

The background of the entire slide is a blue-tinted image of an industrial manufacturing environment. It features robotic arms and machinery, with bright orange sparks flying from a welding or grinding process, creating a sense of active production.

WE ARE **KMS**

Q421 ECONOMIC PREDICTIONS FOR MANUFACTURERS WEBINAR



Trusted Advisors for Growth

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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



ARMADA

2022 Economy – Old Issues Hang On While New Ones Emerge

KMS Webinar

December 1, 2021

Chris Kuehl

Managing Director – Armada CI



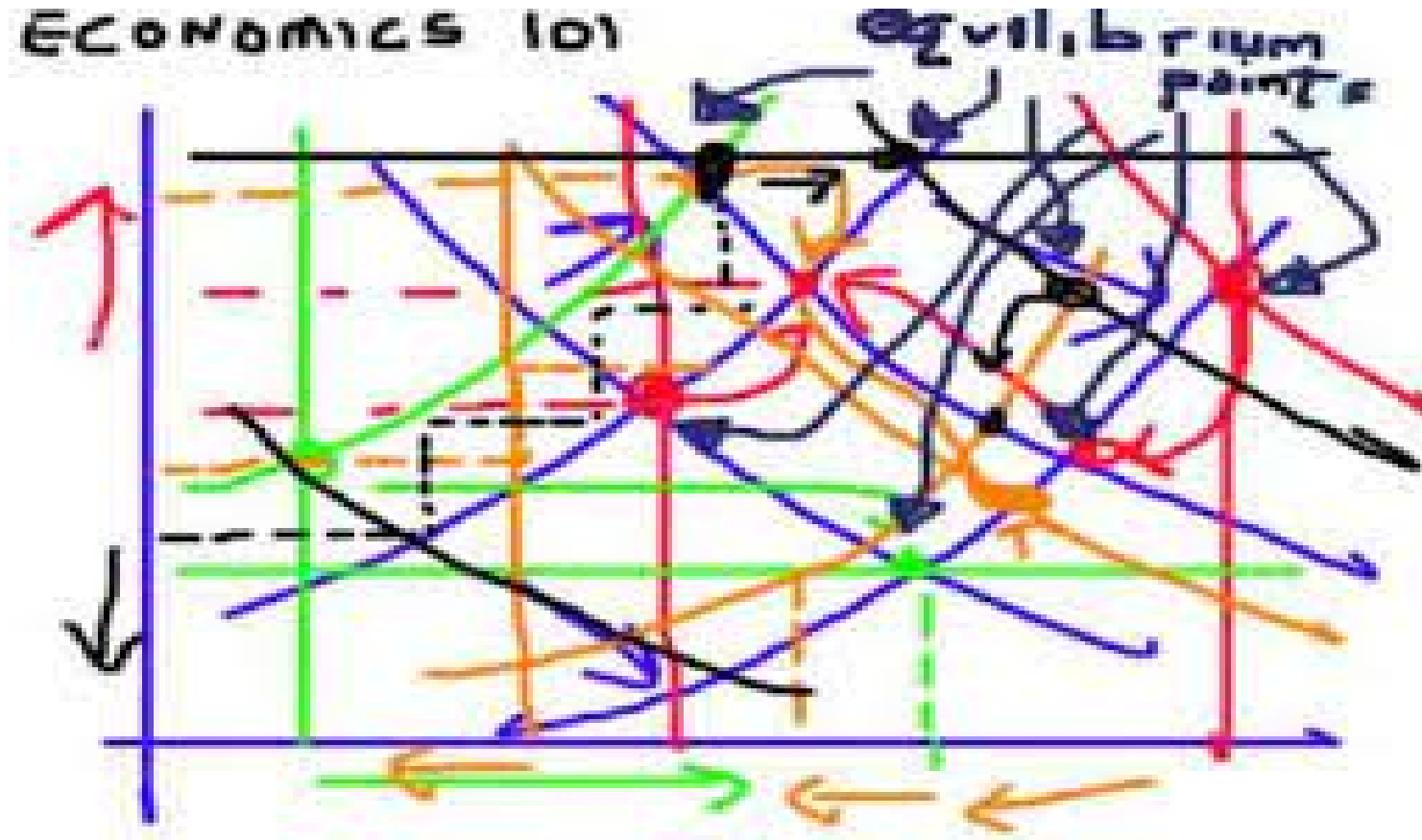
ARMADA

Analysis of the Forces Affecting Business

Chris.Kuehl@armadaci.com

December 1, 2021

Clear Enough?

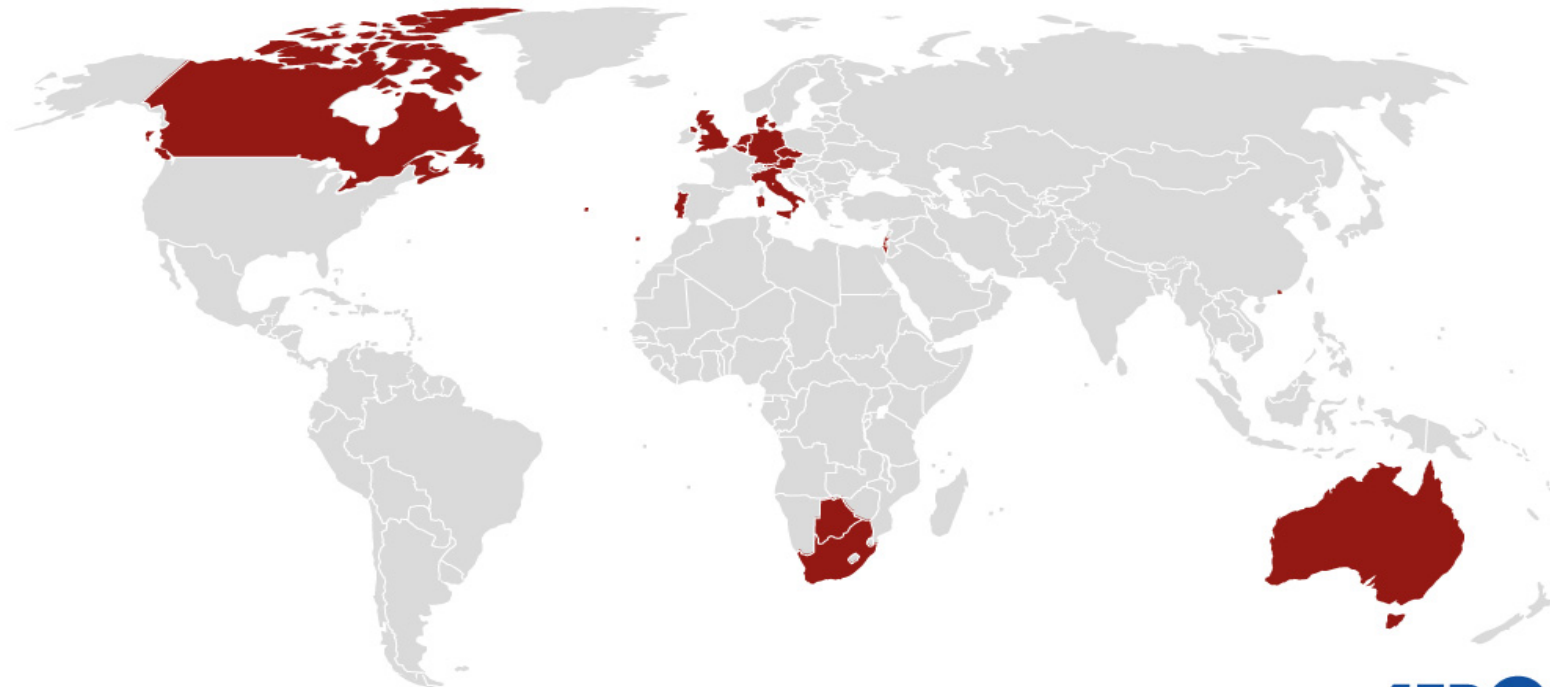


The Latest Elephant in the Room

- **What Do We Know About Omicron**
 - **Appeared first in southern Africa among unvaccinated. Fast spreading, variety of mutations. Has already reached Europe, Australia and others in Africa**
- **What Don't We Know About Omricon?**
 - **How fast does it spread?**
 - **How much more fatal?**
 - **Do vaccines work against it?**
 - **Do any of the existing protocols work?**
- **Economic Impact Thus Far**
 - **Markets reacted badly**
 - **Air travel globally affected**
 - **No talk yet about shutdowns or lockdowns**

