



Institute for Supply Management,

Greater Grand Rapids, Inc.

P. O. Box 230621

Grand Rapids, MI 49523-0321

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Current Business Trends

By Brian G. Long, Ph.D., C.P.M.

Director, Supply Chain Management Research

Grand Valley State University (269) 870-0428

DESPITE SHORTAGES, THE WORLD ECONOMY REMAINS POSITIVE

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 rapid pace of the national economy eased modestly in November, according to the press release from the Institute for Supply Management, our parent organization. ISM's index of NEW ORDERS remained positive but edged lower to +13 from +18. ISM's PRODUCTION (a.k.a., Output) Index remained virtually unchanged at +18, up from +17. After statistical adjustments, ISM's composite index posted at 61.1, modestly higher than September's 60.8. However, all of these ISM statistics remain near the 38-year high of 64.7 set earlier this year in March.

A slightly different view of the U.S. economy comes from IHS Markit.com, the British international consulting firm. Their seasonally adjusted U.S. Manufacturing Purchasing Managers' Index posted at 58.3 in November, down fractionally from October's 58.4. Many of the survey respondents noted that longer lead time, supplier shortages, and higher energy prices were resulting in lost business opportunities. Chris Williamson, Chief Business Economist at IHS Markit further noted:

"Broad swathes of U.S. manufacturing remain hamstrung by supply chain bottlenecks and difficulties filling staff vacancies. Although November brought some signs of supply chain problems easing slightly to the lowest recorded for six months, widespread shortages of inputs meant production growth was again severely constrained to the extent that the survey is so far consistent with manufacturing acting as a drag on the economy during the fourth quarter. While demand remains firm, November brought signs of new orders growth cooling to the lowest so far this year, which may be linked to shortages and limiting the scope to boost sales. There are signs of push-back from customers as prices continued to rise sharply during the month. While average selling price inflation eased as firms sought to win customers, the rate of input cost inflation hit a new high, hinting at a squeeze on margins."

The World Economy. The J.P. Morgan October report for the worldwide manufacturing PMI edged fractionally lower

November to 54.2 from 54.3. Despite numerous supply constraints, production (output) increased, despite slowing of new orders coming into many firms. Of the 30 nations for which November data were available, Mexico, Myanmar, Brazil, and China reported a PMI below the 50.0 breakeven point. The PMI for Canada, our largest trading partner, eased modestly in November to 57.2, down from 57.7, but still only 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 49.4, up modestly from October's 49.3 but still slightly below the all-important 50.0 breakeven point. Power supply shut-downs and supply chain problems are finally catching up with China, our third largest trading partner. For the first time in several months, the PMI for China slipped to 49.9. By contrast, Olya Borichevska, Global Economist at J.P.Morgan, noted:

"Today's November Global Manufacturing PMI came in positive with an increase in the output component against a modest easing across indicators related to supply constraints. One negative in the reports is the decline in the new orders and employment PMIs. However, overall, we view today's news positively suggesting the industrial sector is moving toward improvement."

For the Eurozone, the November PMI came in at 58.4, modestly higher than last month's reading of 58.3. However, factory operations for many firms continued to be hampered by severe supply-related constraints. The November PMI for Italy set a record high, and all of the other major economies in Europe remained positive. Even Greece registered one of the fastest expansions on record. Chris Williamson from IHS Markit further commented:

"A strong headline PMI reading masks just how tough business conditions are for manufacturers at the moment. Although demand remains strong, as witnessed by a further solid improvement in new order inflows, supply chains continue to deteriorate at a worrying rate. Shortages of inputs have restricted production growth so far in the fourth quarter to the weakest seen over the past year and a half. Especially subdued production was again seen in Germany, France and Austria in November, albeit offset by strong performances seen in Italy, Ireland, and the Netherlands, which helped lift the overall pace of production growth slightly during the month. A record rise in inventories meanwhile reflected increased efforts by manufacturers to build safety stocks, in turn driven by fears of ongoing shortages of inputs in coming months. With demand once again outstripping supply, November saw a

continuing sellers' market, pushing prices charged for manufactured goods higher at a rate surpassing anything previously recorded in almost two decades. Higher factory gate prices suggest consumer inflation has further to rise. Looking ahead, rising COVID-19 infection rates cast a darkening cloud over the near-term outlook, threatening to further disrupt supply chains while at the same time diverting spending from consumer services to consumer goods again, therefore worsening the imbalance of supply and demand."

