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News Release (For Immediate Release)

December 8, 2020

Current Business Trends

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RECESSION RECOVERY: STILL MODESTLY ON TRACK

Key Participant Comments for November:

“We were busier than expected this month, and actually ran some overtime. Hope it keeps up.”

“We are struggling to keep production running due to Covid-19 exposure throughout our workforce.”

“Next few months are going to be unpredictable. Short term sales pressure a real concern. We have a huge focus on keeping employees safe.”

“We’re still seeing a lot of delays on international shipments which make things difficult for planning purposes.”

The West Michigan industrial economy remains on the recovery track that began in July even as many restaurants, bars, and other gatherings continue to face various restrictions. According to the data collected in the third and fourth weeks of November, NEW ORDERS, our index of business improvement, came in at +19, up slightly from October’s +16. However, the PRODUCTION index, which is termed “output” by many economists, remained positive but fell sharply to +2 from October’s +29. Activity in the purchasing offices, the index of PURCHASES, came in at +9, modestly below last month’s +12. Even after five months of recovery, our survey participants continue to complain that the supply chains, both foreign and domestic, are still FAR from getting back to normal. In fact, this month’s index of LEAD TIMES set a record at +66, up from +42. As a result, some firms have had difficulty maintaining production schedules because of delayed shipments of key materials or components. In addition, the freight companies themselves are often short both trucks and drivers. With a new wave of Covid-19 now upon us, we should not be surprised if our statistics flatten or even turn slightly negative in the next few months. However, there seems to be universal agreement that when the new vaccine (or vaccines) finally reach a large portion of the population, we should see an economic boom.

The U.S. Economy. For the national economy, the November picture is mixed. The December 1 press release from the Institute for Supply Management, our parent organization, remained positive but modestly backtracked. ISM’s index of NEW ORDERS came in at +22, down from October’s +30, but still ahead of September’s +16. In a more modest move, the ISM PRODUCTION index retreated to +19 from +26. ISM’s overall index eased to 57.5 from the two-year high of 59.3 reported last month.

IHS Markit.com, the British international consulting firm that also surveys U.S. purchasing managers, reported the sharpest improvement in operating conditions since September 2014. Markit.com’s seasonally adjusted November PMI (Purchasing Manager’s Index) posted at 56.7, up significantly from October’s 53.4. The rise in Markit.com’s index of Production (a.k.a, Output) was the steepest in six years. Chris Williamson, Chief Business Economist at IHS Markit, further commented:

“The manufacturing recovery kicked up a gear in November, with production growth accelerating to the highest for over six years. Most encouraging was the breakdown of the rise in new orders which underpinned the expansion. Although demand for consumer goods remained somewhat subdued, mainly reflecting rising virus infection rates, demand for investment goods such as business equipment and machinery rose especially sharply. The rise in investment spending sends a welcome signal that companies have become more optimistic about longer term prospects, something that was reinforced by a surge in firms’ expectations about production in the year ahead – even in consumer-facing sectors – to the highest since early-2015. Confidence was boosted by encouraging vaccine news during the month, auguring well for life returning to normal at some point in the coming year, as well as hopes of increased stimulus spending and infrastructure investment following the election.”

The World Economy. According to the J.P. Morgan Global Manufacturing Index press release on December 1, the worldwide economic recovery from the pandemic picked up speed in November. In fact, the expansion was at the fastest rate in almost a decade, and the resulting PMI for the aggregate of 44 countries came in at a 33-month high of 53.7. Because of the new round of lockdowns, the New Orders index rose to 55.0, only a tenth higher than October. However, the Output index fared better, probably because many firms around the world have figured out how to keep their factories open and their employees safe at the same time. The PMI for China came in at another ten-year high of 54.9, up from 53.6. The beleaguered PMI for Brazil came in at 64.0, one of the strongest reports in JPM’s index. Olya Borichevska, from Global Economic Research at J.P. Morgan, further noted:

