2021

SCHNEIDER DOWNS AND THE OHIO MANUFACTURERS' ASSOCIATION ECONOMIC SURVEY

SCHNEIDER DOWNS

Big Thinking. Personal Focus.

The Ohio Manufacturers' ASSOCIATION

INTRODUCTION

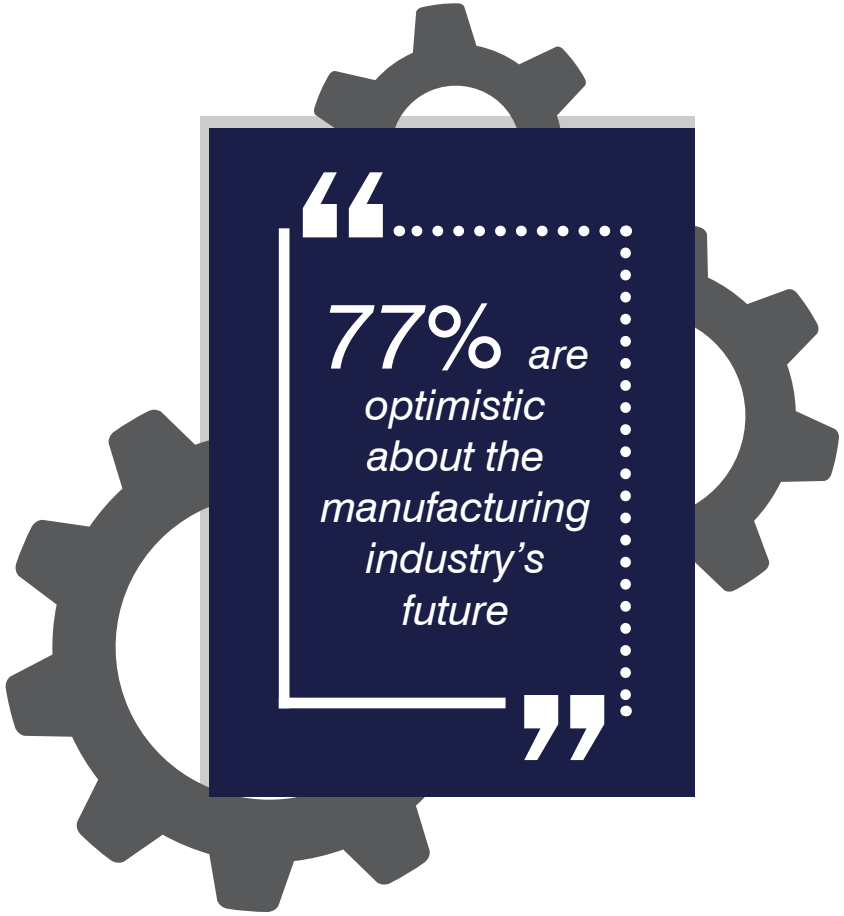
Jeanne Barrett

For nearly 22 months, manufacturers have dealt with unanticipated issues ranging from plant shutdowns to supply chain challenges. As we look forward to a brighter (and healthier) future, the Schneider Downs Manufacturing Industry Group and The Ohio Manufacturers' Association are pleased to present the results of our 2021 survey. Thank you to all the participants who shared their insights.

Workforce shortages, supply chain disruption and increasing raw material prices continue to top the list of challenges manufacturers faced during 2021. However, most of our respondents are anticipating increases in capital budgets and workforce, while at the same time dealing with a leaner workforce and rising labor, material and shipping costs.

While the Paycheck Protection Program (PPP) funds were depleted in May 2021, 72% of respondents were able to take advantage of tax relief pursuant to the CARES Act, mainly by participating in the PPP, of which 96% received full forgiveness. The change in administration in 2021 and the proposed Build Back Better legislation (and its impact on their operations and recovery) continue to be concerns for many manufacturers. Respondents also anticipate that possible tax increases will be met by price increases (68%).

As we enter the 22nd month of COVID-19, we remain hopeful that the worst of this pandemic will soon be in the past, as was the case with the 1918 influenza pandemic. We share this optimism with a large majority of our respondents (77%) who anticipate a timely recovery (about 1-2 years) and are optimistic about the industry's future.



> *47% of respondents think their company will see full recovery from the pandemic in 1 to 2 years*

PANDEMIC RELIEF

Did your business take advantage of any tax relief pursuant to the CARES Act enacted on March 27, 2020 or other pandemic relief that had become available?

