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News Release (For Immediate Release)

March 7, 2022

Current Business Trends

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THE POST-OMICRON ECONOMY UPTICKS

Key Participant Comments for February:

"The automotive industry (and the world, for that matter) is like nothing I have ever seen. We spend all day working on "fires" as our suppliers are not able to ship due to lack of product, lack of labor, and sometimes both. We are managing charter shipments 24/7 from some of our suppliers at this point."

"Labor shortage has us over 500 orders behind."

"Labor is still an issue, but we are starting to get a higher number of qualified applicants."

"We continue to see strong forecasts from our customers, and we are experiencing near-term late shipments of orders due to supply chain difficulty.

"It is getting more difficult to procure capital equipment. Lead times have been pushed out significantly."

The sharp decline in the Omicron infection rate appears to have resulted in the resumption of measured economic growth in West Michigan as well as in much of the rest of the world. NEW ORDERS, our index of business improvement, rose to +28 from +18 in January. The February PRODUCTION Index posted a more modest gain of +16, up from +15. Disruptions in the world's supply chains have increased activity in purchasing offices resulting in our index of PURCHASES climbing to +24 from +13. Although some survey participants continue to complain about supply shortages, rising prices, logistical bottlenecks, chip shortages, personnel shortages, and other headwind factors, a feeling WAS beginning to emerge that at least some supply chain issues may be dissipating. However, this survey was conducted before the onset of the Ukrainian war. Although the sudden escalation of commodity prices and ensuing supply chain issues are almost certain to escalate inflation for many industrial commodities in West Michigan, we can nonetheless expect the economy to remain positive.

The U.S. Economy. According to the March 1 press release from the Institute for Supply Management, our parent organization, the February NEW ORDERS Index for the national economy jumped to +26 from +10. ISM's PRODUCTION Index (a.k.a., Output) rose to +17 from +9. After statistical adjustments, ISM's composite index edged higher to 58.6 from 57.6. The index has now been positive for 21 consecutive months.

Unlike many other months, a similar view of the U.S. economy comes from IHS Markit.com, the British international consulting firm. The PMI (Purchasing Manager's Index) posted at 57.3 in February, up nicely from January's more pessimistic reading of 55.5, "… amid signs of easing supply chain disruption and the sharpest expansion in new orders since last October." Chris Williamson, Chief Business Economist at IHS Markit further noted:

"The U.S. manufacturing sector rebounded in February after the Omicron wave brought production close to a standstill in January. However, output remains heavily constrained both by ongoing raw material supply bottlenecks and labor shortages, albeit with some signs that the supply chain crisis has continued to ease. The decline in virus case numbers should also help alleviate labor shortages as we head into the spring. Demand is clearly continuing to run well ahead of supply, meaning it is a sellers' market for a wide variety of goods. Although the survey's price gauges covering companies' costs and selling prices are off the peaks seen last year, they remain very high by historical standards and point to persistent elevated inflation in coming months. With rising oil prices adding further to soaring costs, and the Ukraine crisis likely to add to global supply disruptions, the inflation outlook is an increasing concern. With the survey data collected prior to the escalation of the conflict in Ukraine, the full impact of the situation is yet to appear in the data. Supply chains are likely to be further disrupted, with existing shortages exacerbated by safety stock building, and prices will likely come under further upward pressure. Perhaps most important will be the effect on business optimism and whether the improvement in prospects seen in February will be reversed, which could lead to reduced spending and investment."

The World Economy. The J.P. Morgan Global Manufacturing PMI for February posted at 53.6, a slight uptick from 53.2. The survey author noted that output, new orders, and employment all strengthened. Although global manufacturing remained constrained by world-wide supply chain disruptions, there were "... a few signs that delays were easing." Keeping in mind that all of JPM's surveys were collected in mid-February, most of the world's major economies remain positive, although notable exceptions include Mexico and Myanmar. The Russian economy also turned negative, perhaps in anticipation of future events. JPM's February Index of New Orders rose to 53.5 from 52.2. The Index of Global Production (Output) rose to 51.9 from 51.3. The PMI for Canada, our largest trading partner, edged up to 56.6 in February from January's 56.2 and still in reach of the survey-record high of 58.5 set last March. The February PMI for Mexico, our second largest trading partner, still posted below the all-important break-even point of 50.0 but showed some recovery to 48.0 from 46.1. The February PMI for China, our third largest trading partner, rose to 50.4 from January's to 49.1, largely because of the relaxation of the lockdowns brought on by the Omicron crisis. Olya Borichevska, Global Economist at J.P.Morgan, further noted:

"February saw PMI indices for output, new orders and employment all gain ground, raising hopes that the sector was starting to turn a corner from its recent growth slowdown. However, the darkening geopolitical backdrop and subsequent demand headwinds are likely to pose significant risk in the weeks ahead. This is also true with regard to the outlook for prices, with input cost and output charge inflation both accelerating in the latest month."

The PMI for the Eurozone began the year at 58.6 but eased modestly to 58.2 in February. However, amid further tentative signs that some of the supply chain issues are beginning to abate, all of the major economies in the Eurozone are significantly positive. Even beleaguered Greece is maintaining at PMI of 57.8. Commenting on the final Manufacturing PMI data, Joe Hayes, Senior Economist at IHS Markit said:

"Don't let the drop in the headline PMI distract from what should be viewed as a largely positive month for the euro area manufacturing sector in February. Demand for goods is trending higher, with the rate of expansion accelerating to a six-month high. Underlying sales conditions are clearly strengthening as Europe overcomes the Omicron wave of COVID-19 and businesses step up their recovery efforts. Another positive move was in the suppliers' delivery times gauge, which moved up during February to its highest since the beginning of last year – signalling the least marked deterioration vendor performance since then. It was actually this move that pulled the headline PMI lower, but tentative signs of stabilisation across supply chains is a good thing because it will help production capacities increase and is what we need to see for inflation to cool."

Automotive. Unfortunately, the news for the auto industry remains negative, and the current events are doing nothing to improve the outlook. The March 1 edition of Automotive News laments that the February SAAR (Seasonally Adjusted Sales Rate) was estimated to be 14.15 million units, a drop of the approximately one million units since January. Dealer inventories have now fallen to near-record lows, and approximately 60 percent of all vehicles now being shipped are already sold before they reach the dealerships. Almost no one is predicting a total resolution of the chip shortage before the end of 2022. For West Michigan, the lower production numbers mean slower sales for our local auto parts producers. Of the firms still reporting monthly sales, American Honda lost 20.6 percent in February, Toyota dropped 11.2 percent, and Ford shed 20.8 percent. After five months of losses, Hyundai-Kia had a second positive month and recorded a gain of 6.4 percent. Mazda also bucked the trend and posted a healthy 8.3 percent sales increase. Charlie Chesbrough, senior economist at Cox Automotive, said:

"In the winter, when low sales volumes are expected, seasonal adjustments can result in a relatively strong SAAR, as we have in January and February. But come spring, when sales are expected to be much higher, the SAAR will look particularly weak. Without a big jump in inventory, March's SAAR is going to show a significant decline."

Industrial Inflation. Until the recent turn of events, our local index of PRICES remained high but had been drifting lower. From the all-time high set last April at +85, the February index eased to +51 from January's +63. At the national level, the ISM Index of PRICES eased to +51 from +52. The J.P. Morgan February World Index of PRICES rose modestly to 68.6 from 68.4, slightly below the survey's all-time record of 71.2 set only seven months ago. However, wars and threats of wars have escalated commodity prices of all types throughout economic history. At this time, industrial inflation seems almost certain to escalate until the Ukrainian situation is resolved.

Business and Consumer Confidence. Given the negative news about runaway inflation and the impending war, it is no surprise that the Conference Board's 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 a few weeks ago. In a similar move, the University of Michigan Index of Consumer Sentiment for the U.S. fell to 62.7 in February from January's 67.2. The index has now fallen more than 20 percent in the last calendar year. Locally, our survey's SHORT-TERM BUSINESS OUTLOOK Index for February, which asks local firms about the business perception for the next three to six months, came in at +26, up from January's +21. For the LONG-TERM BUSINESS OUTLOOK Index, which queries the perception for the next three to five years, the January report eased to +28 from +35. Next month's report may provide some guidance regarding the reaction of our local firms to the recent chain of events.

