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Current Business Trends

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THE RECOVERY STRENGTHENS

Key Participant Comments for March:

"We continue to struggle getting enough people to meet our customer order demand. "

"Most imported goods are either in short supply or lead times have increased. Much of this is driven by shipping container shortages and port congestion in both China and the U.S."

"The rise in steel costs and availability are limiting our profit margins."

"Demand is very strong, but raw material and labor shortages are limiting ability to increase production. We're seeing pricing and cost increases in nearly every area. "

"International freight delays are requiring expensive air shipments to offset port & supplier lead time delays."

An old adage declares that a rising tide floats all boats. As the world economy continues to recover from the COVID-19 recession, the West Michigan economy has joined the parade, according to the data collected in the last two weeks of March. NEW ORDERS, our index of business improvement, rose to +51, up from February's +33. In a more modest move, the PRODUCTION index, which is termed "output" by many economists, edged up to +33 from +28. Because of the ongoing disruptions in the supply chains, and activity in the purchasing offices, our index of PURCHASES jumped sharply to +51 from +23. Much of the industrial market continues the experience spot shortages of a wide range of industrial commodities with no immediate end in sight. This month's index of LEAD TIMES rose to a record of +83, which has, in turn, pushed the index of PRICES to record levels. The continued success of the vaccine roll-out has resulted in a new wave of optimism, even though this pandemic by any measure is still far from over.

The U.S. Economy. On April 1, the Institute for Supply Management, our parent organization, posted an unusually strong report. ISM's index of NEW ORDERS rose to +40 from +36, a 17-year high. ISM's PRODUCTION (a.k.a., Output) index, which is driven by previous increases NEW ORDERS, rose to +35, up nicely from February's +25. Based on a model of statistical adjustments, ISM's composite index rose to a 38-year high of 64.7, up from 60.8. The index has steadily improved since the COVID-19 recovery began with the June 2020 report and shows no sign of slowing at this time.

A slightly different view of the U.S. economy comes from the 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 the PMI (Purchasing Manager's Index) for January at 59.2, Markit.com's seasonally adjusted February PMI posted at 58.6, but returned to 59.1 for March. In short, the PMI growth rate of the first three months of 2021 remains stable at a near-record level. Chris Williamson, Chief Business Economist at IHS Markit, further commented:

"March saw manufacturers struggle to cope with surging inflows of new orders. Although output continued to rise at a solid pace, capacity is being severely strained by the combination of soaring demand and supply chain disruptions. Supply chain delays and backlogs of uncompleted orders are growing at rates unprecedented in the survey's 14-year history, meaning inventories of finished goods are falling at a steep rate. Pricing power has risen accordingly as demand outstrips supply. Raw material prices are increasing at the sharpest rate for a decade and factory gate selling prices have risen to a degree not seen since at least 2007. The fastest rates of increase for both new orders and prices was reported among producers of consumer goods, as the arrival of stimulus cheques in the post added fuel to a marked upswing in demand as the economy continued to pull out of the malaise caused by the pandemic. With business expectations becoming even more optimistic in March, further strong production growth looks likely in the second quarter, but the big question will be whether rising price pressures also become more entrenched."

The World Economy. According to the monthly report posted on April 1 by J.P. Morgan, the March PMI for the worldwide manufacturing economy rose to a 10-year high, despite the ongoing COVID-19 disruptions in the supply chain and the unexpected blockage in the Suez Canal. JPM's aggregate of 44 manufacturing nations edged up to 55.0 from February's 53.9. The Global Production (Output) index edged up to 55.1 from 54.2. The PMI for Canada, our largest trading partner, came in at 58.5, a survey-record high. However, the March PMI for Mexico, our second largest trading partner, posted at 58.5, and remains modestly below the all-important break-even point of 50.0. Most of the major economies of the world are now posting positive PMIs. Three notable exceptions include Mexico, Malaysia, and Thailand. Olya Borichevska, from Global Economic Research at J.P. Morgan, further noted:

"The performance of the global manufacturing sector continued to strengthen in March consistent with the idea that global activity is rebounding as vaccinations become more available. In the latest PMI surveys, both the output and new orders PMIs increased by a solid amount. The new orders to finished goods inventory ratio at 1.2 stood out as it marked a high since 2010 suggesting strength in the manufacturing sector near-term. However, the high ratio also likely reflects bottlenecks and supply-chain disruption which are feeding into pricing. Both the input and output prices PMIs increased again in March with the output prices PMI marking a record high in the series that dates back to 2009."

