

Construction Markets Outlook

Rubble still dominates the reality for most distributors

MDM asked economists for their take on residential, commercial and institutional construction markets. Construction supply and building materials distributors also describe how they have adjusted to the new market realities. While many still write off 2009, some signs of improvement are emerging.

By Jenel Stelton-Holtmeier

Signs that the boom in the housing market were coming to an end began appearing as early as 2006. At that time, companies like ORCO Construction Supply, Livermore, CA, began preparing themselves for what they thought would be a normal market correction.

"We never expected it to get this bad," says Hal Look, senior vice president of marketing and business development at ORCO and the incoming president of the Specialty Tools & Fasteners Distributors Association.

Sales at ORCO have dropped nearly 50 percent since the downturn began. In 2005, the company reported sales of around \$320 million; Look expects 2008 revenues to be closer to \$180 million.

A host of compounding factors contributed to turning a normal cyclical slowdown into a tailspin dive. The financial markets collapsed under the weight of defaults on subprime mortgages, and a record number of foreclosures added to the inventory in overbuilt areas.

"Until those inventories begin to stabilize, the construction market can't even begin to recover," says Bernard Markstein, senior economist and director of forecasting for the National Association of Home Builders.

Breaking the Housing Cycle

About every 10 years, the housing market sees inflation increase to a point that is

higher than market conditions can support. "At that point, it kind of tips itself over and corrects itself," Look says.

The difference with this correction is that housing prices had skyrocketed to levels up to 25 percent about normal market value. More people were entering the market as subprime mortgages and adjustable rate mortgages made the homes seem affordable.

"The voodoo financing of the banks empowered people to buy beyond their means," Look says. "It threw gasoline on the fire."

In September, housing starts dropped 31 percent from the prior year levels, according to the U.S. Census Bureau, which were 25 percent lower than levels in 2006 in a year-over-year comparison.

Survival Strategies

As conditions worsen, companies are finding themselves having to make difficult decisions just to stay in the game.

ORCO began making cuts in 2006. Inventory levels were reduced 25 percent to 30 percent the first year. At the same time, the company looked to "low-hanging fruit" for cost reductions in process, procedures and overhead. "We were prepared to weather the normal cycle," Look says.

As numbers continued to spiral downward, ORCO had to dig deeper and look beyond those standard answers. Inventory levels were reduced even further, and for the first time, the distributor put closing locations on the table. In the end, ORCO closed four of its 24 locations in markets that could be served by nearby stores. The company also reduced headcount from 750 to 500.

HD Supply made similar moves when the market started showing weakness,

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PERSPECTIVE ■ *Commentary by Thomas P. Gale***The Real Impact of 2009**

Last week produced more economic bad news: chain store and vehicle sales down, a labor market in self-reinforcing decline. The data is dismal. Our lead article in this issue on construction markets indicates that many expect a tough year ahead before improvement. The severity holds parallels to what industrial distributors went through eight years ago.

So this is where I have to say the sky is not falling. The feedback we are hearing, including at the recent Power Transmission Distributors Association meeting, doesn't match the TV chatter regarding the economy.

The general consensus across industrial sectors is this: Most distributors and manufacturers expect a flat to 5 percent decline in sales for 2009. The only sector falling off a cliff so far is automotive. Otherwise, the third quarter held up surprisingly well. Many manufacturers and distributors are still growing, but at a slower rate. Everyone is bracing for this fourth quarter to be tough, particularly as numbers the past few weeks indicate consumers are slamming on the brakes.

I hold some hope for 2009 to not be as severe as the national media would lead us to believe. Industrial markets are healthier in North America than eight years ago when manufacturing was fleeing this country. The leading distributors

emerged from the last recession and changed the structure of their businesses from purely sales-driven to a more flexible and profitability-focused model. Export and energy markets have created more diversity in the customer base than eight years ago. There is an increasing level of activity in regional manufacturing, with first indicators of a trend in production returning from across the Pacific Ocean.

There is a clear difference between being in denial about external events and finding opportunity in times of difficulty. Those who choose not to participate in the current downturn by continuing to do what they have been are in danger. Those who adjust to this part of the business cycle know this is the time to strengthen your position and find where to build market share. It's important to have a well-thought strategy to respond quickly. That is much more productive right now than getting whiplash watching the daily markets and TV pundits.

Webcast note: For the best data and insight on wholesale distribution sectors, be sure to attend this Thursday's **2009 Economic Forecast for Wholesale Distribution** with Adam Fein, Ph.D., and sponsored by IBM. Sign up for the event on our Web site at www.mdm.com/conferences/forecast2009.html. ■

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Construction

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CEO Joe DeAngelo told MDM in an interview last week. Stores in markets that were overbuilt – like Florida or Las Vegas – were consolidated to reduce overhead and processes were leaned as much as possible. Inventory was lowered to levels where the distributor could still respond to customer needs while not maintaining excess levels in the warehouses and yards.

Residential construction makes up about 23 percent of HD Supply's revenue stream. Non-residential construction makes up another 14 percent. Remodeling, maintenance and industrial piping make up significant percentages of their business as well. The diversity of market presence has also helped HD Supply from reaching "survival stage," DeAngelo says. "In some ways, this downturn will be good for us. There is absolutely no reason why a company should have waste in their operations."

Diversifying has been a successful option for builders as well, says Markstein. Builders are beginning to expand their remodeling arms as a strategy for surviving the current downturn, Markstein says. "Though some people are easing off on plans to remodel because of the economy, this market hasn't been hit nearly as hard as the construction market in general."

Many have also turned to light commercial construction – strip shopping malls and small office buildings. The conversion to these types of projects requires little investment in new equipment, making it a fairly attractive alternative, Markstein says.

However, those markets are starting to see signs of stress as well. The American Institute of Architects Consensus Construction Forecast Panel projected in July that nonresidential construction would ease by the end of 2008 – a pattern that Markstein has seen in recent months – before declining significantly in 2009. AIA expects commercial construction to decline 11.1 percent and industrial, including institutional, education and religious construction projects, to dip 5.5 percent.

Government projects are even starting to feel pinched, DeAngelo says. Cities and states, which fund most of those projects, are seeing lower tax revenues and having more difficulty getting approval on bonds or other debt structures.

While HD Supply may be in a solid position to weather the storm, not all big players can say the same. In October, UK-based distributor Wolseley plc announced that it would close 86 branches of Stock Building Supply and reduce headcount in that division by 3,000 people. Since 2006, Stock's workforce has been reduced by 55 percent. The unit posted a trading loss of \$227 million for fiscal year 2008. Stock depends heavily on residential construction markets.

While the overall numbers are disconcerting, it's important to note that some markets are still doing well, Markstein says. The trouble is focused on specific areas where building just got out of hand – like Florida and California – or areas hit hardest by the economic downturn – like Michigan or Ohio. The Pacific Northwest and many parts of the Midwest are still holding fairly steady in these markets.

The Outlook

In October, The Conference Board forecast that there would be no improvement in the U.S. housing market before mid-2009.