The Omicron variant

■ Countries reporting infections of the Omicron Covid-19 variant as of November 29 at 1300 GMT



Source: AFP count based on reports from health authorities

AFP

Big Improvements and then Back to Norm

OECD Economic Outlook projections

Real GDP growth

% change, year-on-year, colours indicate the direction of revisions since the December 2020 Economic Outlook

↓ downward revision, by 0.3pp or more

— no change or smaller than 0.3pp

↑ upward revision, by 0.3pp or more

	2020	2021	2022		2020	2021	2022
 World	-3.5 ↑	5.8 ↑	4.4 ↑	 G20	-3.1 ↑	6.3 ↑	4.7 ↑
 Australia	-2.5 ↑	5.1 ↑	3.4 ↑	 Argentina	-9.9 ↑	6.1 ↑	1.8 ↓
 Canada	-5.4 —	6.1 ↑	3.8 ↑	 Brazil	-4.1 ↑	3.7 ↑	2.5 ↑
 Euro area	-6.7 ↑	4.3 ↑	4.4 ↑	 China	2.3 ↑	8.5 ↑	5.8 ↑
 Germany	-5.1 ↑	3.3 ↑	4.4 ↑	 India*	-7.7 ↑	9.9 ↑	8.2 ↑
 France	-8.2 ↑	5.8 —	4.0 ↑	 Indonesia	-2.1 ↑	4.7 ↑	5.1 —
 Italy	-8.9 —	4.5 —	4.4 ↑	 Mexico	-8.2 ↑	5.0 ↑	3.2 —
 Spain	-10.8 ↑	5.9 ↑	6.3 ↑	 Russia	-2.6 ↑	3.5 ↑	2.8 ↑
 Japan	-4.7 ↑	2.6 ↑	2.0 ↑	 Saudi Arabia	-4.1 ↑	2.8 ↓	3.8 —
 Korea	-0.9 —	3.8 ↑	2.8 ↓	 South Africa	-7.0 ↑	3.8 ↑	2.5 —
 United Kingdom	-9.8 ↑	7.2 ↑	5.5 ↑	 Turkey	1.8 ↑	5.7 ↑	3.4 —
 United States	-3.5 —	6.9 ↑	3.6 —				

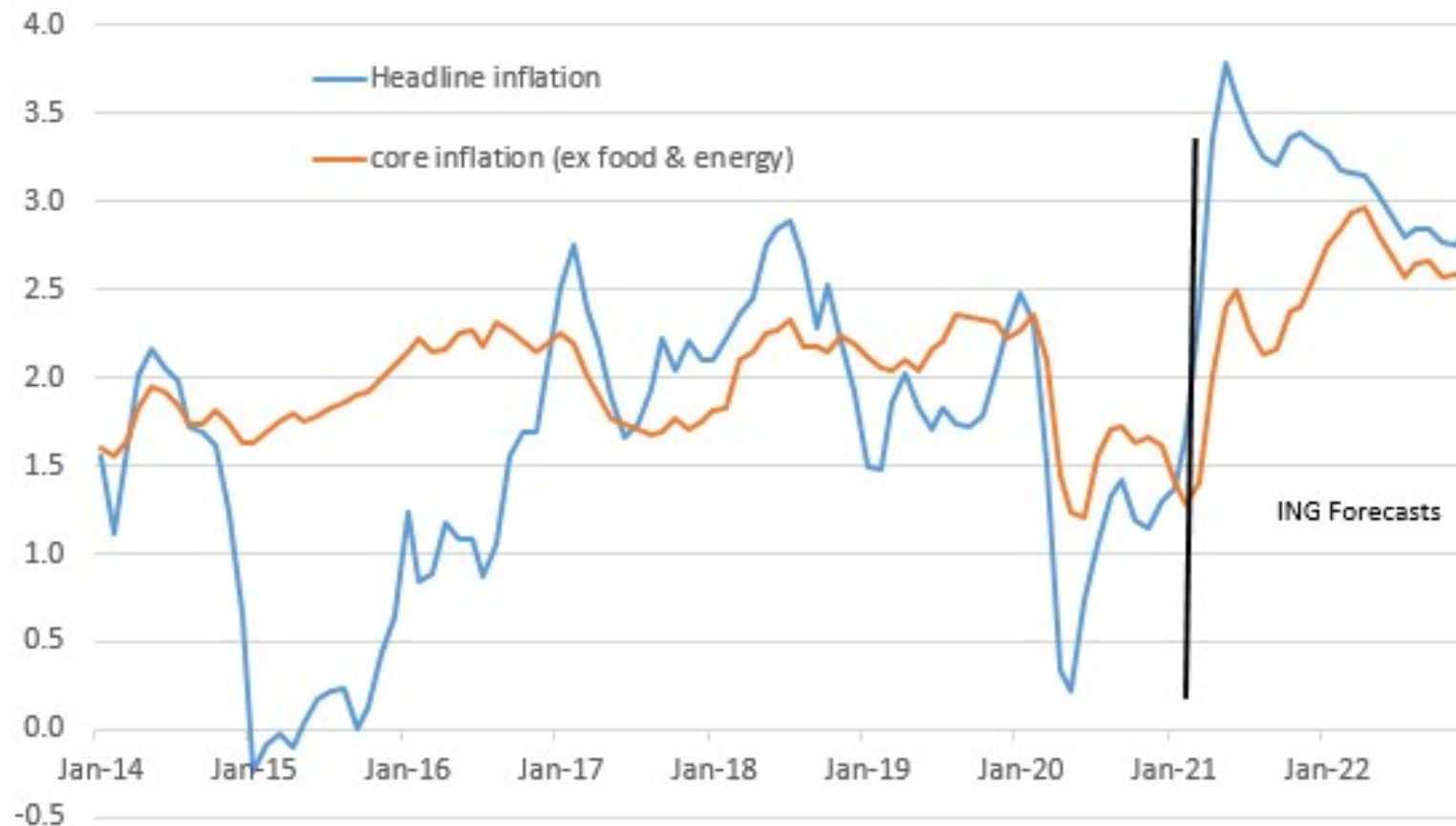
The Good and the Bad Update

- **Annual GDP Growth Expected at near 5.0%**
- **Rebound stalled a little but seems to be bouncing back**
- **Service sector still shaky but picking up**
- **Indicators remain strong and have improved lately**
- **Inflation rates still spiking – above 5% for real rate and above 3.0% for core.**
- **Too few job seekers as workforce participation rate is down**
- **GDP growth has really tumbled – down to 2.0% in Q3**

Let's Talk Inflation for a Moment

- **Are we really facing hyperinflation or stagflation? NO!!!**
 - **Hyperinflation is 50% levels of inflation over several months – think of the Weimar Republic in Germany in the 1930s. We are at 5.0%.**
 - **Stagflation is double digit inflation with double digit levels of unemployment. We are at 5.0% inflation with 4.7% unemployment.**
- **What ARE we facing as far as inflation?**
 - **Commodities are indeed transitory – they do go up and down but timing is hard to figure.**
 - **Wages are more worrying as once they go up they do not come down. Most of the hikes are with skilled workers**
 - **Money supply is still excessive - \$5 trillion in excess savings and that makes people more tolerant of inflation. This is the only part of inflation the Fed can really impact.**

