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West Michigan Current Business Trends

September 8, 2025

Economy Backtracks. Tariffs Blamed

Key Take-Aways from August 2025 Statistics:

- **NEW ORDERS Index falls significantly to -16 from -4.**
- **Tariff environment continues to cause confusion at all business levels.**
- **Outlook for late 2025 remains confusing for many firms.**

	Aug.	July
⬇ NEW ORDERS Index (business improvement)	- 16	- 4
⬇ PRODUCTION Index (aka "output")	- 4	+ 0
⬇ EMPLOYMENT Index	- 4	+ 13
⬇ LEAD TIMES Index	+ 0	+15

Key Participant Comments for August

"We're seeing some slowdown across all lines, although sales exceeded expectations for first two quarters of the year. It appears we will be giving those gains back in the last two quarters."

"Prices across many of our commodities have stabilized this past month without any new tariff surprises."

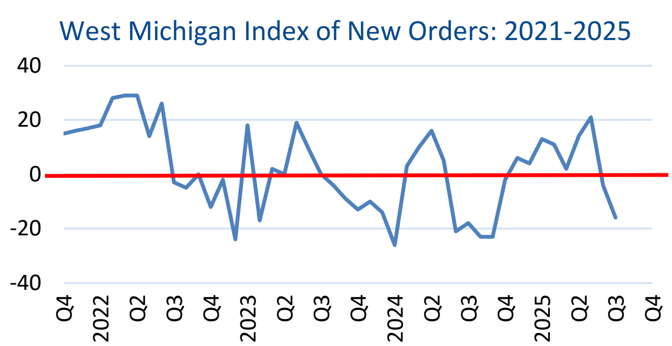
"Orders are still sluggish. Most existing business is down some on the year but we've had success winning new customers."

"Slow month. There's too much uncertainty for the larger projects to get approved."

"Tariff impacts are starting to show. However, they are much less of an impact than originally planned."

The Local Economy. After eight months of positive readings, our August NEW ORDERS Index measuring business improvement posted a significant drop to -16, down from -4. The PRODUCTION Index, a.k.a. "output," also backtracked to -4 from +0. Activity in the purchasing offices, the index of PURCHASES, remained virtually unchanged at -4 from -2. As reported last month, it appears that tariffs may have finally caught up with West Michigan. For multi-state companies, there has also been an erosion in the general regulatory climate in Michigan, resulting in some new projects being shifted to other states. Just as they have been for several months, business planners remain extremely frustrated with the daily announcements of tariff progress followed by new or revised tariff threats. Our survey respondents continue to complain that new hires, some capital investments, and some new programs are still on hold pending a clearer picture of the economic future.

The U.S. Economy. Like our own non-parametric monthly survey, the national statistics tend to bounce around. For August, the survey of purchasing managers conducted by the Institute for Supply Management (ISM) reported that NEW ORDERS edged back



to positive at +2, up from -7. However, the PRODUCTION Index backtracked to -5 from +1. ISM's INVENTORIES Index recovered to +1 from -3. August's ORDER BACKLOG Index backtracked to -11 from -7. ISM's index of NEW EXPORT ORDERS modestly recovered to –5 from -7. After statistical adjustments, ISM's Composite Index, a compilation of all the aforementioned statistics, remained below the 50.0 break-even point but upticked to 48.7 from 48.0.

A significantly different view of the national economy comes from the monthly survey of U.S. purchasing agents conducted by S&P Global, the British-based economic consulting firm. For August, despite the supply chain uncertainties brought on by the ongoing tariff wars, the S&P's "headline" index bounced from 49.8 up to 53.0. In addition to stronger New Orders, the gain in Output (Production) recorded its strongest increase since May 2022. However, the survey author cautions that part of the uptick can be attributed to building higher inventories in anticipation of higher prices and/or other supply constraints. Chris Williamson, Chief Business Economist at S&P, further noted:

> "*Purchasing managers reported that the U.S. manufacturing was* running hot over the summer. The past three months have seen the strongest expansion of production since the first half of 2022, with the upturn gathering pace in August amid rising sales. Hiring also picked up again in August as factories took on more staff to meet an influx of new orders and an accumulation of uncompleted work for waiting customers. The manufacturing sector is therefore on course to provide a boost to the US economy in the third quarter. The upturn is in part being fueled by inventory building, with factories reporting a further jump in warehouse holdings in August due to concerns over future price rises and potential supply constraints. These concerns are being stoked by uncertainty over the impact of tariffs, fears which were underpinned by a further jump in prices paid for inputs by factories, linked overwhelmingly by purchasing managers to these tariffs. Cost increases are being passed on to customers

via widespread hikes to factory gate prices. The big question is the degree to which these price rises will then feed through to higher consumer price inflation in the coming months."

The World Economy. After turning slightly negative in July, the August Global Manufacturing PMI compiled monthly by J.P. Morgan returned to a positive reading of 50.9, up from 49.7. For the worldwide composite PMI collected from 32 countries, the basic measures of manufacturing output, new orders and employment all returned to growth. In addition to the U.S., PMIs that help lift the August report were comprised of India, Greece, Spain, Austria, Thailand, and the Netherlands. Detractors included Poland, Taiwan, Brazil, Canada, and South Korea. For our major U.S. trading partners, the news is mixed. The PMI for Mexico eked out a minor gain. Canada's PMI remained negative, but the rate of decline subsided. The PMI for China returned positive at 50.5, up for 49.6. Maia Crook, Global Economist at JPM, further commented:

> "The J.P. Morgan global manufacturing output PMI rebounded 2.0-points in August, fully unwinding a July drop. The index has been volatile in recent months, but at 51.7 the PMI challenges our forecast for a stall in global factory output in the second half of the year. The rise was broad-based across economies, and there were encouraging recoveries in the consumer and investment goods PMIs. That said, forward-looking indicators are more downbeat. Both the future output and new orders PMIs remain depressed despite ticking up last month, and a surge in the finished goods inventory PMI suggests much of the recent rebound is going into stockbuilding rather than final sales. We continue to see building industry headwinds stemming from U.S. tariffs."

For the eurozone segment of the world economy, Hamburg Commercial Bank compiles a compilation report for all the major industrial countries in the zone. The August composite PMI for the eurozone returned to a 38-month high of 50.7, up from 49.8. In addition to an improvement in New Orders, the Output Index (Production) rose to 52.5, a 41-month high. Of the major economies, positive PMIs were reported by Greece, Ireland, Spain, Italy, France, and the Netherlands, but the PMIs for Germany and Austria remained slightly negative. The recent agreement by the NATO countries to spend considerably more on defense will probably continue to help the eurozone economy to improve. Dr. Cyrus de la Rubia, Chief Economist at HCB, further noted:

> "The economic recovery in the manufacturing sector is countries for which PMIs are recorded—compared to only four countries in the previous month. As a result, the Manufacturing PMI for the eurozone has crossed the expansion threshold for the first time since mid-2022, mainly because companies have ramped up production more rapidly. Incoming orders also offer hope for a sustainable recovery. After over three years of continuous declines, companies are now seeing a slight increase. Domestic orders have risen and are offsetting the weakening demand from abroad. In fact, the best remedy against U.S. tariffs may be to strengthen domestic demand, including within the EU internal market. The potential is significant, as the International Monetary Fund estimates that the tariff equivalent of the many non-tariff trade barriers in the EU stands at 44%. Companies may be hoping for progress here, as a certain optimism has taken hold. Many expect to produce more in 12 months than they do today. The recovery is real but remains fragile. Inventory levels continue to decline, and the slightly accelerated drop in order backlogs shows that companies are still suffering from uncertainty. Given U.S. tariff policies and geopolitical tensions, this is hardly surprising. We see the fact that production is being ramped up and more orders are being registered in this environment as a sign of resilience."

