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Intelligence for Wholesale Distribution Professionals

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Distributors Weather Auto Turmoil

Suppliers to automotive industry fight to stay financially fit

The slowdown in the auto industry is being felt well beyond the Big Three automakers currently appealing to Congress for help. Distributors and manufacturers that serve the automotive industry are struggling to keep their own businesses solvent; business for many of them has dropped precipitously over the past few months.

By Jenel Stelton-Holtmeier

Jeff Stohr, president of Conveyer and Caster – Equipment for Industry in Cleveland, OH, says he began noticing a slowdown in automotive about five years ago, but the real turning point was Nov. 1 of this year.

"Our business at that time was a fraction of what would be considered normal," Stohr says. The distributor of material handling products, casters and conveyor systems has annual revenues of $10 million to $15 million, with the automotive industry making up about 10 percent of total business.

Stohr estimates automotive-related sales have dropped 75 percent.

"There's simply a reluctance or inability to spend by the automakers," says Mike Hamzey Jr., vice president of R.M. Wright Co., Farmington Hills, MI. R.M. Wright, a distributor of fluid power products and automation components with annual revenues of $10 million to $15 million, relies on the auto industry for 60 percent to 70 percent of sales both directly and indirectly.

November was one of the worst months the company has ever seen with sales down 35 percent, a figure Hamzey attributes to the troubles in the automotive sector.

And more items are being returned as auto projects get cancelled or postponed.

"In some ways it's reminiscent of 2001," Hamzey says. "This downturn may be more painful but hopefully shorter."

Conditions

While Canadian distributors have had some cushion from the declining auto market, the last few months have been difficult for them as well, according to one industrial distributor in Southwest Ontario.

"It hit fast and furious," says a manager there. Business at one of the company's locations, which primarily serves the MRO market, has dropped about 50 percent in the past three months.

"We hear weekly announcements of companies going out of business or laying off workers," he said. A recent closure of a truck plant in St. Thomas left 2,000 workers without jobs.

In addition, the Canadian credit market is beginning to tighten, though not as significantly as the market in the U.S. "Still, people can't get credit so they've stopped buying," the distributor says.

The combination has turned Ontario, the industrial hub of Canada, into a "have not" area. Customers of the distributor have already announced plant shutdowns for the last half of December.

Even when projects aren't being delayed, there's an "acute awareness of the cash situation" held by the Big Three, according to John Neumann, COO of Kinetic Technologies in Wickliffe, OH, a manufacturer of forklift-free systems.

Ford, which had previously been a good customer of K-Tec, has been increasingly reluctant to commit to new programs because of the uncertainty surrounding the automotive industry.

The Players and the Impact

In his testimony before Congress, Mark Zandi, chief economist and co-founder of Moody's Economy.com, estimated that nearly 2.5 million jobs would be at risk if any of the Big Three automakers failed.

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PERSPECTIVE ■ *Commentary by Thomas P. Gale*

Email as a Marketing Weapon

Some distributors have been reluctant to deploy and train their employees on email because it carries technical and management issues with how to use it appropriately and effectively.

It's time to rethink email as a tool. Email does not Spam people; people Spam people. Your competitors are using email to not only reach your customers, but they are using it as the most efficient and cost-effective way to reach your customers. Can you say the same? If you argue that your customers don't spend time online, it may be true that they don't visit your Web site to shop for their supplies. But do they use email? Do they have mobile devices?

Email marketing expertise and tools are evolving at a fast rate. Some distributors are able to segment their email database into key customer groups, then tailor an offer into those specific segments. What used to take weeks to get in the mail as a postcard or flyer can take hours or a few days. According to one email expert I recently spoke with, segmenting can increase click-through rates up to 90 percent. It makes sense. It also decreases your chance to be perceived as a source of Spam if you are careful with the amount and quality of your messages.

Email marketing campaigns also provide the ability to do split testing on offers and rapid metrics to make decisions on changing the plan. ROI can be measured much more effectively.

Some distributors are even integrating their contact management with email marketing to find out more about the who and why of buying behavior. They can make better business decisions about their future marketing and segmentation based on this type of feedback.

What are you budgeting for direct mail and other marketing in 2009? Start investing in the build-out of your email marketing capabilities. Don't just buy a bulk email service or program based on cost. This is about learning new marketing tools and implementing new business processes to gain efficiency in your marketing programs. Someone needs to drive this process by first understanding how your different customer segments are currently using email.

MDM will be providing resources and articles this year to help understand the issues in this developing field, from the federal Can-Spam Act that provides a national standard for emailing, to best practices in building email marketing campaigns. Remember when one of the core expertise areas (and for some dreaded annual ritual) of many distributors was creating and deploying thick paper catalogs? Marketing has been redefined in an age where we "Google," and I don't have to explain what that stupid sounding word means. ■

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Auto Industry

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General Motors, Chrysler and Ford employ 250,000 directly; the remaining jobs would come from related industries and suppliers.

