Institute for Supply Management,
Greater Grand Rapids, Inc.
P. O. Box 230621
Grand Rapids, MI 49523-0321

News Release (For Immediate Release)

March 5, 2021

Current Business Trends

By Brian G. Long, Ph.D., C.P.M.
Director, Supply Chain Management Research
Grand Valley State University (269) 870-0428

THE RECOVERY STABILIZES

Key Participant Comments for February:

"With labor in short supply, we have resorted to wage increases to match the competition."

"We are really being hit hard with supply disruptions. Between suppliers not being able to find labor, and the ports on the west coast stacking up, things have been very interesting. Hopefully, the government will stop making staying home so lucrative."

"We continue to see costs rising on almost all elements of purchasing, shipping, receiving, and building of products."

"Sales are softening some, but we are still doing fairly well."

"Quoting activity is strong, and PO's are starting to shake lose."

"Local manufacturing labor is extremely tight. We cannot attract people to do manufacturing, warehouse, or customer service work."

The February statistics show that the West Michigan economy remains on a positive footing, although time will probably show that January was the peak of the COVID-19 recession recovery. February's index of NEW ORDERS, our best indicator of business improvement, remained strong but retreated to +33 from January's peak of +57. The PRODUCTION Index, which is termed "output" by many economists, remained positive but backtracked to +28 from January's lofty +52. Activity in the purchasing offices, our index of PURCHASES, also moderated to +23 from +32. Convoluted supply chain glitches continue to cause spot shortages of a wide range of industrial commodities. This month's index of LEAD TIMES came in at +80, which broke the 33-year record of +68 set just last month. Worker shortages, which restrained production expansion long before the COVID-19 recession, have reappeared for many firms. That said, most in our survey panel are still managing to keep operations going. Many more people than expected are now beginning to receive the vaccine, which is good news for everyone. However, even with many industrial workers soon to be vaccinated, the entire supply chain is still FAR from returning to normal.

The U.S. Economy. The March 1 report from the Institute for Supply Management, our parent organization, resumed its positive upward momentum. ISM's index of NEW ORDERS rose to +36 from +25. In a more modest move, ISM's PRODUCTION Index edged up to +25 from +19. Based on a model of statistical adjustments, ISM's composite index rose to 60.8, up from February's 58.7, and slightly higher than December's lofty 60.5. After contracting in March, April, and May, the index has steadily improved since the June 2020 report.

A slightly different view of the U.S. economy comes from IHS Markit.com, the British international consulting firm that also surveys many of the same purchasing managers. After reporting a 14-year record high improvement in operating condition for January, Markit.com's seasonally adjusted February PMI (Purchasing Manager's Index) posted at 58.6, down modestly from 59.2. For Market.com, expansions of the indexes of Output (Production) and New Orders continue to bode well for the future. Chris Williamson, Chief Business Economist at IHS Markit, further commented:

"Another month of strong production growth suggests that the US manufacturing sector is close to fully recovering the output lost to the pandemic last year, and a renewed surge in optimism suggests the recovery has much further to run. Business expectations about the year ahead jumped to a level only exceeded once over the past six years, buoyed by a cocktail of stimulus and post-COVID recovery hopes as life continues to return to normal amid vaccine roll outs. Particularly encouraging is a marked improvement in demand for machinery and equipment, hinting strongly at strengthening business investment spending. However, new orders for consumer goods showed the strongest back-to back monthly gains since the pandemic began, suggesting higher household spending is also feeding through to higher production. A concern is that shortages of raw materials have become a growing problem, with record supply chain delays reported in February, contributing to the steepest rise in material costs seen over the past decade. Prices charged for a wide variety of goods coming out of factories are consequently rising, which will likely feed through to higher consumer inflation."