In the Eurozone, March rose to a record high of 62.4, up from what had been a three-year high of 57.9 in February. The index components of New Orders, Production (Output), New Exports, and Purchasing Activity all set records. The PMIs for all major counties in the Eurozone are now positive, even Spain and Greece. The PMIs for The Netherlands and Germany both set new records. Chris Williamson, Chief Business Economist at IHS Markit said:

> "Eurozone manufacturing is booming, with production and order books growing at rates unprecedented in nearly 24 years of PMI survey history during March. Although centred on Germany, which saw a particularly strong record expansion during the month, the improving trend is broad based across the region as factories benefit from rising domestic demand and resurgent export growth. Driving the upturn has been a marked improvement in business confidence in recent months, with expectations of growth in the year ahead running at record highs in February and March. This has not only boosted spending but has also led to rising investment and restocking, as firms prepare for even stronger demand following the vaccine roll-out. The picture is blighted, however, by record supply chain disruptions, which will likely be exacerbated further by delays arising from the Suez Canal blockage. Prices are already rising at the fastest rate for a decade as demand outstrips supply, resulting in a sellers' market for many goods. While the forces driving prices higher appear to be temporary, linked to the initial rebound from COVID-19 lockdowns, any further upward pressure on firms' costs and selling prices is unwelcome. Encouragingly, the recent expansion of output means production in the eurozone is likely to have surpassed its pre-COVID peak, and hiring has already accelerated markedly as producers seek to build additional capacity to meet higher demand."

Automotive. Even though parts shortages continue to inhibit production, auto sales report by Automotive News for the first quarter of 2021 greatly exceeded expectations. The SAAR (Seasonally Adjusted Annual Rate) for March posted at 16.5 million units, almost double the low point of 8.7 million units in April 2020. According to the sales figures for 2021's first quarter, much of the industry's growth came from Hyundai-Kia, up 22.8 percent, Toyota rising 21.6 percent, Honda gaining 16.2 percent, and Nissan adding 10.8 percent. Sales growth for the Detroit three was much more modest. Year-over-year sales at Stellantis (formerly Fiat-Chrysler) rose 5.1 percent, followed by a 3.7 percent gain at GM and a scant 0.6 percent uptick from Ford. Some additional insight comes from Randy Parker, senior vice president for national sales at Hyundai Motor America:

> "Our fleet partners are looking for additional production. What that tells me is that the economy is rebounding, people are traveling again. A few months ago, the rental car companies saw an uptick in their urban rental business, but airport business was still depressed. Now their airport rental business is starting to pick up and they're looking for cars. We're going to support them as best as we can. Inventory is tight. We're not immune to the semiconductor shortage. We've got relationships with the fleet companies and we've got model year 2021 contracts that we still have to honor. But now, they are looking toward the future with model year 2022, so we're going to continue to work with our partners as best as we can. This semiconductor shortage is not going to be out there forever, hopefully."

West Michigan Unemployment. The national media has recently reported that the "headline" rate of U.S. unemployment fell to 6.0 percent in March, down from 6.3 percent in February. In West Michigan, the March index of EMPLOYMENT came in at +40, a ten-year high. In short, the industrial economy market remains on a roll, and the problem of finding enough people to fill the vacant positions remains a major concern for West Michigan as well as the rest of the U.S. industrial economy. In the most recent unemployment report from Lansing, we find the jobless rates for most of our local reporting units to be rising, although this situation appears to be temporary. The major segments of COVID-19 unemployment in West Michigan remain in the entertainment and hospitality industries, not the industrial firms. However, with the current high levels of consumer liquidity and bottled-up desire to resume travel, the summer could be very good for West Michigan's resorts if they are able to open up safely.

