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Current Business Trends

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THE ECONOMY REMAINS STABLE, BUT PESSIMISM GROWS

Key Participant Comments for April:

"Sales are okay, and demand in automotive is even higher. We have major concerns about a 'market correction' in the near future."

"It's still a very difficult environment to operate in. At times, we're using multiple suppliers to get enough materials to complete jobs."

"We continue to have strong forecasts and struggle to hire entry level employees."

"Demand is strong, and lead times from suppliers are up across the board. It's hard to find many items. International freight continues to experience long delays. Our supply chain group here is stressed out with no relief in sight."

"It feels like we may be heading toward a recession."

The West Michigan industrial economy is still on track, although a cloud of pessimism is beginning to confuse the future outlook. Although some of the logistics issues have been resolved, the Ukrainian war has resulted in the prices for many industrial commodities to resume rising. NEW ORDERS, our closely-watched index of business improvement, posted at +29 in April, pretty much in line with expectations. The April PRODUCTION Index, which is now termed "output" by many economists, remained stable at +23. Despite ongoing logistics problems, activity in the purchasing offices, our index of PURCHASES, moderated to +20. Although somewhat improved over this past year, this month's index of LEAD TIMES posted at +59, well below the survey record of +93 set in April 2021. Normal lead times are still not expected to return for many months. Although most survey respondent are still reporting positive (but frustrating) business conditions, their comments are beginning to raise some serious questions about where the economy is going.

The U.S. Economy. Like our local economy, the national economy is still stable. For April, the Institute for Supply Management's NEW ORDERS Index came in at +14, pretty much in line with the readings for the past few months. ISM's PRODUCTION (a.k.a., Output) Index posted at +16, also in line with expectations. After statistical adjustments, ISM's composite index registered at 55.4, still fairly positive, but down 1.7 points from March's reading of 57.1. Although the recent composite indices remain positive, the reports for each passing month continue a modest retreat from the 38-year high of 64.7 set 18 months ago.

A slightly different view of the U.S. economy comes from the British international consulting firm now called S&P Global, formerly IHS Markit.com. Their seasonally adjusted U.S. Manufacturing Purchasing Managers' Index posted at 59.2 in April, a seven-month high, amid "...stronger demand, despite sharper price increases." Fewer supply disruption and a greater ability to hire suitable workers were cited as encouraging signs. However, geopolitical tensions resulted in business confidence sliding to a six-month low. In addition, pre-production inventories expanded at the greatest rate in the 16-year history of the survey. Chris Williamson, Chief Business Economist at S&P Global, said:

> "After a slow start to the year, which saw production growth almost stall, the manufacturing sector is starting the second quarter on a much stronger footing. Demand from consumers and businesses is proving encouragingly robust despite severe inflationary pressures, which intensified further during April. Both input cost and selling price inflation surged higher, the latter accelerating to a near-record rate, as firms faced rising energy prices, ongoing supplier-driven price hikes amid strained supply chains, and rising wage costs. In short, while the survey data add to indications that the pace of economic growth will improve in the second quarter after a lacklustre first quarter, the less welcome news is that elevated inflationary pressures show no signs of relenting."

The World Economy. The May 2 press release for the J.P. Morgan worldwide manufacturing PMI for April registered at 52.2, down from March's 52.9, its lowest level since August 2020. The report blamed the steep drop in production from mainland China as the major factor causing the world index to soften. However, of the world's major economies, only Mexico and China posted negative PMIs. Fortunately for the U.S. economy, the PMI for Canada, our largest trading partner, remained very positive but eased to 56.2, down from March's survey-record high of 58.9. However, the survey respondents continued to report scarcity of some materials, truck shortages, and numerous freight delays, especially from foreign sources. The April PMI for Mexico, our second largest trading partner, registered at 49.3, slightly below the all-important break-even point of 50.0. Because of a new round of COVID-19 restrictions, the PMI for China, our third largest trading customer, declined to 46.0 in April from 48.4 in March. Olya Borichevska, Global Economist at J.P. Morgan, noted:

> "The manufacturing output PMI fell sharply lower in April suggesting notable deterioration in global industry. However, the April PMI drop mainly reflected a 7.9-pt slump in China, as COVID restrictions in a number of cities tightened. Growth showed greater resilience outside of China though we still don't have all the details from Asia to assess the extent of spillover. It appears that prices are once again on the rise as both input and output price index rose."

