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Current Business Trends

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THE RECOVERY SLOWS

Key Participant Comments for August:

"The chip shortage is now catching up to other industries outside of automotive. We are seeing a pullback in product shipped as automotive final assembly has stalled."

"Our business really picking up. Hopefully, with rising raw material pricing, we will be able to keep acceptable margins.

"Labor shortages with our suppliers is impacting our ability to meet our customer commitments."

"We are still struggling to meet customer orders due to lack of labor."

"Business remains surprisingly robust given all the supply tightness and logistics related insanity."

Although still positive, the recovery for the West Michigan industrial economy has slowed considerably in recent weeks. NEW ORDERS, our closely-watched index of business improvement, posted at +14 for August, well below the peak of +57 reported earlier in the year. The August PRODUCTION Index, which is now termed "output" by many economists, followed a similar pattern, and eased to +11. Aside from wrestling with numerous ongoing logistics problems, rising prices, and shortages of critical materials, activity in the purchasing offices, reflected in the index of PURCHASES, eased to +17. Unfortunately, most of our survey participants see no end in sight for many of these problems. For some firms, the complications have actually worsened in recent weeks, although this month's index of LEAD TIMES eased modestly to +75 from the survey record of +93 set four months ago. To provide some context, our 25-year average for this index is +11. Needless to say, some firms are beginning to lose confidence in where the economy is headed.

The U.S. Economy. For the month ended August 31, the Institute for Supply Management, our parent organization, reported that ISM's index of NEW ORDERS tapered modestly to +29 from +31. In a similar move, ISM's PRODUCTION (a.k.a., Output) Index eased to +18 from +22. However, ISM's adjustment model resulted in the composite index edging up to 59.9 from 59.5. Although the current statistics are slightly below the 38-year high of 64.7 set in March, the national economy remains on a sound footing.

A second view of the U.S. economy comes from the IHS Markit.com, the British international consulting firm that also surveys U.S. purchasing managers. The PMI (Purchasing Manager's Index) for August posted at 61.1, down slightly from July's 14-year record high of 63.4. Siân Jones, Senior Economist at IHS Markit, further noted:

"U.S. goods producers continued to register marked upturns in output and new orders in August, as demand flourished once again. That said, constraints on production due to material shortages exerted further pressure on capacity as backlogs of work rose at a near-record rate. Not only were firms facing difficulties trying to clear outstanding work, they also faced further hikes in supplier costs. The pace of cost inflation exceeded the previous series record amid a pervasive scarcity of inputs. Favourable demand conditions allowed finished goods prices to also rise at an unprecedented rate, as firms sought to protect their margins. Delivery times lengthened at the second-sharpest rate in over 14 years of data collection, with purchasing activity still rising markedly. It was not only producers who highlighted stockpiling, however, as reports of customers shoring up their holdings of finished items resulted in a substantial drop in post-production inventories. Challenges rebuilding such stocks, including material and labour shortages, and ever-burgeoning levels of incomplete work are likely to remain a feature for some time to come."

The World Economy. It is no surprise the at COVID-19 "Delta Variant" is having an impact on the entire world economy. The J.P. Morgan August report for worldwide manufacturing PMI eased to a six-month low of 54.1, down from May's l1-year high of 56.0. Supply chain disruptions all over the world continue to hamper the economies in most of the manufacturing nations in JPM's survey. However, it is important to note that most of the world's major economies are still positive. JPM's index of New Orders has now eased to 53.8 from July's 55.3, and the index of Global Production (Output) edged down to 51.9 from 54.4. After moving closer to the stabilization mark of 50.0 in July, the August PMI for Mexico, our second largest trading partner, came in at 47.2, down unnervingly from 49.6. However, the PMI for Canada, our largest trading partner, came in at 57.2, a little below the survey-record high of 58.5 set in March. The PMI for China, our third largest trading partner, fell to 49.2, down from 50.3. The J.P. Morgan report further noted:

"Growth continued in many of the largest nations covered, including the US, Japan, Germany, the UK, France, India, South Korea and Brazil. In contrast, China, Russia and Mexico were among the nations recording a sub-50 reading. August PMI data also indicated that growth continued across the consumer, intermediate and investment goods industries.

