

WE ARE KMS

**Q122 ECONOMIC PREDICTIONS FOR
MANUFACTURERS WEBINAR**



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WEBINAR HOUSEKEEPING

- Everyone attending the webinar is muted. To ask a question, type your question in the Q/A text box on your GoToWebinar panel.
- We will ask as many questions as we can at the end of the presentation.
- This webinar is being recorded. The link to the recording will be included in a follow-up email being distributed tomorrow.
- Please check our website www.wearekms.com frequently for new webinars and events. (or register to receive our quarterly KMS newsletter)

WE ARE **KMS**

KMS exists to help Kansas manufacturers compete.

From trusted advisor to vocal advocate for manufacturing in Kansas, we are working to help you be successful by providing value proven solutions to increase your competitiveness in the domestic and global markets.

Armada

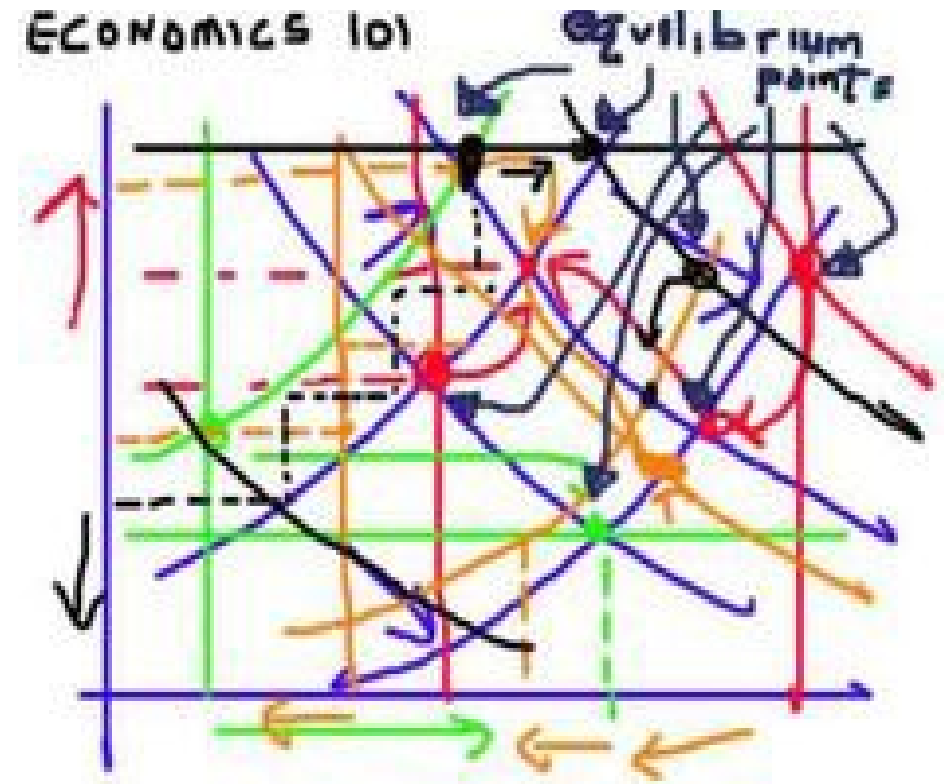


Dr. Chris Kuehl
Managing Director of Armada
Corporate Intelligence



Economic Update: How is 2022 Going So Far?