Despite the aggravations to the world economy brought on by the Ukrainian war, all of the major economies in the

Eurozone continue to post positive PMIs, with the Netherlands leading the way at 59.9 and Spain trailing at a fairly respectable 53.3. However, the April composite PMI posted at a 15-month low of 55.5. Chris Williamson further commented:

> "Manufacturing output came to a near standstill across the Eurozone in April, with production merely edging higher at the slowest rate since June 2020. Companies not only reported that ongoing problems with component shortages were aggravated by the Ukraine war and new lockdowns in China, but that rising prices and growing uncertainty about the economic outlook were also hitting demand. New order growth has likewise slowed sharply so far this year. Germany is leading the slowdown, where production is back in decline for the first time in almost two years, and only modest growth is being seen in France, Italy and Spain. Production trends look set to worsen. A renewed surge in costs, widely blamed on soaring energy prices and further upward pressure on prices paid for many other inputs amid shortages, led to the steepest rise in producers' selling prices recorded in at least 20 years of comparable survey history. "In short, the eurozone manufacturing sector looks set for a difficult period of falling production and surging prices."

Automotive. It is now old news, but the on-going chip shortage continues to restrain auto production in the U.S. as well as the rest of the world. The April sales pace of 14.7 million units was well below the torrid 18.5 million SAAR (Seasonally Adjusted Annualized Rate) set in April 2021, but higher than March's 13.4 million rate. Of the firms still reporting monthly, year-over-year sales for Ford were down 10.7 percent, Toyota fell 28.2 percent, and beleaguered Subaru dropped 25.5 percent. American Honda took the biggest hit, skidding 40.4 percent. Cox Automotive Senior Economist Charlie Chesbrough further commented:

> "The situation on the ground has not changed significantly for months. Product availability remains constrained, and many customers can only order their vehicles for future delivery. Improved inventory conditions will likely not happen in 2022, as many customers are now waiting for their already reserved vehicles to be built."

Another candid observation comes from Chris Hopson at S&P Global Mobility:

> "The industry is still far from 'normal' assembly levels. Stabilization of microchip supplies may not emerge until the second half of 2022, and lost production recovery efforts may only start in earnest in 2023. The delicate balance between available supply levels and consumers facing inflation headwinds will continue to constrain demand levels in the immediate term."

West Michigan Unemployment. According to the press release from the Department of Technology, Manufacturing, and Budget, Michigan's March (latest month available) unemployment rate edged down to 4.4 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 3.0 percent, followed by Kent County at 3.3 percent, Barry County at 3.6 percent, and Kalamazoo County also at 3.6 percent. Many firms are still unable to fill all of their job openings, so the unemployment rates should continue to fall modestly for the next few months as long as business optimisms remains stable.

Industrial Inflation. At the end of 2021, the prices for many major commodities were beginning to stabilize. A significant portion of inflation is psychological, and if prices had continued to moderate, we might have returned to our 40-year mindset of 2 percent inflation. However, as a result of the stress on the world economy brough on by the Ukrainian war, most of the "big ticket" industrial commodities are again rising in price. Locally, our index of PRICES posted at +62 for April, well above our 25-year average of +18. The April ISM national index of PRICES eased modestly to +69 from +74, although the index had been as low as +36 just four months earlier. In a more modest move, the J.P. Morgan world index of PRICES rose to 71.8 from 71.5. According to Timothy Fiore, chair of ISM's survey committee:

> "Oil and fuel price increases (manifesting in higher transportation expenses), food ingredients, commodity materials (copper, steel and aluminum) and petroleum-derived products (chemicals and plastics) were the primary causes of 'prices' growth. Notably, 4.4 percent of respondents reported lower prices in April, a positive for the future."

