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Current Business Trends

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THE RECOVERY HITS A PEAK

Key Participant Comments for January:

""There is a huge shortage of overseas cargo spaces, and the U.S. Customs backlog continues."

"We are struggling to staff our production plant floor. We cannot get enough people to apply."

"Lead times are much longer now with the shortages that our suppliers are experiencing. Sales are down because customers cannot get all the components they need."

"Orders are softening up some, but we are still doing fairly well, given the current economic environment."

"It's probably been the most challenging past three months of my career trying to manage the 'right' stock and inventory. The past year has been a disaster. The outlook for the next 6 months does not look to be better even through business and sales dollars are good."

The West Michigan economy jumped into 2021 on a very positive note. Typical of most recession recoveries, nearly all of our statistics responded to the pent-up demand created over these past months. According to the data collected in the third and fourth weeks of January, NEW ORDERS, our closely watched index of business improvement, jumped to a peak of +57, up sharply from +31 in December. The PRODUCTION Index, which is termed "output" by many economists, also bounced to +52, up from December's +33, and up very sharply from November's +2. Activity in purchasing offices remained positive, but the Index of PURCHASES rose more modestly to +32 from +26. With temperature checks, social distancing, roaming disinfecting teams, and locked-down lunch rooms, most firms are still managing to function. Sporadic absenteeism and worker shortages for some firms present a challenge for management. Shortages of many commodities are widespread, and this month's Index of LEAD TIMES came in at a record-setting +68, up from +64. Although some people are now beginning to receive at least one dose of the vaccine, the entire business supply chain is still FAR from returning to normal. The demand for many local products and services continues to rise, so many of our participant "comments" are positive, although many supply chain professionals are definitely feeling the multi-dimensional stresses brought on by the pandemic. Again, this month's spectacular statistics are the result of pent-up demand and should not be taken to mean we are entering a new wave of economic euphoria. Also, keep in mind that there are still many firms not sharing in the recovery.

The U.S. Economy. At the national level, the February 1 monthly press release from the Institute for Supply Management, our parent organization, opened the year virtually unchanged from December. ISM's Index of NEW ORDERS inched lower to +25 from +26. ISM's PRODUCTION Index held steady for the third consecutive month at +19. Because of statistical modifications, ISM's overall index retreated to 58.7 from December's lofty 60.5.

IHS Markit.com, the British international consulting firm that also surveys U.S. purchasing managers, reported a 14-year record improvement in operational conditions. Markit.com's seasonally adjusted January PMI (Purchasing Manager's Index) posted 59.2, up from December's already high 57.1. Much of the growth was attributed to the expansion of the Output (Production) Index, which in turn fueled an increase in NEW ORDERS. Chris Williamson, Chief Business Economist at IHS Markit, further commented:

> "U.S. manufacturing started 2021 on an encouragingly strong footing, with production and order books growing at the fastest rates for over six years. Demand from both domestic and export customers picked up sharply in January, buoyed by several driving forces. Consumer demand has improved while businesses are investing in more equipment and restocking warehouses, preparing for better times ahead as vaccine roll outs allow life to increasingly return to normal over the course of 2021. Manufacturers are encountering major supply problems, however, especially in relation to sourcing inputs from overseas due to a lack of shipping capacity. Lead times are lengthening to an extent not previously seen in the survey's history, meaning costs are rising as firms struggle to source sufficient quantities of inputs to meet production needs. These higher costs are being passed on to customers in the form of higher prices, which rose in January at the fastest rate since 2008. These price pressures should ease assuming supply conditions start to improve soon, but could result in some near-term uplift to consumer goods price inflation."

The World Economy. The worldwide economy for January remained modestly positive, according to the manufacturing index posted February 1 by J.P. Morgan. The PMI for the aggregate of 44 manufacturing nations eased modestly to 53.5 from December's 33-month high of 53.7. The Global Production (Output) Index eased to 54.0 from December's 54.9. Again, it should be noted that any index number above 50.0 represents positive growth. Just like our local survey, JPM's Index of Vendor Lead Times lengthened to "…one of the greatest extents in the survey history," largely because of the on-going worldwide supply chain disruption still being caused by COVID-19. In addition, the index measuring the overall degree of optimism slipped to a three-month low. Despite the extended distribution of the many COVID-19 vaccines, many "hot spots" such as Britain are still holding the world economy hostage. Olya Borichevska, from Global Economic Research at J.P. Morgan, further noted:

> "The rate of global manufacturing expansion slowed at the start of 2021, according to the latest PMI surveys. The output PMI fell nearly a point which was the largest drop since April. Smaller declines were seen across other components. Encouragingly, the employment PMI moved higher last month. Companies remain cautiously optimistic about the year ahead, allowing for a further slight increase to be implemented."

