

West Michigan Current Business Trends

January 7, 2026

Economy Continues to Soften, But Still Stable

Key Take-Aways from December 2025 Statistics:

- NEW ORDERS Index remained negative but slightly improve.**
- Performance by some local auto parts producers and office furniture firms holding our economy back.**
- National and world economies, on the average, still flat.”**

	Dec.	Nov.
NEW ORDERS Index (business improvement)	-11	-20
PRODUCTION Index (aka “output”)	-17	-23
EMPLOYMENT Index	-9	-22
LEAD TIMES Index	+6	+4

The Local Economy. According to the data collected in the last two weeks of December, the economic softness we reported for November has carried over for another month. NEW ORDERS, our index of business improvement, remained negative but moderated to -11 from -20. The November PRODUCTION Index, called “Output” by some economists, also came in negative but upticked to -17 from -23. Between tariff problems and rising pessimism, activity in the purchasing offices has been restrained for many months. However, our December index of PURCHASES modestly recovered to -22 from last month’s three-year low of -33. January is generally a back-to-work month. Unless major purchasing decisions are year-end tax-related, they are often put off during the holiday season until everyone is back in the office. Our next report may therefore give us a clearer picture of where the West Michigan economy is going for the rest of 2026. However, the current economic environment is still full of multiple layers of uncertainty. Because of a weaker business climate in Michigan, new expansion has stopped and the rate of unemployment claims in Michigan has outpaced the rest of the nation. Two key West Michigan cyclical industries, automotive and the office furniture,

Key Participant Comments for December

“Sales levels have been decent for the end the calendar year.”

“Sales are soft for the end of the year and into the first quarter of 2026.”

“I believe we will see a crash in 2026.”

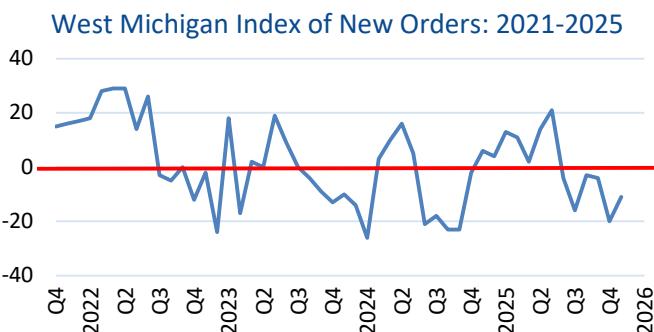
“The first half of 2026 looks slow, but the second half looks stronger.”

“Sales are “okay” and holding steady. Tariffs have had an impact on our business, but we are navigating through them the best we can.”

have weakened. Although some tariff agreements have been reached, even the President apparently assumed that most of the trade war problems would be resolved by now. They have not. The China agreement still remains elusive, resulting in significant uncertainty for many industries, including automotive. For Michigan, a new Canadian tariff agreement would be very helpful, but talks appear stalled. Because of the timing brought on by the Michigan constitution, 2026 is an important election year, especially because of the major “term limit” turnover in our state government. November election outcomes could be good or bad for our economic future.

The U.S. Economy. The “Report on Businesses,” a survey of purchasing professionals conducted by the Institute for Supply Management (ISM), has now been published monthly since 1932. For December, ISM’s composite index edged marginally lower for the tenth successive month to close at 47.9, down from 48.2, and still below the important break-even point of 50.0. Unfortunately, because of an ISM computer glitch, the remainder of the report was not available for this report.

