

The Latest Economic Outlook (Until It Changes Next Hour)

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Presentation: Signal vs. Noise

- There are three themes that are meant to be highlighted in the deck that hopefully come through
 - Uncertainty: We always talk about it, but this time is different. Not just with how often it's mentioned, but the manner in that it's mentioned.
 - Mixed signals: Based off the sector you operate in or within a data series itself, there are many inconsistencies that have made it more difficult to interpret what's going on.
 - Pull-ahead: One consistency is the pull-ahead we've seen in production of and consumer demand for some big-ticket items.
- Lastly, the pace of growth of Michigan's economy ended 2024 on the same strong note as the U.S. However, Michigan's labor market has softened much more relative to the other 7th District states and the U.S. as a whole, causing concern.

The Only Event for Equipment Dealers and Finance Providers

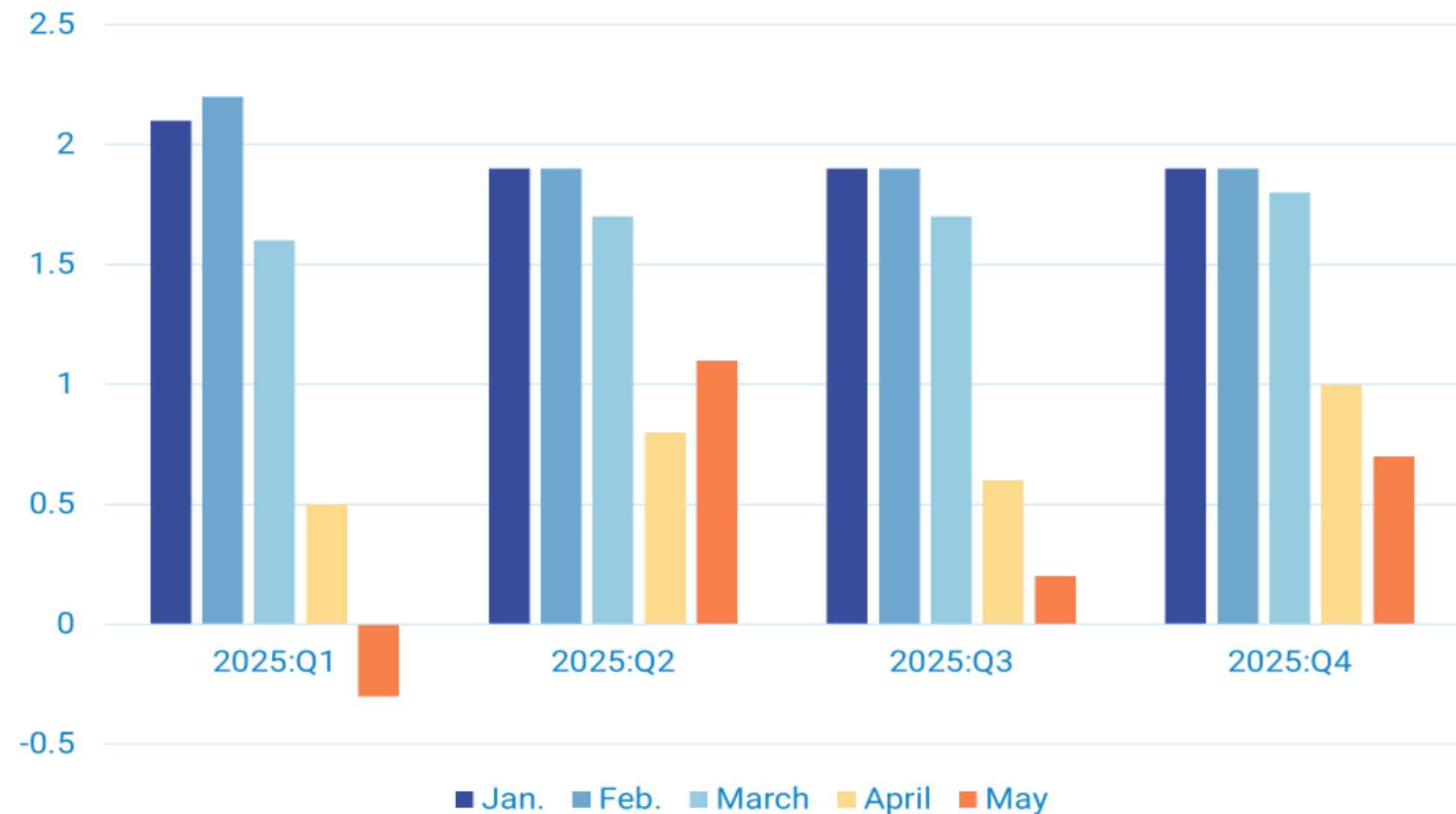
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Current Business Cycle

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U.S. Real GDP Projections: Blue Chip Consensus

- 1st quarter Real GDP growth was negative because of the surge in imports to get ahead of tariffs
- This should balance out somewhat in the 2nd quarter
- As 2025 has progressed, the Blue Chip consensus forecast (and Fed SEP) for 2025 real GDP growth has become more pessimistic.

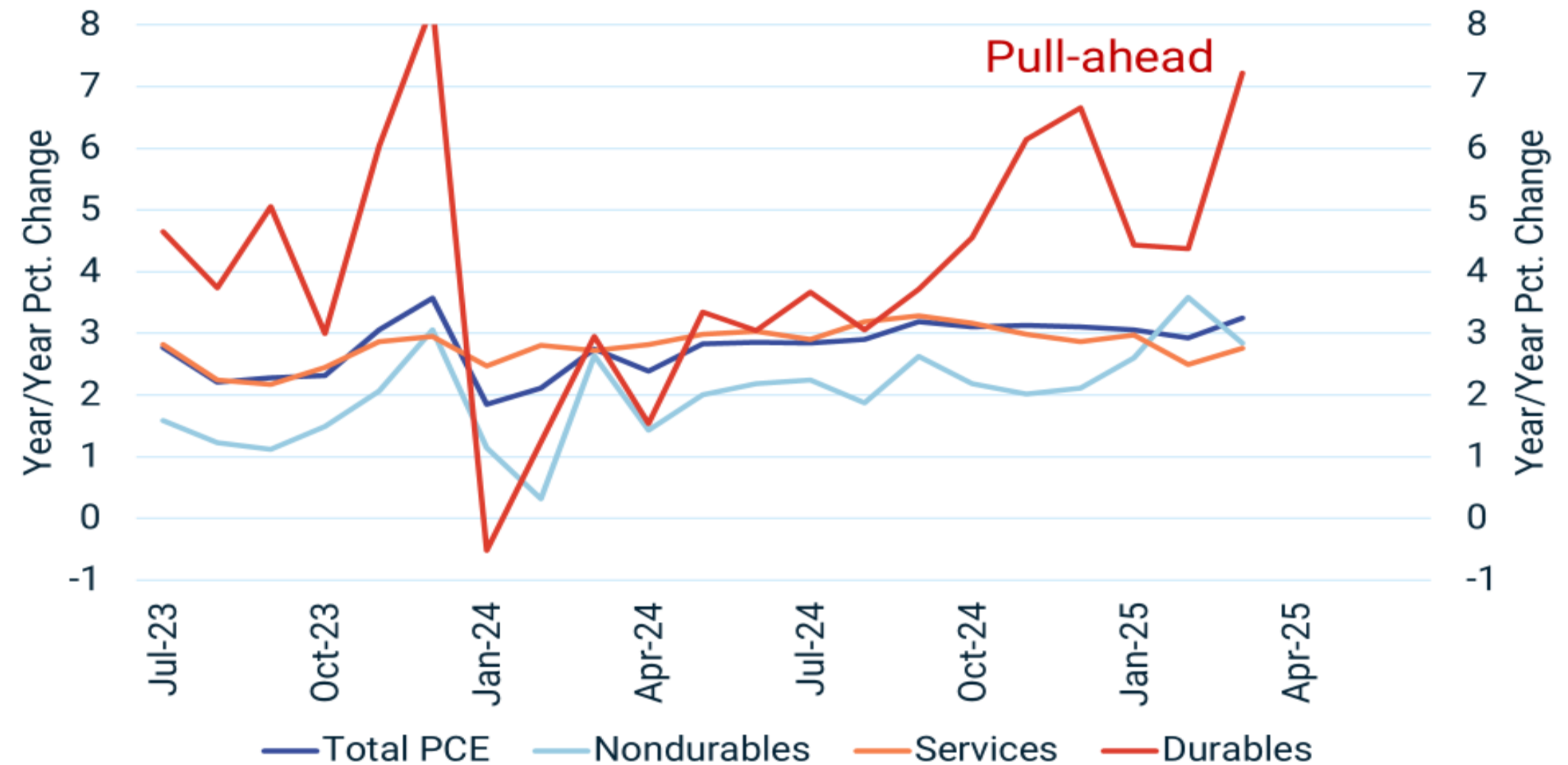


Source: Author's calculations using data from the Blue Chip Economic Forecast and Haver Analytics.

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U.S. Real Consumer Spending

- Consumer spending growth picked up in March and the first part of April.
- Pull-ahead demand for durable goods and apparel was significant.

