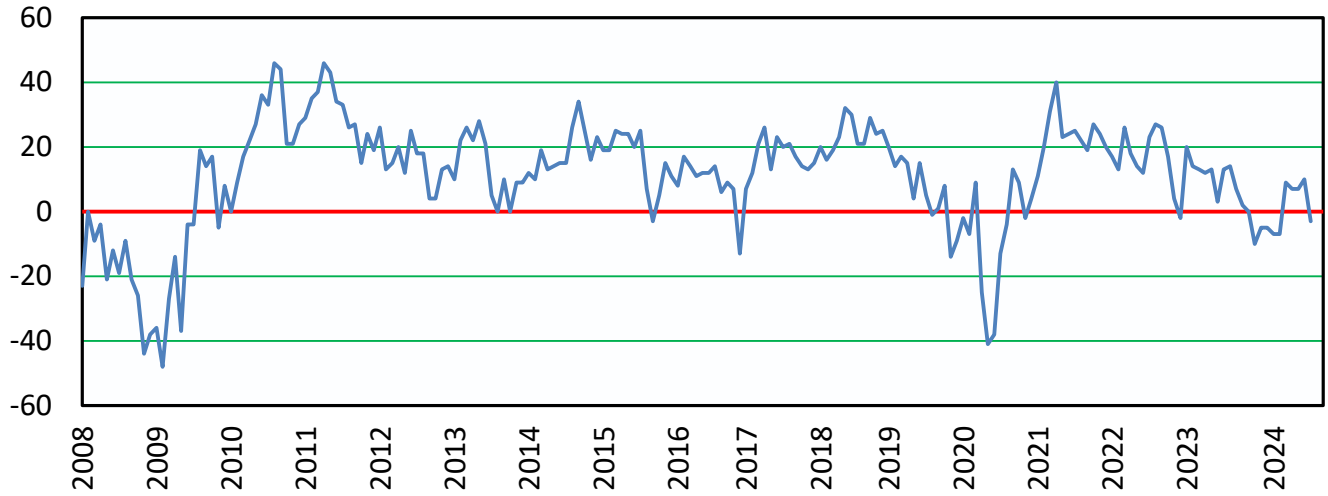
West Michigan Index of Production (Output): 2008-2024

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.

LONG TERM BUSINESS OUTLOOK (3-5 YEARS)
SHORT TERM BUSINESS OUTLOOK (3-6 MONTHS)

