Modern DISTRIBUTION MANAGEMENT®
Intelligence for Wholesale Distribution Professionals

VOL. 39, NO. 19
OCTOBER 10, 2009

Credit Conditions Still Tough

Supply remains tight, but demand for credit has also fallen

This article provides an overview of current credit conditions for distribution companies, their suppliers and customers. Included are results from a recent MDM survey, which asked about challenges, if any, in acquiring credit. The article includes data from the Federal Reserve and other organizations that have surveyed banks and businesses on credit trends.

By Lindsay Young Konzak

In a recent MDM survey on the economy, 39 percent of respondents said credit has become less available in the past six months. Nearly 54 percent said that access to credit has not changed significantly, implying credit remains tight for most.

In the survey, respondents noted banks have grown stricter, increasing collateral requirements, lowering credit lines and increasing rates and fees.

"Credit institutions are no longer willing to loan on receivables and inventory without a personal guarantee from the major stockholders," one respondent wrote. "And even then the reporting and involvement in our business has been onerous."

Credit quality, an uncertain economic outlook, and a reduced tolerance for risk are the main reasons for the tough credit conditions, according to a recent survey from the Federal Reserve, released in August. Reduced demand for credit is also playing a part.

In the Fed's report, which comes out every three months, banks reported that they expected lending standards to remain tighter than average levels in the past decade until at least the second half of 2010.

Weaker Demand

About 45 percent of domestic bank respondents in the Fed survey reported weaker demand for C&I loans from large firms, and 55 percent reported weaker demand from small firms. Why? Bank customers have less need for financing due to decreased investment in plants or equipment. In addition, according to the banks, their customers have less need to finance inventories, accounts receivable, and mergers and acquisitions.

About 25 percent of domestic banks in the Fed survey reported inquiries from potential business borrowers had declined in the survey period, only slightly smaller than the previous period.

That finding meshes with the latest National Federation of Independent Business Small Business Economic Trends report, which said many small businesses are postponing investment in inventories and have historically low plans for capital spending.

In the MDM survey, respondents said the same. "Fortunately, we are not spending, so we don't have a need for additional credit," one wrote. Some are looking to pay down debt, "not incur it," as another respondent wrote.

Dan Cantara, First Niagara Financial Group Inc. executive vice president of Commercial Services, says his bank in New York and Pennsylvania monitors lines of credit and has seen outstanding borrowing compared with capacity trending down.

"You might think that in a recession people are worried about profitability being down and that they are using their credit lines to fund working capital and day-to-day operations," he says.

"But we are finding the opposite. People tend to be more conservative. They are running inventories down and deleveraging themselves. They aren't doing that plant expansion or adding a new product line. They might not be upgrading their computer system. And they've cut their

continued on page 3

INSIDE

mdm.com®

PERSPECTIVE ■ *Commentary by Thomas P. Gale*

Key Issues Emerge for 2010

I'm finally hearing a few themes emerging for this recovery as I attend meetings and talk with wholesale distribution and manufacturing executives. Consensus: At least until third quarter next year, businesses will be grinding for growth. Companies are still focused internally on cost reduction, but they are looking ahead more than they were two months ago and adjusting to this "new normal." Six months ago slightly down looked OK. At least for now "flat" is the new up.

There are a lot of mixed signals. While August sales surprised many distributors positively, September was spotty across a range of markets. Still, 3Q looks to be the starting point with 4Q shaping up for a potentially stronger spike. But then volatility is likely to continue the next three to four quarters as consumer spending stays weak due to unemployment. The big unknown is how much exports will help drive domestic manufacturing.

A positive note we've discussed in these pages in the past year - small but growing indicators that manufacturers are bringing some production back onshore and distributors in select markets are beginning to see that impact. The economics and costs of distant supply chains are different today than five years ago.

This past year has forced soul searching and dramatic redefinition for how distributors can stay viable and profitable. More companies have been forced to address process improvements and growth opportunities. We're hearing about increased investment in information technology to gain specific returns in better inventory management and forecasting, better control of pricing, and more sophisticated customer segmentation to determine the best growth opportunities.

These next few quarters could be challenging for distributors with new bank covenants in place and less flexibility to finance inventory increases to meet demand spikes. Related to that, some distributors are refocusing their sales and marketing efforts on their most productive lines. They are reducing their vendor base to those that aren't over-distributed, are reliable partners in uncertain times, necessary to customer needs, and profitable.

Reminder: MDM's Webcast events – one per month this quarter – will address the issues above and help you plan 2010. Brent Grover presents Strategic Pricing for the "New Normal" on Oct. 29, Adam Fein presents his 2010 Economic Outlook for Wholesale Distribution on Nov. 19, and Bill McCleave leads a discussion of how to position to take market share in the year ahead on Dec. 9.

Details are at www.mdm.com/events. ■

MODERN DISTRIBUTION MANAGEMENT

Founded in 1967
by J. Van Ness Philip

Publisher
Thomas P. Gale
tom@mdm.com

Editor
Lindsay Young Konzak
lindsay@mdm.com

Associate Publisher
Craig Riley
craig@mdm.com

Associate Editor
Jenel Stelton-Holtmeier
jenel@mdm.com

Contact Information
Questions, comments, article proposals, address changes or subscription service to:

Gale Media, Inc.
3100 Arapahoe Avenue, Ste 500A, Boulder, CO 80303
Tel: 303-443-5060 Fax: 303-443-5059
Website: http://www.mdm.com

Subscription Rates
To subscribe to Modern Distribution Management, please call 303-443-5060, email tom@mdm.com or **http://www.mdm.com.**

Subscriptions are available by online delivery and/or first-class mail. Eight years of archives of MDM are available online to subscribers.

