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Current Business Trends

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RECOVERY CONTINUES, BUT SLOWS MODESTLY IN SOME SECTORS

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

The U.S. Economy. The Institute for Supply Management, our parent organization, reported that ISM's index of NEW ORDERS for July tapered modestly to +31 from +34. In a similar move, ISM's PRODUCTION (a.k.a., Output) Index, eased to +22 from +27. ISM's adjustment model resulted in the Manufacturing PMI Index falling to 59.5 from last month's 60.6. Although the current statistics are slightly below the 38-year high of 64.7 set in March, some survey respondents believe that the national economy will return to normal by the end of the year. Others are not so optimistic and point to predictions that the chip shortage may last until mid-2022.

IHS Markit.com, the British international consulting firm that also surveys U.S. purchasing managers, reported a record (14-year) high PMI (Purchasing Manager's Index) for July of 63.4, up from 62.1. Just like last month, the upturn was supported by further expansions in the New Orders and Production indices. Supplier delivery performance continues to constrain production capacity, and logistics costs have doubled or tripled for some commodities. Chris Williamson, Chief Business Economist at IHS Markit, further commented:

"July saw manufacturers and their suppliers once again struggle to meet booming demand, leading to a further record jump in both raw material and finished goods prices. Despite reporting another surge in production, supported by rising payroll numbers, output continued to lag well behind order book growth to one of the greatest extents in the survey's 14-year history, leading to a near-record build-up of uncompleted orders. Capacity is being constrained by yet another unprecedented lengthening of supply chains, with delivery delays reported far more widely in the past two months than at any time prior in the survey's history. Manufacturers and their customers are consequently striving to maintain adequate inventory levels, often reporting the building of safety stocks where supply permits, to help keep production lines running and satisfy surging sales. The result is perhaps the strongest sellers' market that we've seen since the survey began in 2007, with suppliers hiking prices for inputs into factories at the steepest rate yet recorded and manufacturers able to raise their selling prices to an unprecedented extent, as both suppliers and producers often encounter little price resistance from customers."

The World Economy. The J.P. Morgan July report for worldwide manufacturing PMI posted on August 2 came in at 55.4, slightly below the survey's 11-year high of 56.0 recorded in May. For most of the world economy, supply chain constraints continue to hinder the growth of the manufacturing sector. Many firms continue to report lengthening lead times, raw materials shortages, shipping delays, and other logistics issues. Many markets around the world are reporting skilled labor shortages. The survey's order backlog index is now approaching a record high. For Canada, our largest trading partner, the July PMI came in at 56.2, down modestly from June's 56.5. The July PMI for Mexico, our second largest trading partner, posted at 49.6, up from June's 48.8 and is now approaching the all-important 50.0 break-even point. However, the PMI for our third largest trading partner, China, edged down to 50.3 from June's 51.3. The J.P. Morgan report further noted:

"The global manufacturing sector expanded at a robust clip at the start of the third quarter. However, rates of increase in output and new orders eased again, as record supply chain constraints stymied growth and drove up input prices. The challenging operating environment hit confidence, which dipped to a nine-month low. Out of the 29 nations for which July data were available, 22 saw growth during the latest survey month. The eurozone remained a bright spot, with the three highest-ranked countries based on PMI readings (the Netherlands, Germany and Austria) all located in the currency bloc."

For the Eurozone, the July PMI eased to 62.8, down from last month's record high of 63.4. The rates of growth for New Orders and Production remained positive but slowed. The Netherlands PMI reading of 67.4 is still the strongest among the major manufacturing countries in Europe as well as the rest of the world. Chris Williamson, Chief Business Economist at IHS Markit said:

"The fact that growth of Eurozone manufacturing cooled slightly in July after a record-breaking expansion during the second quarter should not itself be a major cause for concern. But the July survey also brought further signs that manufacturers and their suppliers are struggling to raise production fast enough to meet demand, driving prices ever higher. Although growth of demand has come off the boil slightly as the initial boost from the reopening of the economy fades, the July survey showed inflows of new orders outstripping production to an extent unprecedented in the survey's 24-year history. Capacity constraint indicators continue to flash red. Input shortages worsened again in July at a near-record rate and July saw another near-record rise in backlogs of work. Safety stock building also remains widespread amid ongoing speculation about future supply difficulties. Mounting concerns about how the Delta variant poses further threats to supply chains and staff availability have helped push future growth expectations to the lowest so far this year. Price pressures meanwhile show no sign of abating, with July seeing another record increase in both input costs and prices charged for goods as demand exceeds supply, and concerns over future supply availability flare up again."

