

SMI Falls to 61. Are Inflation and Supply Chain Issues to Blame?

The Security Market Index (SMI)

decreased to 61 this June. In April, the Index was 72; 72 in February, 44 in November; and 64 in August. 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, 21% of security professionals rated current business conditions as being "excellent," 59% said they were "good," 13% said they were "average," 5% rated them as fair, and 2% said conditions were "poor." In April, 32% of security professionals said current business conditions were "excellent," 54% said they were "good," 12% said they were "average," 2% rated them as fair, and no one said conditions were "poor."

Most respondents indicated they are feeling the effects of the pandemic, and most are dealing with supply chain woes that are exacerbated by the pandemic and geopolitical factors. "We are in a period of high uncertainty caused by the pandemic, federal and state political volatility," said a respondent.

A respondent in the access control sector said, "While demand is strong, as a manufacturer we wrestle with constant supply chain challenges sourcing materials and components, and the ever-escalating costs to procure them."

While sales and order rates were good, "backlog due to supply chain is the number one problem area," said another respondent in the access control sector.

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, 73% of survey respondents reported an increase in the number of employees or hours worked, while 20% said the numbers remained the same and 7% reported decreases. In April, 81% of survey respondents reported an increase in the number of employees or hours worked, while 18% said the numbers remained the same, and 2% reported decreases. While the responses seem to be positive, a respondent said that despite demand, "supply chain is impacting cash flow and human resource investment may be reduced."

In addition, 38% of June SMI respondents reported increases in capital equipment spending, 11% reported decreases, and 47% said spending remained the same. In April, 54% of professionals said capital equipment spending had increased, 2% said it had decreased, and 42% said it had remained the same. A respondent said, "We are in a recession," to explain why capital equipment spending was down.

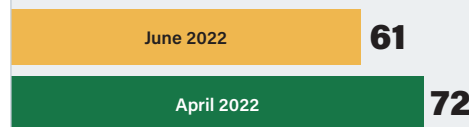
Fifty-two percent of security professionals surveyed in June reported increases in marketing spending, while 13% reported a decrease, and 34% said spending remained the same. In April, 65% of respondents reported an increase in marketing spending, while no one reported a decrease and 33% said spending remained the same.

Within the next three months, 73% of security professionals believe business conditions will be either "much better" or "a little better," while 20% expect no change in business conditions, and 7% expect them to be worse. In April, 82% of

SIA Security Market Index June 2022

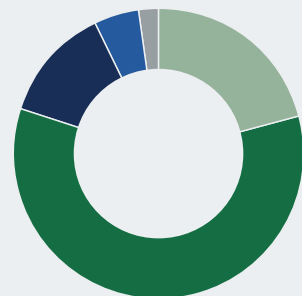
Overall, the Index survey measures general business conditions but also gauges six elements to reach one Index number that signals security industry executives' confidence. The elements are:

- 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, June 2022

June 2022 Overall Rating of Current Business Conditions of Company



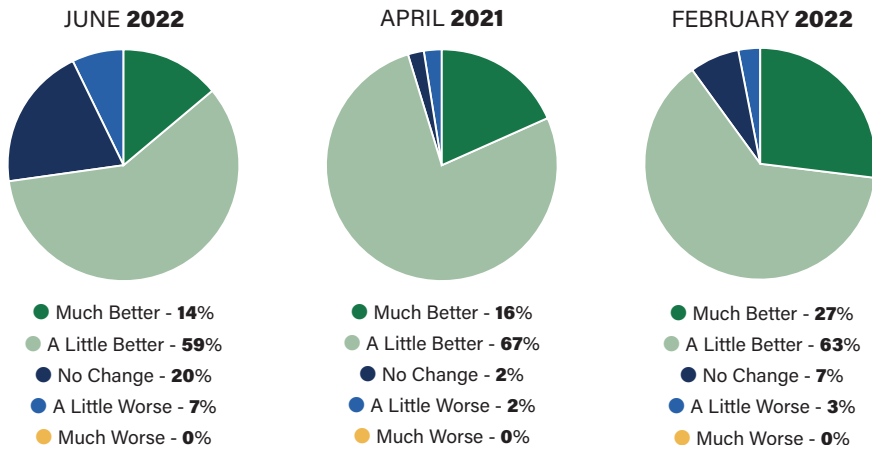
- Excellent: **21%**
- Good: **59%**
- Average: **13%**
- Fair: **5%**
- Poor: **2%**

Source: SIA Security Market Index, June 2022

This month, 21% of security professionals rated current business conditions as "excellent," and 59% said they were "good." Thirteen percent said conditions were "average," 2% said conditions were "fair," and no Security Market Index respondents considered current conditions to be "poor."

