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

News Release (For Immediate Release)

July 8, 2021

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 CONTINUES

Key Participant Comments for June:

"Automotive continues to stay strong for us. We're waiting to see when we will have the microchip slow down."

"Our sales are down due to the OEM shutdowns related to the semiconductor shortages."

"It is a daily challenge to overcome part shortages and labor shortages."

"We are still struggling to hire people. We need another 15%.:

"Once supply meets demand late this year, we are forecasting a 20% decrease in business."

The West Michigan industrial economy continues to expand, although the pace has moderated. NEW ORDERS, our closely-watched index of business improvement, posted at +33 in June, well below the recent peak of +57 reported at the beginning of the year. The June PRODUCTION Index, which is now termed "output" by many economists, remained stable at +36, up modestly from May's estimate of +33. Despite ongoing logistics problems, rising prices, and shortages of critical materials, activity in the purchasing offices, our index of PURCHASES, eased modestly to +38 from +41. Although some industries have fully recovered from the pandemic shock, a significant number of firms in our survey panel continue to experience spot shortages and shipment delays for a wide range of industrial commodities with no immediate end in sight. For some firms, the problems have actually worsened in recent weeks. This month's index of LEAD TIMES eased modestly to +85 from the survey record of +93 set two months ago, but normal lead times are still not expected to return for many more months. The stress level for some supply chain managers continues unabated. As one member of our survey panel put it, "Maybe I should have gone into a different profession."

The U.S. Economy. For the month ended June 30, the Institute for Supply Management, our parent organization, reported that ISM's index of NEW ORDERS tapered modestly to +34 from +37. However, ISM's PRODUCTION (a.k.a., Output) Index, which is driven by previous increases in NEW ORDERS, rose to +27 from +22. ISM's adjustment model resulted in the composite index falling to 60.6 from last month's 62.2. Although the current statistics are slightly below the 38-year high set in March, the national economy remains on a sound footing.

Another view of the U.S. economy comes from IHS Markit.com, the British international consulting firm that also surveys U.S. purchasing managers. The PMI (Purchasing Manager's Index) for June rose 62.1, tying the record high set last month. The upturn was supported by further expansions in the New Orders and Production indexes. Production capacity continues to be limited by supply chain disruptions. Supplier delivery performance has deteriorated to the "greatest extent on record," and input prices posted the largest jump on record. Previous hopes that the industrial markets should begin to normalize by late summer are beginning to fade. Chris Williamson, Chief Business Economist at IHS Markit, further commented:

"June saw surging demand drive another sharp rise in manufacturing output, with both new orders and production growing at some of the fastest rates recorded since the survey began in 2007. The strength of the upturn continued to be impeded by capacity constraints and shortages of both materials and labor, however, meaning concerns over prices have continued to build. Supplier delivery times lengthened to the greatest extent yet recorded as suppliers struggled to keep pace with demand and transport delays hindered the availability of inputs. Factories were increasingly prepared, or forced, to pay more to secure sufficient supplies of key raw materials, resulting in the largest jump in costs yet recorded. Strong customer demand in turn meant producers were often able to pass these higher costs on to customers, pushing prices charged for goods up at a rate unbeaten in at least 14 years. Capacity needs to be boosted and supply chains need to improve to help alleviate some of the inflationary pressures. However, companies reported increasing difficulties filling vacancies in June, and raising COVID-19 infection waves in Asia threaten to add to supply chain issues."

The World Economy. The J.P. Morgan June report for worldwide manufacturing PMI posted on July 1 eased modestly to 55.5 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. The index of New Orders tapered to 55.8 from 57.3, and the index of Global Production (Output) edged lower to 54.4 from 55.6. The June PMI for Canada, our largest trading partner, came in at 56.5, a little below the survey-record high of 58.5 set in March. Looking at our second-largest trading partner, the June PMI for Mexico posted at 48.8, modestly below the all-important 50.0 break-even point. Almost all of the major economies of the world are continuing to report positive PMIs. In addition to Mexico, two notable exceptions included Russia and India. Olay Borichevska, from Global Economic Research at J.P. Morgan, further noted:

"Global manufacturing remained in a strong growth phase in June, with output, new orders and employment all rising and business optimism at robust levels. However, stressed global supply chains continued to disrupt production schedules and delay input deliveries resulting in sharp price increases. Out of the 30 nations for which June data were available, 22 saw operating conditions improve (as signaled by a PMI reading above 50.0). However, half of these also saw their rates of expansion slow compared to the previous month. J.P.Morgan Global Manufacturing PMI and the IHS Markit manufacturing production data points rose again in June, albeit at the slowest pace for four months. Output growth was supported by solid intakes of new work, including improved international trade flows. However, stretched global supply chains constrained output growth, leading to a further marked accumulation of backlogs of work at factories."

For the Eurozone, the June PMI rose to another record high of 63.4, up from 63.1. The index components of New Orders, Production (Output), New Exports, and Purchasing Activity all set records. All of the PMIs for the major counties in the Eurozone are now significantly positive, with the Netherlands reading of 68.8 setting a new record high. Even beleaguered Greece posted a 254-month high of 58.6. Chris Williamson, Chief Business Economist at IHS Markit said:

"Eurozone manufacturing continued to grow at a rate unbeaten in almost 24 years of survey history in June as demand surged with the further relaxation of COVID-19 containment measures and vaccination progress drove renewed optimism about the future. However, the sheer speed of the recent upsurge in demand has led to a sellers' market as capacity and transportation constraints limit the availability of inputs to factories, which have in turn driven industrial prices higher at a rate not previously witnessed by the survey. Manufacturers are clearly willing to pay more to ensure sufficient supplies of key inputs. Encouragingly, there are several survey indicators which add to hopes that the current spike in prices will prove transitory. Widespread issues such as port congestion and a lack of shipping containers should soon fade as the initial rebound from the pandemic passes. Similarly, recent months have seen safety stock building as companies seek to protect themselves against potential future supply-chain disruptions, which has exacerbated the imbalance of demand and supply in the short-term. Once sufficient stocks are built, this effect should likewise fade. Finally, we have also seen the expansion of capacity via record employment growth and greater capital expenditure on business equipment and machinery. This expansion should raise output in sectors that are currently straining to meet demand, and hence remove some of the upward pressure on prices for these goods."

Automotive. On June 1, Automotive News posted the year-over-year sales for the second quarter of 2021, which came in fairly close to expectations. For the Detroit Three, General Motors posted the strongest gain of 39.7 percent, followed by Stellanis (Chrysler) at 32.3 percent, and Ford at 9.2 percent. 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 performance, although most brands were inhibited by the ongoing shortage of computer chips. Most of the transplant firms fared better. Among the major brands, Hyundai-Kia rose 73.6 percent, Toyota 73.1 percent, Volkswagon 75.9 percent, and Honda 65.7 percent. However, the SAAR (Seasonally Adjusted Annual Rate) for June came in at 15.35 million, down sharply from May's 17.09 million rate. While record-low dealer inventories and the ongoing industry-wide production problems may be a factor, some analysts also suggest that the boom from the pent-up demand may be over. Valeri Tompkins, senior vice president at TrueCar, further commented:

"The chip shortage has complicated OEM operations in terms of shifting priorities around what vehicles to build and where to send them. Looking at the second quarter compared to first quarter, we see large shifts in market share with the biggest benefactors being Honda, Hyundai and Kia. Not all brands have been impacted equally, but the common denominator is that everyone wishes they had more vehicles to sell in the current environment."

West Michigan Unemployment. The Bureau of Labor Statistics reported on July 2 that the national rate of "headline" unemployment fell to 5.9 percent in June. Many analysts continue to blame the generous unemployment benefits still being offered by some states (including Michigan) for the reluctance of some workers to return to the workforce. Ironically, it is many of these same "unemployed" workers who are jamming the restaurants and resort hotels and finding them to be understaffed. Although it will be too late for the summer tourist season, the surplus unemployment benefits for all states end in September. For Michigan, the May (latest month available) unemployment rate edged down to 5.0 from 5.1 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 +25, down significantly from the ten-year high of +40 reported in March. Again, the major segments of COVID-19 unemployment in West Michigan remain in the hospitality and service industries, not the industrial firms.

