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Current Business Trends

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THE RECOVERY CONTINUES TO FLATTEN

Key Participant Comments for September:

"Automotive customer demand is fickle at best. It's feast or famine, and weekly demand is impossible to predict."

"Long lead times are necessitating prices be raised retroactively due to increased shipping and material costs. The fear of a sharp drop in demand due to increased prices around the holiday season has us worried."

"The chip shortage is now hitting other industries, impacting sales of non-auto products. Materials and labor are still in short supply."

"It's not good. Supply chains are falling down. Ships (70 at last count) are anchored offshore with everything we need, and we have a government doing nothing."

"Welcome to the New Norm!"

In the early days of the recovery from almost all post-war recessions, the industrial sector usually benefits from pent-up demand. NEW ORDERS, our index of business improvement for West Michigan peaked nine months ago at +57. The index has now slowed to +8, the first single digit reading in 14 months. The September PRODUCTION Index, which is now termed "output" by many economists, posted at -1, the first negative reading since the recovery began. Numerous supply chain problems, rising prices, and labor shortages have all been cited as restraints by many of the survey participants. Activity in the purchasing offices, our index of PURCHASES, bounced to +27 from +17. At +70, our index LEAD TIMES is near a historical high, driving higher prices, expediting costs, overtime, and untold stress on supply chain professionals. In addition, the optimism we felt just a few months ago from the survey participants is starting to fade.

The U.S. Economy. The state of the national economy remained positive in September, according to the October 1 press release from the Institute for Supply Management, our parent organization. ISM's index of NEW ORDERS remained virtually unchanged at +28, down from +29. In a similar move, ISM's PRODUCTION (a.k.a., Output) Index eased to +16 from +18. However, ISM's adjustment model resulted in the composite index edging up to 61.1 from 59.9. Historically, ISM statistics remain near the 38-year high of 64.7 set in March.

A confirming 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 September posted at 60.7, down slightly from last month's reading of 61.1. Chris Williamson, Chief Business Economist at IHS Markit further noted:

"The U.S. manufacturing sector continues to run hot, with demand once again racing well ahead of production capacity as firms report widespread issues with supply chains and the availability of labor. The inability to meet demand amid near-record shortages of inputs and labor not only led to an unprecedented rise in backlogs of work as orders sat unfulfilled, but prices charged for those goods leaving the factory gate also surged higher again in September, rising at a rate exceeding anything seen in nearly 15 years of survey history. With COVID-19 cases showing signs of having peaked early both domestically and globally, some of the supply chain and labor shortage issues should start to ease, in turn taking some of the pressure off prices. But a dip in manufacturers' expectations for the year ahead to the lowest for four months due to supply worries underscores how production is likely to be adversely affected by shortages for some time to come."

The World Economy. The J.P. Morgan September report for the worldwide manufacturing PMI remained unchanged at a seven-month low of 54.1, down modestly from May's l1-year high of 56.0. To no one's surprise, the survey author notes that the global manufacturing upturn remains constrained by world-wide supply chain disruptions and material shortages. However, most of the world's major economies remain positive with notable exceptions being Vietnam, Malaysia, Mexico, and Russia. JPM's September index of New Orders inched up to 53.9 from 53.6. The index of Global Production (Output) rose to 52.0 from 51.8. The September PMI for Mexico, our second largest trading partner, posted at 48.6, still modestly below the all-important break-even point of 50.0. To the north, the PMI for Canada, our largest trading partner, registered at 57.0 in September, modestly below the survey-record high of 58.5 set in March. The September PMI for China, our third largest trading partner, fell to 49.2, down from 50.3 in August. Olya Borichevska, Global Economist at J.P.Morgan, said:

"The global manufacturing PMI sent a positive signal in September with rough stability in the survey after a number of months in which the output index declined sharply. However, the survey still points to ongoing supply constraints weighing on the sector. The delivery times PMI remains at a low level (long delivery times) at the same time price pressures are high as seen across input and output prices PMI."