Automotive. For West Michigan, automotives parts production remains our largest cyclical industry. We expected August auto sales to soften based on sales being pulled forward to avoid the impending tariffs. Although sales for some nameplates have slightly softened, the August SAAR (Seasonally Adjusted Annualized Rate) reported compiled by Motor Intelligence came in at 16.4 million units, down modestly from July's 16.9, but still well ahead of the 15.3 million units reported for August 2024. For the EV buyers still seeking the $7,500 tax credit, the incentive expires on September 30, and dealers are hoping to boost their September sales and reduce their inventories for many slow-moving EV models. Aggregate sales for

the manufactures reporting monthly increased by 5.0 percent year-over-year, with Toyota, up 13.6 percent, Hyundai-Kia, up 10.9 percent, and Ford gaining 4.2 percent. Offsetting these August gains, Honda, declined 5.2 percent, Mazda, 7.6 percent, and Subaru, 2.9 percent. An optimistic outlook going forward comes from Charlie Chesbrough, senior economist at Cox Automotive:

> "Vehicle price inflation has been relatively tame, and unemployment rates are low. Couple that good news with a strong stock market, and there are a lot of consumers who have stayed in a buying mood."

Consumer Confidence. The Conference Board's Consumer Confidence Index released on August 26 posted at 97.4 compared to the 97.2 (1985=100) reported a month ago, which was later revised upward 1.5 points. According to Stephanie Guichard, a senior economist at the Conference Board, "Consumer confidence dipped slightly in August but remained at a level similar to those of the past three months. Meanwhile, pessimism about future job availability inched up and optimism about future income faded slightly. However, these were partly offset by stronger expectations for future business conditions." By contrast, the University of Michigan Consumer Sentiment Index for August edged lower to 58.2 from 61.7. For both indices, consumers remain uncertain about the economic outlook as we edge toward 2026.

Business Confidence. Needless to say, the tariff situation has many of the participants in the West Michigan industrial market confused and frustrated. Although the beginning of the trade wars tanked the confidence levels in our April report, the trust was soon restored when it looked like the situation would be resolve fairly quickly. As recently as June, our SHORT-TERM BUSINESS OUTLOOK Index which asks West Michigan firms about their business perceptions for the next three to six months, stood at +24. However, stalled trade negotiations initiated an abrupt drop to -6 in our July report. For August, the index posted virtually unchanged at -4. The LONG-TERM BUSINESS OUTLOOK Index for August, which queries the perceptions for the next three to five years, edged lower to +36 from +48. According to the August 12 press release from the National Federation of Independent Businesses, the Small Business Optimism Index for July rose 1.7 points to 100.3. However, the Uncertainty Index increased by eight points from June to 97. For the most significant problem inhibiting growth, 21 percent of the survey respondents cited "labor quality" as their single most important problem, up five points from June and ranking as the top problem. "High taxes" were the second most important issue reported in the NFIB survey.

West Michigan Unemployment. The primary short-term goal of the Federal Reserve is to use higher interest rates to tame inflation while simultaneously keeping unemployment from rising to a significant level. So far, August unemployment at the national level has only risen to 4.3 percent, but inflation remains stubbornly elevated above the Fed's 2.0 target rate. The 2.0 percent inflation rate presumably ensures growth BUT more importantly preserves the dollar's long-term role as the world's leading reserve currency. Among the individual states, the July unemployment in California stands at 5.5 percent, followed by Nevada at 5.4 percent. The July unemployment rate for Michigan posted at 5.3 percent. All other states now have a LOWER rate, and South Dekota has the lowest July rate of 1.9 percent. Looking at West Michigan, the July data (latest month available) posted by the DTMB from Lansing estimates the unemployment rate for Ottawa County to be 5.2 percent, up from 4.6 percent a year earlier. In a similar move, the Kent County unemployment rate rose to 5.5 percent, up from 4.9 percent. In Kalamazoo County, the year-over-year unemployment rate rose to 5.9 percent from 5.1 percent. For our West Michigan municipalities, the July unemployment rate for the City of Grand Rapids jumped to 6.6 percent from 5.9 percent. For our monthly survey of the West Michigan industrial market, the July EMPLOYMENT index bounced to +13 from +0. We reported this jump as a statistical fluke, and the August survey returned to normality and posted at -4, which is more in line with the current state of the West Michigan economy. At the national level, the August ISM index of EMPLOYMENT eased to -13 from -12, marking the tenth straight month below the +0 break-even point. At the international level, the JPM index of EMPLOYMENT returned to a positive reading of 50.2, up from 49.4.