Business and Consumer Confidence. As of April 26, the Conference Board's Consumer Confidence Index now rests at 107.3, down moderately from the recent peak of 128.9 reported last June. In a similar move, the April University of Michigan Consumer Sentiment Index posted at 65.2, approximately 26.2 points below the same period in 2021, but well above the March reading of 59.4. For our West Michigan survey of the industrial economy, The SHORT-TERM BUSINESS OUTLOOK Index for April, which asks local firms about the business perception for the next three to six months, posted at +20, well below the +40 reported in June 2021, but still positive. For the LONG-TERM BUSINESS OUTLOOK Index, which queries the perception for the next three to five years, the index remained steady at +29. Hence, it appears many West Michigan firms still believe that we will somehow see the good outweigh the bad.

GDP. Most economists predicted that the Omicron COVID-19 variant had dampened the economy in January and February. However, the business world was somewhat dismayed by the April 28 announcement from Commerce Department that the GDP (Gross Domestic Product) for the first quarter fell by an annualized rate of 1.4 percent, well below multiple predictions of a 1.0 to 1.5 percent gain. The financial market virtually ignored this "first estimate," because further analysis revealed that the statistics were skewed by a huge quarterly trade imbalance as well as drops in private inventory investment and defense spending. Several analysts pointed out that the first reading is always labeled as an "estimate," and that there is a high probability that the final report will be revised sharply upward. Many forecasters are now looking toward the second quarter of 2022, which is almost certain to be positive, barring a catastrophe. As of May 4, the Atlanta Fed's GDPNow second quarter estimate stands at a 2.2 percent growth rate. At 3.2 percent, the forecast from S&P Global is a little more optimistic.

Summary. As Yogi Berra once quipped, "It's tough to make predictions, especially about the future." As we look toward the rest of 2022, predictions are complicated by so many "moving parts" that no forecast can be completely accurate. Even the world's most respected economists can miss by a huge margin. For now, I will stick with my 70 percent odds for a recession over the next twelve months. Obviously, such a prediction assumes that the "glass is still 30 percent full," meaning that a recession can still be avoided, especially if there were, by some miracle an end to the Ukrainian war. However, the reality is that the war will not end soon and that entire logistics system will probably not return to normal for many months or even years. Many key industrial commodities will continue to be in short supply and increasingly expensive, and these higher costs will eventually spill over into the consumer market. Furthermore, in part for political reasons, it still seems obvious that the Federal Reserve has waited FAR too long to begin the process of bringing interest rates back to historical norms. As we learned from Paul Volker, the only way to stop runaway inflation is by raising and raising and raising interest rates. If this happens, it won't be pretty.

MARCH-APRIL COMMENTS FROM SURVEY PARTICIPANT

"The automotive industry continues to be a challenge with rising prices and ability to get certain product."

"Sales are finally starting to stabilize. However, it comes in fits and starts."

"Sales are okay, and demand in automotive is even higher. We have major concerns about a 'market correction' in the near future."

"We have crazy supply chain issues right now. Is this ever going to stop?"

"Inflation is a major concern."

"We were hoping for a softening of the commodity pricing. However, we saw a quick dip followed by pricing continuing to rise."

"We continue to work with our (automotive) customers on meeting their changing schedules. Some GM plants were having supply issues, so they shut down for two weeks. Some of our Honda product lines are seeing some softer orders in the short term."

"We're super busy. Our backlog is at record high and climbing. We cannot get the castings we need to work down the backlog. "

"It feels like we may be heading toward a recession."

"You know really want me to say what I'm thinking today why is this all going on and out dumper then box of rock government for our 40-year high inflation but it's not their fault."

"It's still a very difficult environment to operate in. At times, we're to use multiple suppliers to get enough materials to complete jobs."

"We are still struggling to acquire enough hourly employees to meet our production demand with no relief in sight!"

"It has been a wild year so far, and it has forced us to really strategize so we can be as competitive as possible in our industry."

"Raw material and component pricing continue to rise. Lead times are being extended. Labor shortages and Covid surges are causing havoc in the industry. This is like nothing I have experienced before in my career."

