Institute for Supply Management,
Greater Grand Rapids, Inc.
P. O. Box 230621
Grand Rapids, MI 49523-0321

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Current Business Trends

By Brian G. Long, Ph.D., C.P.M.
Director, Supply Chain Management Research
Grand Valley State University (269) 870-0428

THE RECOVERY ROARS

Key Participant Comments for April:

"If we can just get through the next (6) months, things should hopefully settle down and opportunities will rebound."

"Customers are busy, but complaining that they cannot find quality employees to expand their business."

"Strong sales continue, and we will exceed forecast again this month. I'm unsure if it's a short-term blip, or longer trend. Prices are rising everywhere, with huge delays in international freight. Domestic vendors are lacking capacity."

"Electronic shortages continue to plague the auto industry. Outside of the electronics shortages, there are other significant shortages as well as material price increases."

"Extremely strong demand, limitations on input materials, and labor shortages are capping our ability to meet demand. Upward price pressure is coming from all areas."

According to the data collected in the last two weeks of April, the West Michigan industrial economy continues to expand at a significant pace. NEW ORDERS, our index of business improvement, posted at +46, just slightly below last month's +51. The PRODUCTION index, which is termed "output" by many economists, remained strong but tapered modestly to +29 from +33. Activity in the purchasing offices, our index of PURCHASES, eased to +44 from +51. Just like last month, much of the industrial market continues the experience spot shortages and shipment delays for a wide range of industrial commodities with no immediate end in sight. This month's index of LEAD TIMES set another record of +93, which in turn kept the index PRICES at near-record levels. In general, the mood has turned cautiously optimistic, although many supply chain professionals find themselves at record levels of stress.

The U.S. Economy. For the month ended April 30, the Institute for Supply Management, our parent organization, reported that the national economy appears to be stabilizing at a fairly lofty level. ISM's closely-watched index of NEW ORDERS rose very modestly to +41 from +40, confirming the 17-year high set last month. ISM's PRODUCTION (a.k.a., Output) index, which is driven by previous increases in NEW ORDERS, eased modestly to +33 from +35. Despite the apparent stability of these statistics, ISM's adjustment model resulted in the composite index falling to 60.7 from last month's 38-year high of 64.7.

As always, a slightly different 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 April rose to a record high of 60.5, up from March's 59.1. The index of New Orders posted at an 11-year high, and the index of Order Backlogs returned to pre-pandemic levels. The rising prices, lengthening lead times, and spot shortages have compounded the workload of many purchasing offices, although some analysts suggest that the industrial markets should begin to normalize by late summer. Chris Williamson, Chief Business Economist at IHS Markit, further commented:

> "U.S. manufacturers reported the biggest boom in at least 14 years during April. Demand surged at a pace not seen for 11 years amid growing recovery hopes and fresh stimulus measures. Supply chain delays worsened, however, running at the highest yet recorded by the survey, choking production at many companies. Worst affected were consumer-facing firms, where a lack of inputs has caused production to fall below order book growth to a record extent in over the past two months as household spending leapt higher. Suppliers have been able to command higher prices due to the strength of demand for inputs, pushing material costs higher at a rate not seen since 2008. Attempts to expand capacity via hiring extra staff gained further momentum, though in some cases staff shortages were an additional constraint on production. However, with confidence in the outlook continuing to run at one of the highest levels seen over the past seven years, buoyed by vaccine roll-outs and stimulus, further investment in production capacity should be seen in coming months, helping alleviate some of the price pressures."

