

SMI Remains High Despite Delta Variant

The industry's outlook stayed rather steady this month, despite new shutdowns and fear over the Delta variant of COVID-19. The Security Market Index (SMI) is 64 this month; it was 67 in June, 34 in April, and 44 in February. An Index above 50 indicates that conditions within the industry are largely positive and that security industry professionals are predominantly confident in their business outlooks.

This month, 45% of security professionals rated current business conditions as being "excellent," 41% said they were "good," no one said they were "average," 14% rated them as fair, and no one said conditions were "poor." In June, 31% of respondents said conditions were "excellent," 53% said they were "good," 11% said they were "average," 4% said they were "fair," and no one considered conditions to be "poor."

"We would rate business conditions as excellent but product delays due to supply chain issues are keeping us from delivering products when our integrators need them," said one respondent in distribution who rated current conditions as being "good."

"Demand for services continues to be strong and continues to increase," said another respondent.

The Security Market Index measures the current status and future expectations of security industry executives through a select survey of SIA members. The Index's goal is to provide a macro-view of confidence levels in the security industry every two months while closely examining six specific business measures:

- Number of employees or hours worked
- Marketing spending
- Product production or service output
- Capital equipment spending
- R&D spending

- Product or service sales
- This month, 76% of survey respondents reported an increase in the number of employees or hours worked, while 17% said the numbers were remaining the same and 3% reported decreases. In June, 73% reported increases, 24% reported consistency, and no one reported decreases.

Forty-one percent of August SMI respondents reported increases in capital equipment spending, 4% reported decreases, and 48% said spending remained the same. In June, 33% of professionals said capital equipment spending had increased, 7% said it had decreased, and 47% said it had remained the same.

Forty-two percent of security professionals surveyed in August reported increases in marketing spending, while 4% reported a decrease, and 54% said spending was remaining the same. In June, 60% of respondents reported an increase in marketing spending, while 9% reported a decrease and 29% reported consistency.

Within the next three months, 72% of security professionals believe business conditions will be either "much better" or "a little better." Twenty-eight percent expect no change in business conditions, and no one expects them to be worse. In June, 93% of respondents expected improved conditions in the next three months, 4% expected conditions to remain the same, and 2% expected conditions to be worse.

To provide a broader view of business conditions, the Security Market Index also cross checks against other surveys and reports from a select list of sources that generally match the time range and themes of the Index.

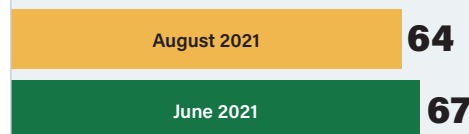
- The Conference Board's Consumer Confidence Index ▲

SIA Security Market Index

August-September 2021

Overall, the Index survey measures general business conditions but also gauges six elements to reach one Index number that signals security industry executives' confidence. The elements are:

- Number of Employees or Hours Worked
- Marketing Spending
- Product Production/Service Output
- Capital Equipment Spending
- R&D Spending
- New Orders/New Contracts

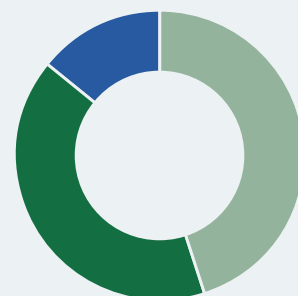


Source: SIA Security Market Index, August 2021

The industry's outlook stayed rather steady this month with an SMI of 64.

