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Current Business Trends

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DESPITE COVID, THE WORLD ECONOMY FINISHED 2021 WELL

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

The U.S. Economy. Despite the seemingly endless problems of supply chain disruptions, material shortages, rising prices, and a new wave of COVID-19 concerns, the national economy ended 2021 on a modestly positive note. The Institute for Supply Management's NEW ORDERS Index came in at +14, virtually unchanged from November's +13. However, ISM's PRODUCTION (a.k.a., Output) Index remained positive but eased to +8 from +18. After statistical adjustments, ISM's composite index posted at 58.7, down from November's +61.1. Although the recent composite indices remain near their 38-year high of 64.7 set nine months ago, the reports for each passing month continue a modest retreat.

A similar 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 57.7 in December, down from November's 58.3. The good news from the current report is that the "expectations" index for the economy going forward strengthened to the highest level since November 2020. Most of this new-found optimism stems from hopes of reduced supply disruption and a greater ability to hire suitable workers. Siân Jones, Senior Economist at IHS Markit, further noted:

> "December saw another subdued increase in US manufacturing output as material shortages and supplier delays dragged on. Although some reprieve was seen as supply chains deteriorated to the smallest extent since May, the impact of substantially longer lead times for inputs thwarted firms' ability to produce finished goods yet again. Adding to the sector's challenges was an ebb in client demand from the highs seen earlier in 2021, with new orders rising at the slowest pace for a year, largely linked to a reluctance of customers to place orders before inventories were worked through. Alongside a slight pick-up in hiring, softer demand conditions contributed to the slowest rise in backlogs of work for ten months. While shortages remained significant, the end of the year brought with it some signs that cost pressures have eased. The uptick in input prices was the slowest for six months, and firms recorded softer increases in selling prices amid efforts to entice customer spending."

The World Economy. The January 4 press release for the J.P. Morgan worldwide manufacturing PMI for December remained unchanged at 54.2. The report further noted that output, new orders, and employment all accelerated at the end of the year, as did business optimism for 2022. Of the nations for which December data were available, Mexico, Myanmar, Brazil, and Thailand were the only countries posting results below the 50.0 breakeven point. The PMI for Canada, our largest trading partner, remained positive but eased to 56.5 in December, down from November's 57.2. Canada's PMI has been positive every month since July 2020, but the latest expansion was the weakest for five months. The December PMI for Mexico, our second largest trading partner, remined unchanged at 49.4. The PMI for China, our third largest trading customer, returned to a positive reading of 50.9 from 49.9, the best report in six months. Olya Borichevska, Global Economist at J.P.Morgan, noted:

> "The global manufacturing sector showed strength at the end of 2021 with the output PMI increasing 0.8-pt to a solid 53.3 level. Although price inflation and supply chain pressures remain a constraint on growth, there was better news on these fronts with tentative signs that these headwinds were also passed their respective peaks."

Turning to the Eurozone, all of the major economies continue to post positive PMIs, with Italy leading the way at 62.0 and France trailing at a fairly respectable 55.6. The December composite PMI finished the year at 58.0. Even beleaguered Greece now boasts a PMI of 59.0, a four-month high. Joe Hayes, Senior Economist at IHS Markit commented:

> "It has been an incredibly challenging period for eurozone manufacturers this second half of 2021, but the latest survey data hasn't spoiled the festive cheer too much – we're seeing some tentative, but very welcome signs that the supply chain crisis which has plagued production lines all across Europe is beginning to recede. The Suppliers' Delivery Times Index increased for a second month in a row to its highest since February, signalling a weaker deterioration in vendor performance. Although what gains to be had were only marginal, with shortages, port congestion and transport

issues still at large, PMI data showed stocks of purchases rising at a survey-record rate in December. This should hopefully bring some much-needed relief to production schedules in the very near-term, which have been squeezed tight by input shortages. That said, the latest survey data showed output growth remaining subdued overall and unchanged from November. Alleviating supply chain pressures also fed through to prices as input costs rose at the slowest rate since April. Easing inflation rates are again a welcome sign, but we're still in hot territory. We're now facing a fresh bout of economic uncertainty as the Omicron variant emerges in Europe. COVID-19-driven supply chain disruptions cannot be ruled out, and therefore neither can further spikes in inflation."