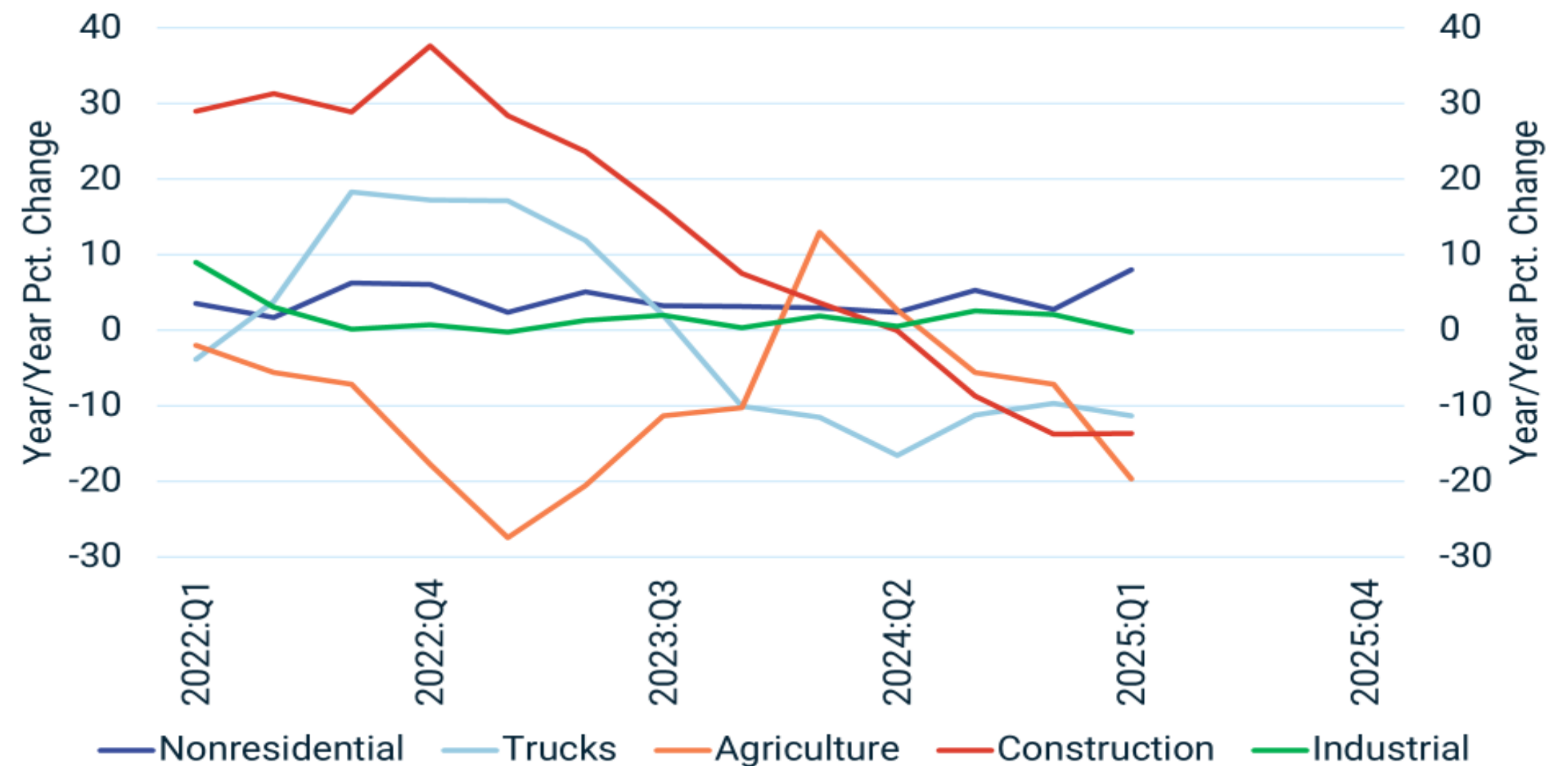


Source: Author's calculations using data from U.S. Bureau of Economic Analysis

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U.S. Real Equipment Investment

- Heavy equipment-based industries were already experiencing softness before the current period.

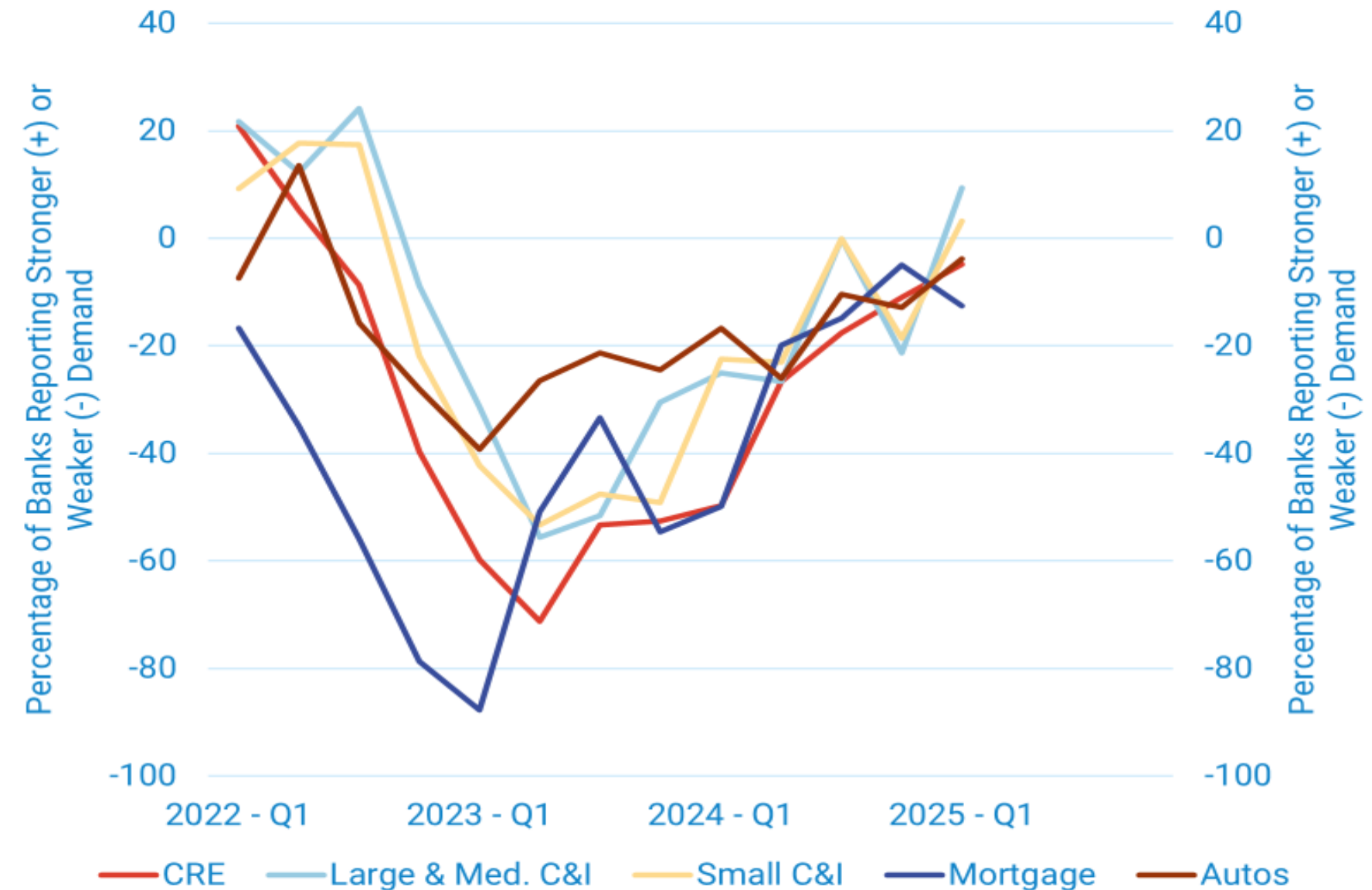


Source: Author's calculations using data from U.S. Bureau of Economic Analysis

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Senior Loan Officer Survey

- Loan demand seems to be bottoming out
- Was the strength in the most recent quarter a one-time thing?



Source: Federal Reserve Board/Haver Analytics

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Financial Sentiment: S&P 500 vs. Interest Rate Risk Spread

- S&P 500 moves lower = negative signal
- Risk spread moving lower = positive signal
- In recent weeks, the signals these variables are giving off are similar

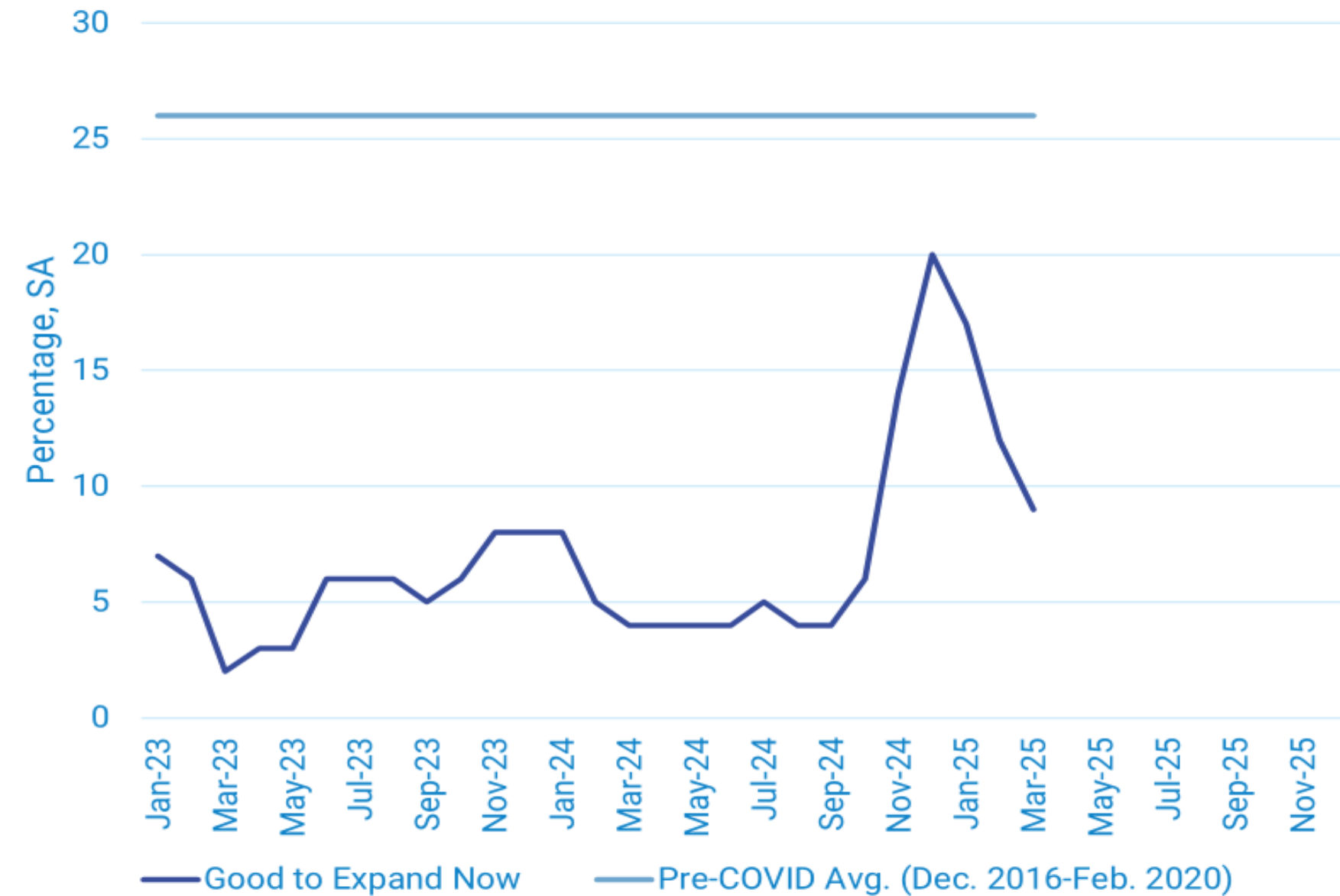


Sources: Author's calculations using data from the Federal Reserve Board, Freddie Mac, and S&P Dow Jones Indices LLC via FRED

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NFIB Small Business Survey Question: Is Now A Good Time to Expand?

- After the 2024 election, it seemed that more positive sentiment around expansion was returning, but it has retreated each of the last 3 months.