In the Eurozone, the January PMI remained positive but backtracked to 54.8 from December's two-year high of 55.2. Except for Spain, all of the PMI indexes for the major countries in the

Eurozone remain positive. The Netherlands posted a 28-month PMI high of 58.8. Chris Williamson from Markit.com further commented:

> "Eurozone manufacturing output continued to expand at a solid pace at the start of 2021, though growth has weakened to the lowest since the recovery began as new lockdown measures and supply shortages pose further challenges to producers across the region. Supply chain delays worsened during the month to a degree only exceeded once – during the global lockdowns early last year – in more than two decades of survey history. At the moment, manufacturing is providing an important support to the economy as the service sector is hit by COVID-19 restrictions, but this support is waning. Consumer goods producers in particular are struggling. While future prospects brightened, with manufacturers' optimism striking a three-year high in January to sound a reassuring note of confidence at the start of the year, any potential delays to the vaccine roll-outs will add an additional layer of uncertainty to the outlook. Supply shortages have meanwhile put pricing power in the hands of suppliers, pushing raw material prices sharply higher. Increased shipping costs are adding to the burden. These price pressures should ease once more supply capacity comes online, although there remains some uncertainty about how much pent-up demand exists and how sticky these higher prices may prove to be."

Automotive. West Michigan auto parts suppliers are undoubtably pleased to see January auto sales for some firms coming in stronger than expected. However, a drop of 22 percent in fleet sales continued to hold the estimated SAAR (Seasonally Adjusted Annual Rate) for January at 16.4 million units, about 3.7 percent lower than last January. Winners for the month included Hyundai-Kia, up 7.8 percent, Mazda gaining 6.9 percent, and both Toyota and Subaru edging up 0.2 percent. Losers for January included Ford, down 8.6 percent, and Honda down 9.4 percent, largely because of the firm's slim lineup of light trucks and SUVs. GM and Chrysler are no longer reporting monthly sales, but estimates for both firms were negative. As the economic recovery continues, there is hope that fleet sales will pick up later in the year. However, the shift away from sedans toward SUVs and light trucks appears to be irreversible for the near future. Cox Automotive senior economist Charlie Chesbrough further commented:

> "An expected month-over-month uptick in the sales pace suggests the vehicle market is starting the year on solid ground even with so much uncertainty in the economy. Thin inventories remain a reality for many dealers and consumers, a result of COVID-19 production disruptions, although the worst inventory issues are in the rearview mirror. Other risks to auto sales include large waves of COVID-19 cases during the winter and a second dip in the economy."

West Michigan Unemployment. As the recovery continues, the West Michigan Index of EMPLOYMENT bounced up to +20 from December's +11. At the state level, Michigan's January 28 unemployment tabulation for December (latest month available) reported that the seasonally adjusted, state-wide unemployment rate rose to 7.5 percent from 6.9 percent, largely because of the re-imposed COVID-19 restrictions. Because of day care problems caused by school closings as well as ongoing concern about keeping safe from the virus, the worker absentee rate continues to distort normal operations for MANY firms. Of the 83 counties in Michigan, the estimated December unemployment rates ranged from a low of 3.6 percent in Washtenaw County to a high of 12.4 percent in Wayne County. Looking at some West Michigan counties, unemployment for Ottawa County came in at 3.7 percent, Kent County 4.3 percent, Kalamazoo County 4.5 percent, and Calhoun County 5.8 percent. The national unemployment rate remained steady at 6.7 percent in December.

