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Intelligence for Wholesale Distribution Professionals

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10 Trends Affecting Distributors in 2012

Readers weigh in on what's on their mind as we move into the new year

This article, based on interviews with distributors and manufacturers and the 2011 MDM Reader Survey outlines and analyzes key trends and issues affecting how distributors will do business in 2012.

By Jenel Stelton-Holtmeier

Looking back at the headlines of 2011, there's little doubt the economy is still front of mind for most distributors and manufacturers. The difference this year is that attention has turned from the U.S. to the ongoing sovereign debt crisis in Europe and its potential impact on the rest of the world.

However, the economy is no longer the primary concern. MDM readers ranked human resources issues – particularly those around recruiting and retaining the right people – at the same level as economic issues in MDM's 2011 Reader Survey.

All signs point to continued economic uncertainty as we move into 2012, but it seem that many distributors have shifted their focus to building not just the leanest team - but also the best team.

Here are the top trends and issues that emerged in 2011 and their potential impact on business in 2012.

1. Global Economic Conditions Fueling Uncertainty in North America

Certain sectors in Europe, such as the housing and construction market in Ireland, have been struggling for some time, but economic troubles rose to a new level in 2011 with threats of default from several countries, most notably Greece and Italy. While the European Union has been trying to work out a solution, uncertainty continues to dominate the landscape, as Jean-Marie Fink, managing director of JMF Consulting, Mougins, France, told MDM in November.

The biggest concern is not that an individual country will default, he says, but rather that a chain reaction will occur in other countries. "These new factors added to the already slowing economic expectations in 2012," he says

Daniel J. Meckstroth, chief economist for the Manufacturers Alliance for Productivity and Innovation, classified the European crisis as a primary risk for the U.S. going forward in MDM's monthly economic update podcast.

The concern isn't solely for companies that do business in Europe; a European recession could have a ripple effect on the rest of the world. In the latest MDM Reader Survey, nearly half regarded the economy as one of the top three issues facing distributors as we move into 2012. A large number of those respondents specifically pointed to Europe.

In addition, the housing and construction market in the U.S. continues to be a drag on the domestic economy. While key indicators in 2011 were up over 2010, they are nowhere near what most economists consider to be normal or sustainable. And most construction markets are expected to remain weak in 2012, according to Ken Simonson, chief economist for The Associated General Contractors of America in MDM's recent 2012 Economic Outlook webcast.

2. Growing Focus on Recruiting and Retaining the Right People

One key difference between 2010 and 2011 was the focus on recruitment and retention. As MDM Editor Lindsay Konzak wrote a year ago, some distributors were starting to rebuild but many were still taking a "wait-and-see" approach. This year that focus was sharpened as recruitment

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INSIDE

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PERSPECTIVE ■ Commentary by Lindsay Konzak

Be Strategic About Human Resources in 2012

While the overall economic outlook looks pretty good for 2012, with a few exceptions, employment continues to be a hang-up. Sure, productivity is up, but in some cases at the expense of current employee morale. Employers report they want to hire – but they are increasingly picky about who they bring on. They are worried about having the right people in place, as well as finding people who are able to move up into greater responsibility within the company.

As Julia Klein, CEO of CH Briggs, a specialty building materials distributor, notes in our annual trends article featured in this issue, it's also possible that people are holding out for "the perfect candidate" given the sheer number of job-seekers out there, even if a person that fits all the qualifications they are looking for doesn't exist. This challenging hiring environment will probably persist through 2012. In the December 2011 semiannual forecast from the Institute for Supply Management, purchasing managers expect overall employment in manufacturing to be up just 1.3 percent in 2012 over 2011. Non-manufacturing, which includes wholesale trade, is expected to grow employment just 1.1 percent.

Of course the weakest area for employment right now is in construction. According to MDM's recent economic outlook webcast (mdm.com/2012outlook) unemployment rates in construction in November 2011 were 13.1 percent, higher than the overall industry unemployment rate, which sat at 8.2 percent. On the bright side (if you can call it that), construction employment has improved since November 2010, when it was at a staggering 18.8 percent.

