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Current Business Trends

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THE RECOVERY PICKS UP STEAM

Key Participant Comments for December:

"Our fourth quarter has continued to be stronger than expected. We hope that this strength continues into 2021."

"We are still holding out own, although it does seem a little softer now than it did a few months ago. Hopefully, the newly approved vaccine will do its job on all fronts."

"We're experiencing the annual Christmas bump in business at the same rate as previous years. Extended lead times on almost all goods continue to have an accordion like effect on the entire supply chain. Container hang-ups at major points of entry and rail car shortages seem to be the main problems for our suppliers.

"The slowdown continues. We're hanging on. Let's hope we are climbing out of this with the vaccine approvals."

The West Michigan industrial economy clearly ended 2020 on a positive note. According to the data collected in the third and fourth weeks of December, NEW ORDERS, our closely watched index of business improvement, jumped to +31 from +19. The PRODUCTION index, which is termed "output" by many economists, bounced to +33, up sharply from November's +2. Activity in the purchasing offices, the index of PURCHASES, closed out the year at +26, up nicely from +9. Just as last month, our survey participants continue to complain that the supply chains, both foreign and domestic, are still FAR from getting back to normal. This month's index of LEAD TIMES posted at +64, slightly below the all-time record high of +66 set last month. The trucking companies are still reporting shortages of trucks and drivers. Delays in the inspection of incoming overseas containers are still being reported. Some configurations of rail cars are now in short supply. However, most industrial firms, although constrained by social distancing, constant disinfecting, and sporadic absenteeism, are still managing to function. The apparent success of the recently-shipped vaccines has boosted morale, but there is universal agreement that the problem posed by the pandemic will not go away until the vaccines finally reach a large portion of the population.

The U.S. Economy. For the national economy, the January 5 press release from the Institute for Supply Management, our parent organization, closed out the year on a positive note. ISM's index of NEW ORDERS edged up to +26 from +22. ISM's PRODUCTION index held steady at +19. However, because of statistical modifications, ISM's overall index rose to 60.7 from November's 57.5.

IHS Markit.com, the British international consulting firm that also surveys U.S. purchasing managers, reported the sharpest improvement in operating conditions in over six years. Markit.com's seasonally adjusted December PMI (Purchasing Manager's Index) posted at 57.1, up from November's 56.7. A major part of December's strong performance can be attributed to substantial increases in New Orders and Production, or as many economists call it, Output. Chris Williamson, Chief Business Economist at IHS Markit, further commented:

"Manufacturers reported a strong end to 2020, with production and order books continuing to grow, albeit with the rates of expansion slowing as a result of rising virus case numbers and related restrictions. Producers of consumer goods reported a marked downturn in orders and production, reflecting weakened consumer expenditure amid the resurgence of COVID-19. More encouragingly, producers of machinery and equipment reported sustained strong demand, suggesting companies are increasing their investment spending. Producers of inputs to other factories also fared well, as manufacturers sought to restock their warehouses. However, the survey also highlights how manufacturers are now not only facing weaker demand conditions due to the pandemic, but are also seeing COVID-19 disrupt supply chains further, causing shipping delays. These delays are limiting production capabilities as well as driving producers' input prices sharply higher, adding to the sector's woes. Firms nevertheless remain highly positive about the outlook for the year ahead, anticipating that vaccine roll-outs will help drive a further recovery in 2021, although some of November's post-election exuberance has been tamed by the recent rise in virus case numbers, suggesting the near-term outlook will remain challenging."

The World Economy. The worldwide economic recovery from the pandemic has stabilized, according to the January 4 J.P. Morgan Global Manufacturing Index. The PMI for the aggregate of 44 manufacturing nations remained at a 33-month high of 53.7. However, the global Production (Output) index eased to 54.9 from November's 55.3. In a similar move, JPM's index of New Orders modestly backtracked to 54.5 from 55.1. Despite the uptick in pandemic infections AND the discovery of new COVID-19 strains, the world's industrial firms are still managing to move forward, albeit at a slower pace. At least three vaccines are now being distributed worldwide, and another eight are in Stage III testing. By midsummer, we should have several more vaccines available, and even the third-world countries will be able to inoculate their workforce. Olya Borichevska, from Global Economic Research at J.P. Morgan, further noted:

"The global industrial sector finished 2020 with strong performance as the global output PMI inched down a touch to a solid level of 54.9 in December. This was a positive development in the face of virus spreading which has forced many countries to put back in place activity restrictions. The trend in employment stabilised, providing welcome respite to the jobs market."

