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## **News Release (For Immediate Release)**

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# **Current Business Trends**

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### **STILL FLAT, BUT SLIGHTLY BETTER**

#### **Key Participant Comments for October:**

“Everything is in short supply due to extended lead times resulting from labor shortages and raw material extended lead times. It’s tough out there.”

“We continue to be impacted by automotive OEM shut downs.”

“The cost to ship a truckload of materials from California to Michigan has tripled in the past 10 months.”

“We have supply chain issues and a computer chip shortage. Also, we are starting to see companies holding off on purchases because of long term inflation fears.”

“It’s been the most challenging time in my 30+ years in supply chain management.”

By now, almost everyone in the entire nation is aware of the numerous problems plaguing America’s supply chains. In the industrial sector, the supply chain problems have resulted in longer lead times, missed deliveries, higher prices, and sometimes exorbitant expediting charges. What seems most worrisome to some of our survey participants is that there is still no end in sight. Although these supply chain gremlins are inhibiting the West Michigan economy, modest economic growth continues. NEW ORDERS, our index of business improvement, rose to +15 from +8. By contrast, the October PRODUCTION Index, which is now termed “output” by many economists, rebounded sharply to +19, up from September’s reading of -1. Activity in the purchasing offices, our index of PURCHASES, eased to +8 from +14. However, at +87, the LEAD TIMES Index is near the historical high of +93 set in April.

**The U.S. Economy.** The pace of growth for the national economy is slowing, according to a November 1 press release from the Institute for Supply Management, our parent organization. ISM’s index of NEW ORDERS remained positive but edged lower to +18 from +28. ISM’s PRODUCTION (a.k.a., Output) Index remained virtually unchanged at +17. After statistical adjustments, ISM’s composite index posted at 60.8, modestly lower than September’s 61.1. All of these ISM statistics still near the 38-year high of 64.7 set in March.

In confirmation that the growth rate of the U.S. economy is slowing, IHS Markit.com, the British international consulting firm that also surveys U.S. purchasing managers, reported results similar to ISM. The seasonally adjusted IHS Markit U.S. Manufacturing Purchasing Managers’ Index posted 58.4 in October, down from 60.7 in September. Chris Williamson, Chief Business Economist at IHS Markit further noted:

“October saw U.S. manufacturers report yet another near-record lengthening of supply chains, with shortages of components constraining production growth to the lowest

since July of last year. Around half of all companies reporting lower production in October attributed the decline to a lack of supplies. However, a further one-in-ten cited a lack of labor, and one-in-four reported that demand had fallen, often as a result of customers either lacking other inputs or pushing back on higher prices. Although production growth has now slipped below the pre-pandemic long-run average due to the supply and labor constraints, demand growth – as measured by new order inflows – remains well above trend despite easing in October, hence producers saw another steep rise in backlogs of uncompleted work. This shortfall of production relative to demand was the principal driving force behind a survey record rise in manufacturers’ selling prices, suggesting that inflationary pressures continue to build and look unlikely to abate to any significant degree any time soon.”

**The World Economy.** The J.P. Morgan October report for the worldwide manufacturing PMI edged up to 54.3 from the previous seven-month low of 54.1. Of the 31 nations for which October data were available, only Mexico and Myanmar reported a PMI below the 50.0 break-even point. The PMI for Canada, our largest trading partner, came up from 57.0 to 57.7 in October, still modestly below the survey’s record high of 58.5 set in March. The October PMI for Mexico, our second largest trading partner, posted at 49.3, slightly below the all-important 50.0 break-even point. According to the survey author, raw material shortages resulted in further declines in output, and delivery times lengthened to a near-record rate. Despite supply chain problems of their own, the PMI for China, our third largest trading partner, returned to a positive reading of 50.6 for October. Olya Borichevska, Global Economist at J.P.Morgan, said:

“Global supply chains remained under severe pressure during October, with average vendor delivery times increasing to the greatest extent in the survey history. Supplier performance deteriorated to record, or near-record, extents across the consumer, intermediate and investment goods industries. The impact of supply-chain issues filtered through to price inflation during October. Input costs increased at the fastest pace in over 13 years, while average output charges rose to the greatest extent on record. Rates of inflation in both price measures were noticeably steeper (on average) in developed nations compared to emerging markets.”