On a broader scale, the Business Roundtable's fourth-quarter CEO Economic Outlook Survey shows just a third of respondents expect to increase employment in the next six months. A quarter of respondents expect to decrease employment. Most just plan to hang onto the employees they already have – with no change.

Many companies are being more strategic about hiring right now and, already lean, they are more careful about who they keep on-board. Indeed, companies can no longer afford to hold onto employees that may be holding them back.

John Salveson, who writes a blog at mdm.com about human resources, said recently that a company needs to recognize the importance of having and implementing a strategic human resources plan. If they don't, they put themselves at greater risk. It's advice to take to heart.

As one industry veteran said recently, distributors need to be on their A game to take market share in a slow-growth economy, and that means finding the right employees to keep them there. ■

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Trends for 2012
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and retention became one of the top issues for distributors. Human resources issues – particularly questions of recruitment and retention – tied the economy as the top issue in the latest MDM Reader Survey.

"The No. 1 issue continues to be finding and retaining top talent with the experience and disciplines that distribution needs to compete in the future," said Ted Cowie, executive vice president at safety products manufacturer and importer Elvex, Bethel, CT.

Hiring is becoming more strategic, and more attention is being paid to skills that may not have been as important five or 10 years ago, such as the ability to effectively use business analytics.

But as Julia Klein, CEO of specialty hardware distributor C.H. Briggs, Reading PA, said, hiring managers don't want to put just anybody into those positions.

"Because there are still so many job seekers, I wonder if hiring managers have expectations that really just can't be met regardless of how great a skill set is," she said in MDM's December 2011 Executive Briefing. "I wonder if people are holding out for the perfect candidate, who really doesn't exist, thinking there are so many candidates there must be someone perfect to find in the haystack."

Retention of talent has always been a key challenge for distributors, and in 2011 it became an even bigger part of the recruitment process. "Companies want to know that if they invest in talent they're going to be able to retain the talent," says Brenda Jochum, internship coordinator for the industrial distribution program at the University of Nebraska at Kearney. The ID program at UNK was featured in the May 10, 2011, issue of MDM.

Perhaps one of the most telling comments this year about the retention challenge came from Mike Baker, vice president of marketing and vendor relations at Independent Electric Supply in San Carlos, CA: "We've probably lost some good people because we didn't have a defined way of moving up through the company," Baker says. (IES was acquired by Sonepar in August.) Other distributors have expressed similar sentiments.

Young people want more than a job; they want to belong, says Gerlinde Hermann, president of The Herrmann Group Ltd., a human resources management firm based in Toronto, Ontario. But at the same time, they expect to change careers six or seven times. The key is finding a way to balance those needs and those expectations.

10 Trends to Watch in 2012

1. Global Economic Conditions Fueling Uncertainty in North America
2. A Growing Focus on Recruiting and Retaining the Right People
3. Diversification Taking a Front Seat in Business Plans
4. A Desire by Distributors to Keep Up with Technology Throughout Their Businesses
5. Ongoing Attention to Better Inventory Management
6. Increased Interest in Better Pricing Management
7. Consolidation Picking Up
8. Increased Channel Collaboration
9. More Nontraditional Competition
10. Delayed Decision-Making & Investment Due to 2012 Elections and Political Gridlock

3. Diversification Takes a Front Seat

Diversification has become a key strategy for survival and growth for many distributors, as Mike Rowlett of industrial distributor Womack Machine Supply, Farmers Branch, TX, told MDM in June. "We don't want to follow the price of oil and the price of copper and the price of coal and natural gas," he said. "We don't want to build a big company that follows the prices of commodities."

Several industrial distributors announced the addition of complementary product lines, such as safety or jan-san. MSC Industrial Direct Co., Inc., Melville, NY, is also exploring expansion into hand and power tools, material handling products and fasteners, among others.

