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Current Business Trends

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THE UKRAINIAN-RUSSIAN WAR UPENDS WORLD ORDER

Because of problems with data collection for our monthly survey, we are unable to present statistics for the month of March, 2022. Hopefully, we will resume data collection in next month and be able to bridge a statistical estimate for March. The scenario below reviews the other non-local statistics for March 2022.

The U.S. Economy. The U.S. industrial economy cooled slightly in March, according to the April 1 press release from the Institute for Supply Management (ISM), our parent organization. ISM's NEW ORDERS Index remained positive but eased to +17 from February's reading of +26. The ISM index of PRODUCTION (a.k.a., Output) also retreated modestly to +14 from +17. After statistical adjustments, ISM's composite index edged lower to 57.1 from 58.6.

A different view of the U.S. economy comes from S&P Global (formerly IHS Markit.com), the British international consulting firm now owned by Standard and Poor's. The PMI (Purchasing Manager's Index) for the U.S. posted at 58.8 in March, up from 57.3, indicating a slight improvement. Chris Williamson, Chief Business Economist at IHS Markit further noted:

> "U.S. manufacturing growth accelerated in March as strong demand and improving prospects countered the headwinds of soaring cost pressures and the Russia-Ukraine war. Order book growth has picked up as customers look to the further reopening of the domestic and global economies amid signs that the disruptions from the pandemic continue to fade. While companies continued to report widespread production constraints due to supply chain bottlenecks, the incidence of such delays is now lower than at any time since January 2021. Jobs growth has also improved as fewer companies reported labor shortages. Similarly, although price pressures remain elevated, with surging energy costs pushing firms' costs higher at an increased rate in March, rates of inflation of both input costs and average selling prices have fallen from the record highs seen late last year to hint that consumer price inflation could likewise soon peak. It was especially encouraging to see business optimism about the year ahead improve further in March, despite the new uncertainties, sanctions and geopolitical risks caused by the Ukraine invasion, with optimism among producers now the brightest since late-2020."

The World Economy. **According to the latest J.P. Morgan** Global Manufacturing report, the international PMI for March posted at 53.0, a slight downtick from 53.7. The survey author noted that the world economy has encountered "multiple headwinds" including more COVID-19 disruptions, supply chain bottlenecks, rising inflation, and of course elevated geopolitical tensions. Despite the Russian-Ukrainian war, most of the PMIs for the major economies of the world remain positive. However, the PMIs have turned negative for Kazakhstan, Turkey, and of course Russia. JPM's March Index of New Orders eased to 51.0 from 53.7. The Index of Global Production (Output) slipped to 51.0 from 52.2. Driven by sharply rising commodity prices, the PMI for Canada, our largest trading partner, rose to a record level of 58.9, up significantly from last month's 56.6. The February PMI for Mexico, our second largest trading partner, still posted below the all-important break-even point of 50.0 but recovered to 49.2 from last month's 48.0. The February PMI for China, our third largest trading partner, fell sharply to 48.1 from 50.4, largely because of a new round of Omicron-related lockdowns. Olya Borichevska, Global Economist at JPMorgan, further noted:

> "The Manufacturing PMI fell to an 18-month low in March, with the indices for output and new orders down by 1.2pts and 2.3pts respectively. Manufacturers are being buffeted by several headwinds. In Europe the war in Ukraine is creating a drag on activity while global supply chains remain stretched and are at risk of deterioration as China battles the worst virus outbreak in two years. The US was a bright spot in today's report where the PMI posted a solid bounce."