The October PMI for the Eurozone came in at 58.3, down modestly from last month’s reading of 58.6. Although the production index remained positive, the rate of expansion slumped to the slowest rate in 16 months. Difficulties in acquiring the inputs necessary for production was a frequently-cited reason by companies who reported lower output in October. The PMIs for all of the major economies in the

Eurozone are still positive. Chris Williamson, Chief Business Economist at IHS Markit said:

“Eurozone manufacturers reported a worsening of the supply chain situation in October, which curbed production growth sharply during the month. Average delivery times for raw materials lengthened at a rate exceeded only twice in almost a quarter of a century of survey data as companies reported demand once again running ahead of supply for a wide variety of inputs and components. Production constraints at suppliers were reported alongside a growing list of logistical issues. These include a lack of shipping containers and inadequate freight capacity, port congestion, driver shortages and broader transport delays linked mainly to the pandemic. These shortages have led to the weakest rise in factory output since the recovery began in July of last year, and also pushed inflationary pressures to new survey highs, raising further questions about just how transitory the recent spike in inflation will be. Business confidence also lost some ground to hit a one-year low in October, as increasing numbers of producers grew concerned about the supply situation and the impact of rising costs and prices, adding to the indications that manufacturers face some challenging months ahead.”

**Automotive.** Most manufacturers are severely frustrated by the fact that they cannot build or ship most of their cars because of a shortage of \$15 worth of computer chips. All manufacturers are growing increasingly frustrated, but none of the major automakers has the where-with-all to make their own chips. As a result, the November 1 edition of Automotive News reported that October’s SAAR (Seasonally Adjusted Annualized Rate) of sales rose to 13.1 million units, up from September’s 12.4 million but well below April’s 18.5 million. Among the firms still reporting monthly sales, American Honda skidded 23.5 percent, Toyota fell 28.6 percent, Ford lost 4.0 percent, but Subaru dropped a whopping 40.0 percent. The Automotive News author further commented:

“Throughout the chip crunch, automakers have prioritized output of large pickups, some of the industry’s most profitable vehicles. Ford and Ram are among automakers offering zero percent financing for 72 months on large pickups. At the same time, competition in the segment is increasing with a redesigned Toyota Tundra and the industry’s first electric pickup, the Rivian R1T, on the horizon.”

**West Michigan Unemployment.** For Michigan, the September (latest month available) unemployment rate edged down to 4.6 from 4.7 percent. It seems like a broken record, but numerous firms continue to report that they have vacancies that they cannot fill. The numerous workers that dropped out of the workforce at the beginning of the pandemic have still not returned. However, some firms have been able to offer higher wages and signing bonuses to lure new applicants. For our West Michigan survey, the October index of EMPLOYMENT came in at +24, slightly below Septembers reading to +27.

**Industrial Inflation.** Given that our all-time record high for the index of PRICES was set last April at +85, October’s reading of +79 is still very high. Almost without exception, all major commodities are still either rising in price or remaining at lofty levels. Because of the economic laws of supply and demand,

the index of LEAD TIMES, one of the major factors forcing prices to rise, is still extremely high. In fact, October’s reading of +87 is only a few notches below the all-time record of +93 set in April. At the national level, the ISM national index of PRICES rose to +71 from +62. The J.P. Morgan world index of PRICES jumped to a near-record high of 74.4 from 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,”

**Business and Consumer Confidence.** After declining for three continuous months, the Conference Board’s October index of Consumer Confidence reversed course and rose to 113.8, a gain of 4.0 from September’s reading. The University of Michigan September Consumer Sentiment Index posted at 71.1, a more modest decline of 1.1. Locally, the SHORT-TERM BUSINESS OUTLOOK Index for October, which asks local firms about the business perception for the next three to six months, remained unchanged at +8. For the LONG-TERM BUSINESS OUTLOOK Index, which queries the perception for the next three to five years, the index edged higher to +27 from +24.

**GDP.** According to the October 28 press release from the U.S. Bureau of Economic Analysis, the first “estimate” of the Gross Domestic Product (GDP) growth for the third quarter came in at 2.0 percent, down significantly from the 6.7 reading report for the second quarter. The disappointing performance was blamed on a resurgence of COVID-19 cases and a decrease in government assistance payments “...in the form of forgivable loans to businesses, grants to state and local governments, and social benefits.” Attention is now turning to predictions for the fourth quarter of 2021, and current estimates from reputable sources are as widely scattered as they have been since the onset of the recent pandemic. The Atlanta Fed’s “GDPNow” 2021 fourth quarter rolling estimate has risen to a rather optimistic 6.6 percent. At 8.3 percent, the fourth quarter estimate from the Federal Reserve Bank of St. Louis is even more optimistic. For Standard and Poor’s, the forecast for Q4 is 5.5 percent. By sharp contrast, current Q4 growth rate estimate published by Goldman-Sachs currently stands at 1.75 percent. It is again worth reminding ourselves that the “science” of economics remains fairly inexact in this information-saturated world.