More Likely to Trend Down than Up

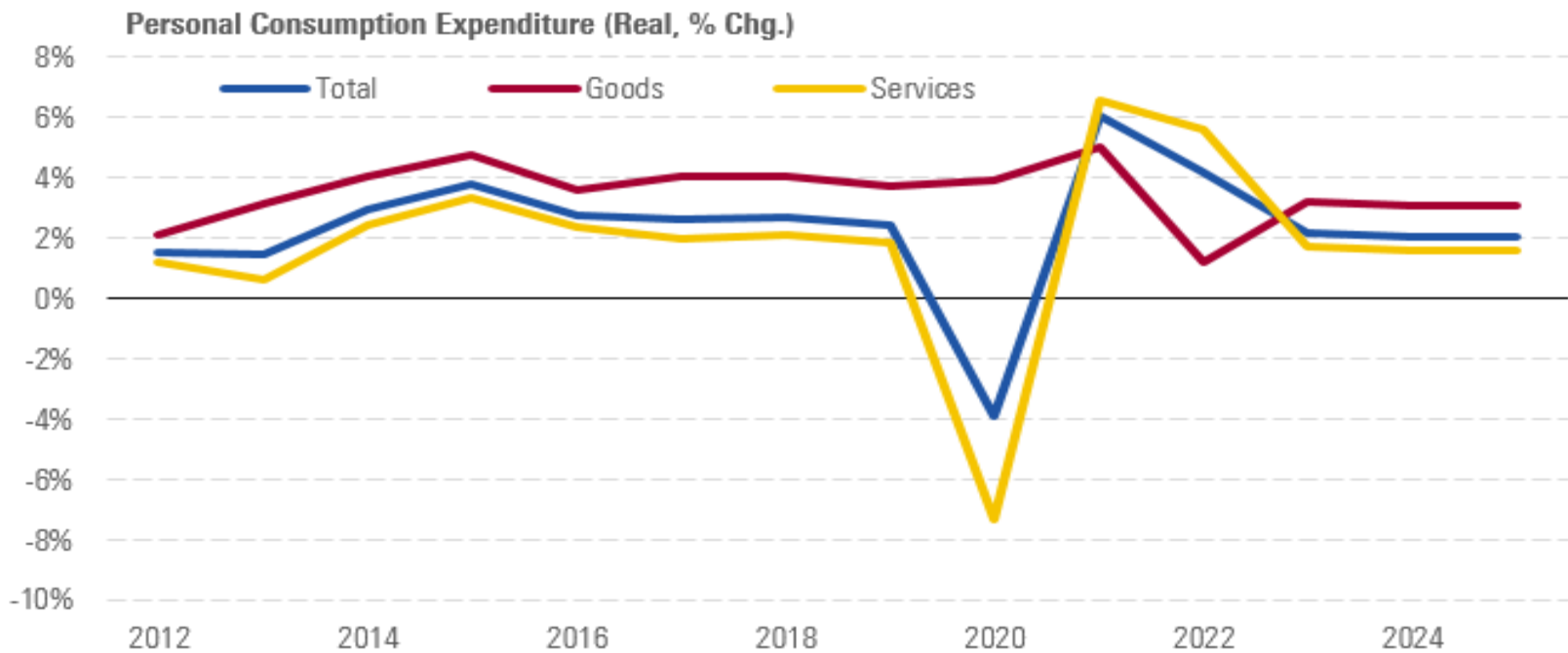


- **The Bold Predictions for 2022**

- **GDP growth for this year will be under 5.0% and between 4.0% and 4.5% next year.**
- **Inflation at core rate will be around 3.0% and real rate will be closer to 5.0%.**
- **Interest rates will start to rise by mid 2022 – reaching around 1.5% by end of the year.**
- **Mortgage rates will rise at the same time.**
- **Unemployment numbers will vary – U-3 at around 4.0% but U-6 closer to 9.0%. Quit rate will stay high and the level of workforce participation will stay around 61%.**
- **Trade deficit will worsen as consumers get more aggressive but exports will still be rising.**
- **Pandemic probably has one more surge left in it as winter arrives.**

Surge Followed by Fade

Services Will Lead the Consumer Recovery in 2021 and 2022

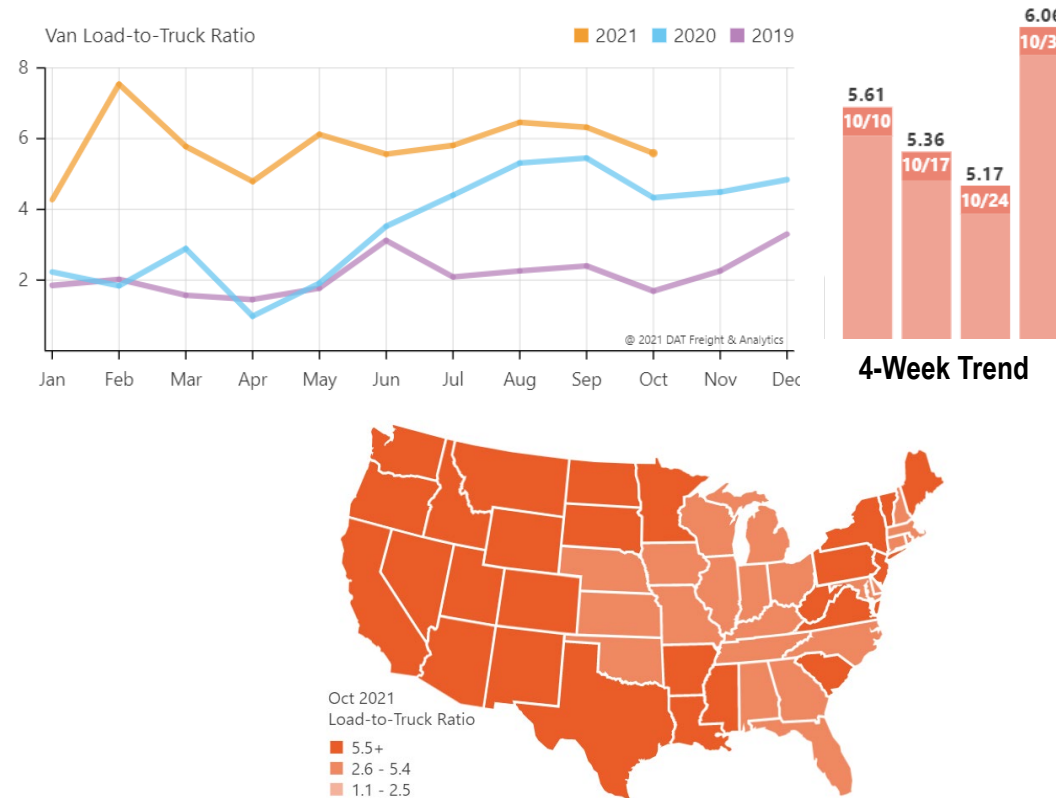


Source: U.S. Bureau of Economic Analysis, Morningstar.