However, rates of increase in output, new orders and employment eased in all three sectors. Manufacturing production and new orders both rose for the fourteenth successive month in August. However, the rate of expansion in output eased to its weakest during that sequence. Efforts to raise production further were constrained by supply chain issues and, in some cases, shortages of labour and skills."

For the Eurozone, the August PMI posted at 61.4, down from June's record high of 63.4, but still substantially positive. Although Spain, Greece, and France are now reporting negative PMIs, the other major countries of the Eurozone remain positive. At 65.3, the Netherlands PMI remains the Eurozone leader, although most other countries in the world appear to have peaked a few months ago. Chris Williamson, Chief Business Economist at IHS Markit said:

"Eurozone manufacturers reported another month of buoyant production in August, continuing the growth spurt into its fourteenth successive month. The overriding issue was again a lack of components, however, with suppliers either unable to produce enough parts or are facing a lack of shipping capacity to meet logistics demand. These supply issues were the primary cause of a shortfall of manufacturing production relative to orders of a magnitude not previously recorded by the survey, surpassing the 24-year record deficit seen in July. Factory selling prices consequently rose steeply once again, albeit with some of the upward pressure alleviated by a slight cooling of input cost inflation, albeit with still-high materials prices adding to manufacturers' problems. Employment growth meanwhile eased only modestly from July's all-time high as producers remained focused on boosting operating capacity.
However, a dip in future sentiment in August – linked to the peaking of demand, persistent supply chain issues and the spread of Delta variant – add to signs that both output and employment growth has peaked."

Automotive. By now everyone in the business world is fully aware that the world-wide chip shortage is hampering auto production for almost every nameplate in the world. Dealer lots are predominately empty, and potential new car buyers are annoyed by the lack of selection and the dealer's unwillingness to negotiate on price. Attempting to track industry performance, the Automotive News editors remain frustrated by many of the major firms continuing to post sales only at the end of each quarter. However, one analyst estimated that market share for the Detroit Three in August dropped to 38.1 percent for the month, a decline of 6.7 percentage points from the same period last year. Ford does still report monthly, and August sales fell 33.2 percent. Honda America skidded 15.6 percent, Subaru of America's sales dropped 14.7 percent, but sales at Toyota, who claims to have better supplier relations with their chip suppliers, eased by only 2.0 percent. One the positive side, Mazda sales climbed 4.6 percent in August, and Volvo sales rose 3 percent. Share-wise, the Asian nameplates now account for about 52 percent of the U.S. market, while European automakers have a 10 percent share. Jeff Schuster, president of Americas operations at LMC Automotive, further commented:

"I don't see any relief in September, and with the additional cuts announced over the last two weeks, it may be as bad or worse this month."

West Michigan Unemployment. The Bureau of Labor Statistics reported on September 3 that the national rate of "headline" unemployment fell to 5.2 percent in August. This is better, but still a long way from the 3.5 percent rate posted two years ago. Given that the $300 weekly federal unemployment bonus program has ended as well as other state unemployment benefits drawing to a close, some analysts are predicting that the September unemployment rate will fall to about 4.6 percent when reported in early October. For Michigan, the July (latest month available) unemployment rate edged down to 4.8 from 5.0 percent. Many frustrated industrial firms have numerous vacancies, but there simply isn't anyone left to hire. Hence, for our West Michigan survey, the index of EMPLOYMENT came in at +19, down significantly from the ten-year high of +40 reported in March. Temporary layoffs are popping up among the auto parts suppliers because of parodic shutdowns at the auto assembly plants that run short of computer chips. Significant personnel shortages still remain in the hospitality and service industries as well, but the situation is beginning to improve. However, a recent survey by the National Federation of Independent Businesses found that 49 percent of all business owners are still reporting job openings that they cannot fill.