The World Economy. The worldwide manufacturing economy remains on a slow but seemingly steady path to recovery, according the report posted March 1 by J.P. Morgan. Despite the on-going COVID-19 disruptions in the supply chain, the PMI for JPM's aggregate of 44 manufacturing nations edged up to 53.9 from January's 53.6, a three-year high. The Global Production (Output) Index crept up to 54.2 from 54.1. Other indexes which rose included Order Backlogs, Optimism, and Employment. JPM's overall index was moderated by the New Orders index, which eased to 53.8 from 54.2. Most countries of the world are now posting positive PMIs. Notable exceptions include Mexico, Greece, Malaysia, and Thailand. Olya Borichevska, from Global Economic Research at J.P. Morgan, further noted:

"The February global manufacturing PMI shows the economy continuing to show resilience against the second wave, as current output and new orders ticked higher on the month. In addition to positive news on current work flow, business confidence employment improved. The rise in the future output PMI left the index at a high since mid-2014. To be sure, we continue watching manufacturing dynamics as supply chain disruptions and rising cost pressures may constrain growth in the months ahead."

In the Eurozone, the February PMI rose sharply to a three-year high of 57.9, up from 54.8. Notably higher New Orders and Production (Output) indexes were the catalysts for most of the gain. With the easing of COVID-19 restrictions, New Export Orders have also improved, although further progress is impeded by continued disruptions in the world's supply chains. The Netherlands recorded a 28-month PMI high of 59.6, but the star performer remains Germany, which posted a 37-month PMI high of 60.7. Chris Williamson from Markit.com further commented:

"Manufacturing is appearing as an increasingly bright spot in the Eurozone's economy so far this year. The PMI has reached a three-year high to run at a level that has rarely been exceeded in more than two-decades of survey history –notably during the dot-com bubble, the initial rebound from the global financial crisis and in 2017-18. Producers are benefitting from resurgent demand for goods in both domestic and export markets, linked to post-COVID recovery hopes driving renewed stock building and investment in business equipment and machinery, as well as improved consumption. The solid manufacturing expansion is clearly helping to offset ongoing virus-related weakness in many consumer-facing sectors, alleviating the impact of recent lockdown measures in many countries and helping to limit the overall pace of economic contraction. The growth spurt has brought its own problems, however, with demand for inputs not yet being met by supply. Shipping delays and shortages of materials are being widely reported, and led to near-record supply chain delays. Prices paid for inputs are consequently rising at the fastest rate for nearly a decade, hinting at further increases in consumer price inflation in coming months, at least until supply and demand come back into balance."

Automotive. Several factors are currently weighing on automobile sales. First, fleet sales are down, largely because business travel as a whole is down. Second, serious parts shortages continue to inhibit production, especially for some top-selling models. Shortages of some computer chips are resulting in reduced production schedules for some firms. Third, although February is usually a slow month for auto sales because of winter weather, this month turned out to be slower than expected. Severe weather disruption, especially in Texas and parts of the Northeast, have kept sales down. The SAAR (Seasonally Adjusted Annual Rate) for February fell to a range of about 15.5 to 16.3 million units, about 3.8 percent lower than last February. However, the industry seems to be taking the slightly weaker sales in stride, and expectations are high for coming months. Of the firms still reporting monthly numbers, Volvo was the only winner, with sales up 23.7 percent. Losers included Ford, down 14.6 percent, Hyundai-Kia, down 0.7 percent, Mazda down 1.4 percent, Toyota, down 3.0 percent, and Subaru, edging down 3.3 percent. On a more optimistic note, Thomas King, president of the data and analytics division at J.D. Power, further commented:

"While the ongoing strength of the sales rate is impressive, the transaction prices and profitability of those sales is nothing short of remarkable. The combination of strong retail sales, higher transaction prices and smaller discounts means that February 2021 likely will be one of the most profitable Februarys ever for both retailers and manufacturers."