Automotive. Although the chip shortage which has plagued the auto industry for months is still far from subsiding, there are signs that the situation may be stabilizing, albeit at a slower pace. The December 1st edition of Automotive News reported that November's SAAR (Seasonally Adjusted Annualized Rate) of sales remained unchanged at 13.1 million units. However, our local auto parts suppliers continue to report recurring order disruptions. Among the firms still reporting monthly sales, American Honda skidded 17.1 percent, Toyota fell 25.4 percent, and beleaguered Subaru dropped 34.5 percent. By contrast, Ford posted a modest gain of 5.8 percent. Jeff Schuster from LMC Automotive further commented:

"The supply shortage is being managed in very creative ways, from building vehicles without certain content to bringing chip development and production in-house for better supply chain visibility. However, the improvements in vehicle production are inconsistent around the world. China and India both saw stronger vehicle production in October, but North America and Europe remain constrained. Even as plants restart after being down for several weeks, they are not running near normal levels.

West Michigan Unemployment. For Michigan, the October (latest month available) unemployment rate edged down to 6.1 from 6.3. Just as last month, the numerous workers that dropped out of the workforce at the beginning of the pandemic have still not returned, so the problem of worker shortages continues. Locally, the unemployment rate for both Ottawa and Barry fell to 3.5 percent. Kent County posted 4.1 percent unemployment, and Kalamazoo County came in at 4.4 percent.

Industrial Inflation. At the national level, the ISM national index of PRICES eased to 65 from 71. The J.P. Morgan world

index of PRICES eased considerably to 71.5 from 74.4. although they remained uncomfortable near record highs. According to Timothy Fiore, chair of ISM's survey committee:

"This is the 15th month in a row that the index has been above 60 percent and the 12th consecutive month it has exceeded 70 percent. Aluminum, copper, corrugate and packaging materials; electrical and 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 rebounding in October, the Conference Board's October index of Consumer Confidence reversed course and eased to 109.5, down from 111.6. The University of Michigan Consumer Sentiment Index for September also eased to 67.4 from 71.7. Most of the anecdotal reasons centered around concerns that inflation may not be as "transitory" as the pundits have claimed.

GDP. With the third quarter in the books, attention is now turning to predictions for the fourth quarter of 2021. The 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 8.6 percent growth. At 4.5 percent, the fourth quarter estimate from the Federal Reserve Bank of St. Louis is less optimistic. For the New York Fed, the forecast for Q4 is 7.7 percent. Like previous months, there is no firm consensus regarding the GDP for the fourth quarter.

Summary. Although the impact of the new Omicron variant of COVID-19 is still unknown at this time, it is now increasingly obvious that we should expect more variants to emerge for some time to come. New vaccines and new therapeutic treatments will help mitigate likely will not eliminate the problem. Continuing to deal with these new variants may in fact become the "new norm." Supply chain disruptions may also continue to be the new norm, and any return to pre-pandemic normality still appears to be months away. The entire economic system of the world remains under stress, and there is a breaking point out there—somewhere.

Latest Unemployment Reports

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

| | Oct. 2021 | Oct. 2020 | Aug. 2009 | 20 Year Low |
|----------------------------|--------------|--------------|--------------|----------------|
| State of Michigan (Oct.) | 6.1% | 8.1% | 14.6% | 3.2% |
| State of Michigan (Unadj.) | 4.7% | 7.2% | 14.1% | 2.9% |
| Kent County | 4.1% | 5.1% | 11.9% | 2.1% |
| Kalamazoo County | 4.4% | 5.3% | 11.1% | 2.1% |
| Calhoun County | 6.0% | 6.7% | 12.8% | 2.7% |
| Ottawa County | 3.5% | 4.1% | 13.3% | 1.8% |
| Barry County | 3.5% | 4.4% | 10.9% | 2.2% |
| Kalamazoo City | 5.5% | 6.5% | 15.2% | 3.2% |
| Portage City | 4.1% | 4.8% | 8.7% | 1.3% |
| Grand Rapids City | 5.4% | 6.7% | 16.1% | 3.0% |
| Kentwood City | 3.9% | 4.8% | 10.7% | 1.4% |
| Plainfield Twp. | 3.1% | 3.8% | 8.0% | 1.4% |
| U.S. Official Rate (Nov.) | 4.2% | 6.7% | 9.6% | 3.5% |
| U.S. Rate (Unadjusted) | 4.2% | 6.4% | 9.6% | 3.4% |
| U.S. U-6 Rate (Nov.)** | 7.8% | 12.0% | 22.9% | 8.0% |