The competing monthly composite index of U.S. purchasing managers conducted by S&P Global, the British-based economic consulting firm, remained positive for December at 51.8. Unfortunately, NEW ORDERS turned negative for the first time in 12 months. S&P’s OUTPUT index remained marginally positive, but the survey author cautioned that the additional production may be causing the FINISHED GOODS INVENTORY Index to rise in anticipation of sales that may not materialize. In anticipation of higher prices, some firms have elected to purchase more production materials to beat what they think may be even higher prices if the tariff wars do not end soon. Despite these caution flags, the S&P December survey respondents remained fairly optimistic about the outlook for 2026. Chris Williamson, Chief Business Economist at S&P, further noted:



"Although manufacturers continued to ramp up production in December, suggesting the goods producing sector will have contributed to further robust economic growth in the fourth quarter, prospects for the start of 2026 are looking less rosy. Something of a Wiley E Coyote scenario has developed, whereby – just like the cartoon character continues to run despite chasing the roadrunner off a cliff – factories are continuing to produce goods despite suffering a drop in orders. The gap between growth of production and the drop in orders is in fact the widest seen since the height of the global financial crisis back in 2008-9. Unless demand improves, current factory production levels are clearly unsustainable. Payroll numbers will also be adversely impacted if production capacity has to be scaled back. A key factor causing concern over sales is the extent to which producers are having to pass higher costs on to customers in the form of raised prices, with higher costs continuing to be overwhelmingly blamed on tariffs. Some encouragement comes from input cost inflation moderating in December to the lowest recorded since last January. However, while this cost trend suggests the tariff impact on inflation peaked back in the summer, costs are still rising month-on-month at an elevated rate to suggest that US firms continue to face higher cost growth than competitors in most other major economies."

The World Economy. The Global Manufacturing PMI compiled monthly by J.P. Morgan encompasses 40 countries and accounts for 98% of global manufacturing activity. For December, the world composite PMI posted at 50.4, slightly below November's 50.5, but still marginally above the all-important 50.0 break-even point. Of all the industrialized nations, the strongest December report again came from India, although some of the newfound success appears to be coming from businesses migrating from China. The positive PMIs from Indonesia and Vietnam can also be attributed to production being imported from China, as well as some transshipment activity to avoid tariffs and sanctions. Positive December PMIs were also posted by Thailand, Ireland, Australia, and Greece. The weakest PMIs came from Turkey, Brazil, Russia, Germany, and the Philippines. For our major U.S. trading partners, the December PMI for Mexico fell sharply to 46.1 from 47.3. The PMI for Canada remained soft at 48.4, marginally changed from November's 48.6. China, our third largest trading partner, saw the December PMI return to growth but barely crossing the 50.0 threshold to close at 50.1, up from 49.9. Maia Crook, Global Economist at JPM, further commented:

"The J.P. Morgan global manufacturing output PMI moved down 0.3-point to 50.9 in December, a level consistent with modest but still positive production growth. Two consecutive monthly declines in the output and new orders indexes suggest a loss of momentum into year-end, though encouragingly the future output PMI signals an improvement in business confidence in the fourth quarter. A 1.6-point jump in the investment goods PMI was also encouraging, suggesting a pickup in business equipment spending last month after stalling in November."

The PMI for the eurozone, a statistical federation of the PMIs for the 20 countries of the European Union using the euro, is compiled each month by the Hamburg Commercial Bank. As recently as October, we reported that the eurozone PMI had returned above the break-even point of 50.0. However, the November eurozone PMI came in slightly negative at 49.6, and the December PMI slid further to 48.6. It was good to see the French PMI return to positive at 50.7, but analysts remain pessimistic about the French economy. Positive PMIs were also reported by Greece, Ireland, and the Netherlands. But the PMI for Germany, by far the largest economy in the zone, fell to a 10-month low of 47.0. Negative PMIs were also posted by Italy, Spain, and Austria. Dr. Cyrus de la Rubia, Chief Economist at HCB, further noted:

"Demand for manufactured products from the eurozone is slowing down again. Significantly fewer orders, declining order backlog, and continued inventory reduction are the most obvious indicators of this. It is not surprising that companies are continuing to cut staff in this environment. Companies seem neither able nor willing to build momentum for the coming year, but are instead exercising caution, which is poison for the economy. The manufacturing sector has been in recession almost continuously since mid-2022. 2025 was shaping up to be the year when the economy in this sector could turn around. In fact, the downturn did ease considerably, but it did not manage

to shift to a sustainable growth trajectory. For 2026, however, there is hope that Germany's economic stimulus program and rising defence spending across Europe will breathe new life into the industry. Many companies obviously see it this way too, as confidence that production will be higher in a year's time than it is today has risen again from an already high level. Input prices have risen for the second month in a row. This cannot be due to energy prices, as oil and natural gas prices fell in December. However, industrial metals such as copper and tin saw a sharp rise after already increasing in price at double-digit rates over the course of the year. Nevertheless, it is surprising that, despite the weak economic situation, companies are apparently unable to enforce lower prices for goods with prices that are less dependent on the global market."

Automotive. According to the January 6 edition of Automotive News, sales of cars and light trucks fell in the fourth quarter of 2025 by 3.6 percent. Although 2025 auto sales ended the year on a weaker note, total sales for all of 2025 rose 2.5 percent, marginally stronger than forecast. It was widely noted that the \$7,500 EV tax credit expired on September 30, resulting in an obvious EV sales rush. The subsequent but equally obvious decline in EV sales caused automakers like Ford to significantly reduce EV production. However, sales for hybrids, which combined significantly better gas mileage with the long-range flexibility of straight gasoline models, rose sharply. In fact, nearly half of Toyota's total sales were either hybrids or EVs. Of the major auto producers, sales winners for the fourth quarter were limited to Toyota, up 8.1 percent, Stellantis (Jeep), gaining 3.4 percent, and Hyundai-Kia, eking out a 0.3 percent gain. Major sales losers were led by VW, down 25.7 percent, followed by Honda, losing 9.5 percent, Subaru, down 7.8 percent, GM, dropping 6.8 percent, Nissan/Mitsubishi, slipping by 5.6 percent, and tariff-challenged BMW falling 4.6 percent. Commenting on the overall sales for 2025, Edmunds Automotive analyst Jessica Caldwell opined:

"In 2025, affordability emerged as the auto industry's biggest barrier to growth, creating a K-shaped divide between shoppers who can absorb today's prices and those who can't. Higher-income buyers who remain in the new-car market are still choosing larger, higher-priced vehicles and aren't trading down or making cost-driven compromises. In contrast, many price-sensitive shoppers have been pushed out of the new-vehicle market entirely as elevated monthly payments put ownership out of reach."

Consumer Confidence. According to the December 23 report from The Conference Board, the widely-reported Consumer Confidence Index declined by 3.8 points in December to 89.1 (1985=100), almost two points lower than the forecast of 91.0. Concerns about the economy appear to be fairly broad-based. Commenting on the latest survey report, Dana Peterson, Chief Economist at The Conference Board noted, "Consumers' write-in responses on factors affecting the economy continued to be led by references to prices and inflation, tariffs and trade, and politics. However, December saw increases in mentions of immigration, war, and topics related to personal finances—including interest rates, taxes and income, banks and insurance."

By contrast, the University of Michigan Consumer Sentiment Index for December edged higher to 52.9 from 51.0. Although both surveys are near 5-year lows, they appear to have little or no impact on the financial markets. In fact, it is the more well-to-do stock market participants that are most optimistic. These higher income people celebrated by spending enough money to push the most recent GDP report to a significantly higher level than expected. However, the middle to lower income people with higher credit card balances and no stock portfolio are dragging consumer confidence lower.