Published twice monthly; $345/yr., $365 U.S. funds other countries; $169 each additional subscription to a company ($189 other countries). Six-month and two-year terms are no available. For group subscription rates and site licenses, please contact Hadley Fable at 303-443-5060.

ISSN 0544-6538

Credit Challenges

Continued from page 1

work force. All of that leads to deferred borrowing."

Banking Relationships

Trust has become a key part of ensuring the right amount of credit will flow again when distributors do need it.

An industrial distributor based in the Western U.S. tells MDM it has worked closely with its bank – a large national institution – to ensure the bank has no doubts about its financial state. "It's about trust," the distributor's controller says. "We have had to double the reporting we have to do."

The controller says the distributor has always worked to be open with its bank, and did not change that when the recession began. That said, the distributor's banking relationship has not been without some challenges. Rates and fees have gone up. "It's not welcome but I don't feel like they are being outrageous," the controller says.

In the Federal Reserve's Senior Loan Officer Survey, about 60 percent of banks have reported increasing spreads on loan rates for large firms, and 65 percent report doing so for small firms. The costs of credit lines and premiums charged on riskier loans were reported in the survey to have been tightened by at least 50 percent of respondents.

But one of the biggest changes the West Coast industrial distributor has seen is in how the bank approaches the distributor's credit line. The bank noticed the distributor was not using its full line, so asked the distributor to scale it back.

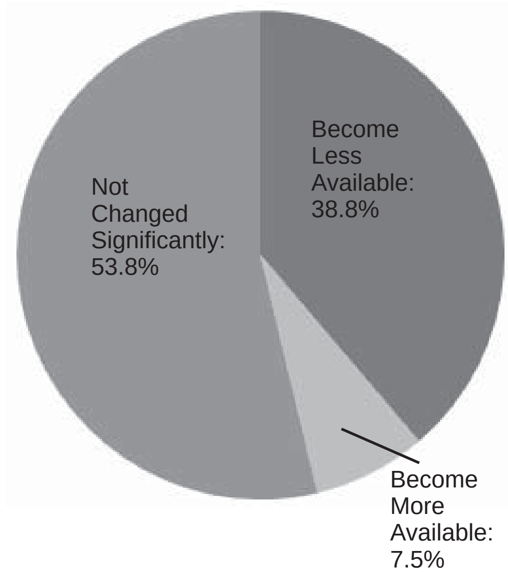
"They ask almost every time we meet with them," the controller says.

The distributor has worked with the bank to scale back the line with the understanding that when conditions improve, the bank won't make it difficult to expand credit once again. "In our case, it has not been a challenge. We feel we haven't needed as big of a line (recently)," says the distributor.

First Niagara's Cantara says it is a lenders' market and many banks are working down their loan portfolios. "In the economic expansion, it was a buyers' market," he says. "The market dynamic has changed. The market dynamic is such that it is more favorable to lenders so they can command a higher price.

"… Some banks are aggressively using this to manage down their portfolio. (As a result) we

In the past six months, credit has:



Source: MDM Economy Survey of MDM readers. See pages 5-6 of this issue for more results.

are picking up a lot of good business that our competition is chasing out the door. It's good for banks that are well-capitalized and see an opportunity to gain market share."

Cantara says small and mid-sized banks that avoided risky loans and investments in the economic boom are taking market share from larger banks and others who did not avoid these instruments.

First Niagara, based in Buffalo, NY, has continued to grow despite the current market with the recent acquisition of two banks in Pennsylvania; after the second acquisition closes early next year, the bank will have doubled its asset pool in less than six months.

Customer Credit Troubles

The Chief Operating Officer for another industrial distributor, based in the East, said in an interview with MDM that while his business has not struggled on the credit front, his customers have had credit challenges.

Some have maxed out their credit lines, and are unable to get more credit.

Outstanding A/R is growing, he says. The time it takes customers to pay has grown even more pronounced in the past 60 days. "I think it's going to get worse," he tells MDM.

As can be the case, cash flow can be constrained when business picks up again if a company has cut too much during the downturn

continued on the next page

and cannot get the credit to build inventory, for example, to meet growing demand. "We've been wary of that," he says. "We have to crack down."

For new customers, the distributor is more vigilant than ever about thorough credit checks.

The industrial distributor in the West tells MDM the company has seen contractors use plastic more often to pay bills. This distributor does not want to extend credit to these customers, but did see an opportunity to work with a major credit card company to build a program that will extend credit to smaller customers with credit challenges; this lessens the risk to the distributor, but keeps those loyal customers in the loop.

On the supplier side, this distributor says that vendors are "asking more of us" as a result

■ *MDM Interview*

A Bank's Perspective: Why Communication - Good or Bad - Only Helps

Dan Cantara, executive vice president of Commercial Services for First Niagara Financial Group Inc., Buffalo, NY, recently spoke with MDM about current banking conditions.