Source: National Federation of Independent Business/Haver Analytics

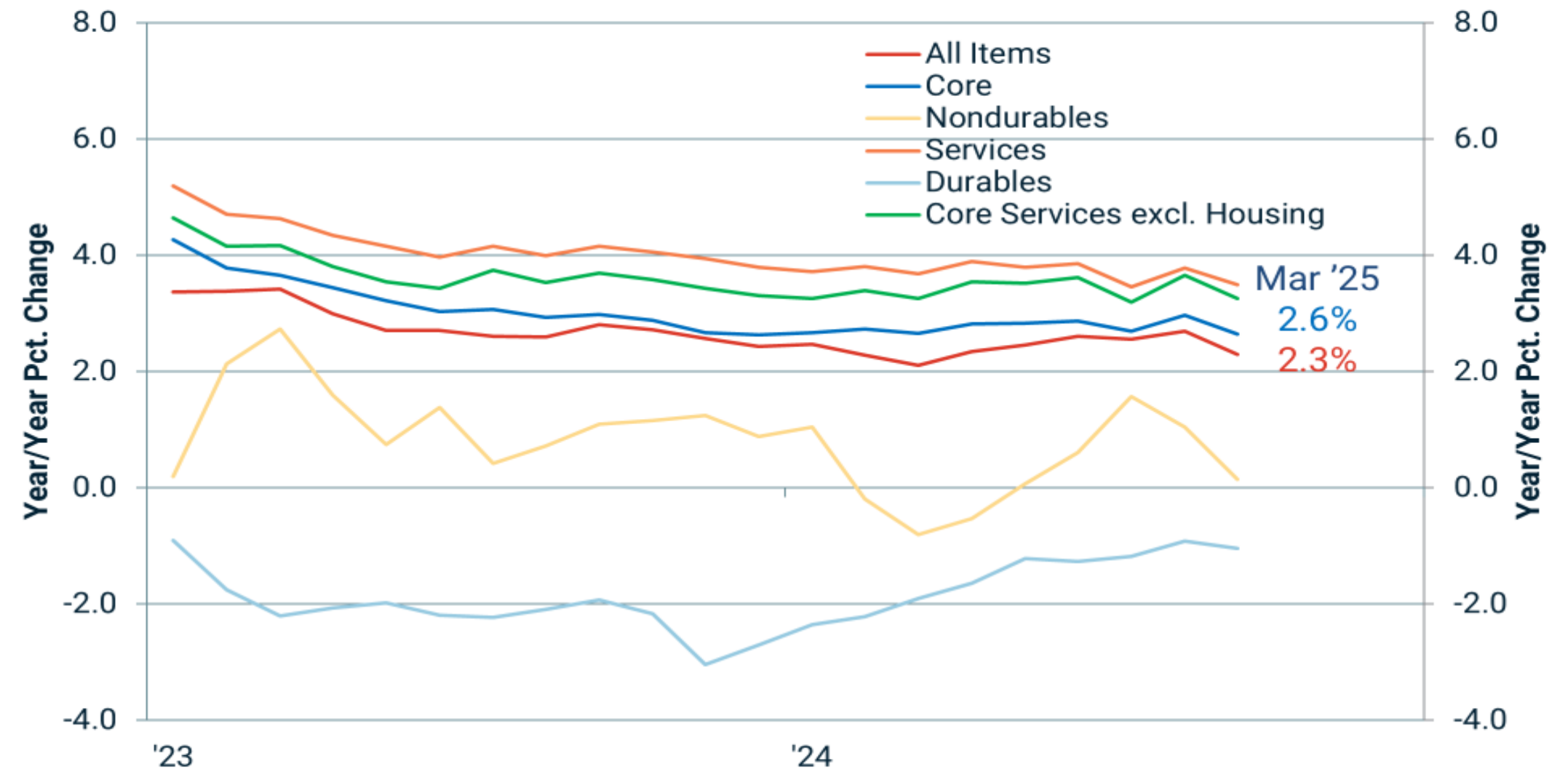
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Inflation

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PCE Inflation

- Year-over-year, inflation readings eased in March.
- Nondurable goods experienced the greatest softening thanks to lower gas prices.
- However, year-to-date inflation readings are slightly higher with the greatest pressure in services.

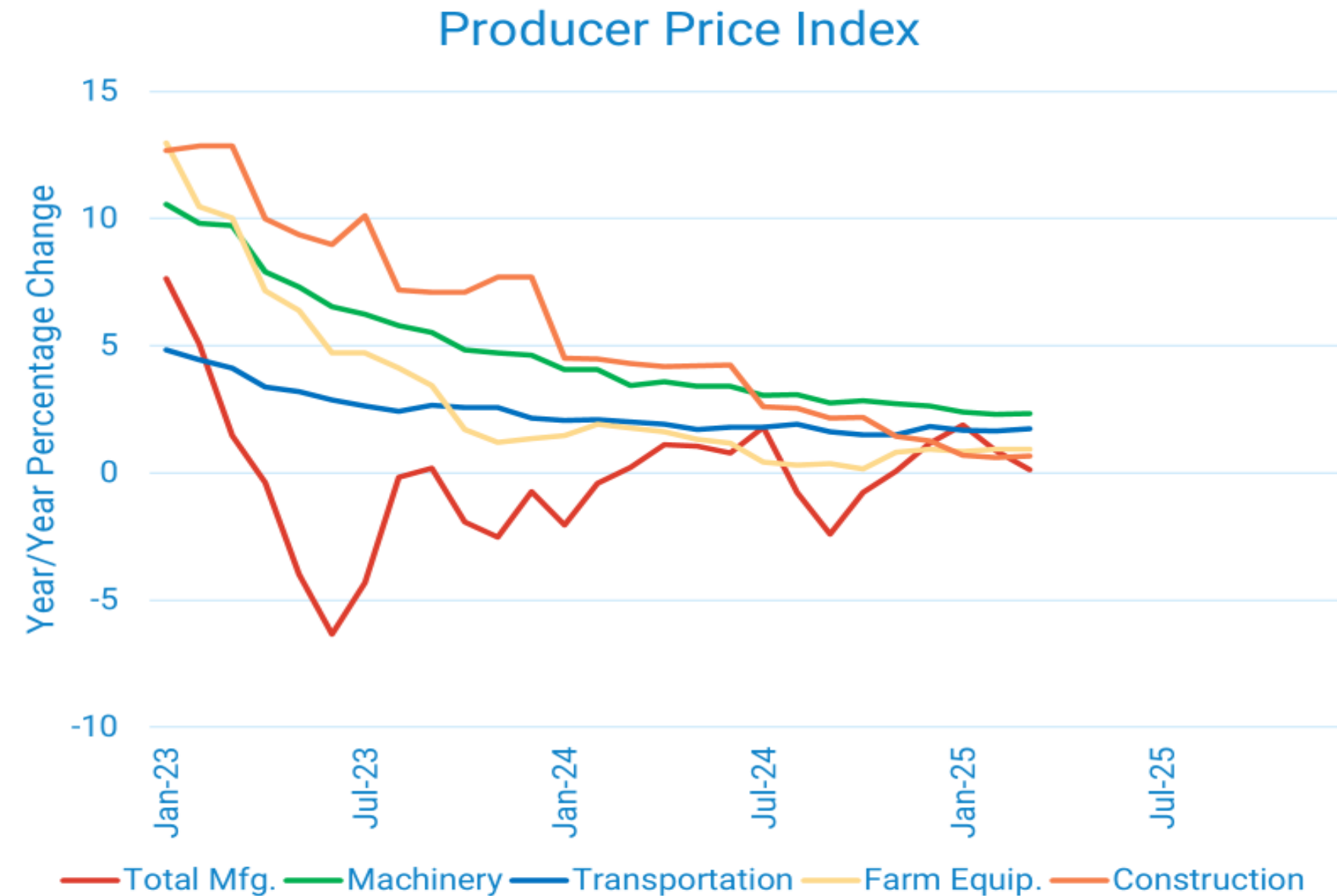


Source: Author's calculations using data from the Bureau of Economic Analysis

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Machinery Manufacturing Inflation

- Inflationary pressures have eased on the production side

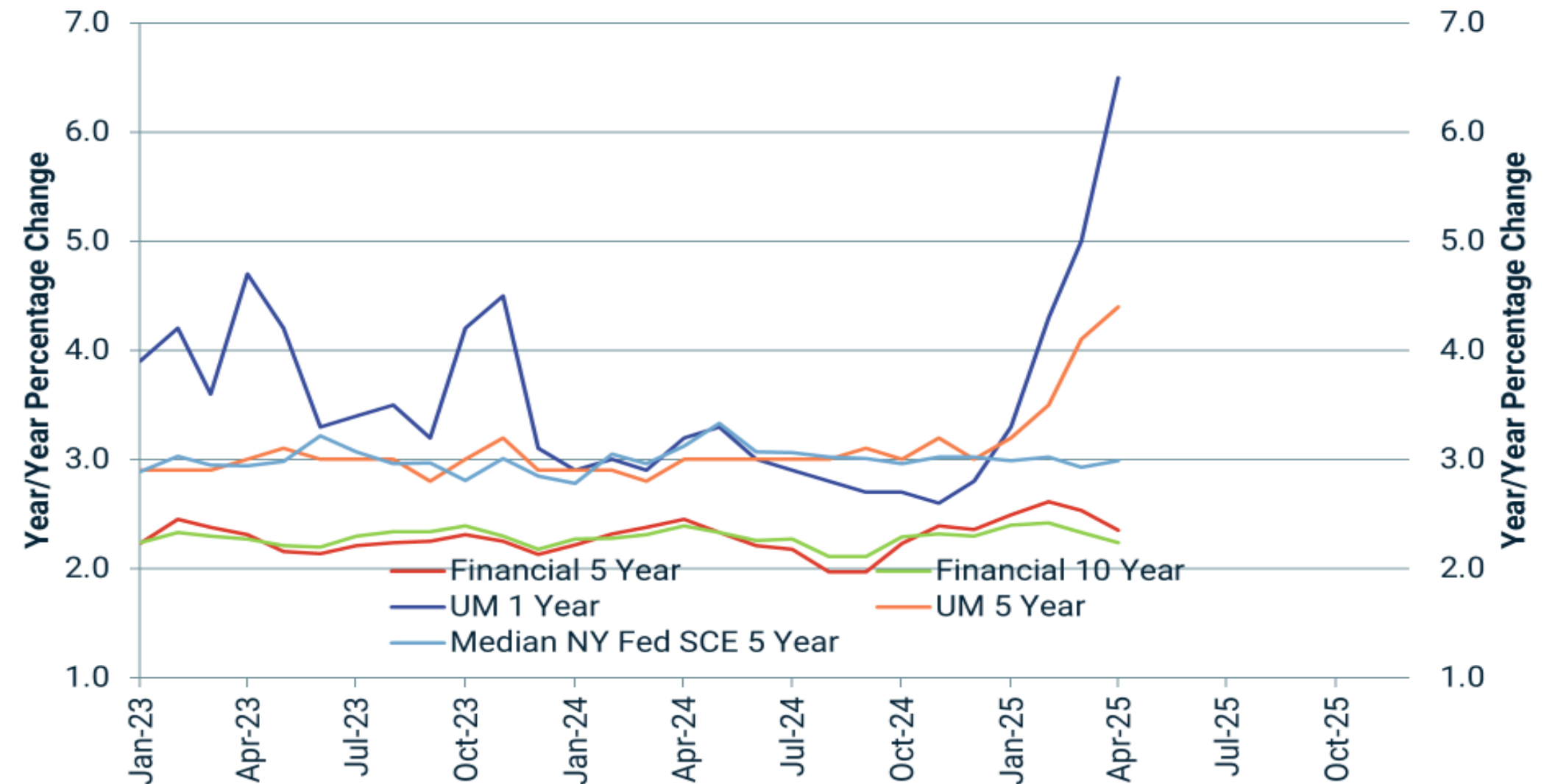


Source: Author's calculations using data from the Bureau of Labor Statistics and Haver Analytics

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Inflation Expectations

- Measures of inflation expectations continue to give mixed signals



Source: Survey of Consumers – University of Michigan, Federal Reserve Board, and Haver Analytics

