

2012 End-Market Forecast

Manufacturing continues to lead the recovery; construction markets still lag

In the recent MDM Webcast, the 2012 Economic Outlook: Looking Forward in Fragile Times, available at mdm.com/2012outlook, economists reported that while there are many bright spots in the economy going into 2012, uncertainty still pervades the environment thanks to political gridlock in Washington, the financial crisis in Europe and ongoing construction weakness.

By Lindsay Konzak

The bottom line of MDM’s recent Economic Outlook webcast: The U.S. is unlikely to go into a double-dip recession.

Growth slowed considerably in the first quarter of this year, and it was anemic at best in the second and third quarters, according to Jeremy Leonard, economic consultant for the Manufacturers Alliance for Productivity and Innovation (MAPI) in MDM’s annual economic outlook webcast, available on-demand and on DVD at mdm.com/2012outlook.

But economic indicators have looked up in the recent quarter, and Leonard reported that the threat of a double-dip recession is “no longer with us.”

Growth in both the U.S. and Canada is expected in 2012.

Leonard presented a 2 percent GDP growth forecast for the U.S. in 2012. Industrial production is expected to grow 3.4 percent in the U.S. in 2012.

Nonresidential investment is expected to grow at a 6.8 percent rate in 2012 in the U.S. And U.S. residential investment is expected to be up 6.8 percent.

Uncertainty Continues

Despite growth expectations, uncertainty does exist due to the European debt crisis, which could plunge the EU into a recession in the next year.

Leonard expects a slowdown in China, as well, having an overall impact on the global

U.S. Wholesale Distribution Industry: Revenues

Data from 2011 Wholesale Distribution Economic Reports, available for 19 sectors at mdm.com/wder.

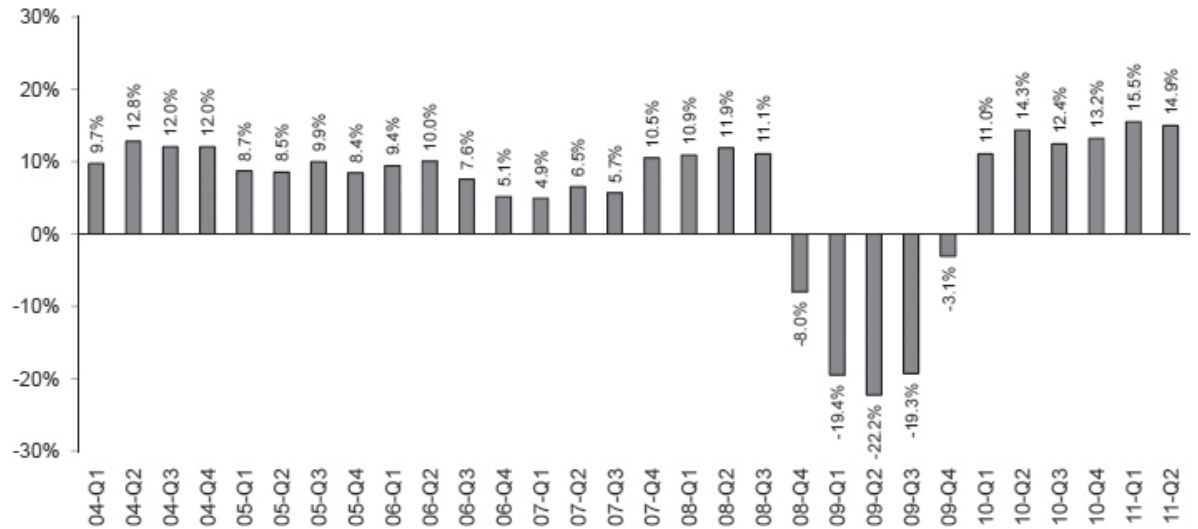
Major Sector (Largest to Smallest Sector Revenues)	% Change vs. Previous Year		
	2010 Revenues Actual* (\$B)	2010 Revenues Actual*	2011 Revenues Forecast
Oil and Gas Products Distributors	\$538.6	33.0%	15.9%
Grocery and Foodservice Wholesale Distributors	\$524.1	10.1%	3.9%
Pharmaceutical Wholesalers	\$381.4	1.4%	6.5%
Electrical and Electronics Distributors	\$364.6	16.6%	10.5%
Industrial Distributors.....	\$301.4	9.5%	7.2%
Motor Vehicles and Motor Vehicle Parts Distributors.....	\$299.7	19.5%	14.2%
Other Consumer Products Wholesale Distributors.....	\$208.4	2.9%	6.1%
Miscellaneous Durable Goods Wholesale Distributors.....	\$202.5	19.4%	5.6%
Agricultural Products Wholesale Distributors	\$201.2	22.1%	22.3%
Computer Equipment and Software Wholesale Distributors	\$191.4	14.8%	3.4%
Commercial Equipment and Supplies Wholesale Distributors	\$169.4	0.3%	10.7%
Apparel and Piece Goods Distributors	\$128.4	3.9%	7.6%
Metal Service Centers	\$127.2	22.2%	14.4%
Beer, Wine and Liquor Wholesalers	\$109.4	1.5%	5.6%
Chemicals and Plastics Wholesale Distributors	\$102.3	13.3%	9.9%
Hardware, Plumbing, Heating Equipment & Supplies	\$96.5	7.2%	7.5%
Building Material and Construction Wholesale Distributors.....	\$96.3	6.7%	2.1%
Office Product Wholesalers and Paper Merchants.....	\$82.5	1.2%	4.9%
Furniture & Home Furnishing Wholesale Distributors	\$54.9	7.3%	0.0%
Total Industry	\$4,180.2	12.8%	8.4%

*not adjusted for inflation

U.S. Wholesale Distribution Industry: Actual* Revenue Growth, 2004 to 2Q11

Data from 2011 Wholesale Distribution Economic Reports, available for 19 sectors at mdm.com/wder.