The problem with predicting how this market will play out is that current conditions are unprecedented, says Ken Goldstein, an economist with The Conference Board. Economists and business insiders are making their best educated guesses but "we could still be completely wrong."

Signs indicate that the construction collapse is nearing the bottom, Goldstein says. While housing starts are still declining, the pace of the decline has not intensified. Additionally, 20 percent to 25 percent of the subprime mortgages have already gone to foreclosure, meaning there really aren't that many more to be forced onto the market. Concern that the crisis will extend into existing prime mortgages is unfounded, he says.

The Emergency Economic Stabilization Act passed by Congress in early October includes provisions for a Troubled Assets Relief Program (TARP) to help lenders and borrowers manage mortgages and keep people in their homes.

"If the TARP works, we may be able to hit the bottom more quickly," Goldstein says.

The problem is that right now TARP is short on details, Look says. "We don't know exactly

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Housing Industry Forecast (000s)

	2005	2006	2007	2008	2009	2010
Total Housing Starts	2,073	1,812	1,341	936	784	1,000
Single Family	1,719	1,474	1,034	633	546	740
Multifamily	354	338	307	303	238	260
New Single Family Sales	1,279	1,049	768	501	531	725
Existing Single-Family Home Sales	6,181	5,703	4,958	4,358	4,575	5,050

Source: National Association of Home Builders and Housing Economics

how the government is planning to address the number of problem mortgages and foreclosures that are already out there."

Options mentioned have included government acquisition of troubled assets or intervention in the values used to establish the mortgages. When more information becomes available over the next few months, companies will be better able to determine how the measures will impact their businesses, Look says.

In the meantime, ORCO is planning for business to be flat to down 5 percent in 2009.

Several things need to occur before the market can truly recover, Look says.

"First, there needs to be a way to stop the resets on the subprime mortgages and the adjustable rate mortgages," he says. Consistency in mortgage terms will make the loans more affordable for the people who already have them. Extending terms to 40 or 50 years could also help achieve affordability.

Keeping people in their houses through whatever means will stop the influx of new foreclosures into the already clogged marketplace, meaning prices can stabilize on the current inventory. "Right now, the market is bleeding," Look says. "Who wants to buy if they think the prices will keep going lower?"

At the same time, there needs to be an appropriate mechanism for providing mortgages to people who can really qualify and afford to pay for them. There will be new buyers on the market looking to buy the existing inventory, but the system needs to make sense, he says. Right now, even those who can afford the mortgages and have perfect credit scores often are expected to have a down payment of 25 percent to 30 percent.

Once all these pieces are in place, a big contributor to the problem can also be resolved: consumer confidence. Psychology and uncertainty have played a big role in keeping the market from recovering, Look says.

Goldstein agrees: "The market is running for cover. There's simply more panic than there needs to be."

Regardless of the method used to stem the downward flow of the marketplace, recovery will take time, Markstein says.

The National Association of Home Builders expects housing starts to continue declining another 19 percent through 2009, according to its Housing and Interest Rate Forecast published Oct. 20. Numbers are expected to begin improving in 2010 with 1,000,000 starts forecast, including single family and multifamily structures. At the same time, sales of existing single-family homes are expected to start climbing in 2009.

"It's going to be a tough year, but the reality is that if you were to buy a house right now and hold onto it for five to years years, history says you will at least break even if not make a profit," Markstein says.

Goldstein also expects the construction markets to benefit from other measures included in the Emergency Economic Stabilization Act. Once the bailout measures have settled, interbank lending will recover – a necessary step toward reopening the credit markets, he says. Goldstein expects that recovery to take weeks rather than months.

"Construction will crawl back to normalcy. The question is will this happen fast enough to save some of these folks?" Goldstein asks.

DeAngelo advises any participant in the marketplace – whether builder or distributor – to keep focused on the core aspects of the business, control what can be controlled and keep striving to serve customers better.

"Without the customers, no one can survive any downturn," he says. "In many ways, the markets will behave how we behave. If we panic, it will too."

■ *State of the Distribution Software Industry, Part 4*

The Next Steps for Distributors

Moving forward as technology's pace of change increases

This is part of a series looking at the distribution software industry. This article examines challenges and what distributors should expect in the next five years.

**By Jenel Stelton-Holtmeier
and Lindsay Young**

In the year or so leading up to Y2K, many distributors upgraded their computer systems to protect their businesses from what was supposed to be a widespread system breakdown when the clock struck midnight on Jan. 1, 2000. The scare fueled massive technology investment in businesses worldwide.

And now, thanks to technological improvements making viable solutions more affordable and scalable to distributors of all sizes, many are looking to invest again or transition from their legacy systems to an off-the-shelf solution or a modernized interface.

In a recent MDM survey, about 24 percent of respondents said they plan to make a technology investment in the next year, and another 24 percent are currently researching options to upgrade or buy new technology.

Distributors say they face many challenges, including finding the right fit for their company, agreeing on a price tag that fits their budgets, and ensuring support and training from the software provider post-purchase. Keeping up with the rapid changes in technology can also be difficult, especially for smaller distributors.

Forces of Change

Consolidation of software providers has both constrained and opened options for distributors looking to upgrade or invest in technology. The Internet continues to change the way technology providers and distributors look at their businesses. A generational shift will force many distribution companies to keep pace with technological advancements, lest they miss out on the best and brightest in a young work force.

In addition to these factors, the twists and turns in the economy may put a crimp on technology investment on a larger scale – though some providers say that distributors are showing increased interest in software that helps them better manage their costs.

Mike Briglia, vice president for wholesale distribution/consumer packaged goods at

IBM Corp, says current economic conditions haven't necessarily slowed investment, at least from IBM's point of view: "The larger and more capitalized companies are doing all they can to protect their capital plans and are continuing to move forward with significant technology investments despite the current trends. We're not seeing any company tap on the brake with major initiatives."

Keeping Up

Luke Bucklin, president of Sierra Bravo Corp., says that technology is growing at such an accelerated rate that distributors and software providers to the industry face challenges in staying up-to-date. He gives online videos as an example. "Everyone knows how easy it is to upload a video so everybody can see it," he says.

The challenge comes when a 22-year-old in the position of product manager asks why he can't make a video of how a product will work and upload that video to the distributor's Web site, where people can then buy the product. "The availability and ease of use will put pressure on software vendors to keep up with the generation that is populating the work force," Bucklin says.

Distributors are also challenged to meet the needs of their customers, whose work force is also seeing a generational shift. The move from faxing an order to emailing an order is one example of such a shift that has already happened.

"Two to three years from now, how will customers want to interface – with instant messaging, their cell phones, Twitter? People will be attracted to this new technology," Bucklin says. "The distributor's problem is not new. It has always been keeping up with technology and making sure you are doing business the way your customer wants to. It just keeps getting worse faster."

But deciding when to bring in new technology can be tricky, says Don Waltzer, president of distributor H&C Tool Supply and Hewes Fastener Division, Rochester, NY.

"It's always the challenge with technology to determine how quickly you wanted to jump on the boat," he says. "If you jump on too quickly you might end up going down the wrong road. If you wait too long you run the

continued on next page

risk of losing the advantage of technology.”