Automotive. Primarily because of the on-going chip shortage, the auto industry finished the year on a sour note. Some firms like Toyota have instituted a few work-arounds to mitigate the chip shortage, although the problem is not likely to be fully resolved until late in 2022. The January 4 edition of Automotive News reported that year-over-year industry sales for the 2021 fourth quarter slid 21.5 percent. For the Detroit Three, the drop of 43.1 percent at GM was the most severe, followed by Stellantis (Chrysler) shedding 17.5 percent, and Ford losing 6.4 percent. For the other major brands, American Honda skidded 21.5 percent, Toyota fell 28.2 percent, Nissan eased 19.8 percent, and beleaguered Subaru dropped 31.0 percent. Elaine Buckberg, the chief economist for GM, further commented:

> "The key constraint for sales continues to be reduced inventory levels as a result of the semiconductor shortage. Those inventory levels are beginning to recover against a backdrop of strong fundamental demand conditions, with ample job openings, high household savings and low interest rates. Consumers want to drive as much as before the pandemic, based on recent high levels of vehicle usage. High vehicle usage and deferred sales mean pent up demand for new vehicles in the millions and building. That pent up demand will support sales as vehicle supply improves."

West Michigan Unemployment. According to the press release from the Department of Technology, Manufacturing, and Budget, Michigan's November (latest month available) unemployment rate edged down to 5.9 percent. Locally, the unemployment rates for most West Michigan counties continue to improve and remain better than the rest of the state. In ascending order, Ottawa County's jobless rate fell to 3.5 percent, followed by Barry County at 3.6 percent, Kent County at 3.7 percent, and Kalamazoo County at 4.9 percent. With many firms still unable to fill all of their job openings, the unemployment rate should continue to fall for at least the first half of 2022. Rising wages will help to convince at least some of the idle to rejoin the workforce.

Industrial Inflation. Although still growing, the December ISM national index of PRICES eased to +36 from November's +65, one of the biggest monthly drops in the history of the survey. In a more modest move, the J.P. Morgan world index of PRICES eased to 69.7 from 71.5. According to Timothy Fiore, chair of ISM's survey committee:

> "Raw materials prices increased for the 19th consecutive month, but at a slower rate in December. Aluminum; corrugate and packaging materials; electrical and electronic components; energy; lumber; freight; and some steels continue to remain at elevated prices due to product scarcity amongst high demand."

Business and Consumer Confidence. As of December 22, the Conference Board's Consumer Confidence Index now rests at 115.8, up from a revised 111.9 posted in November. In a similar move, the University of Michigan Consumer Sentiment Index for December 2021 rose to 70.6 from November's 67.4. Although many consumers are concerned about the new wave of COVID-19, the strong Christmas sales season indicates that consumer confidence should remain positive for the first part of 2022.

GDP. Although the 2021 fourth quarter is now over, the first official GDP reading will not be added up and reported until late in January. Because of the recent uncertainty brought on by the new Omicron variant of COVID-19, some of the fourth quarter estimates from the major institutions have been revised downward, although the range varies considerably. The Atlanta Fed's "GDPNow" 2021 fourth quarter rolling estimate has edged lower to 7.2 percent, down from a very optimistic growth rate estimate of 8.6 percent posted last month. The current Q4 estimate from the Conference Board now stands at 6.5 percent. However, according to 37 forecasters surveyed by the Federal Reserve Bank of Philadelphia, the fourth quarter GDP will grow at an annual rate of 4.6 percent. The economists for some of the major brokerage firms are even less optimistic. Like previous months, there is no firm consensus regarding the GDP for the fourth quarter. However, there is now a growing consensus that the first quarter of 2022 will be considerably softer than 2021's fourth quarter.