"Our government right now does not know how to do anything but spend money."

"WE HAVE A BIG PROBLEM!!!!!!!!!!!!!!!!!! "

"The Ukraine Russia conflict is putting stresses on just about every product group I am in contact with. Ukraine is rich in manganese and iron and Russia was the #5 steel producer in 2021. Russia also produces in the top 3 of all countries for oil. Evidence of this is at the gas pump. The struggle currently is whether to hold excess inventory while prices for goods are still reacting or continue to run lean."

Packaging and raw material availability remains challenging, while demand is decreasing for craft beverages."

"We continue to have strong forecasts and struggle to hire entry level employees. Steel prices have started moving back up and aluminum is also increasing."

"Demand is strong, and lead times from suppliers are up across the board. It's hard to find many items. International freight continues to experience long delays. Our supply chain group here is stressed out with no relief in sight."

"We see a long, rough economic road ahead."

"For our firm, automotive demand remains oddly strong. We will not truly understand the impacts of the hyper inflationary period until the second half of the year. We're very nervous that the second half ramp-ups for 2023 production may get delayed or canceled depending on the economy."

"Price increases are non-stop, and they do not look to be stopping any time soon.

"Two years into Covid, the supply chain is getting worse. The chip shortage is hurting bad. VFDs (variable frequency drives) we have on order are now being given 37-40 week lead times. Another vendor for stainless steel gear motors is quoting 37-40 week lead times. Our customers are not willing to wait for these lead times, and are turning to competing products. It may solver their problems short term until our competitors can't supply them either. Retirement is looking like a better alternative all the time."

"Our business is steady, but still not normal."

"I'm really concerned right now."

April 2022 Survey Statistics

	UP	SAME	DOWN	N/A	Apr. Index	Mar. Index	Feb. Index	25 Year Average
Sales (New Orders)	44%	41%	15%	0%	+29	+29	+28	+14
Production	35%	47%	12%	6%	+23	+19	+16	+14
Employment	29%	56%	15%	0%	+14	+18	+26	+ 8
Purchases	29%	62%	9%	0%	+20	+22	+24	+ 7
Prices Paid (major commod.)	65%	32%	3%	0%	+62	+57	+51	+15
Lead Times (from suppliers)	62%	35%	3%	0%	+59	+57	+54	+11
Purchased Materials Inv. (Raw materials & supplies)	47%	47%	3%	3%	+44	+31	+18	- 4
Finished Goods Inventory	15%	44%	32%	9%	-17	-10	- 3	- 8
Short Term Business Outlook (Next 3-6 months)	38%	44%	18%	0%	+20	+23	+26	-
Long Term Business Outlook (Next 3-5 years)	41%	44%	12%	3%	+29	+29	+28	-

Items in short supply: Wooden pallets, steel, stainless steel, polypropylene, stainless steel, stainless steel bar, domestic trucks/drivers, ocean containers in China, electric motors (especially explosion proof), and variable frequency drives, aluminum, aluminum cans, electronic components, fasteners, bar and coil stock (uncommon alloys or sizes), electronic components, electronic board parts, foundry capacity, steel tubing, paper, janitorial supplies, plywood, any imported goods, hydrologic oils, labor.

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: Hot rolled steel, transportation (dry bed only), ocean containers from China.

Latest Unemployment Reports

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

	Mar. 2022	Mar. 2021	Aug. 2009	20 Year Low
State of Michigan (Mar.)	4.4%	6.2%	14.6%	3.2%
State of Michigan (Unadj.)	4.5%	6.6%	14.1%	2.9%
Kent County	3.3%	5.4%	11.9%	2.1%
Kalamazoo County	3.6%	6.6%	11.1%	2.1%
Calhoun County	4.7%	7.2%	12.8%	2.7%
Ottawa County	3.0%	4.8%	13.3%	1.8%
Barry County	3.6%	5.5%	10.9%	2.2%
Kalamazoo City	4.5%	7.0%	15.2%	3.2%
Portage City	3.3%	5.2%	8.7%	1.3%
Grand Rapids City	4.3%	7.1%	16.1%	3.0%
Kentwood City	3.1%	5.1%	10.7%	1.4%
Plainfield Twp.	2.5%	4.1%	8.0%	1.4%
U.S. Official Rate (Dec.)	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%	11.7%	22.9%	7.3%