In the Eurozone, the December PMI jumped to a two year high of 55.2, up from 53.8. Except for Greece, all of the PMI indexes for the major countries in the Eurozone have turned positive. Germany posted a 34-month PMI high of 58.3, followed closely by a 27-month high of 58.2 for the Netherlands. Chris Williamson from Markit.com further commented:

"Eurozone manufacturing ended 2020 on an encouragingly strong note, with production growth accelerating to one of the fastest seen over the past three years. The solid performance of manufacturing amid the tightening of COVID-19 restrictions in the closing months of 2020 represents a major contrast to the lockdowns earlier in the year, with factories acting as a crucial support to the economy as the service sector is hit by tough social distancing measures. The strong manufacturing growth is thanks to a large extent on booming demand for German goods, which drove most of the increase in eurozone production during December, in turn buoyed by rising exports. The economy consequently looks set to be hit by the pandemic in the fourth quarter far less than the unprecedented decline in the second quarter thanks to the resilience of manufacturing, and an improvement in business expectations for 12 months ahead to the highest for almost three years suggests that momentum can be sustained in 2021. Rising virus case numbers are nevertheless likely to mean trading conditions remain challenging in the near-term and therefore constrain growth."

Automotive. Total auto sales for 2020 were down by 14.5 percent, but the decline turned out to be far less severe than originally forecast. Industry sales for the last quarter of 2020 were down only 2.1 percent compared to the fourth quarter of 2019. All of this is good news for our local auto parts suppliers. For the Detroit Three, fourth quarter sales at FCI Chrysler fell 8.1 percent, and declined by 10.0 percent at Ford. Buoyed by strong truck and SUV sales, GM posted a quarterly gain of 4.8 percent. For other major nameplates, fourth quarter sales by Hyundai-Kia advanced 1.2 percent, Volkswagen gained 4.1 percent, and Toyota added a hefty 9.4 percent. Quarterly losers included Honda, down by 8.9 percent, Nissan shed 21.1 percent, and BMW slipped 2.2 percent. Dealer inventories remain slim, and most firms are still reporting recurring parts shortages at many assembly plants. Elaine Buckberg, the chief economist at General Motors, summarized the hope of the entire auto industry by commenting:

> "We look forward to an inflection point for the U.S. economy in spring. Widening vaccination rates and warmer weather should enable consumers and businesses to return to a more normal range of activities, lifting the job market, consumer sentiment, and auto demand."

West Michigan Unemployment. Growth for our West Michigan index of EMPLOYMENT improved to +11 from November's +4. At the state level, Michigan's DTMB December 29 unemployment tabulation for November (earliest month available) reported that the seasonally adjusted state-wide unemployment rate rose to 6.9 percent from 6.1 percent, largely because of the resurgence of the COVID-19 virus. Because of day care 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 November unemployment rates ranged from a low of 3.2 percent in Ottawa County to a high of 11.3 percent in Wayne County. Looking at some other West Michigan counties, unemployment for Kent County came in at 4.0 percent, Kalamazoo County 5.0 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 the rise of the index of LEAD TIMES, the traditional law of supply and demand has forced West Michigan's index of PRICES up to +43 from November's +26. Price increases in some of the major commodities like most grades of steel, aluminum, and plastic resins are starting to stifle profitability. The ISM national index of PRICES rose sharply to +55 from +31. At the international level, the JPM index of PRICES vaulted to 60.9 from 57.5. Timothy Fiore, ISM's survey committee chair, further commented:

> "Aluminum, copper, steel, petroleum-based products including plastics, transportation costs, electronic components, corrugate, temporary labor, wood and lumber products all continued to record price increases,"

GDP. The GDP estimates going forward contine to be erratic. According to the December 22nd press release from the U.S. Bureau of Economic Analysis, the final third quarter GDP growth rate has been modestly upgraded to 33.4 from 33.1 percent. 2020's last quarter is now awaiting tabulation, and the Atlanta Fed's "GDPNow" fourth quarter rolling estimate projects an increase of 10.4 percent. By contrast, the December 31 New York Fed's "Nowcast" estimate of fourth quarter growth has edged down to 2.1 percent, which is probably more realistic. However, the "Nowcast" for the first quarter of 2021 has been increased to 5.2 percent, which would be very positive if accurate.