Summary. Although the new Omicron variant of COVID-19 is causing numerous problems in the consumer economy, the impact on the industrial economy has so far been much more limited. The sanitation and safety measures many companies instituted as manufacturing operations resumed many months ago are still in place, and it now appears that the industrial economy will continue on its present subdued rate of growth for at least the first few months of 2022. However, the entire logistic system will probably not return to normal for many months. Many key industrial commodities will continue to be in short supply and increasingly expensive. Because industrial inventories are now higher than they have been since the conviction of JIT became widespread 35 years ago, a major "black swan" event, such as a war between Russia and Ukraine could create another downturn if firms were to quit ordering and draw down their inventories.

Latest Unemployment Reports

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

	Nov. 2021	Nov. 2020	Aug. 2009	20 Year Low
State of Michigan (Nov.)	5.9%	8.2%	14.6%	3.2%
State of Michigan (Unadj.)	4.2%	7.4%	14.1%	2.9%
Kent County	3.7%	5.1%	11.9%	2.1%
Kalamazoo County	3.9%	5.5%	11.1%	2.1%
Calhoun County	5.4%	7.0%	12.8%	2.7%
Ottawa County	3.2%	4.4%	13.3%	1.8%
Barry County	3.6%	4.8%	10.9%	2.2%
Kalamazoo City	4.9%	6.8%	15.2%	3.2%
Portage City	3.6%	5.0%	8.7%	1.3%
Grand Rapids City	4.9%	7.0%	16.1%	3.0%
Kentwood City	3.5%	5.0%	10.7%	1.4%
Plainfield Twp.	2.8%	4.0%	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

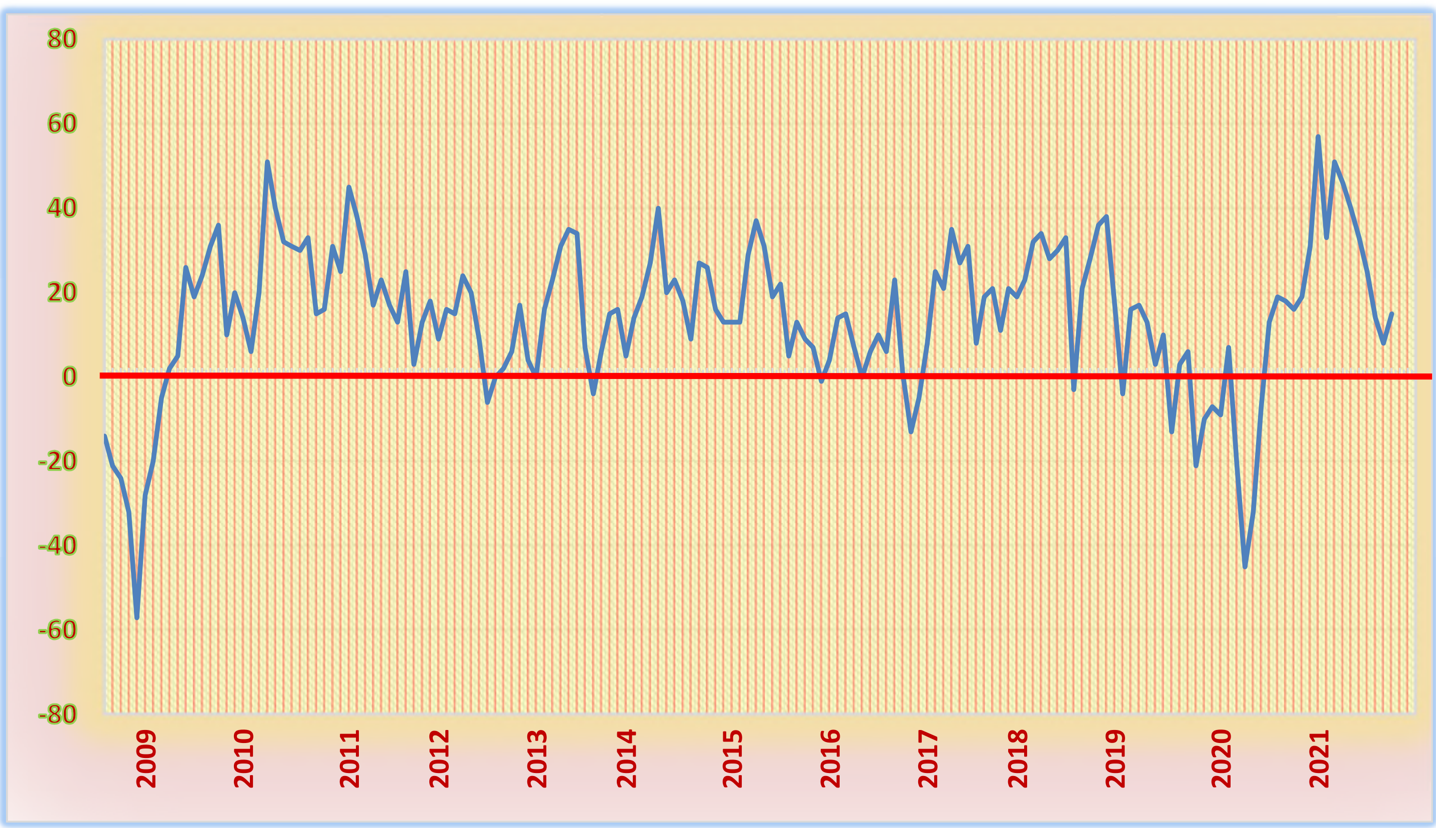
As the name implies, this index measures new business coming into the firm, and signifies business improvement or business decline. When this index is positive for an extended period of time, it implies that the firm or organization will soon need to purchase more raw materials and services, hire more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