While much of the focus is being placed on the Big Three domestic automakers, transplant automakers like Toyota are beginning to feel the pinch, as well. November sales at Toyota dropped nearly 34 percent over sales in November 2007.

The Japanese automaker proceeded with the opening of a plant in Woodstock, Ontario, in early December but had already scaled back hours of operation from the original plans to one shift instead of two, according to the Ontario distributor.

While the automakers themselves would feel the greatest impact if any of them filed for bankruptcy, Zandi says that nine jobs would be lost in related industries for every one job lost at the automaker.

Those job losses would impact direct suppliers to the automakers, known as Tier 1 suppliers, as well as Tier 2 and Tier 3 suppliers further down the channel. Tier numbers are designated based on the number of levels between the supplier and the automakers. Additional job losses would occur in the transportation sector, warehousing and even service industries in Michigan and Ohio.

Tier 1 suppliers would see the largest impact, according to Zandi. But Tier 2 players, like R.M. Wright, would also feel significant impact because their customers, mostly Tier 1 suppliers, often have no customer base outside of the automakers, Hamzey says.

"The ripple effect could be devastating," he says. "It could be the final straw for Michigan's economy."

As of Dec. 10, 2008, Congress was nearing a plan that would provide the automakers with $14 billion in loans to fend off the bankruptcy Chrysler and General Motors are saying could come in weeks.

But it may not be enough in the end, according to Zandi who estimates that the industry will ultimately need between $75 billion and $125 billion to keep them out of bankruptcy. The Big Three requested $34 billion.

"Bankruptcy (of the automakers) is probably the worst thing that could happen right now," R.M. Wright's Hamzey says. "People just don't have time to wait out even an expedited bankruptcy."

Survival of the Financially Fit

With all the uncertainty around survival of the auto makers, distributors and manufacturers in the channel are focusing their energies on finding ways to improve their own financial health and prepare for the worst.

R.M. Wright has closely reviewed its spending patterns, Hamzey says. Travel has been restricted, hours are being cut, and restrictions are being placed on how much gas may be used by sales staff.

But cuts aren't enough on their own, Hamzey says. The company is also reviewing all discount programs to determine if they're effective and adding in-bound freight charges.

"Though we're focusing on taking care of our customer base, we are not averse to changing terms where we need to," he says. "But it's a tender road to walk. You don't want to discourage customers, and you don't want to be knee-jerk in this economy and say 'No, you're a risk forget it,' but at the same time you don't want to get caught in somebody's bankruptcy."

At the industrial distributor in Ontario, many of those same difficult decisions have been made, but keeping the lines of communication open between management and staff has helped maintain a strong sales force even in adversity:

"Our staff has been great; they're all cognizant of the situation and appreciate being able to work for us as much as we appreciate having them work for us."

The company has discussed the possibility of layoffs but has declined to commit to them yet, hoping other efforts will make them unnecessary. One strength is that the company has always tried to operate without debt, which has means it is in a good position to weather the coming months.

Diversifying Markets

Instead of focusing on cuts, the distributor in Ontario is looking to expand its customer base by expanding its sales area and looking at sectors never considered before. "We're a general supply house," the manager says. "As such, we

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say, if it has a smokestack we can supply them." Though the company plans on maintaining a focus on automotive in the long run, if it finds success in other sectors, it will continue to drive sales in those areas as well.

Many companies are hoping that expansion and diversification will be the keys to maintaining their health.

"It's kind of cliché at this point, but it's what we're doing," Stohr says.

Conveyer and Caster began expanding into more stable markets, like food processing and medical, a few years ago when they started to detect signs of the current turmoil in the auto industry, he says.

Conveyer and Caster also recently acquired a service company so it could service products that customers wanted to repair rather than replace as capital investment budgets tighten.

Diversification may help in tough financial times but isn't always easy. Switching carts and material handling systems seems to be a lower priority for non-automotive industries, K-Tec's Neumann says.

The manufacturer has had to add new products to fill the needs of new customers, and project sizes tend to be smaller in non-automotive. "The change in emphasis has been slow," Neumann says.

Even with the current conditions, many companies are keeping the automotive sector in their long-term business plans. "Our game plan is not to get away from the automotive," Hamzey says. "I don't think we'll ever be out of it but it's definitely going to change."

The Future

Recovery in the automotive sector isn't expected to begin until at least the third quarter of 2009, though many believe 2010 is more realistic. And, chances are that one of the Big Three won't make it out as a standalone entity.

Even before the appeal to Congress, General Motors was in talks with Chrysler to take over that brand.

Those discussions halted as the economy continued its downward slide, and it became apparent that more assistance would be needed.

Any plan that comes out of Congress will have conditions attached requiring the automakers to restructure their businesses from top to bottom, Hamzey says. They've already been making changes such as closing truck plants and announcing more fuel efficient projects; credit markets have made these changes more difficult however.

"If the Big Three really thought they were going to be out of business in a few months, they'd do one of two things," Hamzey says. "They'd have a managed bankruptcy and go about their own ways without any government intervention, or they'd be asking for a lot more money than they are."