Presentation for – Kansas Manufacturing Solutions
February 15, 2022

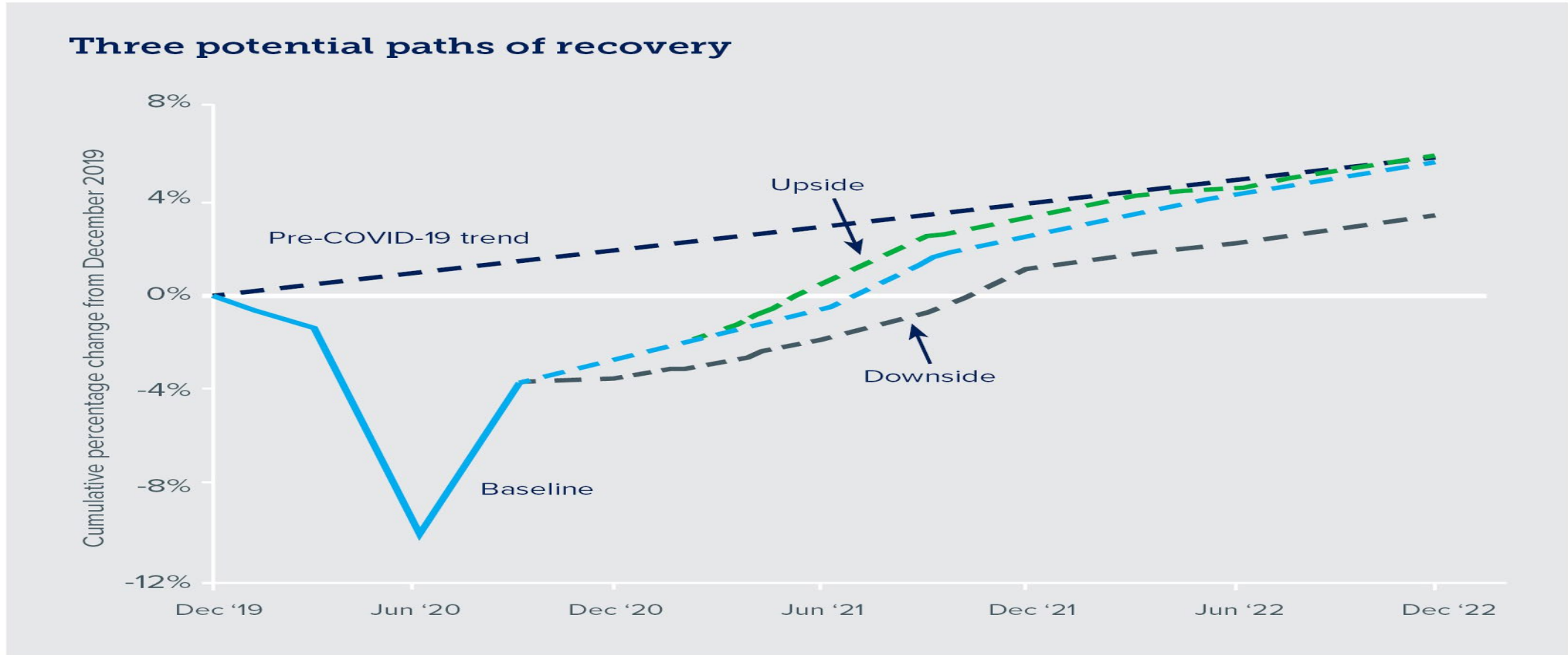


The Slide I Still Hope You Forget

- **The Bold Predictions for 2022**

- GDP growth for 2022 between 3.5% and 4.0% next year but starting slow. (*revised downward from 4.0% to 4.5%*)
- Inflation at core rate will be around 3.0% by year's end and real rate will be closer to 5.0%. (*revised to maybe 4.0% core and 6.0% real*)
- Interest rates will start to rise by mid 2022 – reaching between .75% and 1.5% by end of the year. Depends on how aggressive Fed wants to be – talking about three hikes so far.
- Mortgage rates will rise – likely between 3.8% and 4.1%. Car loan rates between 4.5% and 3.8% on average – not much change from 2021 (*expect these to be a bit higher*)
- Unemployment numbers will vary – U-3 at around 4.0% (3.7%) but U-6 closer to 9.0%. Quit rate will stay high and the level of workforce participation will stay around 61%. Latest unemployment numbers near 2019 record of 3.7% (now at 3.9%)
- Trade deficit will worsen as consumers get more aggressive but exports will still be rising. Largest deficit in twenty years as consumers surged in the last holiday season and will keep spending.
- By year's end the pandemic will be seen more as an endemic – seasonal threat like the flu.

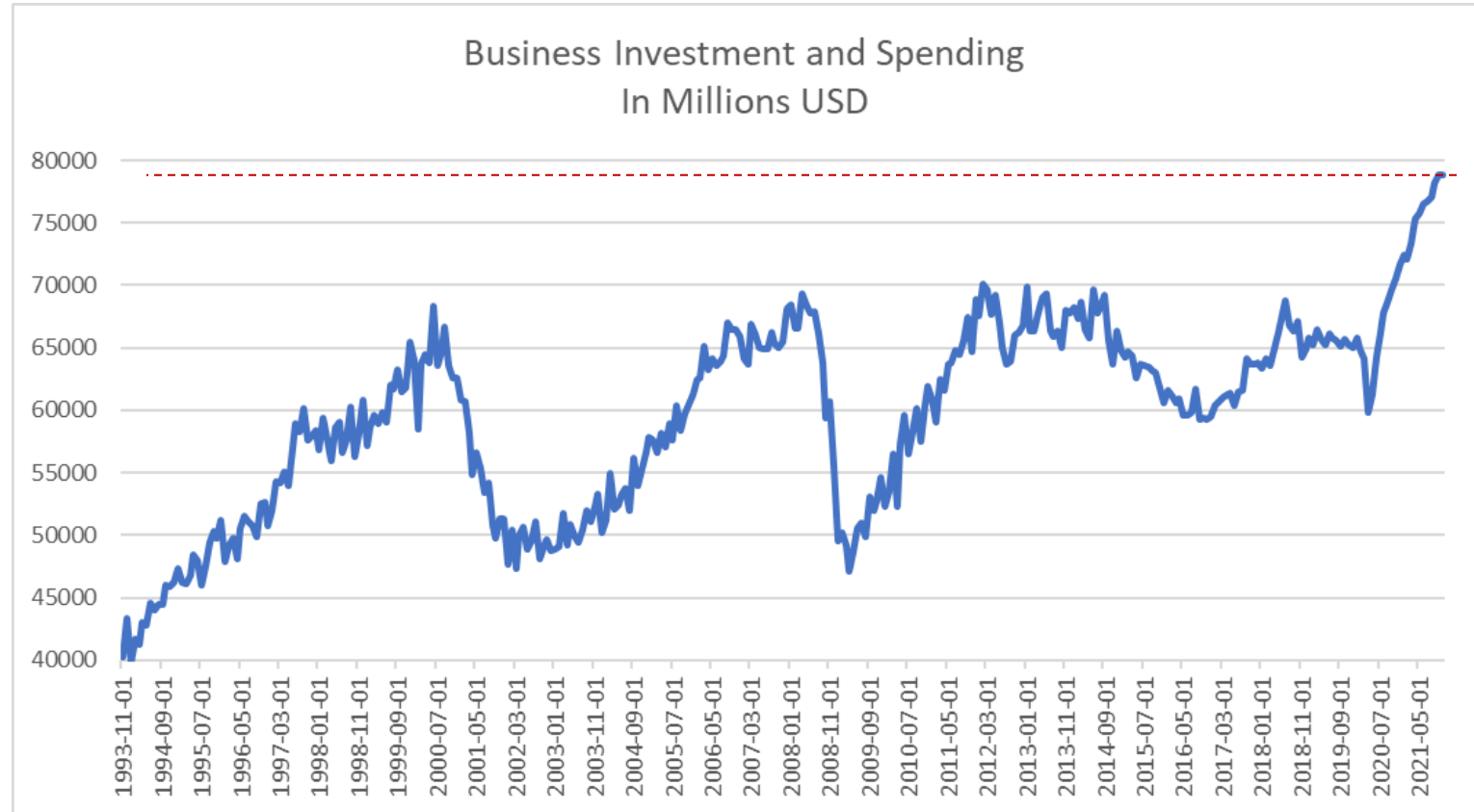
Recovery Year?