Yes	72%
No	28%

In which program(s) did you participate?

First round of Paycheck Protection Program (PPP)	84%
Second round of Paycheck Protection Program (PPP2)	35%
Paid Sick Leave Credit	35%
Employee Retention Credit	32%
State funded grant/relief (i.e. hazard pay)	3%

Please indicate all that apply to your PPP loan:

Our company received full forgiveness of our PPP1 loan	96%
Our company received full forgiveness of our PPP2 loan	30%
Our company has not yet applied for forgiveness of our PPP2 loan	7%

NEW ADMINISTRATION

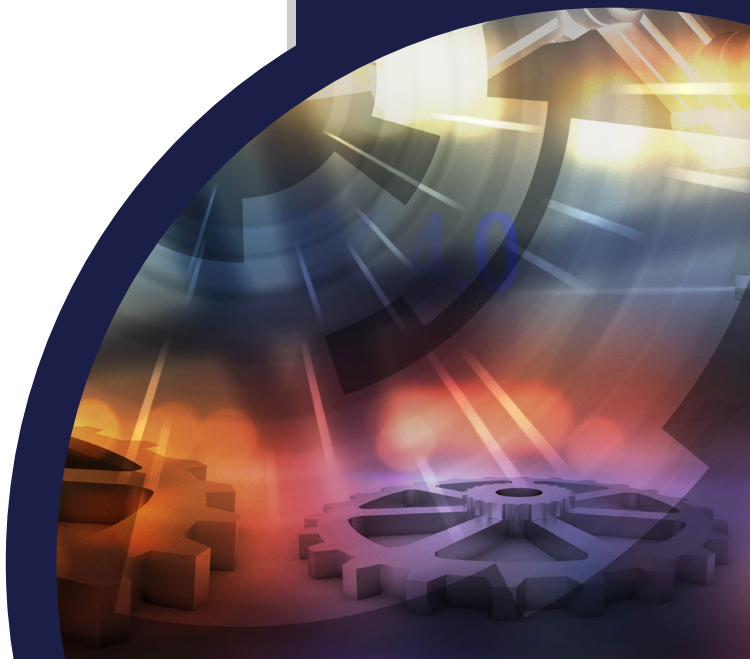
Has the change in White House administration impacted your company's business?

Significant impact	39%
Moderate impact	33%
Minimal impact	16%
No impact	12%

How will your business react if tax rates increase?

Raise prices	67%
Reduce owner compensation	21%
Reduce workforce	17%
Reduce employee compensation or fringe benefits	16%
No change	10%
Unknown	7%

> *70% of respondents stated the change in White House administration negatively impacted their company's business*



AS 2022 BEGINS, BUILD BACK BETTER REMAINS BENCHED

Justin Steele

In what is likely welcome news to the 70% of respondents to our Manufacturing Survey who indicated that the change in the White House has negatively impacted their business, it appears the Build Back Better legislation is, at best, being put on hold after Sen. Joe Manchin's announcement that he "cannot vote to continue with this piece of legislation." The West Virginia Democrat continued by stating, "(T)his is a no on this piece of legislation. I have tried everything I know to do." Similar to our survey respondents, he cited concerns over inflation, the national debt and the COVID-19 pandemic for his decision.

A symbolic vote may be held in January, as Senate majority leader Chuck Schumer promised to put the bill to vote in early 2022, saying every member would have the opportunity to make their position known on the Senate floor. Schumer also discussed a path forward, stating that Democrats would hold a special caucus meeting and that the Senate would, "keep voting on it until we get something done." "We simply cannot give up," notes Schumer. "We must and we will keep fighting to deliver for working families."

It is possible, though increasingly unlikely given recent news of a breakdown in the negotiation process between Sen. Manchin and the administration, that a smaller version of the bill could still be negotiated. House Speaker Nancy Pelosi, for example, said she was hopeful lawmakers could reach an agreement on the Build Back Better Act so that the legislation comprising President Joe Biden's economic agenda can pass "as soon as possible next year," according to a letter to colleagues. "First and foremost, our work for the People demands that we stay at the table to pass the Build Back Better Act," she notes, citing the most critical provisions in the measure as being the child tax credit, investments in family care, universal pre-kindergarten and childcare, expanding home healthcare, strengthening the Affordable Care Act and climate provisions.