Industrial Inflation. Our April index of industrial PRICES set a record of +85, so June's index of +79 indicates some modest moderation of industrial inflation. Unlike previous rounds of inflation, almost no commodities are spared, especially the big-ticket commodities like plastic resins, steel, copper, aluminum, and corrugated containers. On the service side, almost all forms of transportation (truck, rail, container) are also in short supply and rising in price. The ISM national index of PRICES rose to a 41-year high of +84. The J.P. Morgan world index of PRICES eased modestly to 70.6 from last month's record-setting 71.7. According to ISM's monthly survey:

"Aluminum, copper, chemicals, all varieties of steel, plastics, transportation costs, wood and lumber products all continued to record price increases as a result of product scarcity."

GDP. The Bureau of Economic Analysis announced that the "second estimate" for the real gross domestic product (GDP) for the U.S. increased at an annual rate of 6.4 percent in the first quarter of 2021. As we move into the second half of the year, the forecasters are now posting estimates for the second quarter. At the New York Federal Reserve, the July 2 "Nowcast" growth rate for the second quarter of 2021 is currently estimated to be a scant 3.2 percent. A recent survey from the Federal Reserve Bank of Philadelphia predicts real GDP will grow at an annual rate of 7.9 percent. The CNBC/Moody's Analytics second quarter estimate has now risen to 10.3 percent, followed by an estimate of 8.2 percent for the third quarter. The latest reading from the Atlanta Fed's "GDP Now" calls for a second quarter growth rate of 7.2 percent. Aside from the obvious observation that these estimates are highly diverse, it should also be noted that they have been falling in recent weeks from estimates as high as 13 percent. The current economy has so many variables that even the professional forecasters are having difficulty formulating credible forecasts.

Business and Consumer Confidence. The Conference Board's Consumer Confidence Index rose in June to 127.3 (1985=100), up from 120.0 in May. In a similar move, the University of Michigan June Consumer Sentiment Index came in at 85.5, up from 82.5. However, the index stood at 101.0 as recently as January 2020, so there is still plenty of room for improvement. After steadily increasing in each month of 2021, the Optimism Index from the most recent National Federation of Independent Businesses survey fell slightly to 99.6, a decline of 0.2 points. Our local industrial survey remains positive but continues to slowly edge lower. The SHORT-TERM BUSINESS OUTLOOK Index for June, which asks local firms about the business perception for the next three to six months, posted at +36, modestly lower than last month's estimate of +40. For the LONG-TERM BUSINESS OUTLOOK Index, which queries the perception for the next three to five years, the index eased to +31, down from a three-year high of +39 set in April.

Summary. As all sectors of the economy continue to reopen, the Federal Reserve still appears to be convinced that the current round of inflation at both the consumer and industrial levels is "transitory," implying that supply and demand will soon balance. So far, the current wave of industrial inflation has not appeared to spill over into the consumer sector. However, if this rebalancing does not take place in the next few months, we may be building another bubble. The most recent Consumer Price Index came in at 5.0 percent, and some estimates for the June index are running as high as 8.0 percent. If the June report comes in at this level, the recovery could be put in jeopardy.

JUNE COMMENTS FROM SURVEY PARTICIPANTS

"Prices for steel are changing daily making it hard to give accurate pricing to customers on finished product."

"Business could be better if we could get everything we needed from suppliers. We have lots of backorders from vendors right now."

"Lead times on certain products are now out as far as 50 weeks. The accordion effect this is having on supply chains continues to exacerbate problems with overseas shipments."

"Automotive continues to stay strong for us. We're waiting to see when we will have the microchip slow down."

"Our future business is looking good."

"We just had another strong sales month. Will this continue through the summer? It's very hard to find qualified workers."

"We continue to be oversold. We are not able to produce enough quantity because of our inability to acquire required labor."

"Material shortages are still a big concern. If our customers actually meet their forecast for the second half of 2021, I believe the material shortages may be worse than we had in the first quarter.

"Ocean shipping delays from China and delays at rail yards continue to be the largest issue."

"We continue to see sales decline due to major OEM shutdowns globally."