West Michigan Unemployment. For February, the West Michigan Index of EMPLOYMENT came in at +31, up nicely from last month's +20. Most manufacturing facilities have now fully reopened, although sanitation and social distancing measures are still in place. As vaccine shots become more widely available, some controversy is emerging about the ability of employers to mandate vaccinations as a condition for continued employment in certain job classifications. Many industrial employers continue to report problems filling job openings. Even for entry-level jobs at $19 per hour, at least one employer reported that openings can't be filled. Furthermore, some survey respondents note that their suppliers are facing similar hiring problems.

Industrial Inflation. As our industrial LEAD TIMES index continue to expand, the time-honored laws of supply and demand have pushed our Index of PRICES to a record level of +78, up sharply from +59. With few exceptions, almost all industrial commodities are higher in price, especially the big-ticket items like plastic resins, steel, copper, aluminum, and coregulated containers. The U.S, customs backlog at most major ports also continues to limit supply. The ISM national index of PRICES jumped to +72 from +64, a 13-year high. The J.P. Morgan world index of PRICES continued upward to 64.9 from 62.4. Timothy Fiore, ISM's survey committee chair, further commented:

"This is the index's highest reading since July 2008, when it registered 90.0 percent. Aluminum, copper, chemicals, all varieties of steel, soy, petroleum-based products including plastics, transportation costs, electrical and electronic components, corrugate, and wood and lumber products all continued to record price increases."

GDP. On January 28, the U.S. Bureau of Economic Analysis reported a small increase in the estimate in the 2020 fourth quarter GDP growth to 4.1 percent from 4.0 percent. However, this minor revision did not change the BEA's average GDP drop of -3.5 percent for all four quarters of 2020. Unlike previous months, estimates going forward are still somewhat erratic. The Atlanta Fed's "GDPNow" 2021 first quarter rolling estimate on February 8 projects an increase of 4.5 percent, and the Federal Reserve Bank of Philadelphia estimate is now at 3.2 percent for the first quarter. The February 26 New York Fed's "Nowcast" estimate of first quarter growth has edged up to 8.7 percent, up from an estimate of 2.6 percent just four weeks ago. As of February 10, the Conference Board's estimated growth for the first quarter is 4.4 percent, up from January's 2.2 percent estimate. For the same time period, the Wall Street Journal floating surveys of approximately 60 economists has now risen to 2.8 percent from 2.2 percent. After reading all of these estimates, it is obvious that the forecasters have become considerably more optimistic over the past month. The apparent success of the vaccine distribution, the addition of a third vaccine, the declining hospitalization and death rates, and the numerous positive economic reports are painting a more optimistic economic picture going forward. However, almost all forecasters are quick to point out that this crisis is still far from over.

Business and Consumer Confidence. According to their February 23 press release, the Conference Board Consumer Confidence Index improved by 2.4 points. The Index now stands at 91.3, (1985=100), up from last month's report of 88.9. Optimism about the rollout of the COVID-19 vaccines was cited as a factor in the uptick. By sharp contrast, the University of Michigan January Consumer Sentiment Index came in at six-month low of 76.2, down from last month's 79.0. The deterioration of personal income and the fear of rising inflation (3.3 percent) were reasons noted for the decline. The actual number is probably somewhere in between. The National Federation of Independent Businesses' Small Business Optimism Index declined 0.9 in the most recent report to 95.0, slightly below the 47-year average of 98. Chief Economist Bill Dunkelberg commented, "As Congress debates another stimulus package, small employers welcome any additional relief that will provide a powerful fiscal boost as their expectations for the future are uncertain. The COVID-19 pandemic continues to dictate how small businesses operate and owners are worried about future business conditions and sales." For our local industrial survey, the SHORT-TERM BUSINESS OUTLOOK Index for February, which asks local firms about the business perception for the next three to six months, edged slightly higher to +31 from +27. The LONG-TERM BUSINESS OUTLOOK Index, which queries the perception for the next three to five years, also inched higher to +38 from +36.