Industrial Inflation. Although our local index of PRICES set a record of +85 last April, the August posting of +69 is still far above the survey's 25-year average of +15. We are still caught in a cycle of both traditional demand-pull and cost-push inflation. Almost without exception, all major commodities are still either rising in price or remining at lofty levels. At the national level, there is now at least some hope that the situation MAY be heading in the right direction. Although the ISM national index of PRICES eased to +59 from the recent 41-year high of +84, the industrial inflation rate remains very high. The J.P. Morgan world index of PRICES eased modestly to 70.4 from last month's record-setting 71.2. According to Timothy Fiore, chair of ISM's survey committee:

"Aluminum, electrical and electronic components, energy, plastics and plastic products, freight, and steels continue to remain at elevated prices due to product scarcity, but supply and demand dynamics appear to be moving closer to equilibrium, as stated in recent months."

Business and Consumer Confidence. It is somewhat obvious that consumer confidence is driven by the news cycle. Hence, the recent surge in COVID-19 cases as well as the depressing international news has dampened consumer enthusiasm. The Conference Board's August 31 Consumer Confidence Index fell to 113.8 (1985=100), well below the 127.3 reading posted as recently as June. In a more pessimistic move, the University of Michigan August Consumer Sentiment Index came in at 70.2, a drop of 13 percent from July. Our local industrial survey remains positive but continues to edge lower. The SHORT-TERM BUSINESS OUTLOOK Index for August, which asks local firms about the business perception for the next three to six months, posted at +22, well below June's posting of +40. For the LONG-TERM BUSINESS OUTLOOK Index, which queries the perception for the next three to five years, the index edged up to +41.

Summary. Are we somehow building another bubble? If we are, another black swan event could be devastating. It seems that the prospect for inflation returning to normal in both the consumer and industrial markets continues to be progressively elusive. It is the job of the Federal Reserve to guard the integrity of the dollar, and runaway inflation would demand decisive action, i.e, raising interest rates. However, our economy has now become addicted to ultra-low interest rates, and even minor adjustments could quickly change the economic landscape.

AUGUST COMMENTS FROM SURVEY PARTICIPANTS

"Our production has hit another record high this month, and it's looking like another record year!"

"We're seeing impact of supply issues at customer slowing order releases until all material can be received in."

"Trying to balance extended lead times with volatile customer demand has been challenging and has led to higher-than-normal inventories of raw products."

"Results are similar to previous month(s). There's still a lot of short supplies and rising prices. We're seeing a hint of softening demand in some areas, but it's too soon to tell if it's a blip or a start of a change."

"Business remains surprisingly robust given all the supply tightness and logistics related insanity."

"We're staying busy. We have finally added some new hires, but also lost a few more to attrition. Capacity at domestic foundries and delays in international freight are causing a lot of shortages of key products for our customers."

"The aluminum can shortages projected to last another 12 months."

"We continue to work through customer order changes as they continue to work through the automotive supply chain issues (related to chips)."

"We continue to struggle to hire enough people to meet our production demand."

"The chip shortage is now catching up to other industries outside of automotive. We are seeing a pullback in product shipped as automotive final assembly has stalled."

"Sales are steady. The labor shortage is really a struggle."

"The continued rising cost and lack of availability of steel is hurting us."

"We are experiencing a large slowdown due to the semiconductor chip shortage in automotive. We are 90% automotive in our customer base."

"The lack of steel availability and rising cost is hurting us."

"We cannot ship enough parts to meet customer demand, which continues to be slightly over pre-pandemic levels."

"Sales are better than expected this month, and summer is normally a slower time. We are finally able to hire a few workers after much effort."

"June was a good month and a good end to the second quarter."

"We are still struggling to meet customer orders due to lack of labor."

"Labor shortages with our suppliers is impacting our ability to meet our customer commitments."

"Supply chain disruptions are causing our customers to reduce forecasting in the near term."

"The labor market is a mess."

"Global supply chains continue experience delays with significant increases in transportation costs. All of this is inflationary at least in the short term. Prices continue to increase."