**U-6 for Michigan = 8.7% for Q2 of 2021 thru Q1 2022

Index of New Orders: West Michigan

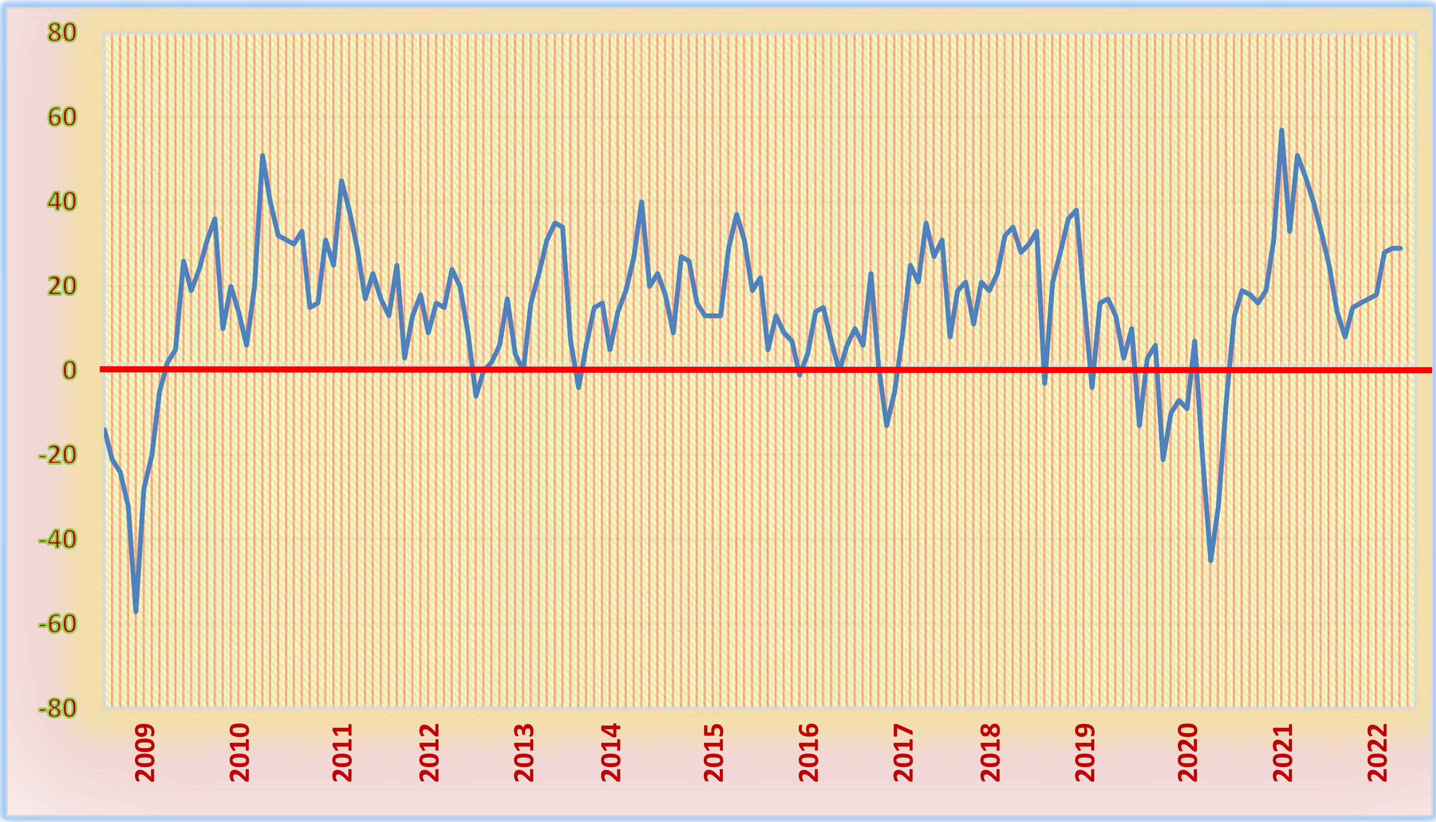
As the name implies, this index measures new business coming into the firm, and signifies business improvement or business decline. When this index is positive for an extended period of time, it implies that the firm or organization will soon need to purchase more raw materials and services, hire more 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	+ 29 for the month of April, 2022
Previous Month	+ 29 for the month of March, 2022
One Year Ago	+ 33 for the month of April, 2021
Record Low	- 57 for the month of December 2008
Record High	+ 57 for the month of January 2021