Source: The Conference Board, Vanguard, and Refinitiv

Corporate Spending Remains Strong

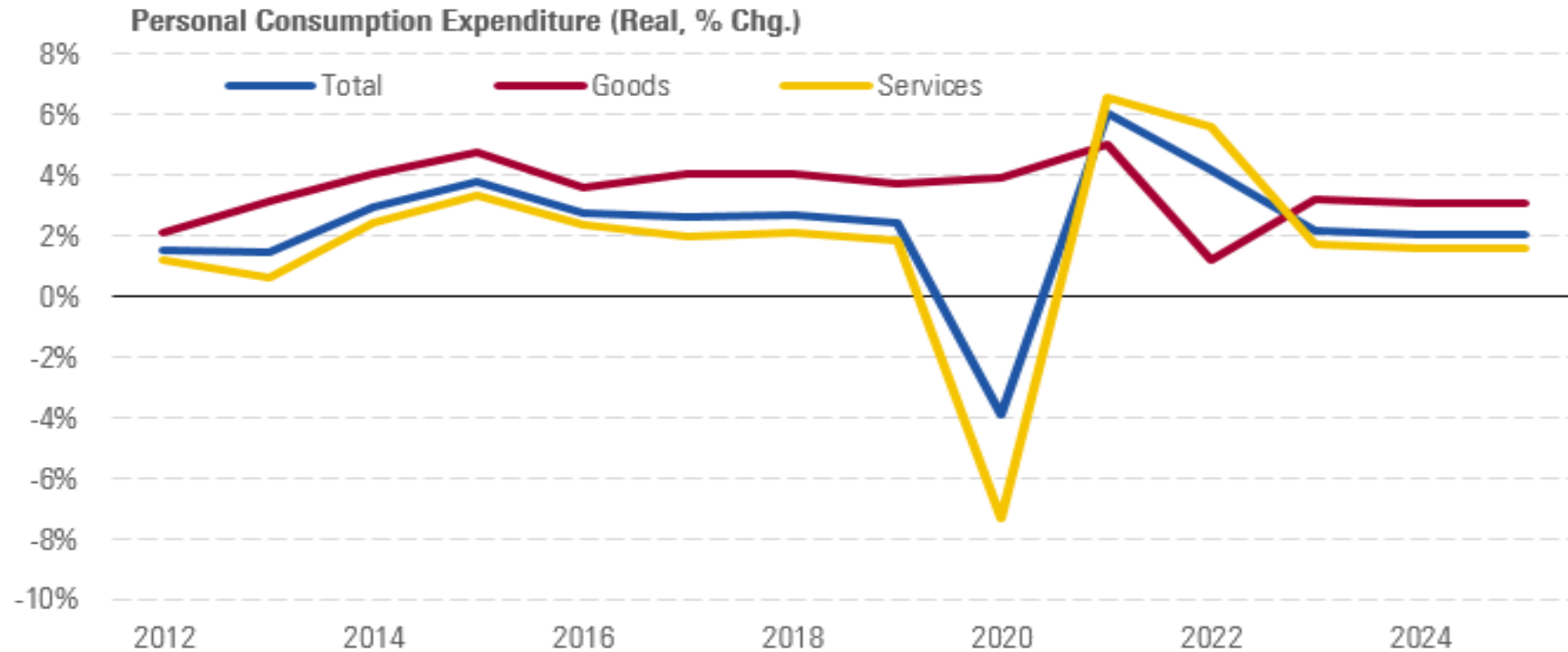
- **Private investment can account for more than 20% of US GDP**
- **11.7% higher Y/Y against much tougher comps.**
- **US Private investment driving:**
 - Machinery and Durable Goods
 - Transportation equipment (aerospace, freight revenue equipment)
 - Residential construction
 - Electrical equipment and appliances
 - Many commodities used in construction and durable goods manufacturing
 - Commercial construction and materials (will rebound as companies return to office).



Source: Federal Reserve; Conference Board

Surge Followed by Fade

Services Will Lead the Consumer Recovery in 2021 and 2022



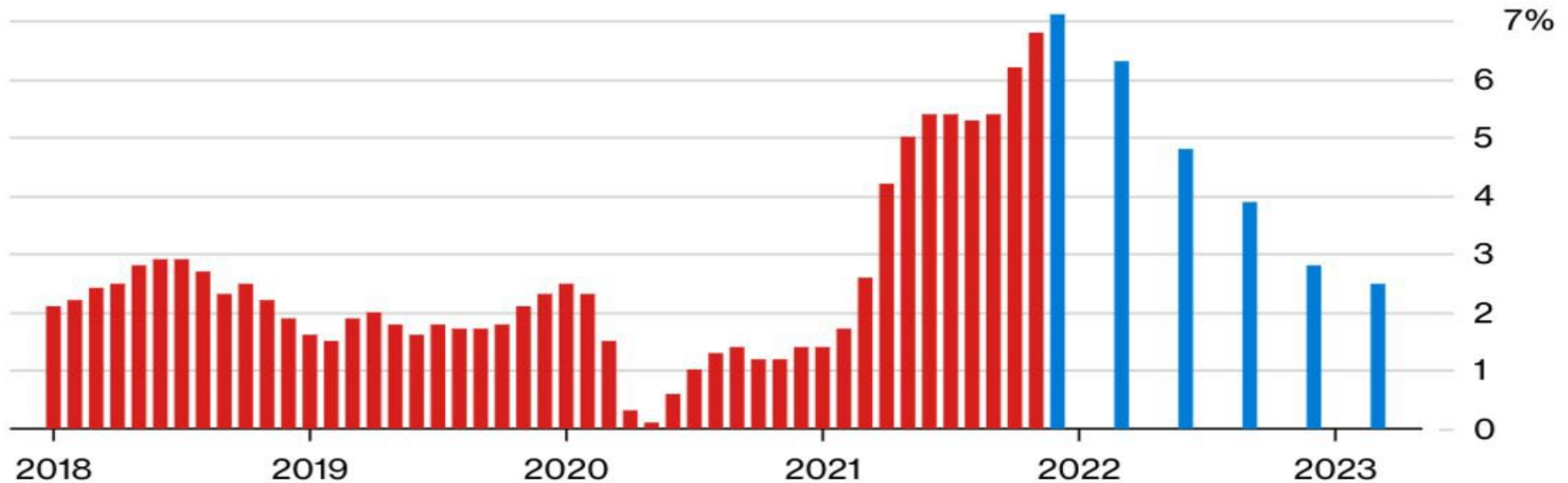
Source: U.S. Bureau of Economic Analysis, Morningstar.

More Likely to Trend Down than Up

Peak Inflation?

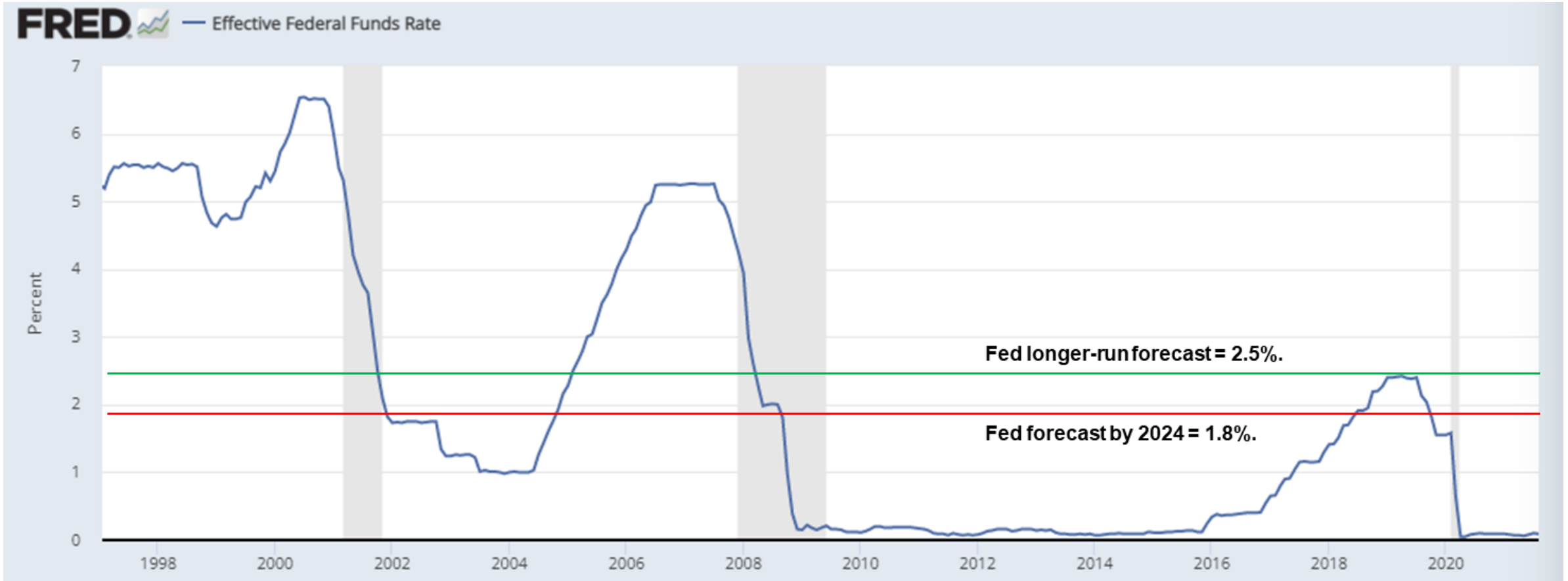
Inflation is expected to top 7% at the end of 2021 – then fall steadily