"Our government needs to change direction. Otherwise, we are all going to be in big trouble. Rising inflation and the rising cost of goods are going to put more people in poverty then we have today."

"It is a daily challenge to overcome part shortages and labor shortages."

"Once supply meets demand late this year, we are forecasting a 20% decrease in business."

"Business is continuing to improve. Attaining talent and raw materials is still difficult with prices increasing."

"We are seeing much longer lead times and higher prices. Labor shortages are an issue for ourselves as well as suppliers. It is a very challenging time.

"We are still struggling to hire people. We need another 15%."

"Inflation is everywhere and lead times are extended out. Freight delays are compounding everything. This has put Supply Chain professionals at the center of attention in maintaining our operations."

"Unprecedented supply chain disruptions will continue to hurt our ability to meet automotive customer demand."

"The rising cost of steel is hurting us,"

"Sales are good. They could actually be better, but lack of available component products is holding things back."

"Electric motors have now increased prices twice (one manufacturer is up 3 times) in the first 6 months of 2021!"

"Looks like another good month. We have approval to hire if we can find candidates. Lack of capacity at foundries is causing shortages of key castings. International freight still caught in the port congestion."

"Sales are down due to the OEM shutdowns related to the semiconductor shortages."

"We're still seeing a shortage of labor."

"The raw material and microchip shortages are really effecting our business. Our customers are partially shutdown, which is causing our lines to go down. We are having to figure out what to do with our workers as we do not want to lay them off because it is already so hard to find people to work."

"Really....I have never seen so many supply chain issues. Expedited freight is up 400% from any other year, and there's nothing I can do about it. We are at the mercy of the overseas shipping companies. The system lacks chassis and rail cars. Raw materials are rising in price. Lead times are extending. Maybe I should have gone into a different profession."

"Our market is good for the foreseeable future."

June Survey Statistics

	UP	SAME	DOWN	N/A	June Index	May Index	Apr. Index	25 Year Average
Sales (New Orders)	50%	33%	17%	0%	+33	+40	+46	+14
Production	48%	35%	12%	5%	+36	+33	+29	+14
Employment	40%	45%	15%	0%	+25	+24	+23	+ 8
Purchases	52%	34%	14%	0%	+38	+41	+44	+ 7
Prices Paid (major commod.)	79%	17%	2%	0%	+77	+79	+81	+15
Lead Times (from suppliers)	90%	5%	5%	0%	+85	+89	+93	+11
Purchased Materials Inv. (Raw materials & supplies)	50%	33%	12%	5%	+38	+34	+30	- 4
Finished Goods Inventory	26%	40%	24%	10%	+ 2	- 3	- 8	- 8
Short Term Business Outlook (Next 3-6 months)	48%	40%	12%	0%	+36	+40	+44	-
Long Term Business Outlook (Next 3-5 years)	45%	36%	14%	5%	+31	+35	+39	-

Items in short supply: Aluminum, aluminum extrusions, aluminum cans, steel, labor, lumber, pallets, electronic components, trucks, many commodity chemicals, urethane foam materials, copper and copper products, corrugate, polysulfone material, foundry capacity, adhesives, some stainless steel, some paper products, semiconductor components, microchips, resins, silica, epoxy.

Prices on the UP side: Labor, wages, shipping, steel, stainless steel, all products containing steel, skids, pallets, aluminum, lumber, corrugated, packaging, paper, metal products, electric motors, electrical components, all raw materials, resin, all transportation services, semiconductor components, resistors, base metals, copper, magnetic materials,

Prices on the DOWN side: Lumber. (Also reported as UP)