August 2021

Overall Rating of Current Business Conditions of Company



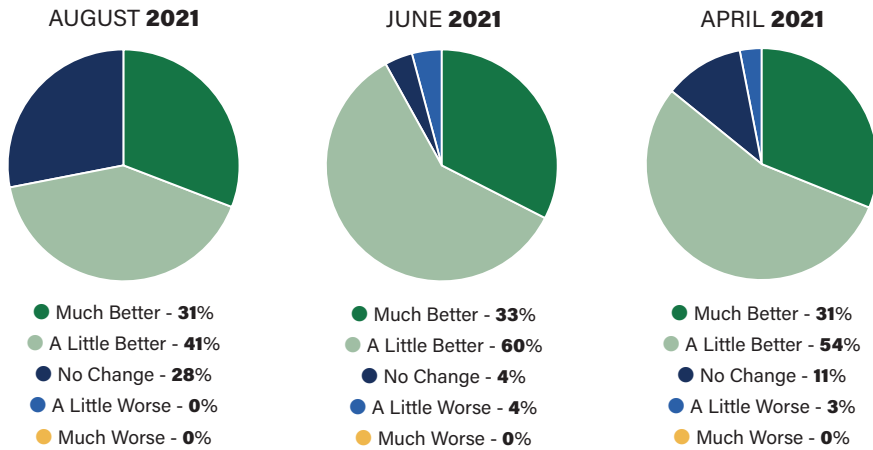
- Excellent: **45%**
- Good: **41%**
- Average: **0%**
- Fair: **14%**
- Poor: **0%**

Source: SIA Security Market Index, August 2021

This month, 45% of security professionals rated current business conditions as "excellent," and 41% said they were "good." No one said conditions were "average," 14% said conditions were "fair," and zero Security Market Index respondents considered current conditions to be "poor."

- The National Association of Realtors' Home Prices ▼
- The Conference Board's Measure of CEO Confidence ▲
- Chief Executive's CEO Confidence Index ▼

Expected Business Conditions for Companies in Next Three Months

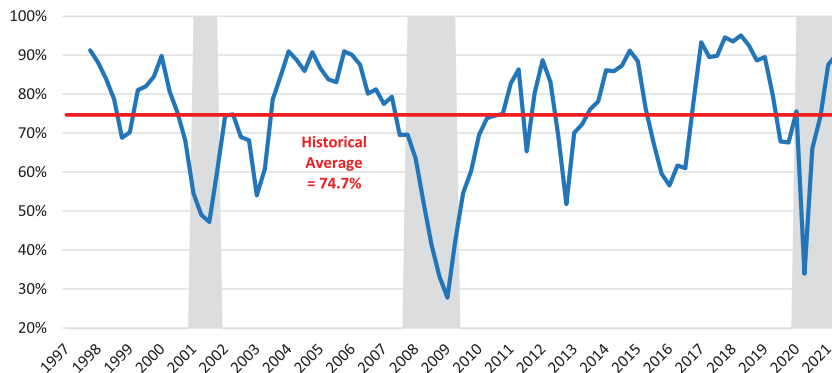


Source: SIA Security Market Index, August 2021

Moving forward, 72% of security leaders surveyed for the August 2021 Security Market Index believe that business conditions will improve by some degree over the next three months, with 28% predicting no change over the next quarter, and no one expecting conditions to become worse.

Manufacturing Business Outlook by Quarter, 1997-2021

(Recessions Are Highlighted with Gray Shading)



Note: Percentage of respondents who characterized the current business outlook as somewhat or very positive. The National Bureau of Economic Research has said that the recession began in February 2020, but it has not yet dated the end point.

The 2021 Q2 Manufacturer's Outlook Index from the National Association of Manufacturers (NAM) shows that business is rebounding. Source: NAM.

- National Association of Manufacturers' (NAM) Outlook Survey ▲
- The U.S. Bureau of Labor Statistics' Employment Situation Summary ▲

The Conference Board Consumer Confidence Index® was relatively unchanged in July, following gains in each of the prior five months. The Index now stands at 129.1 (1985=100), up from 128.9 in June. The Present Situation Index — based on consumers' assessment of current business and labor market conditions — rose from 159.6 to 160.3. The Expectations Index — based on consumers' short-term outlook for income, business, and

labor market conditions — was virtually unchanged at 108.4, compared to 108.5 last month.

The Pending Home Sales Index (PHSI), a forward-looking indicator of home sales based on contract signings, declined 1.8% to 110.7 in July. Year-over-year, signings fell 8.5%. An index of 100 is equal to the level of contract activity in 2001.