Choosing a vendor committed to the distribution industry provides long-term benefits in keeping up. “Over the long-term your system will evolve on a more consistent and steady rate with the technology,” Bucklin says. “There will always be something new in technology that is not supported, but in a year the vendor will incorporate the solution.”

Reaching Out

Smaller distributors are generally looking to simplify their IT needs, even though those needs are similar to those of larger distributors.

The challenge for small or mid-size distribution companies is that many are under-invested in technology and in infrastructure, says Ross Elliott, chief technology officer for supply chain execution software provider Accellos.

The operating environments in IT today are lower in price – a good thing – but also require a special-purpose server for each component, complicating the management of these assets. “I have a Web server, I have a mail server, I have a database server and an applications server,” Elliott explains. “If you assume the IT infrastructure is small anyway, you’ve taken what they had to do before – manage one large server that took care of everything – and now they have eight or 10 or 12 that have to intercommunicate and so on. The job has not become easier; it’s become harder.”

Software companies need to find a way to make that simpler for smaller companies, Elliott says. “From a standpoint of not forcing your under-teched distribution company to log into five or 10 different systems, we in the software industry have to think about bringing all of this together in a composite framework so they can see data from me on the same page they can see data from Infor or Activant, or other providers.”

Elliott sees an opportunity for the larger ERP providers to address the smaller end of the market. SAP has made a concerted effort recently to sell to small and mid-sized distributors.

SAP concedes that it has not been easy to change distributors’ perceptions. “One of the challenges SAP faces and is starting to overcome, is that SAP is not just for the big companies,” says Karen Lynch, SAP’s vice president of global wholesale distribution.

Making the Change

Chris Jones, executive vice president of solutions and services at Descartes, a provider focused on transportation logistics, expects that over the next five years there will be more commoditiza-

tion of software, with lower prices, more package capabilities and more reaching out to small and mid-sized companies, where the market is ripe.

“There are thousands of people out there that do things like route their trucks on a piece of paper or in the driver’s head,” he says. “It’s self-evident that they may need to use something different. But they’re not going to drop six figures for a system. So you’d better have a low-cost way of getting to these people.”

Bucklin says that any distributor making a change or adding onto their current technology should set realistic expectations. “The users will get frustrated,” he says. “There are always horror stories because the expectation was set that the new system was going to be immediately better.” But he says distributors should expect a shift will not be immediately better, but instead immediately worse. Processes are often redefined, and some new processes may be less efficient even if they yield benefits not seen before.

Waltzer has gone through systems changes at his previous work places. He says senior managers must be careful about forcing the new system into place. “Don’t make the mistake of bringing on a flawed offering,” he says.

In addition, he says distributors should budget 50 percent more than they think they need. And understand where the Return on Investment will come from with the new system. For example, if you can accommodate customers with certain needs in half the time, you still may not eke out any more productivity from the person who was serving them, he says.

Moving Forward

Software evaluation has grown more qualitative because software packages have reached a level of maturity with common capabilities. In many cases, this has made it more difficult for distributors to choose which path to take.

Steve Epner, founder of BSW Consulting Group LLC, suggests that to start, distributors should identify the critical things they do that make them better and different from their competitors. Rod Winger, director of product marketing for Epicor, says that each distributor’s situation is different when it comes to making a decision on technology. “The advice I would give is to ask them: Where are you headed? Where are you today? What is your strategy? Are you in a growth mode? Are you competitive from a pricing point of view?”

“These are the types of things that will dictate what you need from technology. It is very situational.”

Subscribers can access the complete series in a *Special Report on Software for Distributors* on Nov. 15 at www.mdm.com/resources/software.html. The *Special Report* will include previously unpublished material from interviews with software providers. Non-subscribers can access the full report for a fee.

The *Special Report* will also be available for reprints.

Call 1-888-742-5060 or Email lindsay@mdm.com for information on ordering reprints of the *Special Report* or any of its articles.

Inflation by Commodity Group

Pricing trends for the third quarter 2008

These 24 select product groups provide a snapshot of inflation trends based on the Producer Price Index from the U.S. Bureau of Labor Statistics. Third quarter 2008 is compared with third quarter 2007, and second quarter 2008 with third quarter 2008. Graphics depict trend for that product from the start of 2007.

This page:

- Abrasives
- Adhesives & Sealants
- Cutting Tools & Accessories
- Hand & Edge Tools

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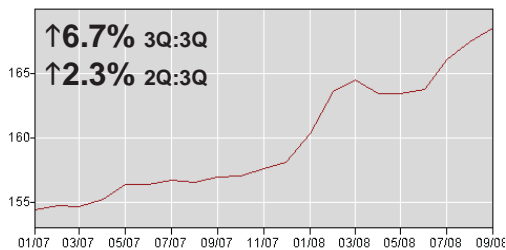
- Fasteners
- Power-Driven Hand Tools
- Ball & Roller Bearings
- Mechanical Power Transmission Equipment
- Electrical Machinery/Equipment
- Industrial Material Handling Equipment
- Industrial Gases
- Welding Machinery/Equipment
- Valves, Except Fluid Power
- Pumps, Compressors & Equipment

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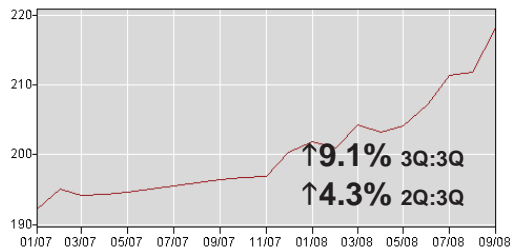
- Fluid Power Equipment
- Plumbing Fixtures & Fittings
- Hardware
- Sanitary Paper Products
- Plastic Resins & Materials
- Specialty Cleaning, Polish & Sanitary Products
- Industrial Safety Equipment
- Softwood Lumber
- Metal-Forming Machine Tools
- Metal-Cutting Machine Tools
- Hardboard, Particleboard, Fiberboard Products
- Hardwood Lumber
- General Millwork
- Plywood
- Construction Products from Plastics
- Gypsum Products
- Air Conditioning & Refrigeration Equipment
- Tools, Dies, Jigs, Fixtures, Industrial Molds
- Fluid Power Valves
- Food Commodities (12 product groups)

Key
 ↑11.6% 3Q:3Q (3Q '07 with 3Q '08)
 ↑1.8% 2Q:3Q (2Q '08 with 3Q '08)