The September PMI for the Eurozone came in at 58.6, down moderately from last month's near-record reading of 61.4. The survey author notes that further progress is being inhibited by supply chain constraints as well as "acute" inflationary pressures. The PMIs for all of the major economies in the Eurozone have now returned to positive, even though the pace has slowed. Chris Williamson, Chief Business Economist at IHS Markit said:

"While Eurozone manufacturing expanded at a robust pace in September, growth has weakened markedly as producers report a growing toll from supply chain headwinds. Supply issues continue to wreak havoc across large swathes of European manufacturing, with delays and shortages being reported at rates not witnessed in almost a quarter of a century and showing no signs of any imminent improvement. Growing supply and transport issues are not only being cited as a major constraint on both production and demand, but also once again drove prices sharply higher in September. Factory jobs growth has meanwhile also slowed partly due to lower labour requirements amid the widespread component shortages. With costs rising and factories struggling to produce enough goods to meet customer demand, the average price of goods leaving the factory gate rose at an increased rate in September, accelerating to almost match the record price jumps seen earlier in the summer. The supply situation should start to improve now that COVID-19 cases are falling and vaccination rates are improving in many countries, notably in several key Asian economies from which many components are sourced, but it will inevitably be a slow process which could see the theme of supply issues and rising prices run well into 2022."

Automotive. There is no end in sight for the on-going computer chip shortage, and automotive customers, dealers, and manufacturers are all growing increasingly frustrated. The October 1 edition of Automotive News reported that light vehicle sales for the industry fell by 12.9 percent in the third quarter. Furthermore, the September SAAR (Seasonally Adjusted Sales Rate) fell to 12.1 million units, down sharply from the April SAAR of 18.5 million units. Some forecasters are now saying that the chip shortage could last for at least another year or even more. Leading the third quarter sales decline was General Motors, down 33.1 percent, followed by Ford, falling 27.6 percent, and Stellantis (Chrysler) declining 18.8 percent. Among the transplants, third quarter sales for American Honda skidded 10.9 percent, Subaru dropped 16.5 percent, Nissan fell 10.0 percent, and Hyundai-Kia eased by 9.1 percent. On the positive side, Toyota, which claims to have better supplier relations with their chip suppliers, eked out a quarterly gain of 1.4 percent. However, Toyota has now temporarily idled some factories, and sales for September were down 22 percent. Apparently, the chip crisis has finally caught up to Toyota. However, with sales of 566,005 units for the third quarter, Toyota remains the industry sales leader. To the disenchantment of some analysts, after nearly a century at the top, second place now belongs to General Motors with 443,117 units, followed by Stellantis at 412,917. Jessica Caldwell, Edmunds' executive director of insights, commented:

"The entire U.S. auto industry — including the Asian manufacturers, which were doing a bit better than their domestic counterparts until recently — is in an incredibly volatile position right now and we are seeing inflated retail prices across the board. It's growing extraordinarily hard to predict who will come out on top heading into the rest of the year, as every automaker is at the mercy of its suppliers and challenged logistics around the globe."

West Michigan Unemployment. For Michigan, the August (latest month available) unemployment rate edged down to 4.7 from 4.8 percent. Job postings are now at a record high. However, numerous workers that dropped out workforce at the beginning of the pandemic have still not returned. Ongoing day care problems and pessimism over the resurgence of the COVID-19 variant(s) are often cited as reasons for not rejoining the workforce. On the other hand, some firms have been able to offer higher wages and "signing bonuses" to lure new applicants. Hence, for our West Michigan survey, the index of EMPLOYMENT came in at +27, up nicely from August's +19. Temporary layoffs are continuing to pop up among the auto parts suppliers because of periodic shutdowns at the auto assembly plants that run short of computer chips. Significant personnel shortages still remain in the hospitality and service industries as well. Unfortunately, many industrial jobs are not as desirable as hospitality and service jobs.