Industrial Inflation. For West Michigan, our August index of PRICES edged up to +36 from +27, not far below May's two-year high of +42. In a similar pattern, ISM's national index of PRICES for August came in at +27, marginally down from +30. Commodity-wise, the August S&P pricing survey reports noticeable rising prices for aluminum and electrical components. Falling prices were posted in the same survey for polyethylene, natural gas, and energy. The S&P Price Pressure Index for August edged lower to 0.4 from 0.5, an 18-month low. Usamah Bhatti, Economist at S&P Global Market Intelligence, further commented:

> "Reports of price pressures ticked further below the long-run trend during August, with the respective index reaching the lowest since February 2024. Only four of the 26 monitored commodities reported above-average increases in prices, led by Semiconductors where reports were at their highest in four months. This was followed by higher prices for Electrical Items, Aluminium and Textiles. That said, price reductions were signalled for six commodities, mainly in the energy and chemicals segments, with falls signalled for Oil, Gas, Energy and Polyethylene. Meanwhile, supply shortages remained below the long-run trend midway through the third quarter, and were unchanged from July. Within the 20 monitored commodities, only three saw above-average reports of shortfalls, led by Transport and Aluminium."

Consumer Inflation. Although some segments of consumer inflation are stabilizing, others are not. According to the August 12 inflation index from the BLS, "headline" CPI-U inflation rate remained unchanged at 2.7, but up from 2.3 percent as recently as May. The CPI "core" sub-index, which excludes food and energy, edged up to 3.1 percent from 2.9 percent. The "Fed preferred" inflation index compiled by the Bureau of Economic Analysis (BEA), the August Personal Consumption Expenditures Index or PCE, remained unchanged at 2.6 percent. However, the core PCE sub-index which excludes food and energy, upticked to 2.9 percent from 2.8 percent. All of these rates are obviously some distance from the Fed's target rate of 2.0 percent, and clearly justifies the reluctance by the Federal Open Market Committee (FOMC) to lower interest rates. That said, the political pressure for a rate cut continues to grow at an unprecedented rate, so the FOMC may very likely cut rates by at least a quarter point at the end of the September 17 meeting.

The latest "Shelter" CPI component reported by the BLS continues to move in the right direction, albeit slower that we would like. After ticking down from 4.0 to 3.9 percent in June and to 3.8 in July, the August reading eased to 3.7 percent. Given that the cost of housing is about 40 percent of the aggregate CPI-U, known as the "headline" cost of living index, the downward trend in the Shelter CPI reflects a positive trend in the battle against inflation. For rental rates, the "Apartment List" website reported that rent prices nationally are down 0.9% compared to one year ago. Year-over-year rent growth has now fallen for four consecutive months and is now at its lowest level since December 2023. For homeowners, the latest Case-Shiller U.S. National Home Price NSA Index, released August 28, showed a 1.9 percent year-over-year increase in June, compared with 2.3 percent in May, 2.7 percent in April, and 3.4 percent in March. These figures indicate that housing price growth is continuing to moderate. Although all of this constitutes good news for the CPI, a perplexing view of this trend comes from Nicholas Godec of S&P Dow Jones Indices:

> "For the first time in years, home prices are failing to keep pace with broader inflation. From June 2024 to June 2025, the Consumer Price Index climbed 2.7%, substantially outpacing the 1.9% gain in national home prices. This reversal is historically significant: During the pandemic surge, home values were climbing at double-digit annual rates that far exceeded inflation, building substantial real wealth for homeowners. Now, American housing wealth has actually declined in inflation-adjusted terms over the past year—a notable erosion that reflects the market's new equilibrium."