Business and Consumer Confidence. The December Conference Board Consumer Confidence Index dropped by 4.7 points to 88.6 (1985=100), down from 92.9 in November. By contrast, the University of Michigan index posted at 80.7, up 3.8 from the November report. Both surveys note that confidence in the economy has slipped since the resurgence of COVID-19 infections and deaths. The National Federation of Independent Businesses' Small Business Optimism Index declined 2.6 points in November to 101.4, and Chief Economist Bill Dunkelberg commented, "The recovery will remain uneven as long as we see state and local mandates that target business conditions and disproportionately affect small businesses." Our local industrial survey, the SHORT-TERM BUSINESS OUTLOOK index, which asks local firms about the business perception for the next three to six months, bounced to +19 from +3 for December. The LONG-TERM BUSINESS OUTLOOK index, which queries the perception for the next three to five years, rose sharply to +41 from +23. Business confidence is partially driven by the news cycle, and the widely publicized shipment of the first COVID-19 vaccines gave everyone hope that the end of the crisis may be in sight, even if we must endure a few more months before we have reached "herd immunity."

Summary. So far, the resurgence of COVID-19 cases has not dampened the industrial economy in West Michigan. By mandating face masks, dividing work areas for social distancing, and devoting cleanup crews to perpetual cleaning, many of our local firms have resumed near-normal operations. The incoming Biden administration is inheriting an economy headed in the right direction, so it is unlikely that we will see any immediate changes inhibiting the recovery. However, there WILL be changes, and we will continue to monitor their impact is as they unfold.

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DECEMBER COMMENTS FROM SURVEY PARTICIPANTS

"All steel has been going up since this fall. This needs to be watched closely. We need to raise our prices now to offset the price increases from the past 30-60 days."

"The fourth quarter is solid, and we are finishing the year strong. There's plenty of opportunities out there."

"We're seeing higher than expected seasonal demand."

"Thankfully, the vaccine is becoming a reality. Thanks to the current administration for working so hard to get it out in record time!"

"We're experiencing the annual Christmas bump in business at the same rate as previous years. Extended lead times on almost all goods continue to have an accordion like effect on the entire supply chain. Container hang-ups at major points of entry and rail car shortages seem to be the main problems for our suppliers.

"It's starting to look more promising for 2021."

"2020 has been a really challenging year."

"We're very busy headed into holidays. 2021 will be flat compared to 2020, but new orders for 2022 will create larger sales growth. The automotive and heavy diesel businesses remain busy and steady."

"We will beat the forecast for this month. Freight delays continue, especially anything international. We have no net increase in our workforce, but management is finally cutting loose to hire people to replace those lost to attrition."

"Our fourth quarter has continued to be stronger than expected. We hope that this strength continues into 2021."

"We are still holding out own, although it does seem a little softer now than it did a few months ago. Hopefully, the newly approved vaccine will do its job on all fronts."

"We've had a flat month and a flat outlook."

"We are finishing strong this year."

"Our expansion plans have been put on hold until the post-COVID economy."

"There's a seasonal slowdown but, but sales are holding overall."

"The slowdown continues. We're hanging on. Let's hope we are climbing out of this with the vaccine approvals."

December Survey Statistics

	UP	SAME	DOWN	N/A	Dec. Index	Nov. Index	Oct. Index	25 Year Average
Sales (New Orders)	55%	31%	14%	0%	+31	+19	+16	+14
Production	45%	38%	12%	5%	+33	+ 2	+29	+14
Employment	21%	69%	10%	0%	+11	+ 4	- 2	+ 8
Purchases	40%	45%	14%	0%	+26	+ 9	+12	+ 7
Prices Paid (major commod.)	43%	57%	0%	0%	+43	+26	+16	+15
Lead Times (from suppliers)	64%	36%	0%	0%	+64	+66	+42	+11
Purchased Materials Inv. (Raw materials & supplies)	31%	43%	21%	5%	+10	+ 4	+13	- 4
Finished Goods Inventory	21%	48%	24%	7%	- 3	- 4	- 9	- 8

Short Term Business Outlook (Next 3-6 months)	33%	53%	14%	0%	+19	+ 3	+14	-
Long Term Business Outlook (Next 3-5 years)	43%	50%	2%	5%	+41	+23	+37	-

Items in short supply: Paper and packaging products, corrugated, polypropylene, steel, stainless steel, cold rolled steel, aluminum, brass, ocean containers, entry level Labor, electronic components, force majeures from the hurricanes, nitrile gloves, trucking to handle the shipments, Marathon electric motors, thin film filters, aluminum extrusion, insulation, aluminum cans, nitrile & vinyl gloves, labor.

