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Current Business Trends

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MODEST BUT STEADY GROWTH CONTINUES

Key Participant Comments for January:

"Shipping costs are eating us alive. The margins created for shipping is well exceeded, and we are paying the shipping companies on both ends, inbound and outbound."

"Prices and lead times seem to be flattening out for most major commodities."

"Prices are still escalating, and the lack of labor continues to prevent us from meeting sales requirements."

"Our firm continues to see robust sales while struggling to get components from our vendors. Internal capacity is also really tight, and we continue to struggle to hire skilled labor. Covid is biting hard on the shop floor."

"Logistics costs and labor shortages continue to be a major part of inflation."

The West Michigan economy remains stable, although there are signs that the usual pent-up demand similar to most post-war recessions, is beginning to fade. However, this month's numbers for West Michigan are still positive and relatively stable. Although our index of NEW ORDERS peaked nine months ago at +57, the January survey posted at a respectable reading of +18. The January PRODUCTION Index, which is now termed "output" by many economists, came in at +15, a notch ahead of our 25-year average of +14. At +13, January's activity in the purchasing offices, reflected in our index of PURCHASES, confirms the reading for the other statistics in this month's survey. The survey participants continue to complain about supply shortages, rising prices, logistics bottlenecks, chip shortages, personnel shortages, and other headwind factors that inhibit the normal mode of business operations. At +54, little relief came from our January index of LEAD TIMES, which is well off the all-time high of +87 reported just four months ago. As a result, prices for SOME industrial goods are beginning to moderate.

The U.S. Economy. The state of the national economy remained positive in January, according to the February 1 press release from the Institute for Supply Management, our parent organization. ISM's Index of NEW ORDERS tapered to +10 from +14. ISM's PRODUCTION (a.k.a., Output) Index rose slightly to +10 from +8. After statistical adjustments, ISM's composite index remained historically positive but edged lower to 57.6 from 58.8.

However, according to IHS Markit.com, the British international consulting firm, U.S. economic activity has dropped to its lowest level since October 2020 "…amid soft demand and labor shortages." The PMI (Purchasing Manager's Index) for January posted at 55.5, down moderately from December's reading of 57.7. Chris Williamson, Chief Business Economist at IHS Markit further noted:

"The Omicron outbreak has hit manufacturing hard, exacerbating existing headwinds by subduing demand, creating further supply chain issues and causing widespread staff shortages, often through absenteeism due to the surge in COVID-19 infections. The steep downturn in the survey data are indicative of manufacturing production falling in January. However, the overall impact on supply chains from Omicron has been less marked than in prior covid waves, and raw material price pressures have come down as the global supply crunch appears to be improving. Hence manufacturers are upbeat about the outlook, with future output expectations rising to the highest for over a year to suggest that the current downturn may prove short-lived."

The World Economy. Confirming the business news reports from most of the major media outlets, the J.P. Morgan (JPM) January report indicated that the pace of worldwide manufacturing PMI edged down to 53.2 from 54.3. The survey author again noted that global manufacturing remains constrained by world-wide supply chain disruptions, material shortages, rising prices, and a new round of disruptions brought on by the Omicron variant of COVID-19. Although most of the world's major economies remain positive, notable exceptions include Mexico, China, and Brazil. JPM's January Index of New Orders edged down to 52.2 from 53.3. The Index of Global Production (Output) sagged to 51.4 from 53.3. The PMI for Canada, our largest trading partner, eased to 56.2 from 56.5 in January, but it is still in reach of the survey's record high of 58.5 set in March. The January PMI for Mexico, our second largest trading partner, sank well below the all-important break-even point of 50.0 to 46.1. The PMI for China, our third largest trading partner, fell to 49.1 in January from 50.9, largely because of a new wave of lockdowns brought on by the Omicron round of COVID-19. Olya Borichevska, Global Economist at J.P. Morgan, further noted:

"The large drop in the January mfg output PMI to an expansion low of 51.4 is a disappointment and suggests the sector is seeing a drag. It is hard to decipher how much of the January weakness owes to demand vs. supply. One positive from the report is that the future output PMI increased last month suggesting the recent weakness is temporary. Regionally we saw pronounced weakness in the US and China PMI data. 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 January PMI for the Eurozone began the year at 58.6, down moderately from December's 58.0. However, production, new orders, and employment all registered faster increases amid further tentative signs that some of the supply chain issues are beginning to abate. Even though the pace has slowed, the PMIs for all of the major economies in the Eurozone remain significantly positive when compared to the rest of the world. Chris Williamson from IHS Markit further noted:

> "Eurozone manufacturers appear to be weathering the Omicron storm better than prior COVID-19 waves so far, with firms reporting the largest production and order book improvements for four months in January. Prospects have also brightened, with a further easing in the number of supply chain delays playing a key role in prompting producers to revise up their expectations for growth in the coming year to the highest since last June. The improvement is by no means evenly spread across the eurozone, however, with resurgent growth in Germany, the Netherlands and Austria contrasting with slowdowns in Italy, Spain and Greece and near-stalled production in France. Furthermore, although the number of supply delays has fallen from the peak last year, lead-times remain stretched for many critical inputs and for a wide variety of capital equipment, constraining output and resulting in sustained high price pressures. Average prices charged for goods leaving the factory gate rose at the second-highest rate in almost two decades, which points to inflation remaining elevated in coming months. Escalating tensions surrounding Ukraine, the energy price crisis and prospect of global central bank policy tightening meanwhile create additional headwinds to the outlook, which suggest that - although the global supply crunch may be easing - demand conditions may be less supportive to manufacturers in coming months."

Automotive. Although some automotive manufacturers have been marginally successful with a few work-arounds to obtain computer chips, the current edition of the Automotive News laments that the chip shortage will continue for most of 2022. Needless to say, many automotive customers, dealers, and manufacturers continue to be frustrated, even though profits for many of these firms are coming in very strong. According to the February 1 edition of Automotive News, the consulting firm of LMC Automotive estimates that January year-over-year sales for the industry fell approximately 9 percent. However, the January SAAR (Seasonally Adjusted Sales Rate) was estimated to be 15.2 million units, which is a significant improvement over the 12.1 SAAR rate reported three months ago. Of the firms still reporting monthly sales, American Honda lost 19.8 percent, Toyota dropped 5.1 percent, Mazda sales fell 16.5 percent, and Ford lost a scant 0.1 percent. After five months of losses, Hyundai-Kia eked out a small gain of 3.1 percent. Thomas King, president of the data and analytics division at J.D. Power, commented:

> "Although the start of 2022 is disappointing from a sales standpoint, the underlying health metrics of the industry have never been stronger. Looking forward to February, the overall industry sales pace will continue to be constrained by procurement, production and distribution and all indications are that deliveries will not rise substantially for the industry in aggregate."

West Michigan Unemployment. For Michigan, the December (latest month available) unemployment rate edged down to 5.6 from 5.9 percent. Job postings are again near record highs, although recent evidence suggests that the rate may be topping out. Roughly 4 million workers in the U.S. dropped out of the workforce at the beginning of the pandemic, and many have still not returned. It is important to note that workers who are not actively looking for work are NOT included in the "headline" unemployment numbers reported every month by the Bureau of Labor Statistics. For our West Michigan survey, the index of EMPLOYMENT came in at +13. At least some firms are not giving up and vow to continue searching for new employees to fill the gap. However, the most significant personnel shortages still remain outside of the industrial market and are seen rather, in the hospitality and service industries. Among the local counties with unemployment rates falling toward pre-pandemic levels are Ottawa County (3.2 percent), Kent County (3.5 percent), and Kalamazoo County (3.8 percent).

Industrial Inflation. Our survey's all-time record high for the index of PRICES was set last April at +85. Although the rapid escalation of prices has moderated, the January index for West Michigan came in at +63. Prices of some commodities are beginning to moderate; however, inflation in the industrial market is similar to the demand-pull and cost-push industrial market of the 1970's. At the national level, the ISM index of PRICES eased to +52 from a 41-year high of +84 set six months ago. However, the J.P. Morgan January world index of PRICES eased modestly to 68.4 from 69.7, only a small distance from July's record-setting 71.2. According to Timothy Fiore, chair of ISM's survey committee:

> "Aluminum; corrugate and packaging materials; copper; electrical and electronic components; petroleum products; vegetable oils; lumber; freight; rubber-based products; and steel products continue to remain at elevated prices due to product scarcity amongst high demand."