Industrial Inflation. Our index of industrial LEAD TIMES index continues to set new records, so it was not a surprise to see the index rise to +83 from the previous record of +80. The tight supply has also resulted in our index of PRICES setting a new record at +85, up from +78. Most of our major big-ticket items like plastic resins, steel, copper, aluminum, and corrugated containers are rapidly rising in price, and the ability of many firms to pass the costs along has been limited. Digging into the causes for the continued disruption in the supply chains, we find that the transportation firms face the same labor shortages as our industrial firms. The U.S. customs backlog at most major ports also continues to limit timely delivery, and there is considerable criticism that our government has done little or nothing to alleviate the bottlenecks. The ISM national index of PRICES remained unchanged at a 13-year high of +72. The J.P. Morgan world index of PRICES jumped to 68.2 from 65.1, a ten-year high. Timothy Fiore, ISM's survey committee chair, further commented:

> "Aluminum, copper, chemicals, all varieties of steel, plastics, transportation costs, wood and lumber products all continued to record price increases as a result of product scarcity."

GDP. According to the forecasts now being disseminated by many of the major financial forecasters, 2021 is on track to post some of the strongest economic growth statistics in recent history. According to the Federal Open Market Committee of the Federal Reserve, the GDP for all of 2021 is now expected to increase 6.5 percent and then "cool off" in later years. A recent 2021 forecast of 8 percent growth by Goldman Sachs is even more optimistic. However, both of these forecasts assume that (1) inflation remains relatively tame, (2) some level of COVID-19 "herd immunity" is reached by late summer, (3) there is no major resurgence of a mutant COVID-19, (4) the financial indexes remain positive, (5) and that the Federal Reserve maintains interest rates at or near the current level. Because much of this growth will be driven by trillions of dollars of government spending, many other economists are concerned about what the economy will look like when the proverbial punch bowl runs out. In addition, it is obvious that an 8 percent growth rate is not sustainable and that 2021 may be an economic bubble that will break in 2022 or early 2023.

Business and Consumer Confidence. The Conference Board's index of Consumer Confidence released on March 30 jumped to 109.7, a gain of nearly 19 points in only one month. Although any level above 100 indicates improving optimism by consumers, March's report represents a new post-pandemic high. The report greatly exceeded Wall Street's forecast of just 96 and seemed to shrug off the recent reports of rising COVID-19 cases throughout the nation. In confirmation, the University of Michigan January Consumer Sentiment index came in at twelve-month high of 84.9, up nicely from 76.2. Analysts attribute the surge in confidence to the apparent success of ongoing roll-out of the COVID-19 vaccines and their role in reopening the economy. However, the March 25 report released from the National Federation of Independent Businesses indicates that many small businesses, especially retail, continue to struggle. Thirteen percent of small business owners report that they will have to close their doors if current economic conditions do not improve over the next six months. Only 11 percent of owners report that conditions are now back to normal. For our local industrial survey, the SHORT-TERM BUSINESS OUTLOOK index for March, which asks local firms about the business perception for the next three to six months, rose nicely to +41 from +31. In a more modest move, the LONG-TERM BUSINESS OUTLOOK index, which queries the perception for the next three to five years, edged up to +40 from +38. Both of these indexes are now at or near three-year highs.

Summary. Although the 2021 economy is poised to grow at the fastest rate in over sixty years, questions about the 2022 and 2023 economies are beginning to emerge. So far, the current wave of industrial inflation has not spilled over to the consumer market, which has allowed to Federal Reserve to hold interest rates at near-record lows. Over the past forty years, consumer inflation has been partially held at bay by foreign competition, albeit at the expense of jobs leaving the county. However, with prices simultaneously rising all over the world, it is questionable if the same rule will continue to hold. Although economic stimulus packages have seldom been very effective in the past, the multi-trillion-dollar spending currently being unleashed is clearly boosting economic activity all over the world and will continue to do so for some time. When the money finally runs out, economic activity will decline. We just don't know by how much. Despite the unprecedented borrowing by the federal government, the U.S. dollar continues to hold its value in the world currency markets. About 61 percent of the world's currency reserves are still in dollars, largely because SO FAR there is no other major currency that does not have the same long-term problems as the dollar. However, if a new currency were to evolve that would be widely accepted by the rest of the world, the reign of the dollar could be over.