Prices on the UP side: Paper, packaging, cardboard and corrugated, wood products, stainless steels, steel, carbon steel, wire rod, scrap steel, aluminum, copper, tin, ferromoly, natural rubber, all polypropylene, ABS, PC/ABS plastic resins, thin film filters, freight, ocean freight, labor, all personal protection items, most imported parts (weak dollar)

Prices on the DOWN side: Aluminum machine parts, sodium.

*Item reported as both up AND down in price.

Latest Unemployment Reports

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

	Nov. 2020	Nov. 2019	Aug. 2009	20 Year Low
State of Michigan (Oct.)	6.9%	3.9%	14.6%	3.2%
State of Michigan (Unadj.)	6.3%	3.2%	14.1%	2.9%
Kent County	3.9%	2.3%	11.9%	2.1%
Kalamazoo County	4.0%	2.6%	11.1%	2.1%
Calhoun County	5.3%	3.3%	12.8%	2.7%
Ottawa County	3.2%	2.2%	13.3%	1.8%
Barry County	3.6%	2.5%	10.9%	2.2%
Kalamazoo City	5.0%	3.3%	15.2%	3.2%
Portage City	3.7%	2.4%	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 (Nov.)	6.7%	3.5%	9.6%	3.5%
U.S. Rate (Unadjusted)	6.4%	3.3%	9.6%	3.4%
U.S. U-6 Rate (Nov.)**	12.0%	6.8%	16.7%	8.0%

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

Index of New Orders: West Michigan

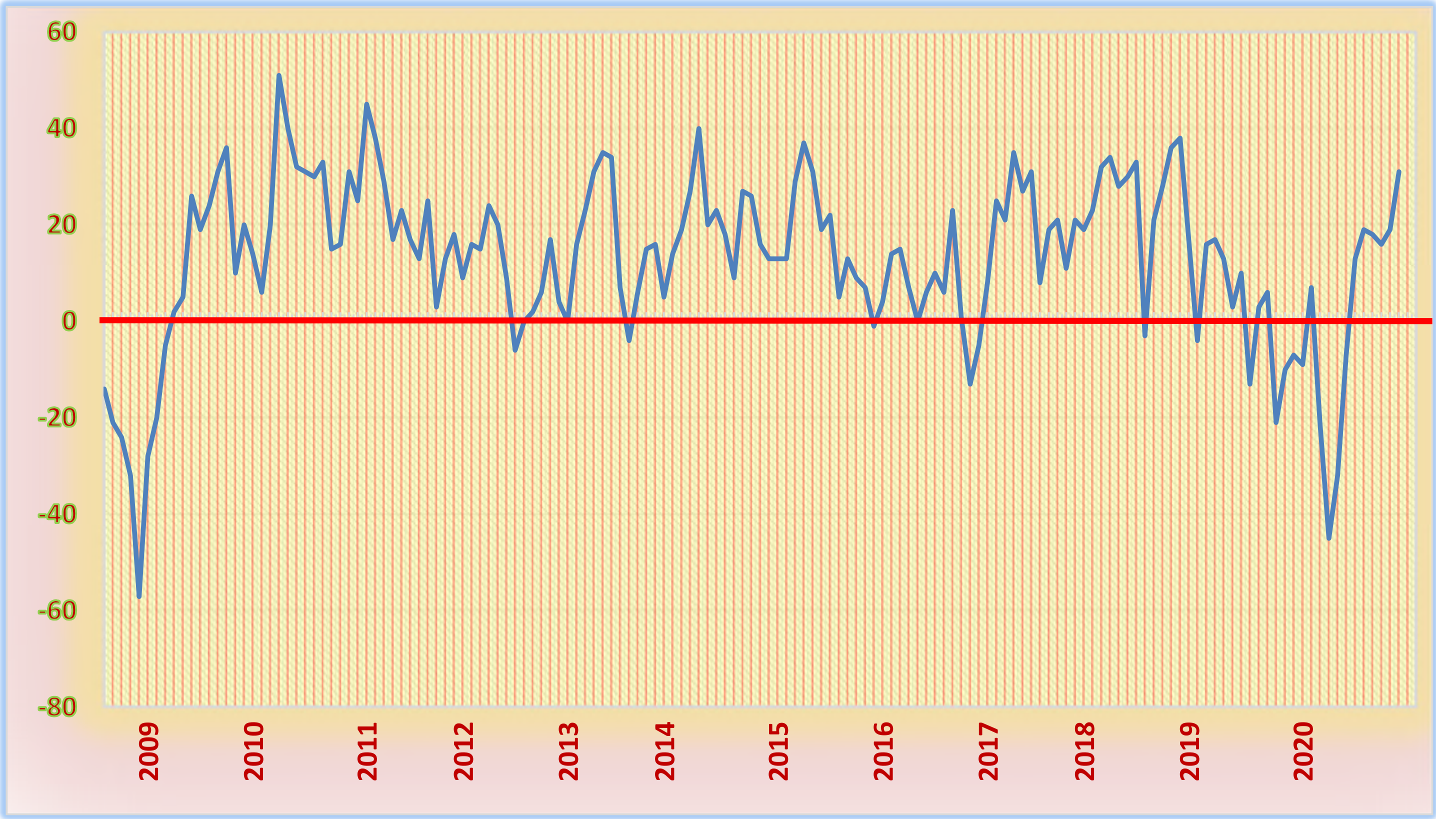
As the name implies, this index measures new business coming into the firm, and signifies business improvement or business decline. When this index is positive for an extended period of time, it implies that the firm or organization will soon need to purchase more raw materials and services, hire more 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	+ 31 for the month of December 2020
Previous Month	+19 for the month of November 2020
One Year Ago	-10 for the month of December 2019
Record Low	- 57 for the month of December 2008
Record High	+ 55 for the month of September 1994