Business and Consumer Confidence. After hitting a near-term high in November, the pessimistic news cycle as well as the COVID-19 resurgence, the Conference Board said its Consumer Confidence Index dropped to a reading of 109.3. This was down significantly from last month's report of 115.2 (1985=100) and well below the 128.9 reading posted a few weeks ago. In a similar move, the University of Michigan consumer sentiment for the U.S. edged lower to 67.2 in January of 2022, the lowest the index has been since November 2011. Locally, our survey's SHORT-TERM BUSINESS OUTLOOK Index for January, which asks local firms about the business perception for the next three to six months, came in at +21, up modestly from the single digit reports from a few months ago. For the LONG-TERM BUSINESS OUTLOOK Index, which queries the perception for the next three to five years, the January report edged up to +35. At least some of the optimism is coming from the hope that the logistics problems and material shortages might be starting to resolve.

GDP. On January 27, the U.S. Bureau of Economic Analysis (BEA) reported that the first estimate for fourth quarter GDP came in at 6.9 percent, which was generally in line with some of the major forecasts. However, BEA notes that this is a preliminary estimate, and that at least two revisions may be posted in coming months. As forecasters now turn their attention to the first quarter of 2022, a growing consensus predicts that the first quarter of 2022 will be considerably softer because of the impact of the Omicron outbreak. The current Goldman Sachs first quarter estimate is currently reading 0.5 percent. Atlanta Fed's "GDPNow" 2022 first quarter rolling estimate has dropped to a rather pessimistic 0.1. A more optimistic Q1 2022 forecast comes from a Conference Board's GDP growth estimate of a relatively healthy 2.2 percent. Perhaps the best idea for the current economic environment comes from an announcement from the New York Fed's Nowcast model: "The uncertainty around the pandemic and the consequent volatility in the data have posed a number of challenges to the Nowcast model. Therefore, we have decided to suspend the publication of the Nowcast…"

Summary. As of this writing, the proverbial elephant in the room remains the tense situation on the Ukrainian border. If a serious war breaks out, all bets are off. Domestically, the greatest economic threat remain inflation. The reports for the next two or three reports may rise to a rate of eight percent or so, and then begin a gradual decline for the rest of the year. Although there is a general consensus among economists that inflation will soon peak and then begin to fall, it is the RATE at which this decline will take place that remains controversial. The "transient" theorists believe (or hope) that inflation will decline fairly rapidly once the peak is reached, while other economists are anticipating a much slower decline. If the decline turns out to be too slow, the Federal Reserve will almost certainly be forced to raise interest rates. For the past fifteen years or so, we have become addicted to low interest rates. Hence, higher rates will obviously have a negative economic impact.

JANUARY COMMENTS FROM SURVEY PARTICIPANT

"We need to get government to think about the American people and not just themselves and getting rich and controlling the people."

"Looks like we are in for another challenging year."

"With our government spending money the way it is and the policies is putting in place, the rate of inflation is not going to slow down; only get worse like it did in the 80's."

"We are hopeful for a strong 2022 in automotive."

"It is still slow business environment with some items difficult to get."

"Logistics costs and labor shortages continue to be a major part of inflation."

"Orders remain strong but the labor shortage continues."

"We need PO's!"

"Sales are good but delivering products is tough."

"Year #3 of the pandemic."

"The supply chain is still stressed."

"We continue to see robust sales while struggling to get components from our vendors. Internal capacity is also really tight, and we continue to struggle to hire skilled labor. Covid is biting hard on the shop floor."

"When will, if ever, automotive really slow down? We are cautiously optimistic for these first two quarters of 2022, and are more optimistic about 2023 sales and an automotive comeback."

"The supply chain is still struggling."

"December started slow but finished well. Overall, 2021 was a decent year."

"2021 could have been better, but supply chain issues got in the way. However, with all the supply chain issues, 2021 could have been much, much worse."

"Transportation continues to wreak havoc on our business. We struggle to find carriers to schedule for pickups."

"Most machinery is having issues with shipping from overseas. Shipping might get a little better now that the Christmas goods have all been delivered.

"Everything is taking longer to get or out of stock and looking for parts to substitute."

"Many commodity items still in short supply or experiencing long lead times."