First Niagara, with locations in New York and Pennsylvania, has benefited from the turmoil in the banking industry. While competitors big and small may be struggling, First Niagara has a healthy balance sheet and is looking for new customers. In fact, it will nearly double its assets when its second acquisition this year closes early 2010.

Here's what Cantara says about banking in a difficult credit environment.

MDM: What do you want to see from a potential new customer?

DC: The key point is we're looking for relationships, not transactions. We look to financial strength and need to see financial statements and tax returns. But before we get there we want to have a sense of the industry, the end-markets they serve, concentration of business with customers and suppliers, and the cyclical nature of the industry.

Our value proposition only comes to bear in a relationship. It's really about understanding the longer view, and we want to see not only the track record but the business plan.

MDM: In difficult times like these, how do you consider performance?

DC: We've taken on a lot of new customers who have come off of loss years. We want to see a long-term track record, and we want to know why they are having a down year, how they have cut expenses and shown nimbleness. And what they have done to maintain profitability. They should tell me when they expect things to normalize.

There's always a story behind the numbers. That's where banks can be effective. It takes time to understand the bigger picture. Just coming off a loss year doesn't mean we won't take you on as a customer.

MDM: What do you tell businesses that may be struggling and concerned about meeting their loan covenants?

DC: Have your ducks in a row. Make sure you have your tax filings done and your financial information submitted on a timely basis. Have your forecasts updated. Speak openly and frankly with your bank.

If it is unworkable, talk with your bank about forbearance and restructuring. A lot of banks would rather do that than put you out of business. It doesn't do them any good to put you out of business.

Don't all of a sudden go in your shell. We monitor, for instance, tardy financial information. It will just make it worse – it will make us nervous about why you didn't meet your deadlines. It pays to be honest and open. It's about trust like any other relationship.

MDM: Do you have other advice on maintaining good banking relationships in tough times?

DC: It is a tough environment. Banks have to make prudent business decisions. It's not as robust a lending environment as it was. Spreads are up and banks have more leverage. Some are using that appropriately and risk-pricing loans, and doing the right thing for customers and shareholders. If you don't think your bank is, it can pay to start shopping.

of the credit strains they are feeling. Vendors are looking to "keep money moving" and may be pickier than usual about a small dollar amount discrepancy on an invoice. What's more, vendors will call Accounts Payable before an account is due to ensure the distributor will pay.

Cash flow is on everybody's minds.

"Everybody is feeling it," the distributor says.

Links to the survey data in this article are available at this article online at www.mdm.com.

Survey: Concern Over Economy High

Survey shows that MDM readers are optimistic, but remain cautious

Concern over the U.S. economy continues to be high among MDM readers, but more in a recent MDM survey expect the economy to be better than worse in the next six months.

Compared with one year ago, that's an improvement. In the September 2008 survey of MDM readers, 28 percent expected the economy to grow worse; the September 2009 survey shows just 16.7 percent expect the economy to worsen. Most (47.5 percent) expect the economy to stay the same.

More than half are "very concerned" over the state of the economy, and a little more than a third are "concerned."

Some respondents pointed to specific sectors: "Housing is still on an uncertain increase, and we still have the commercial real estate bubble that is going to burst."

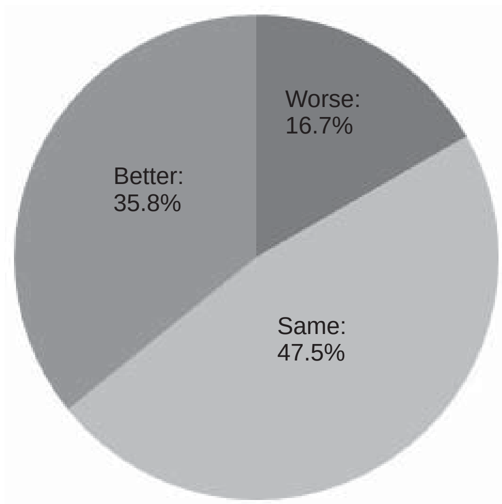
Others said that the economy remains fragile, even if it is showing positive signs. "Although growing very slightly, I think the economy is very vulnerable. It would not take much to remove all the wind from its sails."

Another wrote: "Still unpredictable and I believe that we are still in uncharted waters. I am particularly concerned that we are headed for some severe inflationary times and don't fully know what that can mean toward a recovery."

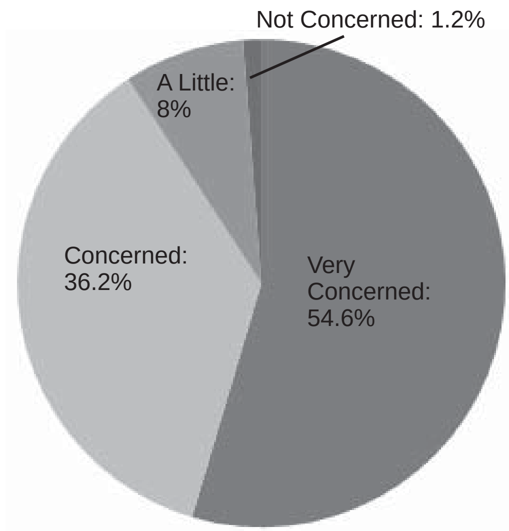
Some of the concern stems from government actions. "Worst recession in my career. I'm concerned about rate of recovery and overall stability of any recovery given how much the government is involved via money policy management."