Industrial Inflation. The recent rise in our Index of LEAD TIMES continues to push industrial prices higher because of numerous spot shortages. For January, the West Michigan Index of PRICES rose to +59, up from +43. Price increases in some of the major commodities like most grades of steel, aluminum, and plastic resins are starting to stifle profitability, especially when the cost of labor is continuing to rise at the same time for some of the firms in our survey panel. The ISM National Index of PRICES again rose sharply to +64, up from December's +55. Historically, some industrial suppliers have used the first of the year for posting annual price increases, and this year was no exception. The J.P. Morgan Index of PRICES continued upward to 62.3 from 61.0. Timothy Fiore, ISM's survey committee chair, further commented:

> "Aluminum, brass, copper, chemicals, steel, soy and corn products, petroleum-based products including plastics, transportation costs, electrical and electronic components, corrugate, wood and lumber products all continued to record price increases."

GDP. On January 28, the U.S. Bureau of Economic Analysis reported that GDP increased at an estimated annual rate of 4.0 percent in the fourth quarter of 2020. For 2020 overall, the average GDP came in at negative 3.5 percent largely because of the record drop of 31.4 percent in the second quarter. Just like previous months, estimates going forward continue to be erratic. The Atlanta Fed's "GDPNow" 2021 first quarter rolling estimate projects an increase of 10.4 percent, but the Federal Reserve Bank of Philadelphia estimate is now at 3.2 percent for the first quarter. The January 22 New York Fed's "Nowcast" estimate of first quarter GDP growth has edged down to 2.6 percent, which is probably quite close to being the most accurate. As of January 2021, the Conference Board's estimated growth for the first quarter is 2.0 percent. For the same time period, *The Wall Street Journal* floating surveys of approximately 60 economists currently rests at 2.2 percent for 2021's first quarter GDP estimate, and a hefty 4.9 percent for the second quarter. However, almost all of these reports warn that uncertainties of potential further lock-downs, virus mutations, and even vaccine distribution logistics could change the situation at any time. They also note that the COVID-19 vaccines will need to be distributed worldwide before the whole world will feel safe and can return to some degree of normalcy.

Business and Consumer Confidence. The Conference Board Consumer Confidence Index improved in January after decreasing in December. The Index now stands at 89.3 (1985=100), up from December's 87.1. By contrast, the University of Michigan January Consumer Sentiment Index came in at 79.2, down modestly from 80.7 in December. The survey author cited a partisan shift in expectations due to the anticipated impact of President Biden's economic policies. The National Federation of Independent Businesses' Small Business Optimism Index declined 5.5 points in December to 95.9, falling below the Index's average since 1973 of 98. Chief Economist Bill Dunkelberg commented, "Small businesses are concerned about potential new economic policy in the new administration and the increased spread of COVID-19 that is causing renewed government-mandated business closures across the nation." For our local industrial survey, the SHORT-TERM BUSINESS OUTLOOK Index for January, which asks local firms about the business perception for the next three to six months, remained virtually unchanged at +17, down slightly from +19. The LONG-TERM BUSINESS OUTLOOK Index, which queries the perception for the next three to five years, eased modestly to +36 from +41. Although business confidence is partially driven by the news cycle, the nagging disruptions in the supply chains worldwide are causing local business confidence to moderate as well.

Summary. Because of the resurgence of COVID-19, bars, restaurants, churches and other gathering places have largely experienced a poor start to 2021. However, most industrial firms remained open and were able to take advantage of the demand that built up over many months of lock-down. The incoming Biden administration has issued many new directives that SO FAR have not had any direct impact on the current pace of the recovery for auto parts producers. The same is true of the office furniture industry, which has plenty of problems of its own. If the new stimulus package addresses the problems of the airline industry, it will be good for the long-term survival of local aerospace firms in West Michigan. Because of the disruptions brought on by the pandemic, at least some workers have been pushed out of the labor force and are no longer looking for regular employment. Several firms are again struggling to find enough workers to fill their openings, and those recruiting professionals continue to complain that the education systems are not turning out enough people with the right compliment of skills to meet current hiring demands.

JANUARY COMMENTS FROM SURVEY PARTICIPANTS

"There is a huge shortage of overseas cargo spaces, and the U.S. Customs backlog continues."

"Business is picking up."

"Transportation from Asia is taking 4-8 weeks longer than before."