"It seems like most vendors have at least one item that they are struggling to supply. Capacity at the domestic foundries still a big bottleneck for us."

"We are still over sold. We still can't get enough employees to meet production demands."

"Packaging supplies continue to have extended lead times. Getting parts from overseas vendors continues to be a challenge. Also getting and retaining employees is a struggle. Transportation is also a challenge."

"Steel is finally on the decline. Hot rolled, cold rolled, and galvanized experienced the largest drop for a while this week. Most other products are maintaining or increasing price. But as steel reduces in price, I would suspect other products will decrease. All of the futures project decreased prices throughout 2022. Even if a product doesn't contain steel, it will be used somewhere in the process of manufacturing. However, we haven't truly seen automotive fully kick back on. Once they do, that could take a large majority of domestic steel and cause major supply issues similar to last year."

"Container prices from China to the us are coming down, but still at unreasonably high levels from former baseline."

"Shipping fees are eating us alive. The margins created for shipping is well exceeded, and we are paying the shipping companies on both ends, inbound and outbound."

"We experienced a spike in sales as customers loaded up in advance of 2022 price increases."

"Overseas incoming shipments are still a major concern."

"Prices are still escalating, and the lack of labor continues to prevent us from meeting sales requirements."

"We remain busy with ongoing transportation/supply chain issues for internationally sourced components and labor capacity issues for our domestic vendors. We are also now experiencing an uptick in internal COVID quarantines that further hurts our own capacity."

"2022 look good on paper, but we are moving forward with cautious optimism."

"What a crazy year! We have never had to work so hard to keep materials flowing into and out of our business. That said, we had a great year financially."

"The country is a mess."

"Prices and lead times seem to be flattening out for most major commodities."

"We have lots of quotes out that hopefully turn into orders."

"Our government needs to stop spending money we don't have and stop this green thing."

"2021 continues to disappoint in the automotive world. However, based on customer releases, we are hopeful for a better 2022."

"We see cautious optimism in the automotive market demand. We are seeing feast or famine volumes, and Q1 of 2022 will prove very interesting if the volume ramps back up or remains light."

"Sales are robust, we are still struggling to hire new workers to keep up with attrition. Some international freight from Thailand and China are trouble."

January 2022 Survey Statistics

	UP	SAME	DOWN	N/A	Jan. Index	Dec. Index	Nov. Index	25 Year Average
Sales (New Orders)	33%	52%	15%	0%	+18	+17	+16	+14
Production	26%	54%	11%	9%	+15	+16	+18	+14
Employment	26%	61%	13%	0%	+13	+17	+20	+ 8
Purchases	28%	55%	15%	2%	+13	+11	+10	+ 7
Prices Paid (major commod.)	67%	29%	4%	0%	+63	+68	+73	+15
Lead Times (from suppliers)	54%	44%	0%	31%	+54	+65	+76	+11
Purchased Materials Inv. (Raw materials & supplies)	31%	48%	15%	6%	+16	+23	+30	- 4
Finished Goods Inventory	15%	44%	28%	13%	-13	+ 8	+ 4	- 8
Short Term Business Outlook (Next 3-6 months)	28%	63%	7%	2%	+21	+16	+12	-
Long Term Business Outlook (Next 3-5 years)	44%	43%	9%	4%	+35	+33	+30	-

Items in short supply: Machine tools, steel, stainless steel, sheet metal, furnishings from overseas, glass filled nylon, electrical component, hilos, racking, electronic components, all supplies, labor (seems to be improving slightly), paper (roll stock), chemicals, transportation, certain electronic components, resin, ocean freight, trucking, fabric for mats and garments, resins, aluminum, rivets, sheet metal, propylene glycol, microchips, glass.

Prices on the UP side: Aluminum, steel, stainless steel, iron, fuel, shipping fees (international and domestic), paper, packaging, corrugated, resins, all metals, labor costs, hangers, chemicals, soft lumber, sodium hypochlorite, sodium hydroxide, electric motors, VFD's, gear boxes.

Prices on the DOWN side: Wood, aluminum*, copper, steel*, scrap steel, CRCQ sheets, container prices from China.

*Item reported as both up AND down in price.