Any loans made to the automakers would allow the companies to borrow money at a reasonable rate so the companies can make the changes necessary. Part of the restructuring will require the automakers to operate lean, doing more with less.

Stohr believes companies like his may benefit in the end from the shift in manufacturing philosophy.

"That's what we're here for, to provide companies with storage solutions and material flow solutions." Even so, he believes the automotive industry will be in retraction for the next two to three years.

Still, there are sales to be had, says the Ontario distributor. But sales forces need to be prepared to fight harder for those sales as companies expand geographic sales areas. And if they have success in those areas, it's likely they'll continue to serve that area when the economy returns to normalcy.

With all the uncertainty around the markets right now, it's difficult to say how many companies will succeed, he says. But one thing is certain:

"It's going to be a cold winter in the auto sector."

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■ *MDM Interview, Part 2*

Motion Industries' Focus in 2009

CEO Bill Stevens on the distributor's opportunities in current markets

In Part 2 of this interview with Motion Industries President and CEO Bill Stevens, he delves deeper into trends he is seeing in Motion's core markets, as well as issues distributors face going into 2009.

MDM: What opportunities do you have in the current market?

Bill Stevens: The exciting thing to me is the MRO market in North America is still very large. As long as there are manufacturing plants, some of what we sell is needed and that is an encouraging thought. My greatest concern is the instability of our economy. Our customers are most definitely affected by the deepening economic downturn.

How many people thought companies like Lehman Brothers and others would go like they did as quickly as they did? I think we all thought they were pretty sound companies, and I think that's shaking all of us. No one is immune from today's economic reality. Hopefully we will see some stability soon.

I think we're going to continue to see the manufacturing mergers that we've seen in the past as well as mergers and acquisitions across the entire supply chain. Certainly that's where we think, via acquisition, that we have a great opportunity to grow.

In this economy, it will be important for Motion to continue building upon our strategic plan to develop new markets, capitalize on our technological lead, and develop new product lines. We have a strong foundation in place to serve our customer needs and we are adept at meeting those needs as they change.

In recent years, fluid power has become more of a focus. Fortunately, we've been in the hydraulic business for 30 years and the pneumatics business for about half that time. These are both continued growth businesses for us. We have hydraulics offerings through all of our Motion branches, so we're able to serve those markets effectively. We operate 35 service centers in North America to provide fabrication, repair and hose assembly.

MDM: Why is this an important area for you?

Stevens: We see repair as a key part of being a distributor in our segment. We have a program called ART – Asset Repair and Tracking – and are able to track warranties and repair for our customers including all relevant warranty data for reclaiming warranty dollars.

These warranties are often a forgotten cost savings opportunity in many plant environments. Of course, we assist with repairs or work through a consortium of suppliers to handle non-Motion repairable assets. And we're doing a lot of this work for our customers. We think owning our service centers will give us a strong position in the market to meet this growing need.

MDM: You mentioned that you have the recently acquired Drago Supply Company calling on the same customers as Motion. You already have the footprint out there in terms of your branch networks. I assume that you're putting industrial supply salespeople into your branch network to leverage the infrastructure there.

Stevens: We have some account representatives in certain markets taking advantage of the opportunities to sell our complete offering. However, we have learned that if we are going to be as successful as we want to be in the industrial supplies category, we need to have people that own the responsibility.

We learned that we can't grow a new product area just because we have it available in the market. The central point of our strategy is that the sales representative services the customer. We see just adding more products supported by product specialists as the answer.

But we're not buying industrial supply companies to affect our core business. We want to nurture and grow these businesses as well. We toyed with different ideas in industrial supplies before we developed our acquisition strategy. We wanted it to have its own ownership, its own identity such as we have done with Drago Supply. We also operate as Ruston Industrial and Voorhies Supply, and Lewis Supply. These are strong names in their markets and we don't want to lose that.

MDM: How does integrated supply work into your overall strategy?

Stevens: We think that integrated supply has a

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lot of opportunity based on some recent successes we've had. What we have done is centralize the systems and administrative functions to support this business.
A central procurement group offers a capability to obtain product procurement expertise outside of our traditional products. As you know, you can't justify redundant services and expense across multiple plants.

The approach to utilize our system capability to manage across many product areas provides us the tremendous efficiencies and a sound business model to support our customers. Integrated Supply is a business that we're investing in with both people and systems based on market demand.

MDM: Do you breakout publicly the revenues that run through Integrated?

Stevens: No, but I will tell you right now our integrated businesses sales are key to our growth. It's a business we're going to nurture because it's given us a lot of audiences that we wouldn't have had otherwise. We're trying to be flexible and provide the customer or the market what is needed. Drago will be opening a contractor's store in Beaumont, Texas soon and that is also going to be interesting. We have the products in bulk so they can come in, get what they need, check out, and go.

MDM: What critical issues do distributors face going into 2009?