The Conference Board Measure of CEO Confidence™ in collaboration with The Business Council improved further in the second quarter of 2021, following a sharp increase in Q1. The measure now stands at 82, up from 73. This marks the highest level of

CEO confidence recorded since the measure began in 1976. A reading above 50 points reflects more positive than negative responses.

CEOs' assessment of current economic conditions rose substantially, after slightly moderating last quarter. In Q2, 94% said conditions are better compared to six months ago, up from 67% in Q1. CEOs also expressed greater optimism about conditions in their own industries, with 89% reporting better conditions compared to six months ago, up from 68% in Q1. Historically high expectations in Q1 climbed even further in Q2: 88% of CEOs expect economic conditions to improve over the next six months, up from 82%.

After a surge in optimism in July, CEO sentiment fell back to pre-vaccine levels in August due to a growing array of concerns, including the recent spike in COVID-19 cases, supply chain disruptions, the potential for tax increases, inflation, rising government spending, and tight labor markets, according to *Chief Executive's* latest poll. CEOs are now equally divided in their forecast for the future, with the same proportion saying conditions will worsen versus those who think it will improve. CEOs' assessments of current and future business conditions are now 6.8/10 — the lowest they've been since March 2021 and November 2020.

The National Association of Manufacturers' Q2 2021 Outlook Survey found that 90.1% of respondents felt either somewhat or very positive about their company outlook. It was the fourth straight quarterly increase in optimism in the survey, with the outlook bouncing back from the 33.9% reading one year ago, which was the worst since the Great Recession. More importantly, this suggests that manufacturers had the strongest outlook in nearly three years, since the third quarter of 2018, and manufacturers are predicting the highest levels of production, sales and job growth in Outlook Survey history.

The NAM Manufacturing Outlook Index measured 60.3 in the second quarter, up from 58.6 in the first quarter. This suggests that optimism in the outlook in the second quarter was just over one standard deviation from the historical average (74.7%) — a very robust reading.

Percent of Respondents Saying They Will Increase Activity or Dollars in

August 2021

Product/Service Sales: **89% Increase**
Employees/Hours: **76% Increase**
Capital Equip Spend: **41% Increase**

June 2021

Product/Service Sales: **84% Increase**
Employees/Hours: **73% Increase**
Capital Equip Spend: **33% Increase**

April 2021

Product/Service Sales: **63% Increase**
Employees/Hours: **63% Increase**
Capital Equip Spend: **26% Increase**

Source: SIA Security Market Index, August 2021

Product/service sales saw a boost this month, with 86% of August respondents reporting an increase.

The U.S. Bureau of Labor Statistics' Employment Situation Summary shows that the unemployment rate declined by 0.5 percentage point to 5.4% in July. In addition, the number of unemployed people fell by 782,000 to 8.7 million. These measures are down considerably from their highs at the end of the February-April 2020 recession. However, they remain well above the levels prior to the coronavirus pandemic (3.5% and 5.7 million in February 2020).



Behind the SIA Security Market Index

The Security Market Index, a bi-monthly survey and report, measures overall industry confidence in addition

to specifics by executives' product and service focus. A select group of top leaders, representing the SIA membership, is surveyed throughout the month of publication via a series of emails with a link to an online and confidential questionnaire.

Respondents can add comments to most recurring questions. When comments are referenced in this report, they are not attributed to any specific individuals or member firms.

SECURITY VIDEO

Video Surveillance SMI Dips Slightly



The Security Market Index reading for the video surveillance sector dipped slightly this month with a reading of 64. In June, the sector-specific SMI was 69, and in April, it was 63.

Confidence in the sector improved, though, with 57% of video surveillance professionals rating business conditions as "excellent," 28% saying they are "good," no one saying they are "average," and 14% saying conditions are "fair." In June, 40% in the sector considered conditions to be "excellent," 60% said they were "good," and no one said conditions were "average" or "fair."