Latest Unemployment Reports

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

	Dec. 2021	Dec. 2020	Aug. 2009	20 Year Low
State of Michigan (Dec.)	5.6%	8.2%	14.6%	3.2%
State of Michigan (Unadj.)	4.4%	8.3%	14.1%	2.9%
Kent County	3.5%	5.9%	11.9%	2.1%
Kalamazoo County	3.8%	6.1%	11.1%	2.1%
Calhoun County	5.3%	7.7%	12.8%	2.7%
Ottawa County	3.2%	5.1%	13.3%	1.8%
Barry County	3.8%	5.7%	10.9%	2.2%
Kalamazoo City	4.7%	7.5%	15.2%	3.2%
Portage City	3.5%	5.7%	8.7%	1.3%
Grand Rapids City	4.7%	7.7%	16.1%	3.0%
Kentwood City	3.3%	5.5%	10.7%	1.4%
Plainfield Twp.	2.7%	4.4%	8.0%	1.4%
U.S. Official Rate (Dec.)	3.9%	6.7%	9.6%	3.5%
U.S. Rate (Unadjusted)	3.7%	6.5%	9.6%	3.4%
U.S. U-6 Rate (Dec.)**	7.3%	11.7%	22.9%	7.3%

**U-6 for Michigan = 9.5% for all of 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 + 18 for the month of January, 2022

Previous Month + 17 for the month of December, 2021

One Year Ago + 57 for the month of January, 2021

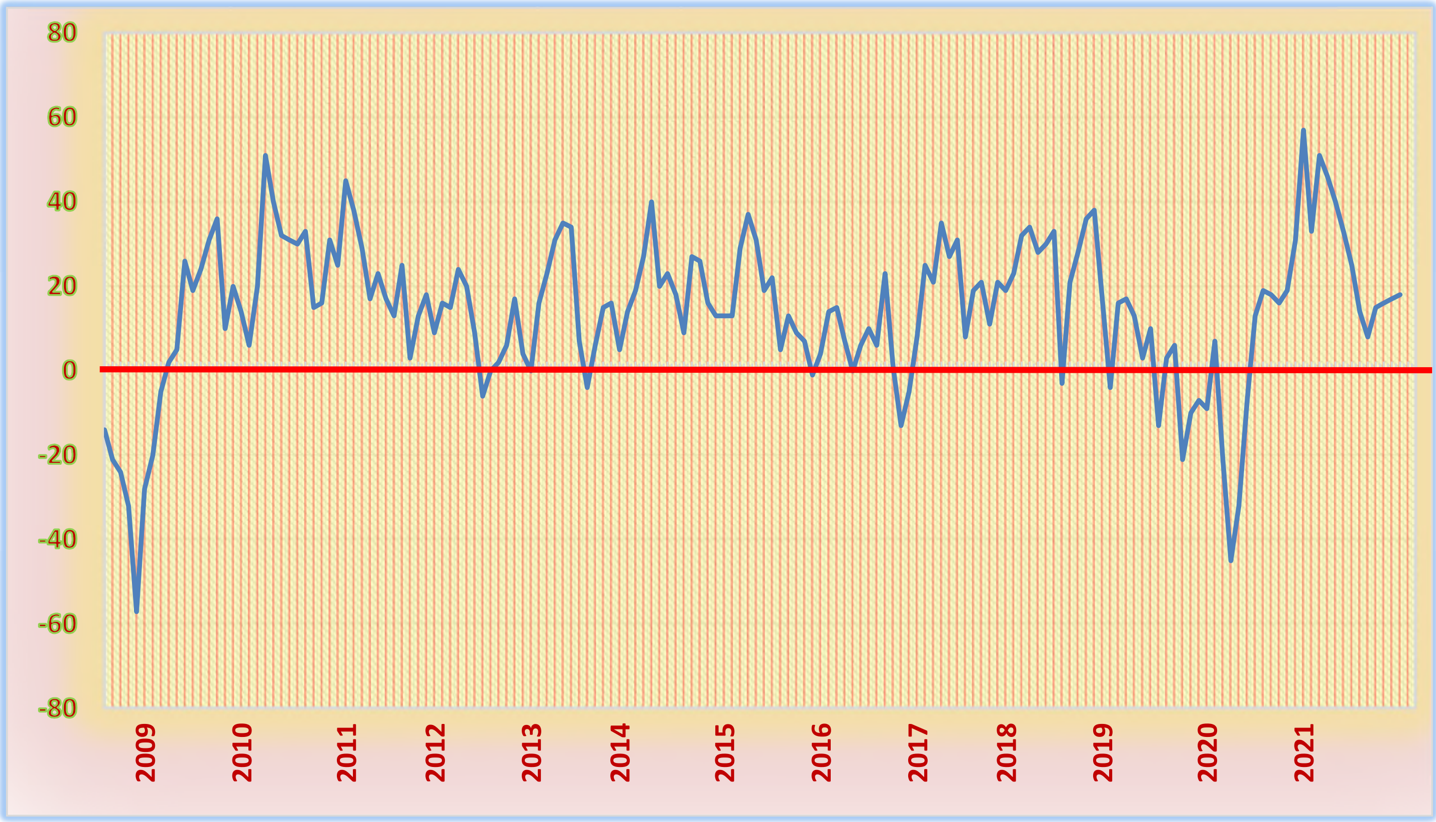
Record Low - 57 for the month of December 2008