The White House and Sen. Schumer need to determine whether they can salvage some of the tax-and-spending bill to address Sen. Manchin's demands while maintaining the support of the rest of the fractious Democratic caucus. Several moderates suggested trimming the bill by cutting the number of programs, but such a bill could be a tough sell with individual lawmakers fighting for their own competing priorities to be included.

AS 2022 BEGINS, BUILD BACK BETTER REMAINS BENCHED

Justin Steele

Sen. Manchin previously provided an outline that he said would earn his support for a revived slimmer version of Build Back Better legislation, indicating he would back a bill in the $1.7 trillion dollar range. As noted above, however, it appears his negotiations with the administration have broken down and his support for any version of Build Back Better has been retracted. Manchin indicated that the current proposed legislation was a "very far-reaching piece of legislation that changes so many categories in American culture and American society," noting that it would revamp the tax code, energy policy and the social platforms used to support people.

As the year progresses and we move closer to November, the outcome of the midterm elections will undoubtedly have a significant impact on this administration's ability to continue advancing tax and spend legislation like the Build Back Better Act.

CHALLENGES

The toughest challenges your organization is currently facing:

Attracting and retaining a quality workforce	84%
Increased raw material costs	81%
Supply chain challenges	74%
Transportation/logistics costs and challenges	58%
Rising health care/insurance costs	42%
Unfavorable business climate (e.g., taxes, regulations)	28%
Weaker domestic economy and fewer sales of our products to U.S. customers	23%
Trade uncertainties (e.g., actual or proposed tariffs, trade negotiation uncertainty)	21%
Weaker global growth and slower export sales	12%
Strengthened U.S. dollar relative to other currencies	7%
Challenges with access to capital or other forms of financing	7%
COVID mandate	4%

What are/were the biggest business challenges related to the pandemic?

Adjusting to supply chain issues	74%
Replacing skilled worker shortage	74%
Maintaining compliance with OSHA, CDC and Department of Health & Human Services sanitation and safety standards for our workforce	49%
Finding new suppliers to replace those that have been lost	19%
Finding new customers to replace those that have been lost	7%

GLOBAL SUPPLY CHAIN PRESSURES LINGER, BUT RELIEF MAY BE NEAR

Doug Morally

Brian Reitz

We've all felt it in some way over the last two years, whether it was waiting several months for that new couch or car or having to switch from our preferred brand of toilet paper. Among the many negative side effects of the COVID-19 pandemic, felt by companies and individuals alike, was the significant strain on the global supply chain. As you might surmise, manufacturers in our region were not immune. Nearly three quarters of respondents to our recent survey said supply chain issues were among the toughest challenges their organizations were currently facing and were, overall, one of the most significant impacts of the pandemic.

The current supply chain crunch is multifaceted and complex. From severe fluctuations in demand for varieties of products, to worker shortages and shutdowns at suppliers, transportation providers and ports, there are no easy fixes. The Federal Reserve Bank of New York recently developed a metric to measure global supply chain challenges more precisely. The Global Supply Chain Pressure Index (GSCPI) aggregates a number of indices in an effort to provide a more holistic summary of potential issues and incorporates metrics that track container shipping rate changes, air transportation freight and shipping raw materials costs. The GSCPI also integrates manufacturing data from the Purchase Manager Index (PMI) surveys from seven major global economies, including statistics on delivery time, backlogs and purchased stocks (accumulated inventory). Those metrics are very telling: both air freight and shipping container rates reached historic highs during the pandemic. Delivery times, as measured by the PMI surveys, also reached unprecedented levels.

The latest GSCPI, which incorporates data that goes back to 1997, shows relevant spikes surrounding the 2007-08 global financial crisis and the 2017-18 trade disputes between the U.S. and China, but those fluctuations don't come close to the significant changes to global supply chain pressures seen during the pandemic. Yet, despite all the issues the world has experienced over the past two years, experts at the Fed who developed the GSCPI believe the data seem to indicate that global supply chain pressures "have peaked and might start to moderate somewhat going forward."

As manufacturers across the world hold their collective breath in hopes that we've seen the worst of it, there are a number of steps companies can take to better prepare themselves for future issues. Organizations should continue focusing on workforce and embracing new ways of working to keep employees engaged to effectively manage their supply chains. It will also be important to emphasize finding innovative ways to leverage data and emerging technologies to respond more quickly to disruptions caused by the pandemic. Using these and other planning tools can prepare manufacturers to quickly react to supply chain issues, accelerating growth now and in the future once we see relief in global supply chain pressures.