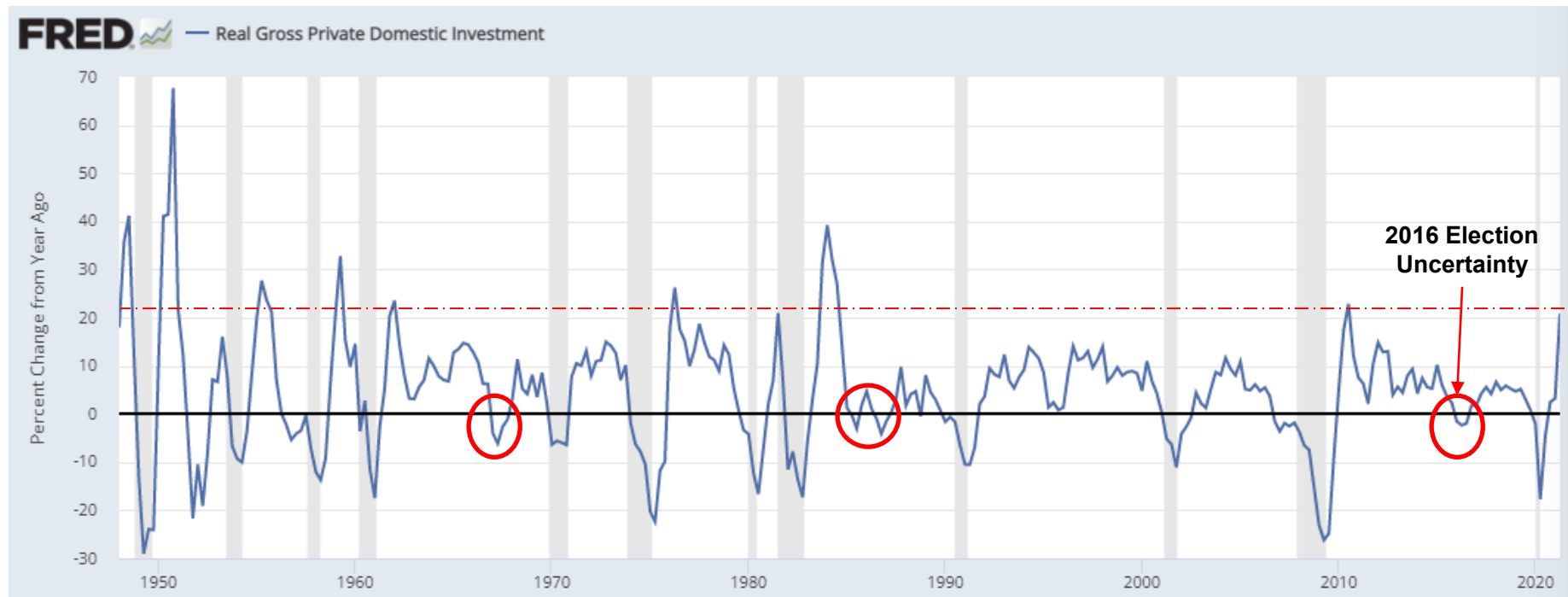
There is a Domestic Lag in Trucking. No Relief Here Yet.

- **Truck demand up 35.2% Y/Y in Sept (31.5% last month)**
- **Capacity only 0.5% higher Y/Y (5.8% LM)**
- **Spot rates 19% higher Y/Y (unchanged)**
- **Fuel surcharge rates 51.2% higher Y/Y (40.2% LM)**
- **Flatbed rates up 25.3% Y/Y**

Source of Graph: DAT Trendlines, September 2021

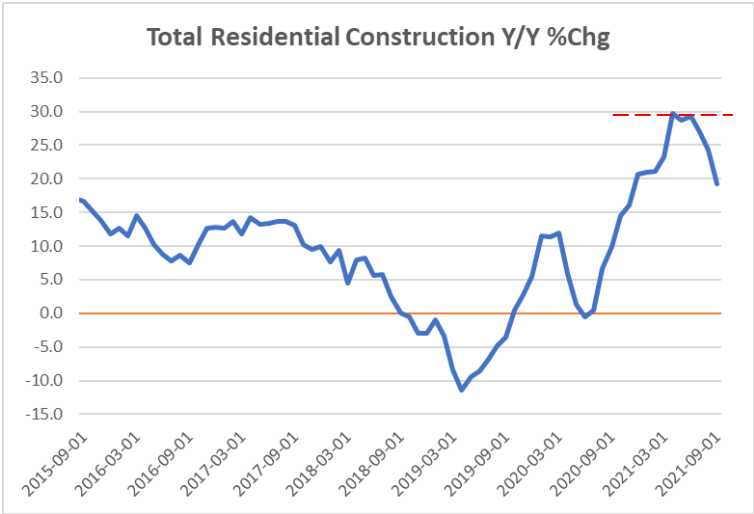


Gross Private Domestic Investment: Still Among Strongest on Record.