"Microchips, material shortages, and increased pricing are making our jobs very difficult!"

"Our business really picking up. Hopefully, with rising raw material pricing, we will be able to keep acceptable margins."

"The rebound continues, but lead times from our manufacturers is getting worse. Normal stock items are now taking 6 -10 weeks to get. We are a just-in-time supplier to a number of OEMs, and keeping stock on hand is a huge challenge right now."

"All purchased items have either increased in price this year or we are expecting the price to increase soon."

"We're still having issues getting in resin. Steel shortages and microchip shortages are still negatively affecting our business."

"Suppliers are still struggling to recover from the Texas storm in February. Components from Asia Pacific are also a problem."

"Just about anything coming from China, is in short supply, which is a lot. Domestically, (Nashville, TN) labor is in short supply as are truck drivers and shipping containers. Many basic industrial chemicals like phosphoric, acetic, and sulfuric acid supplies are tight as well."

"All I can say is 'Hang on, inflation is going to run wild.'"

August Survey Statistics

	UP	SAME	DOWN	N/A	Aug. Index	July Index	June Index	25 Year Average
Sales (New Orders)	36%	42%	22%	0%	+14	+25	+33	+14
Production	25%	55%	14%	5%	+11	+24	+36	+14
Employment	25%	69%	6%	0%	+19	+22	+25	+ 8
Purchases	28%	61%	11%	0%	+17	+28	+38	+ 7
Prices Paid (major commod.)	69%	31%	0%	0%	+69	+73	+77	+15
Lead Times (from suppliers)	78%	19%	3%	0%	+75	+82	+89	+11
Purchased Materials Inv. (Raw materials & supplies)	39%	47%	8%	6%	+31	+32	+34	- 4
Finished Goods Inventory	22%	47%	20%	11%	+ 2	+ 0	- 3	- 8
Short Term Business Outlook (Next 3-6 months)	33%	56%	11%	0%	+22	+31	+40	-
Long Term Business Outlook (Next 3-5 years)	44%	47%	3%	6%	+41	+38	+35	-

Items in short supply: Aluminum, aluminum cans, paper and paper products. steel, steel components, electrical components, plastics, CNC tooling, resins, nylon resins, paper, chemicals, plastics, electric motors, hangers, logistics capacity, polysulfone materials, some stainless sheet stock, capacity at domestic foundries, electronics and semiconductor components.

Prices on the UP side: All major commodities, electrical components, steel, stainless steel, transportation, freight, wages, all resins, electronics, semiconductors, corrugated, copper, aluminum, oil based materials, stainless steel, molybdenum, tin.

Prices on the DOWN side: Steel*, plywood, aluminum*, copper*.

*Item reported as both up AND down in price.

Latest Unemployment Reports

(Except as noted, data are **NOT** seasonally adjusted)

	July 2021	July 2020	Aug. 2009	20 Year Low
State of Michigan (July)	4.8%	9.0%	14.6%	3.2%
State of Michigan (Unadj.)	5.0%	9.5%	14.1%	2.9%
Kent County	4.7%	7.7%	11.9%	2.1%
Kalamazoo County	5.1%	7.7%	11.1%	2.1%
Calhoun County	6.6%	9.3%	12.8%	2.7%
Ottawa County	4.1%	6.5%	13.3%	1.8%
Barry County	4.4%	6.9%	10.9%	2.2%
Kalamazoo City	6.4%	9.5%	15.2%	3.2%
Portage City	4.7%	7.0%	8.7%	1.3%
Grand Rapids City	6.2%	10.0%	16.1%	3.0%
Kentwood City	4.5%	7.2%	10.7%	1.4%
Plainfield Twp.	3.6%	5.8%	8.0%	1.4%
U.S. Official Rate (Aug.)	5.2%	8.4%	9.6%	3.5%
U.S. Rate (Unadjusted)	5.3%	8.5%	9.6%	3.4%
U.S. U-6 Rate (July)**	8.8%	14.2%	22.9%	8.0%