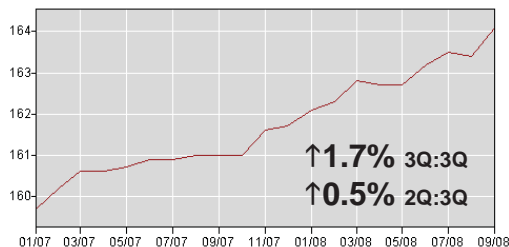
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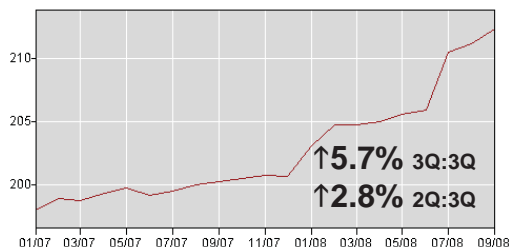
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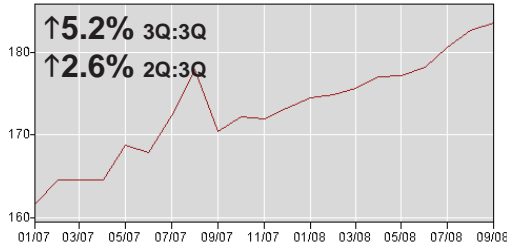
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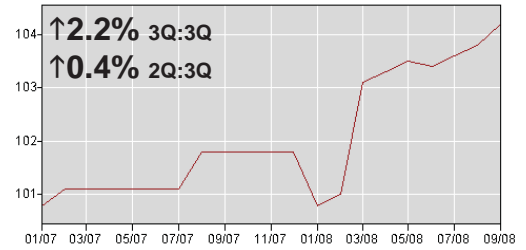
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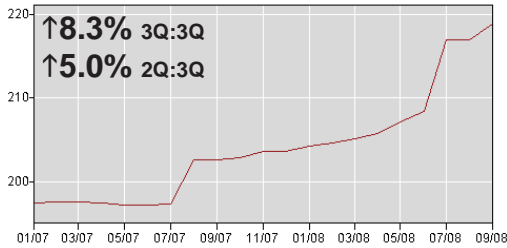
Fasteners



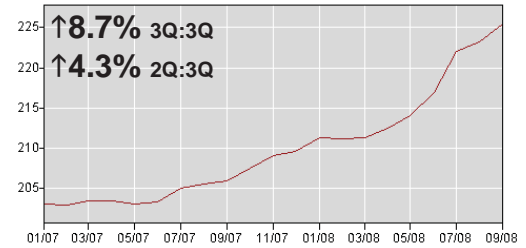
Power-Driven Hand Tools



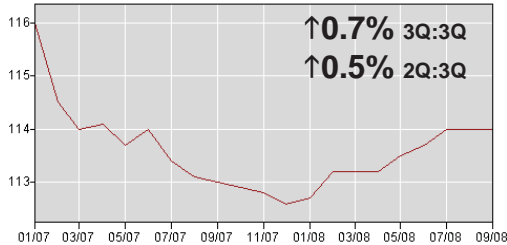
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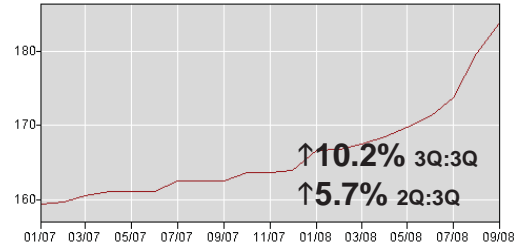
Mech. Power Transmission Eqpt.



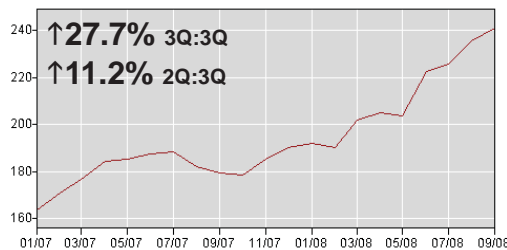
Electrical Machinery/Equipment



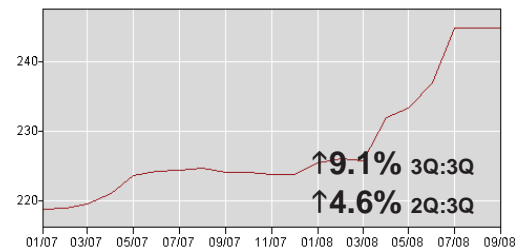
Material Handling Eqpt. (Ind)



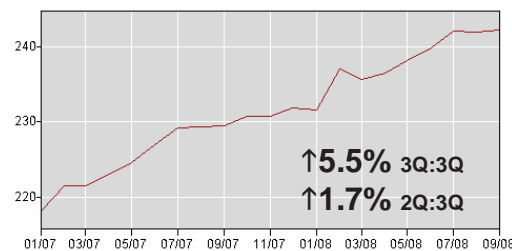
Industrial Gases



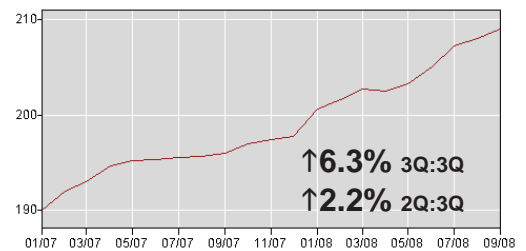
Welding Machinery/Equipment



Valves, Except Fluid Power



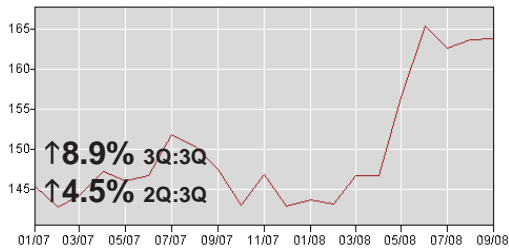
Pumps, Compressors & Eqpt.



