

SMI Momentum Weakens and Uncertainty Increases

The Security Market Index (SMI)

dropped to 47 in November — a similar reading as February's Index of 44. In August, the Index was 64, following 67 in June, and 34 in April. 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, 29% of security professionals rated current business conditions as being "excellent," 38% said they were "good," 24% said they were "average," 5% rated them as fair, and 4% said conditions were "poor." In August, 45% of security professionals said current business conditions were "excellent," 41% said they were "good," no one said they were "average," 14% rated them as fair. No one said conditions were "poor."

"We are still in a COVID hangover, and we go up and down based on the actual cases of COVID-19 as well as the fear factors of the next wave. We thought 2021 would be very different from 2020, but it is a lot of the same issues of 2020," said one respondent who rates current business conditions as "good."

Another security professional in the residential and commercial security technology sector, who rates current business conditions as "good," said, "Some supply chain and labor issues appear to be keeping the industry from hitting on all cylinders."

The responses reflect an industry trend: the fault lines opened up by COVID-19 — such as supply chain disruptions and labor shortages — are persistent, and the threat of variants such as Delta have increased uncertainty about how quickly the pandemic can be overcome.

The SMI measures security industry executives' current status and future expectations 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, 48% of survey respondents reported an increase in the number of employees or hours worked, while 48% said the numbers remained the same, and no one reported decreases. In August, 76% of survey respondents reported an increase in the number of employees or hours worked, while 17% said the numbers remained the same, and 3% reported decreases.

"We are working with a smaller crew than we had in 2020, and we are just now backfilling those positions. Everyone kicked in a little more to keep things running," said one security professional who reported an increase in the number of employees or hours worked.

Twenty-nine percent of November SMI respondents reported increases in capital equipment spending, 5% reported decreases, and 43% said spending remained the same. In November, 41% of professionals said capital equipment spending had increased, 4% said it had decreased, and 48% said it had remained the same.

Forty-three percent of security professionals surveyed in November reported increases in marketing spending, while 5% reported a decrease, and 48% said spending remained the same. In August, 42% of respondents reported an increase in marketing spending, while 4% reported a decrease and 54% reported consistency.

Within the next three months, 62% of security professionals believe business conditions will be either "much better" or "a little better." Thirty-three percent expect

SIA Security Market Index November 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

November 2021

47

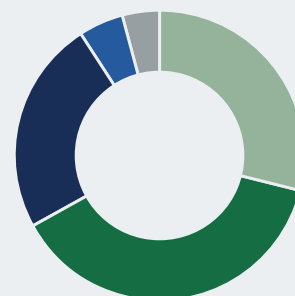
August 2021

64

Source: SIA Security Market Index, November 2021

The industry's outlook decreased this month, with an SMI of 47.

November 2021 Overall Rating of Current Business Conditions of Company



- Excellent: **29%**
- Good: **38%**
- Average: **24%**
- Fair: **5%**
- Poor: **4%**

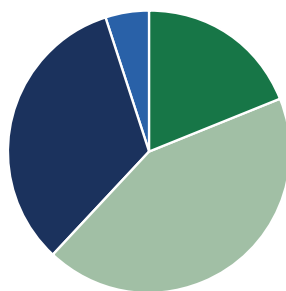
Source: SIA Security Market Index, November 2021

This month, 29% of security professionals rated current business conditions as "excellent," and 38% said they were "good." Thirty-eight percent said conditions were "average," 5% said conditions were "fair," and 5% of Security Market Index respondents considered current conditions to be "poor."

no change in business conditions, and 5% expect them to be worse. In August, 72% of respondents expected improved conditions in the next three months, 28% expected conditions to remain the same,

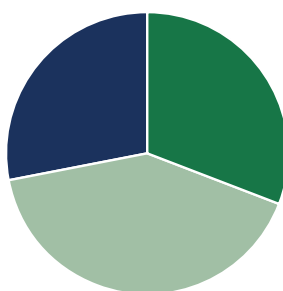
Expected Business Conditions for Companies in Next Three Months

NOVEMBER 2021



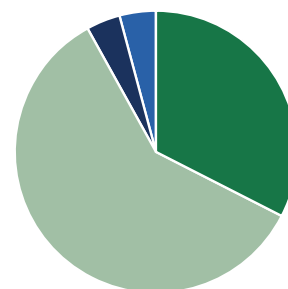
- Much Better - 19%
- A Little Better - 43%
- No Change - 33%
- A Little Worse - 5%
- Much Worse - 0%