■ Consumer price index (YoY) ■ Economists' forecasts



What Does a 1.5 Point Hike Look Like on a Historic Basis?

- There are just no forecasts showing interest rates returning to anything that looks historically high...
- Rates are expected to remain accommodative.

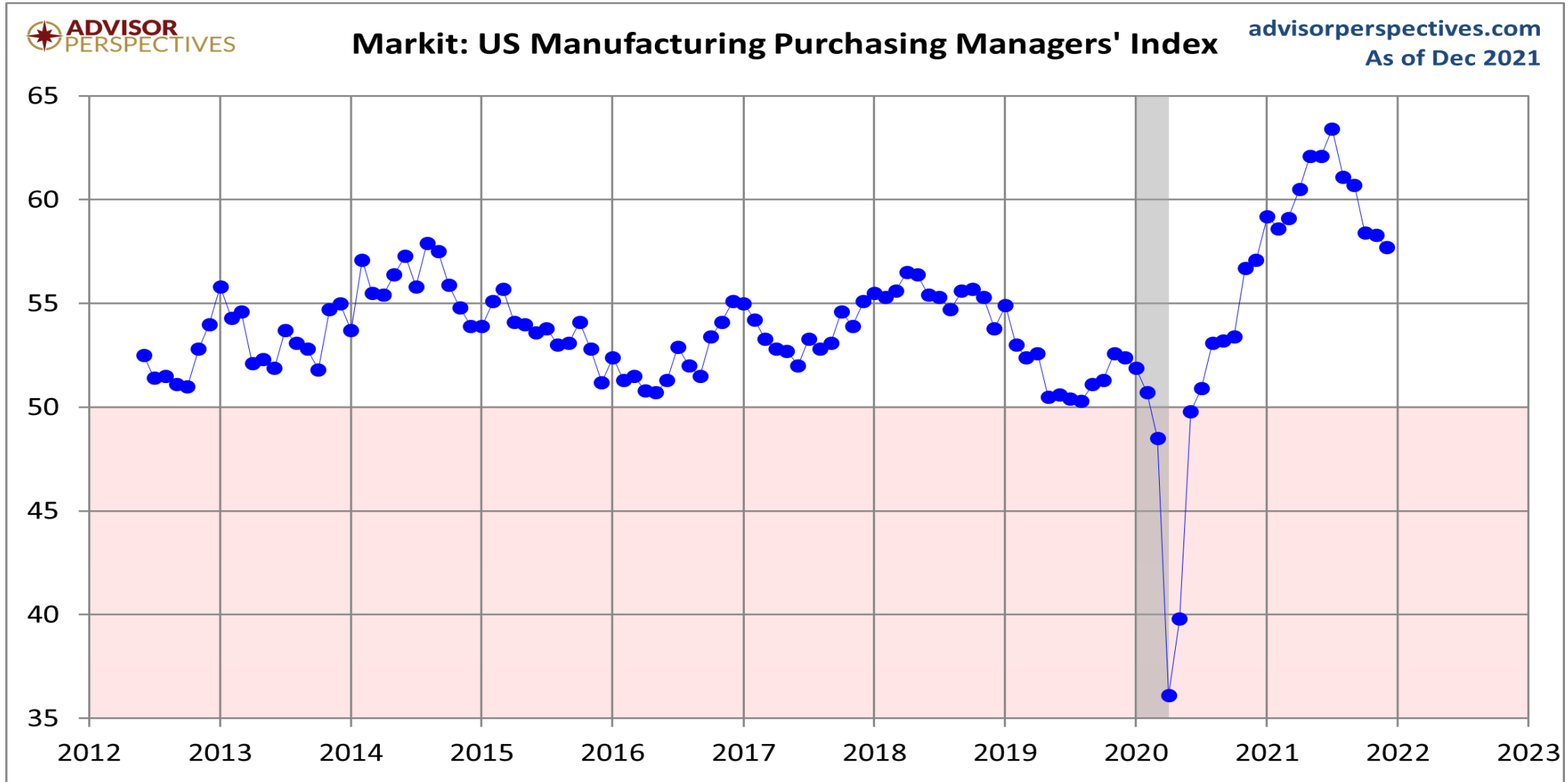


Job Openings Still Near All-Time Highs – Wage Inflation Never Really Adjusts Back Down.