The World Economy. The J.P. Morgan April report for worldwide manufacturing PMI posted on May 3 proclaimed an 11-year high of 55.8, up nicely from 55.0. Although COVID-19 disruptions continued to hamper the supply chains all over the world, JPM's aggregate index of 44 manufacturing nations continues to improve. New Orders rose to 56.7 from 55.8, and the index of Global Production (Output) edged up to 55.1 from 54.2. The PMI for Canada, our largest trading partner, came in at 57.2, a little below last month's survey-record high of 58.5. The March PMI for Mexico, our second largest trading partner, posted at 48.4, and remains modestly below the all-important break-even point of 50.0. Almost all of the major economies of the world are continuing to report positive PMIs. Two notable exceptions for April included modestly negative reports from Mexico and the Philippines. Olay Borichevska, from Global Economic Research at J.P. Morgan, further noted:

> "The latest PMI surveys show how the gradual unwinding of COVID-19 restrictions in many parts of the world is driving an accelerated upturn in manufacturing activity. Rates of expansion in output and new orders were the strongest in over a decade, supporting renewed job creation. Constraints are still being felt across global supply-chains, however, with raw material delivery times lengthening and the resulting shortages leading increased inflationary pressures. Input costs rose at the fastest pace in a decade, leading to a series-record increase in factory gate prices."

For the Eurozone, the April PMI rose to 62.9, another record high. The index components of New Orders, Production (Output), New Exports, and Purchasing Activity all set records. Most of the PMIs for the major counties in the Eurozone are now positive, with the Netherlands posting at 67.2, a record high. However, the PMIs for France and Spain have again turned modestly negative. Chris Williamson, Chief Business Economist at IHS Markit said:

> "Eurozone manufacturing is booming, with a new PMI record set for a second month running in April. The past two months have seen output and order books both improve at rates unsurpassed since the survey began in 1997, with surging demand boosted by economies opening up from COVID-19 lockdowns and brightening prospects for the year ahead. However, supply constraints are also running at unprecedented levels, leading to a record build-up of uncompleted orders at factories. The consequence of demand running ahead of supply is higher prices being charged by manufacturers, which are now also rising at the fastest rate ever recorded by the survey. The big uncertainty is how long these upward price pressures will persist for, and the extent to which these higher charges for goods and services will feed though to consumers. Encouragement comes from the sharp increase in employment and investment in machinery and equipment signalled by the survey, which suggests firms are scaling up capacity to meet resurgent

demand. This should help bring supply and demand more into line, taking some pressure off prices. But this will inevitably take time."

Automotive. Most every major news outlet has made mention of automotive production at many different plants being inhibited by the worldwide shortage of computer chips. As a result, many auto dealers are down to minimal inventories in a market where consumer demand continues to rise. Last month, Automotive News posted sales for the first quarter which greatly exceeded expectations. Although the SAAR (Seasonally Adjusted Annual Rate) for March posted at a respectable 16.5 million units, the April SAAR vaulted to 18.5 million units, a near-record high. Pent-up demand, consumer liquidity fuel by the stimulus outlays, low interest rates, and rising consumer confidence were all cited as reasons for the strong April report. Although most firms are now reporting quarterly, those still report monthly included Hyundai-Kia, up127.1 percent year-over-year, Toyota rising 182.6 percent, Honda gaining 171.0 percent, and Ford adding 64.8 percent. Of course, in April 2020, almost all showrooms were closed, so 2021 sales were widely expected to double. Brian Finkelmeyer of Cox Automotive further commented:

> "The market is being driven by inventory right now, not incentives, and it is only getting worse as the chip shortage continues. Most dealers are scrambling to secure inventory in any way they can. Those who aren't paying close enough attention are losing out to those who are managing it more efficiently. The industry's average supply of vehicles -- 65 days in an ideal market -- is on track to fall into the 30s soon."

West Michigan Unemployment. When the national media reports the "headline" rate of unemployment, the resulting number is expressed as the percentage of the workforce that is actively looking for work. At the onset of the recession, about 2 percent of the workers dropped out of the workforce and were therefore not counted as unemployed. As the economy continues to reopen, many people are now returning to the workforce and looking for work, resulting in the U.S. headline employment rising to 6.1 percent from 6.0 in April. For March (latest moth available), the Michigan unemployment edged down to 5.1 from 5.2 percent. Although many firms have numerous vacancies, there simply isn't anyone left to hire. Hence, for our West Michigan survey, the index of EMPLOYMENT came in at +23, down significantly from the ten-year high of +40 reported last month. Except for numerous pockets of weakness in the office furniture business, the West Michigan industrial economy remains on a roll. The major segments of COVID-19 unemployment in West Michigan remain in the entertainment and hospitality industries, not with the industrial firms.