GDP. Most forecasters had expected the economy to slow as the summer unfolded. So far, that has not happened. Last month, the BEA surprised most forecasters by posting the first estimate for GDP growth for the 2025 second quarter as 3.0 percent, about twice the expected rate. On August 28, the BEA posted a revised estimate for the second quarter at 3.3 percent. The stronger report is attributed to a decrease in imports, which are a subtraction in the calculation of GDP, and by a somewhat unexpected increase in consumer spending. As always, the forecasters are now looking ahead to the GDP for the current quarter, for which only a few days remain. As of September 4, the closely watched Atlanta Fed's GDPNow model is forecasting a Q3 growth rate of 3.0 percent, up sharply from last month's estimate of 2.1 percent. The current New York Fed Staff "Nowcast" for the third quarter of 2025 has edged up to 2.2 percent from 2.1 percent. The Blue Chip third quarter forecast based on a monthly survey of 50 economists has now convalesced to 1.0 percent from 0.8 percent in July. However, the Blue Chip forecast, which used to be one of the more reliable estimates, has grossly underestimated GDP for the past two years or so. As of August 8, Conference Board Q3 forecast, which has also consistently undershot the final numbers has dropped their forecast to a pessimistic 0.5 percent from last month's estimate of 1.4 percent.

Looking Forward. Several survey participants noted that the positive numbers we reported for the first half of 2025 may have been sales pulled forward to avoid tariffs or other supply disruptions. Other survey respondents had optimistically expected that most of the major trade quarrels would be resolved by now, but several major trade agreements have still not been finalized. Also, other respondents predicted that incoming tariffs for many or most of the agreements will involve tariff increases for the present levels. There still remains an aura of optimism that the tariff wars may soon be over and that the resulting agreements will be beneficial to the United States economy, even if imported goods are now marginally more expensive. So far, many tariff agreements are still just diplomatic handshakes and have yet to be codified and posted on the CPB website so that tariffs can be assessed and that business planners can accurately calculate costs.

Optimistically, the local, national, and international statistics remain cautiously confident that a recession is not lurking in the near future. As always, new trauma in the geopolitical environment, especially brought on by the still-unresolved Ukrainian war could quickly change the world's economic metric. If the current tariff disputes are resolved successfully, the economy could experience an upswing that may extend for several months. However, as a characteristic of the capitalistic system, we are never immune from recessions.

August 2025 Survey Statistics

	UP	SAME	DOWN	N/A	Aug. Index	July Index	June Index	25 Year Average
Sales (New Orders)	21%	42%	37%	0%	-16	- 4	+21	+14
Production (Gross Output)	19%	52%	23%	6%	- 4	+ 0	+28	+14
Employment	17%	62%	21%	0%	- 4	+13	+ 0	+ 8
Purchases	23%	48%	27%	2%	- 4	- 2	+15	+ 7
Prices Paid (major commodities)	40%	56%	4%	0%	+36	+27	+32	+15
Lead Times (from suppliers)	19%	73%	4%	4%	+15	+ 0	+ 4	+11
Purchased Materials Inv. (Raw materials & supplies)	25%	63%	2%	10%	+23	-14	+21	- 4
Finished Goods Inventory	15%	60%	19%	6%	- 4	+10	+ 0	- 2
Short Term Business Outlook (Next 3-6 months)	25%	46%	29%	0%	- 4	- 6	+24	-
Long Term Business Outlook (Next 3-5 years)	40%	50%	4%	2%	+36	+48	+41	-

Items in short supply:

Electronics/electrical components from China, metal shelving, sheet metals, foam, pecans, some grades of aluminum, steel, hemp, engineers, anything impacted by tariffs or requiring customs clearance, customer PO's.

Prices on the UP side:

Aluminum, nitric acid, phosphoric acid, labor, tariffs, aggregates, copper, chemicals, plastic resins, service work, product coming from overseas.