Source Bureau of Economic analysis

Continued Recovery in Commercial Construction

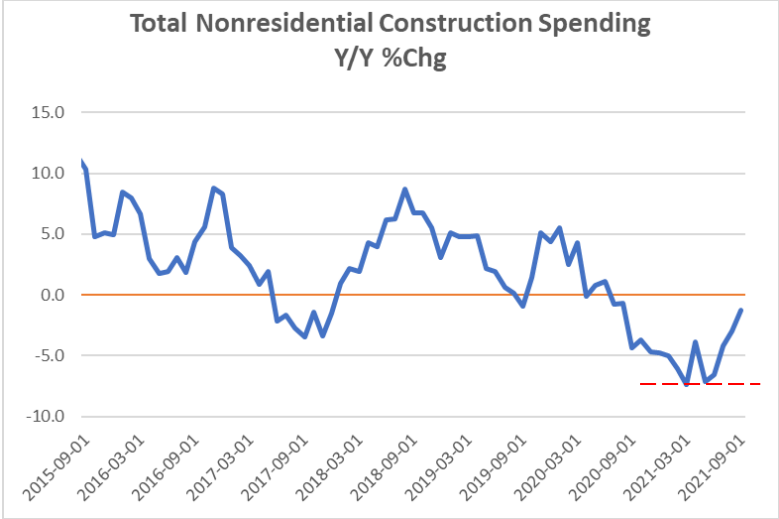


Private Annualized Spending

2019: \$550B
2021: \$786B

+19.3
%
YoY

+24.3% in last update



Private Annualized Spending

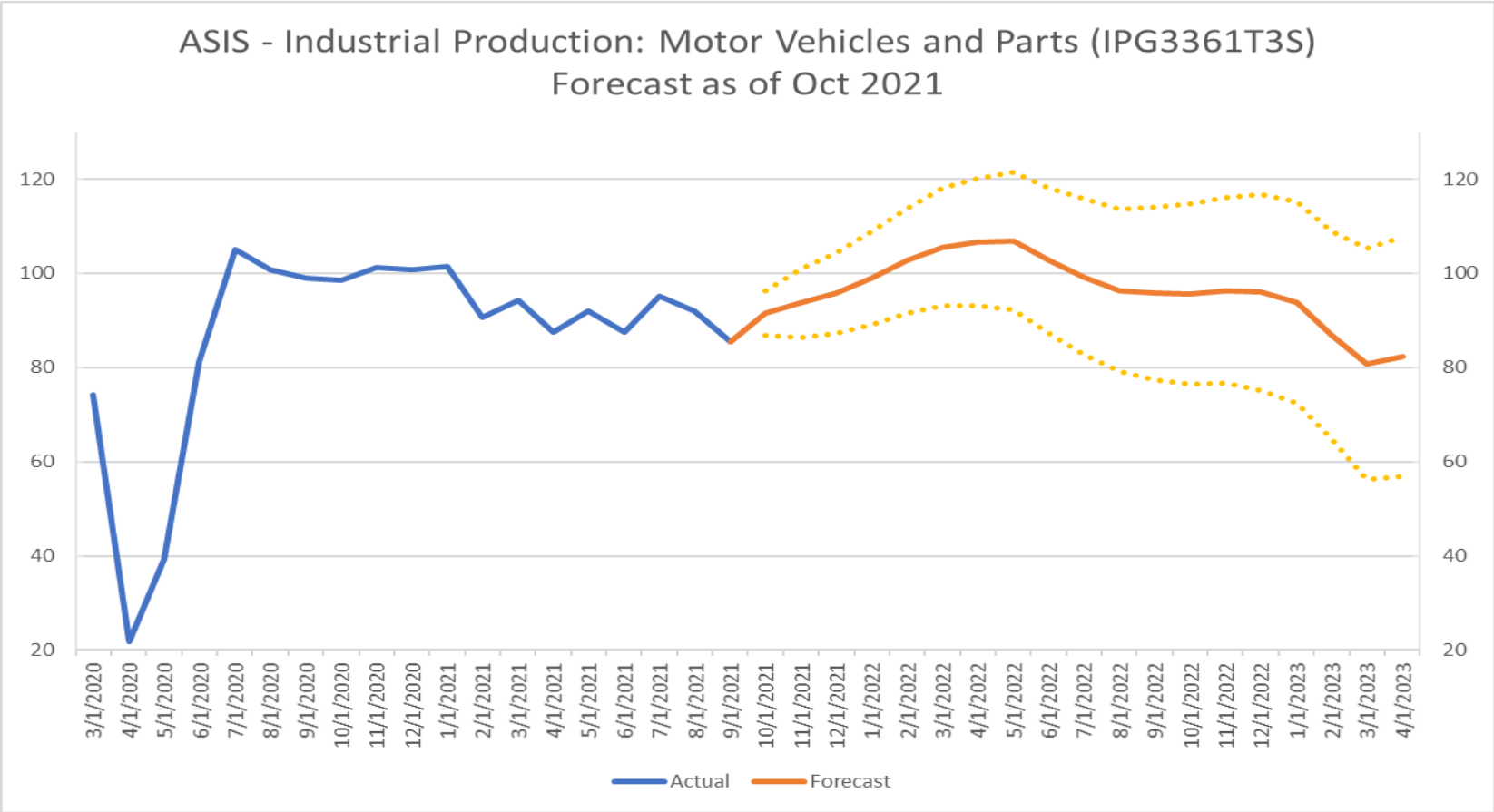
2019: \$815B
2021: \$788B

-1.3%
YoY

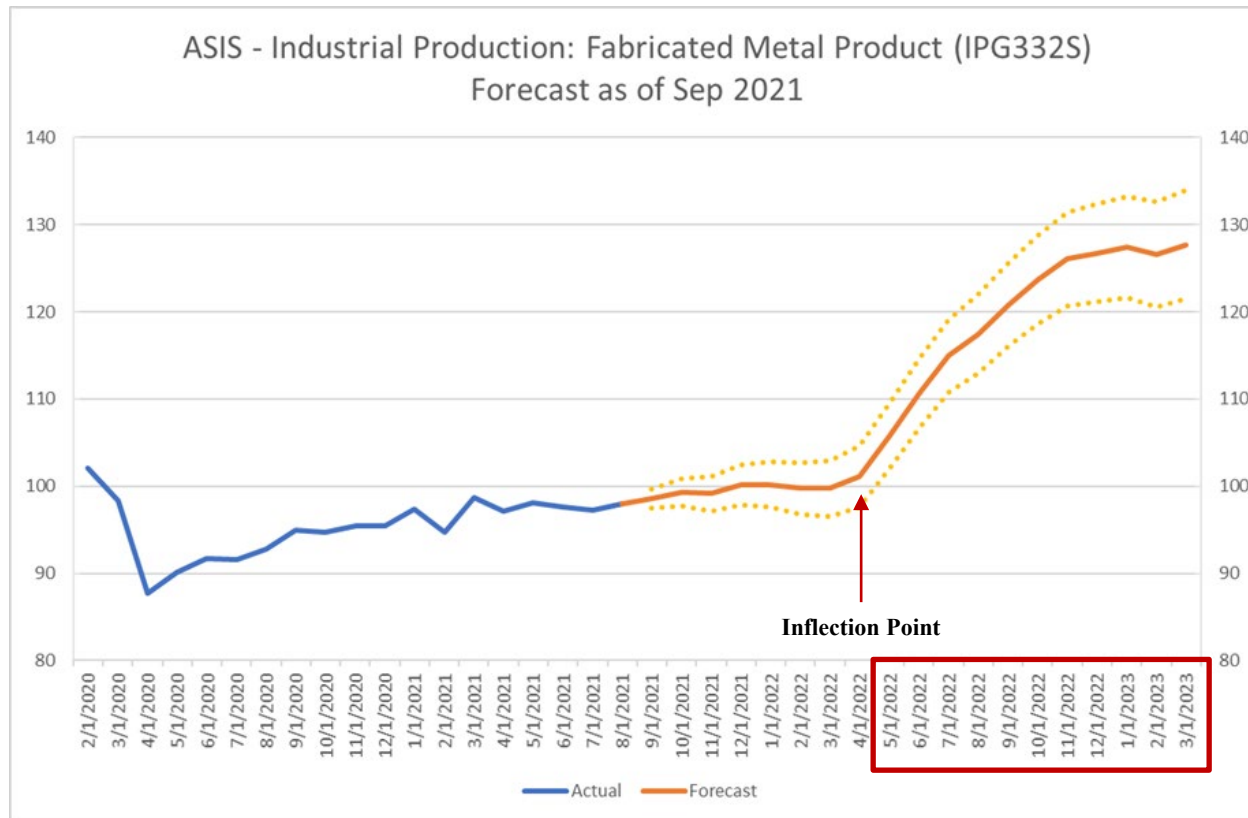
Jan 20' peak: \$885B