Summary. Most, but not all, industrial firms have returned to near-full operations, although an inordinate number of challenges remain. Although the automotive parts suppliers represent many of the recovered jobs, parts shortages are inhibiting auto assembly schedules. Beyond automotive, most other industries are beginning to show signs of stabilizing. Shortages for many industrial commodities abound. Shipping schedules, especially from overseas suppliers, are still disrupted. Prices are rising, and recovering these higher costs from customers is difficult. Because of liberal unemployment benefits, some firms are reporting difficulty getting previous employees back to work, even by offering higher wages. Because of domestic disruptions brought on by the pandemic, at least some workers are starting to return to the labor force as schools begin to slowly reopen. It is worth repeating that the markets are still buoyed by pent-up demand, which should keep our statistics positive for most of 2021. Like many recessions, many jobs were lost. Unlike other recessions, at least some new jobs were also created. It will take some time to sort out exactly where we stand.

FEBRUARY COMMENTS FROM SURVEY PARTICIPANTS

"With labor in short supply, we have resorted to wage increases to match the competition. We have major concerns about extending benefits by the federal government to workers impacted by COVID. Many can work but are choosing not to."

"International freight challenges continue. Recent weather systems in Texas have disrupted many refineries and presented significant freight delays."

"January was a pretty good month, the best of the previous three. February is horrible."

"Many suppliers are implementing price increases due to rising raw material prices and cost of shipping as well."

"Local manufacturing labor is extremely tight. We cannot attract people to do manufacturing, warehouse or customer service work."

"We are really being hit hard with supply disruptions. Between suppliers not being able to find labor, and the ports on the west coast stacking up, things have been very interesting. Hopefully the government will stop making staying home so lucrative."

"These next few months are going to be trying with what is going on in the industry right now."

"We continue to work with extended lead times from the steel mills. Orders are strong, but some items are being impacted by automotive OEM's supply of computer chips."

"This deep freeze is driving demand for our products as the refineries and chemical plants come back on line with freeze damage to equipment. We will be well over forecast this month and next."

"We continue to struggle with labor shortage."

"Steel availability and pricing are hurting us."

"The Covid crisis combined with the weather are creating a bizarre supply chain situation that we are dealing with. We have many raw material shortages and increased pricing."

"We continue to see costs rising on almost all elements of purchasing, shipping, receiving, and building of products."

"Sales are softening some, but we are still doing fairly well."

"Quoting activity is strong, and PO's are starting to shake lose."

"Business still very slow. To make matters worse, prices and lead times up."

"We're steady so far in 2021."

"Business is robust."

February Survey Statistics

	UP	SAME	DOWN	N/A	Feb. Index	Jan. Index	Dec. Index	25 Year Average
Sales (New Orders)	53%	27%	20%	0%	+33	+57	+31	+14
Production	38%	45%	10%	7%	+28	+52	+33	+14
Employment	38%	55%	7%	0%	+31	+20	+11	+ 8
Purchases	40%	43%	17%	0%	+23	+32	+26	+ 7
Prices Paid (major commod.)	78%	22%	0%	0%	+78	+59	+43	+15
Lead Times (from suppliers)	80%	20%	0%	0%	+80	+68	+64	+11
Purchased Materials Inv. (Raw materials & supplies)	35%	35%	22%	8%	+13	+34	+34	- 4
Finished Goods Inventory	8%	52%	35%	5%	+27	+ 4	- 3	- 8
Short Term Business Outlook (Next 3-6 months)	43%	45%	12%	0%	+31	+27	+19	-
Long Term Business Outlook (Next 3-5 years)	43%	45%	7%	5%	+38	+36	+23	-

Items in short supply: Component parts for assemblies, raw material, China components, polypropylene, beverage cans, microchips, ABS, POM, PC/ABS, shipping containers, transportation, steel, steel coil, steel pipe, overseas freight capacity, casting/forging capacity, insulation, isocyanate, PCB components, corrugate, many electronic components, some electric motors, semiconductor devices, hardware, disinfectant aerosols, industrial labor, resin, rubber, aluminum, freight space, anything and everything in relation to almost any commodity.