OPERATIONS

In the past year, what changes have you made to your operations?

Lean workforce	65%
Supplement labor with technology	39%
Reduce offerings to focus on more profitable product lines	33%
No changes	2%

Do you have employees who are working remotely during the pandemic?

Yes, currently	35%
Not currently, but employees were previously working remotely	44%
No, our employees were never working remotely	21%

What flexible work arrangements have you adopted on an ongoing basis?

N/A - Our employees have returned or will return to working full-time at our facilities	50%
Hybrid Model - part-time at our facility and part-time remote	41%
Flexible work hours	29%
Remote working 100% of the time	15%
Compressed work week	12%
Part-time work hours	9%
Job sharing	3%

GROWING CONCERNS AMONG MANUFACTURERS

Mary Richter

In our 2020 survey, the biggest challenges for a return to pre-COVID business levels were focused on replacing lost customers, with OSHA and CDC compliance a distant second. Times change. The results of our 2021 survey are clear - employee shortages are hampering recovery and stalling growth.

While manufacturers identified a looming labor gap in pre-pandemic times, COVID has accelerated the scarcity of skilled labor. Almost 84% of respondents indicated "attracting and retaining a quality workforce" is a chief concern. This was the predominant challenge identified by organizations. Blame retirements and the great resignation. While the number of jobs and manufacturing payroll has rebounded to roughly pre-pandemic amounts, the labor force participation rate has dropped since early 2020 and is currently at about 62%. For perspective, the UK and German rates are about 78% and Canada is about 65%.

Job vacancies are at an historic high. The National Association of Manufacturers Outlook survey for Q4 of 2021 - 85% of companies had unfilled positions which resulted in 45% of respondents turning down revenue opportunities. Almost 70% of the respondents indicated that they had significantly increased compensation to retain employees. As a result, average wages in the manufacturing sector are now over $24 per hour, almost a 10% growth rate over the prior year.[i]

Employee retention strategies have been highlighted in 2021, with turnover on the industry up to 20% for some employers. While the world at large is focused on hybrid work arrangements, the manufacturing sector, is, of course, at a disadvantage - employees cannot replicate the manufacturing environment from their homes. So, flexible policies, such as changing schedules from the traditional 40 hour work week, are evolving for manufacturers.

To combat labor shortages, in addition to workplace flexibility, bonuses and compensation increases, employers have turned to expanded internal training and skill development, temporary workforce and continued automation. Outsourcing is still an option, but longer lead times and capacity constraints are still present. Still, more than two thirds of respondents expect to increase their workforce in 2022.

---

[i] https://tradingeconomics.com/united-states/employment-cost-index-wages
Statistics from US Bureau of Labor Statistics

GROWING CONCERNS AMONG MANUFACTURERS

Mary Richter

OSHA compliance relating to COVID is a growing concern among manufacturers. The President issued a vaccine mandate- most employers must either require workers to be vaccinated against COVID-19 or submit to weekly testing for the disease and all employees would be required to wear masks in the workplace. This is in addition to the federal contractor vaccination requirement and a healthcare worker vaccine mandate. These measures are controversial and the subject of significant litigation. The Supreme Court recently struck down the federal mandate for private employers. We note that the Supreme Court's decision does not address the federal contractor vaccine mandate, nor does it change the treatment for most medical workers, as most healthcare facilities receive Medicaid and Medicare funding. So, there are still open issues and potential for additional litigation. State mandates could replace the federal mandate and employers can issue their own policies.

At this time, there is no standard in place and there is mixed reaction from the business community, particularly in the tight labor market.

Stay tuned for updates.

DATA UTILIZATION

In what areas of your business do you use data analytics to support decision-making?