Moving forward, 43% of those surveyed in the video sector said they expect business conditions to be "much better" in three months, while 29% expect conditions to be "a little better," 29% expect no change, and no one expects conditions to grow worse. In June, 20% of respondents said they expected conditions to be "much better," 60% said they would be "a little better," and 20% expected conditions to grow worse.

"We are at 40% growth and expect to continue with this trend," said one respondent who predicts no change in conditions.

"Hopefully worldwide conditions will improve," said a respondent who expects conditions to be "much better."

Security Market Index, Video Surveillance Segment: **64** Security Market Index, Overall: **64**

Expected Business Conditions over the Next Three Months

August 2021

- Much better: **43%**
- A Little Better: **29%**
- No change: **29%**
- Worse: **0%**

June 2021

- Much better: **20%**
- A Little Better: **60%**
- No change: **0%**
- Worse: **20%**

April 2021

- Much better: **67%**
- A Little Better: **0%**
- No change: **33%**
- Worse: **0%**

Source: SIA Security Market Index, August 2021

Integrator Index at Pre-Covid Level



The segment-specific June Index

for security systems integrators is 57 this month — just two points below the June SMI of 59, the highest reading in the sector since before the COVID-19 pandemic. The Index was 44 in April, 33 in February, 48 in December 2020, 15 in September 2020, 23 in July 2020, 25 in May 2020, and 41 in March 2020.

When asked how they would rate current business conditions, 14% said “excellent,” 71% said “good,” no one said “average,” and 14% said conditions were “fair.” In June, 29% of survey respondents in the

sector reported that their confidence was “excellent,” while 57% said it was “good,” and 14% said it was “average.”

“The Delta variant is postponing the return back to work for clients using commercial real estate for their offices,” said one respondent who rated current business conditions as being “fair.”

In three months, 57% of integrators surveyed expect business conditions to be “much better” and 43% expect no change. In June, 14% of integrators expected conditions to be “much better” and 86% expected them to be “a little better.”

SECURITY MARKET INDEX

Security Systems
Integrator Segment: **57**

SMI Overall: **64**

Confidence in Current Business Conditions

SMI Overall:

Excellent: **45%**

Good: **41%**

Average: **0%**

Fair: **14%**

Poor: **0%**

Security Systems Integrator Segment

Excellent: **14%**

Good: **71%**

Average: **0%**

Fair: **14%**

Poor: **0%**

Source: SIA Security Market Index, August 2021

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THE IMPACT OF COVID-19

Delta Variant Threatens to Hurt Business

Just as we thought we were well on our way to eradicating the threat of COVID-19 and thousands of security professionals traveled to Las Vegas for ISC West, a new threat emerged: the Delta variant.

But how is this new coronavirus variant affecting the security industry? Quite a bit, it turns out.

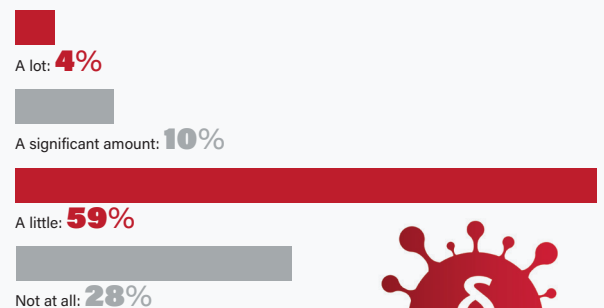
When asked how much, if at all, the Delta variant had hurt their business, 3% of respondents to this month's SMI said it had hurt “a lot,” 10% said it hurt “a significant amount,” 59% said it had hurt “a little,” and 28% of respondents claimed it had no effect.

“We are still stagnant from the initial virus,” said a respondent in the video sector who says the variant hurt business “a little.” “The variant is prolonging the pain.”

One respondent in the audio sector who says the variant hurt “a lot” explained, “Supply chain reduction, reduced availability of U.S.-made raw materials, longer lead times demand strong inventory management.”

“The need for flexible access control has increased a lot, as have the budgets for flexible facility management,” said a respondent in the access control sector who claims they were “not at all” hurt by the Delta variant.

The Delta Variant's Harm to Business



Source: August 2021