MARCH COMMENTS FROM SURVEY PARTICIPANTS

"The stimulus checks are having some unintended consequences. The money is being spent on Amazon purchases resulting in a spike in demand for corrugated boxes. This is impacting the companies that ship their products in cases with longer lead times, and higher prices that will eventually be passed on to consumers."

"Finished good costs are rising due to increasing transportation costs, specifically on intermodal container shipments."

"Most commodity prices have increased, as have diesel fuel and gasoline which translates into higher transportation costs. Construction materials have also risen in recent months, especially steel and lumber."

"We are seeing pricing increases for machine tools. Most of our competitors have increased prices already, and many others are discussing price increases over the next few months. Most machine tool builders have low inventories at this time."

"Most imported goods are either in short supply or lead times have increased. Much of this is driven by shipping container shortages and port congestion in both China and the U.S."

"A strong start would give us a good month, but activity is falling off as the end of the month gets near."

"These price increases are likely caused by recent Federal Government policy changes related to fossil fuels and international trade; they won't likely change for the better very soon. Also, we have been in a hiring mode for 8 months and it has been a challenge. The unemployment rates are reported to be falling. However, many workers have taken themselves out of the employment market because they continue to be able to collect extended unemployment benefits. As a result, these people are not included in the labor pool for the purpose of determining the unemployment rates. In general, labor is minimally available, is very competitive, and is coming at a higher cost."

"We are still doing OK."

"We're getting lonnnnnnng lead times from everyone due to high demand and rough transportation issues."

"We're 30% above forecast this month. No major new projects, but a lot of MRO from the deep freeze down south."

"Demand is very strong, but raw material and labor shortages are limiting ability to increase production. We're seeing pricing and cost increases in nearly every area."

"International freight delays are requiring expensive air shipments to offset port & supplier lead time delays."

"These are certainly unprecedented times, but our team is working hard to meet customer requirements."

"Labor, labor, labor. We're investing in automation and process improvements heavily."

"The industry is a hot mess right now! It seems it will be bad for a couple more months."

"Having felt the grip of the western port backup for months now, we are seeing this problem creep into more and more vendors as they wait for parts to arrive that have been delayed for months in overseas production and are now delayed by transportation issues."

"The rise in steel costs and availability are limiting our profit margins."

"We continue to be impacted by some of the slowdown in the auto industry. We are hopeful the supply side catches up to current demand."

"Activity continues to improve."

"We continue to struggle getting enough people to meet our customer order demand."

"We are seeing extreme pricing conditions, expensive/difficult to book shipping, and many currencies gaining strength against the U.S. dollar."

March Survey Statistics

	UP	SAME	DOWN	N/A	Mar. Index	Feb. Index	Jan. Index	25 Year Average
Sales (New Orders)	63%	25%	12%	0%	+51	+33	+57	+14
Production	50%	28%	17%	5%	+33	+28	+52	+14
Employment	40%	60%	0%	0%	+40	+31	+20	+ 8
Purchases	63%	35%	12%	0%	+51	+23	+32	+ 7
Prices Paid (major commod.)	85%	13%	0%	2%	+85	+78	+59	+15
Lead Times (from suppliers)	85%	13%	2%	0%	+83	+80	+68	+11
Purchased Materials Inv. (Raw materials & supplies)	45%	28%	22%	5%	+23	+13	+34	- 4
Finished Goods Inventory	25%	38%	30%	7%	- 5	+27	+ 4	- 8
Short Term Business Outlook (Next 3-6 months)	53%	35%	12%	0%	+41	+31	+27	-
Long Term Business Outlook (Next 3-5 years)	45%	43%	5%	7%	+40	+38	+36	-

Items in short supply: Corrugated cases and cartons, glue for corrugate, steel, stainless steel, gearmotors, small Marathon motors, some electrical components, microchips, semiconductor devices, cyclopentane, isocyanate, insulation, polysulfone materials, international freight capacity, chemicals, resins (especially polypropylene), China suppliers, wood, labor.