Industrial Inflation. Our survey's 25-year average of PRICES currently rests at +15. However, we set an all-time record of +85 last April, and five monthly later, there has been very little relief. For September, the index came in at +76, up from the August posting of +69. We are still caught in a cycle of both traditional demand-pull and cost-push inflation. Almost without exception, all major commodities are still either rising in price or remaining at lofty levels. In addition, at +70, our index of LEAD TIMES is also near an all-time high. The situation in the industrial market is similar to the demand-pull and cost-push industrial market of the 1970's. At the national level, the hope that the situation might be improving did not pan out this month. Last month, the ISM national index of PRICES eased to +59 from the recent 41-year high of +84 in April. However, the September index posted at +62. We had hoped for another drop. The J.P. Morgan world index of PRICES eased modestly to 70.4 last month, but the September report reversed course and came in the same as July's record-setting 71.2. According to Timothy Fiore, chair of ISM's survey committee:

"Aluminum, basic chemicals, copper, corrugate and packaging materials, electronic components, energy, some plastics and plastic products, freight, and steels continue to remain at elevated prices due to product scarcity, with the index reversing prior month softening,"

Business and Consumer Confidence. The depressing news cycle as well as the COVID-19 resurgence has clearly dampened consumer enthusiasm. The September 28 report posted by the Conference Board said its Consumer Confidence Index dropped to a reading of 109.3, down significantly from last month's report of 115.2 (1985=100) and well below the 128.9 reading posted as recently as June. On a more positive note, the University of Michigan September Consumer Sentiment Index edged up to 71.0 from 70.2. On the industrial side, the report is more pessimistic. The SHORT-TERM BUSINESS OUTLOOK Index for September, which asks local firms about the business perception for the next three to six months, came in at +8, a sharp drop from last month's +22, and well below June's posting of +40. For the LONG-TERM BUSINESS OUTLOOK Index, which queries the perception for the next three to five years, the index also dropped sharply to +24 from +41. In last month's report, some survey respondents still held out hope that the logistics problems and material shortages might resolve themselves by early fall. Those hope are now all but gone, and it is now feared that all of these issues will carry over well into 2022.

GDP. On September 30, the U.S. Bureau of Economic Analysis reported that the "third" estimate of the Gross Domestic Product for the second quarter came in at 6.7, up from the previous estimate of 6.6. With attention now turning to forecasts of what the BEA October 28 report will yield, the Atlanta Fed's "GDPNow" 2021 third quarter rolling estimate has dropped to a rather pessimistic 1.3 percent growth rate. By contrast, the Federal Reserve Bank of Philadelphia predicts a third-quarter growth rate of 6.6 percent. The third quarter rate from the latest "Nowcast" from the New York Fed currently stands at 3.8 percent. The Conference Board's estimated third quarter growth was recently posted at 5.5 percent, which is identical to the current estimate published by Goldman-Sachs. Who is right? There is obviously a wide range of opinions from some highly educated economists. It speaks to the problem of how inexact the science of economics remains in this information-saturated world.

Summary. As we reported last month, it seems that the prospect for inflation returning to normal in both the consumer and industrial markets continues to be progressively elusive with each passing day. The Federal Reserve has now hinted that the Fed Governors are ready to take action as necessary to guard the integrity of the dollar. However, at least for now, the Fed is still sticking with their theory that the current inflation is "transitory." Miraculously, the DXY dollar index has risen about four percent since June, which by itself bodes well for the future. However, one bad report on inflation could reverse this trend overnight. In addition, we are frequently reminded that the COVID-19 crisis is far from over. Like the Delta variant, there will be many more mutations to come, and they will need to be dealt with individually as they arise. Is the current economy overheating? Right now, we don't know. What we do know is that we cannot continue on our current path for too many more months without something giving.