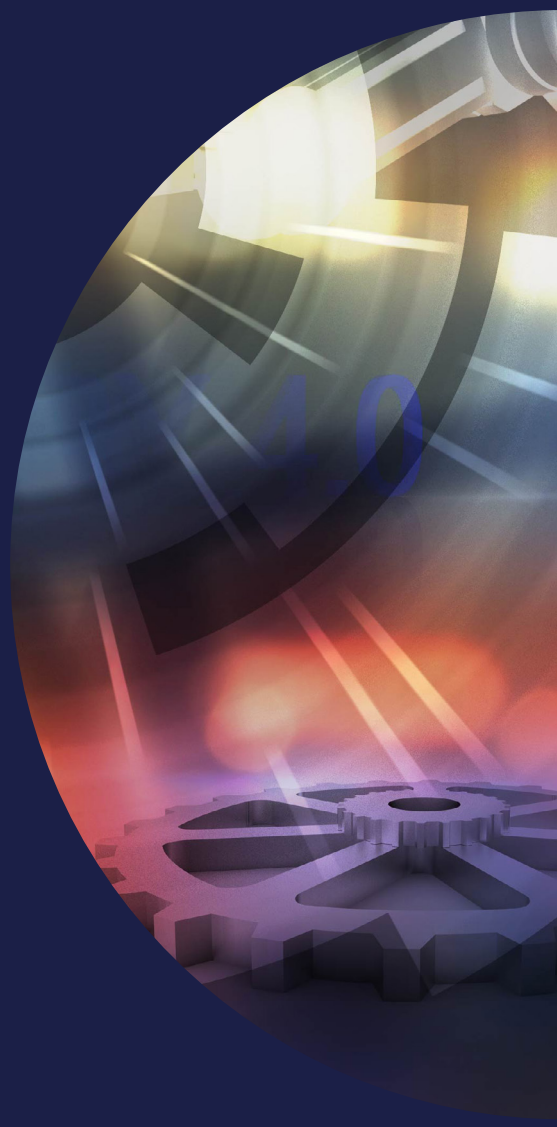
Operations	72%
Financial	70%
Production	65%
Human Resources	30%
We currently do not use data analytics	12%

Does your company have the ability to easily access data to make business decisions?

Yes - in some areas	53%
Yes - across all platforms	35%
No	12%

What tools do you utilize to analyze your data?

Microsoft Excel or similar	47%
ERP functionality	36%
Data visualization (Power BI/Tableau)	11%
Proprietary	3%



DATA ANALYTICS AND DIGITAL INFORMATION

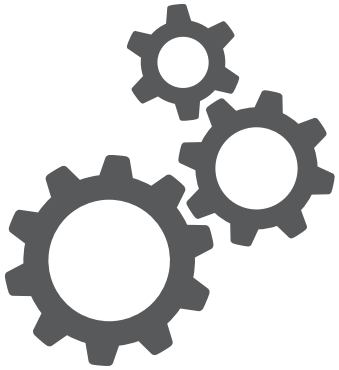
Michael Hart

With rising inflation, supply chain bottlenecks and labor challenges, information detailing how businesses are being affected in the COVID-19 environment is growing at an accelerated pace. Due to these dynamics, businesses, more than ever today, need to capture and utilize data in a timely, accurate and meaningful way.

From our survey, approximately 70% of all respondents use data analytics to support decision making in Finance, Operations and Production. However, only 35% of companies are able to easily access data across all their platforms. This means that 65% of the companies responding have easy access to data in only a few areas of their business (53%) or are not able to access their data at all (12%).

Shortcomings in a company's processes and technologies can result in issues pertaining to data integrity, data access and completeness of information. These issues lead to inefficient processes, which allow for untimely or inaccurate operational or financial information to drive decisions that impact profitability, as well as short- and long-term strategy. The sooner companies can leverage data analytics and transformative processes, the sooner they will be able to identify and react to trends, outliers and abnormalities that may have gone previously unidentified.

Since many survey respondents commented on their need for employees to be more productive through automation and technology, implementing data analytics best practices and transformative technologies can help push companies forward in the search for opportunities during a turbulent time. When used correctly, data analytics and business process automation can help improve efficiency, productivity, profitability and employee satisfaction. In addition to data analytics, digital transformation ensures the alignment of people, process and technology to help companies operate more efficiently, improve the stakeholder experience and help achieve strategic objectives. The result is technology being used effectively to optimize processes and support employees to work more efficiently, providing additional time to focus on more valuable work.



With the growth of the digital world and dependency on data, it is increasingly important for companies to utilize data analytics and digital transformation to make better informed data-driven business decisions with confidence and clarity.