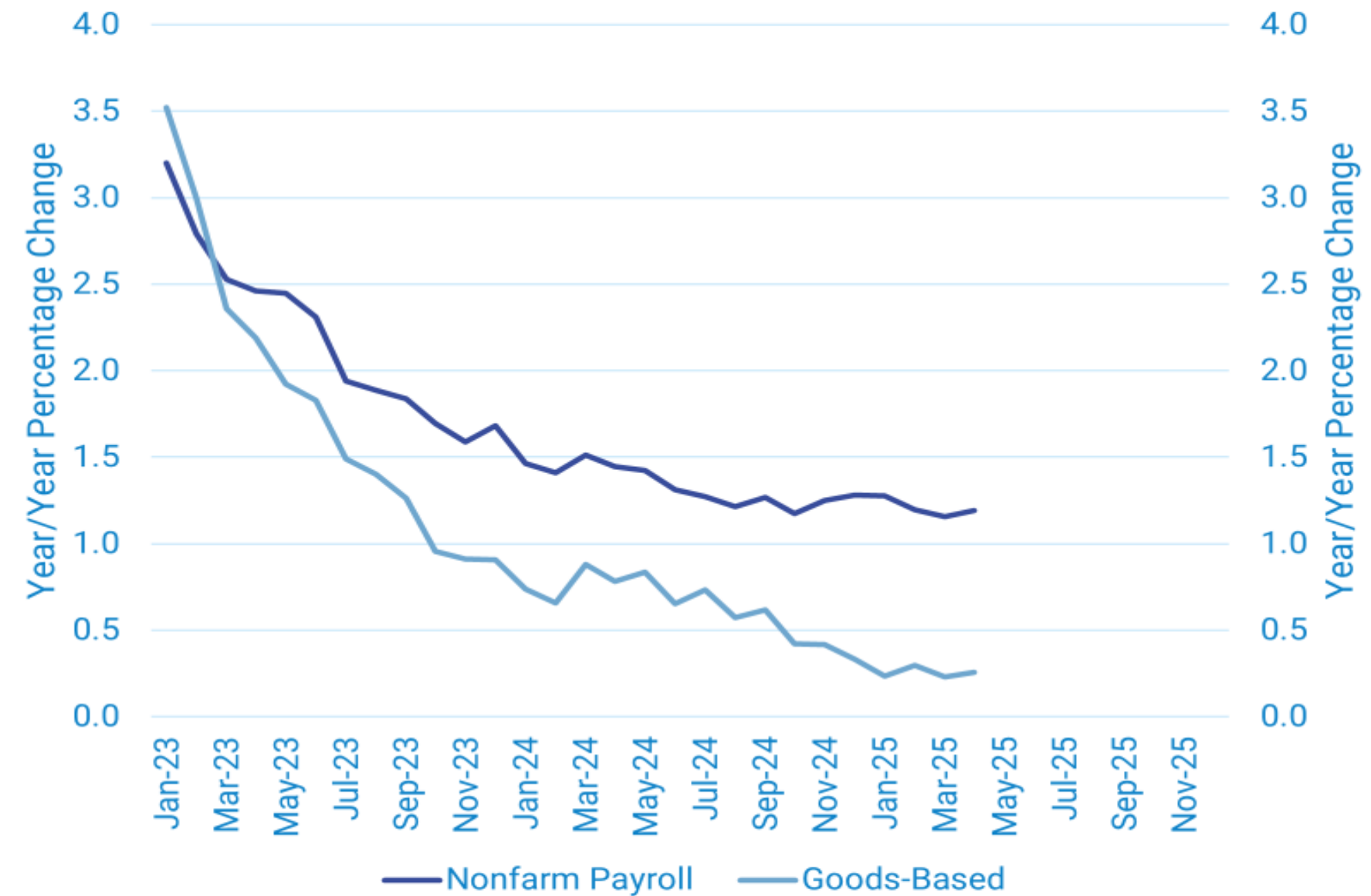
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Labor Market

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Goods-Based Employment

- Employment growth has slowed more so on the goods-based side.

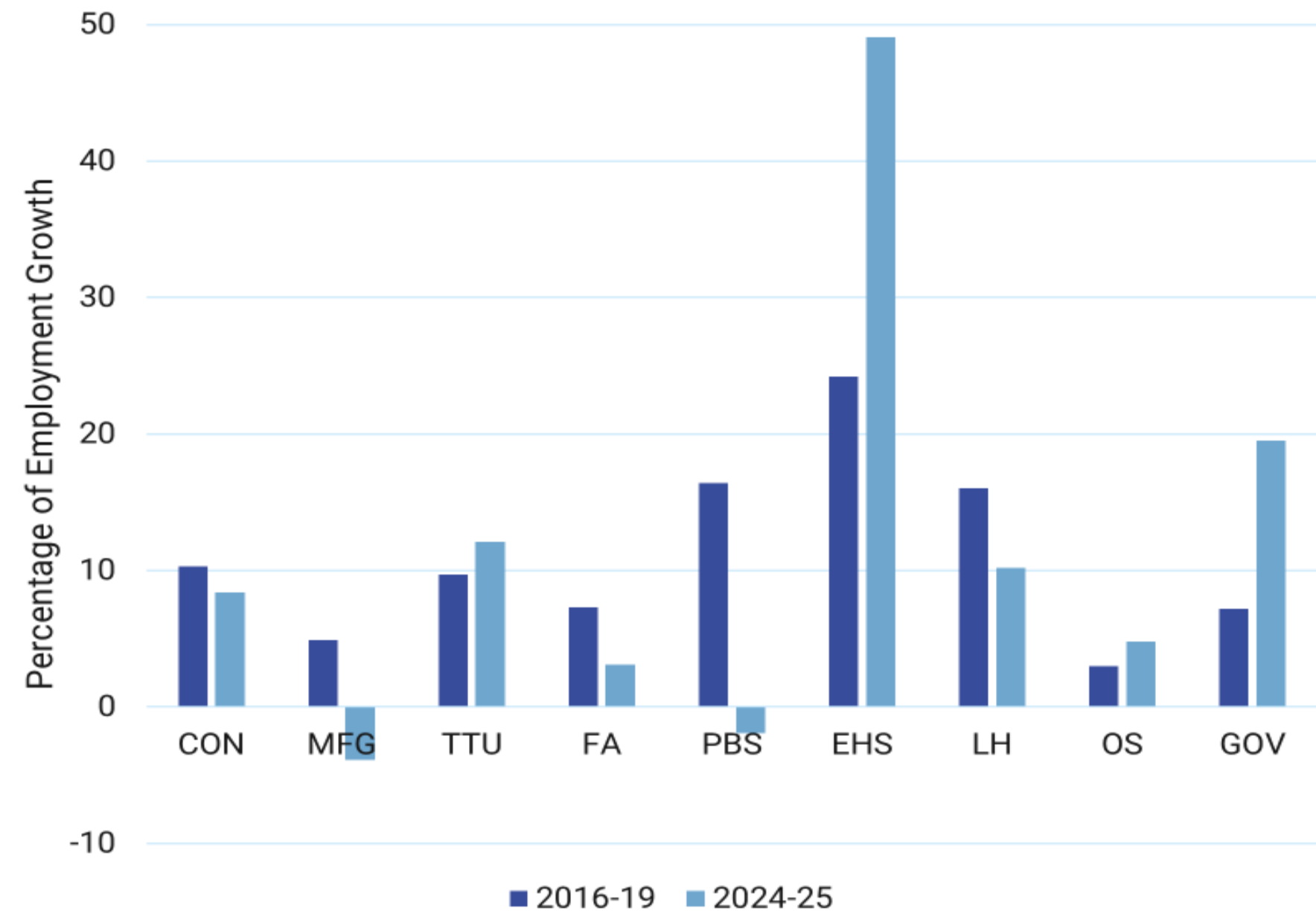


Source: Author's Calculations using data from the Bureau of Labor Statistics

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US Nonfarm Payroll Employment Growth

- Nonfarm payroll employment growth is holding steady
- Broadly, the same trends that we've seen the last couple of years have persisted.

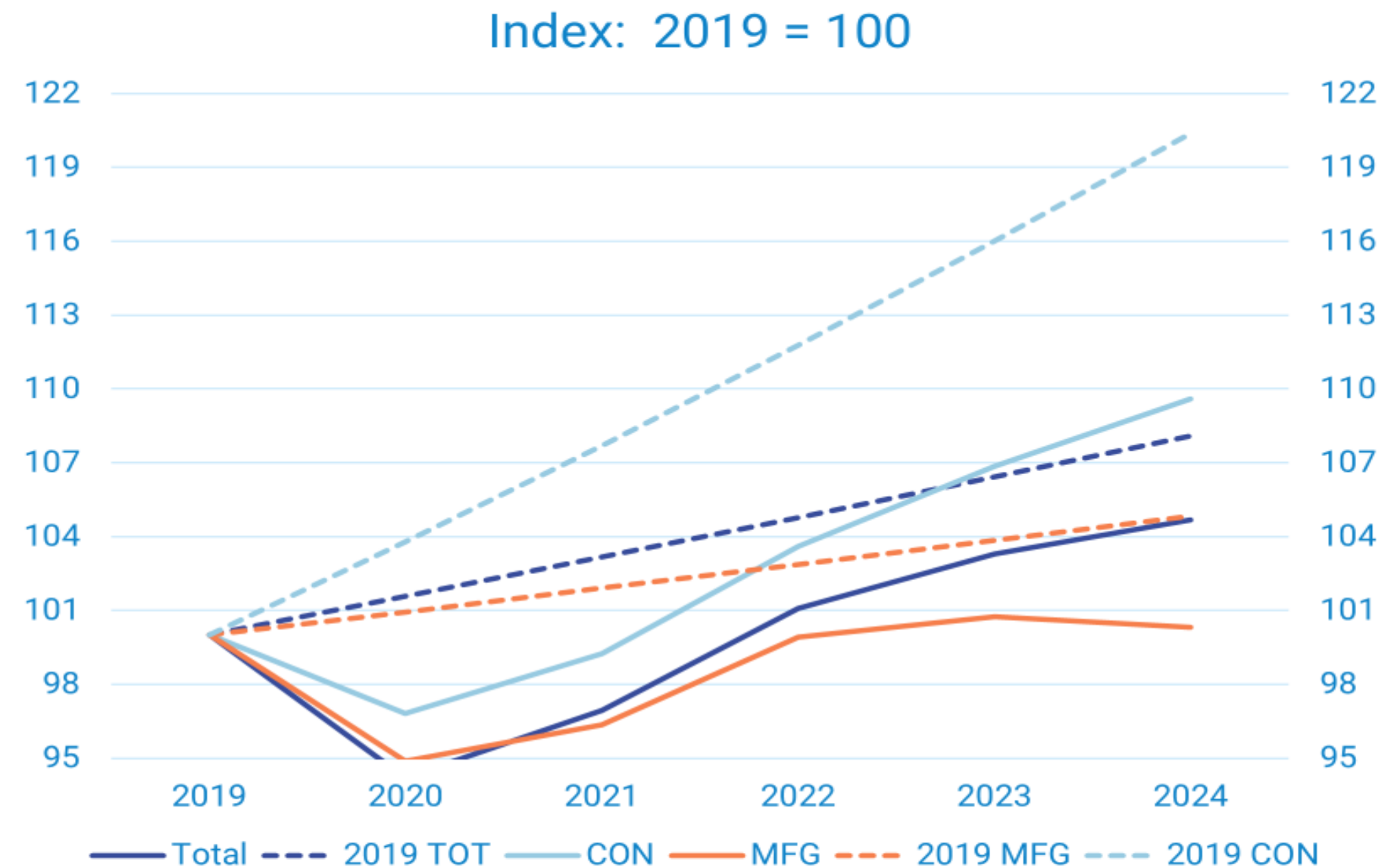


Source: Author's calculations using data from the Bureau of Labor Statistics

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COVID Impact on Pre-COVID Employment Trends