**Summary.** Albeit slowly, vaccination rates continue to grow. In addition, numerous new therapeutic drugs have reduced the death rate dramatically. Barring a more toxic variant, the economy should remain open, although many safety measures will remain in place for years. Three vaccines are currently being administered in the United States, and another 21 are in use around the world. About 22 vaccines are in Stage III development, and another 54 are in Stage II. In short, many vaccines will be available going forward.

Is the current economy overheating? Many people are beginning to think that we cannot continue on our current path for too many more months without something giving. There is a breaking point out there-- somewhere. The Fed is still sticking with their theory that the current inflation is “transitory” but fails to say how long before we can expect to “transition” out of the high inflation we are currently experiencing.

## OCTOBER COMMENTS FROM SURVEY PARTICIPANT

“We have supply chain issues and a computer chip shortage. Also, we are starting to see companies holding off on purchases because of long term inflation fears.”

“It’s an awful environment.”

“It’s been the most challenging time in my 30+ years in supply chain management.”

“Freight is basically a wildcard that can’t be trusted until it actually arrives at your door.”

“Business is good, but the ability to manufacture sold goods is challenging due to material and labor shortages.”

“Price escalations are across the board.”

“We continue to be impacted by automotive OEM shut downs.”

“We finished the quarter with a strong month. October, however, looks to be quite slow.”

“Inflation remains a significant factor in supply chains today.”

“The bottleneck in the shipping docks in LA is not helping our cause.”

“Surprisingly, automotive orders continue at normal levels. Just waiting until orders start dropping based on this chip and other supply chain shortages....”

“Supply Chain disruptions continue to be a major issue. Steel lead times and container pricing and availability from China are devastating.”

“Surprisingly, automotive orders continue at normal levels. Just waiting until orders start dropping based on this chip and other supply chain shortages....”

“The shortages and allocations are having a negative impact on our business.”

“The cost to ship a truckload of materials from California to Michigan has tripled in the past 10 months.”

“Sales are very sluggish.”

“Automotive continues to be a struggle to maintain continuity in supply. Orders continue to drop out from all of the major customers.”

“International freight delays continue to plague us combined with long lead times at domestic foundries. We continue to be tight on labor capacity, and no one wants to work overtime.”

“Machine tool inventories are dramatically lower. Most manufactures are out of stock machines and can't get parts to build new machines.”

“Everything is in short supply due to extended lead times resulting from labor shortages and raw material extended lead times. It’s tough out there.”

## October Survey Statistics

	UP	SAME	DOWN	N/A	Oct. Index	Sept. Index	Aug. Index	25 Year Average
<b>Sales (New Orders)</b>	39%	37%	24%	0%	+15	+ 8	+14	+14
<b>Production</b>	29%	53%	10%	8%	+19	- 1	+11	+14
<b>Employment</b>	42%	40%	18%	0%	+24	+27	+19	+ 8
<b>Purchases</b>	29%	47%	21%	3%	+ 8	+14	+17	+ 7
<b>Prices Paid (major commod.)</b>	79%	21%	0%	0%	+79	+76	+69	+15
<b>Lead Times (from suppliers)</b>	92%	3%	5%	0%	+87	+70	+75	+11
<b>Purchased Materials Inv. (Raw materials &amp; supplies)</b>	47%	32%	11%	10%	+36	+33	+31	- 4
<b>Finished Goods Inventory</b>	26%	37%	26%	11%	+ 0	+ 5	+ 2	- 8
<b>Short Term Business Outlook (Next 3-6 months)</b>	29%	50%	21%	0%	+ 8	+ 8	+22	-
<b>Long Term Business Outlook (Next 3-5 years)</b>	40%	42%	13%	5%	+27	+24	+41	-

**Items in short supply:** Machine tools, certain gauges of aluminum tubing, metals, extrusions and die castings, raw materials, forgings, MRO items, semiconductor devices, some unique steel grades, plastic resins, packaging products, some fasteners, transportation, raw materials, fasteners, garment fabric, electric motors, glass filled nylon, aluminum cans, aluminum cases, electronics components, urethane foam, electronic parts, microchips, domestic foundry capacity, printed material.

**Prices on the UP side:** New and used machinery, steel, lumber, freight costs, warehouse space, trucking, die castings, base metals, semiconductors, packaging products, chemicals, transportation, raw materials, replacement parts, labor, long distance logistics, plating services, aluminum, copper.