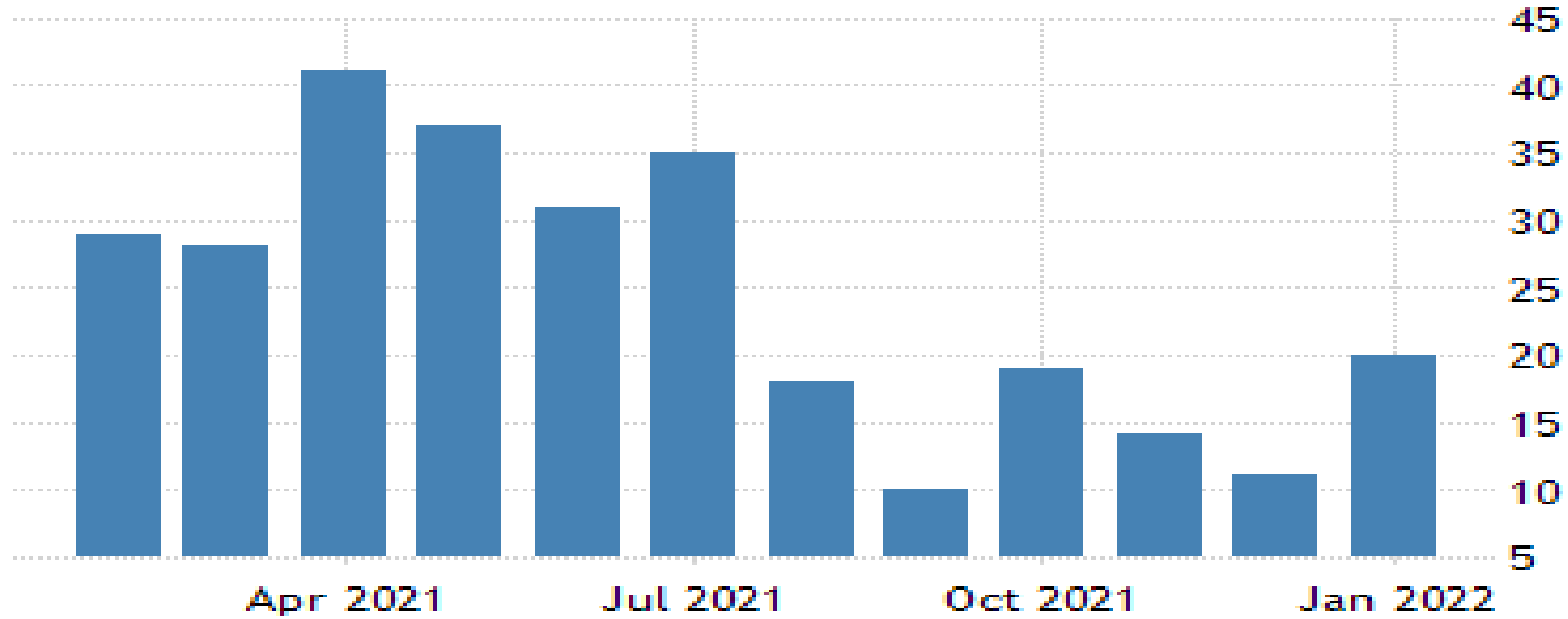
- Manufacturing still has 858,000 jobs open.
- Update: 6.3 million unemployed in December...
- Unemployment rate in December was 3.9%, pre-pandemic (2019) = 3.5%

Name	Level in Thousands			M/M	Y/Y
	Nov-21	Oct-21	Nov-20	Percent	Percent
Total Nonfarm Industry	10,562	11,091	6,766	-4.8%	56.1%
Total Private	9,601	10,173	6,078	-5.6%	58.0%
Construction	345	455	261	-24.2%	32.2%
Manufacturing	858	955	514	-10.2%	66.9%
Durable Goods	522	552	250	-5.4%	108.8%
Non-durable Goods	336	402	263	-16.4%	27.8%
Trade, Transportation and Utilities	1,955	1,972	1,204	-0.9%	62.4%
Retail Trade	1,044	1,057	720	-1.2%	45.0%
Professional and Business Services	1,801	1,871	1,261	-3.7%	42.8%
Education and Health Services	1,970	2,043	1,335	-3.6%	47.6%
Health Care and Social Assistance	1,802	1,869	1,234	-3.6%	46.0%
Leisure and Hospitality	1,482	1,750	859	-15.3%	72.5%
Arts, Entertainment and Recreation	172	178	110	-3.4%	56.4%
Accommodation and Food Services	1,310	1,571	749	-16.6%	74.9%
Government	962	918	688	4.8%	39.8%
State and Local	800	781	584	2.4%	37.0%
Census Region					
Northeast	1,892	1,839	1,166	2.9%	62.3%
South	3,950	4,198	2,623	-5.9%	50.6%
Midwest	2,323	2,569	1,455	-9.6%	59.7%
West	2,397	2,485	1,522	-3.5%	57.5%

Still Strong but Some Retreat



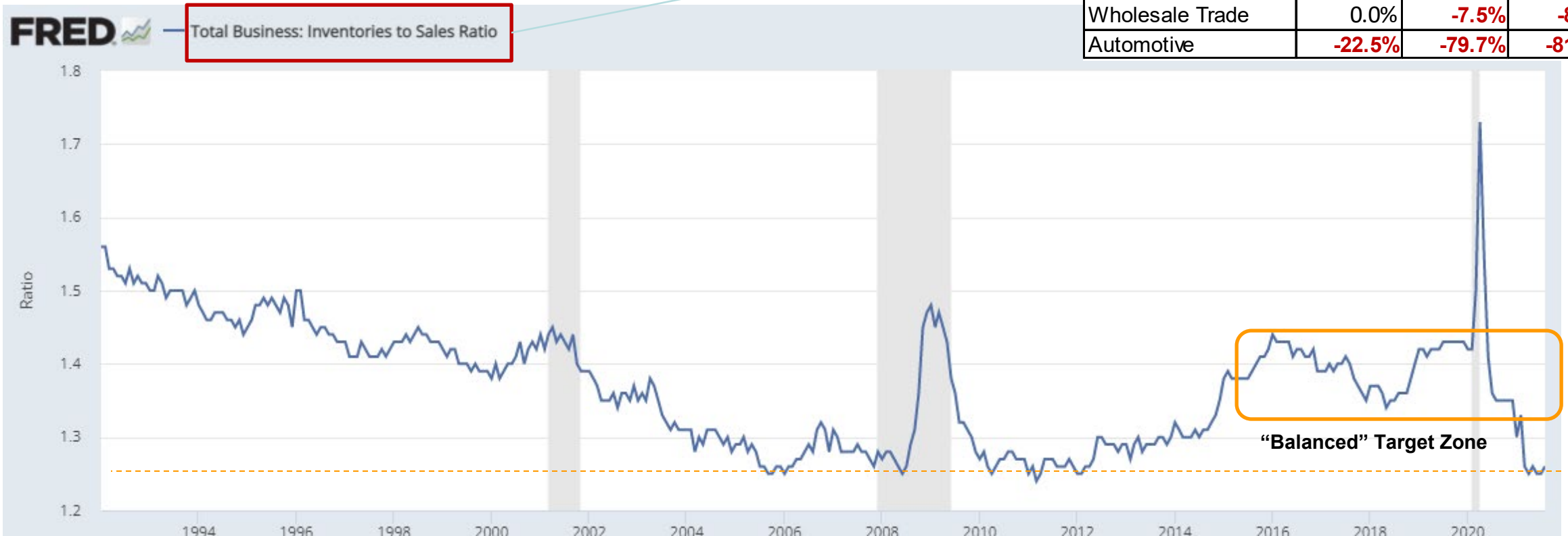
Kansas Manufacturing Index



Inventory levels are improving slightly...but still too low.

- Inventories to sales ratios are the key metric to watch
- Until they balance...no relief.