Because of uncomfortably intense geopolitical tensions, the PMI for the Eurozone dipped to a 14-month low of 56.5, down from 58.2. Except for Ireland and Austria, the PMIs for the other major Eurozone countries continue to soften, although all counties are still well ahead of the critical break-even reading of 50.0. Commenting on the manufacturing PMI data, Chris Williamson further noted:

> "Just as the fading of the latest pandemic wave was creating a tailwind for the Eurozone manufacturing recovery, with economies re-opening and supply chain bottlenecks easing, the war in Ukraine has created an ominous new headwind. While the boost to demand from the further relaxation of COVID-19 containment measures helped ensure a sustained

expansion of manufacturing order books and output in March, rates of growth have cooled markedly amid sanctions, soaring energy costs, and new supply constraints linked to the war. Heightened risk aversion among both manufacturers and their customers due to the uncertainty caused by the invasion, combined with an Intensifying cost of living crisis, meanwhile threatens to pull growth even lower in the coming months, as reflected in the slumping of manufacturers' growth expectations for the coming year. Business optimism in the goods producing sector has collapsed to a level indicative of manufacturing output declining in the second quarter and adding to the risk of the manufacturing sector sliding into a new recession."

Automotive. Virtually anyone casually passing car dealerships has noticed that the inventory lots are virtually empty. From the recent news, most everyone is aware that the computer chip shortage has inhibited production of cars as well as some appliances and other electronic devices. Hence, it is no surprise that the April 4 edition of *Automotive News* reported that year-over-year car and light truck sales for the first quarter of 2022 fell by 15.7 percent. The March SAAR (Seasonally Adjusted Sales Rate) was estimated to be 13.4 million units, a drop of approximately two million units since January. Although some manufacturers like Toyota are attempting to implement work-arounds, the chip crisis appears to show no sign of resolution before the end of 2022. The obvious problem for West Michigan is that the lower production numbers mean slower shipments for our numerous auto parts producers. For the first quarter sales figures of 2022, American Honda lost 23.2 percent, Toyota dropped 14.7 percent, Ford shed 17.1, GM lost 20.4 percent, and Stellantis (Chrysler) sales eased by 13.6 percent. For some firms, the results were less troublesome. Hyundai-Kia fared better than most for the first quarter, and lost only 3.7 percent compared to 2021. Mazda also bucked the trend and posted minor loss of 1.2 percent. BMW was the only major brand to post a modest sales improvement of 3.8 percent. Charlie Chesbrough, Cox Automotive's senior economist, further commented:

"Cox Automotive has cut its 2022 sales forecast to 15.3 million from 16 million. Frankly, even this outlook requires the chip shortage issue to be significantly improved by the start of the second half of the year. Otherwise, sales will remain weak and will basically be stuck at the current level until more supply arrives."

Industrial Inflation. Wars and threats of wars have always had an adverse effect on prices for most major industrial commodities. Hence, it is no surprise that the March ISM Index of PRICES jumped to +74 from +51. The J.P. Morgan February World Index of PRICES rose to a record high of 71.4 from 68.5. At this time, there is no end in sight for the war in Ukrainian, so industrial inflation seems almost certain to further escalate. The impending boycotts of Russian commodities, especially oil, gas, and non-ferrous metals, could drive industrial inflation even higher. According to Timothy Fiore, chair of ISM's survey committee:

"Aluminum, packaging materials, copper, electrical and electronic components, petroleum products, vegetable oils, lumber and paper products, freight, rubber-based products, and stainless steel remain at elevated prices, thanks to product scarcity and high demand. A reversal of steel product price declines and the dramatic increase in energy costs has led to a resumption of overall prices growth, reversing what appeared to be a post-omicron softening."

Business and Consumer Confidence. Both business and consumer confidence are driven by the news cycle. However, despite all of the negative turmoil, Conference Board's Consumer Index increased slightly in March, after a decrease in February. The Index now stands at 107.2 (1985=100), up from 105.7 in February. By contrast, The University of Michigan Consumer Sentiment Index final report for March came in at 67.5, down sharply from 77.5 in February. The index has now fallen more than 30 percent in the last calendar year.