Industrial Inflation. Looking back at the entire history of our West Michigan survey, the current rate of price inflation is just about as bad as it has ever been. Our April index of industrial LEAD TIMES set another record of +93, up from +83. With ancient law of supply and demand still in full force, our index of PRICES came in at +81, just slightly below last month's record of +85. Almost all big-ticket commodities like plastic resins, steel, copper, aluminum, and corrugated containers are rapidly rising in price AND in short supply. On the service side, almost all forms of transportation (truck, rail, container) are also in short supply and rising in price. With all of the talk about trying to get America back to work, almost nothing has been done to relieve the U.S. customs backlog at most major ports. The ISM national index of PRICES rose to a 13-year high of +80. The J.P. Morgan world index of PRICES rose modestly to 69.6 from 68.4, a record high.

GDP. On April 29, the Bureau of Economic Analysis announced that the real gross domestic product (GDP) for the U.S. increased at an estimated annual rate of 6.4 percent in the first quarter of 2021. The "second" estimate for the first quarter, based on more complete data, will be released on May 27. The forecasters are now turning their attention to the second quarter. At the New York Federal Reserve, the "Nowcast" growth rate for the second quarter of 2021 is currently estimated to be 5.1 percent. Ethan Harris, Bank of America's head of global economic research, forecasts economic growth of 10% in the second quarter. The CNBC/Moody's Analytics second quarter estimate has now risen to a whopping 10.5 percent, followed by an estimate of 7.8 percent for the third quarter. The latest reading from the Atlanta Fed's GDPNow call for a second quarter growth rate of 11.0 percent.

Business and Consumer Confidence. The Conference Board's Consumer Confidence Index rose sharply again in April, following a substantial gain in March. The index now stands at 121.7 (1985=100), up from 109.0 in March, and up 32 points since February. The University of Michigan April Consumer Sentiment index came in at 88.3. a twelve-month high. However, the index stood at 101.0 as recently as January 2020, so there is still plenty of room for improvement. The May 6 report released by the National Federation of Independent Businesses indicates that a record 44% of all small business owners report having job openings they could not fill. Ninety-two percent of those owners hiring or trying to hire report few or no "qualified" applicants for the positions they were trying to fill in April. To attract new people, a net 20% of owners plan to raise compensation in the next three months. For our local industrial survey, confidence appears to be stabilizing. The SHORT-TERM BUSINESS OUTLOOK Index for April, which asks local firms about the business perception for the next three to six months, rose modestly to +44 from +41. For the LONG-TERM BUSINESS OUTLOOK Index, which queries the perception for the next three to five years, the index was virtually unchanged at +39, down from +40. Both of these indexes are now at or near three-year highs.

Summary. By almost any standard, 2021 will be a historical year for the U.S. economy. The average estimates of annual growth are running between 7 and 9 percent, which will be the fastest growth rate in over sixty years. Needless to say, a growth rate of this magnitude is not sustainable. It is being fueled by unprecedented peace-time borrowing, massive stimulus packages, low interest rates, and the hope that inflation will somehow be held at bay. The current wave of industrial inflation has not spilled over to the consumer market, and the Federal Reserve leadership contends that a new round of inflation is unlikely. Hence, some economists are looking ahead to 2023 and 2024 when most of the stimulus money has been spent and the debt levels of all types will be at record highs. Their concern is justified.

APRIL COMMENTS FROM SURVEY PARTICIPANTS

"Covid is limiting the availability of current staff and hampering the hiring process."

"Getting parts to build equipment are all longer lead times."

"Most commodity prices are experiencing upward pricing pressure and longer lead times."

"If we can just get through the next (6) months things should hopefully settle down and opportunities will rebound."

"With lead times extending out even further than promised from the majority of manufacturers, we are seeing the demand start to far outpace the supply chains."