respondents expected improved conditions in the next three months, 16% expected conditions to remain the same, and 2% expected conditions to worsen. One respondent said, "With no end in sight for runaway inflation and the compounding

Expected Business Conditions for Companies in Next Three Months

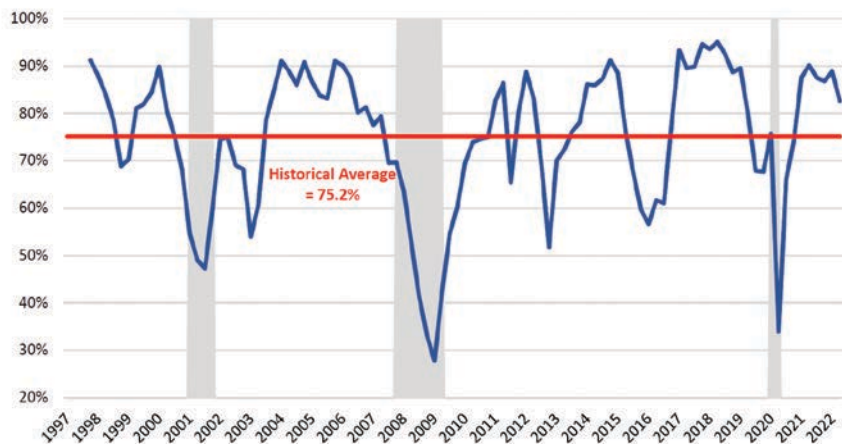


Source: SIA Security Market Index, June 2022

Moving forward, 73% of security leaders surveyed for the June 2022 Security Market Index believe that business conditions will improve by some degree over the next three months, with 20% predicting no change over the next quarter, and 7% expecting conditions to become worse.

Manufacturing Business Outlook by Quarter, 1997-2022

(Recessions Are Highlighted with Gray Shading)



The 2022 Q1 Manufacturer's Outlook Index from the National Association of Manufacturers (NAM) shows 82.6% of respondents felt either somewhat or very positive about their company outlook. Source: NAM.

supply chain challenges we continue to face it's impossible to imagine that we'll see any improvement in business conditions in the near-term."

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 decreased slightly in June, following a decline in April. The Index fell to 98.7. Based on consumers' assessment of current business and labor market conditions, the Present Situation Index fell to 147.1, and the Expectations Index — based on consumers' short-term outlook for income, business, and labor market conditions — decreased sharply to 66.4 from 73.7 and is at its lowest level

since March 2013.

The National Association of Realtors' Pending Home Sales Index (PHSI) — a forward-looking indicator of home sales based on contract signings — increased to 99.9 in May, ending a six-month streak of declines. Year-over-year, transactions dropped 13.6%. Regionally, month-over-month results were mixed as the Northeast and South experienced increases while the Midwest and West posted decreases. Year-over-year contract activity slid in all four major regions. 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 stands at 42, down from 57 in Q1. The Measure has fallen into negative territory and is at levels not seen since the onset of the pandemic. (A reading below 50 points reflects more negative than positive responses.) CEOs' assessment of current economic conditions weakened further in Q2, as executives continue to battle with inflation and supply chain challenges.

Chief Executive's CEO Confidence Index rating plunged another 6%, down to 5.6 from 5.9 in May. That reading is now 20 percent off where it was at the beginning of the year, before Russia's invasion of Ukraine, when CEOs said they were increasingly hopeful that persistent issues in the supply chain and growing inflation — and even Covid-19 — would wind down this year. It is the lowest level it's been since January 2013, on the heels of the "Fiscal Cliff" drama in Washington and ahead of further debt ceiling negotiations. CEOs say it's the uncertainty of the situation more than specific issues that is driving their forecast down, although the list of concerns they shared continues to grow each month. Among those: market volatility, a chaotic geopolitical scene, uncontrolled inflation, record-high oil prices, and continued labor and supply chain shortages are all adding to the mix fueling doubts over the future.

The National Association of Manufacturers' Q2 Survey measured 55.0, down from 59.2 in March. In the survey, 59.3% of manufacturing leaders believed inflationary pressures would make a recession more likely in the next 12 months. Three-quarters of manufacturers felt inflationary pressures

Percent of Respondents Saying They Will Increase Activity or Dollars in

June 2022

Product/Service Sales: **75% Increase**
Employees/Hours: **73% Increase**
Capital Equip Spend: **38% Increase**

April 2022

Product/Service Sales: **71% Increase**
Employees/Hours: **81% Increase**
Capital Equip Spend: **54% Increase**

February 2022

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

Source: SIA Security Market Index, June 2022

The percentage of respondents planning to increase sales, labor and capital equipment spending or activity has changed from April.

were worse today than six months ago, with 53.7% noting that higher prices were making it harder to compete and remain profitable. Despite ongoing economic headwinds, manufacturers remain largely optimistic, with 82.6% of respondents maintaining a positive outlook for their company.