Stevens: I think the most significant issue is the unknown future of our economy and the challenges we face in meeting our objectives. Whether we're a private or public company, distributors will need to address the common issues of how do we retain, compensate, and provide benefits to our workforce. Healthcare remains an overriding concern.

I think all distributors want to do the right thing, but sometimes the challenges of the economy make that more difficult.

Forecast: A 'Rough' First Half for Canada

Resource prices, U.S. conditions may drive 'shallow recession'

Canadian economists are saying the country will follow the U.S. into a recession. The severity of that recession – which is currently expected to be short – is dependent on how far the U.S. falls. Here's an overview of the current situation.

By Lindsay Young

While conditions in Canada no more than a few months ago pointed to a downturn, a recession was not necessarily yet in the cards thanks to strong domestic demand and high commodity prices.

But with the U.S. economy officially in a recession, Canada is facing the same prospect. Demand for its products in the U.S. continues to fall despite a weakening of the Canadian dollar – which in any other year might make Canadian products more attractive to U.S. companies.

What's more, commodity prices and demand for raw materials have softened, putting a damper on the historically strong resources sector. And though Canada's banking system has not seen the same turmoil as in the U.S., more businesses are reporting tighter credit conditions in the final quarter of the year.

"We are in for a couple of rough quarters looking forward," says Jeremy Leonard, economic consultant for the Manufacturers Alliance/MAPI. Leonard is based in Montreal, Quebec. He sees Canada going through a "short and shallow recession" from the fourth quarter 2008 through the middle of 2009.

Still, GDP will not decrease by a lot – probably between 0.5 percent and 1 percent, he says. Most forecasts show the Canadian economy moving back into positive territory in the second half of 2009.

That said, if the U.S. economy goes off a cliff, so to speak, Canada could see a much more prolonged downturn. Forecasts say the country's GDP could go down 1.5 percent from the end of 2008 through the end of 2009. Leonard says that is the most pessimistic scenario for the U.S.'s northern neighbor.

The most recent GDP numbers – third quarter – showed that goods-producing sector declines were offsetting gains in service sectors. Third-quarter GDP was stronger than expected due to a decline in imports and rise in inventories.

Driving the Downturn

Leonard attributes his and others' forecasts to

current U.S. conditions and resource price deflation. "Prices have declined rapidly over the past few months," he says. Not only oil but the price of key industrial metals has gone down.

The Canadian resource sector – with strength in oil, metals and wood products – makes up about 10 percent of its economic output, a significant part of the overall economy.

Though China's growth is decelerating – forecast to be in the 6 percent to 7 percent range this year – the country will continue to use Canada's raw materials in its many heavy construction projects. "Given our resource concentration, the strength or weakness of emerging markets is going to be critical over the next year," Leonard says.

Canada's dependence on certain export markets has limited its growth, Leonard says, but the country has started looking to new markets to help buoy itself when the U.S. economy falls.

Its abundance of natural resources critical to growth in countries like China has helped start that diversification process. Canada has just signed a free trade agreement with Colombia, and there has been talk about an agreement with South Korea.

Canadian Dollar

The export markets – a key element of Canada's economy – have over the past couple of years been hurt by a high Canadian dollar, which increased the prices of Canadian products in the U.S. About a third of Canada's GDP is based on exports to the U.S., according to Leonard. Recent weakness in exports was concentrated in energy products, automotive products and industrial goods.

The Canadian dollar has recently depreciated and is currently worth around US$0.80. But distributors and manufacturers in Canada have yet to see a positive impact. "It's one thing to have prices go down, but if the demand is so soft in the U.S. that people won't buy at any price, that is a problem," Leonard says. "But the depreciation is still help in the right direction."

Leonard does not expect the downward trend in exports to turn around until the U.S. economy hits its bottom.Canadian industrial MRO distributor Source Atlantic's Steve Drummond says the same: "The dollar impact will always have a positive effect on our exporting businesses, but the severity of the decline in demand is not allowing that to be that beneficial."

The Bank of Canada forecasts the Canadian dollar will average its current value, around $0.85, through 2010.

Sectors

Even though energy prices have gone down, many energy projects are still on tap to move forward. One distributor tells MDM he has not seen energy prices affecting long-term energy-related projects yet, such as new refineries and nuclear plants.

The forest products sector in Canada has seen some of the deepest cuts in prices, leading the downward trend in the resource sector. "It is much more sensitive to what is happening in the U.S. housing sector," Leonard says. He says the sector will likely "lag" the industrial recovery in Canada.

In Canada, construction markets have started to decline, but will not hit the lows seen in the U.S.

"There is no sub-prime mortgage market up here to speak of, and so we just didn't see the run-up in housing prices over the past couple of years that the U.S. saw. The run-up in prices we did see was due to underlying fundamental demand," Leonard says. The extent of the decline in Canada depends on the area of the country.

The other persistent weakness in the Canadian economy continues to be the automotive sector. A decrease in North American vehicle sales has hurt Canadian suppliers to that industry.