Automotive. On August 2, Automotive News posted the July year-over-year sales for the firms still reporting monthly results. The ongoing chip shortage has hit the auto industry especially hard, and hopes that the crisis might begin to fade by early fall are now waning. Because of rolling plant closures, Ford sales dropped 31.1 percent. Analysts estimate that July sales declines for General Motors and Stellanis (Chrysler) were similar, although both firms no longer report monthly sales figures. Most of the transplant firms fared much better. Among the major brands, Hyundai-Kia rose 29.1 percent, Toyota 32.8 percent, and Honda 8.0 percent. Looking at U.S. auto sales, the SAAR (Seasonally Adjusted Annual Rate) for July fell to 14.8 million units, down from June's 15.4 million, and far below May's 17.1 million rate. Many retail customers are disappointed by the slim selection of vehicles on most dealer lots, and most dealers are not offering the same favorable pricing that was available a few months ago. According to David Phillips, the managing editor for Automotive News:

> "New-vehicle inventories continued to shrink in July, with J.D. Power estimating dealers had 932,000 cars and lights trucks for retail sale late in the month, compared with 3.1 million in June 2019. In July, more than 45 percent of vehicles were sold within 10 days of arriving at a dealership, up from 43 percent in June 2021 and up from only 26 percent in July 2019, J.D. Power said. The average number of days a new vehicle sits on a dealer lot before being delivered was on pace to fall to a record low of 31 days in July, down from 75 days a year ago, and down 6 days from last month, J.D. Power said."

West Michigan Unemployment. The July "headline" U.S. unemployment rate of 5.4 percent reported on August 6 by the Bureau of Labor Statistics rang a resounding note of optimism. Nonfarm payrolls rose by 943,000 in July, although only 27,000 of those jobs were in the manufacturing sector. Much as we expected, 380,000 of the new jobs were in the "leisure and hospitality industries," which reflects the accelerated reopening of theaters, restaurants, bars, and summer recreational venues. For Michigan, the June (latest month available) unemployment rate held steady at 5.0 percent. Many frustrated industrial firms still have numerous vacancies, but almost every economic sector of our current economy is begging for more people. For our local counties, Ottawa County has the lowest unemployment rate of 4.3 percent, followed by Allegan County at 4.8 percent, and Kent County at 4.9 percent. Needless to say, the office furniture industry is still not back to pre-pandemic levels. The auto parts fabricators are generally doing well, although periodic shut-downs at some auto assembly plants have rippled backward in the supply chain to some West Michigan firms.

Industrial Inflation. Many indexes relating to pricing in the industrial market are posting record high increases. J.P. Morgan's July index of Worldwide Input prices rose to a record high of 71.2. The ISM national index of PRICES tapered to +71, down from the 41-year high of +84 set last month. The prices for most major industrial commodities have roughly doubled over the past few months, although some analysts believe that we have now reached a peak. Almost all of the traditional supply chains are under stress resulting in shipping delays, shortages, and "spot" price increases. Timothy Fiore, ISM's survey committee chair, further commented:

> "Aluminum, basic chemicals, packaging supplies, electrical and electronic components, energy, some plastics and plastic products, freight and steels continue to remain at elevated prices due to some product scarcity, but supply and demand dynamics appear to be moving closer to equilibrium for the first time in many months,"

GDP. The Bureau of Economic Analysis announced that the "first estimate" for the real gross domestic product (GDP) in the second quarter of 2021came in at 6.5 percent, about two full percentage points below the consensus estimates. The BEA also revised the first quarter estimate downward to 6.3 percent from 6.4 percent. Looking ahead to estimates for the third quarter of 2021, the New York Fed's "Nowcast" stands at 4.2%. The latest reading from the Atlanta Fed's "GDP Now" calls for a third quarter growth rate of 6.0 percent. Goldman Sachs makes a more optimistic third quarter estimate of 8.5 percent growth, although the forecast 8.4 percent growth from CBC/Moody's Analytics is close behind.