AUGUST 2021



- Much Better - 31%
- A Little Better - 41%
- No Change - 28%
- A Little Worse - 0%
- Much Worse - 0%

JUNE 2021



- Much Better - 33%
- A Little Better - 60%
- No Change - 4%
- A Little Worse - 4%
- Much Worse - 0%

Source: SIA Security Market Index, November 2021

Moving forward, 62% of security leaders surveyed for the November 2021 Security Market Index believe that business conditions will improve by some degree over the next three months, with 33% predicting no change over the next quarter, and 5% expecting conditions to become worse.

and no one expected conditions to worsen.

To provide a broader view of business conditions, the SMI 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 ▲
- The National Association of Realtors' Pending Home Sales Index ▼
- The Conference Board's Measure of CEO

Confidence ▼

- Chief Executive's CEO Confidence Index ▼
 - National Association of Manufacturers (NAM) Outlook Survey ▼
 - The U.S. Bureau of Labor Statistics Employment Situation Summary ▲
- The Conference Board's Consumer Confidence Index increased in October, following declines in the previous three months. The Index now stands at 113.8, up from 109.8 in September. Based

on consumers' assessment of current business and labor market conditions, the Present Situation Index rose to 147.4 from 144.3 last month. The Expectations Index — based on consumers' short-term outlook for income, business, and labor market conditions — improved to 91.3 from 86.7.

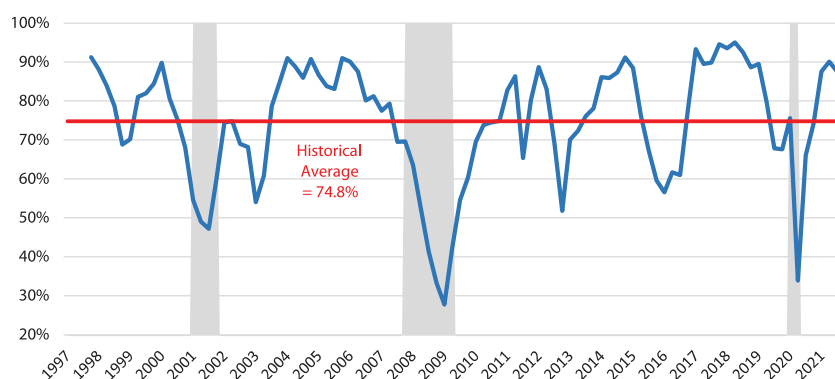
The National Association of Realtors' Pending Home Sales Index (PHSI) — a forward-looking indicator of home sales based on contract signings — decreased 2.3% to 116.7 in September, with each of the four major U.S. regions seeing contract activity decline month-over-month and year-over-year. Compared to September 2020, signings fell 8%. An index of 100 is equal to the level of contract activity in 2001.

In collaboration with the Business Council, the Conference Board's Measure of CEO Confidence decreased to 67 in the third quarter of 2021, after hitting an all-time high of 82 in the second quarter. A reading above 50 points reflects more positive than negative responses.

CEOs' assessment of current economic conditions declined from last quarter but remained in positive territory. In Q3, 70% said conditions are better than six months ago, down from 94% in Q2. CEOs' view of conditions in their industries also decreased, with 64% reporting better conditions compared to

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. Recessions are designated by the National Bureau of Economic Research.

The 2021 Q3 Manufacturer's Outlook Index from the National Association of Manufacturers (NAM) shows that there is consistent solid growth in manufacturing. Source: NAM.

six months ago, down from 89% in Q2. Looking ahead, expectations softened in Q3 compared to Q2: 60% of CEOs expect economic conditions to improve over the next six months, down from 88%. Similarly, 65% of CEOs anticipate short-term prospects in their industries to improve, down from 81%.

According to *Chief Executive's* CEO Confidence Index, CEOs in the U.S. feel slightly more optimistic about the state of business today than a year ago. But, their outlook for the year ahead has been on the decline for several months. The latest survey shows CEO sentiment has hit its lowest level since November 2020, with many CEOs forecasting conditions to worsen over the coming year rather than improve. After falling 3% in September, CEOs' rating of current business conditions ticked up slightly (0.5%) in October, to 6.7/10. There may be many reasons for these conditions, including pandemic outbreaks which result in supply disruptions, worker shortages, increasing risk in financial markets, and a fluctuating pandemic outlook.