"Many steel items and corrugated box prices continue to rise. We are meeting our sales plan, but are having difficulty filling our open key positions through the hiring process."

"We are struggling to staff our production plant floor. We cannot get enough people to apply."

"Lead times are much longer now with the shortages our suppliers are experiencing. Sales are down because customers cannot get all the components they need."

"We are seeing a strong start to the year and hope the trend continues into Q3 and Q4."

"We are still short on production people."

"Orders are softening up some, but we are still doing fairly well, given the current economic environment."

"Covid-19 has increased our sales dramatically."

"We ended the year down 15% from year before, our worst year since 2008. The biggest customers are doing ok, but the smaller players are way down. That being said, all employees were maintained and we are still paying the bills."

"We see a slight improvement after a horrendous fourth quarter."

"As we come out of the pandemic somewhat, we believe we are returning to a more stable (if this can ever be true) situation. Price increases did not happen in 2020. We also see the labor market shortage forcing wage increases which must be recovered."

"It's probably the most challenging past three months of my career trying to manage the 'right' stock and inventory. The past year has been a disaster. The outlook for the next 6 months does not look to be better even through business and sales dollars are good."

"We are busier, but can't produce to schedule due to lack of employees."

"There's not much changed from last month. Sales, inventory, labor are all steady."

"Our industry is waiting to see what the new President will do with the China tariffs. If they stay enforced, then work will go up for us. But if he removes them, we will be competing with China for prices, and we can never beat their prices."

"Suppliers of electrical products have longer lead times, and alternatives to the manufacturer are twice as expensive."

"Labor. I am sure this is common, but we are struggling to adequately staff manufacturing jobs with qualified people."

"We are still having issues with electrical components coming out of Europe and Mexico due to COVID."

January Survey Statistics

	UP	SAME	DOWN	N/A	Jan. Index	Dec. Index	Nov. Index	25 Year Average
Sales (New Orders)	68%	20%	11%	0%	+57	+31	+19	+14
Production	59%	27%	7%	7%	+52	+33	+ 2	+14
Employment	36%	48%	16%	0%	+20	+11	+ 4	+ 8
Purchases	48%	36%	16%	0%	+32	+26	+ 9	+ 7
Prices Paid (major commod.)	61%	37%	2%	0%	+59	+43	+26	+15
Lead Times (from suppliers)	68%	32%	0%	0%	+68	+64	+66	+11
Purchased Materials Inv. (Raw materials & supplies)	43%	41%	9%	7%	+34	+34	+ 4	- 4
Finished Goods Inventory	25%	45%	21%	9%	+ 4	- 3	- 4	- 8
Short Term Business Outlook (Next 3-6 months)	4%	43%	2%	5%	+27	+19	+ 3	-
Long Term Business Outlook (Next 3-5 years)	43%	45%	7%	5%	+36	+23	+37	-

Items in short supply: Steel (globally), HR and CR steel, resins (globally), transportation (vessels, chassis, rail, truck, containers), industry-wide semi-conductor shortage, microchips, nitrile gloves, entry level labor, paper roll stock, beverage cans, electric motors, labor.

Prices on the UP side: Paper, folding cartons, packaging, corrugated, freight, steel, stainless steel, galvanized steel, steel components, wire rod, scrap steel, plastic resins, Plating, metals, oil products, PPE, transportation, ocean freight, aluminum (from China), copper, rare earths, electronics, foam, fabric, labor costs and wages.

Prices on the DOWN side: Aluminum*, some PPE components, cost of automation.

*Item reported as both up AND down in price.

Latest Unemployment Reports

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

	Dec. 2020	Dec. 2019	Aug. 2009	20 Year Low
State of Michigan (Dec.)	7.5%	3.9%	14.6%	3.2%
State of Michigan (Unadj.)	6.3%	3.2%	14.1%	2.9%
Kent County	4.3%	2.4%	11.9%	2.1%
Kalamazoo County	4.5%	2.7%	11.1%	2.1%
Calhoun County	5.8%	3.4%	12.8%	2.7%
Ottawa County	3.7%	2.3%	13.3%	1.8%
Barry County	4.2%	2.9%	10.9%	2.2%
Kalamazoo City	5.6%	3.4%	15.2%	3.2%
Portage City	4.1%	2.5%	8.7%	1.3%
Grand Rapids City	5.7%	3.2%	16.1%	3.0%
Kentwood City	4.1%	2.2%	10.7%	1.4%
Plainfield Twp.	3.3%	1.8%	8.0%	1.4%
U.S. Official Rate (Dec.)	6.7%	3.6%	9.6%	3.5%
U.S. Rate (Unadjusted)	6.5%	3.4%	9.6%	3.4%
U.S. U-6 Rate (Dec.)**	11.7%	6.7%	16.7%	8.0%

