

## Despite World Unrest and Economic Uncertainty, SMI Heats Up

**The Security Market Index (SMI)** has increased to 72 this February. In December, the Index was 47; 64 in August; 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, 33% of security professionals rated current business conditions as being "excellent," 46% said they were "good," 15% said they were "average," 3% rated them as fair, and 3% said conditions were "poor." In December, 29% of security professionals said current business conditions were "excellent," 38% said they were "good," 23% said they were "average," 5% rated them as fair, and 5% said conditions were "poor."

"We are realizing upward demand for products across the business," said one respondent who rates current business conditions as "good."

A respondent in the critical communications equipment sector, who rates current business conditions as "good," said, "Business activity is up, and we are seeing some new customers including audio in their safety and security projects."

While responses show market demand is holding steady, security professionals noted that lingering supply chain issues are still causing a slowdown in overall business growth. "[We are] continuing to see slowdowns globally due to project delays and facilitates budget cuts stemming from COVID," said one respondent. Another respondent said, "We are battling the same things: rising prices and supply chain shortages."

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, 81% of survey respondents reported an increase in the number of employees or hours worked, while 16% said the numbers remained the same and 3% reported decreases. In December, 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.

Responses showed a trend: increased business as a result of COVID-19 cases decreasing. "Everyone is coming back from COVID-19 and we are back to normal hours," said one security professional who reported an increase in the number of employees or hours worked.

A security professional in the access control sector said, "We are growing and adding employees quickly."

Fifty-two percent of February SMI respondents reported increases in capital equipment spending, no one reported decreases, and 43% said spending remained the same. In December, 29% of professionals said capital equipment spending had increased, 5% said it had decreased, and 43% said it had remained the same.

Sixty-seven percent of security professionals surveyed in February reported increases in marketing spending, while 6% reported a decrease, and 27% said spending remained the same. In December, 43% of respondents reported an increase in marketing spending, while 5% reported a decrease and 48% reported consistency.

Within the next three months, 90% of

### SIA Security Market Index February 2022

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:

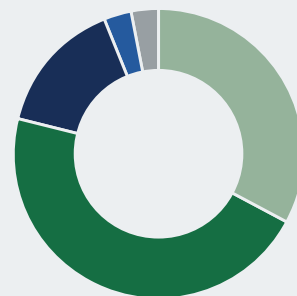
- Number of Employees or Hours Worked
- Marketing Spending
- Product Production/Service Output
- Capital Equipment Spending
- R&D Spending
- New Orders/New Contracts



Source: SIA Security Market Index, February 2022

The Industry's outlook rose substantially to an SMI of 72.

### February 2022 Overall Rating of Current Business Conditions of Company



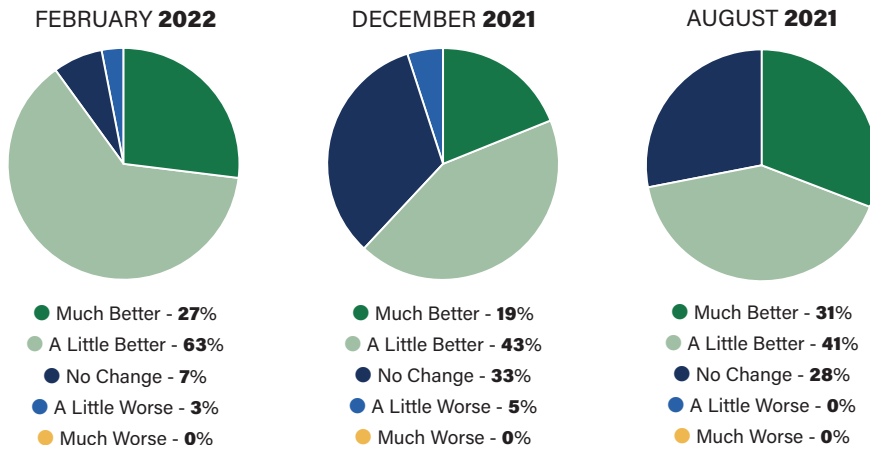
- Excellent: **33%**
- Good: **46%**
- Average: **15%**
- Fair: **3%**
- Poor: **3%**

Source: SIA Security Market Index, February 2022

This month, 33% of security professionals rated current business conditions as "excellent," and 46% said they were "good." Fifteen percent said conditions were "average," 3% said conditions were "fair," and 3% Security Market Index respondents considered current conditions to be "poor."

security professionals believe business conditions will be either "much better" or "a little better." Eight percent expect no change in business conditions, and 3% expect them to be worse. In December,