**U-6 for Michigan = 11.8% for Q3 2020 to Q2 2021

Index of New Orders: West Michigan

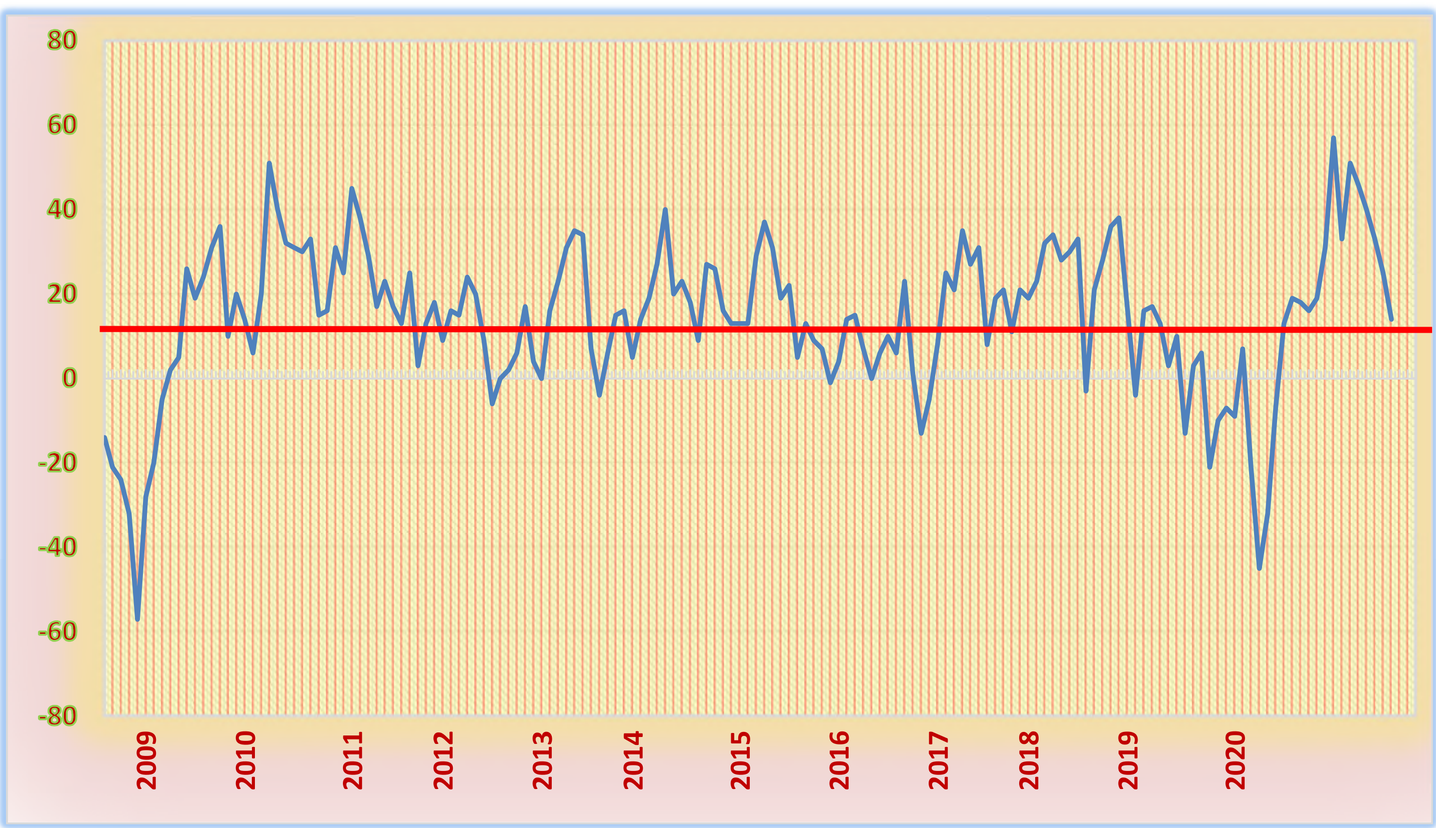
As the name implies, this index measures new business coming into the firm, and signifies business improvement or business decline. When this index is positive for an extended period of time, it implies that the firm or organization will soon need to purchase more raw materials and services, hire more 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.

