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Current Business Trends

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THE RECOVERY CONTINUES

Because of problems with data collection for our monthly survey, we are unable to present statistics for the month of May 2021. Hopefully, we will resume data collection in next month and be able to bridge a statistical estimate for May. The scenario below reviews the other non-local statistics for May 2021.

The U.S. Economy. The May 1 press release from the Institute for Supply Management, our parent organization, reported that the national industrial economy remains strong despite the ongoing supply chain disruptions of COVID-19. ISM's index of NEW ORDERS eased very modestly to +37 from +41, although the index has now grown nicely for 12 consecutive months. However, ISM's PRODUCTION (a.k.a., Output) Index remained positive but tapered to +22 from +33. Despite the apparent moderating of these statistics, ISM's adjustment model resulted in the composite index rising to 61.2, up from last month's 60.7.

IHS Markit.com, the British international consulting firm that also surveys U.S. purchasing managers, presents a more optimistic picture. The PMI (Purchasing Manager's Index) for May rose to another record high of 62.1, up significantly from April's 60.5. Both New Orders and Production (Output) came in at record highs for the 25-year history of the survey. However, because of component shortages, supplier delays, and disruption in the logistics systems, output continues to be constrained for many firms. The index of Order Backlogs hit another record high. Although some analysts continue to predict that the industrial markets should begin to stabilize by late summer, the next few months will definitely be challenging for many supply chain professionals. Chris Williamson, Chief Business Economist at IHS Markit, further commented:

"U.S. manufacturers are enjoying a bumper second quarter, with the PMI hitting a new high for the second month running in May. Inflows of New Orders are surging at a rate unsurpassed in 14 years of survey history, buoyed by reviving domestic demand and record export sales as economies reopen from COVID-19 restrictions. However, elevated levels of other survey indicators are less welcome. Prices charged by manufacturers are also rising at an unprecedented rate, linked to soaring input costs and unparalleled capacity constraints. Not only is operating capacity being curbed by record supply chain delays so far in the second quarter, but firms have also been increasingly unable to hire sufficient staff. Hence backlogs of work are building up at an unprecedented rate, as firms struggle to meet demand. These backlogs of orders should support further production growth in the next few months, adding to signs of impressive economic expansion over the summer. But

manufacturers' expectations further ahead have moderated, hinting that the growth rate is peaking, linked to worries about capacity limits being reached, rising prices hitting demand and a peaking of stimulus measures."

The World Economy. On June 1, J.P. Morgan's report for May noted that the world economy continues to strengthen as the pandemic continues to recede. The worldwide manufacturing PMI for May posted another 11-year high of 56.0, up from April's 55.8. New Orders rose to 57.3, up nicely from 56.8. However, the index of Global Production (Output) flattened to 55.6 from 55.8. The PMI for Canada, our largest trading partner, came in at 57.0, modestly below the survey record high of 58.5 set in March. Mexico, our second largest trading partner, is not faring as well. Their May PMI came in at 47.6, down from 48.4 in April. Although all of Mexico's recent readings are only modestly below the all-important break-even point of 50.0, almost all of the major other economies of the world are continuing to report positive PMIs. Olay Borichevska, from Global Economic Research at J.P. Morgan, further noted:

"24 out of the 30 nations for which May data were available registered better business conditions. Europe was a bright spot in the upturn, with the six top-ranked countries (the Netherlands, Austria, the UK, Germany, Ireland and Italy) located in that region. The U.S. also saw a solid pace of expansion. Subdued growth was registered in Japan, China, Russia and India. The Philippines, Turkey, Thailand, Mexico, Colombia and Myanmar all saw contractions."