GDP. On February 24, the U.S. Bureau of Economic Analysis reported that the second estimate for fourth quarter GDP growth came in at 7.0, only slightly higher than the previous estimate of 6.9 percent. As expected, many forecasters are now turning their attention to the first quarter of 2022. The Omicron surge dampened the January and part of the February economy, but improvements in some sectors of the March economy may help stabilize the overall first quarter results. However, Atlanta Fed's "GDPNow" 2022 first quarter rolling estimate remains at a rather pessimistic 0.1 percent gain. The same report notes that the Blue Chip Consensus now averages a growth rate of 0.9 percent. A more optimistic Q1 2022 outlook comes from the Conference Board's GDP growth estimate of 2.0 percent. According to 36 forecasters surveyed by the Federal Reserve Bank of Philadelphia, the real first quarter GDP will grow at an annual rate of 1.8 percent.

Summary. To repeat a quote from last month's report, "If a serious war breaks out, all bets are off." Europe has not experienced a war of this magnitude in 77 years, and regrettably, this war is just beginning. No one can be sure exactly where all the chips will fall. However, the Russian economy is rather small, with a GDP of about 7 percent the size of ours. Just like the former Soviet Union, a major portion of their economy is relegated to the military, and most of the Russian GDP is based on commodity exports. The only significant export of manufactured goods comes from military armaments, including the T-80 tank as well as the new T-90 version which is judged superior to our M1A2 Abrams. However, it is the probable restriction of Russia's export of commodities where the industrial markets of the world will feel the stress in coming months. Thirteen percent of the world's crude oil, 19 percent of the world's natural gas, 18 percent of the world's wheat, 9 percent of the world's aluminum, and 10 percent of the world's copper come from Russia. They also export rare earths as well as almost everything else on the Periodic Table. The prices of all of these commodities are rising in price, and the combines stress can easily add another percentage point (or two) to the 7.5 percent inflation rate we already have. The Federal Reserve is well aware of these issues, and will almost certainly be forced to raise interest rates higher and faster than anticipated. Economics 101 tells us that higher rates will obviously have a negative economic impact.

FEBRUARY COMMENTS FROM SURVEY PARTICIPANT

"We are starting to see the impact of inflation."

"Labor shortage has us over 500 orders behind with current demand."

"It is getting more difficult to procure capital equipment. Lead times have been pushed out significantly."

"Labor is still an issue, but we are starting to get a higher number of qualified applicants."

"We continue to see strong forecasts from our customers, and we are experiencing near-term late shipments of orders due to supply chain difficulty. "

"New machine inventories are down. Manufacturers are having issues getting components and chips to make machines."

"Our economy would not be in this trouble if we did not have this president and the democrats in control. We have lost 40% of our oil in this county because of them, and the all-electric thing is the biggest joke on the American people."

"The Canadian border shutdown hurt us significantly for several days as the majority of our raw material (paper stock) comes from Canada. We are recovering now and hope to make up most of the lost production."

"Sales are still strong and supply chain issues are starting to creep into more and more of our supply base. Shortages of castings and electronics have some of our product lines shut down."

"We're busy, but we have to check so many different manufacturers to fill an order. It's twice or three times as much work, but no extra money in it at all."

"We are hoping for a strong year in automotive. January was good, we hope the trend continues."

"Inflation is impacting all costs across the board."

"The automotive industry (and the world, for that matter) is like nothing I have ever seen. We spend all day working on "fires" as our suppliers are not able to ship due to lack of product, lack of labor, and sometimes both. We are managing charter shipments 24/7 from some of our suppliers at this point."

February 2022 Survey Statistics

	UP	SAME	DOWN	N/A	Feb. Index	Jan. Index	Dec. Index	25 Year Average
Sales (New Orders)	37%	54%	9%	0%	+28	+18	+17	+14
Production	28%	53%	12%	7%	+16	+15	+16	+14
Employment	33%	60%	7%	0%	+26	+13	+17	+ 8
Purchases	33%	56%	9%	2%	+24	+13	+11	+ 7
Prices Paid (major commod.)	58%	28%	7%	7%	+51	+63	+68	+15
Lead Times (from suppliers)	61%	30%	7%	2%	+54	+54	+65	+11
Purchased Materials Inv. (Raw materials & supplies)	30%	44%	12%	14%	+18	+16	+23	- 4
Finished Goods Inventory	14%	51%	19%	16%	- 3	-13	+ 8	- 8
Short Term Business Outlook (Next 3-6 months)	33%	60%	7%	0%	+26	+21	+16	-
Long Term Business Outlook (Next 3-5 years)	40%	43%	12%	5%	+28	+35	+33	-