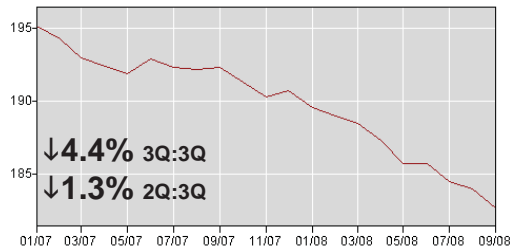
MDM Inflation by Commodity Group

Pricing trends for the third quarter 2008

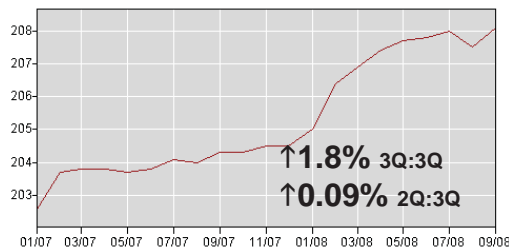
Hardbd, Particlebd, Fiberbd Products



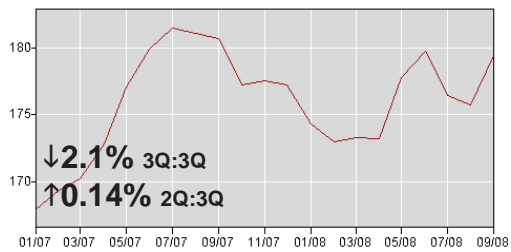
Hardwood Lumber



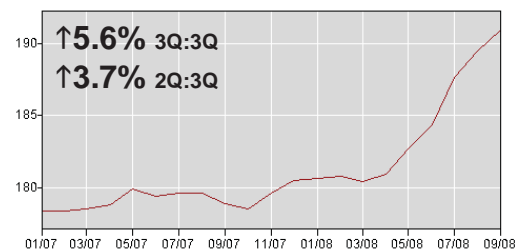
General Millwork



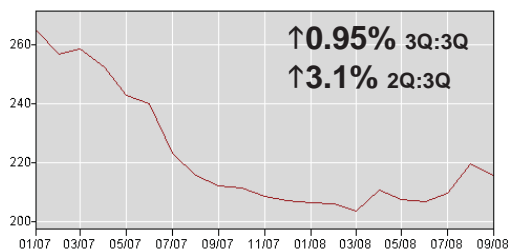
Plywood



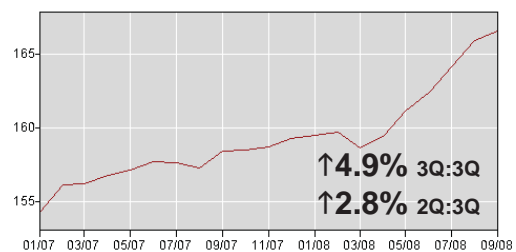
Construction Products from Plastics



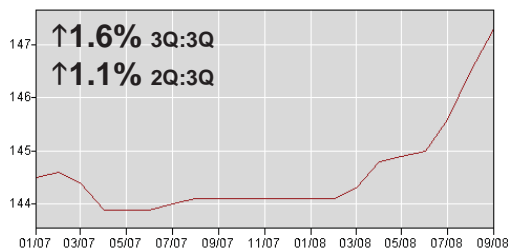
Gypsum Products



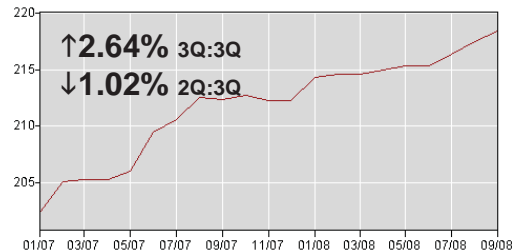
Air Conditioning & Refrigeration Eqmt.