"We're working hard to keep up with automotive demand. Labor is an issue. Steel lead times and logistics delays continue to plague our supply chain."

"Extremely strong demand, limitations on input materials, and labor are capping our ability to meet demand. Upward price pressure is coming from all areas."

"The politicians are going to drive the inflation of this country. Outrageous."

"Demand is outstripping supply for all major commodities leading to longer lead times and higher prices."

"Steady recovery!"

"We are continuing to see the prices of steel rise."

"I've never seen this much dysfunction in the marketplace. I'm retiring."

"Strong sales continue, and we will exceed forecast again this month. I'm unsure if it's a short-term blip, or longer trend. Prices are rising everywhere, with huge delays in international freight, Domestic vendors are lacking capacity."

"Customers are busy, but complaining that they cannot find quality employees to expand their business."

"We continue to struggle with labor shortages."

"This month is better, and the quarter ended strong. Now, if we can just keep it going."

"This market is crazy!"

"This month was strong, but we're starting to get more short-term disruptions due to supply chain issues at the automotive OEMs."

"We show increased purchases because of additional grants being supplied to schools."

"Electronic shortages continue to plague the auto industry. Outside of the electronics shortages, there are other significant shortages as well as material price increases."

April Survey Statistics

	UP	SAME	DOWN	N/A	Apr. Index	Mar. Index	Feb. Index	25 Year Average
Sales (New Orders)	56%	34%	10%	0%	+46	+51	+33	+14
Production	39%	46%	10%	5%	+29	+33	+28	+14
Employment	37%	49%	14%	0%	+23	+40	+31	+ 8
Purchases	51%	42%	7%	0%	+44	+51	+23	+ 7
Prices Paid (major commod.)	81%	17%	0%	2%	+81	+85	+78	+15
Lead Times (from suppliers)	93%	7%	0%	0%	+93	+83	+80	+11
Purchased Materials Inv. (Raw materials & supplies)	42%	41%	12%	5%	+30	+23	+13	- 4
Finished Goods Inventory	12%	56%	24%	8%	-12	- 5	+27	- 8
Short Term Business Outlook (Next 3-6 months)	54%	36%	10%	0%	+44	+41	+31	-
Long Term Business Outlook (Next 3-5 years)	45%	39%	7%	6%	+39	+40	+38	-

Items in short supply: Polypropylene resin, nylon resin, electrical components, motherboards, computer chips, steel (all varieties), shipping containers, truck drivers, labor, transportation, raw materials in general, copper and copper components, microchips, stainless steel, polysulfone material, Marathon electric motors, IBC and other liquid packaging, acetic acid, PCA, Gaylord boxes, corrugated, glycol ether, all freight (ships, trains, trucks), labor and employees at all levels.

Prices on the UP side: Steel, stainless steel, scrap steel, steel wire rod, paper, resin, plastics, poly-everything, corrugated, oil, wood, paint, lumber, powder paint, freight, packaging, oils, solvents, poly liners, ocean freight, copper, aluminum.

Prices on the DOWN side: Nothing reported.

Latest Unemployment Reports

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

	Feb. 2021	Feb. 2020	Aug. 2009	20 Year Low
State of Michigan (Mar.)	5.1%	3.7%	14.6%	3.2%
State of Michigan (Unadj.)	5.2%	4.5%	14.1%	2.9%
Kent County	4.9%	2.4%	11.9%	2.1%
Kalamazoo County	5.1%	2.8%	11.1%	2.1%
Calhoun County	6.5%	3.7%	12.8%	2.7%
Ottawa County	4.2%	2.3%	13.3%	1.8%
Barry County	5.0%	3.2%	10.9%	2.2%
Kalamazoo City	6.3%	3.5%	15.2%	3.2%
Portage City	4.6%	2.5%	8.7%	1.3%
Grand Rapids City	6.4%	3.2%	16.1%	3.0%
Kentwood City	4.6%	2.3%	10.7%	1.4%
Plainfield Twp.	3.7%	1.8%	8.0%	1.4%
U.S. Official Rate (Apr.)	6.1%	4.4%	9.6%	3.5%
U.S. Rate (Unadjusted)	6.2%	4.5%	9.6%	3.4%
U.S. U-6 Rate (Mar.)**	10.7%	8.8%	16.7%	8.0%