## Expected Business Conditions for Companies in Next Three Months

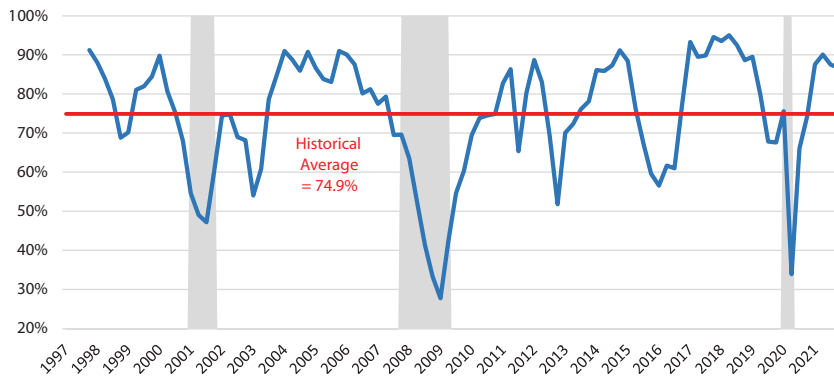


Source: SIA Security Market Index, February 2022

Moving forward, 90% of security leaders surveyed for the February 2022 Security Market Index believe that business conditions will improve by some degree over the next three months, with 7% predicting no change over the next quarter, and 3% expect 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. Recessions are designated by the National Bureau of Economic Research.

The 2021 Q4 Manufacturer's Outlook Index from the National Association of Manufacturers (NAM) shows that there is consistent solid growth in manufacturing. Source: NAM.

62% of respondents expected improved conditions in the next three months, 33% expected conditions to remain the same, and 5% expected conditions to worsen.

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 ▼
- The National Association of Realtors' Home Prices ▼
- 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 Consumer Confidence Index fell slightly in February, after a decrease in January. The Index now stands at 110.5, down from 111.1 in January. Based on consumers' assessment of current business and labor market conditions, the Present Situation Index improved to 145.1 from 144.5 last month. The Expectations Index — based on consumers' short-term outlook for income, business, and labor market conditions — declined to 87.5 from 88.8.
- The National Association of Realtors'

Pending Home Sales Index (PHSI) — a forward-looking indicator of home sales based on contract signings — fell 5.7 % to 109.5 in January. Of the four major U.S. regions, only the West registered an increase in month-over-month contract activity. All four regions posted a decline in year-over-year activity. Year-over-year, transactions decreased 9.5%. 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 declined for the third consecutive quarter in Q1 2022. The Measure now stands at 57, down from 65 in Q4 2021. While still in positive territory, the Measure is now down 25 points from the all-time high of 82 recorded in Q2 2021. A reading above 50 points reflects more positive than negative responses.

CEOs' assessment of current economic conditions declined in Q1 2022. Thirty-four percent of CEOs reported economic conditions were better compared to six months ago, down from 61% in Q4 2021. CEOs' view of conditions in their industries also decreased, with 40% reporting better conditions compared to six months ago, down from 58% in Q4 2021. Looking ahead, expectations weakened from last quarter: 50% of CEOs expect economic conditions to improve over the next six months, down from 61%. However, 58% of CEOs anticipate short-term prospects in their industries to improve over the next six months, down from 61%.

According to Chief Executive's CEO Confidence Index, CEOs in the U.S. are pessimistic about the state of business today, particularly due to uncertainty in the supply chain, labor market and the Russia-Ukraine crisis. CEOs' rating of future business conditions fell by less than 5% this month, down to 6.6 out of 10 from last month's rating of 7. Over the last six months, CEOs' rating of current conditions has remained steadier compared to their forecast for the future, signaling resiliency in their ability to do business and uncertainty over what's to come. This comes at a time when demand has not yet receded, and the need for workers has only increased. CEOs are also concerned that increasing interest rates, inflation driving up material costs and decreasing consumer spending power, and instability in domestic and international politics will worsen business conditions.

The National Association of Manufacturers' Q4 2021 Outlook Survey

## Percent of Respondents Saying They Will Increase Activity or Dollars in

### February 2022

Product/Service Sales: **88% Increase**  
Employees/Hours: **81% Increase**  
Capital Equip Spend: **52% Increase**

### December 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**

Source: SIA Security Market Index, February 2022

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

found that 86.8% of respondents felt either somewhat or very positive about their company outlook, down from 87.5% in the third quarter.

The NAM Manufacturing Outlook Index measured 57.9 in the fourth quarter, down from 58.4 in the third quarter. While manufacturing activity remains robust, especially demand, significant challenges remain, including supply chain disruptions, worker shortages and soaring costs. The U.S. Bureau of Labor Statistics Employment Situation Summary shows that the unemployment rate decreased to 3.8 percent in February, and the number of unemployed persons fell to 6.3 million. In February 2020, prior to the coronavirus pandemic, the unemployment rate was 3.5%, and the number of unemployed persons was 5.7 million.