Business Confidence. Despite the ongoing trade wars and rising prices, business confidence has still not collapsed. Our SHORT-TERM BUSINESS OUTLOOK Index, which asks West Michigan firms about their business perceptions for the next three to six months, moderated in December to -9, up from -13. However, the LONG-TERM BUSINESS OUTLOOK Index, which queries the perceptions for the next three to five years, edged lower to +26 from +33. For small U.S. businesses, the December 9 report from the National Federation of Independent Business (NFIB) Small Business Optimism Index rose 0.8 points to 99.0, still marginally above the 52-year average of 98. For the 10 index components, six posted increases, three decreased, and one was unchanged. In addition, Bill Dunkelberg, NFIB's Chief Economist, noted, "Although

optimism increased, small business owners are still frustrated by the lack of qualified workers, but despite this, more firms still plan to create new jobs in the near future."

West Michigan Unemployment. By December 16, the Michigan Department of Technology, Management, and Budget (DTMB) had recovered some of the missing data resulting from the government shut-down and was able to report that the state's unemployment rate improved slightly to 5.1 percent from August's 5.2 percent. Although the unemployment rates for West Michigan counties have increased significantly over the past 18 months, some counties posted modest improvements in the December 16 report. For Kent County, the year-over-year unemployment rate edged down to 3.9 percent from 4.0 percent. The rate for Barry County fell to 4.2 percent from 4.3 percent. The Calhoun County unemployment eased to 5.1 percent from 5.2 percent, and the unemployment rates for Kalamazoo County and Ottawa County remained unchanged.

Industrial Inflation. Despite the ongoing tariff wars, and even though numerous aggregate measures of industrial pricing are continuing to moderate, some tariffs on some commodities purchased by some West Michigan firms are rising in price. For our December survey, the index of PRICES edged higher to +15 from +8. Some of the "big ticket" commodities that were reported increasing in price included aluminum, copper, zinc, steel, and cement. For obvious reasons, prices for anything coming from China or Mexico that got snared in the tariff wars have become a problem. Contrary to expectations, the December Worldwide S&P Price Pressure Index compilation of 26 "big ticket" industrial commodities fell to 0.4 from 0.5, well below the long-run average of 1.0. However, semiconductors, aluminum, and copper were commodities noticeably rising in price in the world marketplace. Like most statistical averages, lower prices in other components pulled the index lower. In contrast, offsetting bad news came from S&P's monthly Global Supply Shortage Index, which upticked to 0.6 from 0.5. Copper, stainless steel, and transportation were cited as commodities reporting modest supply constraints which, if continued, would normally lead to higher prices. David Owen, Senior economist at S&P Global Market Intelligence, commented:

"Firms have endured sharp increases in semiconductor prices in 2025, and the latest data signals that this is unlikely to fade as we enter the new year. Excluding the post-pandemic spike, December's price pressures level was the second-highest since data began in 2005. Although supply shortages were shown to be limited, high global demand seems to be piling the pressure on an increasingly AI-driven market. Aside from this, the commodity market appears relatively sanguine. Manufacturers faced higher cost burdens when purchasing key metals such as copper and aluminium, two items that have undergone strong markups over 2025, but this has been largely offset by more subdued conditions for energy, wood, and chemicals-based commodities. Oil prices decreased amid ongoing expectations of a production surplus in 2026, a factor that could help to ease tailwinds in other markets."

Consumer Inflation. Because of the government shutdown, some data are not retroactively collectable. However, on December 18, the Bureau of Labor Statistics posted a press release combining the October and November reports into one number to bridge the gap. As of November, the CPI-U inflation rate now stands at 2.7, down considerably from September's reading of 3.0. The CPI "core" sub-index, which excludes food and energy, also posted a significant drop to 2.6, down from 3.0. However, the most important statistic buried in the press release was the sub-index of "Shelter," which dropped to 3.0 from 3.6. It is again worth repeating that the cost of owning, renting, and maintaining a home is about 40 percent of the CPI. It should also be noted that tariffs, at least in the short term, have very little impact on the shelter sub-index.