Another example: In 2011, Canadian Bearings, Mississauga, Ontario, changed its name and branding to CB to move past its traditional

continued on the next page

product areas in the minds of its customers.

Distributors are also looking to different end-markets to offset sales losses during the Great Recession. "Diversification has been our ticket out of this rotten economy," C.H. Briggs' Klein says. Her company, which serves primarily construction markets, shifted from a focus on residential construction to nonresidential and institutional markets.

4. Keeping Up With Technology

One of the biggest drivers of change in the distribution industry in 2011 was technology. Emerging technologies – including cloud, e-commerce, social media and mobile – have changed how distributors interact with customers and vice versa, while business intelligence tools and pricing analytics have changed how they approach decision-making in their own businesses.

While many of these technologies have been around for quite some time, 2011 was the year we saw many of them really gain traction in the distribution industry.

Cloud computing, often referred to Software as a Service or SaaS, is expected to grow 20 percent this year, according to IT research company Gartner, and nearly double by 2015. And with the expansion of smart phone capabilities and the proliferation of tablets such as the iPad in business, demand for mobile applications from customers and salespeople has exploded.

In the past, many distributors have been hesitant to be the early adopters of technology. "Distributors are much more pragmatic than other industries about making these investments; it has to make sense in the financial equation," says Roman Bukary, head of manufacturing and distribution industries at NetSuite, a Web-based business software provider.

Technology developers have embraced that, creating affordable solutions with rapid returns on investment. And development continues at breakneck speeds, creating another challenge.

"Certainly one of the biggest challenges we face is keeping up with technology," says Chris Hartmann, executive vice president and CEO of Rexel Holdings USA. "I'm not just referring to our products, but keeping our employees trained and informed is always a challenge we face."

Technology has also become a key part of the recruitment process, as the younger generation has higher expectations. Business communications is one of the most obvious examples of this. "The Y Generation and the 20-somethings are communicating in a whole different way," says Burt Schraga, CEO of Bell Electrical Supply, Santa Clara, CA.

Young people are more adept at communicating through texting and instant messaging and are used to the instant connection, says Hermann. "Make sure you're engaging them how they want to be engaged. And don't allow IT restrictions to limit the learning opportunities."

Other Key Trends

The distribution landscape saw some significant shifts in 2011, and while the prior four trends rose to the top of the list in conversations and through MDM's annual reader survey, several other topics were noted by readers.

5. Distributors continue to pay close attention to inventory levels and improved inventory management.

6. Pricing is also an area that continues to attract attention, with more distributors looking for ways to optimize pricing for profitability.

7. Consolidation of markets picked up speed in 2011, with fewer deals focused on distressed companies – a trend that was noted for 2010.

8. Distributors also are looking for ways to collaborate more with their channel partners. Or they're exploring partnerships with noncompeting distributors to meet more needs of their customers. In some cases this option is better than diversification because it may provide better technical support for non-core lines.

9. Competition for existing business is growing as more nontraditional competitors, such as Amazon.com, enter the marketplace. Manufacturers' going direct – in part thanks to e-commerce tools – also continues to be a threat to independent distributors in some markets. And global companies, such as ERIKS and Sonepar, are growing their presence in the U.S. market.

10. And no "Trends for 2012" article would be complete without mentioning the ongoing battles in the government and the 2012 presidential election. Both of these add to the uncertainty that will continue to dominate the business sector for 2012.

Watch or download the December 2011 MDM Executive Briefing webcast, featuring discussion of these trends, at www.mdm.com/executivebriefing.