“Amid alarming virus developments in the U.S. and across Europe, it is encouraging to see the global manufacturing PMI hold up in November. The seventh consecutive rise in the output index left the level at 55.2 in November. Internals of the survey were also positive. Regionally the PMIs highlight a split between strength in the U.S. and Asia against weakness across Europe. This aligns with activity restrictions that have been put in place across Europe which are negatively impacting performance. By contrast, mobility data in the U.S. show very little response to virus developments. Another encouraging aspect of today’s PMI report is the broad-based jolt higher in the future output PMI in November which might be related to vaccine hopes. The recovery in the global manufacturing sector continued early this quarter with the level in the PMI for output and new orders among the highest seen over the past two-and-a-half years. One risk to the goods sector recovery is the sharp increase in new virus cases which has resulted in activity restrictions across Europe.”

In the Eurozone, the November PMI backtracked to 53.8 from 54.8. At 57.8, the PMI for Germany remains the strongest of the 19-nation group. The Netherlands posted at a 22-month high of 54.4. The PMIs for Spain, France, and Greece sank to 6-month lows. Chris Williamson from Markit.com further commented:

“Eurozone manufacturing output continued to grow at a decent pace in November. Although the rate of expansion cooled from

October's 32-month high amid new lockdown measures, the sustained expansion should help to soften the economic blow of COVID-19 restrictions, which have hit the service sector hard. The survey therefore adds to evidence that the region will avoid in the final quarter of the year a similar scale of downturn recorded in the second quarter. Germany was once again the main engine behind the region's expansion, enjoying a rate of output and order book growth that has been rarely exceeded over the survey's 25-year history. Excluding Germany, output growth came close to stalling, and new order inflows fell for the first time since June. Shortages of inputs are meanwhile contributing to higher price pressures, with suppliers' increasingly able to raise prices amid a sellers' market for many key inputs. Such a restoration of pricing power bodes well for profits and helps ease broader deflationary concerns."

Automotive. Although the business conditions for the West Michigan auto industry remain on track, the November sales picture for the industry, at first glance, looks weak. Although many nameplates are still reporting only quarterly sales, the November sales report for the rest of the industry fell by 12.2 percent. However, Automotive News blames most of the problem on "a fluke in the calendar." For November 2020, there were three fewer selling days than last year. According to Motor Intelligence, the estimated Seasonally Adjusted Annualized Rate of sales (SAAR) in November came in at 15.2 million units. Dealer inventories remain slim, and most firms are still reporting recurring parts shortages at many assembly plants. Thomas King, who heads the data and analytics division at J.D. Power, further commented:

"November 2020 is a prime example of why accounting for selling day differences is important in measuring comparable sales performance. After two consecutive months of year-over-year retail sales gains, a quirk in the November sales calendar will result in new-vehicle retail sales appearing to fall 12%. This year, November has three fewer selling days and one less selling weekend compared with 2019. When these calendar quirks are accounted for, new-vehicle retail sales are expected to almost match 2019 levels. While the sales results illustrate the continued strength of consumer demand, that strength is further reinforced by transaction prices hitting another record high, even as manufacturers and retailers continue to remain disciplined on new-vehicle incentives and discounts."

West Michigan Unemployment. For the West Michigan November survey, our index of EMPLOYMENT improved modestly to +4, up from October's -2. At the state level, Michigan's Department of Technology, Management and Budget unemployment tabulation for October (earliest month available) reported on December 1 that the seasonally adjusted state-wide unemployment rate fell sharply to 5.5 percent from 8.6 percent. For most of our West Michigan counties, the unemployment rate improved by about two percentage points. The paradoxical trend from last month continues, with some firms announcing layoffs while others are again begging for qualified people to fill open positions. Because of daycare problems caused by school closings as well as ongoing concern about keeping safe from the virus, the worker absentee rate continues to distort normal operations for MANY firms. Of the 83 counties in Michigan, the estimated October unemployment rates ranged from a low of 3.0 percent in Mackinac County to a high of 8.2 percent in Wayne County. Looking at some of the major West Michigan counties, unemployment for Ottawa County came in at 3.1 percent, Kent County 3.9 percent, Kalamazoo County 4.0 percent, and Calhoun County 5.3 percent. The national unemployment rate declined to 6.7 percent in November, which is still about twice the level of November 2019.