Some of the key concerns listed included: large number of quotations, but few orders; continued contraction in 2010; slow housing recovery; employee retention; profitability; turnaround in automotive; commercial construction slowdown; credit; extended receivables, price-cutting; low OEM demand; and unemployment.

How do you expect the U.S. economy to fare over the next six months?



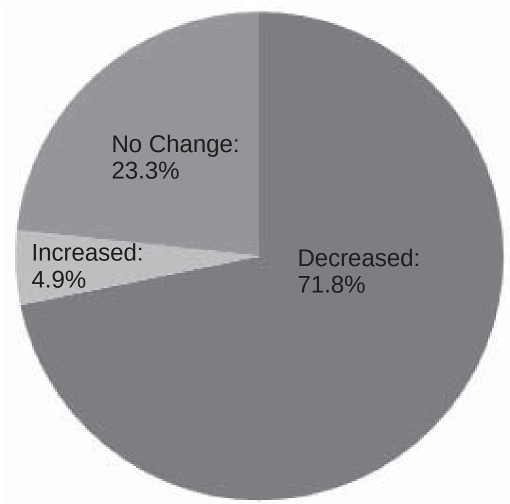
How concerned are you about the state of the economy?



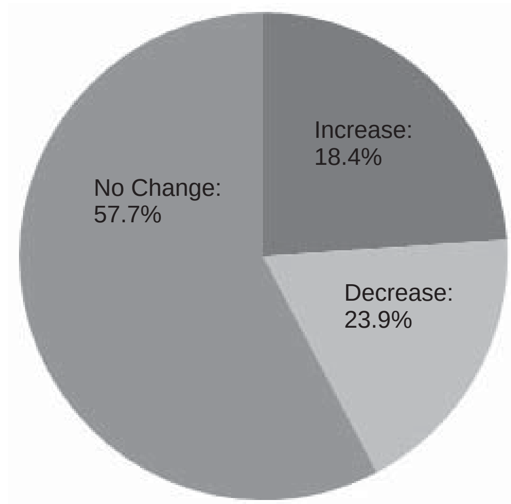
continued on the next page

The MDM Survey on the Economy was conducted by email in the final week of September. Breakdown of companies that participated: 54.3 percent were distributors; 30.2 percent, manufacturers; 5.6 percent, service providers; 9.9 percent, other.

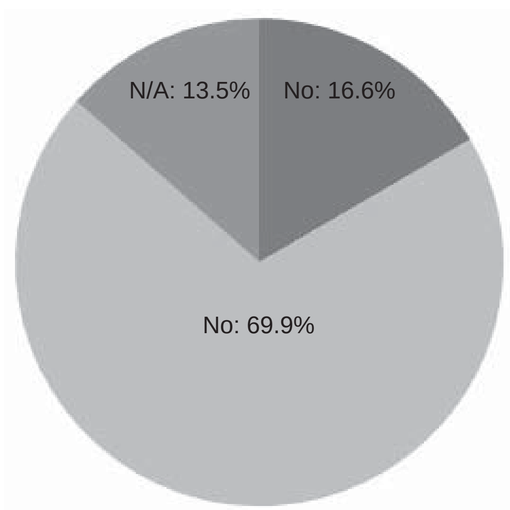
In the past 6 months, how has the size of your work force changed?



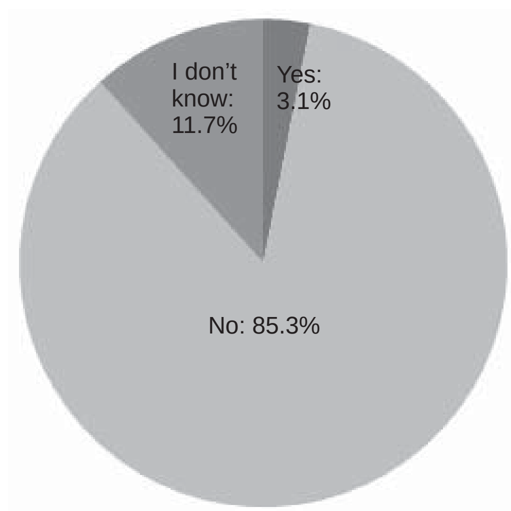
How do you expect the size of your work force to change over the next 6 months?



Do you plan to make an acquisition in the next 6 months?



Do you plan to sell your business, part of your business or change its ownership in the next 6 months?



MDM Webcasts Schedule: Details at www.mdm.com/webcasts

Strategic Pricing with Brent Grover
Oct. 29, 1 p.m ET

If your company still operates with a "one-size-fits-all" mindset when it comes to pricing, join Brent Grover as he explores these topics in this free 60-minute audio conference.

2010 Economic Forecast for Distribution
Nov. 19, 1 p.m ET

Join Dr. Adam J. Fein, renowned wholesale distribution industry expert, as he presents an exclusive first look at how economic trends are shaping up for wholesaler-distributors in 2010. Bring your whole management team for one low price and start discussing 2010 strategies.

Registration available shortly.