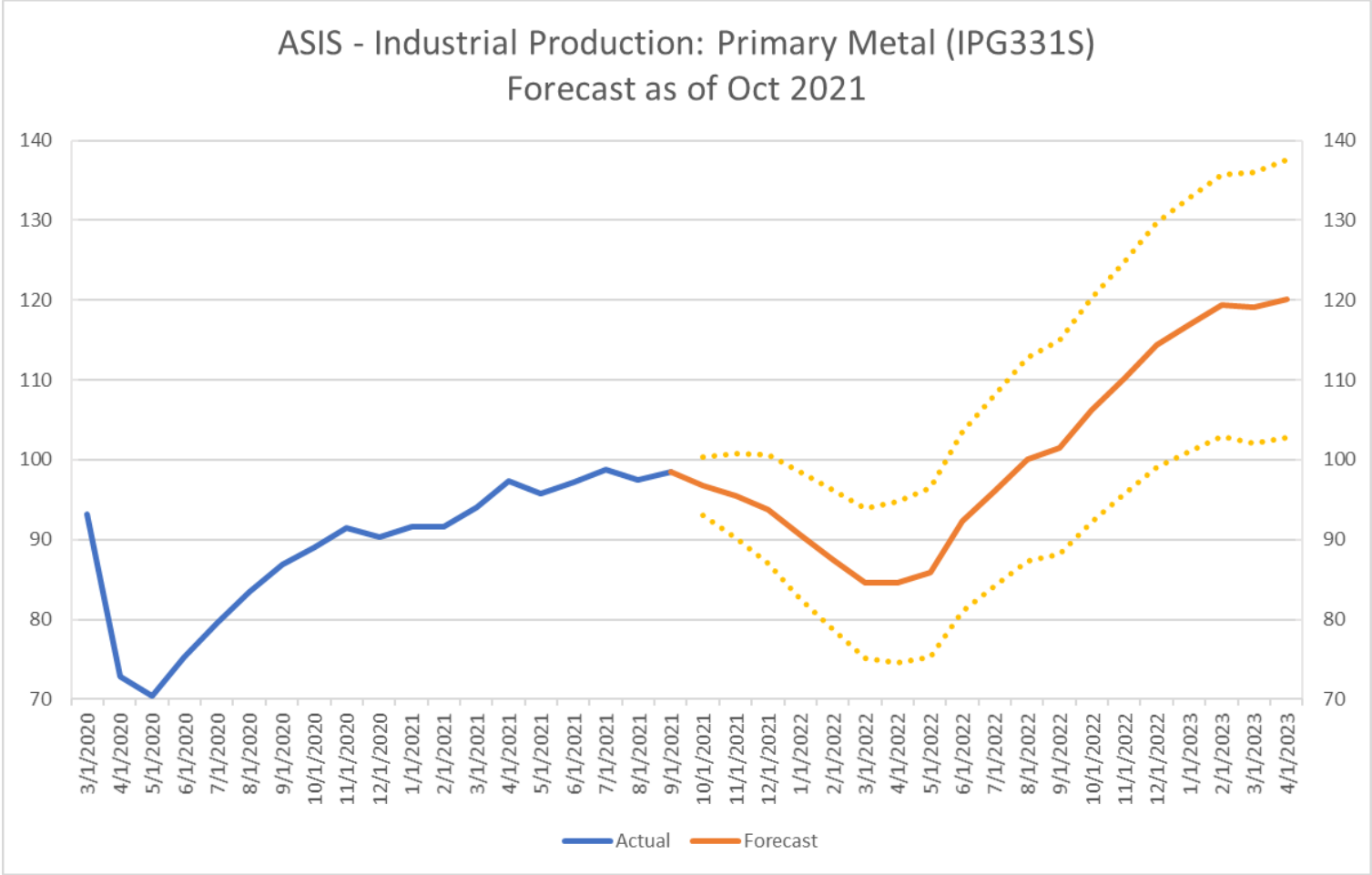
-3.0% in last update

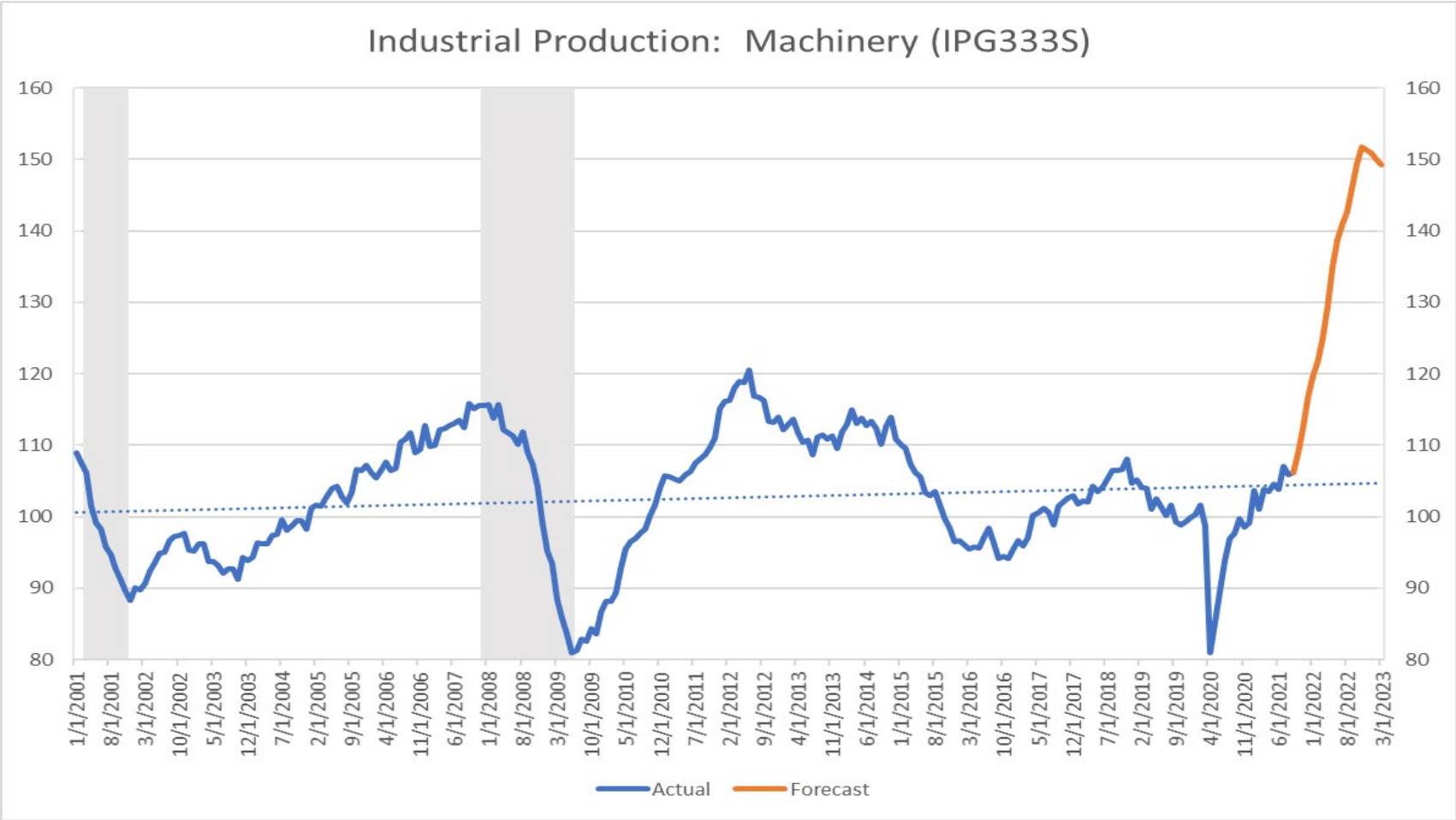
Automotive Industrial Production Forecast = 18 months out



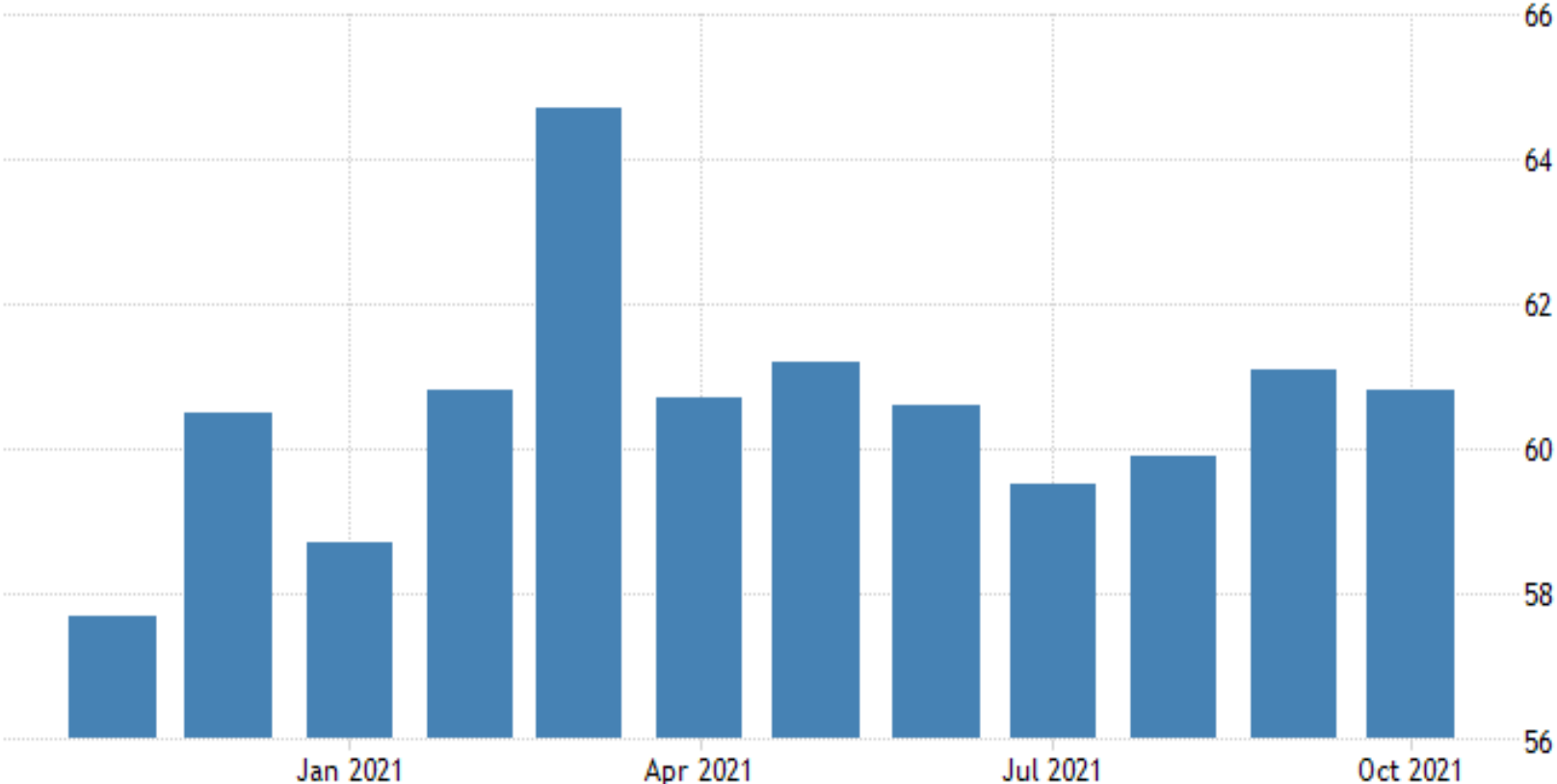
- **Much more optimistic outlook according to the latest data**
- **Similar inflection point to Automotive.**
- **Forecast**
 - **2021:**
4.94%
 - **2022:**
26.55%