GDP. On March 30, the U.S. Bureau of Economic Analysis reported that the third estimate for fourth quarter 2021 GDP growth came in at 6.9 percent, only slightly lower than the previous estimate of 7.0, and exactly the same as the first estimate of 6.9 percent. Many forecasters are now looking toward the first quarter of 2022 (advance estimate) to be released by the BLS on April 28. We know that the Omicron surge dampened the economy in January and part of February as well, but improvements in many sectors were apparent in March. Most of the forecasts are converging at or slightly below a growth rate of 2.0 percent. The Atlanta Fed's "GDPNow" 2022 first quarter rolling estimate has risen slightly from 0.1 to 0.5. The same report notes that the Blue Chip Consensus now predicts a growth rate of 2.5 percent. The recent market turmoil has resulted in the Conference Board reducing the first quarter GDP growth estimate to 1.7 percent from 2.0 percent. According to 36 forecasters surveyed by the Federal Reserve Bank of Philadelphia, the first quarter GDP will have grown at an annual rate of 1.8 percent.

Summary. As little as a year ago, a war of the current magnitude in Europe was unimaginable. Almost everyone living in Europe seemed sure that war was a thing of the past, and that NATO and large defense budgets were no longer necessary. With a GDP roughly 7 percent of the U.S. GDP, Russia seemed to never again be a threat to world peace. Europe was eager to purchase cheap clean-burning natural gas and crude oil from Russia, and even planned expanded uses for natural gas via the Nord Stream II pipeline. It is worth repeating that 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. It is highly probable that there will be further restriction or complete boycotts of Russian commodities in the coming months, resulting in price surges for most of these products. Unfortunately, these price escalations will be felt worldwide, and industrial inflation will invariably spill over to consumer inflation. Many observers have noted that the Federal Reserve has already been too slow to raise interest rates, which may require rates hikes coming greater and faster than imagined only a few months ago. As a result, a significant number of economists are beginning to utter the "R" word. At this time, it is too soon to panic, although most forecasters declare that the current environment of shortages and rapidly rising prices cannot continue indefinitely. For the first time in 40 years, the younger generations of the world are going to be forced to deal with significant inflation and price instability with no immediate end in sight. In the 1970's, runaway inflation was stopped by raising interest rates to stratospheric levels. The result, of course, was the 1980 recession. Are we headed that way again? We can't rule it out.

Latest Unemployment Reports

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

	Jan. 2021	Jan. 2020	Aug. 2009	20 Year Low
State of Michigan (Feb.)	4.7%	6.3%	14.6%	3.2%
State of Michigan (Unadj.)	4.4%	8.3%	14.1%	2.9%
Kent County	3.7%	5.7%	11.9%	2.1%
Kalamazoo County	4.0%	5.9%	11.1%	2.1%
Calhoun County	5.6%	7.9%	12.8%	2.7%
Ottawa County	3.4%	4.9%	13.3%	1.8%
Barry County	4.2%	5.7%	10.9%	2.2%
Kalamazoo City	5.0%	7.4%	15.2%	3.2%
Portage City	3.7%	5.4%	8.7%	1.3%
Grand Rapids City	5.0%	7.6%	16.1%	3.0%
Kentwood City	3.5%	5.4%	10.7%	1.4%
Plainfield Twp.	2.8%	4.4%	8.0%	1.4%
U.S. Official Rate (Mar.)	3.6%	6.0%	9.6%	3.5%
U.S. Rate (Unadjusted)	3.8%	6.2%	9.6%	3.4%
U.S. U-6 Rate (Mar.)**	6.9%	10.7%	22.9%	7.3%