Industrial Inflation. With our November index of LEAD TIMES coming in at a 30-year high of +66, it is not surprising to see our West Michigan PRICE index edge up to +26 from +16. Numerous supply chain disruptions have driven prices higher for a few key

commodities such as steel, paper, corrugated, and aluminum. At the international level, the JPM PRICES index jumped to 57.4 from 55.2. The ISM national index of PRICES remained virtually unchanged at +30. Timothy Fiore, ISM's survey committee chair, further commented:

"Raw materials prices increased for the sixth consecutive month. Aluminum, copper, steel, transportation costs, corrugate, basic chemicals, and plastics all continued to record price increases."

GDP. Because of the recent expanded outbreaks of Covid-19, it is no surprise that the GDP estimates going forward are beginning to fall. According to the November 25th press release from the U.S. Bureau of Economic Analysis, the estimated third quarter GDP growth rate remained unchanged at 33.1 percent. Looking ahead to 2020's last quarter, the Atlanta Fed's "GDPNow" fourth quarter rolling estimate projects an increase of 11.1 percent. However, the author also commented that this rosy estimate may not have accounted for the recent surge in the virus. The December 4 New York Fed's "Nowcast" estimate of fourth quarter growth has edged down to 2.5 percent, which is probably more realistic. Conference Board's Q4 estimate is still stuck at 1.5 percent. The fact remains that the economic models for all of these institutions were never designed to incorporate a pandemic. Hence, it is difficult to judge which report is the most accurate, if any.

Business and Consumer Confidence. Because of the increased level of uncertainty about the new wave of Covid-19, the Conference Board Consumer Confidence Index posted a significant decline in November. After remaining relatively flat in October, the index dropped by 5.1 points to 96.1 (1985=100), down from 101.4 in October. For our local industrial survey, the SHORT-TERM BUSINESS OUTLOOK index for November, which asks local firms about the business perception for the next three to six months, retreated to +3 from +14. The LONG-TERM BUSINESS OUTLOOK index, which queries the perception for the next three to five years, backtracked to +23 from +37. Needless to say, most measures of confidence are driven by the news cycle, and despite the promise of vaccines being available within months, the increasing Covid-19 death rate and the threat of more shut-downs make the outlook for next few months more pessimistic.

Summary. Although most of our statistics are headed in the right direction, the resurgence of Covid-19 cases has become the new wild card. By sometime in the early spring, it now appears that a large number of people may be vaccinated, and some form of normalcy will begin to resume. But to quote Yogi Berra, "It ain't over 'till it's over." Hence, it is going to be a long six months between now and then. Thousands of people are going to be infected, and many will die. Many of our local industrial firms have mandated face masks, divided work areas for social distancing, devoted cleanup crews to perpetual cleaning all with the goal of remaining open. However, worker absences for daycare issues and fears of infection will continue to challenge the normal operations of many firms at almost every level in the ENTIRE supply chain. By summer, if all goes well, we may see a short economic boom as pent-up demand fuels a round of purchases at both the consumer and industrial levels. For another wild card, we hope congress will pass a significant stimulus package to assist the vulnerable sections of the economy through the gap. However, it is worth remembering that some retail businesses, some restaurants, some movie theaters, and some segments of the office furniture business will NOT come back. Other businesses like Amazon and automotive parts suppliers appear poised to expand. Even this month's report mentions numerous firms that are again looking for new employees at all levels. What we don't know is how long it will take for the newly-unemployed people to transition to available jobs in the post-pandemic West Michigan economy.

NOVEMBER COMMENTS FROM SURVEY PARTICIPANTS

“As our organization is essential, we have found that our necessary projects and work have not lessened. Our methods of completing our tasks have been challenged due to the virus, but with proper precautions, we can still be successful.”

“Automotive is strong despite the pandemic!”

“We are seeing high absentee rates due to COVID!”