Record High + 57 for the month of January 2021

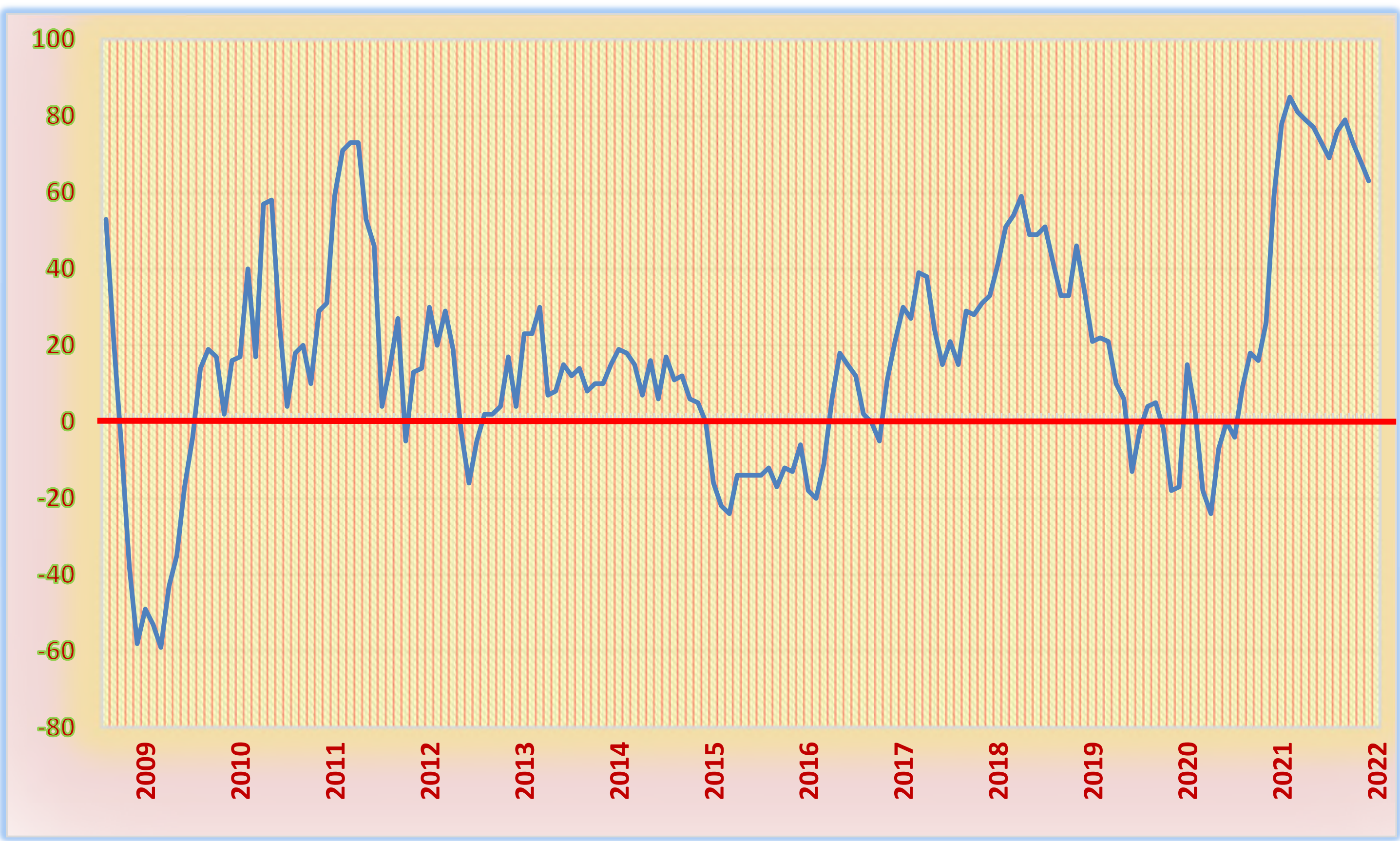
Great Recession
First Recovery + 3 in April 2009