■ *MDM Interview*

Legal Shifts Challenge HARDI Members

The impact of energy efficiency, other laws on heating, air conditioning sector

David McIlwaine, president of HVAC Distributors Inc., Mount Joy, PA, and Chrissy Nardini, president of American Metals Supply Co. Inc., Fenton, MO, recently spoke with MDM as part of an MDM interview series featuring association presidents. Nardini will replace McIlwaine as president of Heating, Airconditioning, & Refrigeration Distributors International at the association's annual conference, "Turning Up the Heat on Recovery," Nov. 1-4 in Orlando, FL.

MDM: This has been an interesting year. What are some of the issues that HARDI members have been dealing with over the last year?

David McIlwaine: Other than the general economic malaise, many of our members are tied to residential new construction markets. And in many areas, those markets collapsed 50 percent or 60 percent or more. That definitely provided challenges to our members.

In general as an industry, we're going through the phase-out of the R22 refrigerant that occurs at the end of this year. After Dec. 31, 2009, manufacturers cannot produce any equipment using R22 refrigerant. Every single product line, every air conditioning product line, every refrigeration product line had to be redesigned and changed. So you've got the phase in-phase out and the inventory obsolescence issues that go with that.

Also, there was some confusion on the part of the industry and the EPA on the phase-out. It had been expected that as long as that R22 equipment was produced this year, it could be sold and used next year. But the EPA indicated its intent that it can only be used if it's replacing an existing R22 system. Perhaps the bigger issue is that the EPA has not yet finalized these new regulations so close to the effective date causing great confusion and anxiety throughout the industry.

The problem with that is a lot of the people who were intending to finish construction projects that already had R22 equipment on it now may be prohibited from doing that. So you may have apartment complexes that have mixed units, mixed refrigerants right from the get-go, which is going to cause some heartache. I don't think the owners have any idea yet what the impact of all this is going to be.

On top of that, as part of the energy bill there was inclusion of the new refrigerants – R410A and all other hydrofluorocarbons (HFCs) – in the carbon trading and carbon caps. We're trying to bring some clarity to that so that pricing on equipment doesn't get so prohibitive that it really affects demand.

MDM: It sounds like HARDI has been a politically active organization.

DM: I would say that's true, but I would also say it's more begrudgingly because of our products and the fact that nearly 40 percent of the energy usage in our country goes into buildings. That can be energy used for production, but it's also the energy used to heat and cool. So energy efficiency and savings is a big focus of – and is going to be a big focus of – any energy policy.

That's what's thrust us into having to be more active than we would like to be. We have a pretty conservative dues structure. We're not in any kind of position, nor do we intend to become a lobbying organization. Clearly advocacy is something we're going to have to be involved in, to advocate on behalf of our members. But it's not our intention to be a predominantly lobbying organization.

MDM: What role would you prefer to hold as an organization?

DM: I think the education component is most important.

Chrissy Nardini: We want to focus on educating members about how to be a better wholesaler, how to have the best employees, how to have the maximum efficiencies in their businesses and run their companies well.

One of the things Dave initiated this year is getting together as a board to discuss some strategic planning. It was a good opportunity to get everyone focused on where HARDI should be going. One of the biggest initiatives to come out of those meetings was that we're going to be focusing more on education and providing more education to our wholesale distributor members and their companies to go deeper into the ranks

continued on the next page

by offering them an A-to-Z for all levels of their organization, more levels of training and education.

Also, we're working on more opportunities to do some benchmarking and information sharing so that members can better assess their financial results. We want it to be a resource where businesses can share information anonymously but that HARDI can be the conduit that compiles and puts that information together so that wholesalers can see what their strengths and weaknesses are.

Our overall goal is to get more members engaged throughout the levels of their companies. A lot of times we just have the president of a company come to the HARDI meetings. We're trying to go deeper into the ranks to have more people coming to the HARDI meetings and understanding what HARDI can offer them. And with that, we want to strengthen the components of the HARDI brand.

MDM: What types of trainings and educational programs do you currently offer?

CN: In the past, we've done more face-to-face trainings, maybe four times during a year in different parts of the country to give members access to things like branch manager trainings or outside sales training. Now, we're getting more into webinars to minimize travel expenses and provide the opportunities to more people.

We also have books and training materials that they can buy through HARDI headquarters to do in-house trainings on their own.

MDM: Are there any other significant initiatives HARDI is undertaking?

CN: We're going to be getting involved in a program with the Industrial Distribution Program at Texas A&M University, who are going to be doing a study on the role of marketing and wholesale distribution. Some of our members are going to participate in the program, which is just rolling out. The end result will be deliverable content that will be available to HARDI members that will give them information that should be useful to their businesses.

And something that has already started but I don't know if our members really realize the benefit of yet, is HARDI's relationship with the Institute for Trend Research and some economists there. HARDI members can get access to a quarterly detailed report on what's going on with different aspects of the economy. You can get information on your specific region, or what's going on with housing permits, what's going on with prices of commodities and inflation, what's going on with commercial construction, etc. It's a lot of really useful information that can help you in the planning that business owners need to do in their business.

MDM: What trends do you expect to hear more about over the next 12 months?

CN: There's a lot more talk about "green products" and whether products are LEED-certified. People are a lot more concerned about that.

Besides just product changes, the proliferation of buying groups in our industries is a big topic. Today, I think about 80 percent of our members belong to buying groups; just six or seven years ago, I would have put that at 10 percent or 15 percent. So these buying groups are becoming more and more important to the industry as a whole.