Prices on the UP side: Dollars paid to labor, all commodities, paper, chipboard, corrugated containers, steel, steel scrap, electric motors, glycol, all plastic resins, diesel fuel, metal-based commodities, steel, freight, metal surcharges, copper, plating and plating services, powder paint.

Prices on the DOWN side: Gold (one respondent). Otherwise, nothing.

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

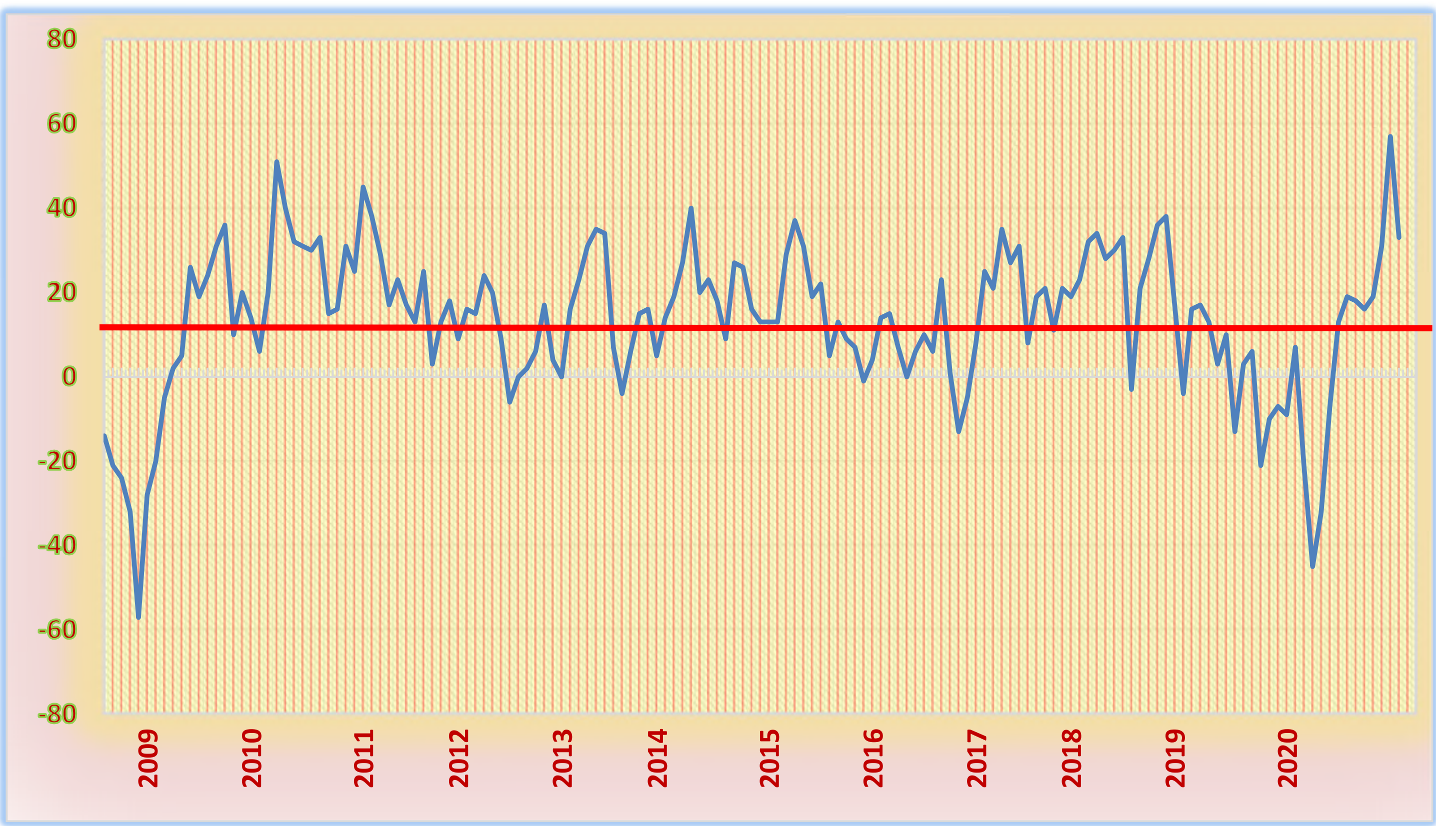
As the name implies, this index measures new business coming into the firm, and signifies business improvement or business decline. When this index is positive for an extended period of time, it implies that the firm or organization will soon need to purchase more raw materials and services, hire more 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	+ 33 for the month of February 2020
Previous Month	+57 for the month of November 2020
One Year Ago	+ 9 for the month of February 2019
Record Low	- 57 for the month of December 2008
Record High	+ 57 for the month of January 2021