Items in short supply: Computer chips, plastics, aerosols, transportation and logistics, aluminum, aluminum extrusions, steel, fasteners, casters, brass components, corrugated, plastic resins, capital goods, international imports, domestic commodities, glass fibers, plastics (UHMW), electrical components (splitters and custom wire solutions specifically), cardboard, glass, microchips, Canadian materials due to blockade, capacity at medium and small vendors, ocean containers, less common bar stock alloys, explosion proof electric motors, all aerosols. sodium gluconate, fans, burner, controls, new employees, quality workers.

Prices on the UP side: Aluminum, trucking, freight costs, finished goods due to rising labor costs, wood related products, powder, fasteners, interest rates, cotton, hangers, steel (CSC Taiwan), natural gas, component pricing, chip pricing, paper, outside services, stocked items from distribution centers, plastics, rubber components, electric motors, gear boxes, janitor supplies.

Prices on the DOWN side: Steel*, hot rolled steel, scrap steel, steel tubing, plywood.

*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 February, 2022

Previous Month + 17 for the month of January, 2021

One Year Ago + 33 for the month of February, 2021

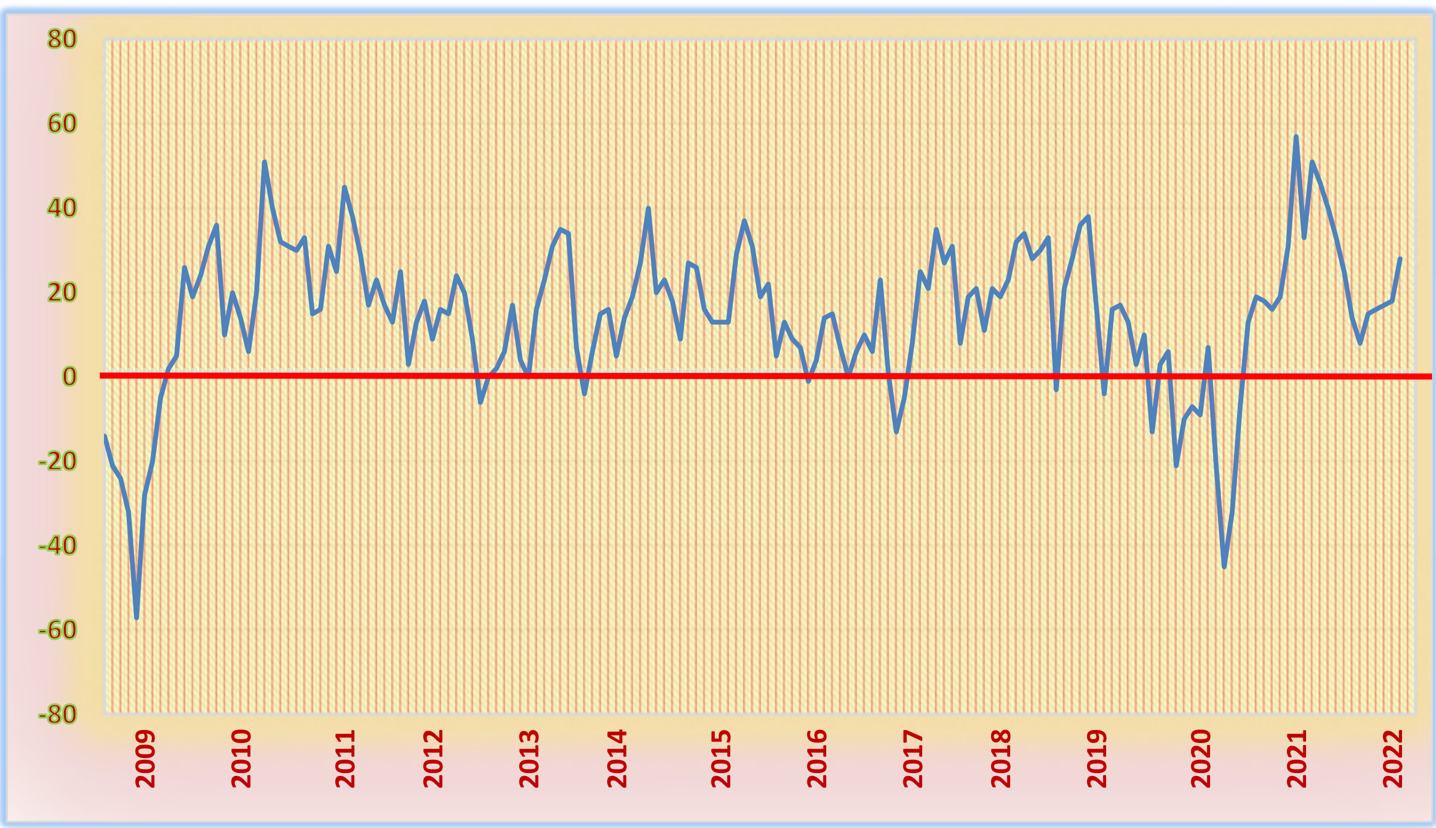
Record Low - 57 for the month of December 2008