The issue of factory-owned distribution is probably a significant issue for a lot of members as well, as a lot of the equipment manufacturers start foregoing the independent wholesalers to get their products out.

DM: And there are other legislative issues besides the refrigerant issue that could have a big impact on our members.

When you get right down to it, most of our industry is small businesspeople. Most of these are family businesses that get handed down, and the estate tax issues are going to have a lot of implications to our members' ability to hand these down.

And our industry continues to consolidate, so consolidation continues to play a role as the bigger seem to getting bigger. It's a changing landscape in terms of what's happening from many different fronts.

mdm.com®

Industrial & Construction Markets Update

VOL. 39, NO. 19 | OCTOBER 10, 2009

The Numbers Behind Wolseley's Annual Loss

After extensive streamlining across its global network in fiscal year 2009, UK-based Wolseley plc is shifting its focus towards improving operational performance in the remaining branches and business units. During the past year, Wolseley has eliminated nearly 10,000 positions were eliminated and closed 631 branches.

"There is little we can do to impact the market trajectory, but there is a lot we can do to improve our own performance, and that is absolutely what we've got the teams focused on right now," CEO Ian Meakins said, speaking to investors about the company's financial results for fiscal year 2009.

The international distributor of building materials and plumbing supplies posted a loss of £1.17 billion (US$1.86 billion) for fiscal year 2009. Losses from discontinued operations – including contributions from Stock Building Supply prior to its disposal in June – were £441 million (US$700.1 million).

"Our final results reflect the harsh impact of the economic downturn on the construction industry and consequently Wolseley's business," CEO Ian Meakins said.

"Overall, we remain cautious as to the outlook for our markets in FY2010, although profit trends in the second half are expected to improve."

At the heart of the refocus is the diversity of business units that exist across the key geographies, according to Meakins.

"In total, when you look across our four geographies, we have at least 30 different business units with different costs, customers and competitors, so it's critical that we understand the characteristics of each business within a geography and allocate resources appropriately," he said.

The top 10 business units across the

continued on p.3 of this section

Building Materials Holding Corp., Boise, ID, has secured a commitment for $83.5 million of exit financing that will be available to the company upon its emergence from Chapter 11 bankruptcy protection to help meet its operating needs and grow its business.

Graybar, St. Louis, MO, will open a full-service logistics center in Carteret, NJ, to serve as the primary shipping location for the New York and New Jersey area.

Emerson, St. Louis, MO, has agreed to acquire **Avocent Corp**., a provider of infrastructure management technology. The transaction will further Emerson's ability to deliver infrastructure management solutions to data center customers.

Diversified manufacturer **Carlisle Companies** Inc., Charlotte, NC, has acquired two international companies, broadening its product offerings and expanding its global reach. Carlisle acquired the remaining interest in **Japan Power Brake**, Inc., Atsugi, Japan, from its joint venture partner, **The Yokohama Rubber Company**, Ltd. In addition, Carlisle bought privately-held **Electronic Cable Specialists**, Inc., Franklin, WI.

German materials company **ThyssenKrupp** has bundled plastics capabilities into a new organization, **ThyssenKrupp Plastics International** GmbH, that will oversee operations of 15 enterprises located in 10 European countries.

Ruland Manufacturing Co. Inc., Marlborough, MA, and **Belden** Inc. have started a joint venture in Europe, **PTMotion** GmbH. Operational since Sept. 1, 2009, the new company is headquartered in Berlin, Germany, and will focus on OEM customers in Germany and other European markets.

Average revenues declines in the third quarter were -15.6 percent year over year compared to -16 percent year over year last quarter, according to the third quarter **Baird Industrial Distribution Survey**. Pricing and gross margins appear to be holding relatively steady despite competitive behavior in some channels, while inventory levels continue to decline with no restocking expected in the near-term.

Since the start of the recession in December 2007, the number of unemployed persons has increased by 7.6 million to 15.1 million, and the **unemployment rate** has doubled to 9.8 percent, the U.S. Bureau of Labor Statistics reported. Wholesale trade employment was down by 4.9 percent from August to September. Construction employment declined by 64,000.

In August, the **Canadian Industrial Product Price Index** (IPPI) rose 0.5 percent and the **Raw Materials Price Index** (RMPI) was up 3.7 percent compared with July, mainly as a result of rising petroleum and metal prices, according to Statistics Canada. Since May, the level of the index has remained fairly stable, alternating between upward and downward movements of similar size.

continued on p.4 of this section

JP Morgan Global All-Industry Business Index Rises in September

The JPMorgan Global All-Industry Business Activity Index increased to 52.9 in September, up from 52.0 in August, its highest reading since December 2007.

The headline index has posted above the neutral 50 mark in each of the past two months. The average reading for the third quarter 2009 was 51.1, well above that for the second quarter.

According to the report, available on the Institute for Supply Management's Web site, the manufacturing sector continued to report faster growth of output than services in September. Manufacturing production rose for the fourth month in a row. Although the rate of expansion was less robust than the previous month's high, it was still above the long-run survey average.

The rebound in global services activity gathered pace in September, with the sector posting back-to-back increases.

The rate of growth was muted compared to that in the manufacturing sector – as highlighted by a near 3.5 point differential between the respective output indexes – but was nonetheless the fastest for 21 months.