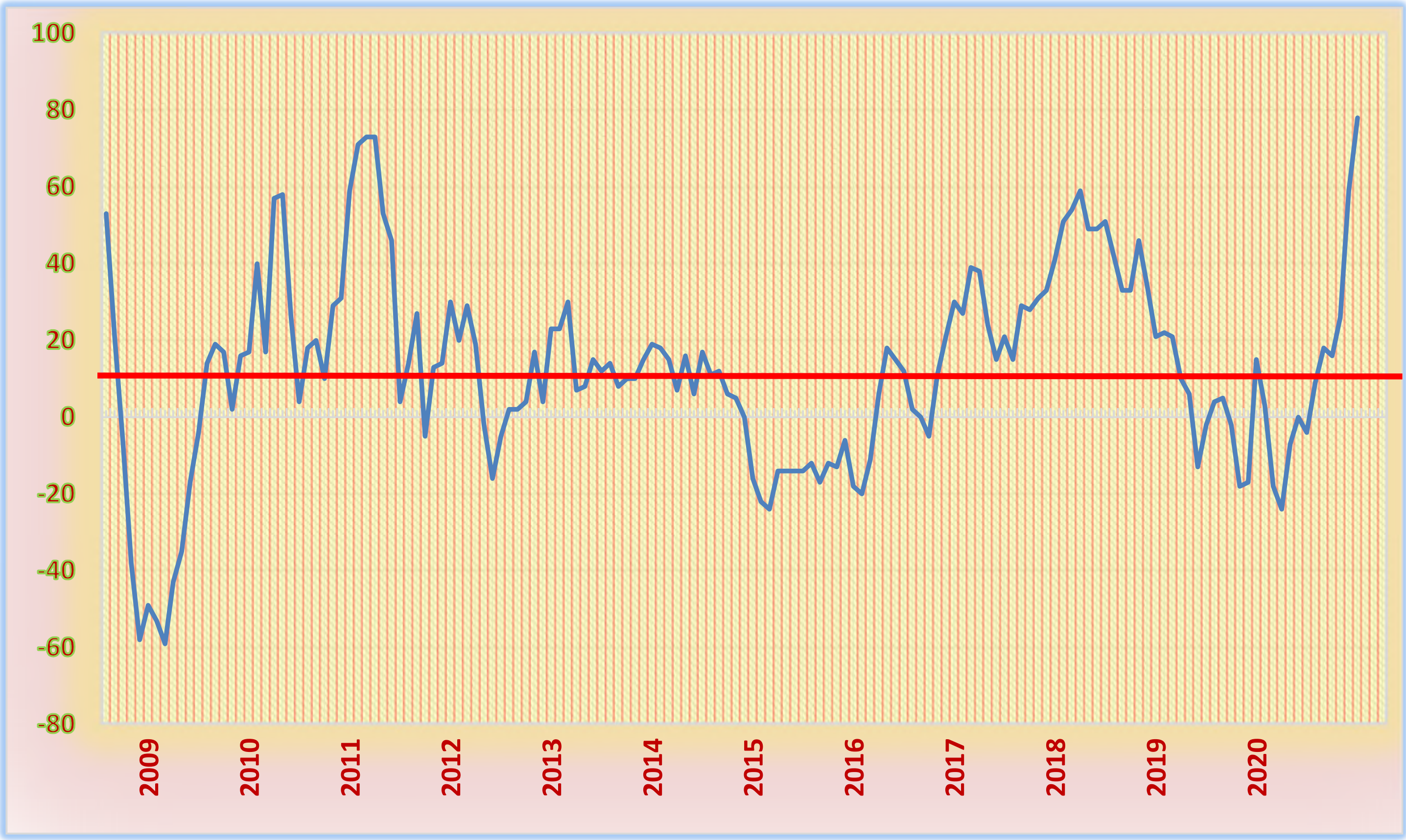
Great Recession
First Recovery + 3 in April 2009