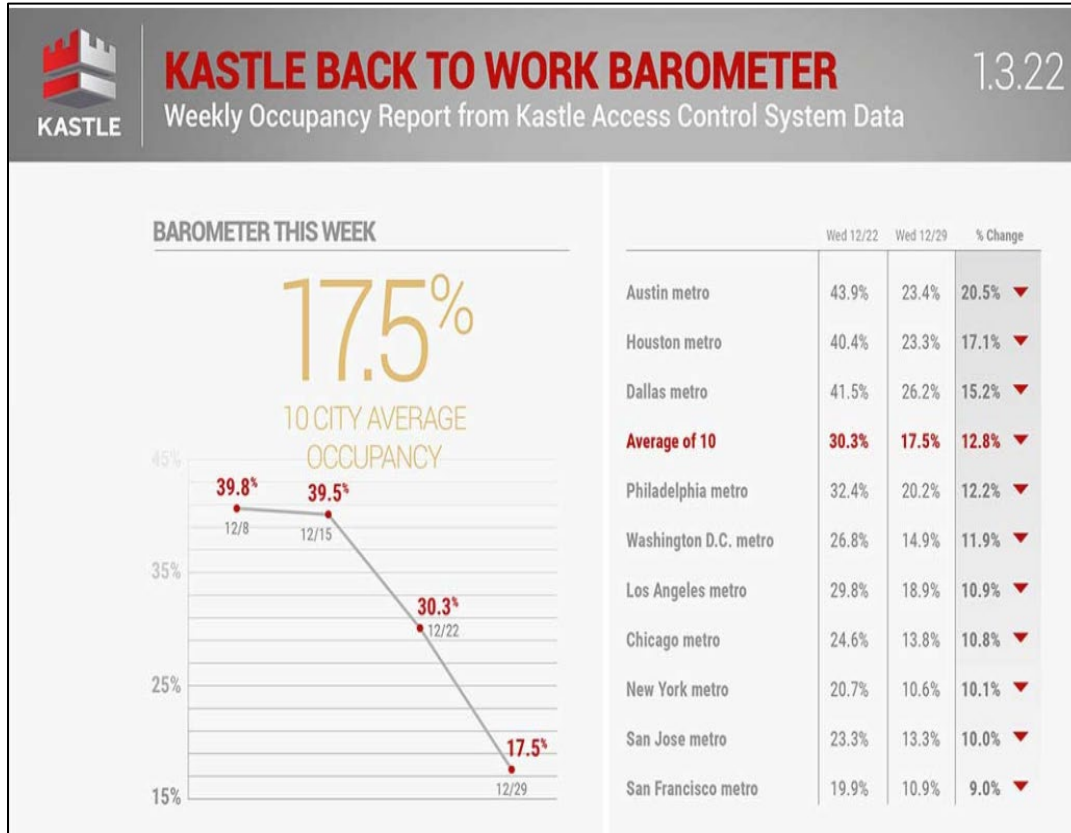
	MoM	YoY vs. 2020	YoY vs. 2019
Total Business	0.0%	-6.7%	-11.9%
Retailers	-0.9%	-10.7%	-25.9%
Manufacturing	0.0%	-3.3%	-0.7%
Wholesale Trade	0.0%	-7.5%	-8.2%
Automotive	-22.5%	-79.7%	-81.6%



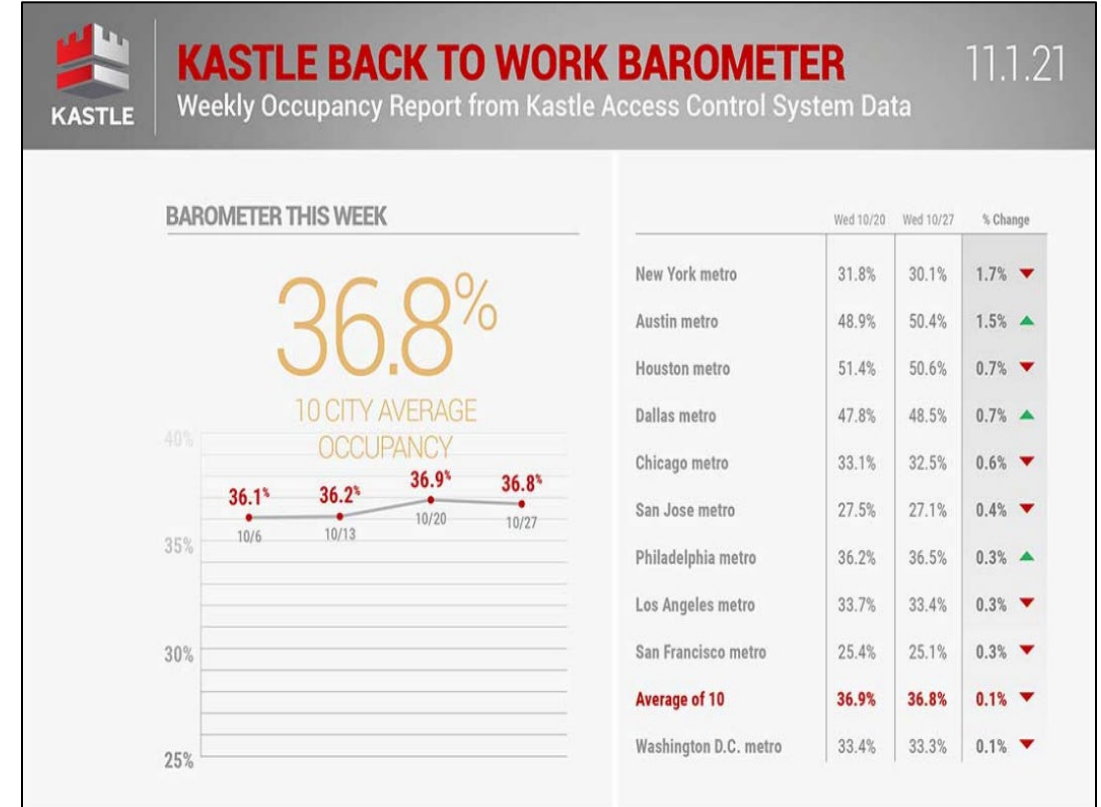
Source: Federal Reserve; Congressional Budget Office