Prices on the UP side: Steel, scrap steel, steel wire rod, corrugated cases and cartons, electric motors, copper, fuel, all resins, polypropylene, outside processing, lumber, foam, adhesives, freight, ocean freight, freight containers (unbelievably high), copper, tin, ferromoly, aluminum, oil, semiconductor devices, logistics.

Prices on the DOWN side: Nothing reported.

Latest Unemployment Reports

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

	Jan. 2021	Jan. 2020	Aug. 2009	20 Year Low
State of Michigan (Jan.)	5.7%	3.7%	14.6%	3.2%
State of Michigan (Unadj.)	6.1%	4.2%	14.1%	2.9%
Kent County	5.7%	2.6%	11.9%	2.1%
Kalamazoo County	5.9%	3.0%	11.1%	2.1%
Calhoun County	7.7%	3.9%	12.8%	2.7%
Ottawa County	4.8%	2.5%	13.3%	1.8%
Barry County	4.2%	3.4%	10.9%	2.2%
Kalamazoo City	7.3%	3.7%	15.2%	3.2%
Portage City	5.4%	2.7%	8.7%	1.3%
Grand Rapids City	7.5%	3.5%	16.1%	3.0%
Kentwood City	5.4%	2.5%	10.7%	1.4%
Plainfield Twp.	4.3%	2.0%	8.0%	1.4%
U.S. Official Rate (Jan.)	6.3%	3.5%	9.6%	3.5%
U.S. Rate (Unadjusted)	6.8%	4.0%	9.6%	3.4%
U.S. U-6 Rate (Feb.)**	11.1%	7.0%	16.7%	8.0%

**U-6 for Michigan = 15.3% for all of 2020

Index of New Orders: West Michigan

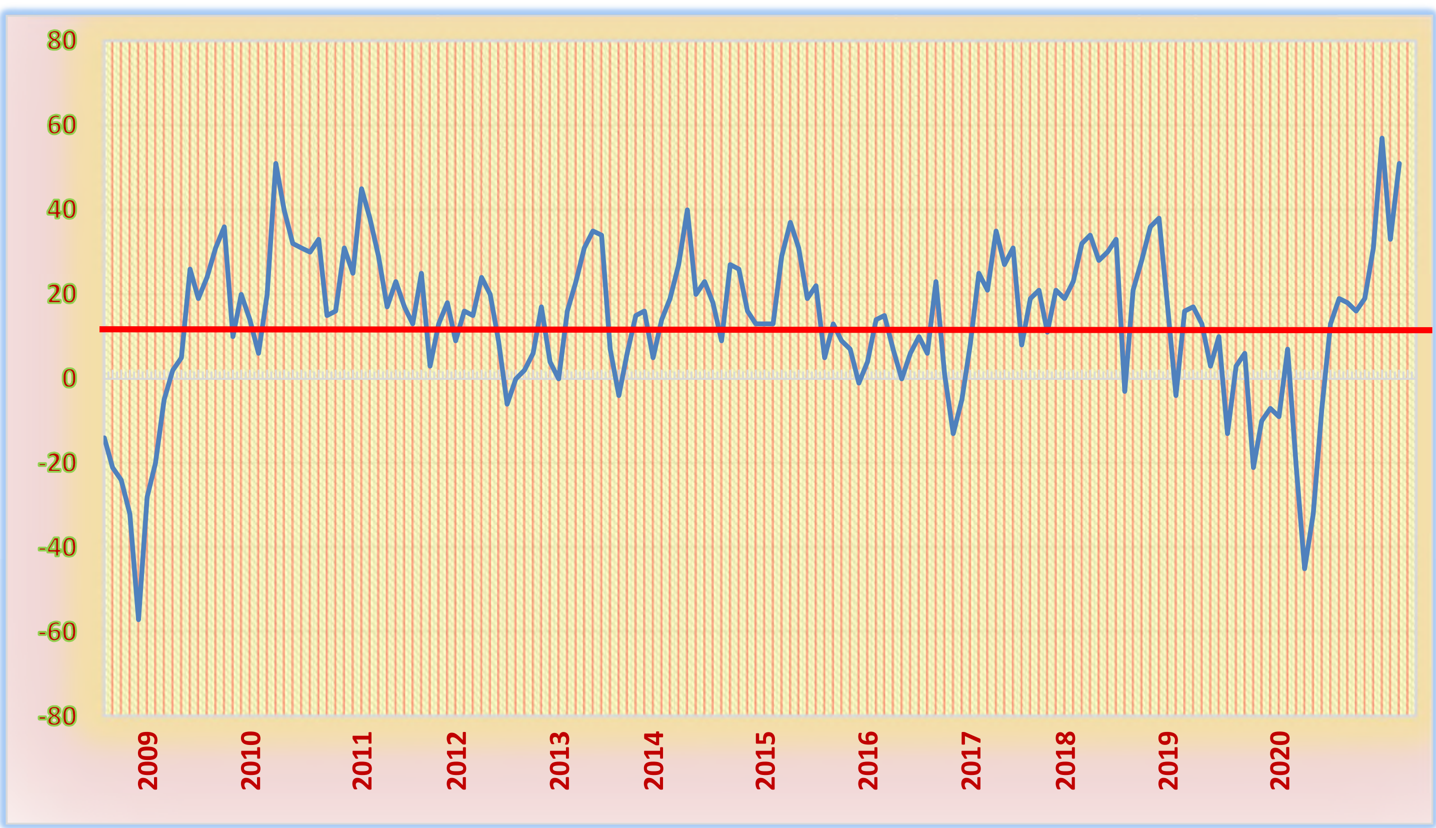
As the name implies, this index measures new business coming into the firm, and signifies business improvement or business decline. When this index is positive for an extended period of time, it implies that the firm or organization will soon need to purchase more raw materials and services, hire more 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	+51 for the month of March 2021
Previous Month	+33 for the month of February 2021
One Year Ago	-21 for the month of March 2019
Record Low	- 57 for the month of December 2008
Record High	+ 57 for the month of January 2021