Latest Report	+ 14 for the month of August, 2021
Previous Month	+ 25 for the month of July, 2021
One Year Ago	+ 19 for the month of August, 2020
Record Low	- 57 for the month of December 2008
Record High	+ 57 for the month of January 2021

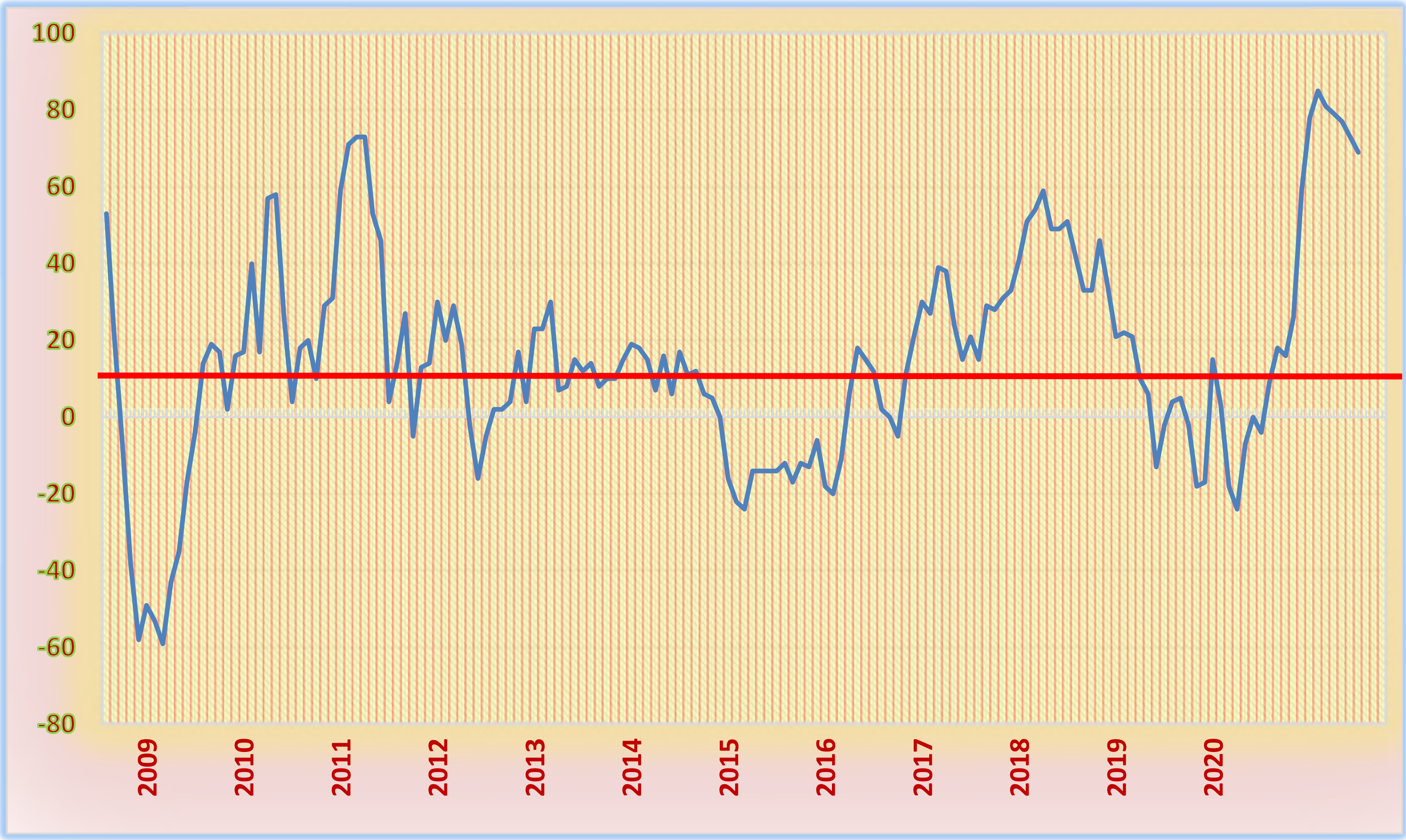
Great Recession
First Recovery + 3 in April 2009