Business and Consumer Confidence. The Conference Board's Consumer Confidence Index rose in July to 129.1 (1985=100), up from June's 128.9. By contrast, the University of Michigan's April Consumer Sentiment Index came in at 80.2, down from 85.5. Each survey measures different opinions about various topics, although the respondents for both surveys still subscribe to the prevailing view that the current round of price increases is "transitory." For the National Federation of Independent Businesses, the June Optimism Index increased 2.9 points to 102.5, the first time the index exceeded 100 since November 2020. For the HIS Markit survey of the U.S., the respondents were "markedly upbeat," although the July reading was not quite as strong as the June report.

Summary. A significant number of economists from the Federal Reserve to many financial institutions are still convinced that the current round of inflation at both the consumer and industrial levels is "transitory," implying that supply and demand will soon balance AND that the rate of inflation will return to an annual growth rate of about 2.0 percent sometime in 2022. Indeed, this is still a possibility. Much of the current inflation boom has been triggered by pent-up demand and several trillion dollars of stimulus money, some of which will soon end. However, if this rebalancing does not take place by later in the year, we may be building another bubble. The most recent Consumer Price Index came in at 5.6 percent. For the coming months, some estimates project that inflation may get as high as 8.0 percent, which would promptly put the recovery in jeopardy. Unfortunately, the government's system for measuring inflation tends to have various lagging factors built into the calculation, so some disturbing inflation reports could still be coming.

In addition to inflation getting out of hand, the current economy faces other potential impediments going forward. Aside from the usual ongoing "black swan" risk factors like a new war in the Middle East or a terrorist act, one obvious stumbling block is the possible intensification of the Delta (or other) variant of COVID-19. Colds, flu, and other respiratory diseases often pick up in the early fall every year, and we can only hope that enough people will have gotten vaccinated by late September to minimize the spread. Of course, there is always the threat of a NEW variant popping up for which one of our current vaccines may not be effective.

We keep hoping that the world's supply chains will soon return to normal, or at least, a "new normal." For the past 40 years or so, the efficiency of the world's supply chains kept inflation very low. In 2021, the threat of rising prices, shortages, and supply chain interruptions have caused businesses to build inventories FAR above normal. The cessation of the threat could result in a sharp drop in demand while the firms quit buying and draw down their inventories. Practically overnight, the entire business community could pull many billions of dollars out of the economy, which would result in the same kind of inventory disruptions we experienced in the 1950's and 60's. Looking at our local statistics, inventories of raw materials, components, and supplies have risen dramatically for the first time in almost 40 years. The "religion" of just-in-time inventories has been somewhat discarded as the threat of rising prices and availability have encouraged billions of dollars of hoarding.

After a distressing round of inflation in the 1970's, inflation has remained relatively tame ever since. Until 2021, low inflation had become the "new norm." For today's domestic and business consumers, almost everyone sees prices rising rapidly for food, gasoline, rent, housing, and almost all industrial commodities. Some are screaming that inflation is once again out of control, while others subscribe to the prediction that the current inflation is "transitory." Herein lies the psychological hurdle. By late in the summer, we hope enough new supply will be available so that customers can simply refuse to pay higher prices and/or look for alternatives much as they have for many years. However, if the price increases keep coming and consumers keep buying, the acceptance of inflation may become the new norm. The Federal Reserve would be forced to raise interest rates much as Paul Volker did in the 1970's to stop runaway inflation and restore faith in the dollar. It is obvious that higher interest rates would dramatically change the makeup of our current economy.

Finally, because of the unprecedented level of supplemental unemployment payments and government grants being pumped into bank accounts, there exists a risk to the overall economy when the punch bowl runs dry. For almost every recession in the past 60 years, government stimulus packages have been used to try to enhance the recovery. However, NONE of these spending packages has EVER come close to the amount of money the government has showered on consumers and businesses in 2020 and 2021. By late in the summer, the money will stop coming, and there will be a drop in spending. The impact and the magnitude of this reduced level of spending constitutes the ensuing uncertainty.