Outlook

The Bank of Canada's business outlook survey shows that firms in Western Canada are tempering their expectations for sales growth. The survey says that "some in the West noted that previous high rates of sales growth could not be maintained."

Firms in other regions expect little change in sales growth over the next 12 months.

In the survey, more firms reported that the U.S. economy's weakness was negatively affecting sales prospects. Expectations for investment spending were down, but still remain positive due to the long-term outlook for commodity prices and new export markets.

The Bank of Canada survey shows that hiring intentions are "slightly below levels in recent surveys." Companies in Central and Eastern Canada are less optimistic about hiring than those in Western Canada.

RBC Economics forecasts that weak growth from tight credit and slow demand for the U.S. will continue to put downward pressure on prices. The Bank of Canada forecasts core inflation will remain below 2 percent though 2010. Core inflation does not include food and energy prices.

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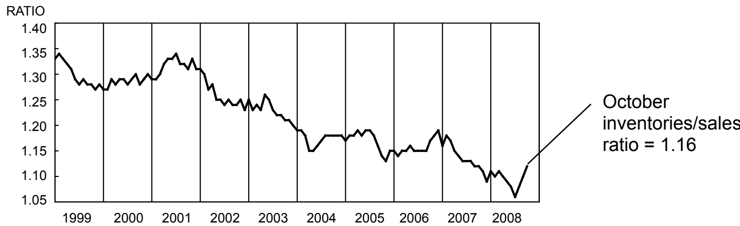
Monthly Wholesale Trade: Sales and Inventories for October 2008

October 2008 sales of merchant wholesalers were $377.4 billion, down 4.1 percent from the revised September level, but up 2.7 percent from the October 2007 level, according to the U.S. Census Bureau. The September preliminary estimate was revised downward $2.4 billion or 0.6 percent. October sales of durable goods were down 4.2 percent from last month and were down 1.6 percent from a year ago. Sales of metals and minerals, except petroleum were down 5.2 percent from last month and sales of motor vehicle and motor vehicle parts and supplies were down 4.5 percent. Sales of nondurable goods were down 4.1 percent from last month, but were up 6.5 percent from last year. Sales of petroleum and petroleum products were down 11.2 percent from last month and sales of farm product raw materials were down 6.1 percent.

Monthly Inventories/Sales Ratios of Merchant Wholesalers: 1996-2006

(Estimates adjusted for seasonal and trading-day differences, but not for price changes)



Source: U.S. Census Bureau

Inventories. Total inventories of merchant wholesalers were $438.2 billion at the end of October, down 1.1 percent from the revised September level, but were up 8.0 percent from a year ago. The September preliminary estimate was revised downward $1.3 billion or 0.3 percent. End-of-month inventories of durable goods were down 0.2 percent from last month, but were up 10.0 percent from last October. End-of-month inventories of nondurable goods decreased 2.6 percent from September, but were up 4.8 percent compared to last October. Inventories of petroleum and petroleum products were down 18.2 percent from last month and inventories of farm product raw materials were down 8.5 percent.

Inventory-Sales Ratio. The October inventories/sales ratio for merchant wholesalers, except manufacturers' sales branches and offices, based on seasonally adjusted data, was 1.16. The October 2007 ratio was 1.10.

Monthly wholesale trade: Sales and inventories October 2008

NAICS Code	Business Type	Sales $ millions	Inventories $ millions	Stock and Sales ratio	% Change in Sales 9/08-10/08	% Change in Sales 10/07-10/08	% Change Inventory 9/08-10/08	% Change Inventory 10/07-10/08
42	U.S. Total	377,397	438,182	1.16	-4.1	2.7	-1.1	8.0
423	Durable	169,845	276,773	1.63	-4.2	-1.6	-0.2	10.0
4231	Automotive	23,067	42,546	1.84	-4.5	-16.2	-0.2	12.9
4232	Furniture & Home Furnishings	5,323	8,078	1.52	-4.0	-9.4	0.8	1.8
4233	Lumber & Other Construction Materials	9,439	14,562	1.54	-1.6	-7.3	-1.0	0.2
4234	Prof. & Commercial Equip. & Supplies	30,681	33,086	1.08	-0.5	2.8	0.1	8.6
42343	Computer Equipment & Software	15,359	12,051	0.78	-2.1	-0.3	1.4	10.9
4235	Metals & Minerals	14,831	28,930	1.95	-5.2	9.4	0.9	26.8
4236	Electrical Goods	28,631	36,632	1.28	-1.8	3.8	1.1	11.3
4237	Hardware, Plumbing, & Heating Equipment	7,383	15,163	2.05	-1.9	-9.4	-0.6	-1.9
4238	Machinery, Equipment & Supplies	32,005	72,578	2.27	1.6	9.6	0.1	10.3
4239	Miscellaneous Durable	18,485	25,198	1.36	-20.7	-10.3	-3.5	5.3
424	Nondurable Goods	207,552	161,409	0.78	-4.1	6.5	-2.6	4.8
4241	Paper & Paper Products	8,254	7,284	0.88	1.1	4.3	1.0	5.2
4242	Drugs	32,704	31,461	0.96	0.9	5.6	1.9	5.5
4243	Apparel, Piece Goods & Notions	11,060	16,768	1.52	-2.6	3.7	0.1	0.7
4244	Groceries &Related Products	44,668	28,083	0.63	0.0	2.5	0.9	8.4
4245	Farm-product Raw Materials	19,708	20,160	1.02	-6.1	18.6	-8.5	-10.7
4246	Chemicals &Allied Products	9,198	9,856	1.07	-2.4	3.1	-3.8	13.1
4247	Petroleum &Petroleum Products	53,027	13,381	0.25	-11.2	11.2	-18.2	3.1
4248	Beer, Wine & Distilled Beverages	9,214	10,853	1.18	-2.3	2.6	0.8	5.9
4249	Miscellaneous Nondurable Goods	19,719	23,563	1.19	-2.8	1.0	-0.2	17.0