- 2015-19 Avg. growth rate = 1.6%
- Construction = 3.8%
- Manufacturing = 1.0%
- Manufacturing has fallen back to pre-COVID levels

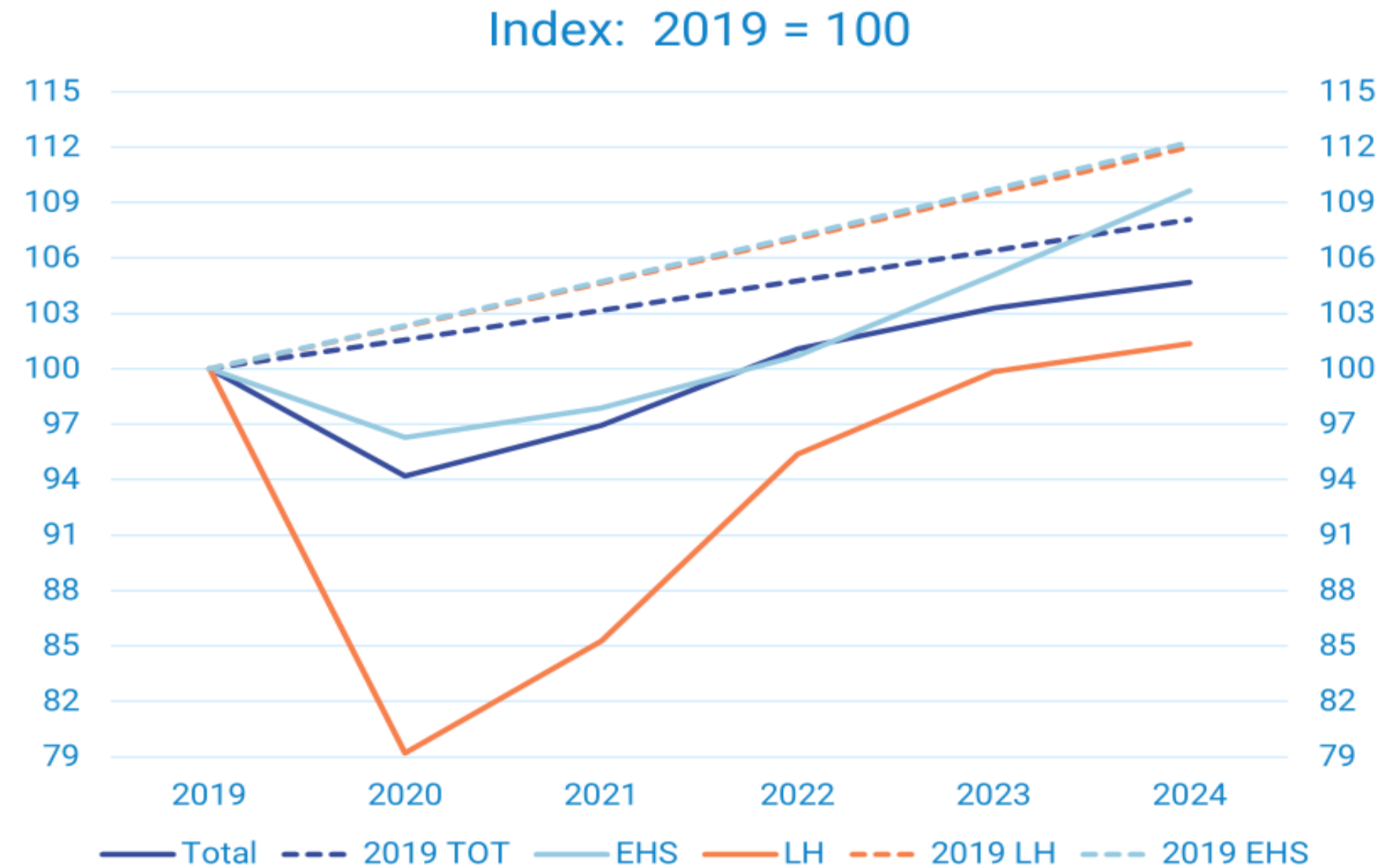


Source: Author's calculations using data from the Bureau of Labor Statistics

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COVID Impact on Pre-COVID Employment Trends

- 2015-19 Avg. growth rate = 1.6%
- Education & Health Services = 2.3%
- Leisure & Hospitality = 2.3%
- Even with the strong growth in these two sectors, employment levels aren't back to where they 'should' be based on pre-COVID growth

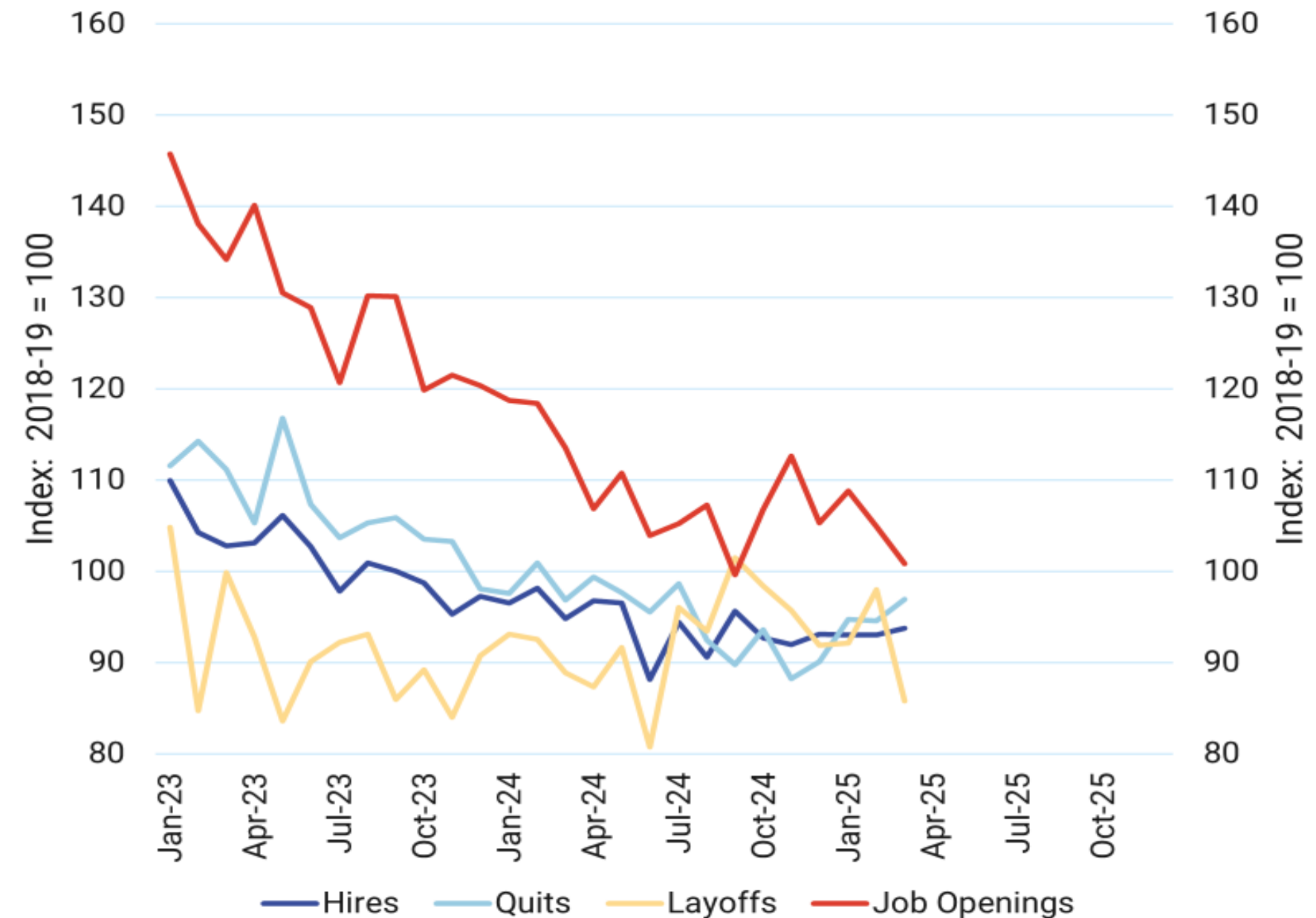


Source: Author's calculations using data from the Bureau of Labor Statistics

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Hires, Job Openings, Quits & Layoffs

- The number of job openings is around 6% higher than pre-COVID levels
- The increase in layoffs leveled off but at slightly elevated levels when compared to where they were for most of 2024
- Meanwhile, except for manufacturing and health care, wage pressures are back to pre-COVID levels