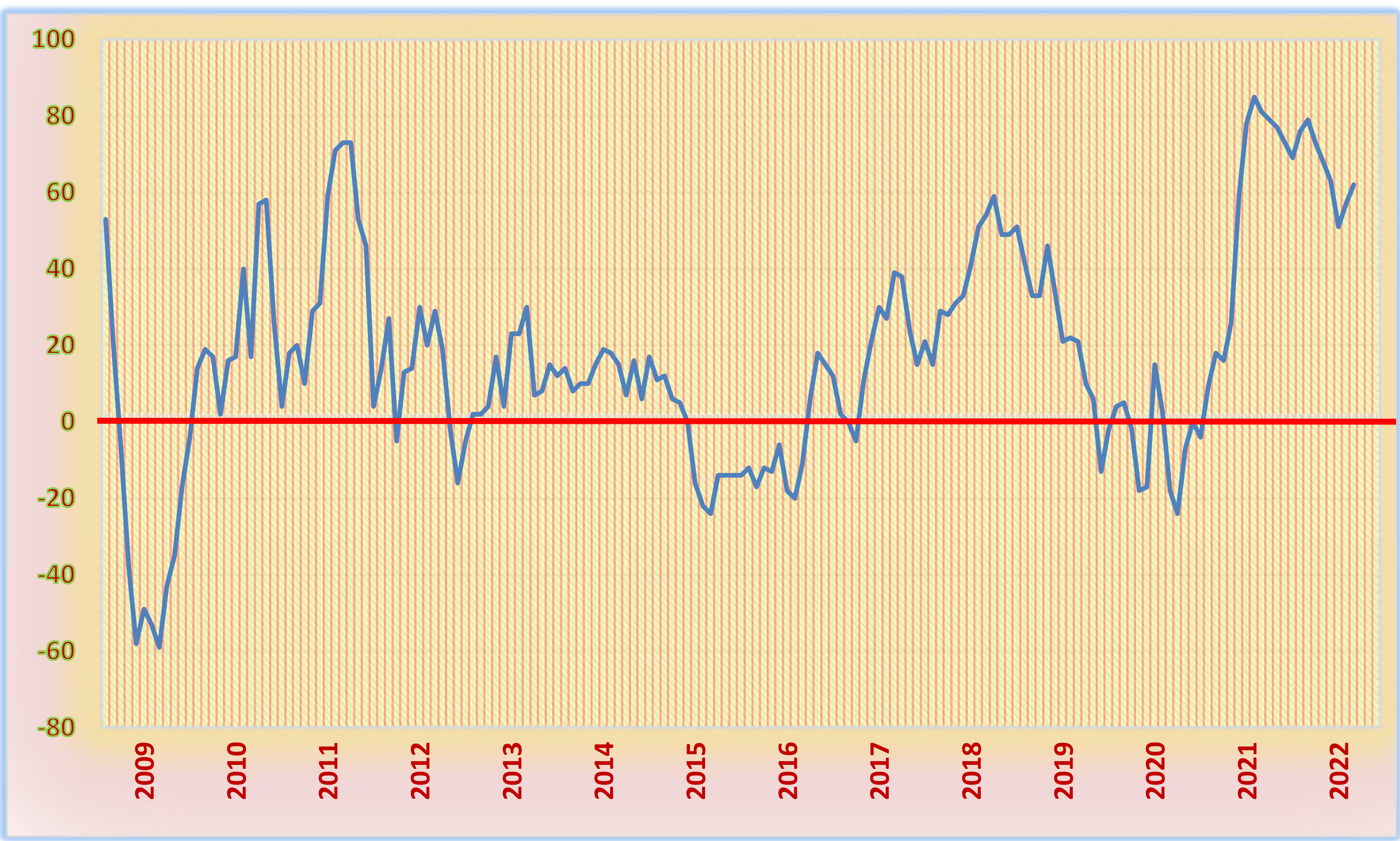
Great Recession
First Recovery + 3 in April 2009