SEPTEMBER COMMENTS FROM SURVEY PARTICIPANT

"Sales down, prices up, products in short supply, and labor costs are up."

"We had a good month and a good quarter. It could have been better if there weren't so many delays getting product."

"It's not good. Supply chains are falling down. Ships are anchored offshore with everything we need, and we have a government doing nothing."

"Automotive customer demand is fickle at best. Its feast or famine, and weekly demand is impossible to predict."

"Customer forecasts remain very volatile making it very hard to plan production operations."

"Raw material inventories are increasing (in terms of dollars and amount) in order to secure supply despite lower sales. It's making things very challenging."

"Long lead times are necessitating prices be raised retroactively due to increased shipping and material costs. The fear of a sharp drop in demand due to increased prices around the holiday season has us worried."

"Ocean freight increases are unprecedentedly ridiculous."

"Shortages and logistics problems continue to plague operations."

"Our OEM customers continue to take their lines down due to lack of microchips. This negatively affects our sales and staff.'

"Steel continues to have upward pricing pressure. The mills are taking out capacity resulting in scarcity of their product."

"We still having the same labor shortage issues."

"It's a crazy time to be in automotive."

"The chip shortage is now hitting other industries, impacting sales of non-auto products. Materials and labor are still in short supply."

"Welcome to the new norm!"

"Supplier delays continue as a result of labor challenges or lack of motivation for people to return to work."

"Labor remains a major challenge."

"Steel prices and availability continue to hurt us."

"Material shortages are increasing our lead times while we are still struggling to hire as many workers as we need."

September Survey Statistics

	UP	SAME	DOWN	N/A	Sept. Index	Aug. Index	July Index	25 Year Average
Sales (New Orders)	35%	38%	27%	0%	+ 8	+14	+25	+14
Production	21%	49%	22%	8%	- 1	+11	+24	+14
Employment	35%	57%	8%	0%	+27	+19	+22	+ 8
Purchases	30%	54%	16%	0%	+14	+17	+28	+ 7
Prices Paid (major commod.)	76%	24%	0%	0%	+76	+69	+73	+15
Lead Times (from suppliers)	73%	24%	3%	0%	+70	+75	+82	+11
Purchased Materials Inv. (Raw materials & supplies)	41%	43%	8%	8%	+33	+31	+32	- 4
Finished Goods Inventory	24%	51%	19%	5%	+ 5	+ 2	+ 0	- 8
Short Term Business Outlook (Next 3-6 months)	22%	64%	14%	0%	+ 8	+22	+31	-
Long Term Business Outlook (Next 3-5 years)	32%	54%	8%	6%	+24	+41	+38	-

Items in short supply: Steel, stainless steel, explosion proof motors, ocean containers from in China, transportation, rollstock (paper), chemicals, resin (polypropylene and nylon glass filled), semiconductors, electrical components, aluminum, aluminum extrusions, aluminum beverage cans, good employees, corrugated, polysulfone material, microchips, foundry capacity.

Prices on the UP side: Steel, freight, ocean freight, trucking, rollstock (paper), chemicals, labor, packaging (all time high), fasteners, stampings, electronics, electrical components, metals, resins, glass, packaging, paint, aluminum, logistics, electronic components, copper, aluminum, paper, oil-based products.