Source: Author's calculations using data from the Bureau of Labor Statistics

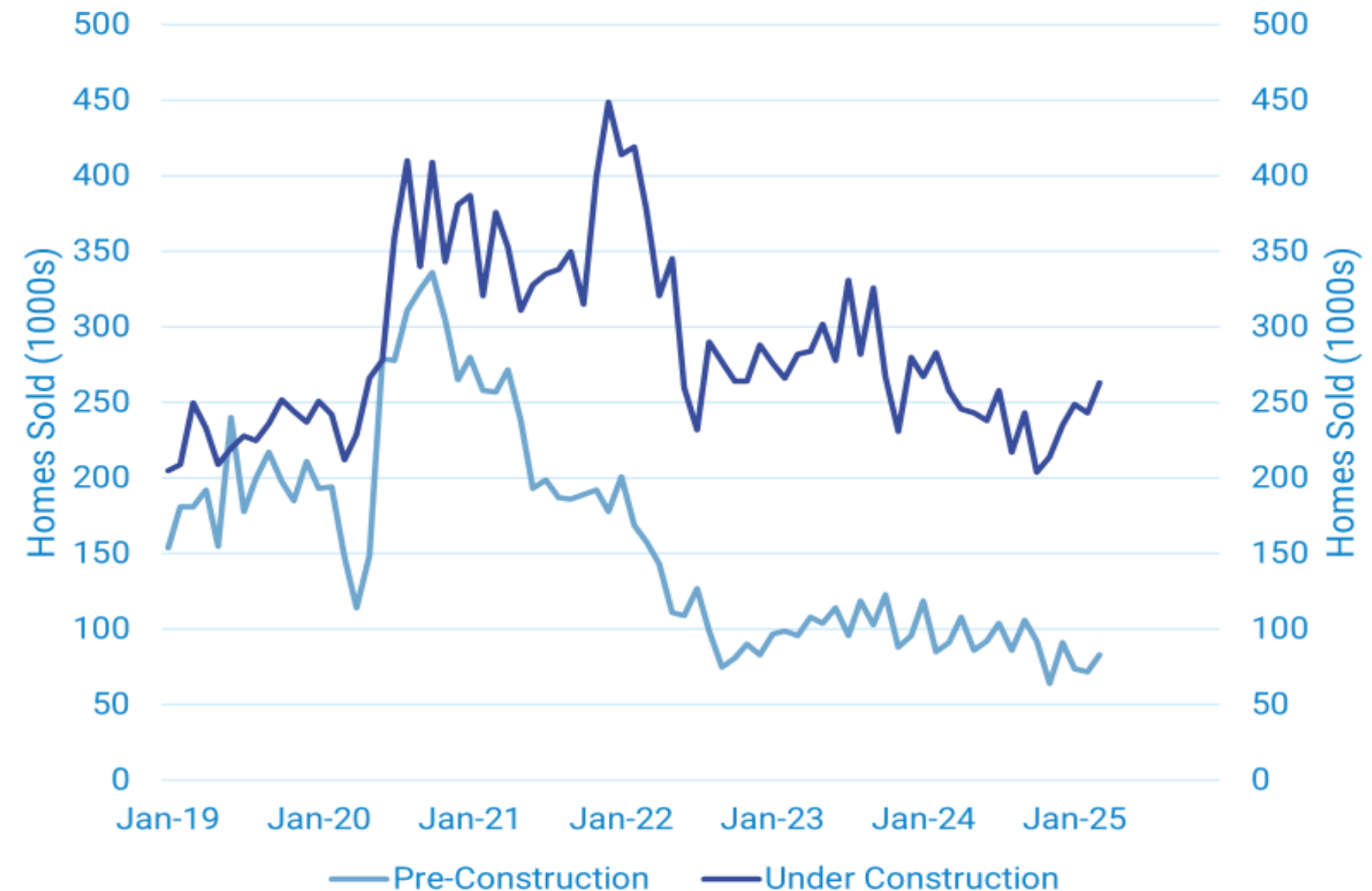
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Goods-Based Indicators

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New Homes Sold: Under Construction vs. Pre-Construction

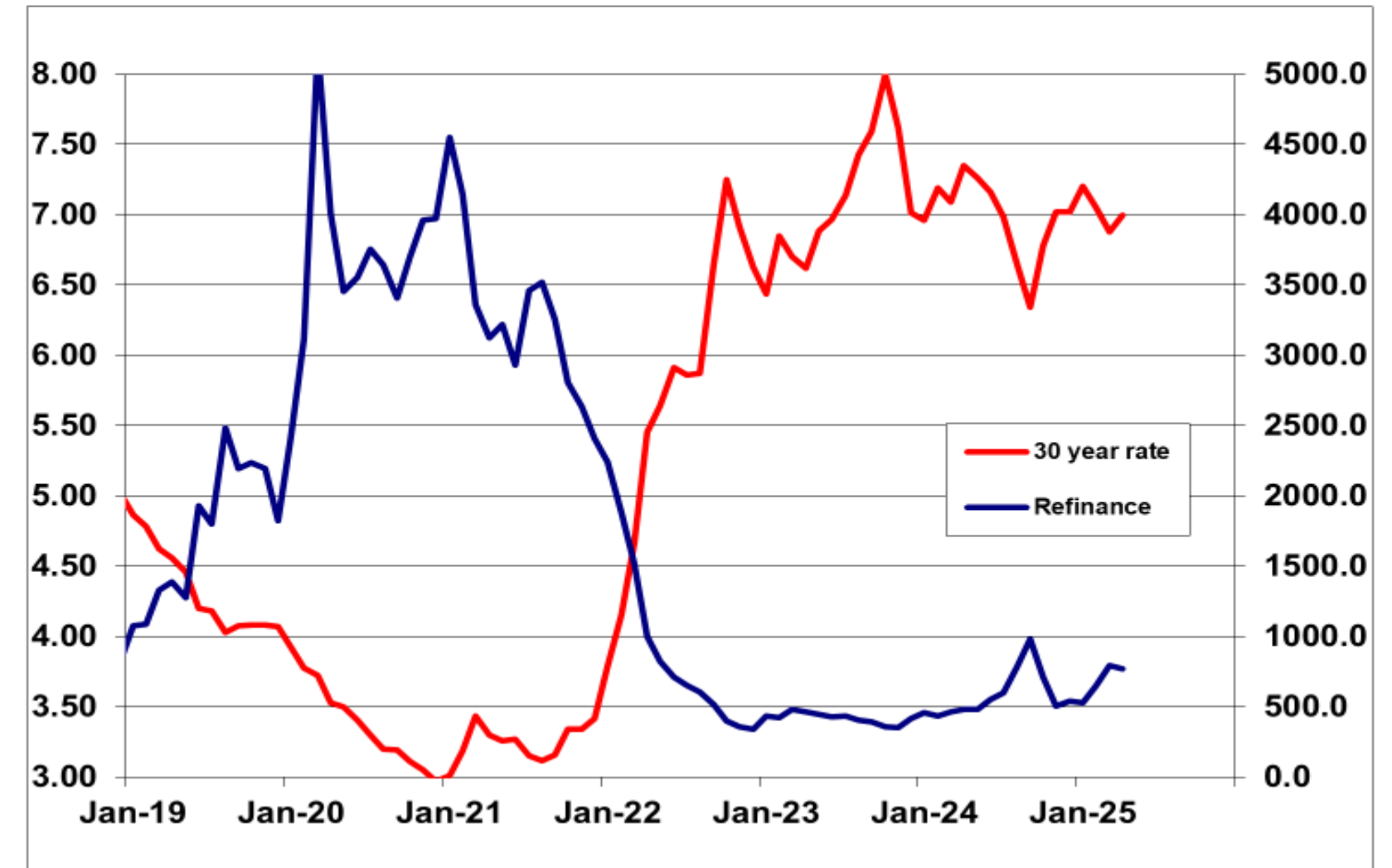
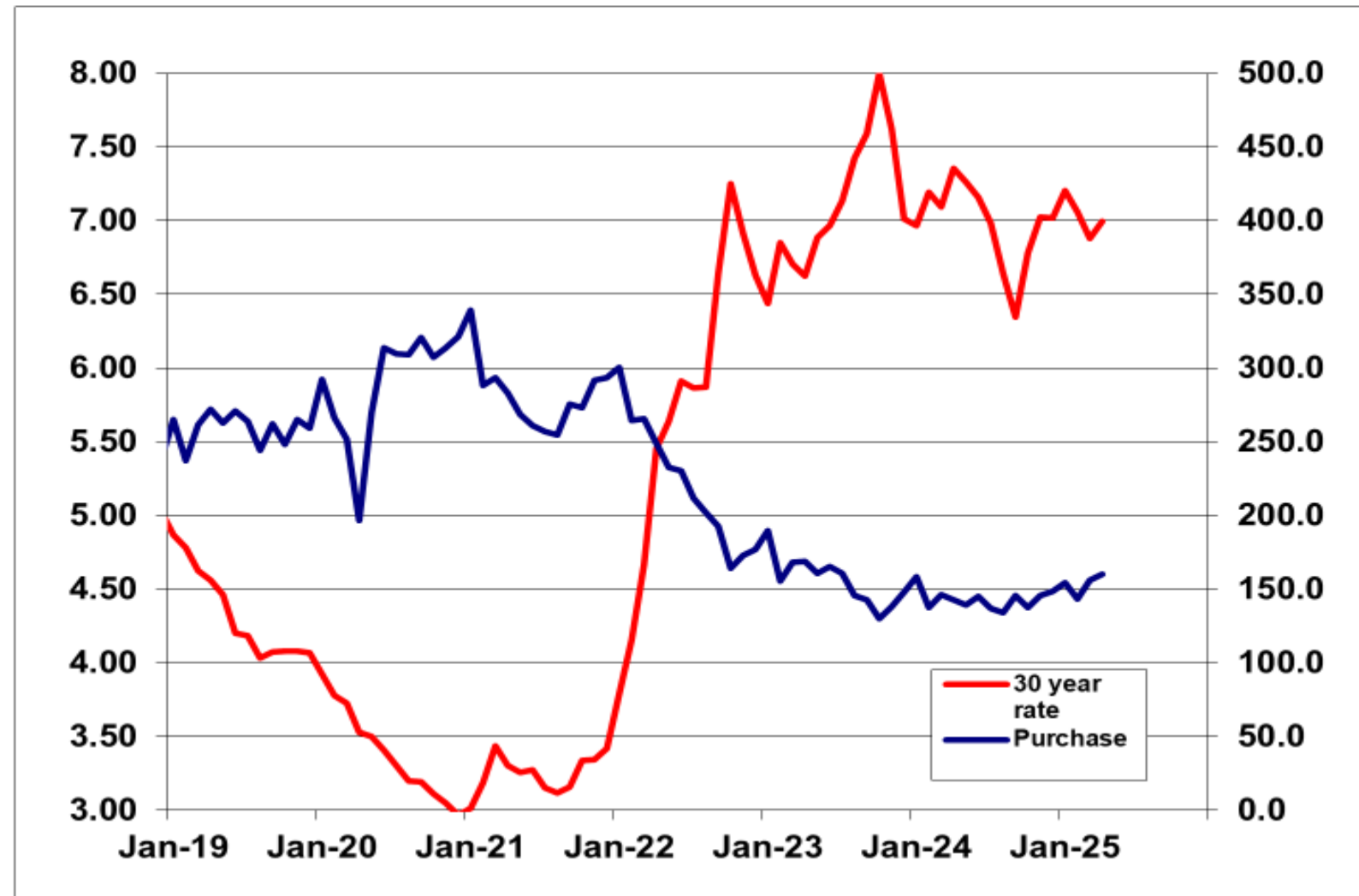
- The divergence between in-progress construction sales and pre-construction sales started in 2018-19
- Pre-construction sales haven't been this low since the years immediately after the Great Recession



Source: U.S. Census Bureau

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Mortgage Applications vs. 30-Year Fixed Rate