COVID-19 Recession
First Recovery +12 in July 2020

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

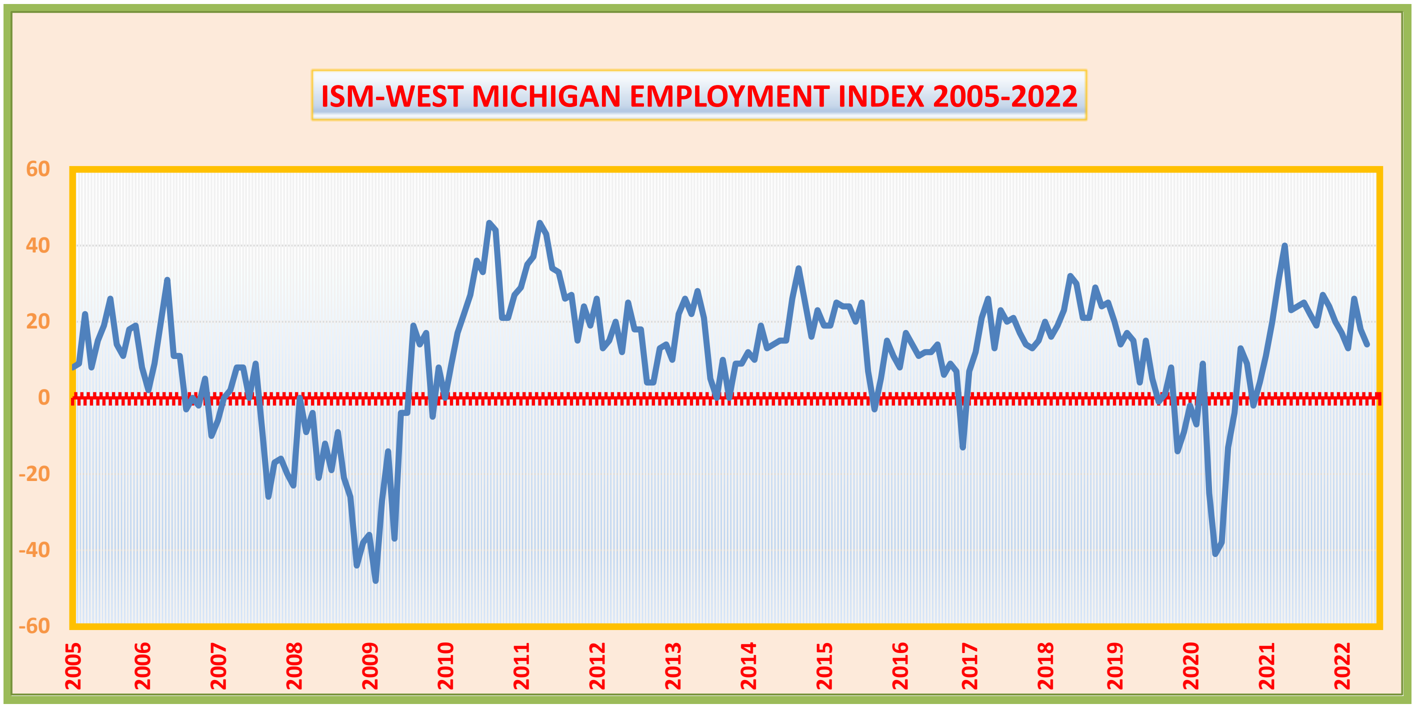


ISM-West Michigan Index of PRICES: 2008-2022



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.