Prices on the DOWN side:

Caustic soda, hydrochloric acid, sulfuric acid, HCl, sulfuric acid, steel, plastic resins*, PA6, polypropylene, hydrochloric acid, PA6.

*Item reported as both up AND down in price.

Latest Unemployment Reports:

July data from Michigan DTMB, except as noted.
Except as noted, data are NOT seasonally adjusted.

	July 2025	July 2024	Aug. 2009*	25-Year Low
State of Michigan (July)	5.3%	4.8%	14.6%	3.2%
State of Michigan (Unadj.)	6.0%	5.7%	14.1%	2.9%
Kent County	5.5%	4.9%	11.9%	2.1%
Kalamazoo County	5.9%	5.1%	11.1%	2.1%
Calhoun County	7.4%	6.5%	12.8%	2.7%
Ottawa County	5.2%	4.6%	13.3%	1.8%
Barry County	5.9%	5.4%	10.9%	2.2%
Kalamazoo City	7.2%	6.3%	15.2%	3.2%
Portage City	5.2%	4.5%	8.7%	1.3%
Grand Rapids City	6.6%	5.9%	16.1%	3.0%
Kentwood City	6.4%	5.7%	10.7%	1.4%
Plainfield Twp.	5.4%	4.8%	8.0%	1.4%
U.S. Official Rate (Aug.)	4.3%	4.2%	9.6%	3.4%
U.S. Rate (Unadjusted)	4.6%	4.6%	9.6%	3.1%
U.S. U-6 Rate (Aug.)**	8.1%	7.8%	22.9%	6.7%

** August 2009 = low point of the Great Recession*

***U-6 for Michigan = 9.5% for the previous four quarters*

AUGUST COMMENTS FROM SURVEY PARTICIPANTS

"Orders are still sluggish. Most existing business is down some on the year but we've had success winning new customers."

"Prices across many of our commodities have stabilized this past month without any new tariff surprises. However, domestic demand is weak, and this may put some downward pressure on ferrous and non-ferrous materials heading into September."

"Business looks good, but there is still a lot of uncertainty."

"We're seeing some slowdown across all lines, although sales exceeded expectations for first two quarters of the year. It appears we will be giving those gains back in the last two quarters."

"Demand is up, but mostly because of required pricing announcements to counteract tariff constraints. Material input costs continue to rise in a climate of soft demand. Many customers are not connected with the reality that tariffs inflate pricing for everyone, regardless of whether you're purchasing an imported product or a domestically-produced one."

"Tariff impacts are starting to show. However, they are much less of an impact than originally planned."

"The West Michigan construction industry is working, but it feels like it is waiting on some more certainty before it fully releases. Maybe a rate cut will be the spur it needs."

"We believe we will see a downturn in sales over the next rest of Q3 & Q4 since our customers had bought ahead of the tariff."

"Business levels remain flat."

"Slow month. There's too much uncertainty for the larger projects to get approved. We continue to quote and wait. We will be doing another price increase soon as the latest tariffs will hurt."

"Tariffs are driving up costs and being passed along to customers."

"The forecasts from our customer are still coming in under expectations for all of 2025."

"Most tariffs do not kick in until after the midterms. We will continue to see shoppers slowing from spending."

"China tariff decisions are delayed another 90 days. Business is stable."

"We continue to navigate the ever-changing landscape of tariffs! Luckily, the automotive OEM's are allowing us to submit claims for tariff relief. We are allowing the same for our suppliers."

"Horrible business environment due to tariff costs and chaos."