“We are struggling to keep production running due to Covid-19 exposure throughout our workforce.”

“We are battling Covid internally and with our supply base. It keeps things interesting.”

“I am used to business slowing down in November once deer season starts, but this slowdown came out of the gate slow. November will likely be our lowest booking month of the year after a nice uptick in the third quarter.”

“We are still holding our own in these very uncertain times. If the vaccines are ‘for real,’ then the 2021 economic conditions should only improve.”

“Shutting down the restaurants and bars in Michigan is hurting our business as well.”

“With rising COVID cases last month (October) in all U.S. states where my company does business, there was a concern of reclosing. However, those concerns weren’t voiced or felt until this month. This why our short-term outlook is up. Next month will clearly be down with lockdowns.”

“We’re still seeing a lot of delays on international shipments which make things difficult for planning purposes.”

“Our customer forecasting variability is at an all-time high.”

“So far, we have seen some fairly strong months for sales, but we are very cautious about the end of the year.”

“Our production down due to Covid-19.”

“The aluminum beverage can shortage is real. It going to have a negative impact on craft brewers.”

“The election and Covid have caused disruption to our business. Biden promised to get rid of accelerated depreciation of equipment which will be bad for capital purchases.”

“We are seeing extended lead times by specific manufacturers but not wholesale across a given commodity.”

“Next few months are going to be unpredictable. Short term sales pressure a real concern. Huge focus on keeping employees safe.”

“It is hard to say what business is going be like in the next 3-6 months, and even harder for the 4 years with democrats in the White House.”

“We were busier than expected this month, and actually ran some overtime. Hope it keeps up.”

“SLOW!”

“Our business continues to be great, and demand is out stripping our supply of materials.”

“Prices have been very stable. We have not seen any drops in pricing either. We did negotiate a lot of pricing structures during the first Covid scare to get us competitive pricing during these tough times.”

November Survey Statistics

	UP	SAME	DOWN	N/A	Nov. Index	Oct. Index	Sept. Index	25 Year Average
Sales (New Orders)	38%	41%	19%	2%	+19	+16	+18	+14
Production	21%	49%	19%	11%	+ 2	+29	+20	+14
Employment	21%	62%	17%	0%	+ 4	- 2	+ 9	+ 8
Purchases	26%	57%	17%	0%	+ 9	+12	+14	+ 7
Prices Paid (major commod.)	28%	70%	2%	0%	+26	+16	+18	+15
Lead Times (from suppliers)	66%	34%	2%	0%	+66	+42	+25	+11
Purchased Materials Inv. (Raw materials & supplies)	21%	53%	17%	9%	+ 4	+13	+ 5	- 4
Finished Goods Inventory	19%	47%	23%	11%	- 4	- 9	- 7	- 8
Short Term Business Outlook (Next 3-6 months)	28%	47%	25%	0%	+ 3	+14	+20	-
Long Term Business Outlook (Next 3-5 years)	34%	51%	11%	4%	+23	+37	+36	-

Items in short supply: Cleaning supplies, sanitizers, some disinfectants, materials coming out of the hurricane territory, many steel items, ultra-high strength and coated steel, raw steel, trucking and transportation, corrugated/paper, carbon steel, PPE gloves, paperboard, Marathon motors, truck drivers, thermostats, oil, engine fuel, air filters, and certain winter wiper blades, polypropylene, some resins, aluminum extrusions, active electronic components, aluminum beverage cans, insulation, labor.

Prices on the UP side: Steel, insulation, isocyanate, corrugated, cleaning supplies, aluminum, copper, polypropylene, PC/ABS plastics, steel items, paper products and packaging materials, all metals, transportation, raw steel, carbon steel, stainless steel, wire rod, ocean freight, lumened LEDs, thin film filters, direct labor.

Prices on the DOWN side: Natural gas, gasoline, nylon materials, Midwest premium aluminum, sodium hypochlorite.

*Item reported as both up AND down in price.