U.S. Bureau of the Census, Current Business Reports, Monthly Wholesale Trade, Sales and Inventories Series: MDM compilation and analysis.
Adjusted for seasonal and trading day differences. Figures for sales and inventories are preliminary adjusted estimates.

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Industrial & Construction Markets Update

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3M Outlines Strategy to Weather the Downturn

For executives at 3M, St. Paul, MN, coming out of the current recession as a healthy company requires more than the usual cost cutting measures; it also means changing the mentality with which one views the recession. That was the message presented by George W. Buckley, president and CEO, and Patrick Campbell, senior vice president and CFO, during a recent conference call to present earnings guidance for 2009.

"When there's a 2 percent turndown, there's 98 percent of the market left," Buckley said.

In keeping with this idea, Buckley and Campbell emphasized that 3M intends to maintain its research and development budget even while cuts are being made in other parts of the company. 3M recently announced layoffs of 1,800 people and plans to cut an additional 500 before the end of the fourth quarter. In addition, 15 factories have been closed in the last 18 months.

Plants that previously manufactured optical films, an area that has drastically slowed in recent years, have been repurposed to manufacture solar films, an area Buckley identified as having solid growth potential in 2009. The company is also continuing development of a system to repair and maintain city water infrastructure.

In addition, the company will continue to focus on development in emerging markets such as China, Campbell said. While conditions are slowing everywhere, these markets provide opportunities for long term investment. In 2001, emerging markets made up 17 percent of 3M's revenues; currently, that is closer to 30 percent.

The company will continue to employ measures to "preserve cash, conserve cash and to cut costs aggressively," said Buckley but current conditions require more. "Innovation is our best chance - perhaps even our only chance - for success in times like these."

Praxair, Danbury, CT, will be laying off 1,600 employees and closing underperforming and non-core product lines and businesses in response to a substantial decline in demand for the fourth quarter. The company saw a fall-off in demand in November and is expecting additional customer plant closings in December.

Applied Industrial Technologies, Cleveland, OH, has acquired **Cincinnati Transmission Company**, a single location, regional distributor of power transmission and motion control products as well as gearbox repair solutions in Cincinnati, OH.

NESCO-Needham Electric Supply, Canton, MA, has acquired **Gettens Electric Supply Co.**, Inc., Fitchburg, MA. Gettens Electric Supply will continue to operate under its name as "A Division of NESCO, Needham Electric Supply."

Manufacturer **EnPro Industries**, Charlotte, NC, has acquired three companies for its Compressor Products International (CPI) business. The acquired businesses are **Horizon Compressor Services** Inc., Houston, TX; **RAM Air**, Inc., New Smyrna Beach, FL; and **C&P Services (Northern) Limited**, Warrington, UK. The acquired businesses provide components and aftermarket services for reciprocating compressors to customers in the petroleum, natural gas, PET bottle molding and chemical processing industries in the United States and England.

Beacon Roofing Supply, Inc., Peabody, MA, reported sales for the fiscal 2008 ended Sept. 30 were up 8.4 percent to $1.78 billion, thanks to acquisitions and an increase of 1.3 percent in organic sales. The distributor's 2008 profit was $40.3 million compared to $25.3 million in 2007.

Airgas, Inc., Radnor, PA, has acquired California-based **Gordon Woods Industrial Welding Supply**, Inc., **Accu Air Gases & Equipment**, **LP and Summit Gas & Gear**, LP. All three businesses are now part of the Airgas West regional company.

In a separate transaction, Airgas has acquired **TexAir Welding Supply**, Ltd., an industrial gas and welding supply distributor with $5 million in annual revenues through branch locations in Henderson, Longview and Mount Pleasant, TX. The company will be integrated into Airgas Mid South.

Parker Hannifin, Cleveland, OH, manufacturer in motion and control technologies, has acquired **Detroit Plasticos e Metais** S/A, a Brazilian manufacturer of high performance fittings, valves, manifolds, and thermoplastic tubing.