COVID-19 Recession
First Recovery +12 in July 2020

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

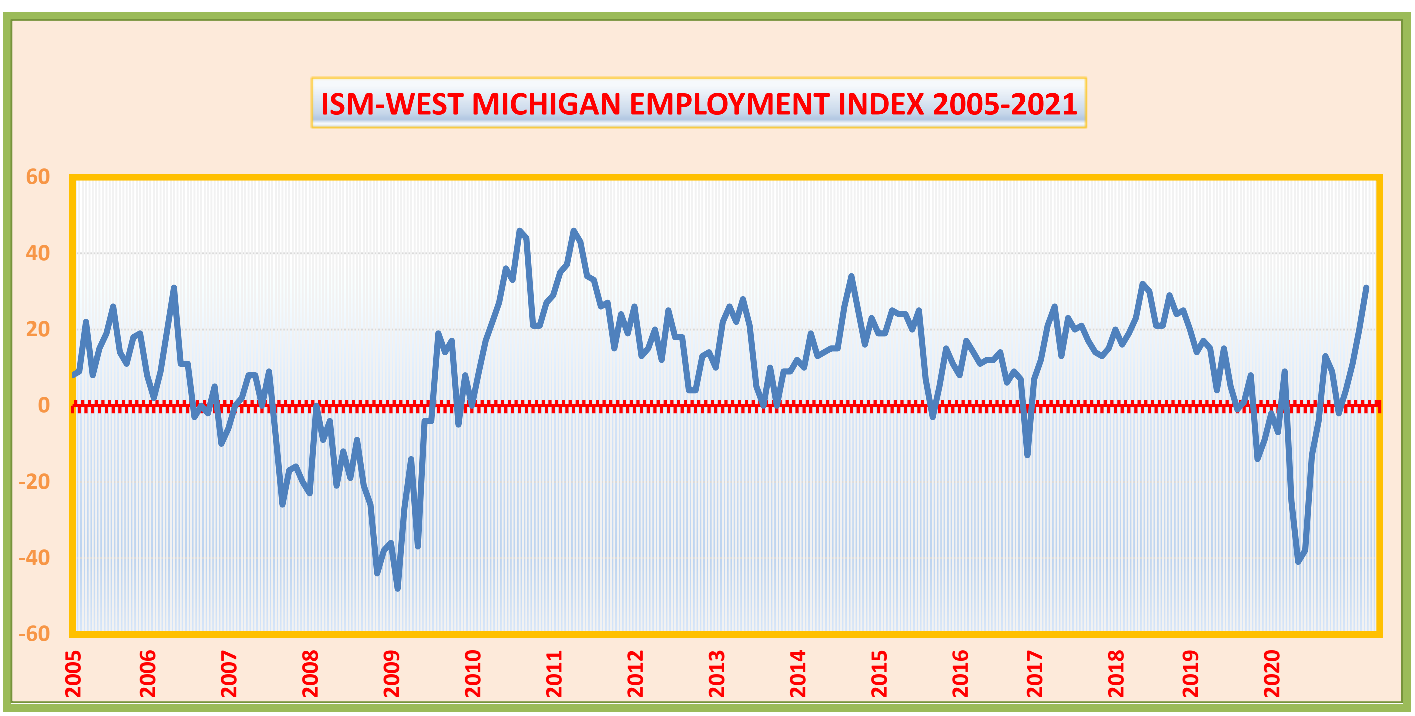


ISM-West Michigan Index of PRICES: 2008-2021