**U-6 for Michigan = 13.9% for Q4 2019 thru Q3 2020

Index of New Orders: West Michigan

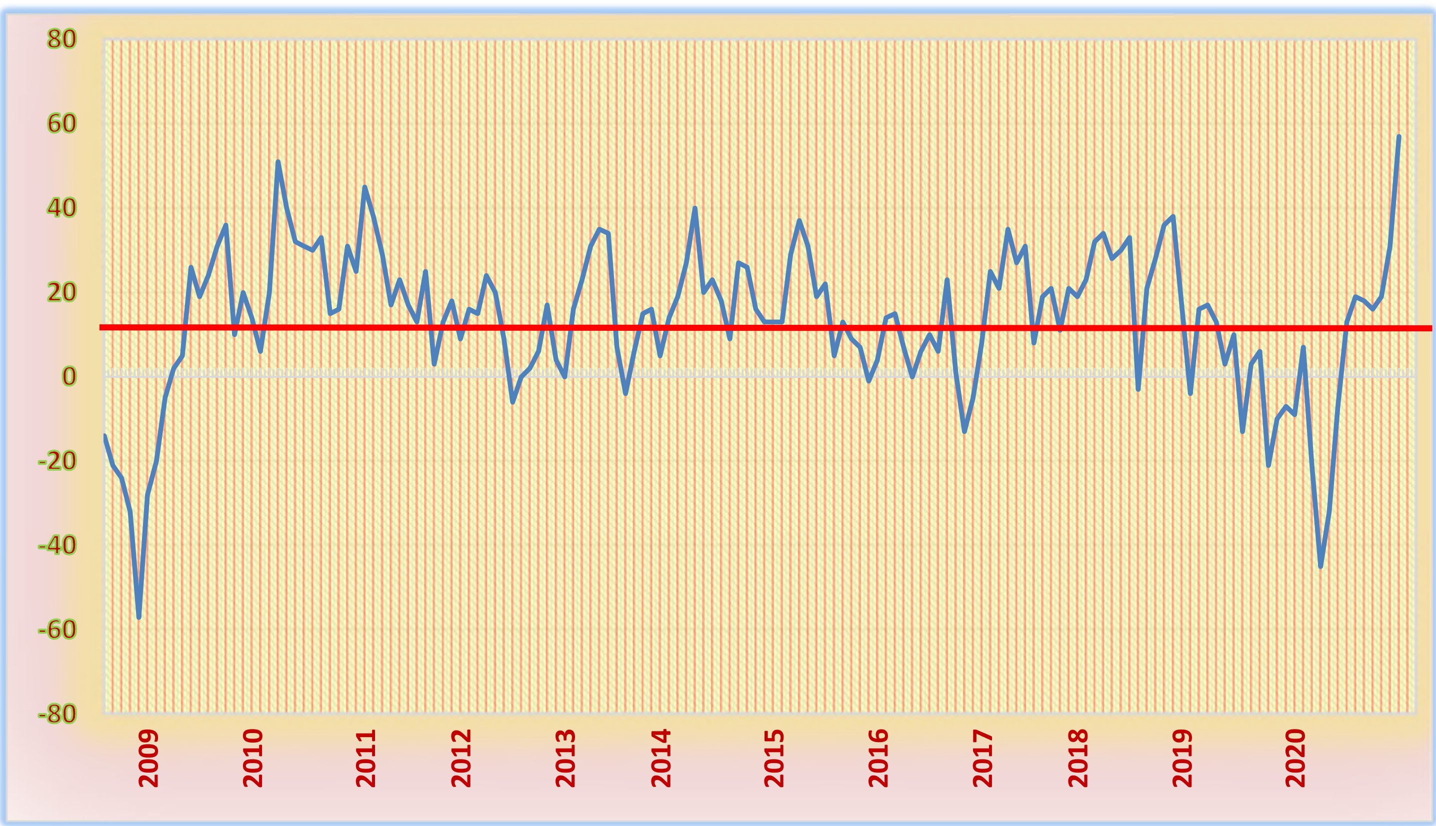
As the name implies, this index measures new business coming into the firm, and signifies business improvement or business decline. When this index is positive for an extended period of time, it implies that the firm or organization will soon need to purchase more raw materials and services, hire more 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	+ 57 for the month of January 2020
Previous Month	+31 for the month of November 2020
One Year Ago	- 7 for the month of January 2019
Record Low	- 57 for the month of December 2008
Record High	+ 57 for the month of January 2021