Latest Unemployment Reports

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

	June 2021	June 2020	Aug. 2009	20 Year Low
State of Michigan (June)	5.3%	14.2%	14.6%	3.2%
State of Michigan (Unadj.)	5.2%	21.1%	14.1%	2.9%
Kent County	4.9%	10.4%	11.9%	2.1%
Kalamazoo County	5.4%	9.9%	11.1%	2.1%
Calhoun County	6.8%	12.7%	12.8%	2.7%
Ottawa County	4.3%	9.3%	13.3%	1.8%
Barry County	4.6%	9.3%	10.9%	2.2%
Kalamazoo City	6.7%	12.2%	15.2%	3.2%
Portage City	4.9%	9.1%	8.7%	1.3%
Grand Rapids City	6.5%	13.5%	16.1%	3.0%
Kentwood City	4.6%	9.9%	10.7%	1.4%
Plainfield Twp.	3.7%	8.0%	8.0%	1.4%
U.S. Official Rate (July)	5.4%	11.1%	9.6%	3.5%
U.S. Rate (Unadjusted)	5.8%	11.2%	9.6%	3.4%
U.S. U-6 Rate (July)**	9.2%	16.5%	22.9%	8.0%

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

Index of New Orders: West Michigan

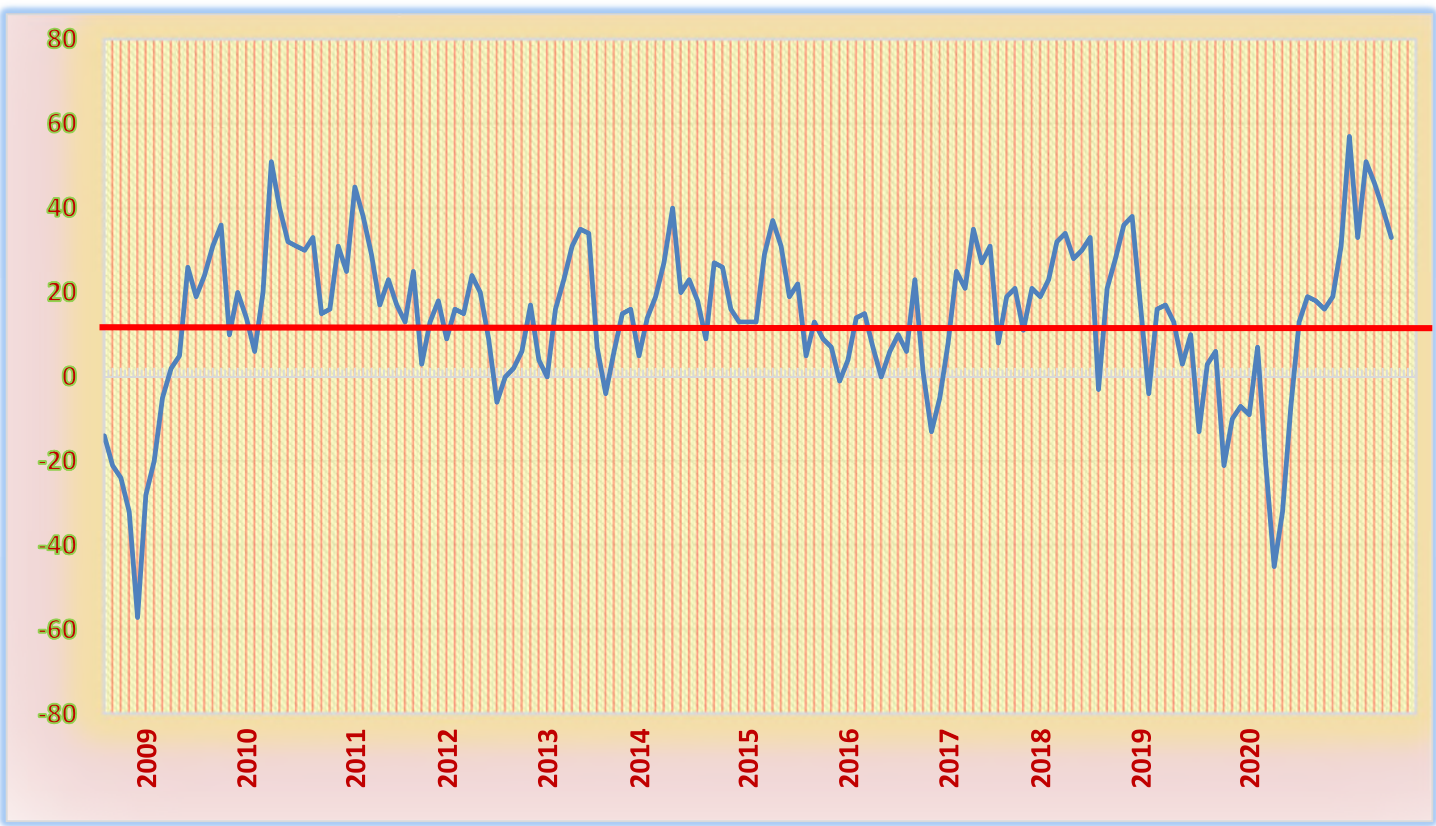
As the name implies, this index measures new business coming into the firm, and signifies business improvement or business decline. When this index is positive for an extended period of time, it implies that the firm or organization will soon need to purchase more raw materials and services, hire more 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	NA
Previous Month	+40 for the month of June 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