Latest Unemployment Reports

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

	Oct. 2020	Oct. 2019	Aug. 2009	20 Year Low
State of Michigan (Oct.)	5.1%	3.5%	14.6%	3.2%
State of Michigan (Unadj.)	8.2%	3.5%	14.1%	2.9%
Kent County	3.9%	2.3%	11.9%	2.1%
Kalamazoo County	4.0%	2.8%	11.1%	2.1%
Calhoun County	5.3%	3.3%	12.8%	2.7%
Ottawa County	3.1%	2.5%	13.3%	1.8%
Barry County	5.8%	2.2%	10.9%	2.2%
Kalamazoo City	5.0%	3.5%	15.2%	3.2%
Portage City	3.7%	2.6%	8.7%	1.3%
Grand Rapids City	5.2%	3.1%	16.1%	3.0%
Kentwood City	3.7%	2.2%	10.7%	1.4%
Plainfield Twp.	3.0%	1.7%	8.0%	1.4%
U.S. Official Rate (Oct.)	6.9%	3.6%	9.6%	3.5%
U.S. Rate (Unadjusted)	6.6%	3.3%	9.6%	3.4%
U.S. U-6 Rate (Oct.)**	12.1%	6.9%	16.7%	8.0%

**U-6 for Michigan = 13.9% for Q4 2019 thru Q3 2020

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 + 19 for the month of November 2020