**U-6 for Michigan = 9.5% for all of 2021

Index of New Orders: West Michigan

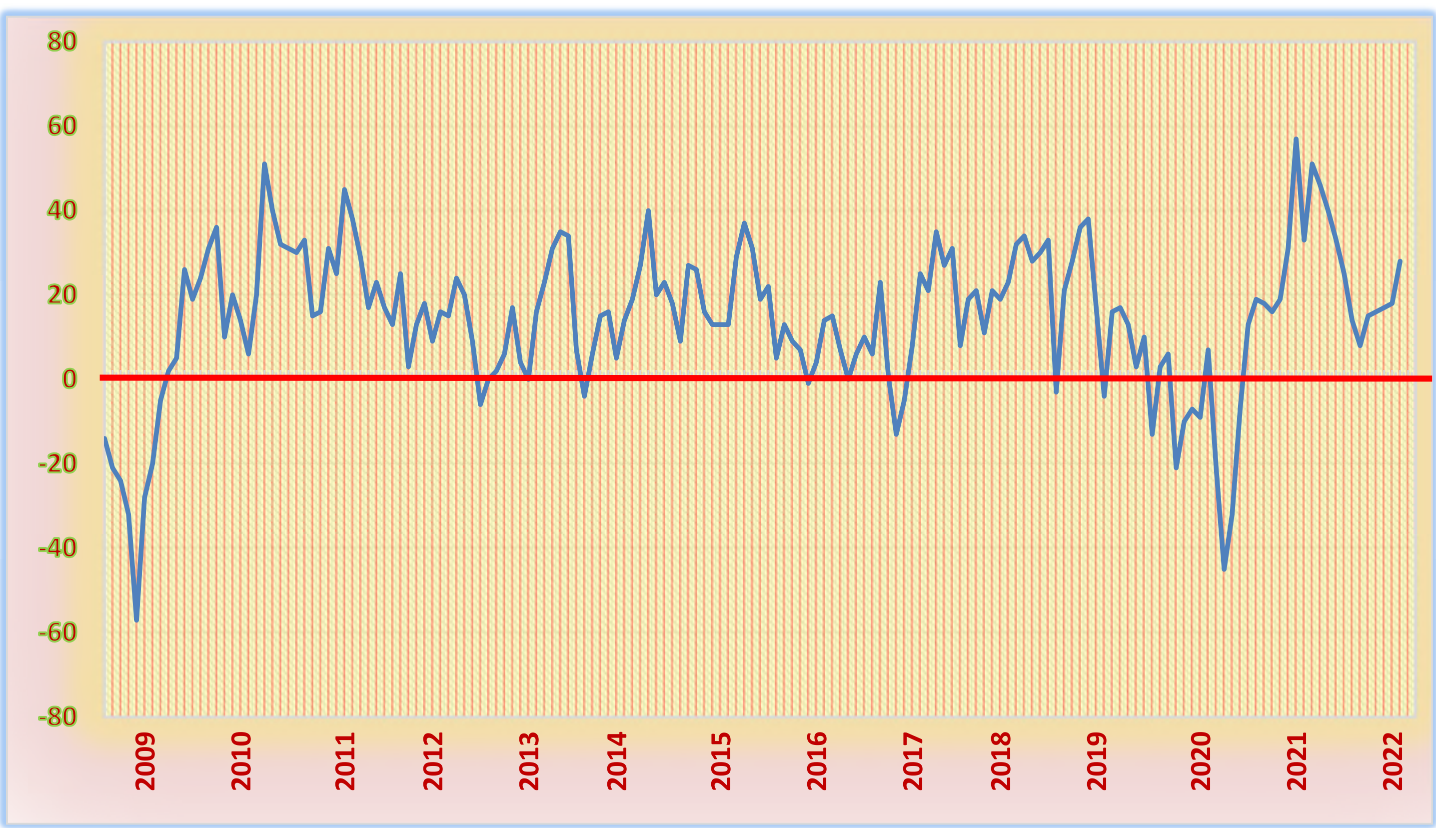
As the name implies, this index measures new business coming into the firm, and signifies business improvement or business decline. When this index is positive for an extended period of time, it implies that the firm or organization will soon need to purchase more raw materials and services, hire more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