Avnet, Inc., Phoenix, has agreed to acquire **Nippon Denso Industry Co.**, Ltd. of Japan, a value-added distributor of electronic components, through its subsidiary, Avnet Japan Co., Ltd.

Swedish manufacturer **Sandvik Group** announced efforts to reduce over-

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capacity and increase productivity at many of its facilities. The measures include lay-offs of 1,500 people, termination of temporary contracts, and the closure of a production unit in Perth, Australia. The process is expected to be completed during the first six months of 2009.

National **distributor sales of HVACR** products for October were down 0.8 percent from a year ago, according to the Monthly Targeted and Regional Economic News for Distribution Strategies Report, produced by Heating, Airconditioning and Refirigeration Distributors International. Canada experienced the best performance for October with sales up 9.4 percent, while the Western region was down 11.1 percent.

U.S. manufacturers' sales rose 3.0 percent in October 2008 when compared to September 2008. Sales in October 2008 increased 6.2 percent compared to the same period last year. Canadian manufacturers' sales reversed September 2008 positive gains by posting a 4.9 drop in October 2008. Sales were down 5.6 percent when compared to the same period last year.

The Conference Board Employment Trends Index declined further in November. The index fell to 102.9, down 1.6 percent from the October revised figure of 104.5, and down over 13 percent from a year ago.

Manufacturing contracted in November for the fourth consecutive month, according to the latest Manufacturing Institute for Supply Management Report On Business. New orders have contracted for 12 consecutive months, and are at the lowest level since June 1980 when the index registered 24.2 percent. Order backlogs have fallen to the lowest level since ISM began tracking the Backlog of Orders Index in January 1993.

New orders for manufactured durable goods in October decreased $12.7 billion or 6.2 percent to $193.0 billion, the U.S. Census Bureau announced. This was the largest percentage decrease in new orders since October 2006 and followed two consecutive monthly decreases including a 0.2 percent September decrease. Excluding transportation, new orders decreased 4.4 percent.

Preliminary Estimates from the Bureau of Economic Analysis show the **GDP** decreased 0.5 percent in the third quarter. The decrease in real GDP in the third quarter primarily reflected negative contributions from personal consumption expenditures (PCE), residential fixed investment, and equipment and software that were partly offset by positive contributions from federal government spending, private inventory investment, exports, nonresidential structures, and state and local government spending.

Machine Tool Consumption Falls More Than 40 percent in October

October U.S. manufacturing technology consumption totaled $273.85 million, according to the Association for Manufacturing Technology and the American Machine Tool Distributors' Association.

This total, as reported by companies participating in the USMTC program, was down 43.4 percent from September and down 32.3 percent from the total of $404.36 million reported for October 2007.

With a year-to-date total of $3,802.41 million, 2008 is up 8.2 percent compared with 2007.

These numbers and all data in this report are based on the totals of actual data reported by companies participating in the USMTC program. "October orders for manufacturing technology declined sharply from September, although year-to-date figures are still up over 2007," said Robert K. Simpson, AMT president.

"While orders typically fall off in the October following IMTS, the larger than normal rate of decline is attributed to our customers' 'wait and see' attitude given the deteriorating economic conditions."

Northeast Region

Manufacturing technology consumption in the Northeast Region in October totaled $39.72 million, down 47.7 percent when compared with September's $75.91 million and 40.9 percent less than the total for October a year ago. The $548.07 million year-to-date total is 0.2 percent above the comparable figure for 2007.

Southern Region

Southern Region manufacturing technology

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Manufacturers Alliance/MAPI Forecast: Manufacturing Recession 'Intensifies'

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The U.S. manufacturing recession continued unabated, and in fact intensified in the third quarter, and is now part of a global downturn, according to the Manufacturers Alliance/MAPI Quarterly Industrial Outlook – Third Quarter 2008, a report that analyzes 27 major industries.

"There was a sudden and acute acceleration of the decline in the industrial sector in September and October," said Daniel J. Meckstroth, chief economist for the Manufacturers Alliance/MAPI and author of the analysis.

"The vicious circle of financial crisis, decline in wealth, consumer spending cuts, and job loss continues to spiral into a severe recession—certainly the worst since the early 1980s."

On an annual basis, MAPI forecasts a decline in the industrial sector this year and next before showing some marginal improvement in 2010.

Manufacturing production is expected to fall 1.4 percent in 2008 and decline 4.2 percent in 2009, preceding 0.9 percent growth in 2010.

Manufacturing industrial production, measured on a quarter-to-quarter basis, declined at a 7.8 percent annual rate in third quarter 2008 after falling at a 4 percent annual rate in the second quarter.

"The financial crisis in the United States has spread to most other regions of the world, creating a global downturn," Meckstroth said.

"A recession among our trading partners has weakened the outlook for exports, which is one of the few remaining pillars providing positive support to the economy, particularly to the manufacturing sector."