Prices on the DOWN side: Lumber

Latest Unemployment Reports

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

	Aug. 2021	Aug. 2020	Aug. 2009	20 Year Low
State of Michigan (Aug.)	4.7%	8.5%	14.6%	3.2%
State of Michigan (Unadj.)	4.4%	8.3%	14.1%	2.9%
Kent County	4.1%	6.2%	11.9%	2.1%
Kalamazoo County	4.5%	6.3%	11.1%	2.1%
Calhoun County	5.8%	7.8%	12.8%	2.7%
Ottawa County	4.1%	6.5%	13.3%	1.8%
Barry County	3.4%	5.1%	10.9%	2.2%
Kalamazoo City	5.6%	7.9%	15.2%	3.2%
Portage City	4.1%	5.8%	8.7%	1.3%
Grand Rapids City	5.4%	18.2%	16.1%	3.0%
Kentwood City	3.9%	5.9%	10.7%	1.4%
Plainfield Twp.	3.1%	4.7%	8.0%	1.4%
U.S. Official Rate (Aug.)	5.2%	8.4%	9.6%	3.5%
U.S. Rate (Unadjusted)	4.4%	8.3%	9.6%	3.4%
U.S. U-6 Rate (Aug.)**	8.8%	14.2%	22.9%	8.0%

**U-6 for Michigan = 11.8% for Q3 2020 to Q2 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 + 8 for the month of September, 2021

Previous Month + 14 for the month of August, 2021

One Year Ago + 31 for the month of September, 2020

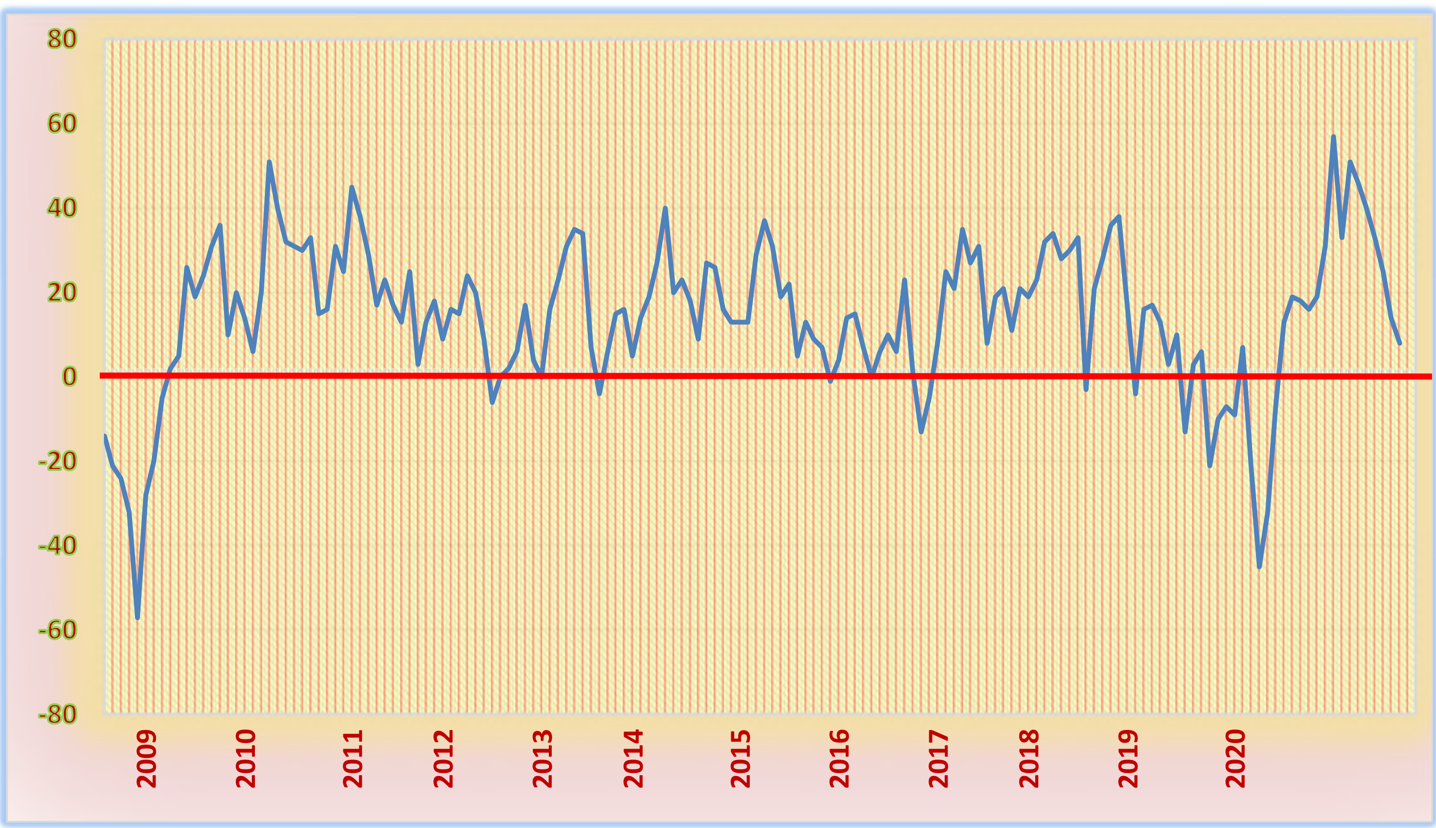
Record Low - 57 for the month of December 2008