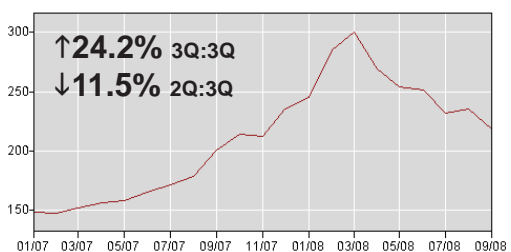
Tools, Dies, Jigs, Fixtures, Ind. Molds



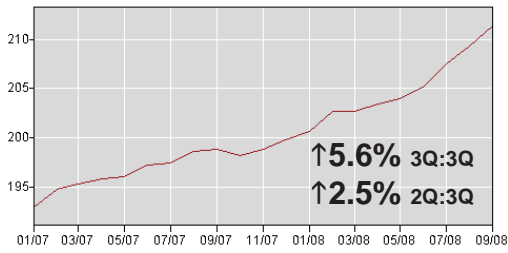
Fluid Power Valves



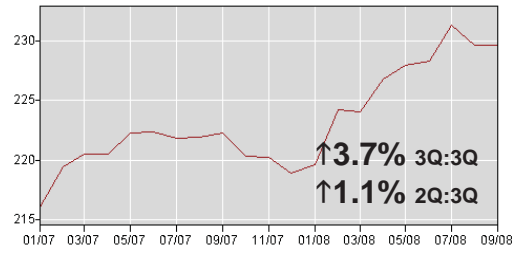
Flour



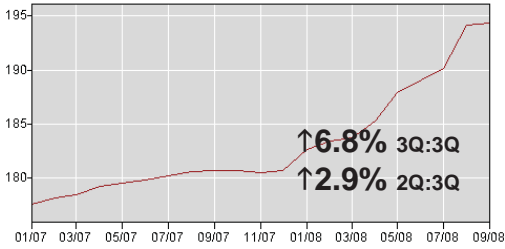
Fluid Power Equipment



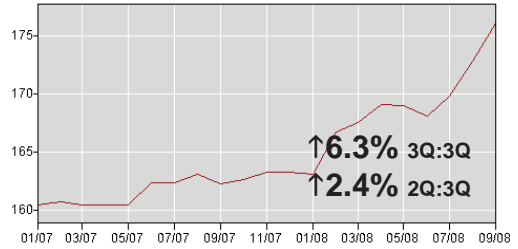
Plumbing Fixtures & Fittings



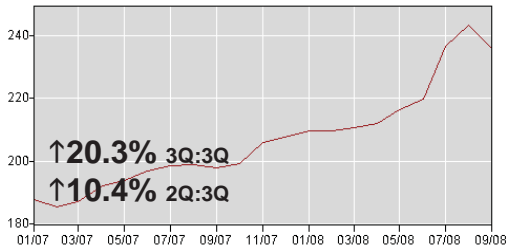
Hardware



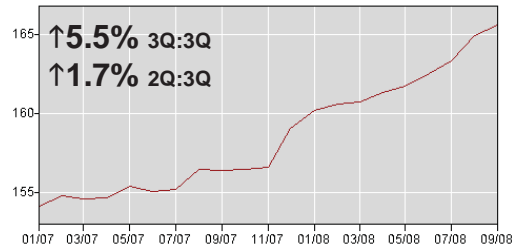
Sanitary Paper Products



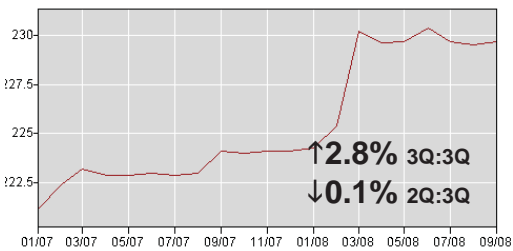
Plastic Resins & Materials



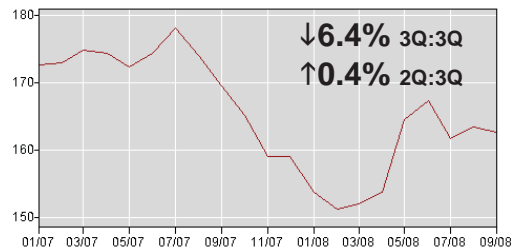
Spec. Cleaning, Polish, San. Products



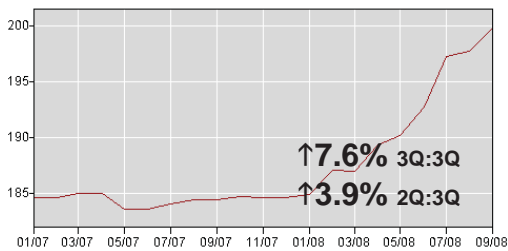
Industrial Safety Equipment



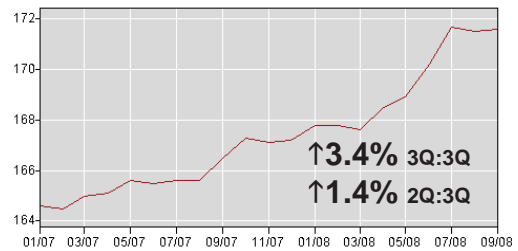
Softwood Lumber



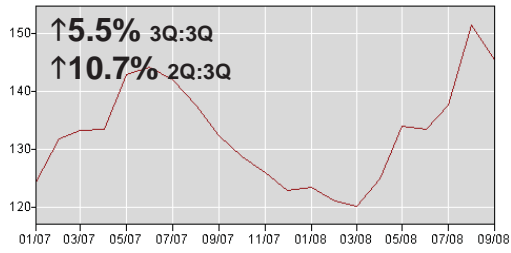
Metal-Forming Machine Tools



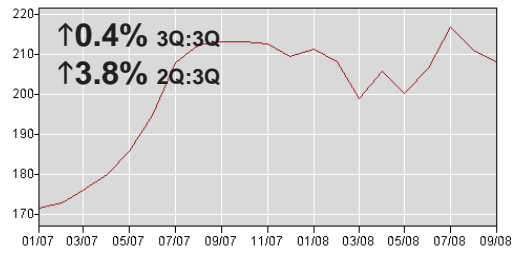
Metal-Cutting Machine Tools



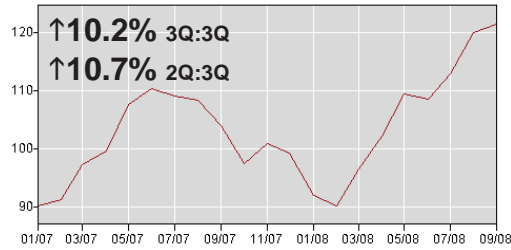
Pork Products



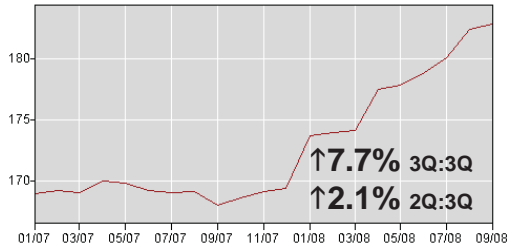
Fluid Milk Products



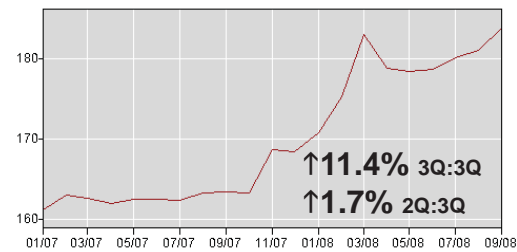
Butter



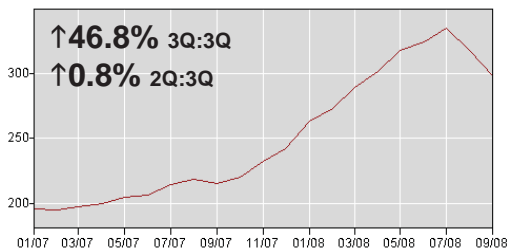
Sugar & Confectionary



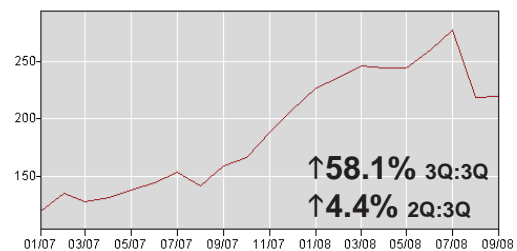
Coffee



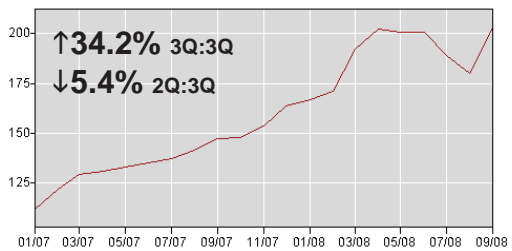
Shortening & Cooking Oil



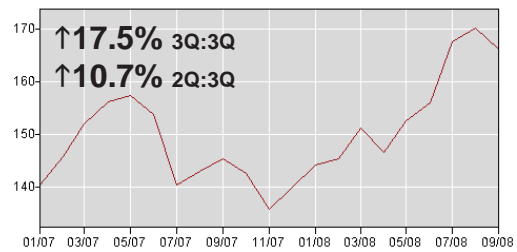
Oilseeds



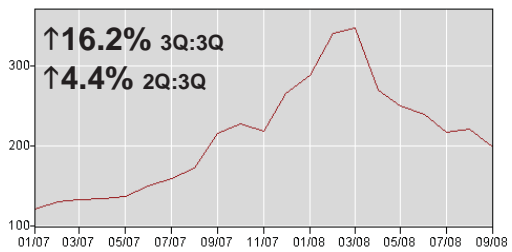
Processed Eggs



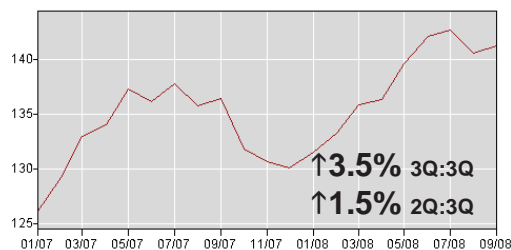
Beef/Veal Products



Wheat



Processed Poultry



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Automotive Sales Hit Canadian Wholesale Revenues in August

A significant decline in the automotive sector brought to an end a string of five consecutive monthly increases in wholesale sales in August, which dropped 1.5 percent to \$45.7 billion in current dollars. Sales excluding the automotive products sector rose 0.5 percent.

After removing the impact of price changes, sales in volume terms were 3.3 percent lower.

Sales of automotive products fell 11.7 percent in August to \$7.0 billion, offsetting the gains over the two previous months. A 13.2 percent decline in motor vehicle sales was behind most of the drop, while sales of motor vehicle parts and accessories fell 5.8 percent.

Much of the decline in motor vehicle sales can be attributed to slowing demand for larger less fuel-efficient vehicles. According to the latest International Trade report, imports of trucks fell by 29 percent in August to reach their lowest level in over four years.

The increase outside of the automotive sector was in large part due to higher sales in the food, beverage and tobacco products and "other products" sectors, both of which gained 2.2 percent in August. The latter consists primarily of sales of agricultural fertilizers and supplies, chemicals, recycled materials and paper products.

By Province

After posting five consecutive monthly increases, Ontario reversed course in August, registering its largest decline (-6.5 percent) since August 2003. The automotive sector, which had fuelled most of the recent gains, was behind the drop.

Nearly all other provinces reported higher sales in August. The most significant increases came in Western Canada, led by a 5.5 percent rise in British Columbia. Alberta recorded a seventh increase (+5.1 percent) in eight months, while in Saskatchewan, sales rose (+5.2

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Chicago, IL-based **W. W. Grainger, Inc.** has appointed Michael A. Pulick, senior vice president for Customer Service, to president, Grainger Industrial Supply. Pulick is replacing Y.C. Chen, 61, who will stay on in a special advisory role with the company. Pulick joined Grainger in 1999 from General Electric.