**Prices on the DOWN side:** Worker’s compensation insurance costs.

## Latest Unemployment Reports

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

	Sept. 2021	Sept. 2020	Aug. 2009	20 Year Low
State of Michigan (Sept.)	4.6%	8.2%	14.6%	3.2%
State of Michigan (Unadj.)	3.8%	7.8%	14.1%	2.9%
Kent County	3.8%	5.7%	11.9%	2.1%
Kalamazoo County	4.1%	5.8%	11.1%	2.1%
Calhoun County	5.3%	7.3%	12.8%	2.7%
Ottawa County	3.2%	4.6%	13.3%	1.8%
Barry County	3.6%	5.0%	10.9%	2.2%
Kalamazoo City	5.1%	7.2%	15.2%	3.2%
Portage City	3.7%	5.3%	8.7%	1.3%
Grand Rapids City	5.0%	7.5%	16.1%	3.0%
Kentwood City	3.6%	5.3%	10.7%	1.4%
Plainfield Twp.	2.0%	4.3%	8.0%	1.4%
U.S. Official Rate (Sept.)	4.8%	7.8%	9.6%	3.5%
U.S. Rate (Unadjusted)	4.6%	7.7%	9.6%	3.4%
U.S. U-6 Rate (Sept.)**	8.5%	12.8%	22.9%	8.0%

\*\*U-6 for Michigan = 10.6% for Q4 2020 to Q3 2021

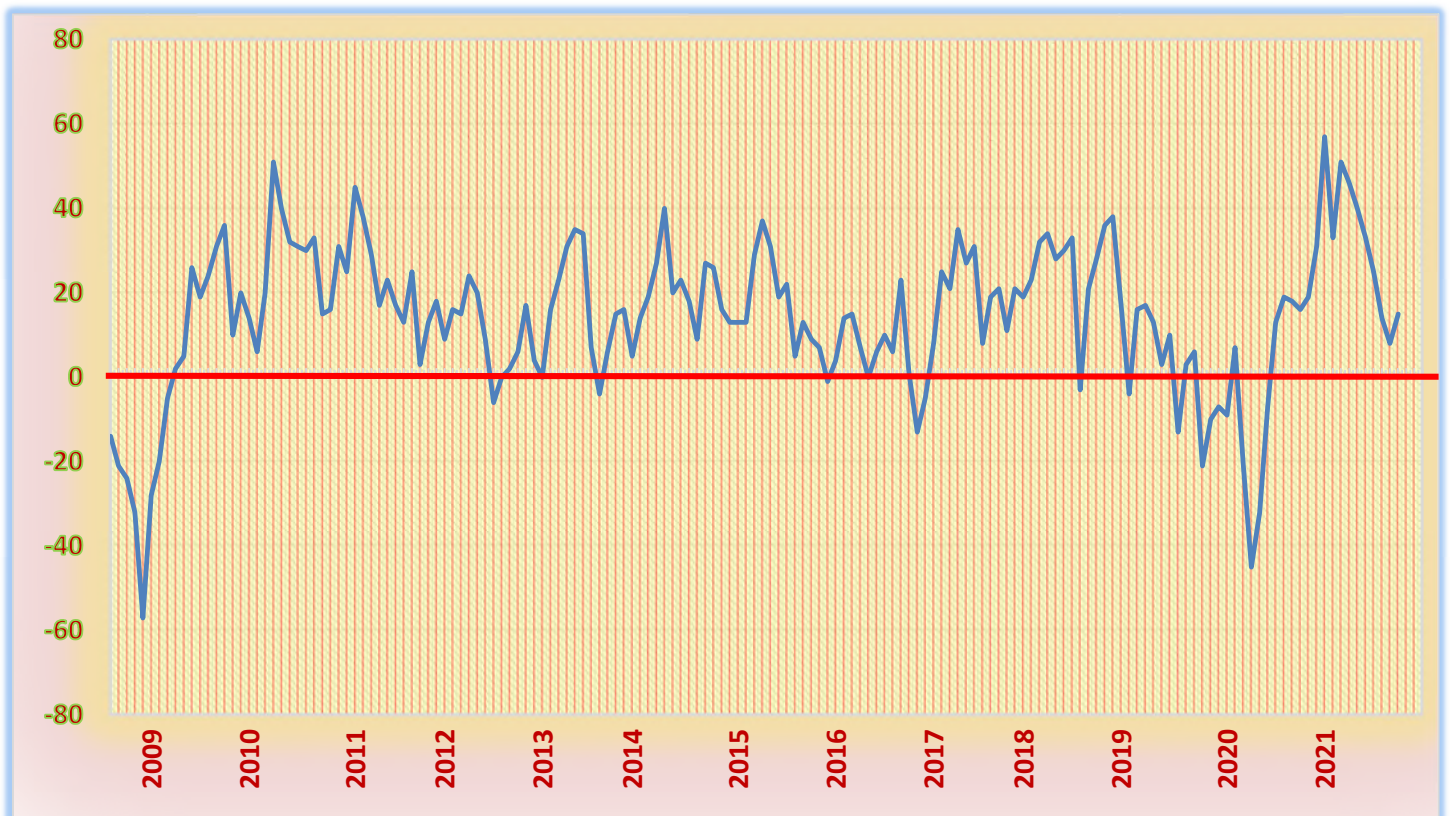
## Index of New Orders: West Michigan

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.