**U-6 for Michigan = 15.3% for all of 2020

Index of New Orders: West Michigan

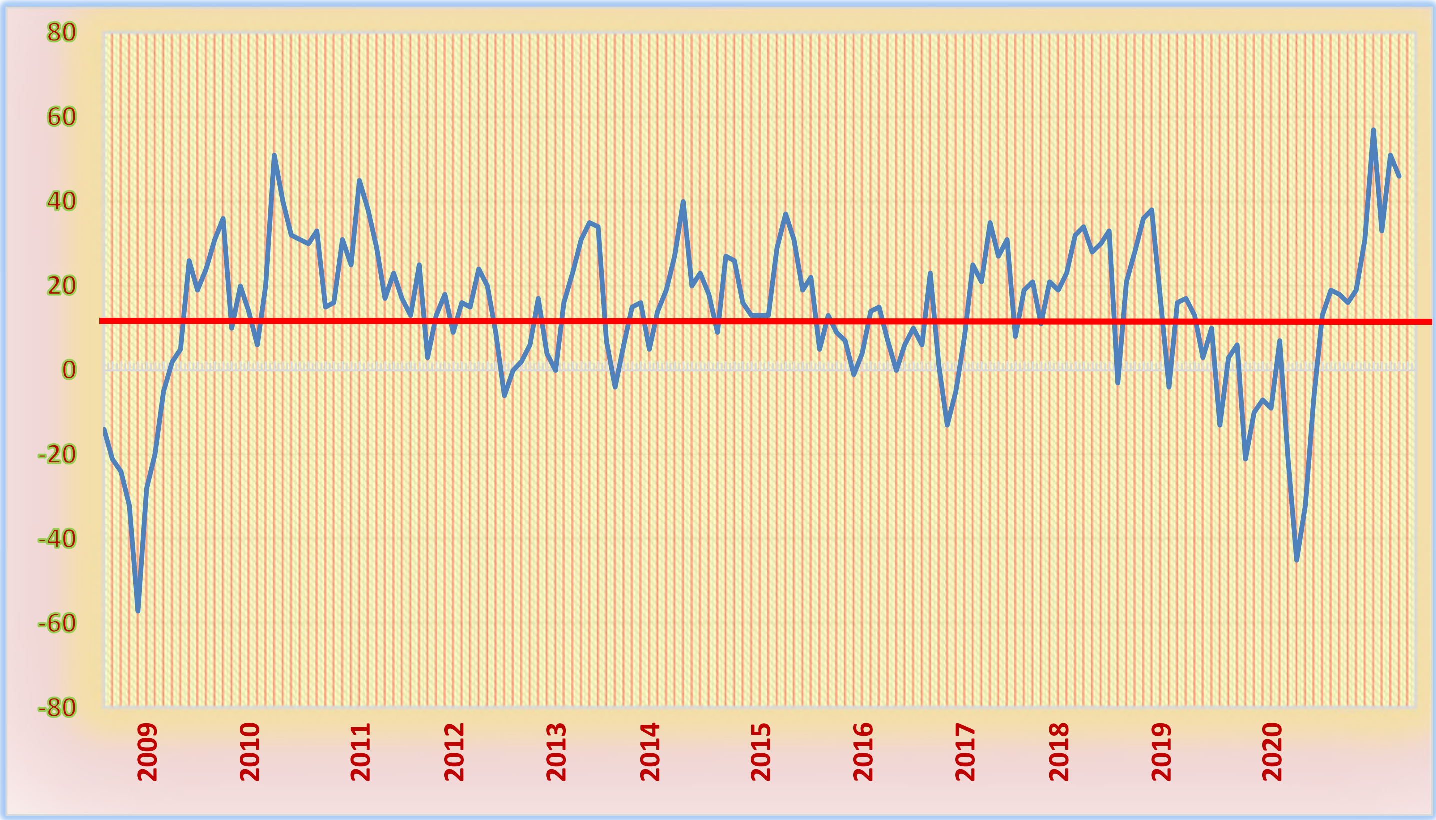
As the name implies, this index measures new business coming into the firm, and signifies business improvement or business decline. When this index is positive for an extended period of time, it implies that the firm or organization will soon need to purchase more raw materials and services, hire more 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	+45 for the month of April 2021
Previous Month	+51 for the month of March 2021
One Year Ago	-45 for the month of April 2020
Record Low	- 57 for the month of December 2008
Record High	+ 57 for the month of January 2021