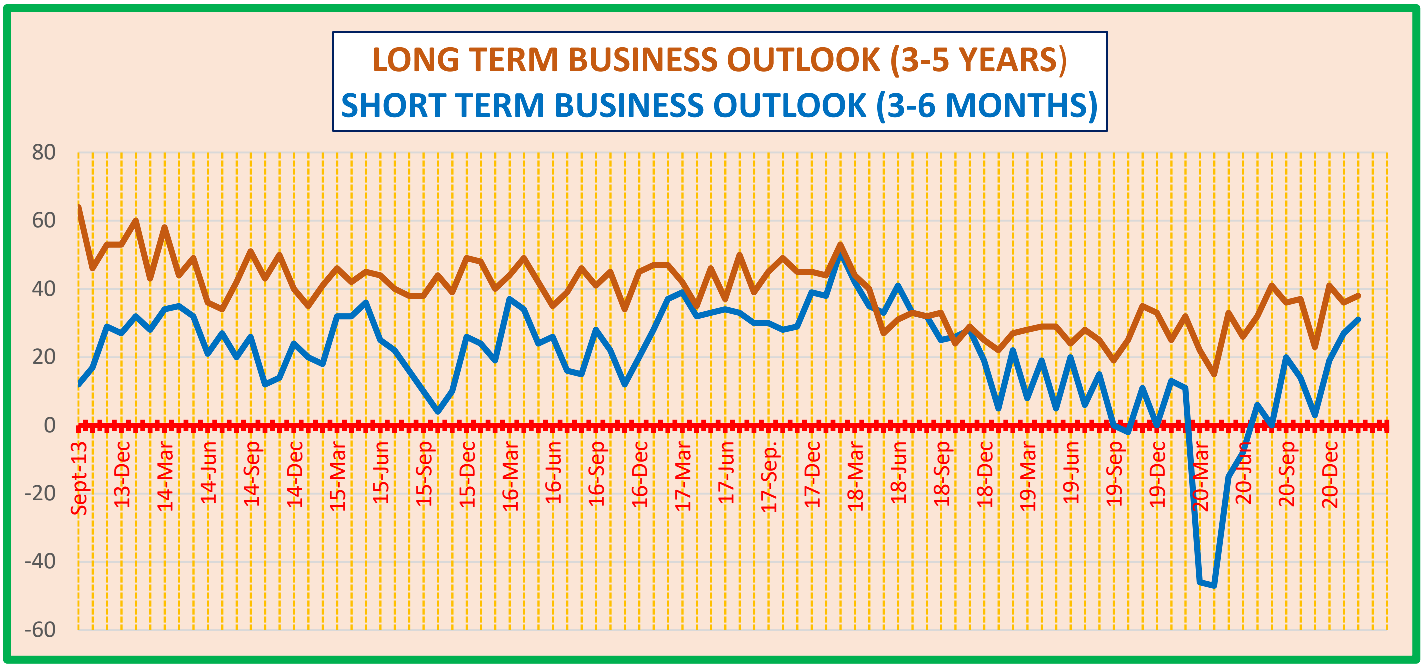
ISM-WEST MICHIGAN INDEX OF EMPLOYMENT

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 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.



.