For the world economy, the Eurozone continues to set new records. The May PMI posted at 63.0, slightly above the previous record of 62.9 set last month. The index components of New Orders, Production (Output), New Exports, and Purchasing Activity also set new records. For the major Eurozone economies, Austria, Ireland, Italy, and the Netherlands all reported record PMIs. 23-year highs were set by France, Spain, and formerly-beleaguered Greece. Chris Williamson, Chief Business Economist at IHS Markit noted:

"Eurozone manufacturing continues to grow at a rate unprecedented in almost 24 years of survey history, the PMI breaking new records for a third month in a row. Surging output growth adds to signs that the economy is rebounding strongly in the second quarter. However, May also saw record supply delays, which are constraining output growth and leaving firms unable to meet demand to a degree not previously witnessed by the survey. High sales volumes are consequently depleting warehouse stocks and backlogs of uncompleted work have soared at a record pace. While these forward-looking indicators bode well for production and employment gains to persist into coming months as firms seek to catch up with demand, the flip-side is higher prices. The combination of strong demand and deteriorating supply is pushing up prices to a degree unparalleled over the past 24 years. The survey data therefore indicate that the economy looks set for strong growth over the summer but will likely also see a sharp rise in inflation. However, we expect price pressures to moderate as the disruptive effects of the pandemic ease further in coming months and global supply chains improve. We should also see demand shift from

goods to services as economies continue to reopen, taking some pressure off prices but helping to sustain a solid pace of economic recovery.”

Automotive. Although both car and truck production have been inhibited by the worldwide shortage of computer chips, the crisis now appears to be easing for a few firms. Despite dealer inventories at record lows, better-than-expected sales numbers are still being posted. Relatively high consumer liquidity fueled by the stimulus outlays, low interest rates, and rising consumer confidence are cited as reasons for the strength of auto sales. The closely-watched SAAR (Seasonally Adjusted Annual Rate) for May came in at 17.1 million units. Although lower than the 18.5 million units posted last month, the SAAR has generally remained above 16 million since last September. Of the firms still reporting monthly sales, Hyundai-Kia reported a year-over-year increase of 66.1 percent, Toyota rose 46.7 percent, Honda gained 46.2 percent, and Ford adding a relatively-modest 3.7 percent. For the industry, total sales were up by 36.9 percent for the firms reporting monthly sales. Of course, in May 2020, many showrooms were just beginning to reopen, so strong year-over-year gains were expected. Augusto Amorim, senior manager for America’s vehicle sales forecasts at LMC Automotive further commented:

“For the first time, there was a marked impact on sales from the part shortages that have been disrupting production. The Detroit 3 were particularly affected, allowing Toyota to become market leader for just the second time on record, as the group outsold General Motors in March. Indeed, it was a great month for Asian brands in general, with Genesis, Honda, Hyundai, Kia and Mazda having their best-ever monthly sales in May. The inventory crisis also affected segments. Pickups accounted for 16 percent of sales, down from 21 percent a year ago, while SUVs gained 2.7 percentage points and cars’ share was up by 2 percentage points. Compact non-premium cars gained 1.6 percentage point of share, more than any other segment, as consumers may have compromised on their vehicle choice. It was also a good month for premium vehicles, which accounted for 15 percent of total sales, a record for the month.”

West Michigan Unemployment. On May 27, the Michigan Department of Technology, Management and Budget (DTMB) reported that 3,459,000 workers are now employed in Michigan, compared with an employment level of 4,433,000 in April 2020. Michigan’s seasonally adjusted “headline” rate of unemployment has fallen to 4.9 percent, a monumental improvement over the 23.6 percent unemployment rate reported for April 2020. The unemployment rate among Michigan’s 83 counties continues to fall as well. Although the lowest rates of unemployment for the largest counties in Michigan have generally been found in our West Michigan counties, the March 2021 (latest month available) figures paint a different picture. According to DTMB’s May 27 report, unemployment in Livingston County has fallen to 2.4 percent, Oakland County 2.7 percent, and Macomb County 3.4 percent. For West Michigan, Ottawa County unemployment for March stands at 3.7 percent, Barry County 4.2 percent, Allegan County 4.3 percent, and Kent County 4.4 percent.