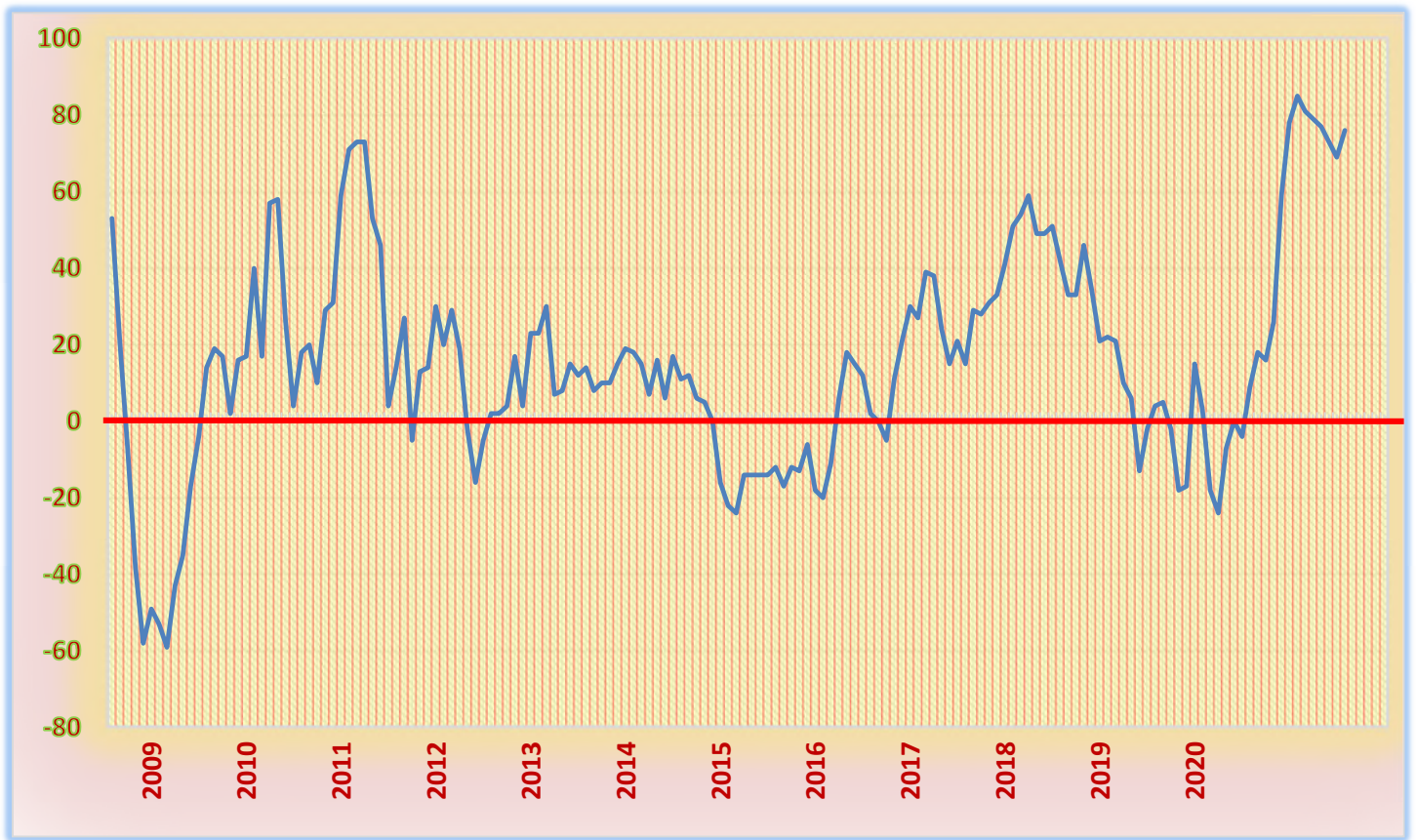
Latest Report + 15 for the month of October, 2021  
 Previous Month + 8 for the month of September, 2021  
 One Year Ago + 16 for the month of October, 2020  
 Record Low - 57 for the month of December 2008  
 Record High + 57 for the month of January 2021

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.