Supporting the latest expansion of global economic activity was a second successive monthly gain in incoming new work.

The **Global All-Industry New Orders Index** registered 52.6, up from 51.1 in August. Manufacturing new orders rose for the third month running and to a much greater extent than seen at service providers. Service sector new business rose slightly for the first time in 16 months, with the rate of expansion the steepest since December 2007.

The downturn in the labor market continued in September, as job losses were reported for the seventeenth successive month.

At 46.0, down slightly from 46.1 in August, the **Global All-Industry Employment Index** signaled a further solid decrease in staffing levels. However, the rate of reduction was substantially slower than that seen during the first half of the year.

Services providers cut employment at a moderately faster pace than in August and to a greater extent than manufacturers. Manufacturing employment fell for the eighteenth month running, but at the weakest pace since August last year.

The **Global All-Industry Input Prices Index** posted 50.2 in September, down sharply from 55.9 in August, but above the 50.0 no-change mark for the second month in a row. Purchase prices rose in manufacturing, while costs declined at service providers.

David Hensley, Director of Global Economics Coordination at JPMorgan, said:

"September PMI data round off a positive Q3 for the world economy, with the outcome for global GDP growth set to be the best since the end of 2007. Stronger gains in new business, an elevated manufacturing orders-to-inventory ratio and signs of rising confidence suggest that we are entering Q4 on a firm footing. The labour market should consolidate early in 2010 if the economy sustains its recent rebound."

Calculation of MDM Industrial Inflation Index for July 2009

		BLS Price Indices Jul. '09	BLS Price Indices Jun. '09	BLS Price Indices Jul. '08	% Sales Weight	Weighted Indices Jul. '09 (1)X(4)	% Change Jul. '09 Jun. '09	% Change Jul. '09 Jul. '08
1136	Abr. Prod.	527.8	526.0	492.8	19.1	100.81	0.34	7.11
1135	Cutting Tools	452.3	451.7	443.3	18.9	85.48	0.12	2.02
1145	Power Trans.	723.5	723.9	693.5	15.4	111.42	-0.04	4.32
1081	Fasteners	476.4	477.5	487.7	9.0	42.87	-0.23	-2.33
1149.01	Valves, etc.	859.5	860.2	835.9	7.6	65.33	-0.08	2.83
1132	Power Tools	331.7	327.5	336.8	6.5	21.56	1.29	-1.51
1144	Mat. Handling	521.2	519.8	498.0	6.2	32.32	0.28	4.66
0713.03	Belting	616.4	612.2	584.9	6.1	37.60	0.68	5.39
1042	Hand Tools	740.3	741.0	717.2	8.1	59.97	-0.09	3.23
108	Misc. Metal	452.9	454.3	452.9	3.1	14.04	-0.31	0.00
"New" July Index		298.5	July Inflation Index			571.40	0.13	3.38
"New" June Index		298.1	June Inflation Index			570.63		
			July 2008 Inflation Index			552.71		

New index reflects 1977=100 base other #: 1967 To convert multiply by .52247

Wolseley 2009 Results

Continued from p.1 of this section

company account for about 90 percent of trading profits.

In addition to refocusing on financial aspects of the company, Wolseley will increase focus on establishing a "more rigorous performance management process," including defining standards for customer service, supply discounts, and share performance, Meakins said.

Closure Costs

Restructuring and closures do not come without costs, however, Meakins said. Exceptional items, primarily a result of business disposals and branch closures, contributed £458 million (US$730 million) to the overall losses for fiscal year 2009. Included in that figure was £271 million for future lease cost on closed branches.

In addition, "we're also very conscious that we've lost revenue because of these branch cuts," Meakins said. "Clearly, it is very unlikely we can move those customers to branches unless they are incredibly close, which often they haven't been.

"We've taken a lot of the hard action now."

Few of the remaining branches are loss-making for Wolseley, Meakins said.

Earnings Overview by Division

The results for Wolseley's North American division were significantly affected by continued weakness in the U.S. housing market, a further slowdown in the Commercial and Industrial sector and falling consumer confidence affecting the RMI market.

Sales increased by 3.6 percent, reflecting a 25.3 percent positive impact of currency translation offsetting an organic revenue decline of 17.5 percent. Trading profit declined by 22.3 percent.

In response to the slowing market conditions, actions taken across the division have resulted in headcount reductions of 3,991 and exceptional restructuring costs of £86 million. During the year, a further 183 branches were closed across the North American network, giving a total of 1,453 locations.

Ferguson sales were down by 18.6 percent, with organic sales down 18.7 percent. Underlying trading profit, excluding property profits, was down by 40 percent. During the year, Ferguson reduced its headcount by 3,840, or around 18 percent of its total employees. Ferguson's overall branch numbers were reduced by 154 to 1,228 locations.

Wolseley Canada sales in local currency decreased by 6 percent, including a 6 percent organic revenue decline. Trading profit declined 25.6 percent. Wolseley Canada reduced its headcount by 387 during the year and closed 29 branches.

Reported revenue for Europe decreased by 7 percent, predominantly driven by an organic revenue decline of 15.4 percent. Trading profit decreased by 58 percent. Headcount reductions in Europe totaled 5,836, with 448 branches closed.