Commuters Aren't Commuting - Yet

December '21



November '21



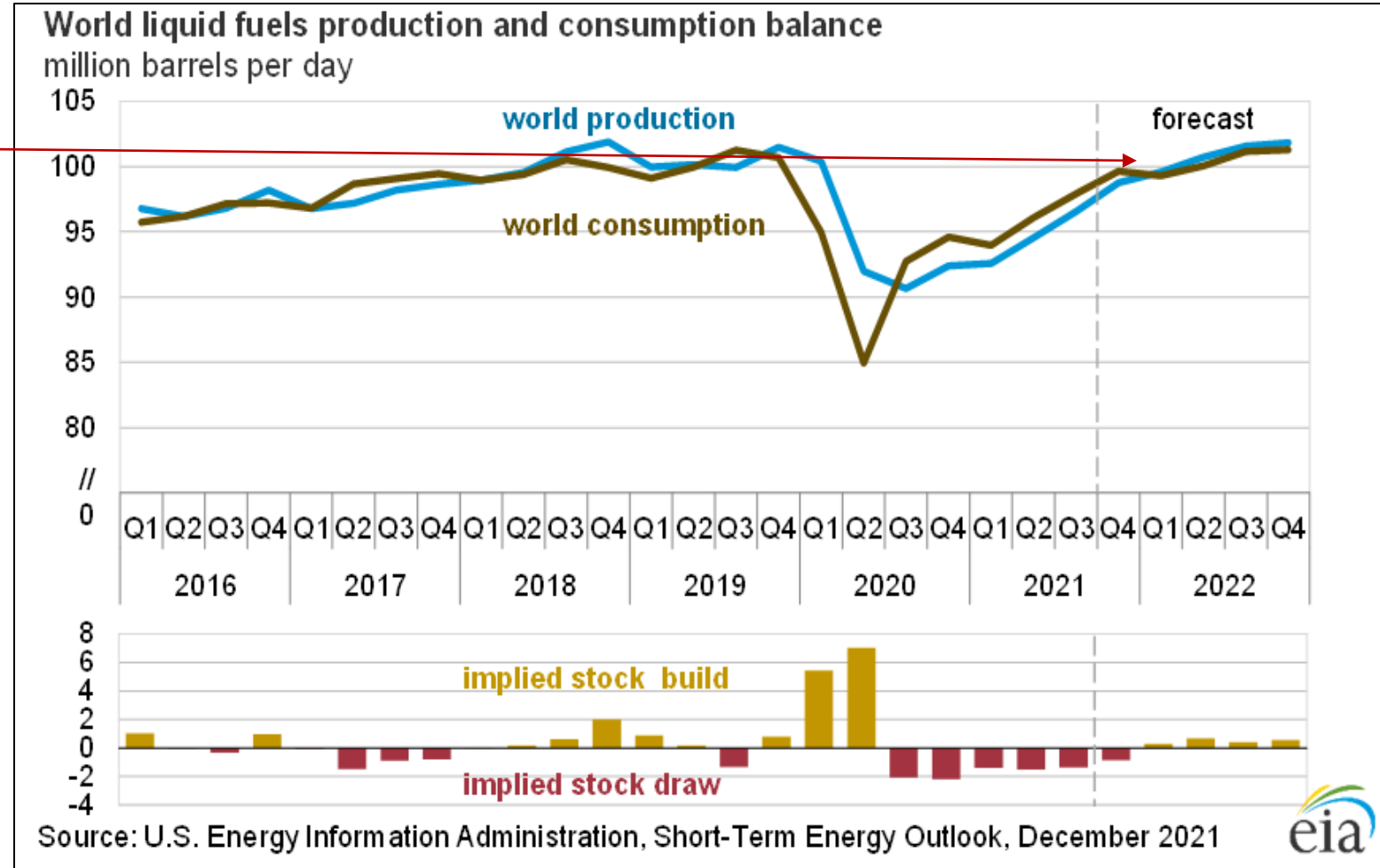
Fuel Prices Touch All-Time High on West Coast, Nationwide Remain Elevated

- Regular gasoline prices are 31.5% higher than they were a year ago.
- Diesel on the other hand, has been 26.9% higher in the first week of January.

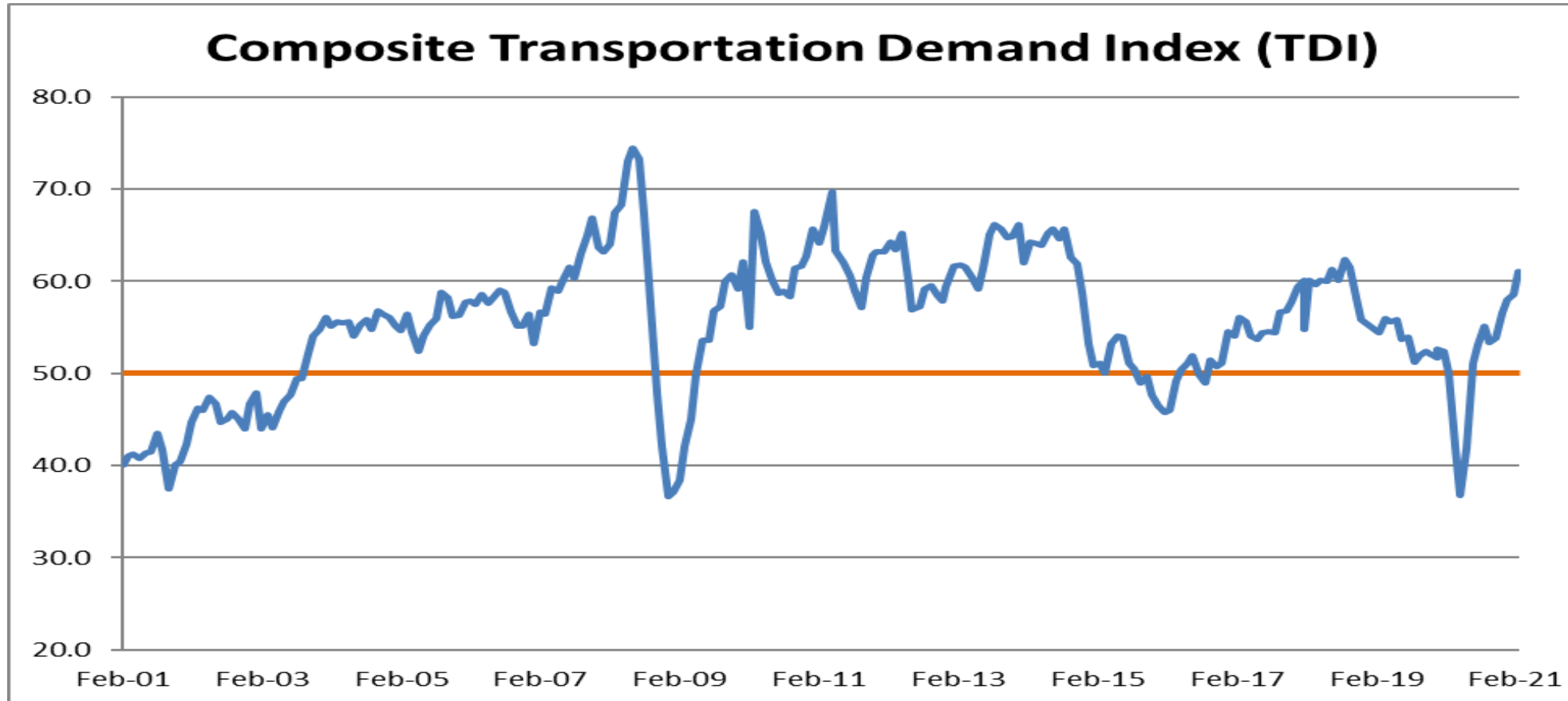


EIA Forecast on Balance Between Oil Supply/Demand

- **Global production is expected to return to pre-pandemic levels this quarter.**
- **Global oil supplies are expected to return to a “net build” situation according to this EIA forecast. Some expect this to shift to new draw when the new outlook is released.**