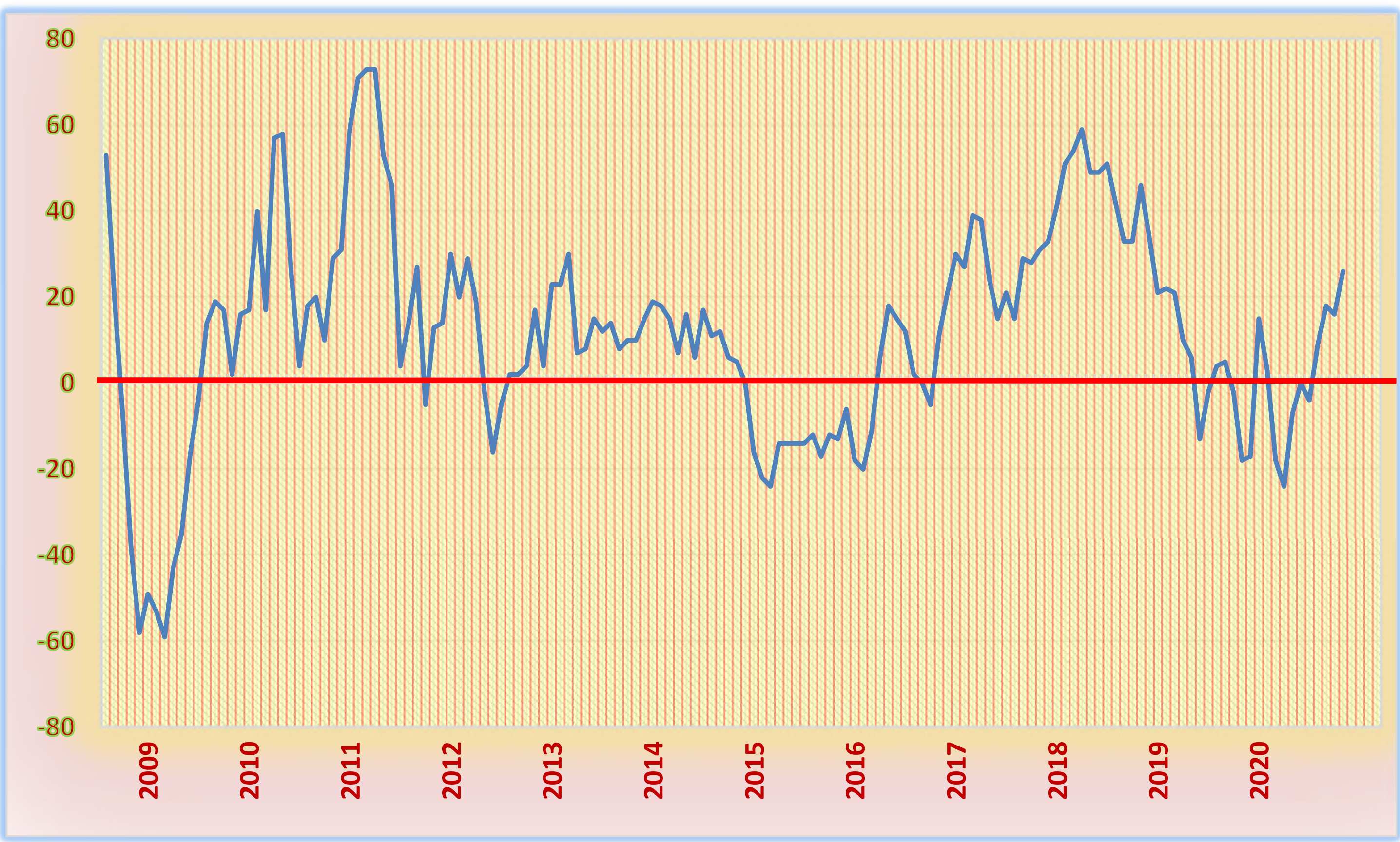
Great Recession
First Recovery + 3 in April of 2009