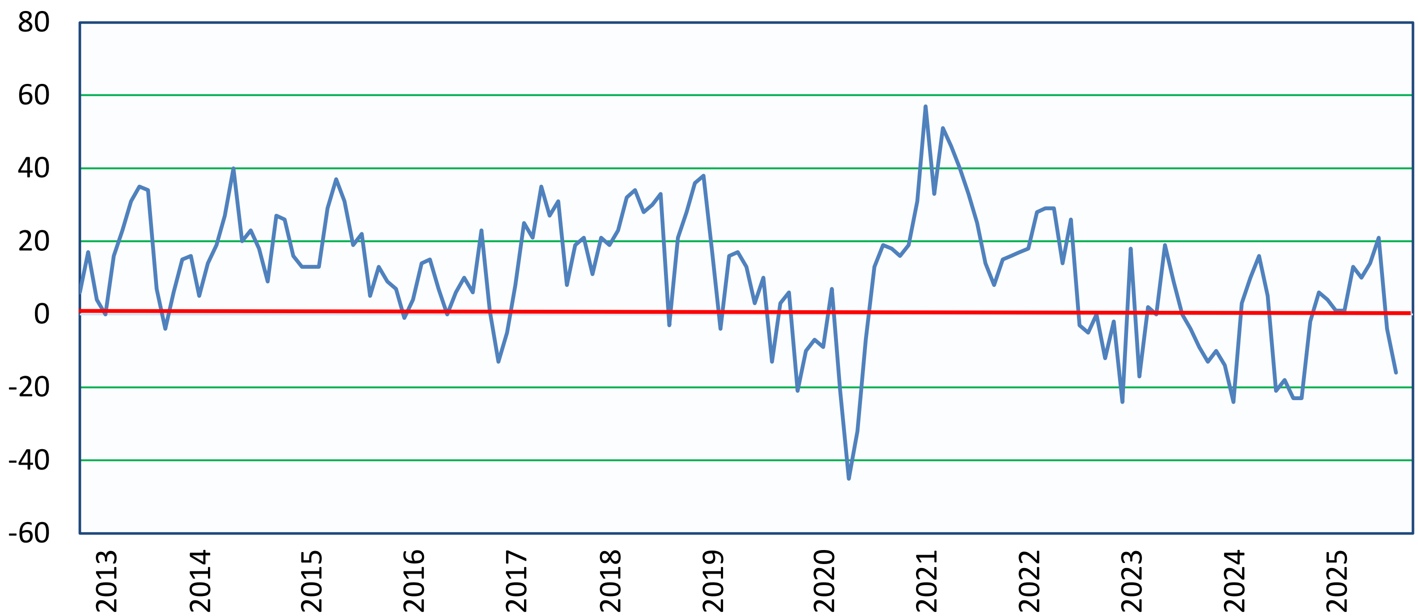
"Kentucky has a new hemp processing plant being built. Hemp wood flooring, hemp textiles, hempcrete and much more are in more demand than we have material for."

"We are experiencing a shortage in pecans. A major supplier went out of business and has greatly affected the supply chain."

"We are still struggling with some electronics and electrical components from China."