Latest Unemployment Reports

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

	May 2021	May 2020	Aug. 2009	20 Year Low
State of Michigan (May)	5.0%	20.0%	14.6%	3.2%
State of Michigan (Unadj.)	5.2%	21.1%	14.1%	2.9%
Kent County	4.9%	16.9%	11.9%	2.1%
Kalamazoo County	5.3%	14.9%	11.1%	2.1%
Calhoun County	6.8%	21.9%	12.8%	2.7%
Ottawa County	4.3%	15.8%	13.3%	1.8%
Barry County	4.6%	16.0%	10.9%	2.2%
Kalamazoo City	6.6%	18.1%	15.2%	3.2%
Portage City	4.9%	13.8%	8.7%	1.3%
Grand Rapids City	6.5%	21.5%	16.1%	3.0%
Kentwood City	4.6%	16.1%	10.7%	1.4%
Plainfield Twp.	3.7%	13.2%	8.0%	1.4%
U.S. Official Rate (May)	5.8%	13.3%	9.6%	3.5%
U.S. Rate (Unadjusted)	5.5%	13.0%	9.6%	3.4%
U.S. U-6 Rate (May)**	10.2%	21.2.8%	22.9%	8.0%

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

Index of New Orders: West Michigan

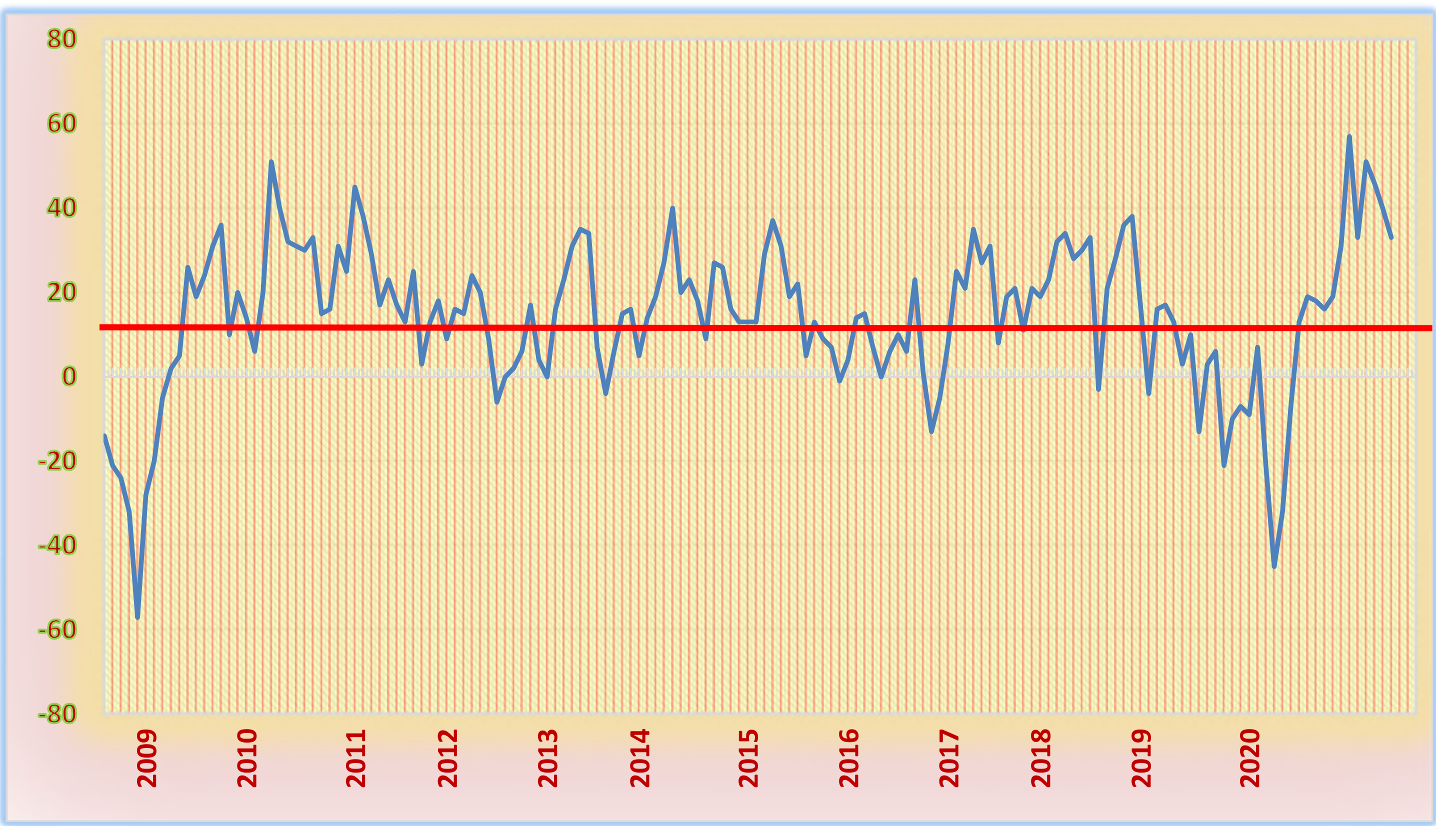
As the name implies, this index measures new business coming into the firm, and signifies business improvement or business decline. When this index is positive for an extended period of time, it implies that the firm or organization will soon need to purchase more raw materials and services, hire more 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	+33 for the month of June 2021
Previous Month	+40 for the month of May 2021
One Year Ago	- 7 for the month of June 2020
Record Low	- 57 for the month of December 2008
Record High	+ 57 for the month of January 2021