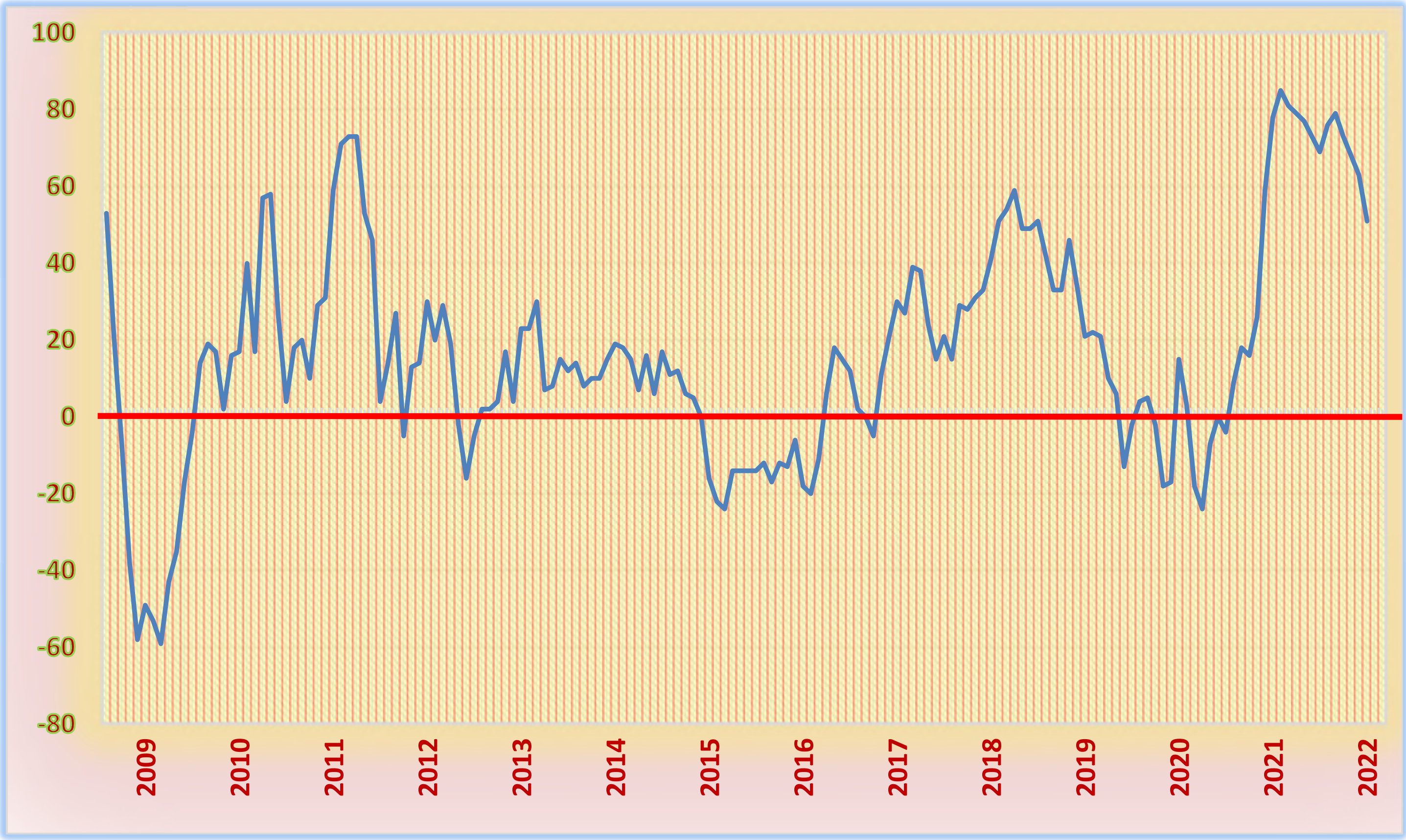
Great Recession
First Recovery + 3 in April 2009