Looking at industry data, this drop is not a total surprise. According to the "Apartment List" website, the national median rent fell 1.0% in November. This was the fourth consecutive

month-over-month decline, and the national median rent has now fallen 5.2 percent from its August 2022 peak. For those owning homes, the latest October Case-Shiller National Home Price NSA Index released on December 30 saw U.S. home price increases falling well below the rate of inflation. According to Nicholas Godec from Dow Jones Indices:

"October's data show the housing market settling into a much slower gear, with the National Composite Index up only about 1.4% year over year – among the weakest performances since mid-2023. This figure is essentially unchanged from September's 1.3% annual gain and represents less than a third of the 5.1% average home price increase recorded in 2024. National home prices also continue to lag consumer inflation, as October's CPI is estimated around 3.1%. For context, this is the weakest annual home price growth since the March through July 2023 period, when the market was absorbing the initial shock of the Fed's rapid rate hikes. But today's headwinds appear more entrenched. Elevated mortgage rates, paired with inflation that continues to outpace home price gains, have intensified affordability pressures, potentially setting a new equilibrium of minimal price appreciation or, in some markets, outright declines."

GDP. After the delays caused by the government shutdown, the Bureau of Economic Analysis (BEA) finally reported that third quarter GDP unexpectedly grew at a rate of 4.3 percent, considerably higher than even the Atlanta Fed's GDPNow forecast of 3.5 percent. Although some of the success of the third quarter can be attributed to upturns in exports, most of the gain has been credited to increased consumer spending. The bad news is that most of that spending spurt can be ascribed to the upper income consumers. Hence, the complaint that we are now hearing is that the strength of the current economy is not being felt by middle and lower income consumers. As a result, many forecasters believe that the fourth quarter of 2025 will not be nearly as strong. The Q4 2025 prediction from the Atlanta Fed's GDPNow forecasting model, which has recently been fairly accurate, stands at 2.7 percent as of January 5, 2026. By contrast, the New York Fed's Nowcast model predicts a more modest Q4 growth rate of 2.1 percent, with a 50 percent probability that 2025's final quarter will post somewhere between 1.01 and 3.24. The latest Blue Chip forecast expects Q4 growth of only 0.8 percent. The (presumably) non-partisan Congressional Budget Office (CBO) recently projected a Q4 growth of 1.9 percent. It is noteworthy that all of the different forecasts call for growth, not a recession.

Looking Forward. Needless to say, "confused" may be the best way to describe the 2026 outlook for West Michigan. In addition, our data from multiple sources are continuing to soften, and we are hoping that this trend will not persist. Every day, there tend to be announcements that can change the paradigm for the business environment. For instance, deposing Nicolás Maduro has already impacted the price of oil, and the price of oil has a very broad impact on the price of nearly everything in the industrial market. Despite the overall office furniture market's 4 percent average annual projection for growth over the next ten years, our local firms do not appear to be positioned to take advantage of a significant part of this growth. For our automotive parts producers, opinions on 2026 are split. Some analysts believe that auto parts producers shortchanged by the tepid sales of the fully electric EVs will be able to pick up new business in 2026 to make up for the 2025 shortfall. Similarly, "reshoring" by many automotive firms may offer new opportunities for at least some Michigan firms. On the pessimistic side, sales rates for all cars and light trucks are expected to soften. Higher interest rates and new car loan payments now averaging \$748 per month will continue to limit the number of buyers who can even afford a new car, and average used car payments of \$548 per month aren't all that much better. Last but not least, we always face the uncertainty of the geopolitical environment. A new war somewhere in the world could break out shaking our confidence and inhibiting our supply chains. Vice versa, the positive resolution of our present ongoing wars could call for the reallocation of resources.