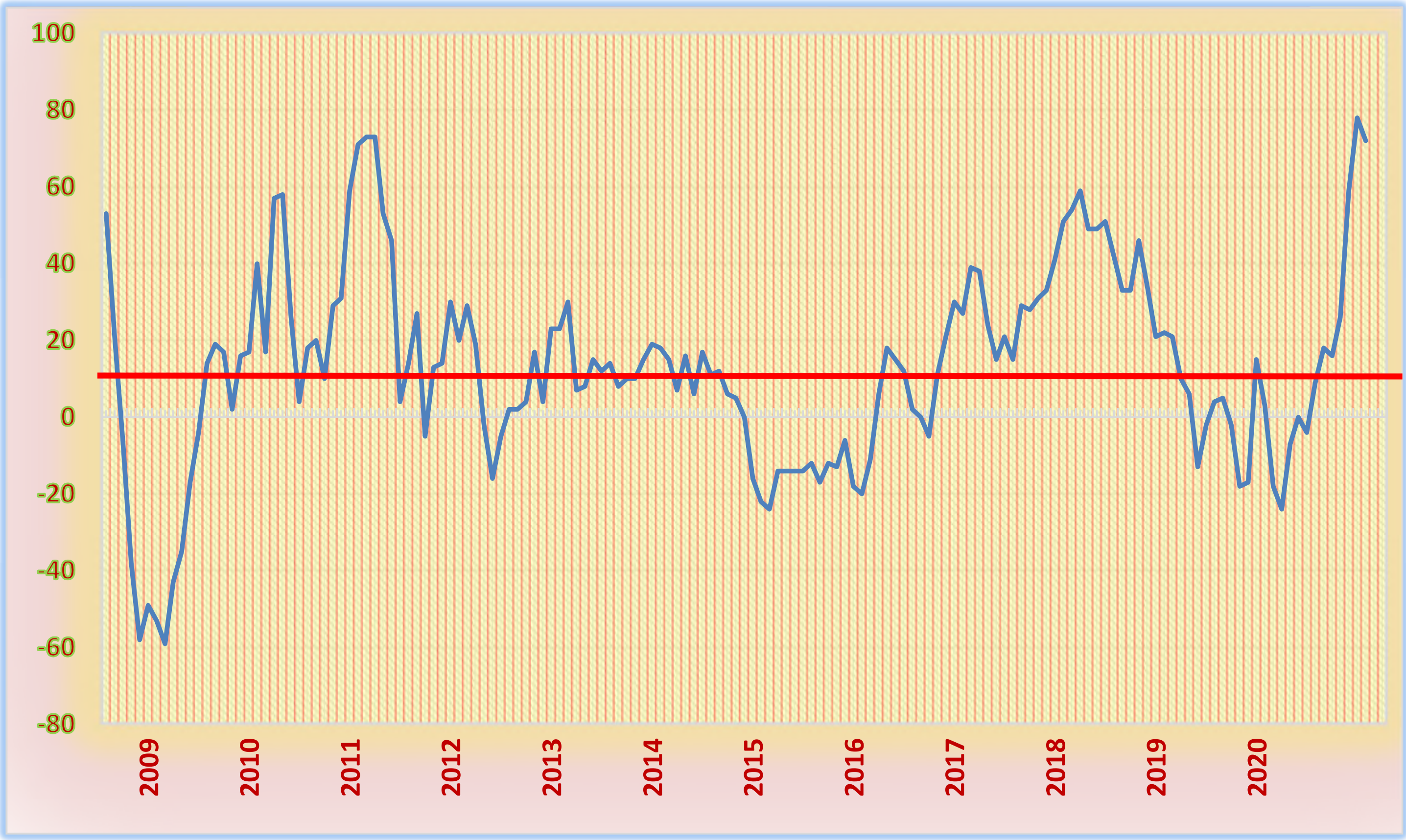
Great Recession
First Recovery + 3 in April 2009