COVID-19 Recession
First Recovery +12 in July 2020

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

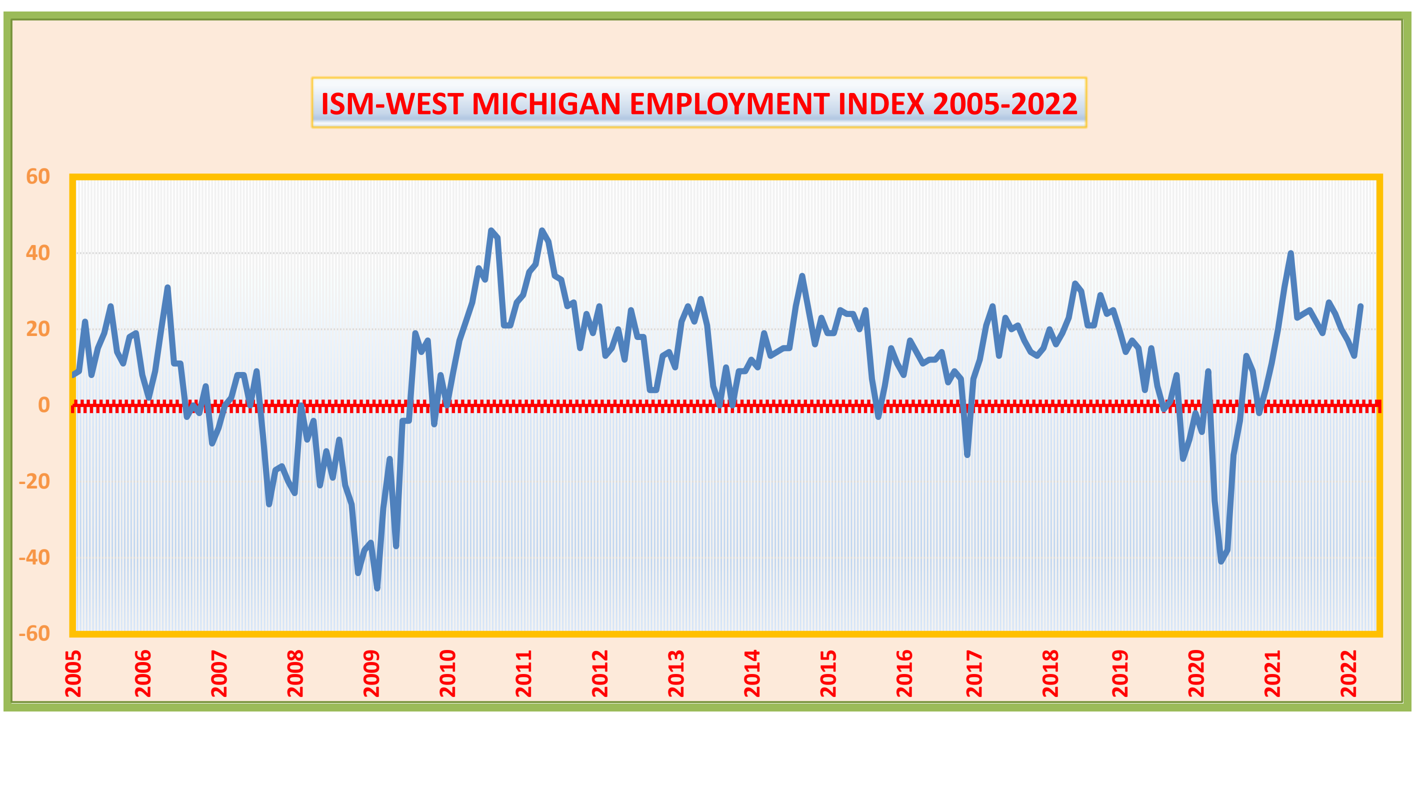


ISM-West Michigan Index of PRICES: 2008-2022



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.