The U.S. Bureau of Labor Statistics Employment Situation Summary shows that the unemployment rate remained at 3.6 percent in June, and the number of unemployed persons was unchanged at 5.9 million. These measures are little different from their values in February 2020 (3.5% and 5.7 million, respectively), prior to the coronavirus (COVID-19) pandemic.



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 SYSTEMS INTEGRATION

Integration SMI Decreases to 61



undefined / iStock / Getty Images Plus via Getty Images

SECURITY MARKET INDEX

Security Systems Integrator Segment: **61**

SMI Overall: **61**

Confidence in Current Business Conditions

SMI Overall:

Excellent: **21%**

Good: **59%**

Average: **13%**

Fair: **5%**

Poor: **2%**

Security Systems Integrator Segment

Excellent: **23%**

Good: **54%**

Average: **15%**

Fair: **8%**

Poor: **0%**

Source: SIA Security Market Index, June 2022

The segment-specific June Index

for security systems integrators is 61 this month — a decrease from the Index reading of 62 in April 2022. The Index was 68 in February 2022, 54 in November, 57 in August, 59 in June, and 44 in April.

When asked how they would rate current business conditions, 23% said "excellent," 54% said "good," 15% said "average." In April, 67% of survey respondents in the sector reported their confidence in current business conditions to be "excellent," while 25% said "good," and 8% said "average."

In three months, 8% of integrators surveyed expect business conditions to be "much better," and 77% expect conditions to be "a little better." In April, 33% of integrators surveyed expected business conditions to be "much better," and 50% expected conditions to be "a little better."

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INFLATION

Inflation Hits New 40-year High

Costs are surging not only for gasoline, but for energy, food, rent and dental care, and just about anything consumers need on a daily basis. It's painful news all around for millions of Americans as inflation accelerated more than expected to a new four-decade high in June.

The Labor Department said the consumer price index, a broad measure of the price found for everyday goods, including gasoline, groceries and rents, rose 9.1% in June from a year ago, above the 8.8% Dow Jones estimate.

The effects of inflation are also spreading across many industries, including security. SIA polled SMI survey respondents to gauge how inflation is affecting the security industry.

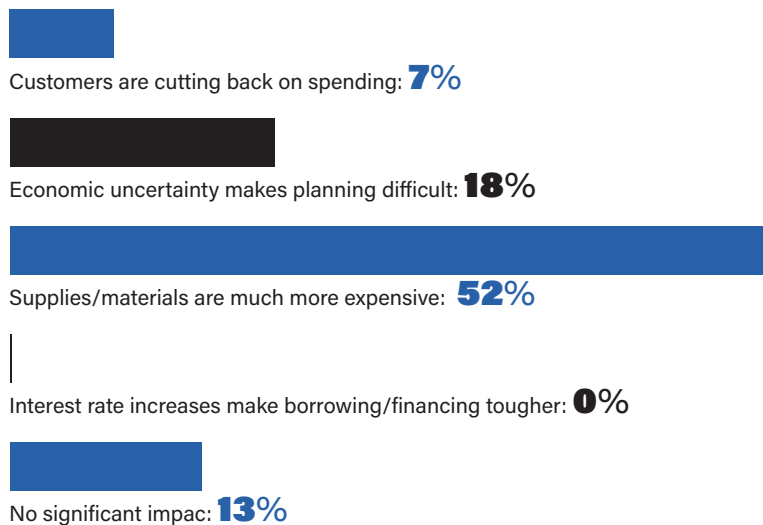
Not surprisingly, 7% of respondents said that customers are cutting back on spending, while 18% said that the current economic uncertainty is making planning difficult, and 52% said that supplies and materials are much more expensive. Only 13% said inflation did not have a "significant impact" on their business. Many commented they were experiencing most of the options described in the survey. "All of the negatives above are true

statements," said one respondent.

"It's killing profitability, gas prices alone hurt us all," said a respondent in the manufacturing sector. Another respondent commented that inflation had "no effect, but supply chain disruption has a huge one."

Indeed, some are feeling the painful impacts of inflation, which are all the more complicated by supply chain disruptions.

How is inflation affecting your business?



Source: June 2022