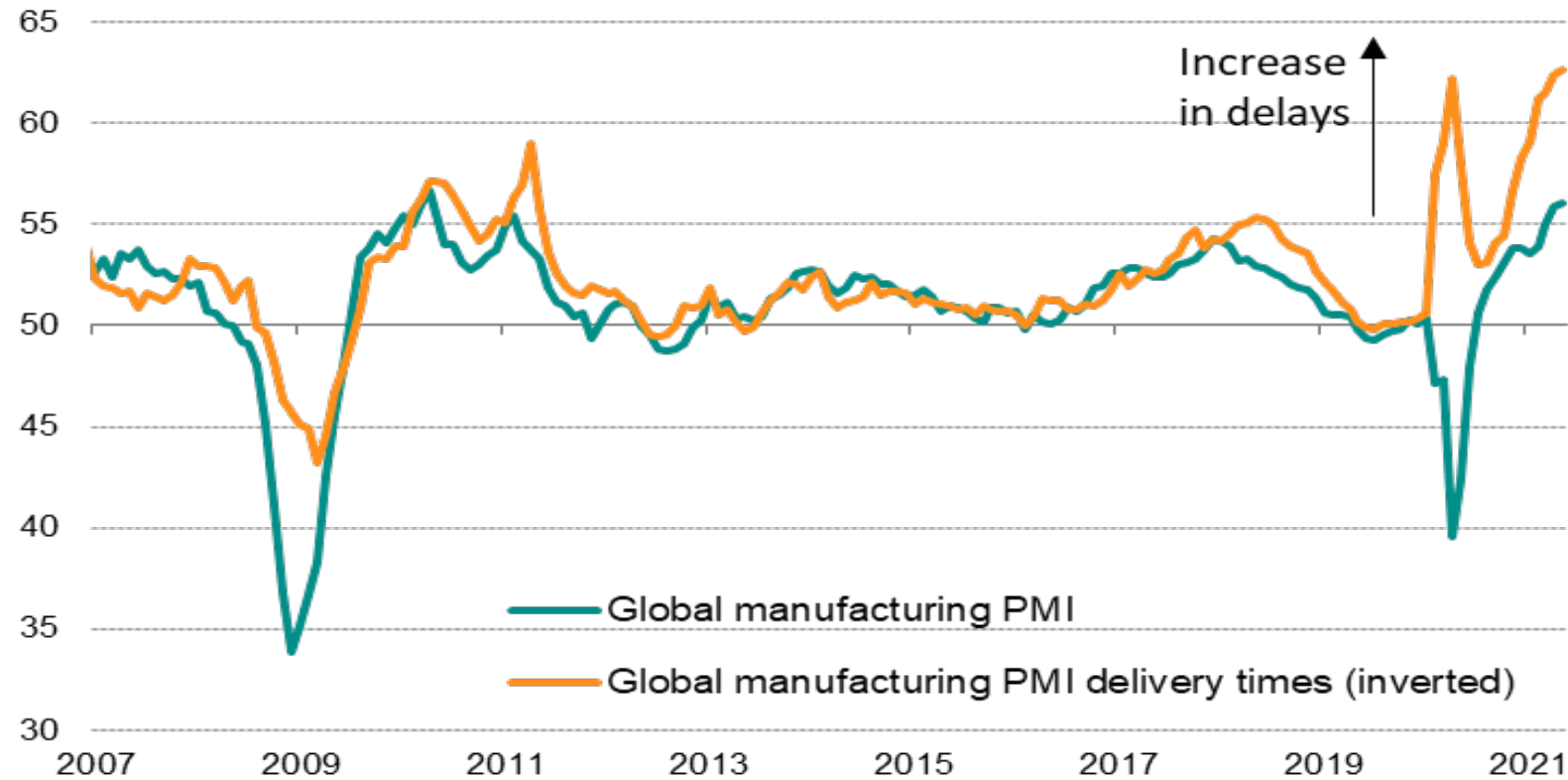


Purchasing Managers' Index

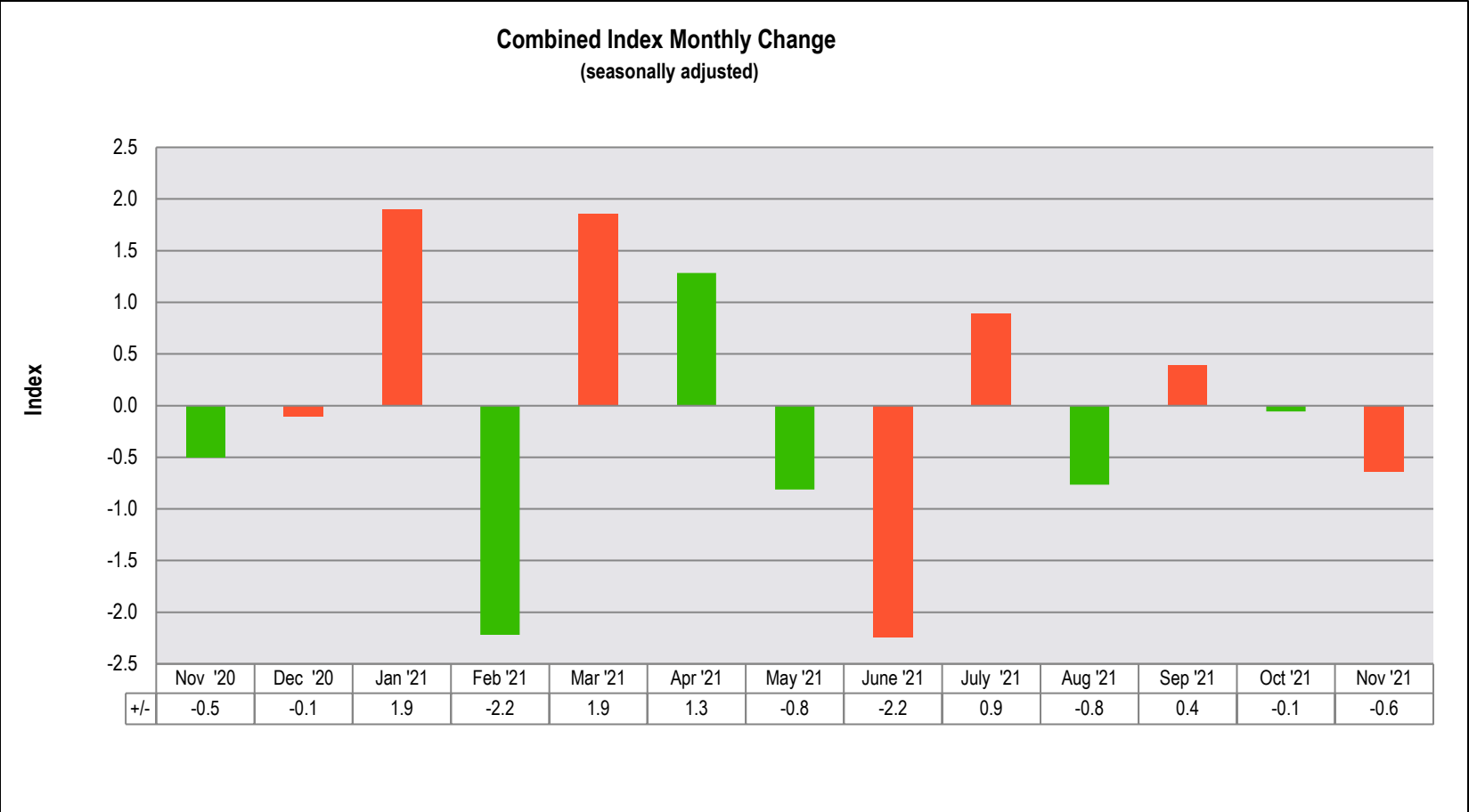


Global manufacturing PMI and delivery times (inverted)