Percentage of Respondents Saying They Will Increase Activity or Dollars in

November 2021

Product/Service Sales: **60% Increase**

Employees/Hours: **48% Increase**

Capital Equip Spend: **29% Increase**

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**

Source: SIA Security Market Index, November 2021

The percentage of respondents planning to increase sales, labor and capital equipment spending or activity is down from August and June.

The National Association of Manufacturers' Q3 2021 Outlook Survey found that 87.5% of respondents felt either somewhat or very positive about their company's outlook, down from 90.1% in the second quarter.

The NAM Manufacturing Outlook Index measured 58.4 in the third quarter, down from 60.2 in the second quarter. The data are consistent with solid growth in manufacturing activity, but with some easing from more rapid paces in the second quarter, when the outlook had registered its best reading in nearly three years and some measures reached record highs.

The U.S. Bureau of Labor Statistics Employment Situation Summary showed that the unemployment rate fell by 0.4 percentage points to 4.8 percent in September. The number of unemployed persons decreased by 710,000 to 7.7 million. Both measures are down considerably from their highs in April 2020. However, they remain above their levels before the coronavirus (COVID-19) pandemic (3.5% and 5.7 million, respectively, in February 2020).

SECURITY SYSTEMS INTEGRATION

Integration SMI Remains Steady at 54



The segment-specific November Index

for security systems integrators is 54 this month — a slight decrease from the Index reading of 57 in August. The Index was 59 in June, 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, 25% said "excellent," 50% said "good," and 25% said "average." In August, 29% of survey respondents in the sector reported their confidence in current business conditions to be "excellent," while 57%

said "good," and 14% said "average."

In three months, 25% of integrators surveyed expect business conditions to be "much better," and 50% expect conditions

to be "a little better." In August, 14% of integrators surveyed expected business conditions to be "much better," and 86% expected conditions to be "a little better."

SECURITY MARKET INDEX

Security Systems Integrator Segment: **54**

SMI Overall: **47**

Confidence in Current Business Conditions

SMI Overall:
Excellent: **29%**
Good: **38%**
Average: **24%**
Fair: **5%**
Poor: **4%**

Security Systems Integrator Segment

Excellent: **25%**
Good: **50%**
Average: **25%**
Fair: **0%**
Poor: **0%**

Source: SIA Security Market Index, November 2021



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.

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COVID-19 VACCINATION REQUIREMENTS

How Organizations Are Handling COVID-19 Vaccination

A topic of much discussion has been President Joe Biden's coronavirus vaccine mandate for federal contractors. The federal requirement, which is set to take effect Dec. 8, calls on all federal workers and contractors to be vaccinated against COVID-19, and requires that private businesses with more than 100 employees either mandate vaccines or provide weekly coronavirus testing.

To gauge the state of COVID-19 vaccination requirements in the security industry, the SMI October survey asked respondents to report how their companies were handling COVID-19 vaccinations. Thirty-eight percent of respondents said they were "requiring employees to be vaccinated," 19% said they were "requiring employees to be vaccinated or regularly tested," 33% said they were "encouraging vaccination but not implementing requirements," and 10% said they were "not raising the issue with employees."

Often, respondents indicated they were not "100% sure on policy just yet," or that they were "waiting

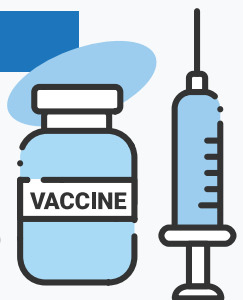
Trends in COVID-19 Vaccination Requirements

We are requiring employees to be vaccinated: **38%**

We are requiring employees to be vaccinated or regularly tested: **19%**

We are encouraging vaccination but not implementing requirements: **33%**

We are not raising the issue with employees: **10%**



on U.S. Department of Labor's Occupational Safety and Health Administration (OSHA) rules on how the mandate is to be implemented."

A security systems integrator respondent said, "We have implemented requirements where specific customer requests require vaccination." Another respondent in the security systems integrator sector said, "We have clients that require proof of vaccination."

A professional in the audio sector indicated, "In our area, we are encouraged to wear masks where needed and to space out. We are doing both. Hand sanitizer, masks and other items are all being used."