December 2025 Survey Statistics

	UP	SAME	DOWN	N/A	Dec. Index	Nov. Index	Oct. Index	25 Year Average
Sales (New Orders)	24%	41%	35%	0%	-11	-20	-4	+14
Production (Gross Output)	13%	50%	30%	7%	-17	-23	+4	+14
Employment	13%	65%	22%	0%	-9	-22	+2	+8
Purchases	11%	50%	35%	4%	-22	-33	-16	+7
Prices Paid (major commodities)	22%	71%	7%	0%	+15	+8	+12	+15
Lead Times (from suppliers)	13%	78%	7%	2%	+6	+4	-4	+11
Purchased Materials Inv. (Raw materials & supplies)	13%	54%	20%	13%	-7	-6	+10	-4
Finished Goods Inventory	17%	50%	24%	11%	-7	+2	+0	-2
Short Term Business Outlook (Next 3-6 months)	15%	61%	24%	0%	-9	-13	+7	-
Long Term Business Outlook (Next 3-5 years)	41%	42%	15%	2%	+26	+33	+31	-

Items in short supply:

Shipments from China, electronics from Mexico, some aluminum items, maintenance items with no domestic source, good truck drivers, qualified engineers, machine builders.

Prices on the UP side:

Aluminum, ground calcium carbonates, polymers, copper, zinc, steel, natural gas, cement, fabric, hemp, electricity, freight rates, anything with a tariff.

Prices on the DOWN side:

Polypropylene, PA6 plastic, ABS plastic, freight*, polyol oil, soybean oil, fuel, steel.

*Item reported as both up AND down in price.

Latest Unemployment Reports:

Because of the government shutdown, the data from Michigan DTMB have not been updated, except as noted.

The data are NOT seasonally adjusted.

	Sept. 2025	Sept. 2024	Aug. 2009*	25-Year Low
State of Michigan (Sept.)	5.1%	5.1%	14.6%	3.2%
State of Michigan (Unadj.)	4.6%	4.6%	14.1%	2.9%
Kent County	3.9%	4.0%	11.9%	2.1%
Kalamazoo County	4.2%	4.2%	11.1%	2.1%
Calhoun County	5.1%	5.2%	12.8%	2.7%
Ottawa County	3.7%	3.7%	13.3%	1.8%
Barry County	4.2%	4.3%	10.9%	2.2%
Kalamazoo City	5.2%	5.1%	15.2%	3.2%
Portage City	3.7%	3.7%	8.7%	1.3%
Grand Rapids City	4.7%	4.4%	16.1%	3.0%
Kentwood City	4.6%	4.6%	10.7%	1.4%
Plainfield Twp.	3.8%	3.9%	8.0%	1.4%
U.S. Official Rate (Sept.)	4.4%	4.1%	9.6%	3.4%
U.S. Rate (Unadjusted)	4.3%	3.9%	9.6%	3.1%
U.S. U-6 Rate (Nov.)**	8.7%	8.4%	22.9%	6.7%

* August 2009 = low point of the Great Recession

**U-6 for Michigan = 9.3% for the previous four quarters

DECEMBER COMMENTS FROM SURVEY PARTICIPANTS

“I have not seen anything down in price except gasoline. Don't blink though. Prices on gas are fluctuating up and down by over a dollar per gallon daily.”

“Sales levels have been decent for the end the calendar year.”

“Order activity surprisingly ticked up in December.”

“Order volume has picked up but pricing pressure has compressed margins.”

“Sales are soft for the end of the year and into the first quarter of 2026.”

“Business levels remain very flat, and the first quarter of 2026 looks the same with low sales volume.”

“We continue to see steady demand.”

“I believe we will see a crash in 2026.”

“Business is steady. We are still not seeing the project demand, but MRO business is strong.”