Fairmont Supply Company, Canonsburg, PA, distributor of industrial maintenance, repair and operating supplies, has acquired Pennsylvania-based **North Penn Pipe & Supply**. Based in Warren, PA, North Penn Pipe & Supply is a supplier to the oil and gas industry. North Penn Pipe & Supply will operate under its current name.

Interline Brands, Jacksonville, FL, distributor and direct marketer of MRO products, reported sales for the third quarter 2008 were down 3.8 percent to \$317.5 million from the 2007 period. Profit was \$13.7 million, down from \$15.9 million in the prior-year period. Interline's facilities maintenance end-market, which comprised 70 percent of sales, declined 2.4 percent during the third quarter on an average daily sales basis, and 3.7 percent on an average organic daily sales basis.

Bosch Rexroth AG has agreed to purchase Germany-based **Interlit Joistgen GmbH**, a developer of systems for cooling and lubrication. Additionally, Bosch Rexroth has agreed to acquire the associated German production company **MSG Maschinen- und Stahlbau GmbH**.

DXP Enterprises, Inc., Houston, TX, reported third quarter sales were \$186.9 million, up 75.1 percent from the third quarter 2007. Profit increased 56.9 percent to \$7 million. Businesses acquired in 2007 and 2008 contributed \$65.7 million to quarterly sales. Profit for the nine months ended Sept. 30, 2008, was \$18.8 million, up 62 percent from the prior year period. Sales increased 97.0 percent to \$543.2 million.

BlueLinx Holdings Inc., Atlanta, GA, a distributor of building products in North America, reported a net loss of \$2.6 million for the third quarter ended Sept. 27, 2008, compared with profit of \$0.9 million in the year-ago period. Sales declined 28.5 percent to \$727 million. For the nine months ended Sept. 27, 2008, net loss totaled \$6.6 million on revenues of \$2.28 billion, compared with profit of \$6.1 million on revenues of \$3.06 billion a year ago.

3M, St. Paul, MN, and **Illinois Tool Works Inc.**, Glenview, IL, reached a mutual settlement concerning issues in patent infringement litigation brought by 3M in June 2006 in the U.S. District Court for the District of Minnesota. The case involved 3M's patent covering its paint preparation system products. Under the terms of the agreement, ITW acknowledged the validity and enforceability of 3M's patent rights and has taken a license under 3M patents. In addition, the parties have entered into a supply agreement under which 3M will supply a portion of ITW's DeKups system. Other specifics of the agreement are confidential.

Kaman Corp., Bloomfield, CT, reported sales of \$335.1 million for the third

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quarter ended Sept. 26, 2008, an increase of 21.9 percent from the prior-year period. Profit from continuing operations was \$13.5 million, an increase of 43.6 percent from the third quarter 2007. The Industrial Distribution segment reported third quarter sales of \$204.3 million, an increase of 14.7 percent from a year ago. Organic sales growth in the quarter was 7.1 percent.

Huttig Building Products, Inc., St. Louis, MO, a domestic distributor of millwork, building materials and wood products, reported sales for the third quarter ended Sept. 30, 2008, declined 22 percent to \$182.8 million in a year-over-year comparison. The company reported a loss of \$7.7 million, compared to a loss of \$0.1 million in third quarter 2007.

United Stationers Inc., Deerfield, IL, master distributor of business, janitorial/breakroom and industrial products, reported sales of \$1.3 billion for the third quarter 2008, an increase of 12 percent over the prior year quarter. Profit increased 20 percent to \$33.1 million. The December 2007 acquisition of ORS Nasco contributed 7 percent to the growth rate. Product category sales were up nearly 15 percent in janitorial/breakroom, up 2 percent in technology, and down 10 percent in furniture. Traditional office products grew 3 percent, driven by a significant increase in cut sheet paper.

Parker Hannifin Corp., Cleveland, OH, manufacturer in motion and control technologies, has acquired four companies. **Nexgen Hose Inc.**, Fergus, Ontario, Canada, is a manufacturer of industrial PVC hose and tubing for niche and industry standard applications. In 2007, Nexgen recorded revenues of \$7.2 million. The second acquisition, **Matrx** nitrous oxide delivery systems from the Midmark Corp., will allow Parker to expand its geographic market space for dental nitrous systems to global markets outside its current North American base of operations. Midmark's sales of the Matrx product line in its most recent fiscal year were \$7 million.

Parker Hannifin's third acquisition, **Aqua Pro**, a manufacturer of reverse osmosis filtration systems for military, commercial and pleasure marine applications, had sales in 2008 of \$33 million. Finally, Parker has acquired Malaysia-based **EmiTherm Sdn Bhd**, a provider of electromagnetic interference (EMI) shielding and thermal management products.

WinWholesale Inc., Dayton, OH, has opened **Seattle Windustrial** in Kent, WA, to provide mechanical contractors from Olympia to Bellingham with a complete line of pipes, valves, fittings and accessories.

Barnes Group Inc., Bristol, CT, an international aerospace and industrial components manufacturer and logistical services company, reported third quarter 2008 profit of \$28.9 million, an 4.6 percent increase over the prior year third quarter. Sales declined 6.5 percent for the quarter to \$337 million. Barnes Distribution sales dropped 6.4 percent to \$123.5 million in the third quarter of 2008. Organic sales decreased \$9.6 million, or about 7 percent. Lower sales were driven by softening in the North American transportation and manufacturing-related segments, and lower organic sales in Europe.

Manufacturing contracted in October, according to the the nation's supply executives in the latest Manufacturing ISM Report on Business. The PMI indicates a significantly faster rate of decline in manufacturing when comparing October to September. According to ISM, it appears that manufacturing is experiencing significant demand destruction as a result of recent events, with members indicating challenges associated with the financial crisis, interruptions from the Gulf hurricane, and the lagging impact from higher oil prices. This is the lowest level for the PMI since September 1982 when it registered 38.8 percent.

SKF has acquired **Cirval S.A.**, a manufacturer of centralized lubrication systems. Cirval has annual sales of about \$2.5 million and 60 employees. The company is based in Rosario, Argentina.

SKF plans to transfer the manufacturing of automotive seals products from its facility in Elgin, IL, to other SKF seals factories in Mexico and the U.S. SKF said that the consolidation was necessary to remain competitive in the U.S. automotive market.

Emerson, St. Louis, MO, reported sales for fiscal 2008 were \$24.8 billion, an increase of 12 percent. Sales for the fourth quarter ended Sept. 30, 2008, were \$6.7 billion, an increase of 11 percent. Underlying sales in the quarter grew 7 percent.

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U.S. MARKET ANALYSIS: Telecommunications Equipment MRO

The industrial product group listed here - Telecommunications Equipment MRO - represented a market in 2007 of \$73.3 billion, according to estimates by Industrial Market Information, Minneapolis.

These charts show the top ten industries, by SIC code, consuming these products; and the 2007 end-user consumption of these groups sorted by the nine government market regions.