## 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 Shoots Up



The Security Market Index (SMI) reading for the video surveillance sector shot up this month with a reading of 80. In August, the sector-specific SMI was 64, and in June, it was 69.

Confidence in the sector also improved, with 14% of video surveillance professionals rating business conditions as "excellent," 57% said conditions were "good," and 29% said conditions were "average." In August, 57% of professionals in the sector considered conditions to be "excellent," 28% said they were "good," no one said conditions were "average," and 14% said they are "fair."

Moving forward, 43% of those surveyed in the video sector said they expect business conditions to be "much better" in three months, and 57% said they expect conditions to be "a little better." In August, 43% of respondents 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.

"I expect the year to steadily increase. That said, it's slower than it should be in early Q1," said one respondent who expects conditions to be "a little better."

## Security Market Index, Video Surveillance Segment: **80** Security Market Index, Overall: **72**

### Expected Business Conditions over the Next Three Months

#### February 2022

- Much better: **43%**
- A Little Better: **57%**
- No change: **0%**
- Worse: **0%**

#### August 2021

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

Source: SIA Security Market Index, February 2022



# Integration SMI Increases to 68



**The segment-specific February Index** for security systems integrators is 68 this month — an increase from the Index reading of 54 in December 2021. The Index was 57 in August, 59 in June, 44 in April, 33 in February, 48 in December 2020, 15 in September 2020, 23 in July 2020, and 25 in May 2020.

When asked how they would rate current business conditions, 54% said “excellent,” 31% said “good,” 15% said “average.” In November 2021, 25% of survey

respondents in the sector reported their confidence in current business conditions to be “excellent,” while 50% said “good,” and 25% said “average.”

In three months, 46% of integrators surveyed expect business conditions to be “much better,” and 46% expect conditions to be “a little better.” In December 2021, 25% of integrators surveyed expected business conditions to be “much better,” and 50% expected conditions to be “a little better.”

## SECURITY MARKET INDEX

Security Systems  
Integrator Segment: **68**

SMI Overall: **72**

### Confidence in Current Business Conditions

SMI Overall:

Excellent: **33%**

Good: **46%**

Average: **15%**

Fair: **3%**

Poor: **3%**

### Security Systems Integrator Segment

Excellent: **54%**

Good: **31%**

Average: **15%**

Fair: **0%**

Poor: **0%**

Source: SIA Security Market Index, February 2022

Security Industry Association  
8405 Colesville Road, Ste. 500  
Silver Spring, MD 20910  
Tel: (301) 804-4700  
Fax: (301) 804-4701  
www.securityindustry.org  
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## AI'S ROLE IN PHYSICAL SECURITY

### Artificial Intelligence to Revolutionize Physical Security

In 2018, the U.S. National Defense Strategy identified artificial intelligence (AI) as one of the key technologies that will ensure the prosperity of the United States, particularly in helping fight and win the wars of the future. Valued at \$5.08 billion in 2020, AI in the security market is expected to reach 14.18 billion by 2026. With the rise in connected enterprises, devices and applications, AI is poised to not only revolutionize physical security, but drive proactive risk strategies and provide new sources of business intelligence across enterprise security. But, we are still years away from this type of true AI.

To gauge how security professionals feel about AI, the SMI February survey asked respondents to report how big of an impact AI will have on the security industry. Twenty-five percent of respondents said the impact would be “Huge – it’s a game-changing technology,” and 57% rated the impact as “Significant – but it’s an evolutionary change, not a revolutionary one.” In addition, 12% said the impact would be “Marginal – some technologies could benefit,” 10% said the technology is mostly “hype,” and 4% said it was “Too soon to tell.”

A respondent in the communications sector said, “Right now, everyone talks about [AI], and no one is truly doing anything with it. However, it will come.”

A security systems integrator respondent indicated that they were unsure how the security industry would embrace AI projects in the near term.

A respondent in the video surveillance sector indicated the impact of AI would be observed “in the next 10 years. It will catch many people unaware.”

A respondent in the communications sector said they were an “AI innovator within the security space” and that AI is among their most significant differentiators.



### The Impact of AI on the Security Industry

Huge – it’s a game-changing technology: **25%**

Significant – but it’s an evolutionary change, not a revolutionary one: **57%**

Marginal – some technologies could benefit: **12%**

Little to none – it’s mostly hype: **10%**

Don’t know/Too soon to tell: **4%**