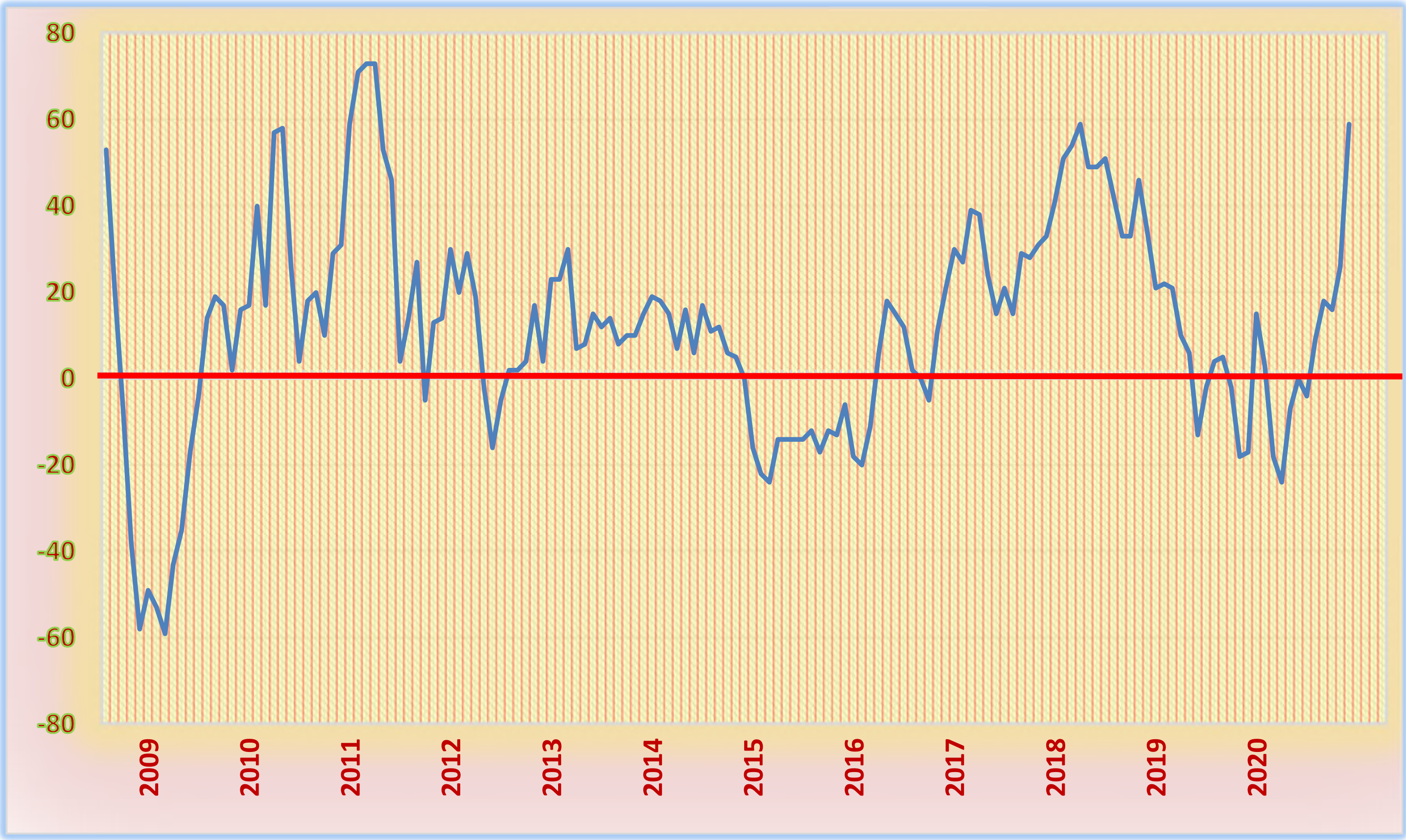
Great Recession
First Recovery + 3 in April of 2009