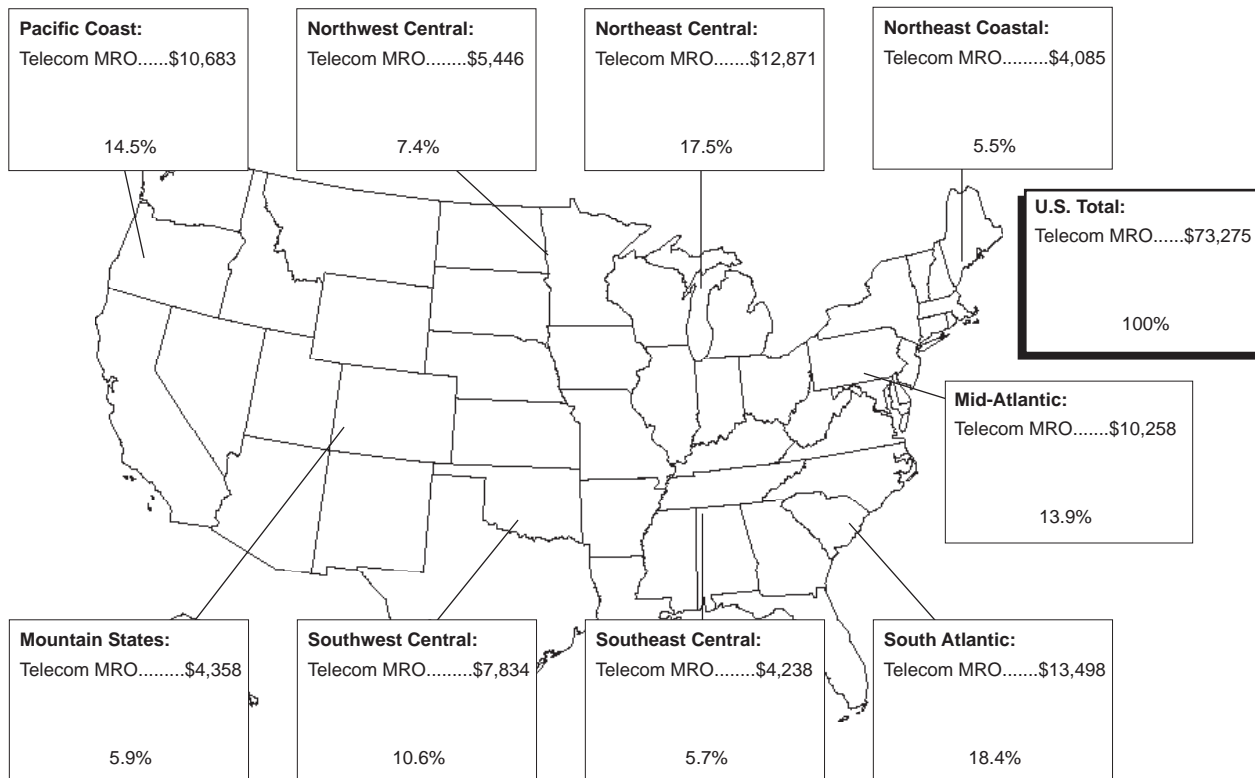
**MARKETS
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SUPPLEMENT
P. 3**

Top ten industries in \$ volume, by SIC code consuming Telecommunications Equipment MRO

(2007 estimates)

SIC CODE	Companies	Total
1731 Electrical Work	112,113	3,487,183,050
8211 Elementary and Secondary Schools	112,189	2,420,871,468
8062 General Medical and Surgical Hospitals	9,369	1,542,086,940
2621 Paper Mills	2,307	1,385,972,750
5311 Department Stores	20,656	1,154,280,565
5812 Eating Places	368,955	1,102,023,607
4813 Telephone Communications	37,385	926,558,956
8221 Colleges, Universities and Professional Schools	15,267	907,222,465
7011 Hotels and Motels	88,364	888,584,726
8011 Offices and Clinics of Doctors of Medicine	347,121	805,726,010

End-user consumption of Telecommunications Equipment MRO by region, millions of \$ (2007 est.)



Source: INDUSTRIAL MARKET INFORMATION, INC. (763) 535-7432. © 2008 Industrial Market Information, Inc., Minneapolis, MN. All rights reserved. Industrial Market Information has more than 200 industrial product profiles available at the county level. www.imidata.com

Canada

Continued from p. 1 of this section

percent) for the sixth consecutive month. Higher sales of "other products" were behind much of the increase in all three provinces.

Sales in Quebec also continued to move ahead, rising for a fifth consecutive month. The recent increases are partly attributable to higher demand for personal and household goods.

Inventories

Wholesalers reported a 0.6 percent rise in inventories to \$56.9 billion in August, marking a sixth consecutive monthly rise.

Overall, 8 of 15 trade groups reported higher

inventory levels. The most significant increases were in the "other products" (+3.6 percent) and metal products (+3.9 percent) trade groups. These advances were partially offset by a 3.2 percent drop in household and personal product inventories.

Following several months of declines, the inventory-to-sales ratio rose from 1.22 in July to 1.25 in August.

The inventory-to-sales ratio is a measure of the time, in months, that would be required to exhaust inventories if sales were to remain at their current level. - *Statistics Canada*

MDM News Digest

Continued from p. 2 of this section

Applied Industrial Technologies, Cleveland, OH, reported sales for the first quarter ended Sept. 30, 2008, were up 4.9 percent to \$543.9 million. Profit was down to \$22.5 million from \$24.4 million last year. Same-store sales in the U.S. were slightly down primarily due to weak housing and automotive markets.

Crane Co., Stamford, CT, a diversified manufacturer of highly engineered industrial products, reported third quarter 2008 profit of \$36.1 million compared with third quarter 2007 net loss of \$196.9 million. Third quarter 2008 sales decreased \$21.4 million, or 3 percent, including core business decline of \$27.9 million (4 percent) partially offset by an increase of sales from acquired businesses of \$3.8 million and favorable foreign currency translation of \$2.7 million.

United Rentals, Inc., Greenwich, CT, reported third quarter sales of \$873 million, down 11.8

percent from the third quarter 2007. Rental revenue accounted for \$677 million. Profit declined 33.9 percent to \$74 million. Continued softness in the company's end market were the primary factor in the decline.

Industrial gases provider **Praxair, Inc.**, Danbury, CT, reported third quarter profit of \$355 million, an increase of 16 percent over the third quarter of 2007. Sales were \$2.9 billion, up 20 percent from the prior-year quarter. Year-to-date, the company reported sales of \$8.4 billion, up 22 percent from the same period a year ago. Profit improved 17.4 percent to \$1 billion.

Sealed Air Corp., Elmwood Park, NJ, sales for the third quarter of 2008 increased 5 percent to \$1.22 billion. Sales for the nine-month period increased 8 percent to \$3.68 billion, compared with \$3.4 billion for the same period in 2007.

AMETEK, Inc., Paoli, PA, has acquired U.K.-based **Muirhead Aerospace Limited**, a manufacturer of motion technology products and a provider of avionics repair and overhaul services for the aerospace and defense markets. Muirhead Aerospace is a subsidiary of Esterline Technologies Corporation, and has estimated 2008 sales of \$54 million.

Moro Corp., Wayne, PA, reported sales of \$22.8 million for the third quarter 2008, an increase of 28.1 percent from 2007. Profit was down 12.6 percent.