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

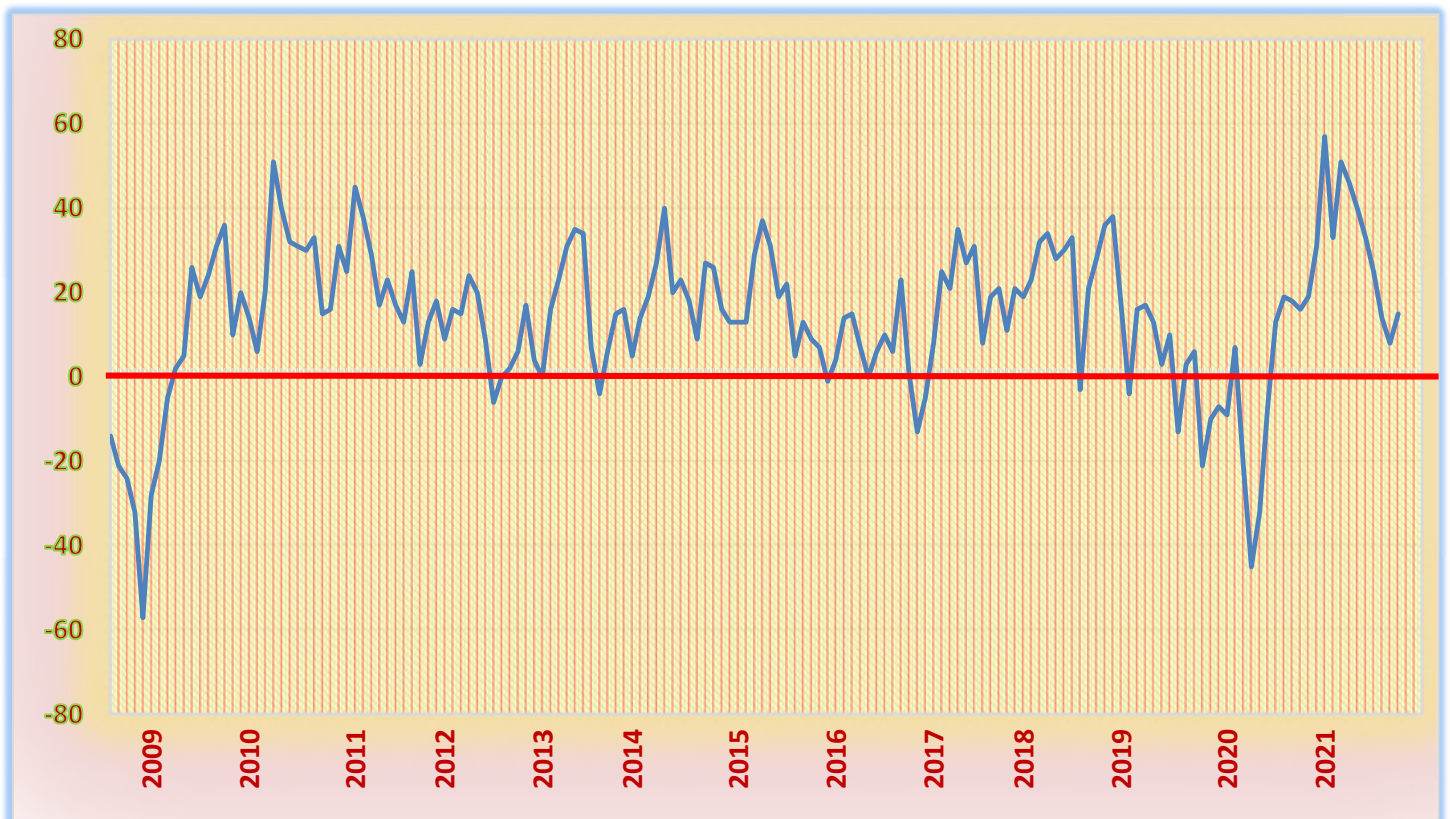
Index of New Orders: West Michigan

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.