Industrial Inflation. Almost all big-ticket items in the industrial market are either in short supply, rising in price, or both. The ISM national index of PRICES posted at +76, down slightly from the 13-

year high of +80. The J.P. Morgan world index of PRICES rose to another record high of 71.6 from April’s 69.7. ISM’s current report further noted:

“...raw materials prices increased for the 12th consecutive month. In the last four months, the index has been at its highest levels since July 2008, the last of five straight months over 80 percent. Virtually all basic and intermediate manufacturing materials are experiencing price increases as a result of product scarcity and the dynamics of supply and demand.”

GDP. On May 27, the Bureau of Economic Analysis announced that the “second estimate” for real gross domestic product (GDP) for the U.S. held steady at 6.4 percent for the first quarter of 2021. Numerous well-trained economists are now sharpening their forecasts for the second quarter, and their projections are all over the map. At the New York Federal Reserve, the “Nowcast” growth rate for the second quarter of 2021 is currently estimated to be 4.8 percent. The Conference Board estimates that the 2021 second quarter GDP growth will rise to 8.6 percent. The CNBC/Moody’s Analytics second quarter estimate remains sky-high at 10.4 percent. The latest reading from the Atlanta Fed’s GDPNow calls for a similarly high second quarter growth rate of 10.3 percent. Like many forecasts we have received in recent months, we may have to wait until the actual numbers are in to see which, if any, of these forecasts were correct.

Business and Consumer Confidence. The Conference Board’s May Consumer Confidence Index held steady at 117.2 (1985=100), following a strong April report of 117.5. Although the index is up 32 points since February, it is still far from the 135-140 levels of three years ago. In a less positive move, the University of Michigan May Consumer Sentiment index came in at 82.9, down from the April’s 88.3. It is worth remembering that the index stood at 101.0 as recently as January 2020, so consumer confidence has clearly not been restored to pre-pandemic levels. The June 3 report released from the National Federation of Independent Businesses indicates that a record 48% of all small business owners report having job openings they could not fill. Small business owners are doing everything possible to get workers back in open positions, including 34 percent offering higher wages.

Summary. The world economy, the U.S. economy, and the state economy are all doing very well, so we can so we can conclude that the West Michigan GDP will continue to show positive gains in the next few months as well. Although part of the current boom is the result of pent-up demand, the unprecedented trillions of dollars of government stimulus money are an important factor as well. Industrial inflation is at the worst levels in recent history and may eventually spill over into the consumer market. The current Federal Reserve leadership contends that this is unlikely, and that keeping the recovery on track with low interest rates is a higher priority. However, if consumer inflation does pick up later in the summer, the Fed will eventually be forced to raise interest rates. This action will not be received well by the financial markets or the economy in general.

Latest Unemployment Reports

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

	Mar. 2021	Mar. 2020	Aug. 2009	20 Year Low
State of Michigan (Apr.)	4.9%	23.6%	14.6%	3.2%
State of Michigan (Unadj.)	4.6%	23.5%	14.1%	2.9%
Kent County	4.8%	2.9%	11.9%	2.1%
Kalamazoo County	5.1%	3.2%	11.1%	2.1%
Calhoun County	6.4%	4.2%	12.8%	2.7%
Ottawa County	4.3%	2.8%	13.3%	1.8%
Barry County	4.9%	3.7%	10.9%	2.2%
Kalamazoo City	6.3%	4.1%	15.2%	3.2%
Portage City	4.6%	3.0%	8.7%	1.3%
Grand Rapids City	6.3%	3.9%	16.1%	3.0%
Kentwood City	4.5%	2.7%	10.7%	1.4%
Plainfield Twp.	3.6%	2.2%	8.0%	1.4%
U.S. Official Rate (Apr.)	6.1%	14.8%	9.6%	3.5%
U.S. Rate (Unadjusted)	5.7%	14.4%	9.6%	3.4%
U.S. U-6 Rate (Apr.)**	10.4%	8.8%	22.9%	8.0%