Record High + 57 for the month of January 2021

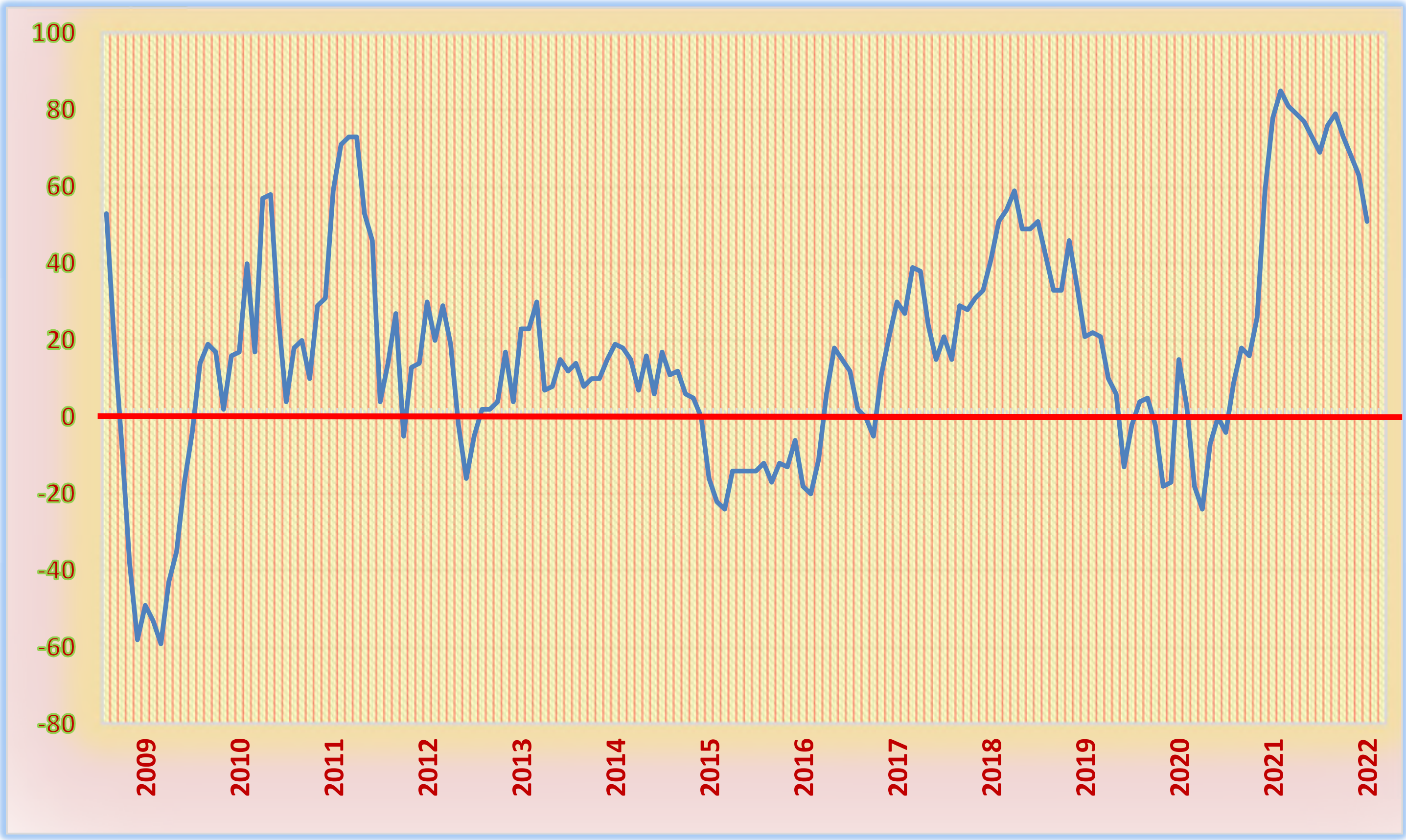
Great Recession
First Recovery + 3 in April 2009