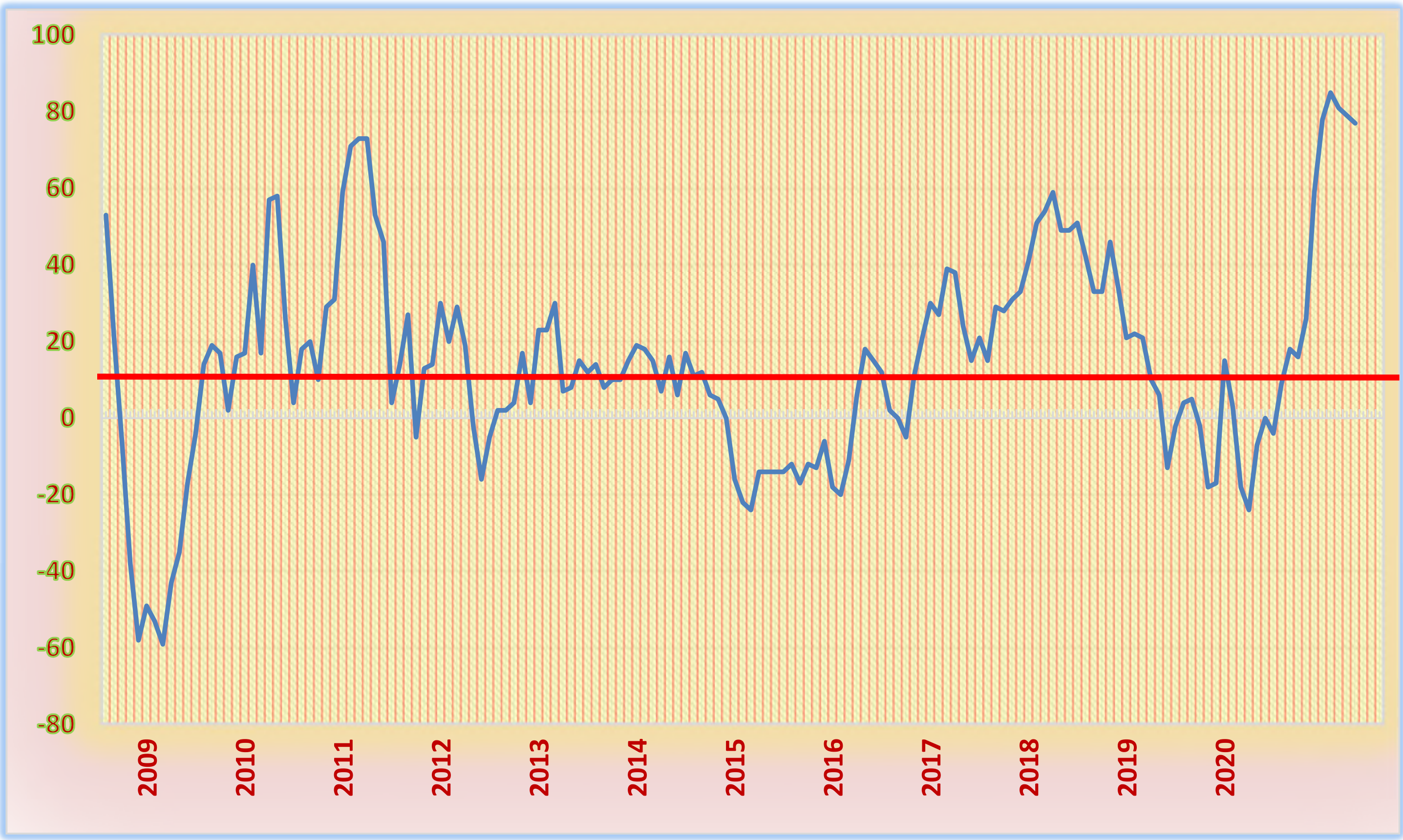
Great Recession
First Recovery + 3 in April 2009