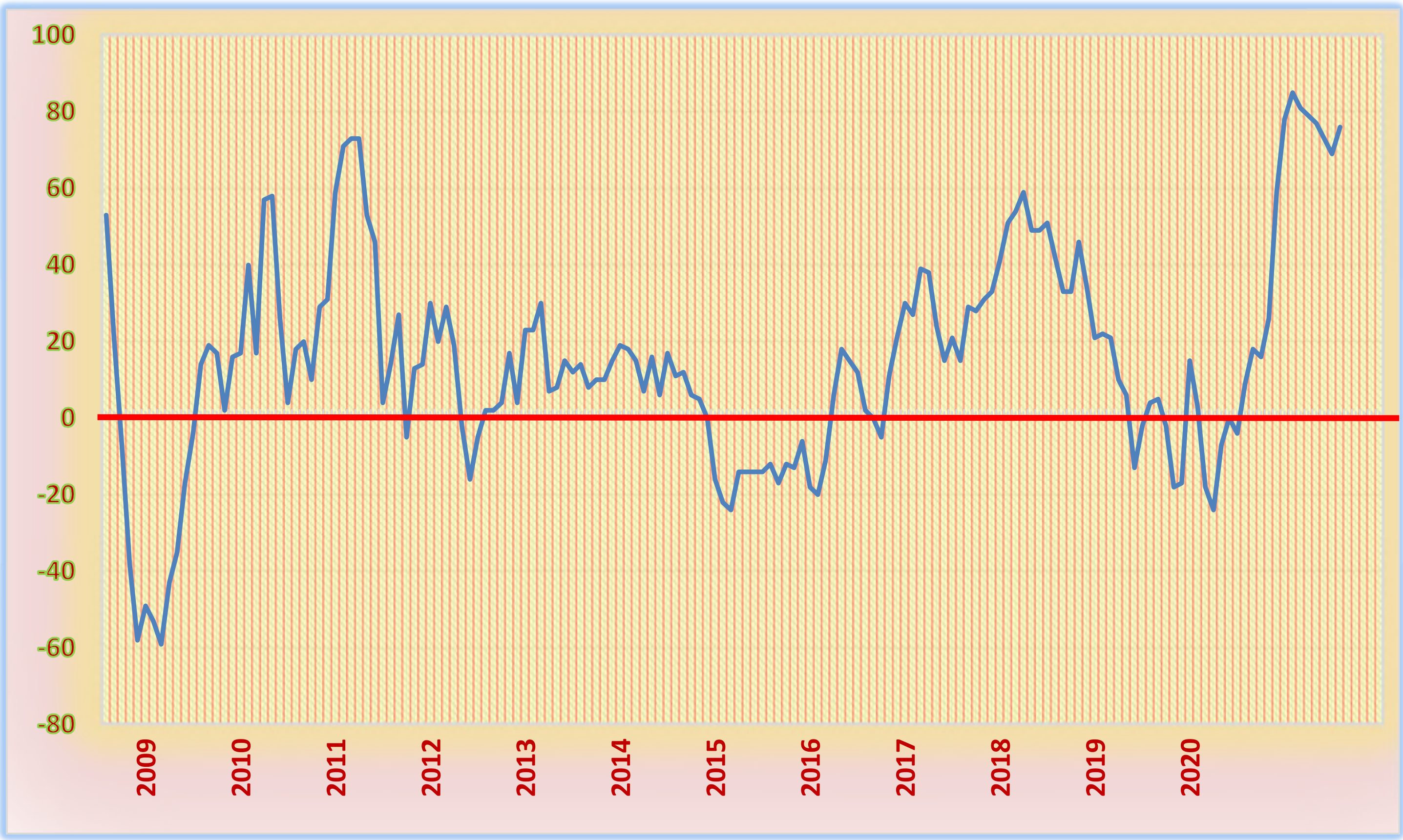
Great Recession
First Recovery + 3 in April 2009