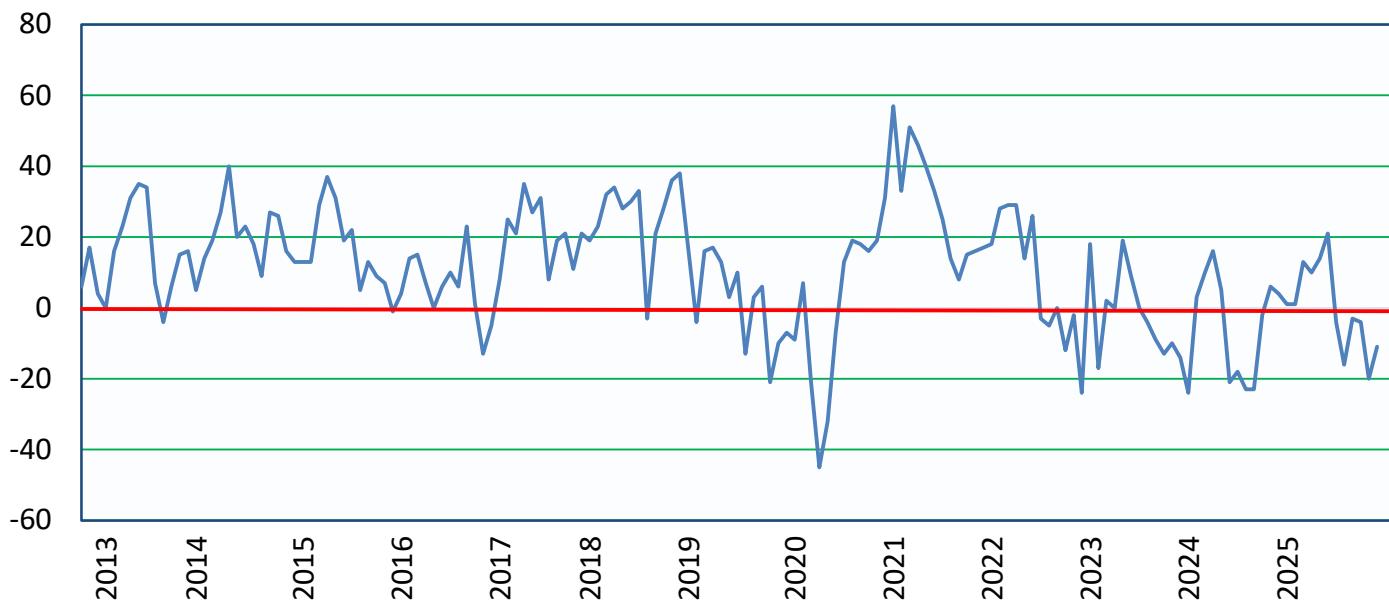
“The first half of 2026 looks slow, but the second half looks stronger.”

“We are still having trouble finding good quality candidates to fill open positions.”

“Sales are "okay" and holding steady. Tariffs have had an impact on our business, but we are navigating through them the best we can.”