% change from year ago



*not adjusted for inflation

economy and U.S. manufacturers. Oil prices have settled down after a spike earlier in the year due in part to unrest in the Middle East. "There are risks out there," Leonard said. "Some can be predicted and some can't. That's playing into the uncertainty we're dealing with."

On the domestic front, "political gridlock is also clouding prospects," he said. This is "causing headaches" for businesses that need more certainty on taxes and government spending. With the elections coming up in 2012, major policy moves may be put on hold.

Unemployment continues to be high, despite a drop to 8.6 percent from 9 percent recently. However, Leonard attributed that drop to a decline in people looking for work – not an actual increase in jobs.

Payroll employment has been growing less than the average for the past 12 months – "not even enough to keep up with natural growth in the labor force."

The news wasn't all bad on the employment front. Leonard said that the labor market may be turning a corner, but policy gridlock in Washington D.C. may be slowing this shift.

Manufacturing Forecast

Manufacturing overall is leading the economy out of the recovery, Leonard said. Industrial production had declined more severely than the overall economy, but the bounceback in the quarters following the recession was consider-

ably stronger.

A big part of this is due to export growth led by automotive, consumer and capital durable goods. "Many durable goods industries have taken advantage of pent-up demand domestically but many are recovering due to demand around the world," Leonard said.

The industries leading in production growth include: nonmetallic minerals, primary metals, fabricated metals, machinery, computers and electronics, and transportation equipment. On the nondurable side, many areas such as textiles are weak. Strongest product growth has been and will be seen in rubber and plastic products (related to transportation equipment production growth) and miscellaneous manufacturing, of which a large piece is medical devices.

"The basic story on manufacturing is we forecast decelerated growth in 2012 but that that the sector will continue to lead the overall economy – particularly in the durable goods sector," Leonard said.

Construction Forecast

While GDP has been growing since mid-2009, construction is still at the same low number as in 2010. In fact, there has been zero change in construction spending since October 2010.

Ken Simonson, chief economist for The Associated General Contractors of America, expects the strongest gains in construction in power and energy, as well as a variety of manu-

Production Growth Forecast for Selected Manufacturing Industries

Industry	% Change	
	2011	2012
Food	0.5	0.9
Textile Products	-3.2	-2.8
Apparel	-0.2	-4.6
Paper	-1.3	0.1
Printing	-2.7	-2.9
Petroleum and Coal	2.4	2.6
Chemicals	1.6	0.8
Rubber and Plastic	4.7	2.4
Miscellaneous Mfg.	6.6	6.5
Nonmetallic Minerals	2.9	1.9
Primary Metals	9.5	2.6
Fabricated Metals	10.8	3.9
Machinery	12.8	6.5
Computers and Electronics	7.6	5.8
Electrical Equipment	0.9	1.8
Transportation Equipment	8.1	12.7
Wood	1.9	0.1
Furniture	5.2	1.2

Source: MAPI November 2011 Quarterly Economic Forecast

facturing categories. Warehouse and private transportation are also areas he expects growth in 2012. "We have some signs of hospital construction and private higher education construction coming back," he said.

On the residential front, "the biggest growth market should be apartment construction." He said it is unclear how soon single family home construction will come back, but does not expect it to happen in 2012. Permits and housing starts for single-family homes have barely changed in the past 12 months.

However, multifamily permits and starts are up 48 percent and 89 percent respectively since October 2010, indicating stronger growth in construction spending 2012.

Government spending on construction will continue to be weak in 2012, Simonson said. Public construction spending has fallen 9 percent since October 2010. Before that, the market was benefiting from stimulus funding, military base realignment and hurricane recover projects.

Simonson expects a lower level or flat spending in many areas by the federal government, including highway and airport construction, and federal office building construction.

State spending on construction will also continue to be weak, as states start to collect more taxes and dedicate funds to rebuild pensions and other income security vehicles. Local governments are seeing a continued decline in property tax receipts, which impacts their ability to spend locally, especially on school construction.

Nonresidential construction seems to hold the greatest hope for 2012; construction spending in nonresidential is up 8 percent from October 2010. What's driving that? Power projects are a big part of that with double-digit growth in spending, including shale projects in Pennsylvania and surrounding states, in North Dakota and in Texas. As a result, there's been a lot of downstream investment, as well as investment in transportation and transmission infrastructure.

Manufacturing construction to build capacity state-side is also expected in 2012.

Material costs in construction continue to be volatile, with many material costs growing at a rate higher than the consumer price index.

Canada

Leonard presented a forecast for Canada, as well. Because Canada did not have a housing meltdown like the U.S., it sustained minimal damage from the financial crisis of 2008. Canada has also recouped its output and employment losses from 2008 and 2009, he said.

A strong demand for natural resources has buoyed the domestic economy. But the high Canadian dollar has stimulated import demand – especially for capital equipment. The U.S. has become more competitive in Canada due to the strengthening Canadian dollar, which has made the Canadian manufacturing sector less competitive. In addition, Canada has seen poor productivity growth.

Canada's economy is expected to grow 1.9 percent in 2012; industrial production is forecast to grow 2.6 percent. Nonresidential investment in Canada is forecast to grow 6.3 percent.

A new initiative – the Beyond the Border Initiative – may be a positive for Canada over the next several years. "If it goes as planned it will go a long way in smoothing cross-border supply chains," Leonard said. The goal is to double exports between the U.S. and Canada within five years by investing in infrastructure and using technology to improve paperwork verification.

Watch the 2012 Economic Outlook webcast on-demand or order the DVD to share with your team at mdm.com/2012outlook.