Previous Month +16 for the month of October 2020

One Year Ago -21 for the month of November 2019

Record Low - 57 for the month of December 2008

Record High + 55 for the month of September 1994

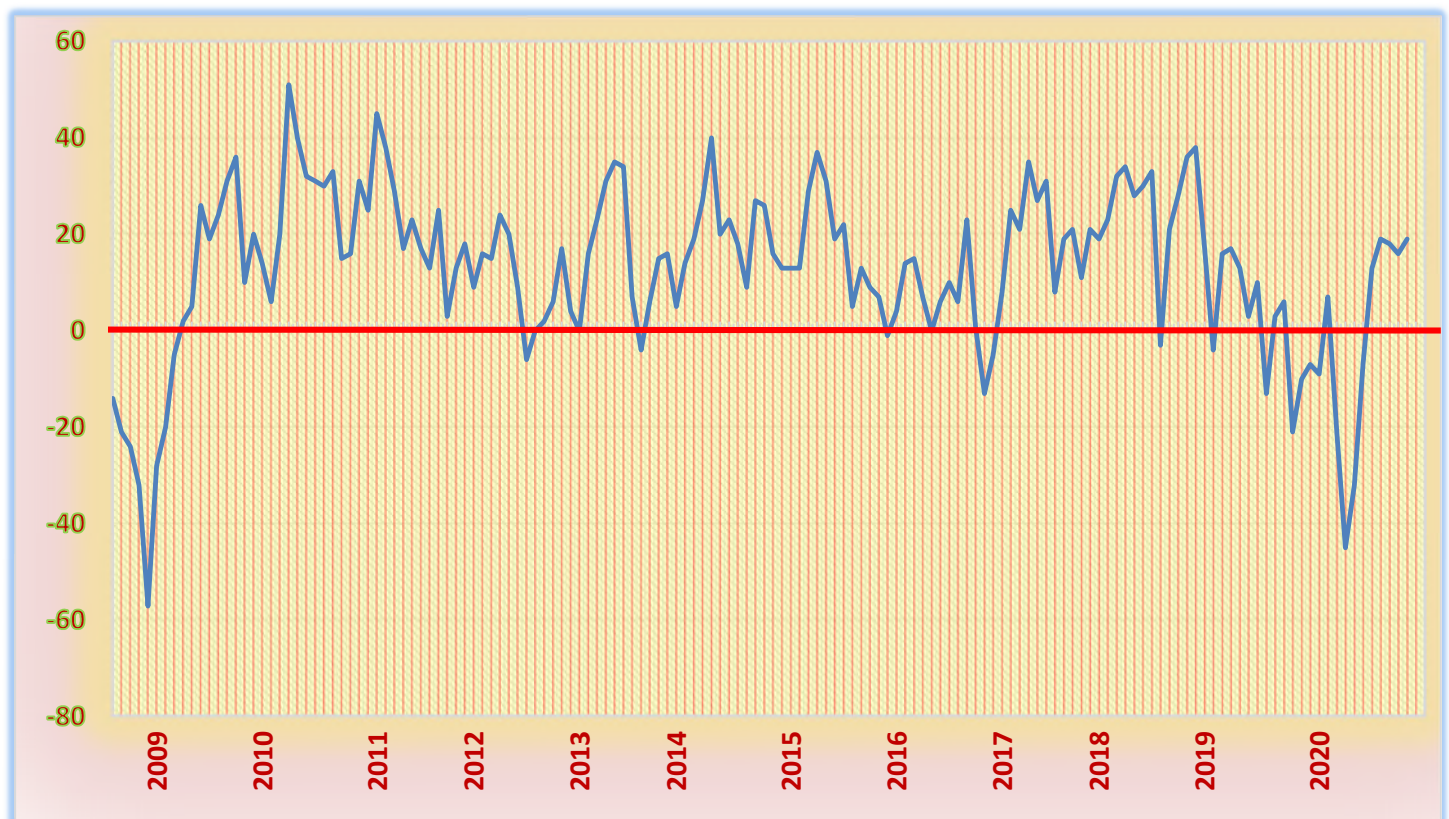
Great Recession

First Recovery + 3 in April of 2009

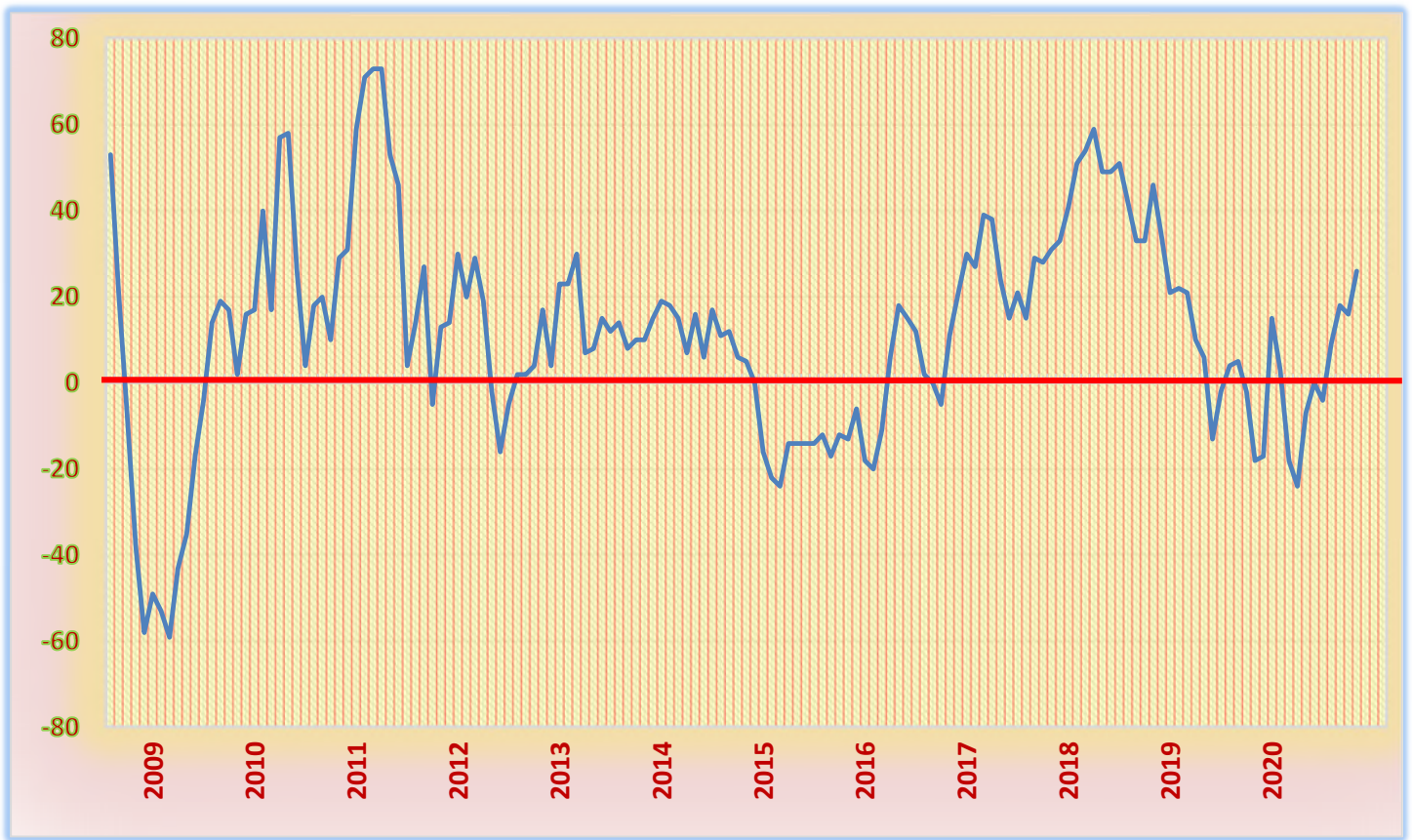