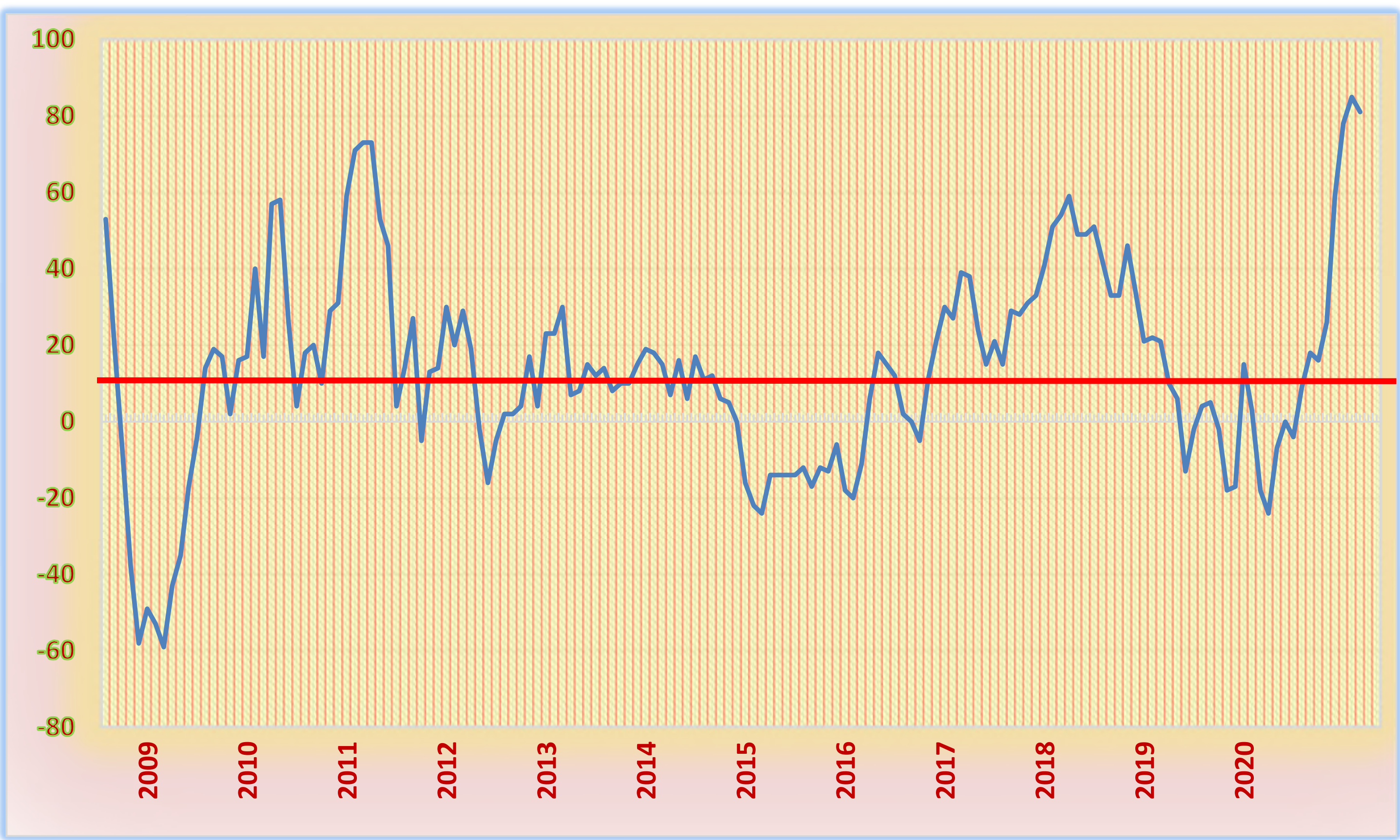
Great Recession
First Recovery + 3 in April 2009