COVID-19 Recession
First Recovery +12 in July 2020

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

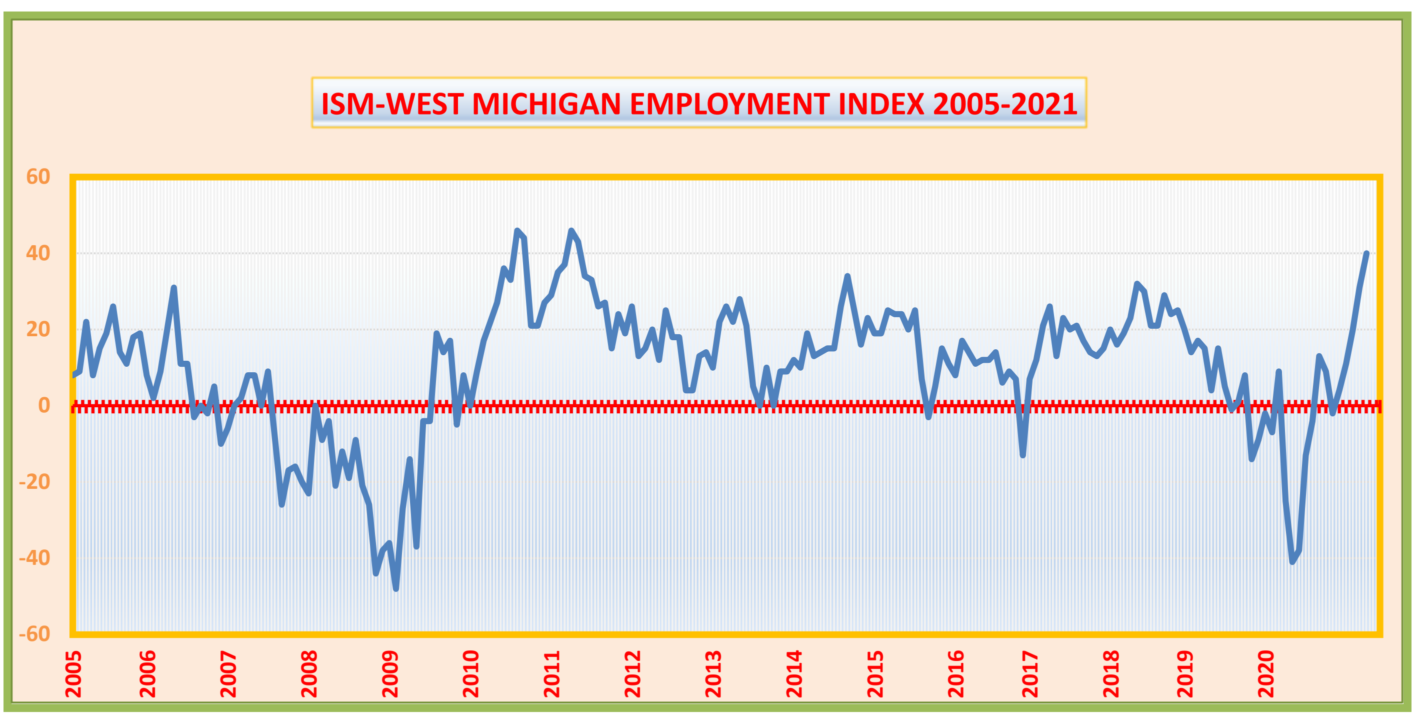


ISM-West Michigan Index of PRICES: 2008-2021