ABOUT THE SURVEY RESPONDENTS


Karen Lang

ANNUAL REVENUES

Less than $10 million	13%
$10 to $50 million	45%
$51 to $100 million	17%
$101 to $250 million	15%
$251 to $500 million	4%
More than $500 million	6%

SECTORS

Fabricated metal	34%
Plastics and rubber	13%
Machinery	11%
Chemicals	6%
Primary metals	6%
Transportation equipment	6%
Paper and paper products	6%
Furniture	4%
Automotive	4%

EMPLOYEES

Fewer than 50	21%
51 to 250	43%
251 to 500	19%
More than 500	17%

2021 WORKFORCE

68% OF RESPONDENTS EXPECT THEIR WORKFORCE TO INCREASE IN 2022.

CUSTOMER BASE

Regional	11%
National	56%
International	33%

BUDGET

28% 2021 ACTUAL REVENUES WERE SIGNIFICANTLY BELOW 2020 BUDGET/ FORECAST.

86% IN 2022, THE MAJORITY OF RESPONDENTS' CAPITAL BUDGETS WILL INCREASE OR REMAIN THE SAME.

ABOUT THE SCHNEIDER DOWNS MANUFACTURING INDUSTRY GROUP

Schneider Downs provides accounting, tax and business advisory services to the manufacturing industry in Western Pennsylvania, Central Ohio, Washington D.C. and around the world. Our team of business advisors works with a range of manufacturers from high-tech startups to publicly traded industrial manufacturers.

Our Manufacturing Industry Group helps our clients streamline operations, improve internal controls, maximize tax benefits and grow profitability. Our dedicated team of professionals has the experience and knowledge to work with your manufacturing organization to develop specific solutions to achieve your business goals.

Stay current on changes as they happen and subscribe to our weekly Our Thoughts On articles. Sign up on our website:
www.schneiderdowns.com/subscribe.

For more information about our services to the manufacturing industry, visit our website or contact one of our Manufacturing Industry Group Team Members:

Jeanne M. Barrett – jbarrett@schneiderdowns.com
Douglas J. Morally – dmorally@schneiderdowns.com
Mary D. Richter – mrichter@schneiderdowns.com
Justin C. Steele – jsteele@schneiderdowns.com
Brian C. Reitz - breitz @schneiderdowns.com
Michael P. Hart - mhart@schneiderdowns.com
Daniel R. Struth – dstruth@schneiderdowns.com
Debra A. Stockdale - dstockdale@schneiderdowns.com

Pittsburgh:
p 412.261.3644

Columbus:
p 614.621.4060

Washington D.C.:
p 571.380.9003

schneiderdowns.com

CLICK HERE TO LEARN MORE

LinkedIn

PrimeGlobal
An Association of Independent Accounting Firms

ABOUT THE OHIO MANUFACTURERS' ASSOCIATION

The Ohio Manufacturers' Association's mission is to protect and grow Ohio manufacturing.

Helping Ohio Manufacturers Drive Down the Cost of Doing Business

Government plays a significant role in determining manufacturers' cost of doing business. All along the manufacturing continuum – from transportation of raw materials, to manufacturing design and production, to delivery of finished product – various policies, rules and regulations govern manufacturing activities and impact your costs. That's why the OMA works hard to represent your interests at the Statehouse and beyond. In short, our advocacy efforts aim to save you money, reduce government burdens, and help you solve regulatory matters that can impede your business.

Member-Supported, Member-Driven, Member-Focused

The OMA constantly monitors legislative activity in the Ohio House and Senate, as well as actions within the executive branch. OMA staff stays in close contact with policymakers and agency leaders to ensure manufacturers – regardless of size or sector – have a strong voice throughout state government. The OMA also works closely with the National Association of Manufacturers to keep members abreast of key federal developments.

CLICK HERE TO LEARN MORE

For more information about our services to the manufacturing industry, visit ohiomfg.com:

Ryan Augsburger – President
Jamie Karl – Communication Services
Nick Miller and Crissy Roach – Development and Member Services
Angie Leach and Vickie Trivette – Financial & Administrative Services
Lisa Schaaf – Marketing Services
Lisa Cummings-Dye and Denise Locke – Project Services
Rob Brundrett and Rachael Carl – Public Policy Services
Brian Jackson, Karen James, Melissa Ross and Juliet Walker - Workers' Compensation Services
Rebecca Andriani and Sara Tracey – Workforce Services
Eric Burkland – President Emeritus

OMA.:

phone: 614-224-5111 800-662-4463
email: oma@ohiomfg.com

www.ohiomfg.com/about