Global PMI Manufacturing Index



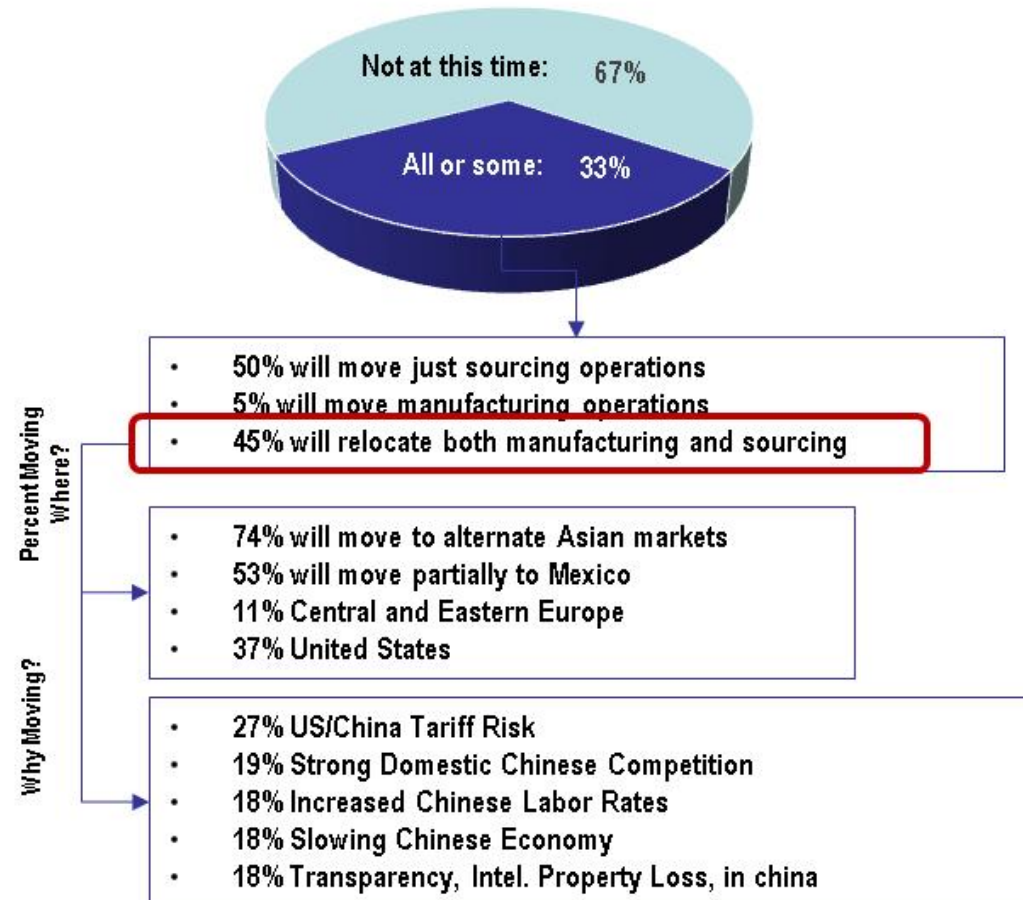
Sources: IHS Markit, JPMorgan



Global Tug-of-War

- **Catalysts were not pandemic related at first.**
- **But, pandemic and geopolitical pressures have just added to the urgency to get reshoring activity underway.**
- **Reshoring and nearshoring trends were expected to shift nearly \$1 trillion closer to US markets. 2022 is earmarked as a strong period for this activity. Planning and design should start happening now.**

Percent of Supply Chain Managers in China Planning to Shift Some or All Sourcing from China

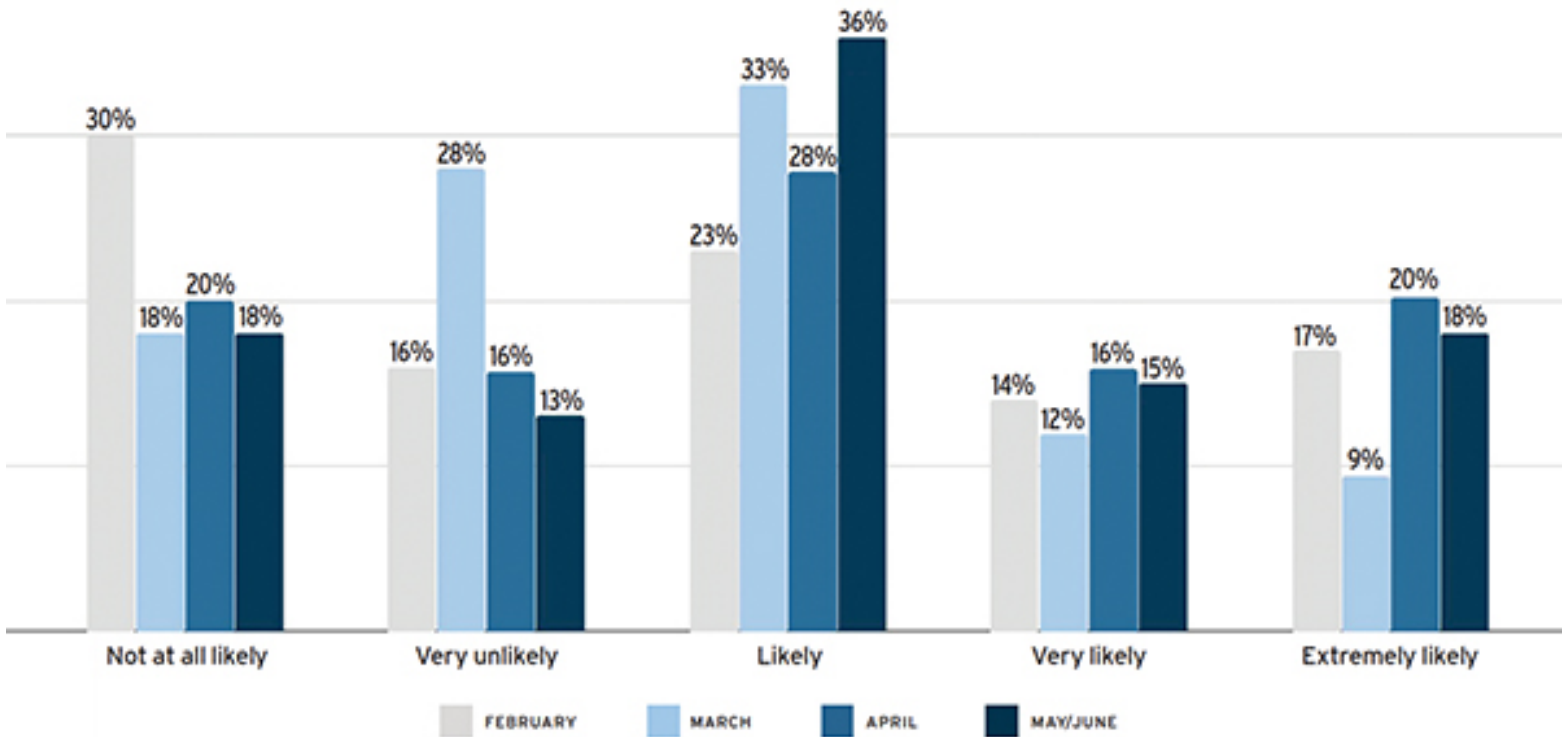


Update Q2 2021: 69% Likely, Very Likely, or Extremely Likely to Reshore in the Future



INCREASED INTEREST IN RESHORING: 69% OF MANUFACTURERS INDICATE THEY ARE "LIKELY TO" OR "EXTREMELY LIKELY TO" RESHORE IN THE FUTURE

How likely are you to bring more production/sourcing back to North America after this outbreak?



Source: Inbound Logistics

BUT WAIT – There's More!!

**We are nothing if not prolific.
Feel free to check these out in
more detail**

- **Strategic Intelligence System – Manufacturing**
- **Black Owl Report**
- **Credit Managers' Index**
- **Transportation Demand Index**
- **Business Intelligence Brief**

Just drop me a note at my e-mail address below or check out the website – also listed below.

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.
- Look for webinars in 2022 to provide you economic insights.
- Finish the year strong and have a great holiday season!