COVID-19 Recession
First Recovery +12 in July 2020

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

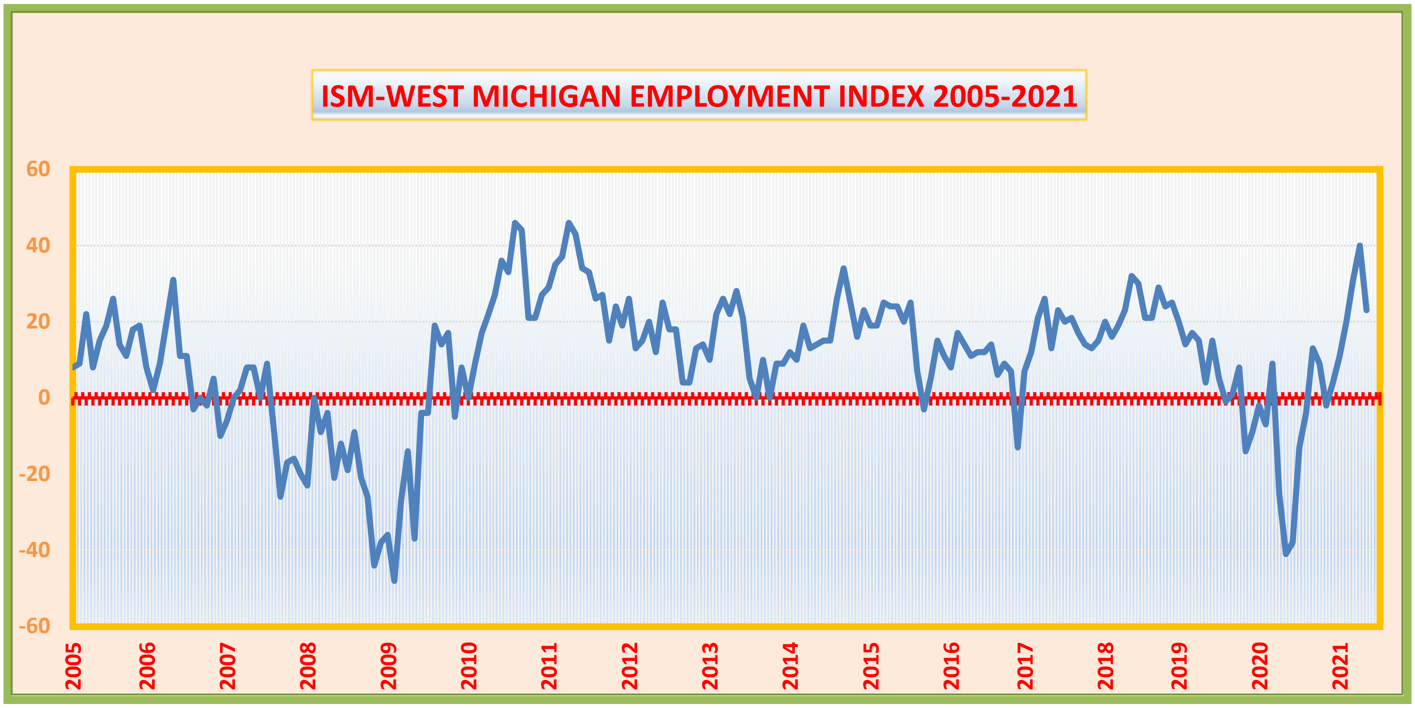


ISM-West Michigan Index of PRICES: 2008-2021



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.