Record High + 57 for the month of January 2021

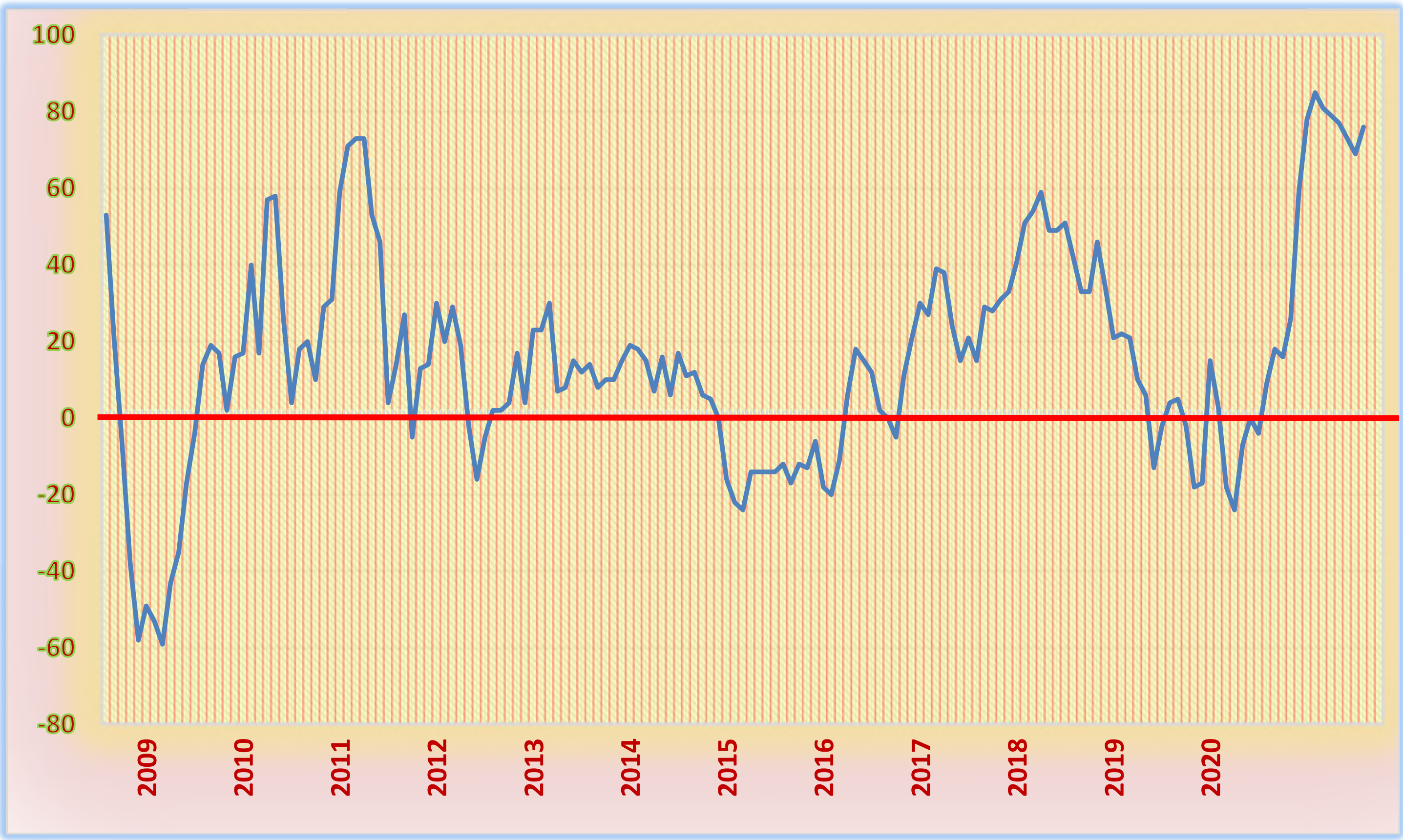
Great Recession
First Recovery + 3 in April 2009