**U-6 for Michigan = 16.2% for Q2 2020 to Q1 2021

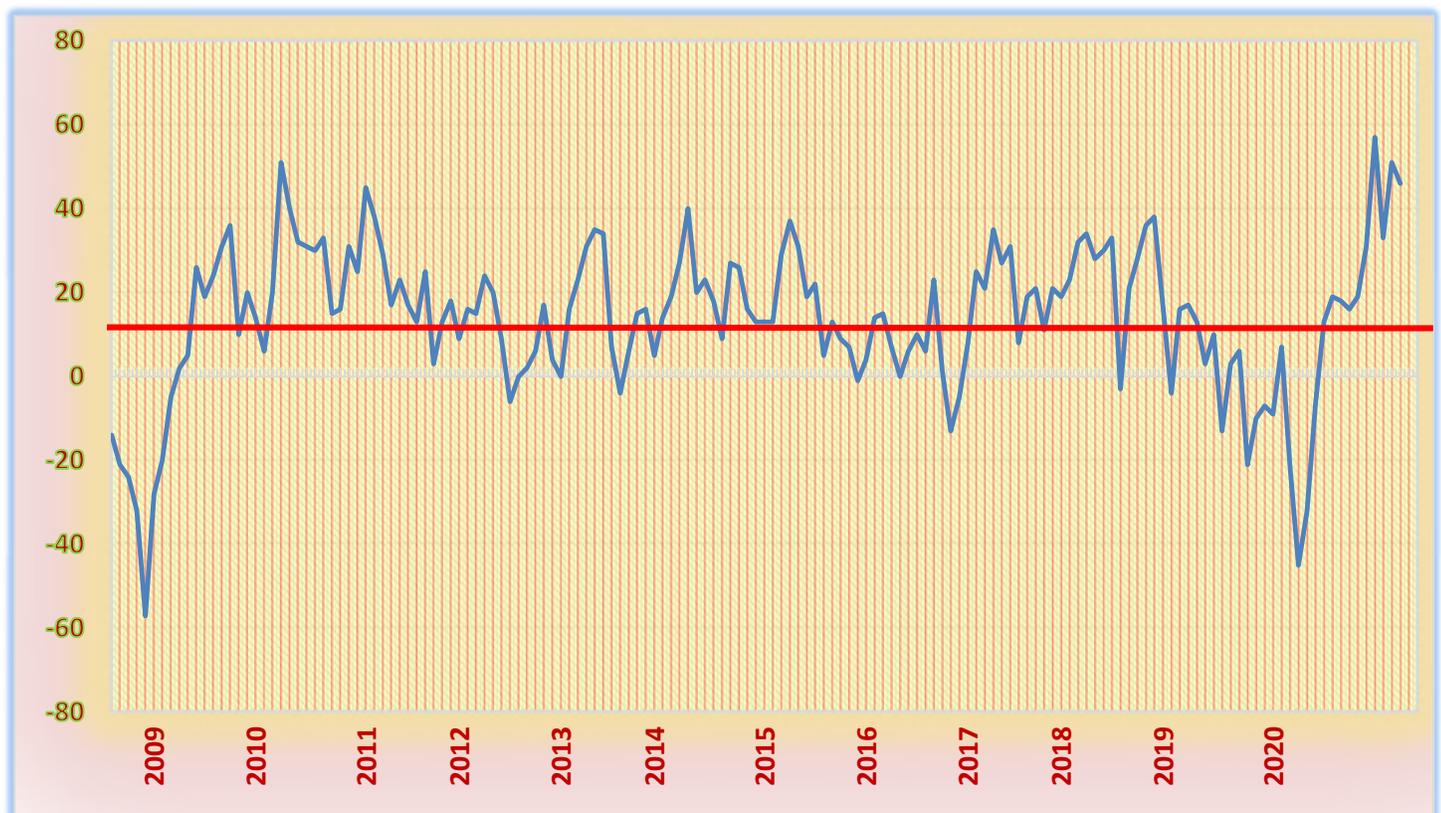
Index of New Orders: West Michigan

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.