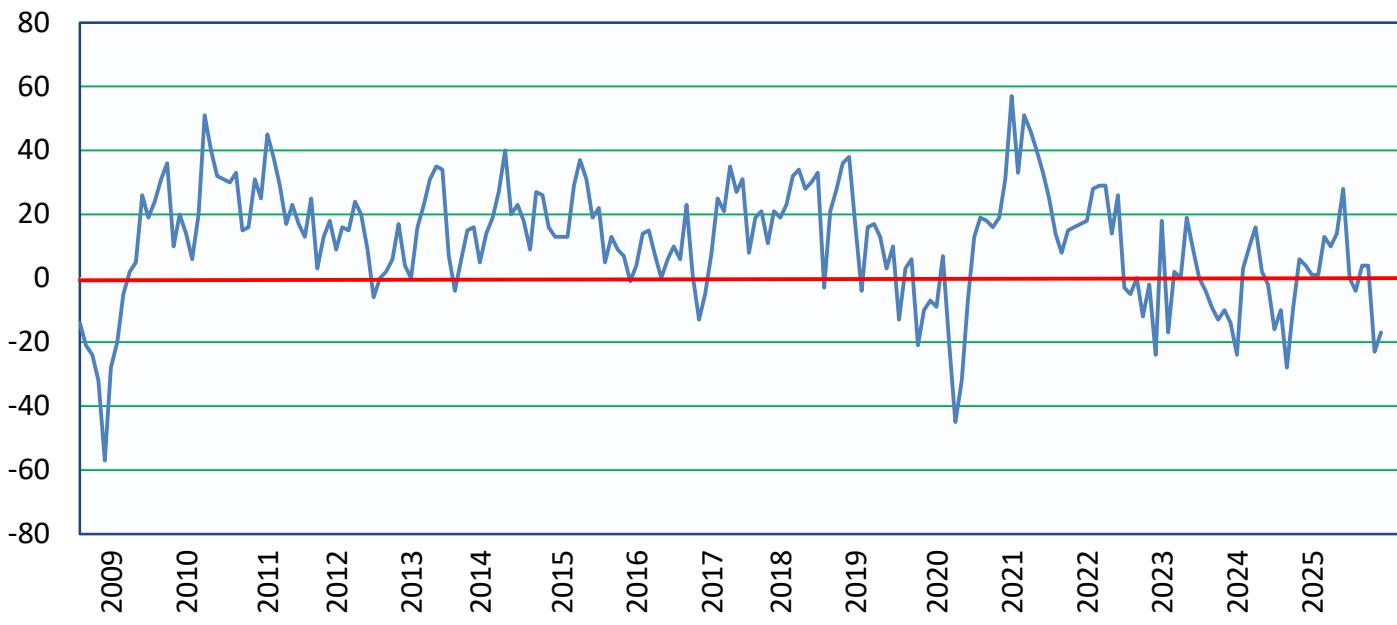
West Michigan Index of New Orders: 2013-2025

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.



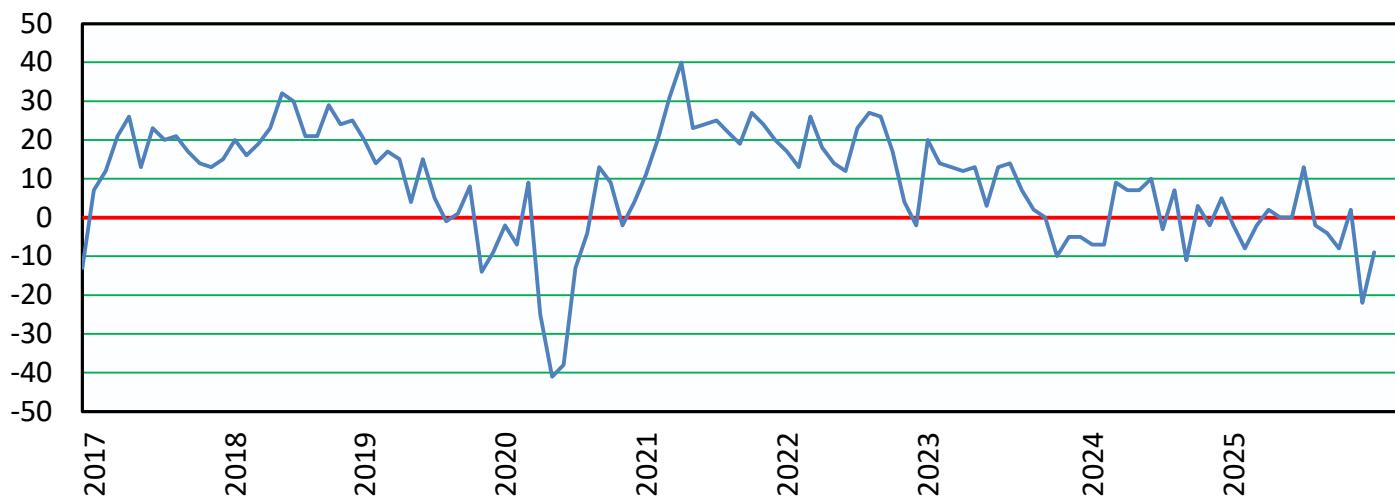
West Michigan Index of Production (Output): 2008-2025

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.

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