COVID-19 Recession
First Recovery +12 in July 2020

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

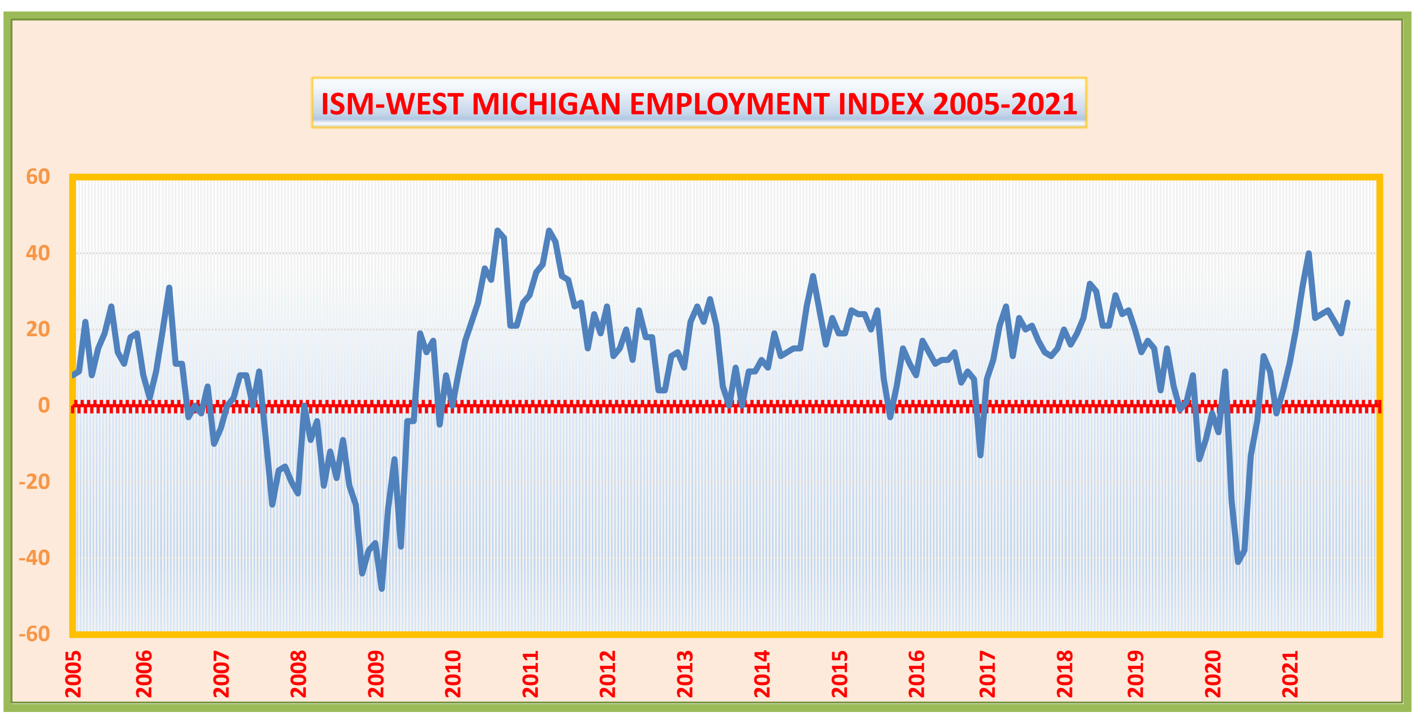


ISM-West Michigan Index of PRICES: 2008-2021