Improvement Overall





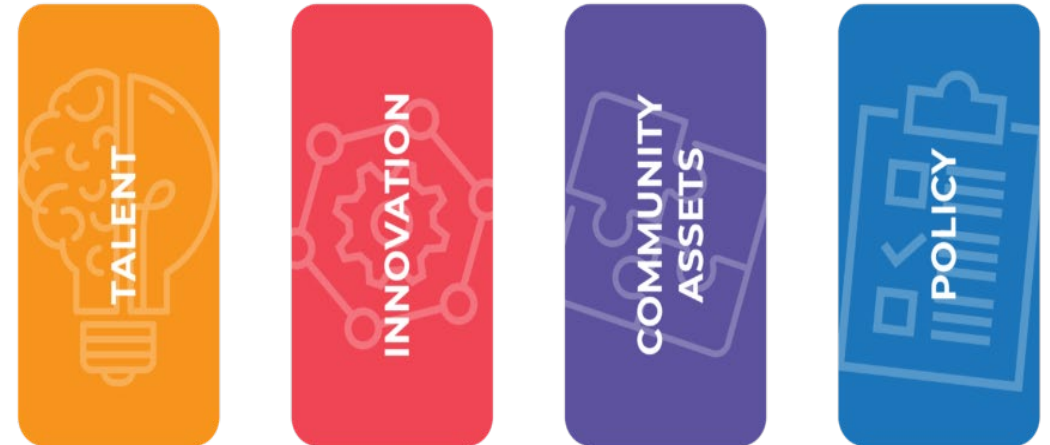
Plans for the Future



Target Sectors



Strategic Pillars



Economic Regions



Kansas City area's economic outlook



Unemployment

• March, 2020: 3.3%

• Nov, 2021: 3.6%



Healthcare & retail to grow in 2022



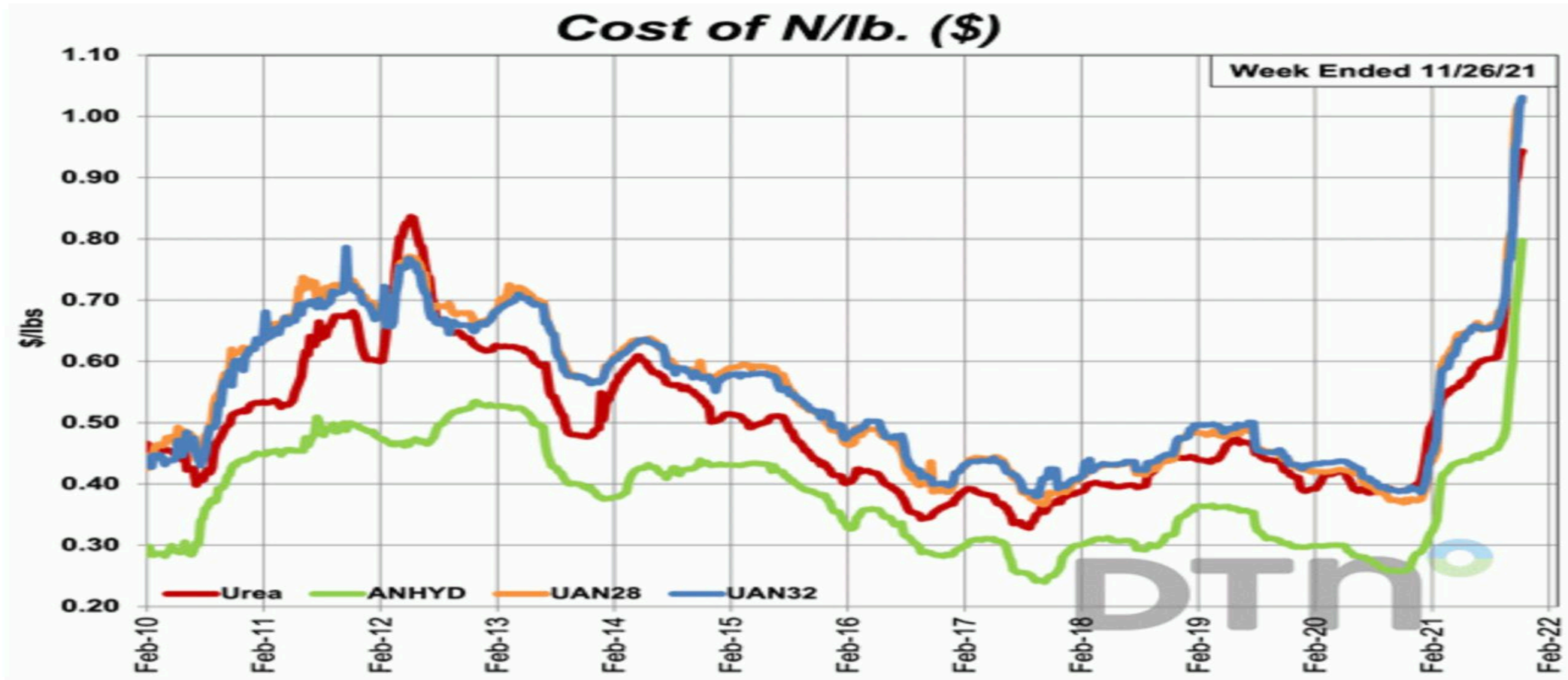
Record number of job openings

5:51
33°

41
KSHB

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Inflation in the Ag Sector



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FINISHING UP

- This webinar has been recorded. A link to the webinar replay and the presentation deck will be included in a follow-up email to you tomorrow.
- The next webinar will be scheduled to take place on April 13th at 12:00pm. Visit www.wereakms.com/events.
- KMS is also hosting a virtual DoD matchmaking event and an in-person Lean/Six Sigma training series in March.
- If you have not signed up for Armada's Flagship Report (formerly BOR), please send an email to KMS@weareKMS.com. KMS is providing complimentary subscriptions through 2022.