Covid-19 Recession
First Recovery +12 in July 2020

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

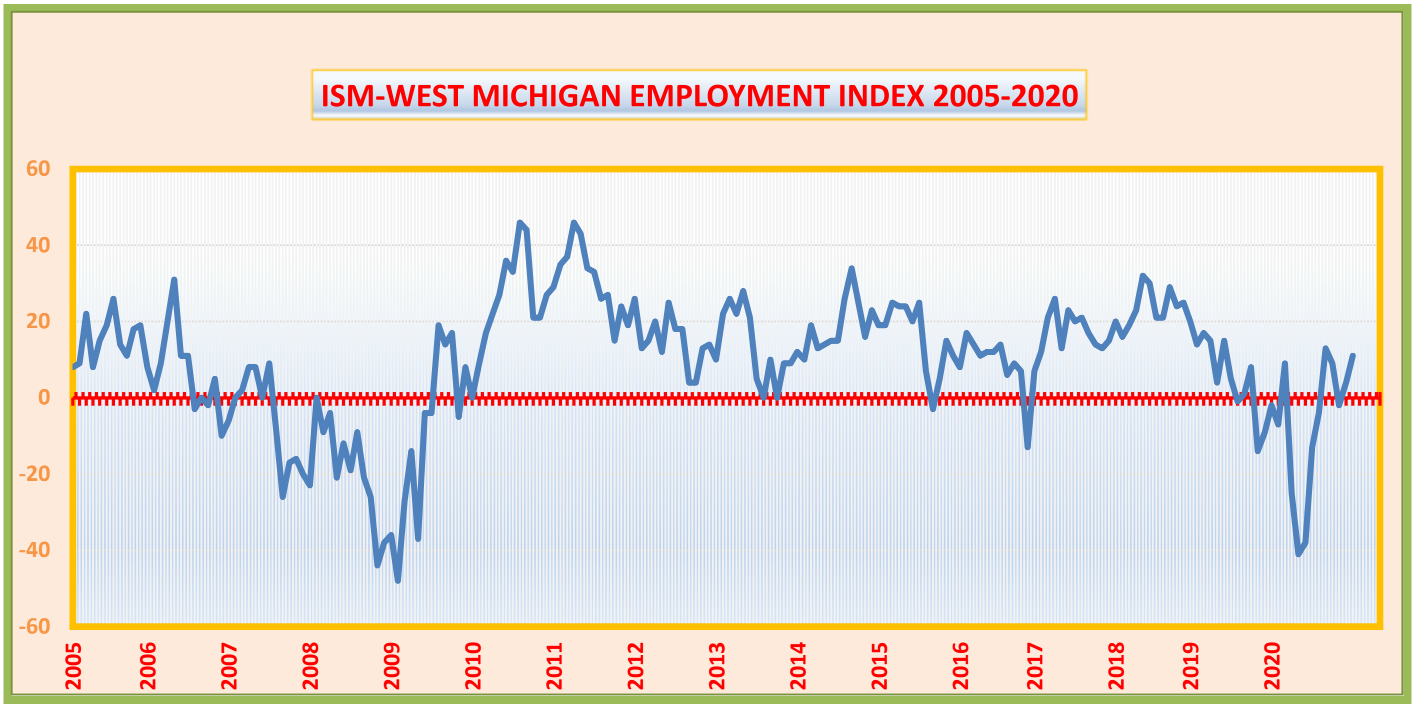


ISM-West Michigan Index of PRICES: 2008-2020



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 Future Business Outlook

The indexes of LONG-TERM BUSINESS OUTLOOK and SHORT TERM BUSIESS 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.