COVID-19 Recession
First Recovery +12 in July 2020

ISM-West Michigan Index of New Orders: 2008-2022

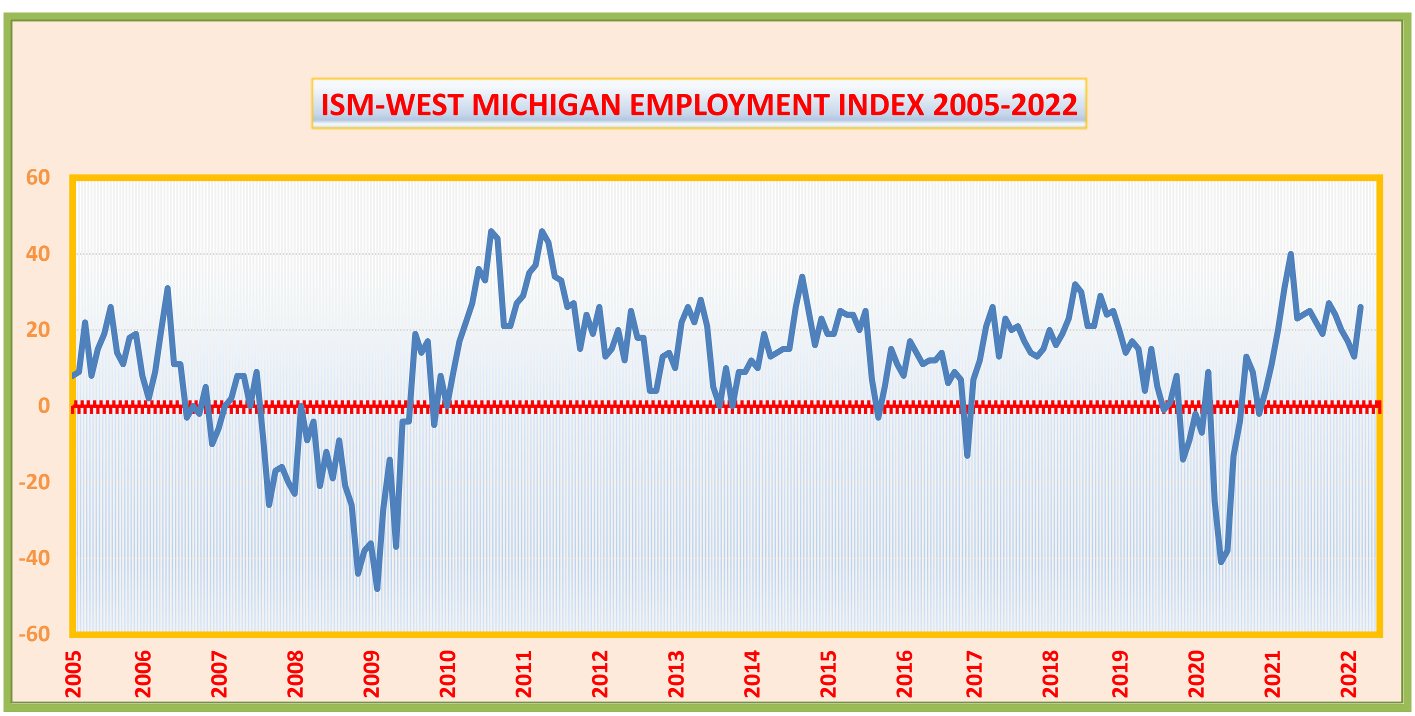


ISM-West Michigan Index of PRICES: 2008-2022



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.