COVID-19 Recession
First Recovery +12 in July 2020

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

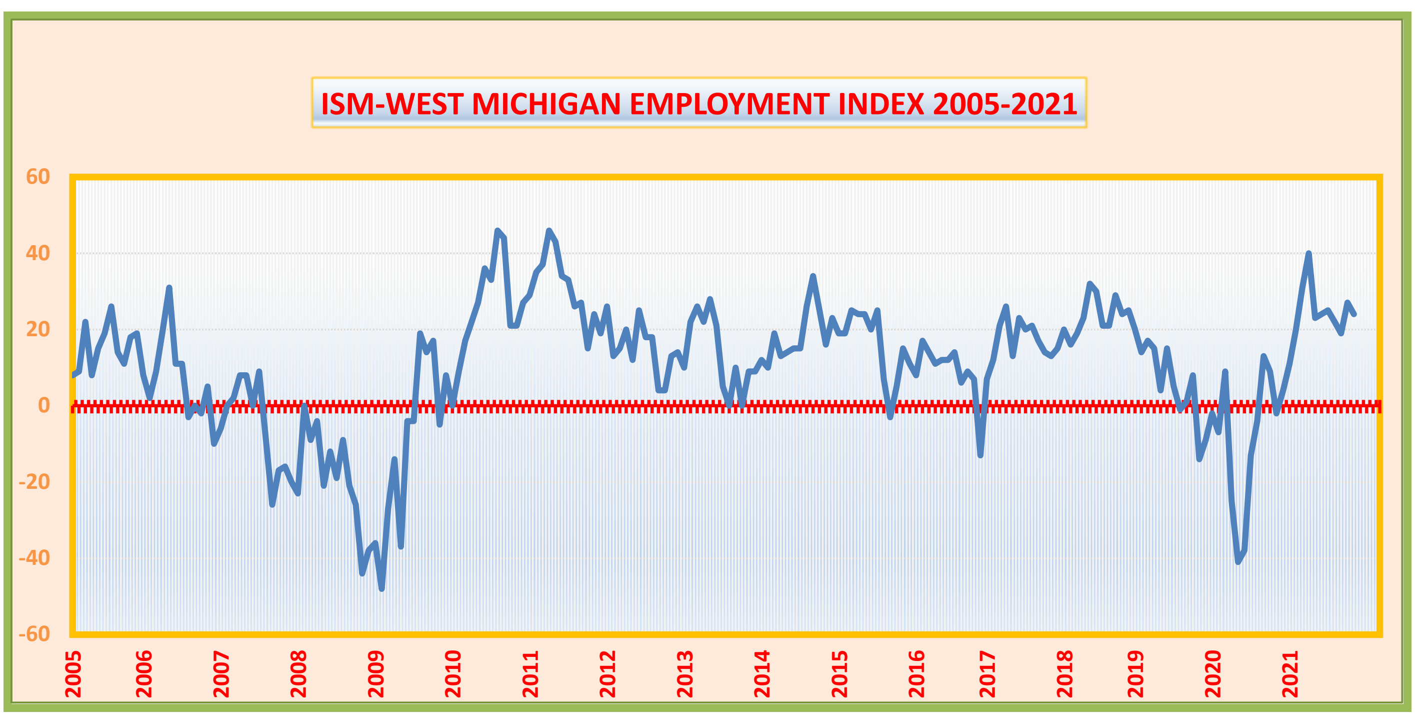


ISM-West Michigan Index of PRICES: 2008-2021



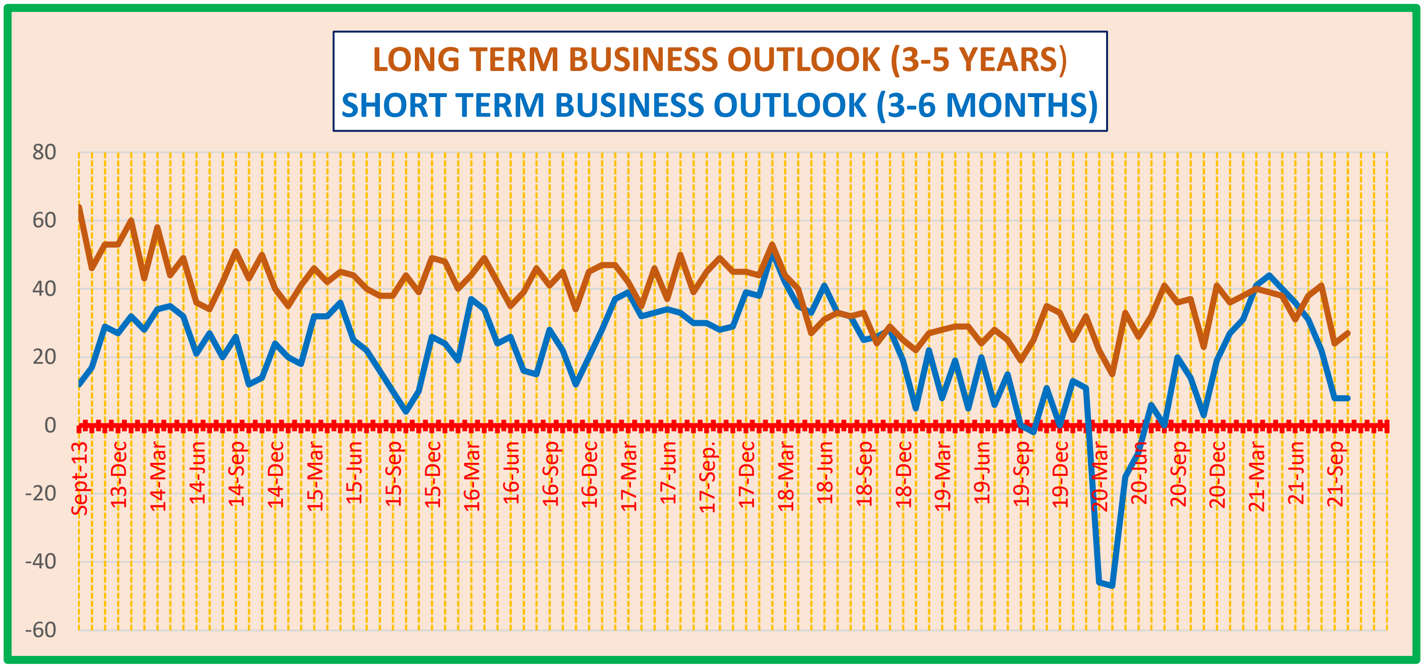
ISM-WEST MICHIGAN INDEX OF EMPLOYMENT

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 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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