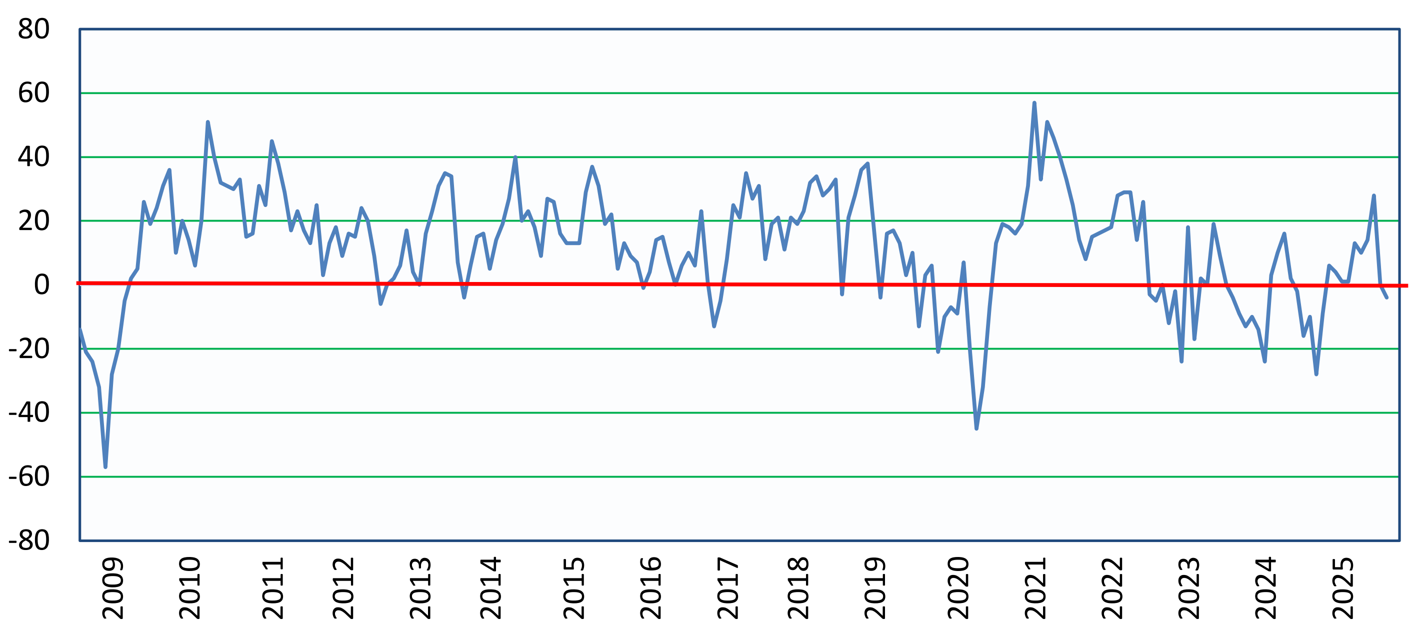
West Michigan Index of New Orders: 2013-2025

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.



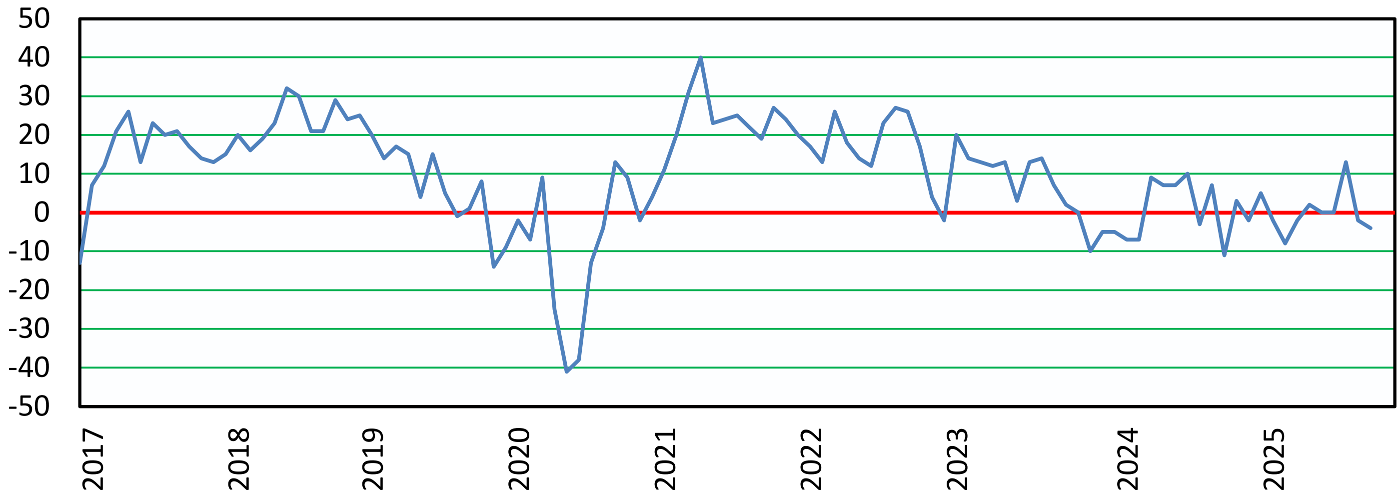
West Michigan Index of Production (Output): 2008-2025

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: 2017-2025

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: 2013-2025

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.