COVID-19 Recession
First Recovery +12 in July 2020

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

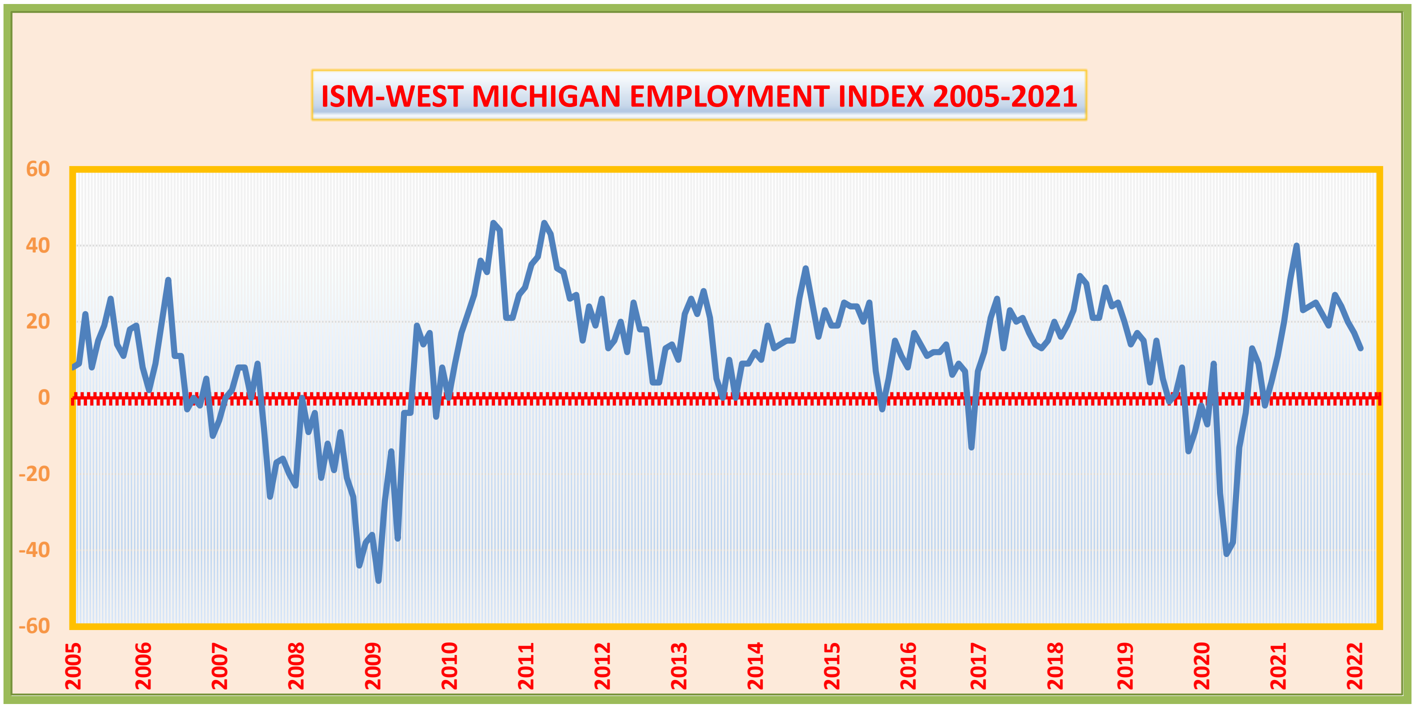


ISM-West Michigan Index of PRICES: 2008-2021



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.