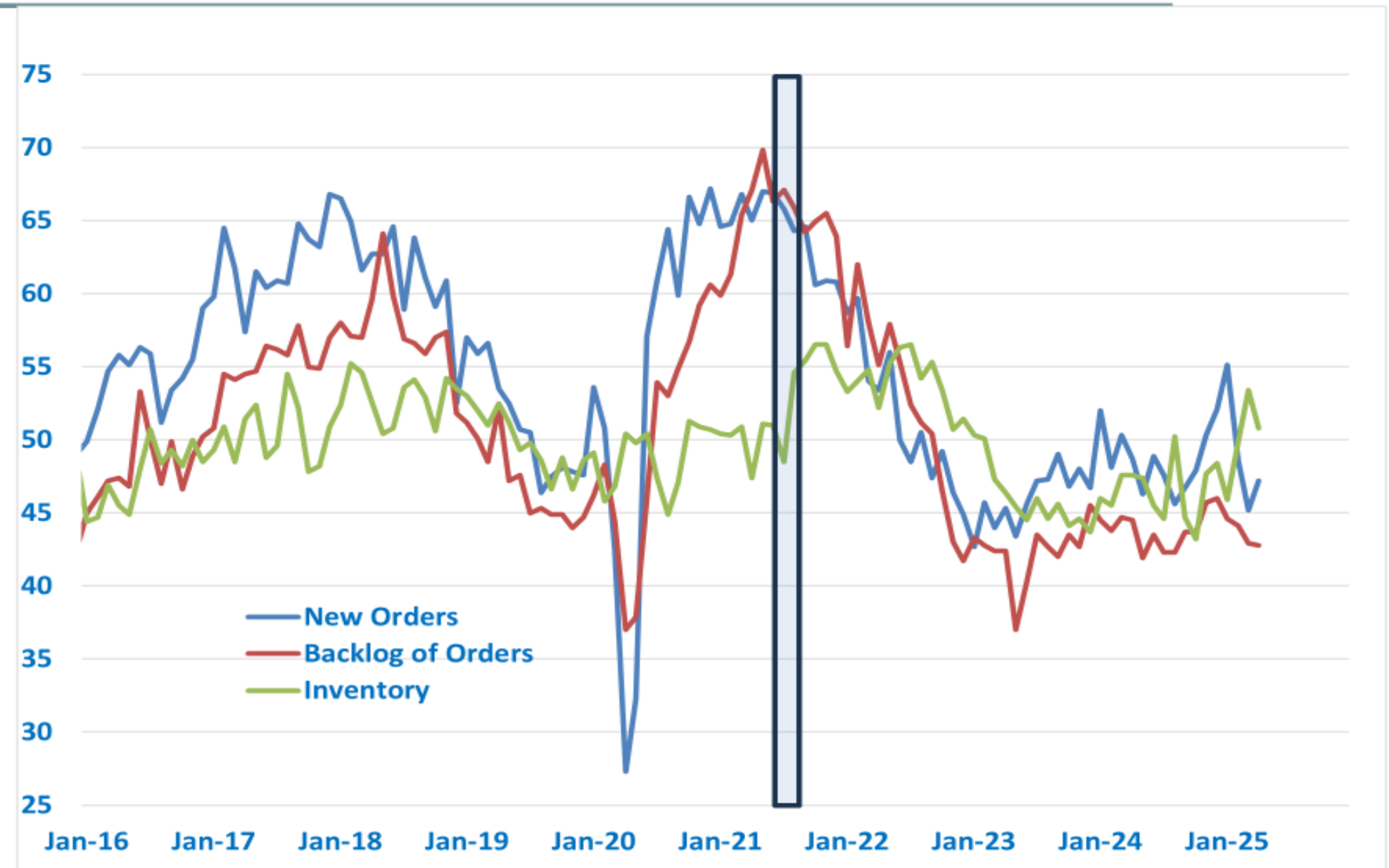


- Mortgage purchases haven't budged much over the last couple of years
- Refinances have been relatively more sensitive to mortgage rate changes.

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National ISM Sub-Indexes

- Inventory stockpiling has shown up in the last 2 ISM reports
- Backlogs have continued to soften

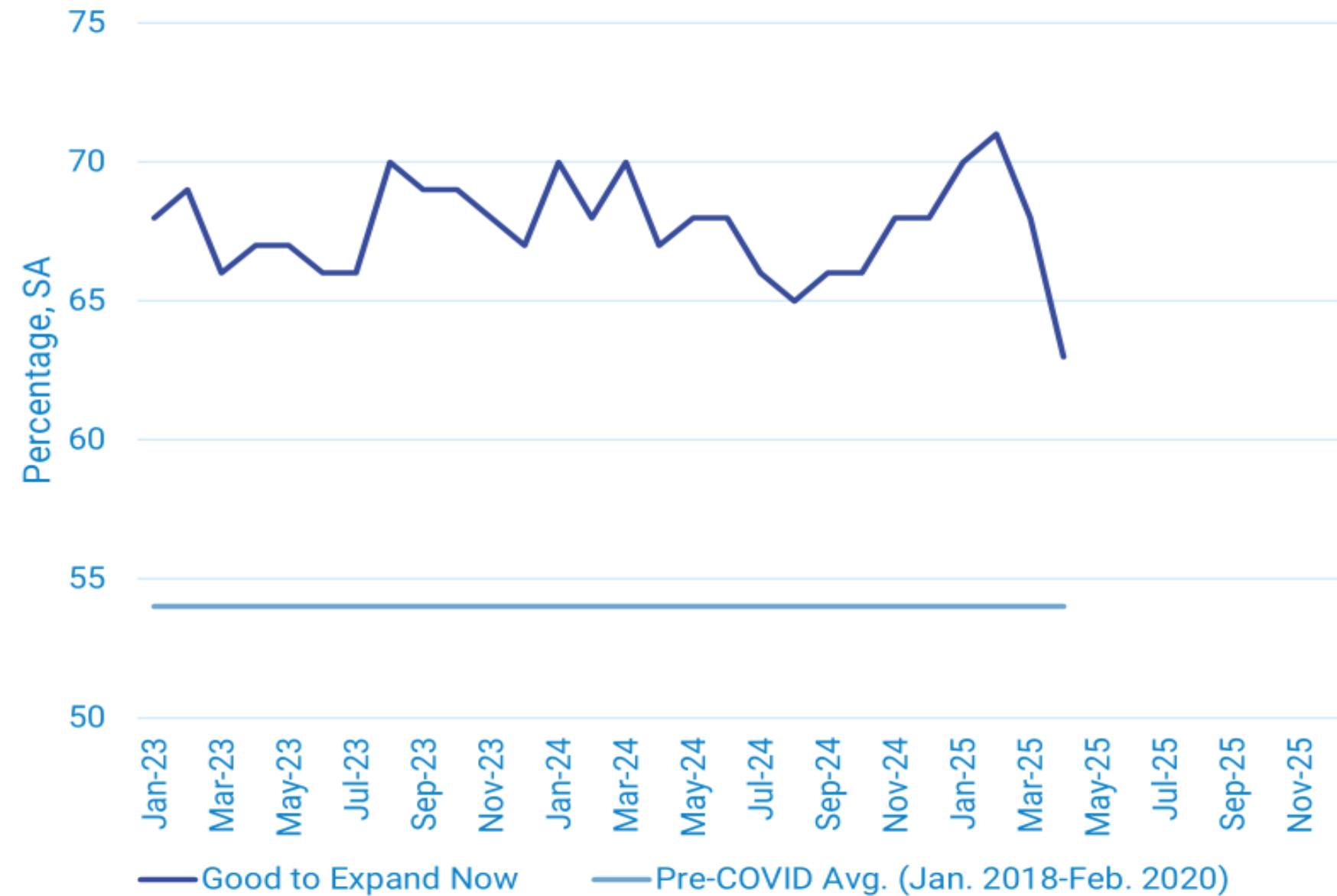


Source: Author's calculations using data from the ISM and Haver Analytics

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60+ Day Commitments for Production Materials

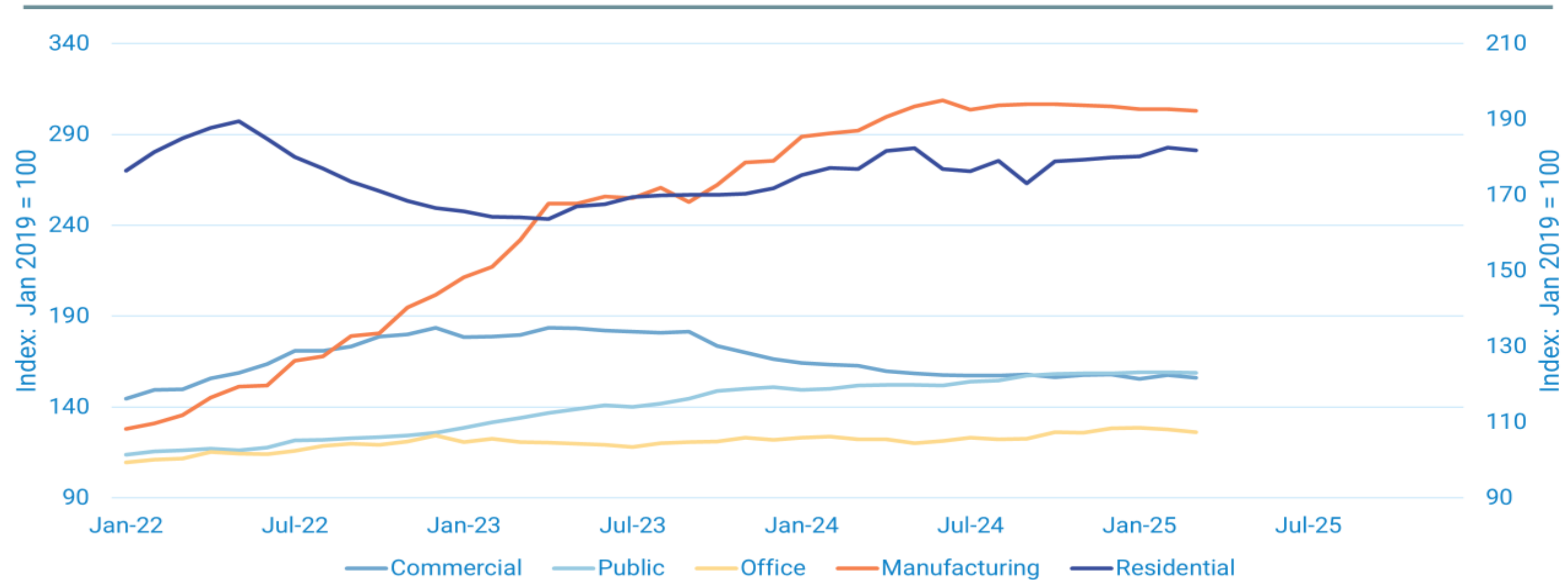
- With firms pulling back on capex plans, I'm keeping an eye on anything long-term
- This is early, but April did have the lowest percentage of respondents making 60+ day commitments for production materials since 2021