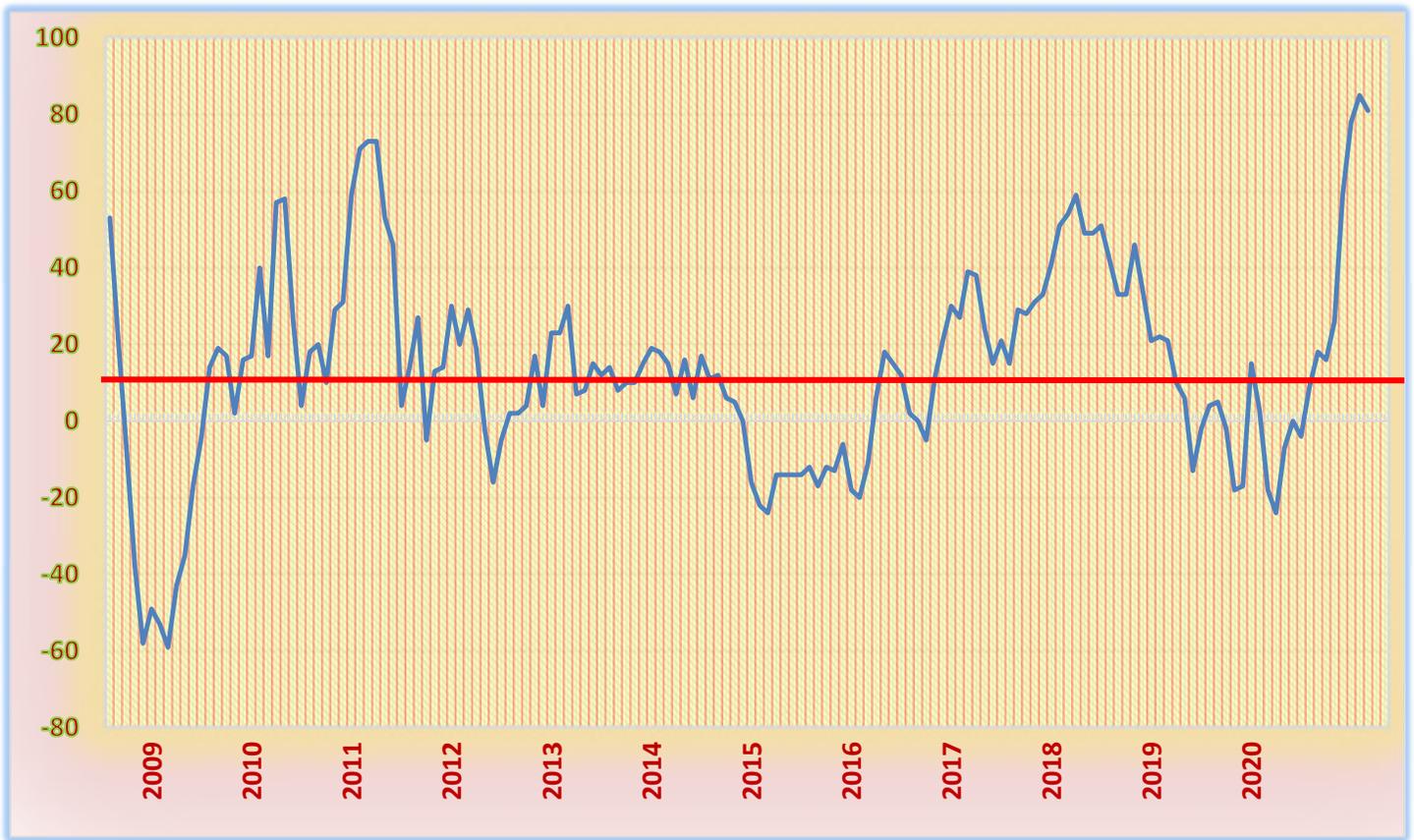
Latest Report	N/A
Previous Month	-45 for the month of April 2021
One Year Ago	-32 for the month of April 2020
Record Low	- 57 for the month of December 2008
Record High	+ 57 for the month of January 2021

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 EMPLOYMENT INDEX 2005-2021



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.