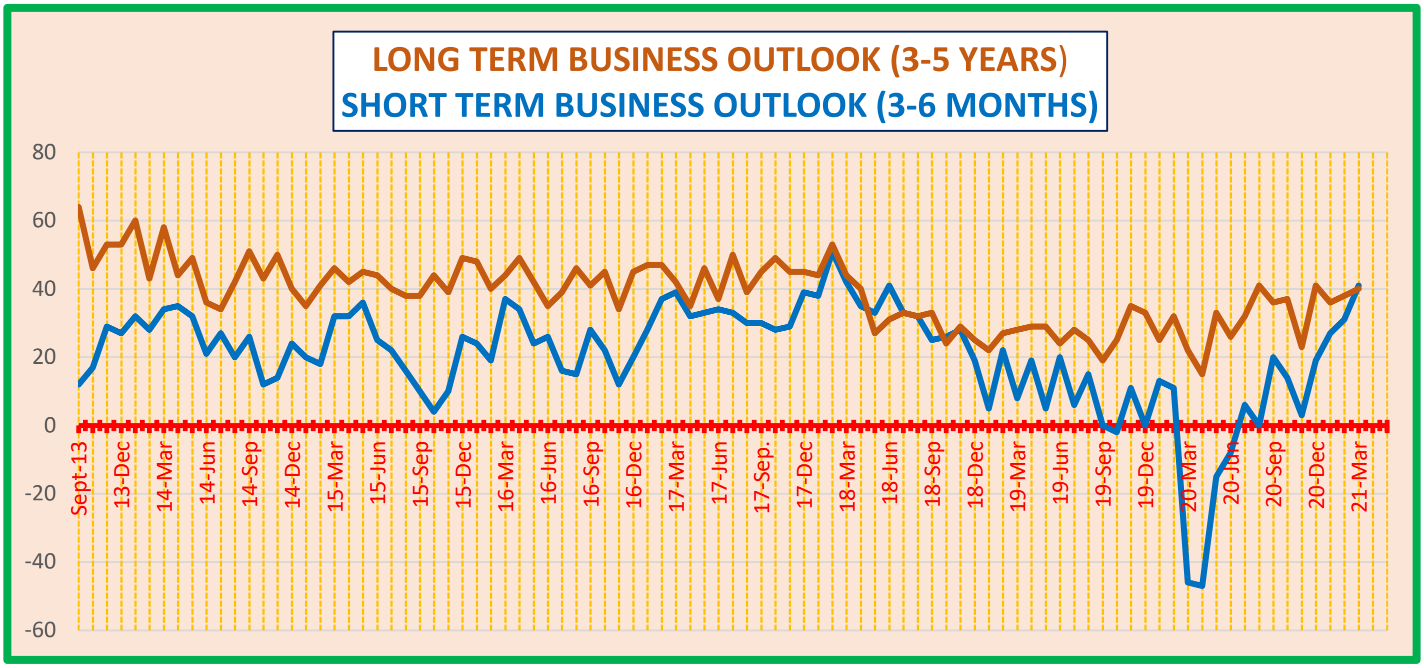
ISM-WEST MICHIGAN INDEX OF EMPLOYMENT

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.



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