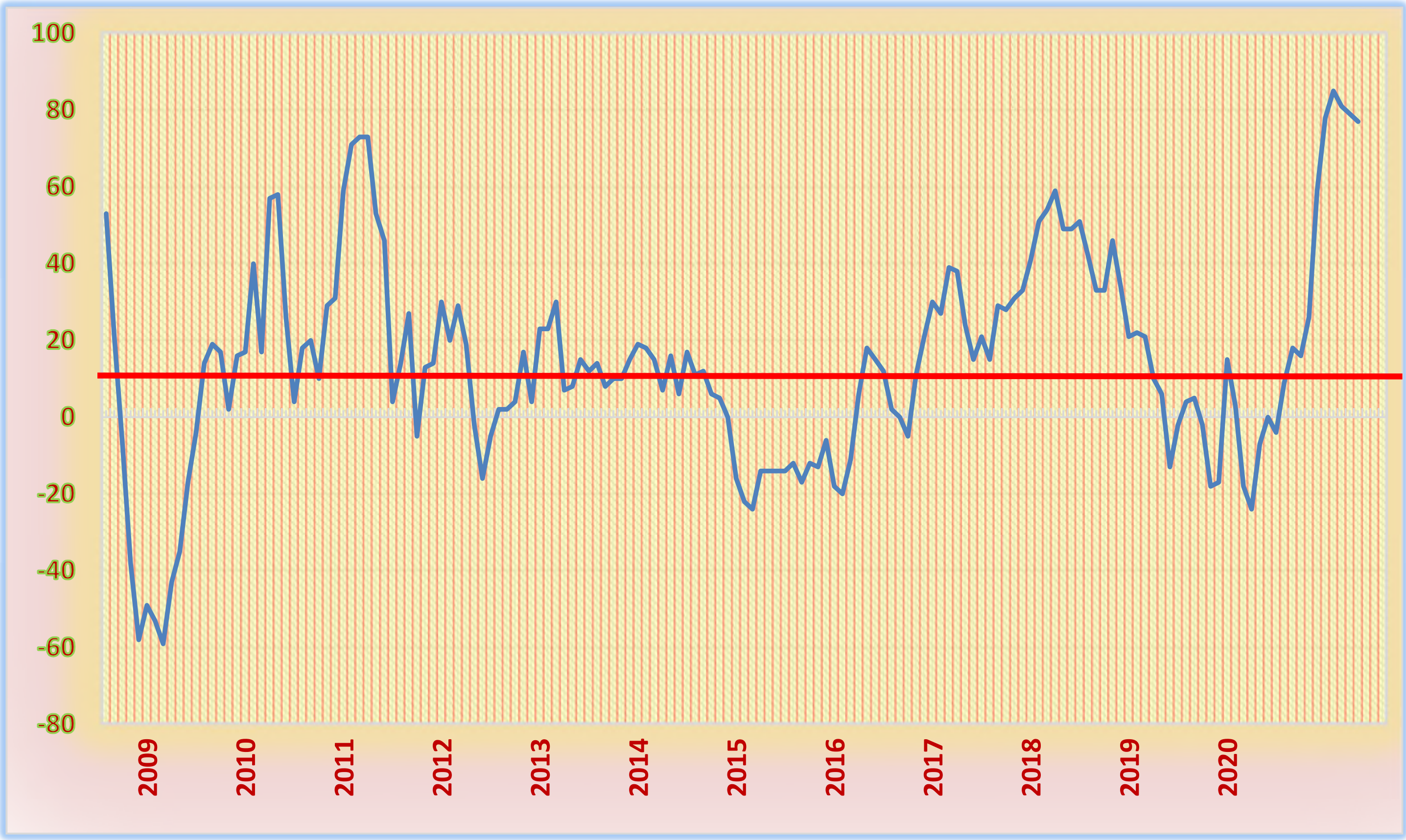
Great Recession
First Recovery + 3 in April 2009