Covid-19 Recession
First Recovery +12 in July 2020

ISM-West Michigan Index of New Orders: 2008-2020

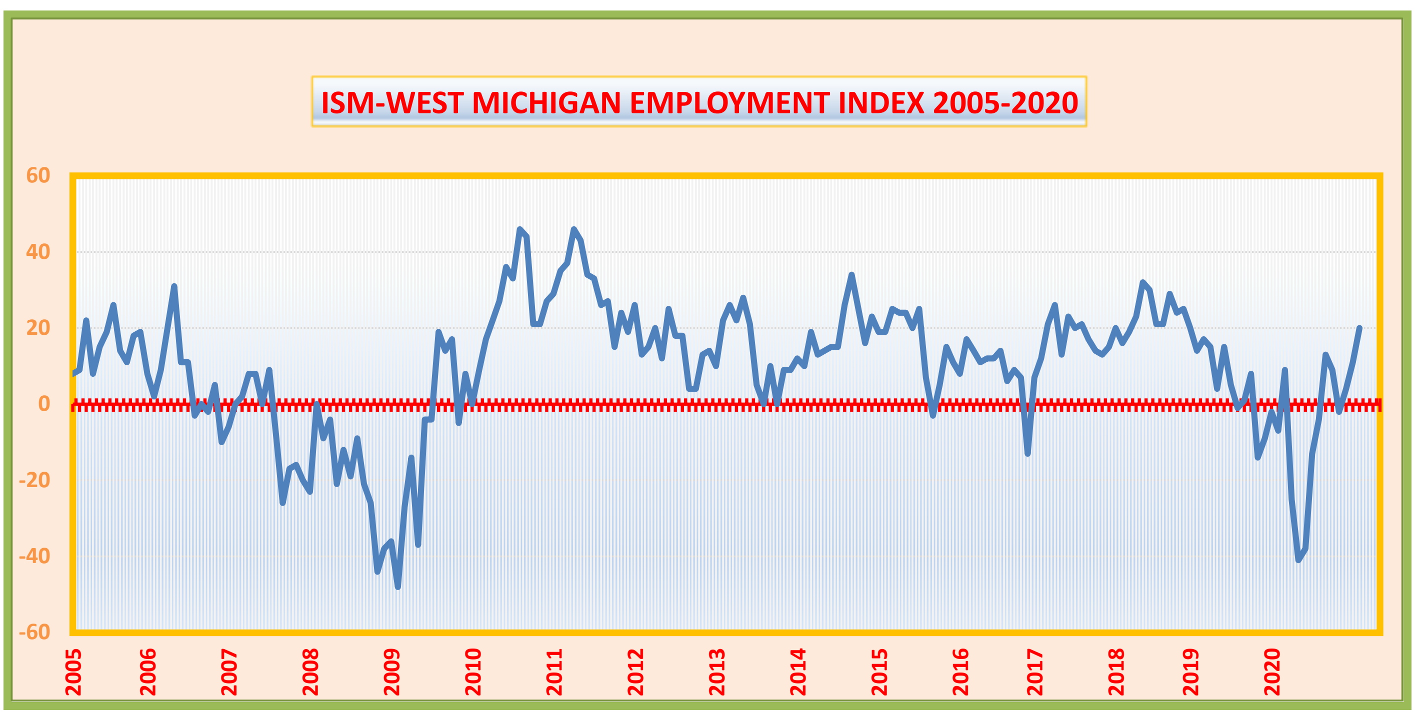


ISM-West Michigan Index of PRICES: 2008-2020



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 BUSIESS 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.