Covid-19 Recession

First Recovery +12 in July 2020

ISM-West Michigan Index of New Orders: 2008-2020



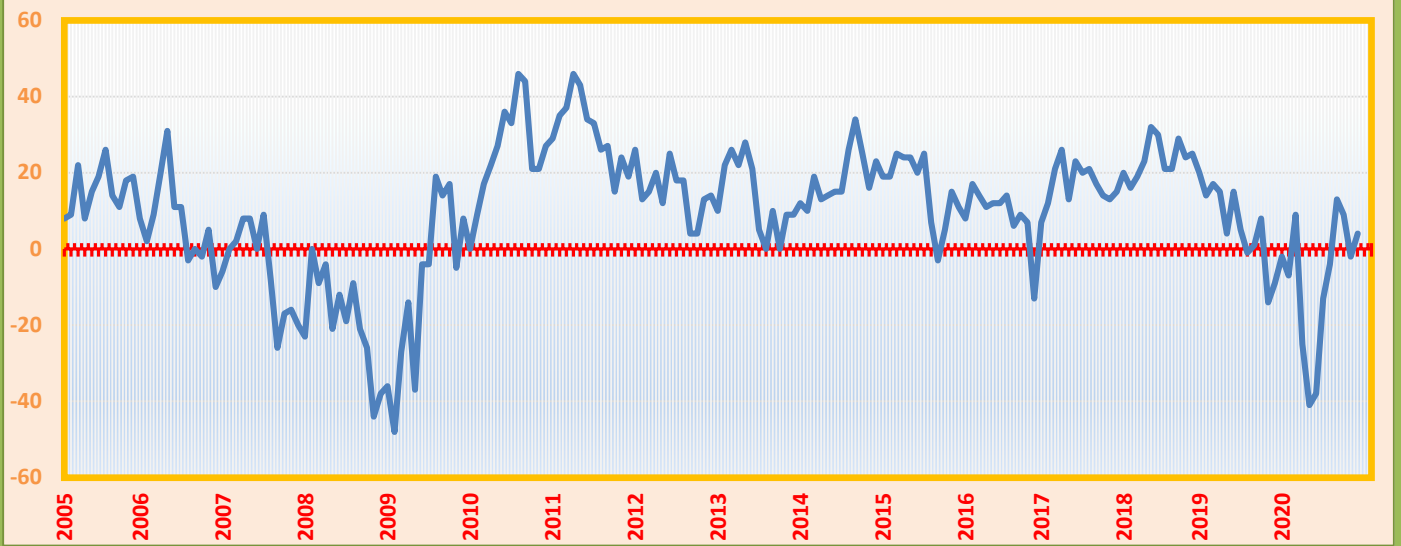
ISM-West Michigan Index of PRICES: 2008-2020



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 EMPLOYMENT INDEX 2005-2020



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.