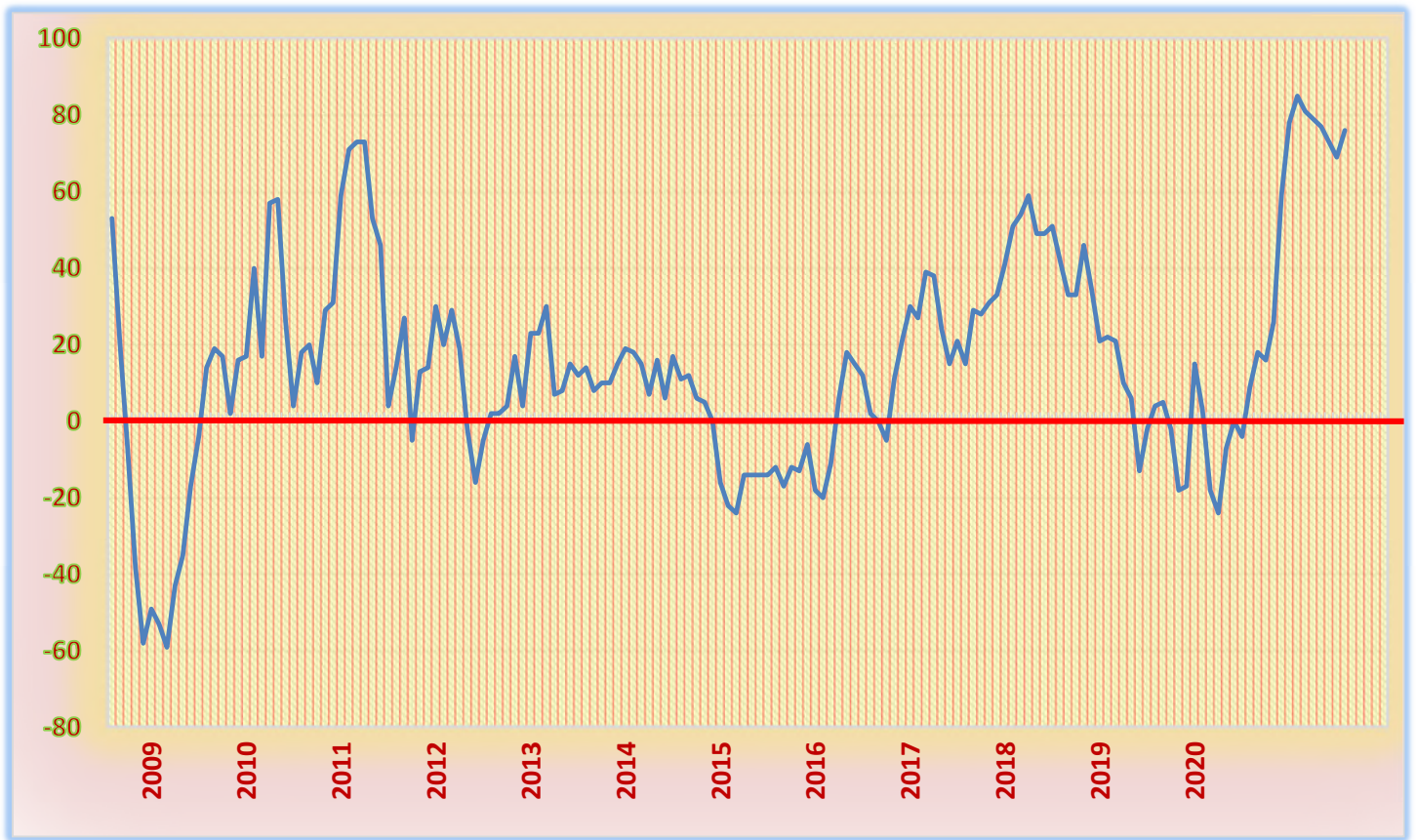
Latest Report + 15 for the month of October, 2021
 Previous Month + 8 for the month of September, 2021
 One Year Ago + 16 for the month of October, 2020
 Record Low - 57 for the month of December 2008
 Record High + 57 for the month of January 2021

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.