Source: Institute for Supply Management/Haver Analytics

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Total Construction Spending



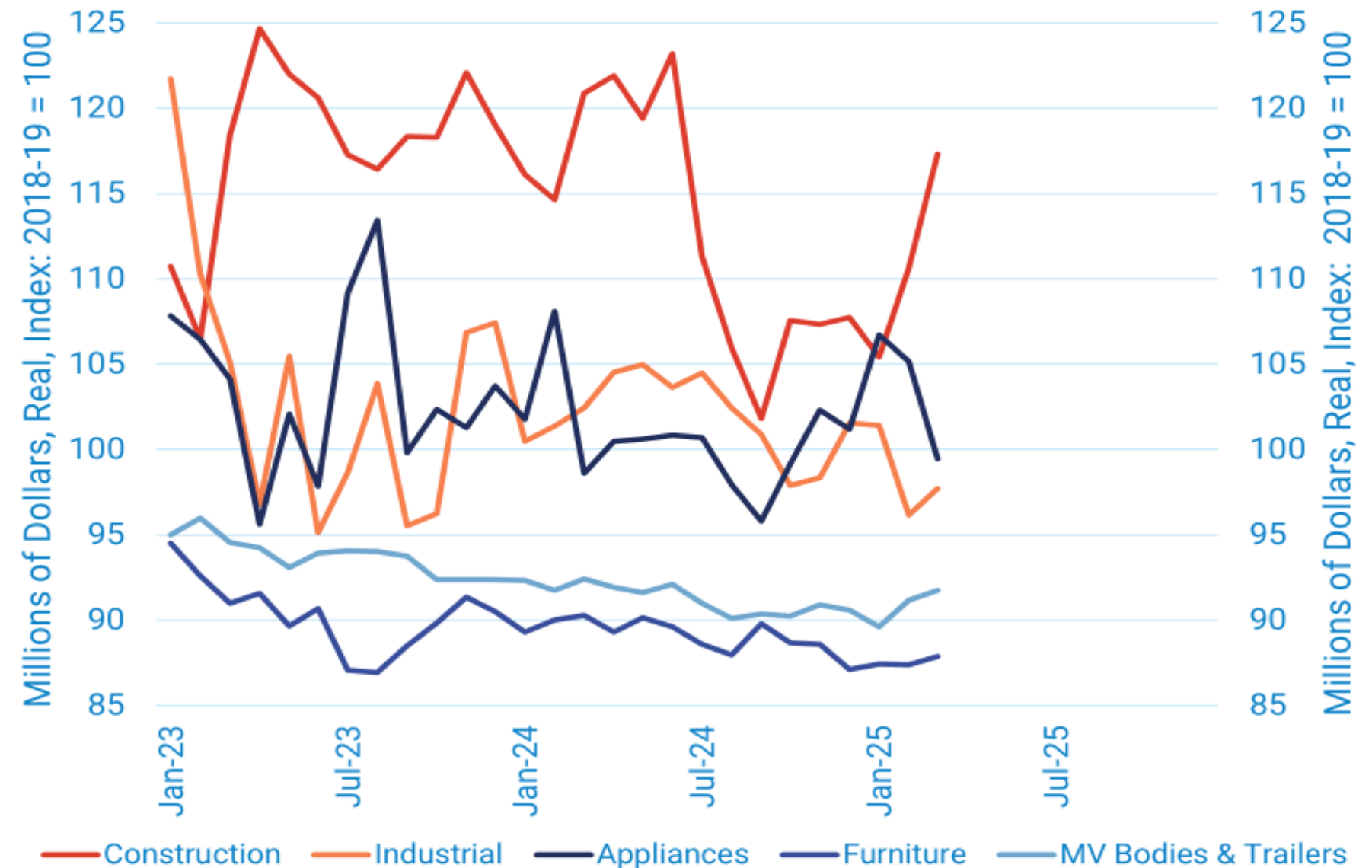
- Construction spending has flattened out across the board
- It's become more difficult to finance many new projects.

Source: Author's Calculations using data from the U.S. Census Bureau

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Equipment Order Volumes

- Indexed against the 2018-19 average, orders moved in 2024 until the 4th quarter
- Orders for industrial and construction equipment as well as appliances picked up at the end of 2024.

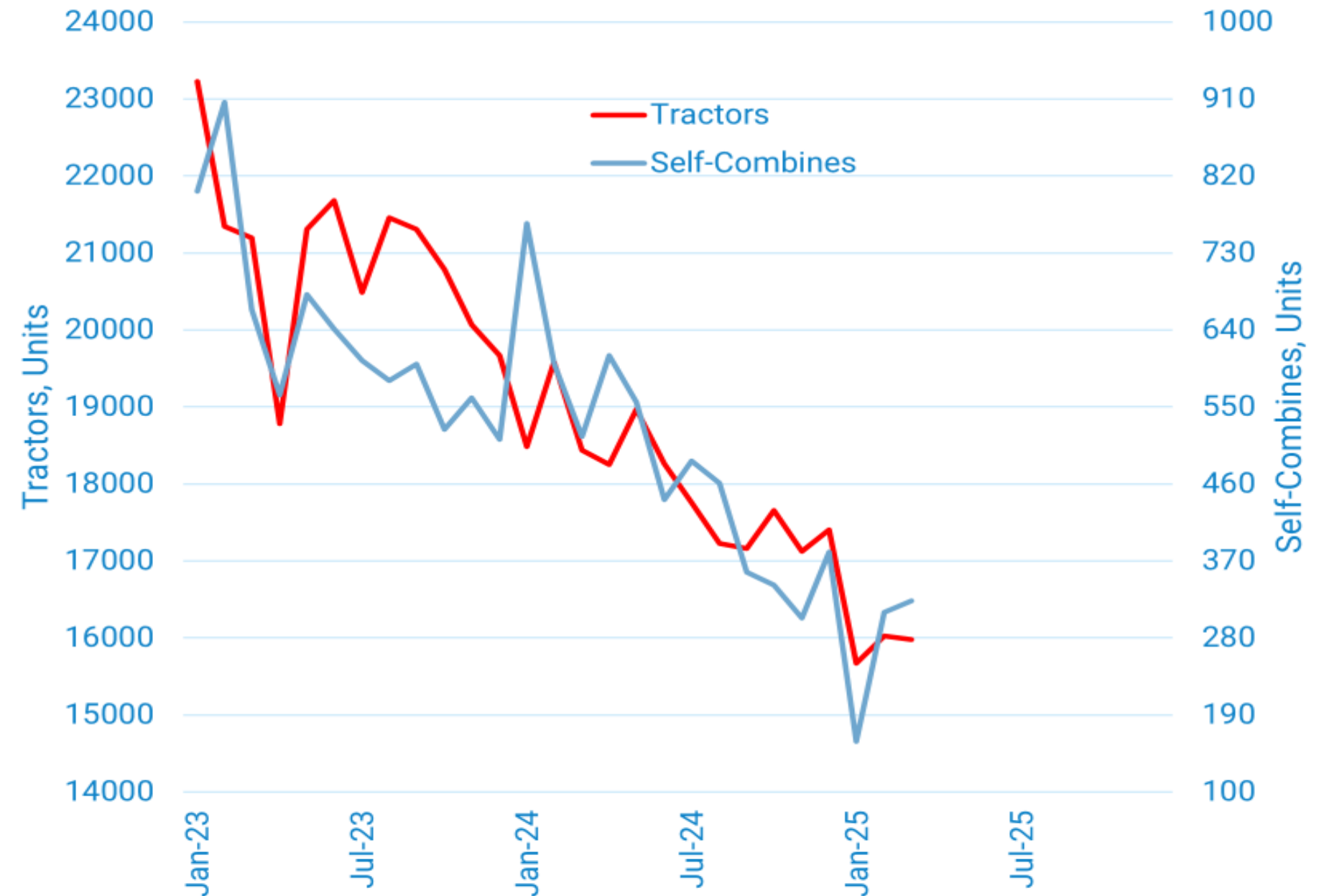


Source: Author's calculations using data from the Census Bureau and Haver Analytics

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Farm Equipment Order Volumes

- Orders for new farm equipment remain weak.
- While combine orders were this weak in 2018-19, tractor orders haven't been this weak since 2012.

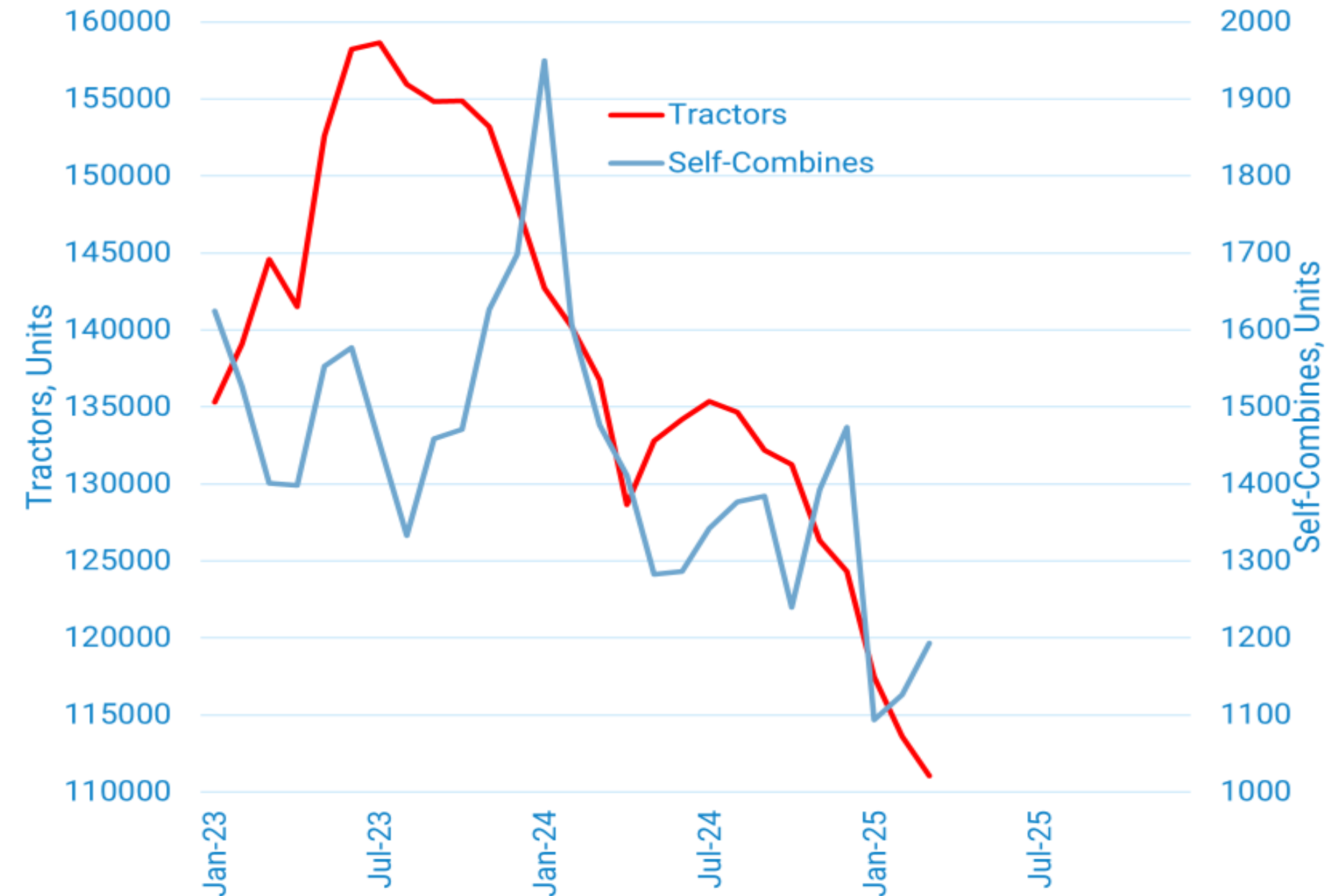


Source: Author's calculations using data from Haver Analytics

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Farm Equipment Order Inventory

- Despite the downward trend shown, inventory remains high, more so for combines when comparing it to recent levels



Source: Author's calculations using data from Haver Analytics

2025 Outlook: Even More Questions

- Forecasters have lowered their growth forecasts and raised their inflation projections. The downside risks vastly outnumber the upside risks.
- Whether it be through trading down, pulling ahead, or pulling back, consumers have started adjusting to the tariff regime.
- Recent readings of inflation show cooling. Inflation expectations from various sources are mixed. But there continue to be upside risks, even without tariffs.
- The labor market is largely neutral
- Capital expenditure plans have been pulled back.

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