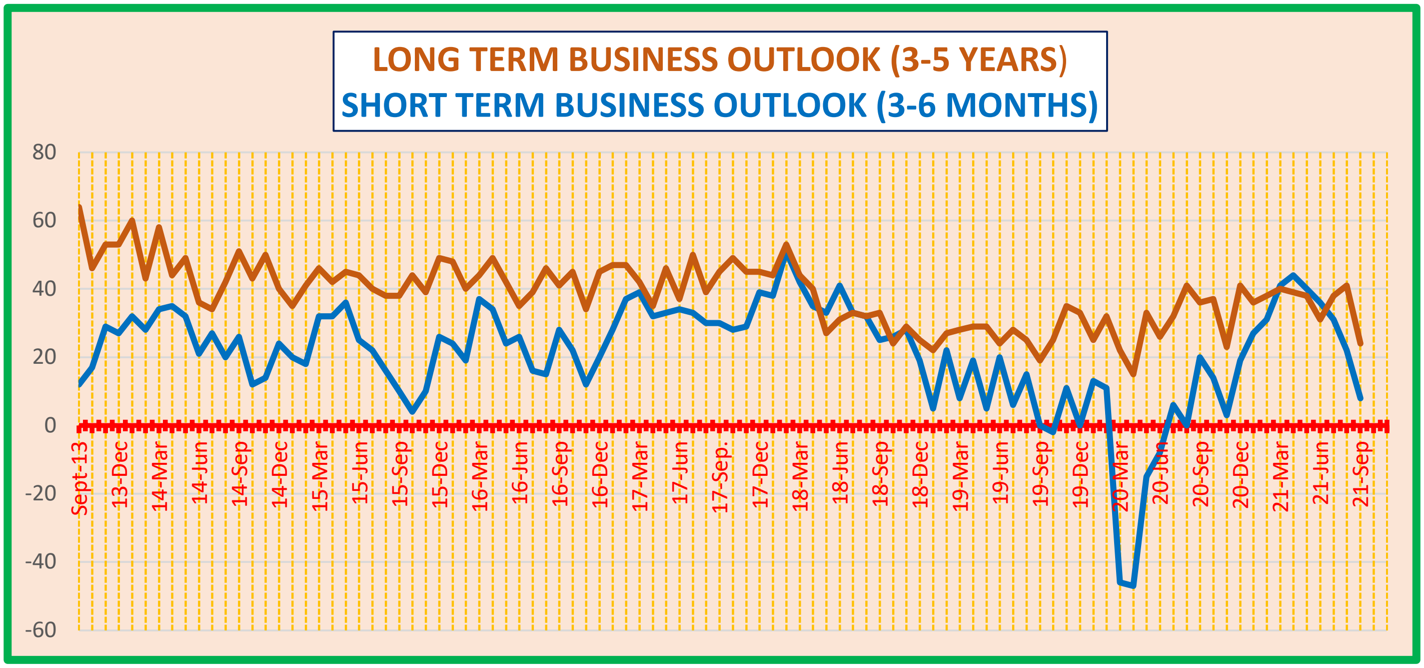
ISM-WEST MICHIGAN INDEX OF EMPLOYMENT

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.



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