COVID-19 Recession
First Recovery +12 in July 2020

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

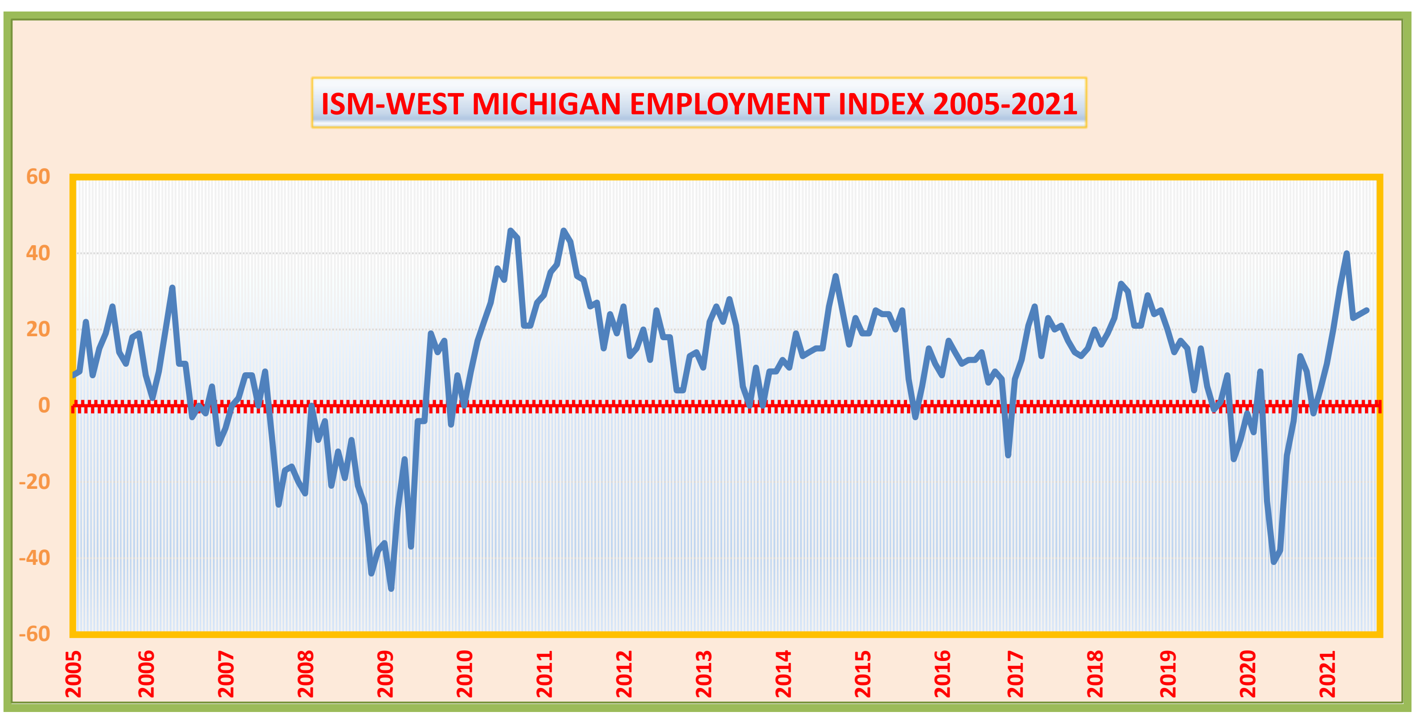


ISM-West Michigan Index of PRICES: 2008-2021



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.