Wolseley UK and Ireland recorded a 15.8 percent decrease in revenue, driven by a 17.0 percent decline in organic sales. Trading profit declined by 68.6 percent compared to the prior year due to lower organic trading volumes and a loss of £30 million in Ireland. Headcount reductions totaled 3,083 and 284 branches were closed.

Across the **Nordic** region, revenue fell 20.6 percent, with organic revenue decline of 18.4 percent. Nordic reduced its headcount by 1,205 during 2009.

During the year action was taken to exit the DT Group's DIY business in Sweden trading under the Silvan brand, resulting in the closure of 8 branches with the conversion of 3 branches to the Beijer Builders Merchant brand in Sweden. A total of 28 branches were closed in the Nordic region.

In **France**, sales were down 12.8 percent with organic revenue declining 12.9 percent. Trading profit was down 73 percent. During the year, restructuring actions gave rise to €28 million of exceptional costs to reduce headcount by 1,152 and close 56 branches.

For businesses in **Central and Eastern Europe** sales grew 6.3 percent, but were down 9.5 percent in constant currency due to an organic revenue decline of 8.9 percent.

Trading profit was flat. Headcount across C&EE was reduced by 850. During the year, 37 branches were closed and 27 disposed of in C&EE. *–Jenel Stelton-Holtmeier*

MARKETS UPDATE SUPPLEMENT P. 4

MDM News Digest

Continued from p. 1 of this section

Manufacturing expanded in September for the second consecutive month, according to the latest **Manufacturing Institute for Supply Management Report on Business**. In September, 13 of the 18 manufacturing industries reported growth.

Construction spending during August 2009 was estimated at a seasonally adjusted annual rate of $941.9 billion, 0.8 percent above the revised July estimate of $934.6 billion, according to the U.S. Census Bureau of the Department of Commerce. The August figure is 11.6 percent below the August 2008 estimate of $1,066.1 billion. During the first eight months of this year, construction spending amounted to $629.5 billion, 11.9 percent below the $714.3 billion for the same period in 2008.

The **Chicago Fed Midwest Manufacturing Index** (CFMMI) decreased 0.3 percent in August to a seasonally adjusted level of 80.1 (2002 = 100). Revised data show the index rose 3.1 percent in July to 80.4. The Federal Reserve Board's industrial production index for manufacturing (IPMFG) was up 0.6 percent in August. Regional output in August declined 20.8 percent from a year earlier – lower than the 12.0 percent decrease in national output.

Real gross domestic product – the output of goods and services produced by labor and property in the U.S. – decreased at an annual rate of 0.7 percent in the second quarter 2009 (from the first quarter), according to the third estimate by the Bureau of Economic Analysis. In the first quarter real GDP decreased 6.4 percent.

NEMA's **Electroindustry Business Confidence Index** (EBCI) for current North American conditions increased for a third straight month and topped the 50-point threshold indicative of sectoral expansion for a second straight month in September. The index rose 5.3 points to 58.6, its highest reading since April 2006 and more than 50 points above its cyclical low of 8 in December 2008.

Nearly two-thirds of single-family home builders are reporting a "severe lack of credit" for housing production, according to a **builder survey of acquisition, development and construction financing** from the National Association of Home Builders. As a result, two-thirds of respondents plan to put single-family construction on hold.

The **Chicago Fed National Activity Index** was -0.90 in August, down from -0.56 in July. Three of the four broad categories of indicators made negative contributions to the CFNAI in August; the production and income category made a positive contribution to the index for the second consecutive month.

New orders for manufactured durable goods in August decreased $4 billion or 2.4 percent to $164.4 billion, the U.S. Census Bureau announced. This was the second decrease in the past three months. This followed a 4.8 percent July increase. Excluding transportation, new orders were down slightly. Excluding defense, new orders decreased 2.4 percent.

New orders for manufactured goods decreased $2.8 billion or 0.8 percent to $352.9 billion in August, the U.S. Census Bureau reported. Excluding transportation, new orders increased 0.4 percent.

Total **construction spending** on an annual basis is expected to fall 12 percent this year and 4 percent in 2010, according to the Third Quarter U.S. Construction Briefing by IHS Global Insight's Construction Service. Real total construction spending is expected to rebound with double-digit growth in 2011 and 2012.

Actuant Corp., Butler, WI, reported sales for fiscal year 2009 were $1.24 billion, down 23 percent from fiscal year 2008. Profit decreased 88.8 percent to $13.7 million. For the fourth quarter ended Aug. 31, 2009, sales were $290.1 million, down 26.3 percent from the prior year period. Profit declined 51.2 percent to $16.5 million.

MODERN DISTRIBUTION MANAGEMENT

Founded in 1967 by J. Van Ness Philip

Questions, comments, article proposals, address changes or subscription service to: Gale Media, Inc., 3100 Arapahoe Avenue, Ste 500A, Boulder, CO 80303. Tel: 303-443-5060. Fax: 303-443-5059. Website: http://www.mdm.com

ISSN 0544-6538

To subscribe to Modern Distribution Management, please call 888-742-5060, email info@mdm.com or **http://www.mdm.com.** Subscriptions are available by online delivery and/or first-class mail. Published twice monthly; $345/yr., $365 U.S. funds other countries; $169 each additional subscription to a company ($189 other countries).