COVID-19 Recession
First Recovery +12 in July 2020

ISM-West Michigan Index of New Orders: 2008-2021

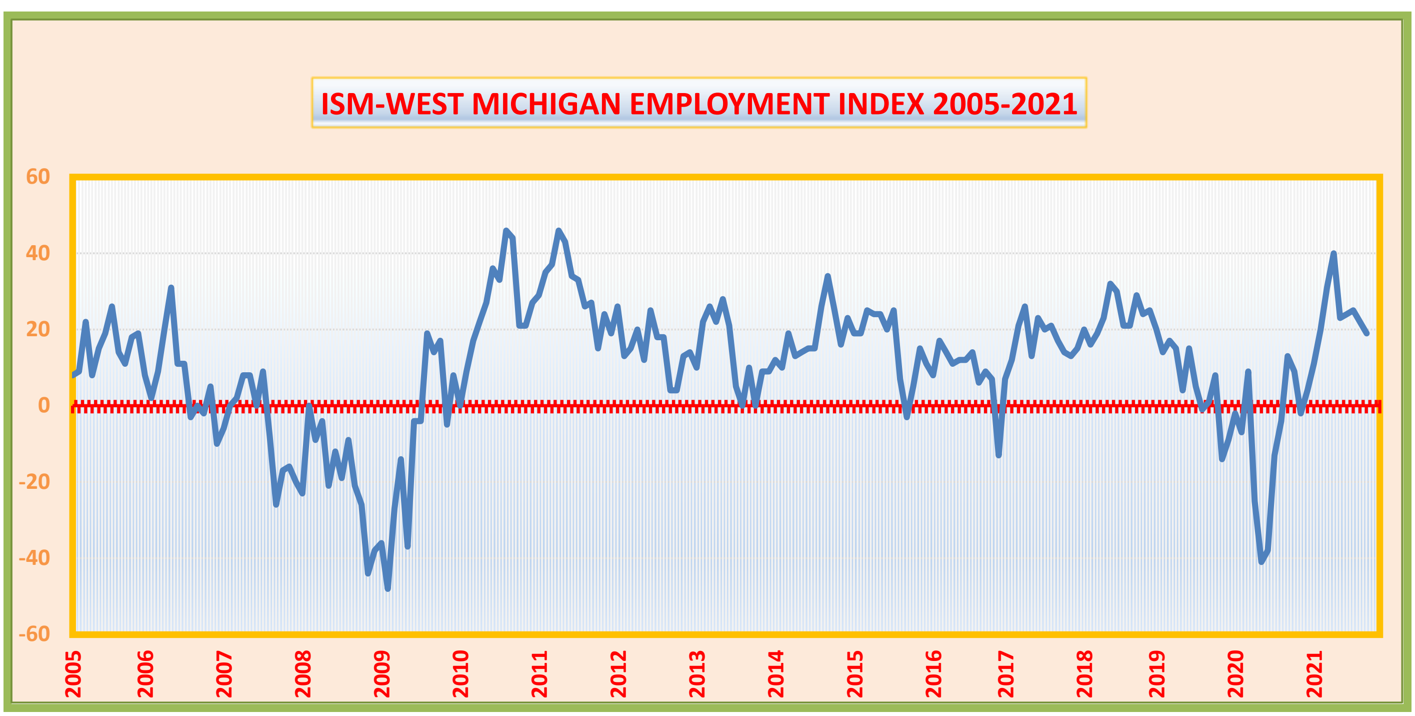


ISM-West Michigan Index of PRICES: 2008-2021



ISM-WEST MICHIGAN INDEX OF EMPLOYMENT

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.



ISM-West Michigan Future Business Outlook

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.