Non-high tech manufacturing production declined at a severe 8.2 percent annual rate in third quarter 2008. It is forecast to decline 2.9 percent for the year, fall further by 6.3 percent in 2009, and grow 0.9 percent in 2010.

There was a significant downturn in the 2008 third quarter figures for manufacturing.

Nine of the 27 industries tracked in the report had inflation-adjusted new orders or production above the level of one year ago, two fewer than reported in the second quarter. Seventeen industries had production below the level of one year ago, and one remained flat.

Only one industry, communications equipment, had double-digit, year-over-year growth in the third quarter as it grew by 16 percent.

The largest drop came in housing, with a 32 percent decline in housing starts. Industrial machinery fell by 19 percent, motor vehicle and parts production by 16 percent, basic chemicals by 14 percent, and engines, turbines, and power transmission equipment by 11 percent.

Meckstroth writes that no industries are in the accelerating growth (recovery) phase of the business cycle; 10 are in the decelerating growth (expansion) phase; 12 industries appear to be in the accelerating decline (either early recession or mid-recession) phase; and five are in the decelerating decline (late recession or very mild recession) phase of the cycle.

The report also offers economic forecasts for 24 of the 27 industries for 2009 and 2010. The recession in the manufacturing sector is expected to last well into next year, with MAPI forecasting only three of 24 industries to show gains.

Aerospace products and parts is predicted to grow by 3 percent in 2009, while communications equipment and public construction should each grow by 1 percent. A turnaround is anticipated in 2010, with 16 of 24 industries expected to expand, led by housing starts at a healthy 50 percent increase.

Aerospace products and parts, by 10 percent, is the only other industry predicted to grow by double digits, but any growth in the remaining industries would be a relief from the economic recession that began in December 2007.

Seven industries are expected to experience negative change in both 2009 and in 2010 with private, non-residential construction showing the most weakness.

The industry is expected to decline by 14 percent in 2009 and by 13 percent in 2010, but is the only one anticipated to have two consecutive years of double-digit retrenchment.

For more information, go to www.mapi.net.

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consumption in October totaled $28.34 million, 64.4 percent less than the $79.53 million total for September and down 29.8 percent when compared with last October.

At $569.79 million, the 2008 year-to-date total is 26.9 percent higher than the comparable figure a year ago.

Midwest Region

At $92.79 million, October manufacturing technology consumption in the Midwest Region was 36.8 percent below the September total of $146.72 million and 46.4 percent less than in October 2007. With a year-to-date total of $1,281.55 million, 2008 is up 10.7 percent .

Central Region

Central Region manufacturing technology consumption stood at $77.95 million in October, down 41.5 percent when compared with September's $133.24 million, and down 11.1 percent when compared with October 2007.

At $950.83 million, the 2008 year-to-date total is 5.3 percent higher than the comparable figure for 2007.

Western Region

October manufacturing technology consumption in the Western Region totaled $35.05 million, 27.2 percent less than September's $48.17 million, and down 2.9 percent when compared with the total for October a year ago.

The $452.17 million year-to-date total is down 1.0 percent when compared with 2007 at the same time.

Power Transmission/Motion Control Sales Unchanged in October

U.S. distributors' overall sales of PT/MC products were unchanged in October 2008 compared to September 2008, according to the latest month-end trend data released by the Power Transmission Distributors Association.

When matched up against sales in the same month last year, sales in October 2008 were up by 7.4 percent. Accounts receivable collection days rose 2.3 percent since September 2008. The confidence index of U.S. distributors for October was also unchanged, remaining at 5.2 (on a 10-point scale).

Following double-digit sales growth in September 2008, Canadian distributors reported a 4.2 percent drop in sales in October 2008. Sales over the same period last year were up 2.5 percent. Accounts receivable collection days fell 5.1 percent compared to September 2008.

For the third consecutive month, the confidence level of Canadian distributors remained steady at 5.3 (on a 10-point scale).

U.S. manufacturers' sales rose 3.0 percent in October 2008 when compared to September 2008. Sales in October 2008 increased 6.2 percent compared to the same period last year. Orders in October 2008 were up 7.8 percent over September 2008. The confidence level of U.S. manufacturers fell 0.2 to 4.9 (on a 10-point scale), which is the lowest level since May 2002.

Canadian manufacturers' sales reversed September 2008 positive gains by posting a 4.9 drop in October 2008. Sales were down 5.6 percent when compared to the same period last year. The confidence level of Canadian manufacturers decreased 0.3 to 4.4 (on a 10-point scale) from September to October 2008, the lowest level in this decade.

Product-by-product sales between September 2008 and October 2008 reflect the change in sales experienced by U.S. and Canadian manufacturers.

Three product categories for U.S. manufacturers —unmounted bearings, positioning systems/linear motion products and standard industrial motors — posted increases in sales. For Canadian manufacturers, three product categories posted an increase in sales — positioning systems/linear motion products, variable speed drives and standard industrial motors.

The Market Outlook Report is published monthly by the Power Transmission Distributors Association. For more information to order the full report, go to www.ptda.org.

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