COVID-19 Recession
First Recovery +12 in July 2020

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

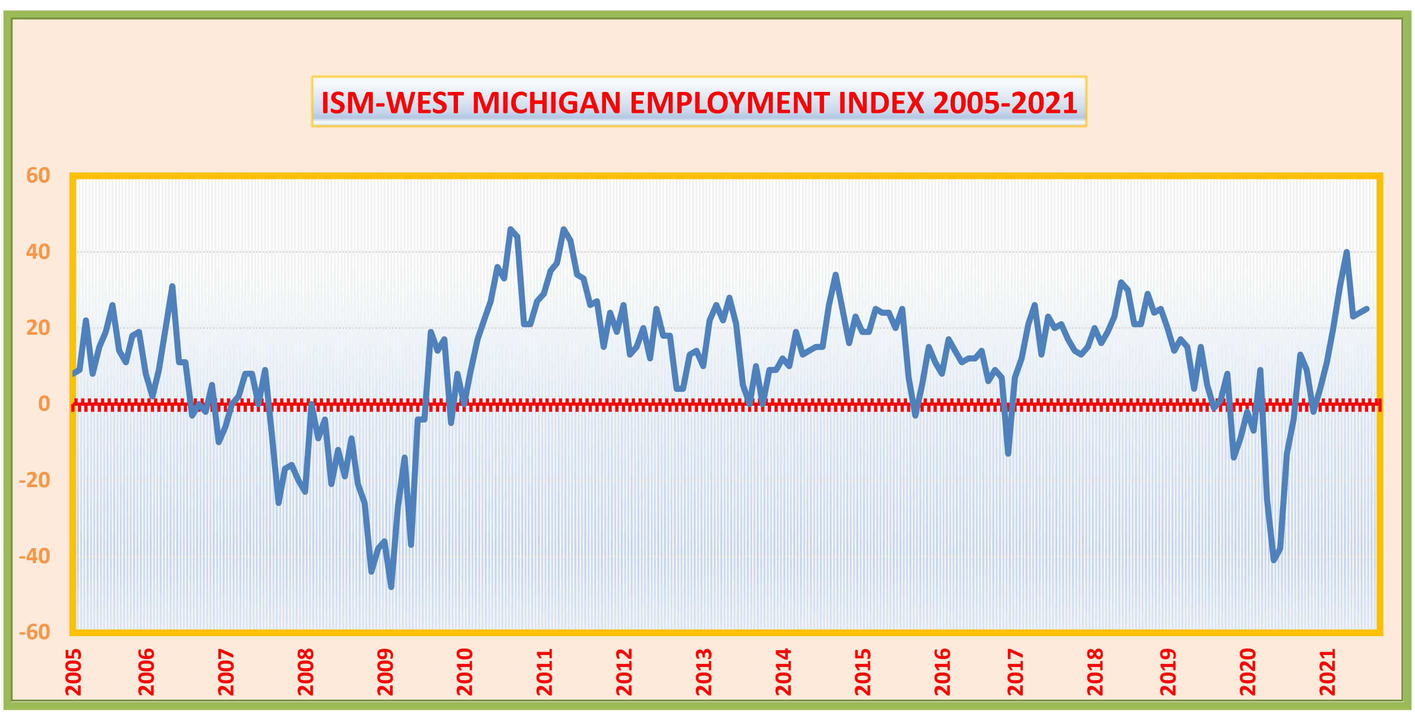


ISM-West Michigan Index of PRICES: 2008-2021



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.