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

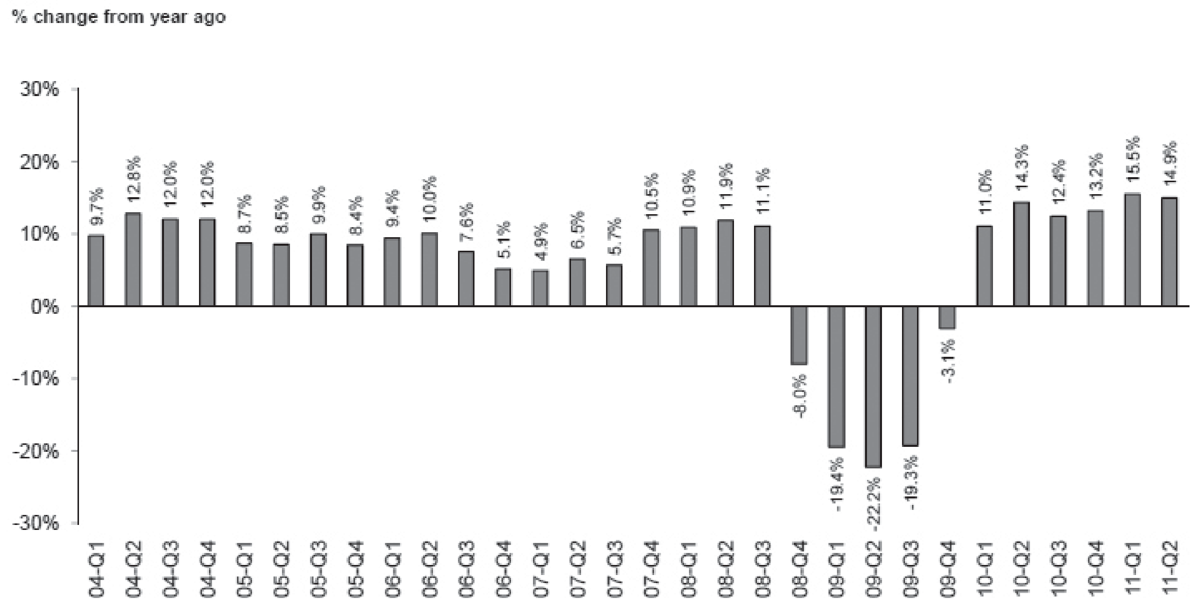
Data from 2011 Wholesale Distribution Economic Reports, available for 19 sectors at mdm.com/wder.

Major Sector (Largest to Smallest Sector Revenues)	2010 Revenues Actual* ($B)	% Change vs. Previous Year: 2010 Revenues Actual*	% Change vs. Previous Year: 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.



*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 considerably 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.

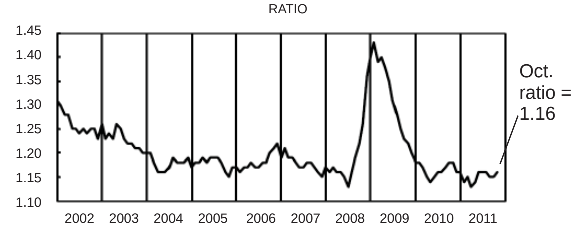
Monthly Wholesale Trade Data

October 2011 wholesale revenues were $406 billion, up 0.9 percent from the revised September level and up 13.1 percent from October 2010. The September estimate was revised downward $0.8 billion or 0.2 percent. October sales of durable goods were down 0.1 percent from last month, but were up 12.4 percent from a year ago. Sales of nondurable goods were up 1.7 percent from September and were up 13.5 percent from last October.

Inventories. Total inventories were $470.2 billion at the end of October, up 1.6 percent from September and up 10.9 percent from October 2010. October inventories of durable goods were up 0.8 percent from last month and were up 11.6 percent from a year ago. Inventories of nondurable goods were up 2.8 percent from September and were up 9.8 percent from last October.

Monthly Inventories/Sales Ratios
of Merchant Wholesalers: 2002-2011

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



Source: U.S. Census Bureau

Inventories/Sales Ratio. The October inventories/sales ratio was 1.16. The October 2010 ratio was 1.18.

Sales and Inventories Trends: October 2011

NAICS Code	Business Type	Sales $Millions	Inventory $Millions	Stock/ Sales Ratio	Percent Change Sales 9/11-10/11	Percent Change Sales 10/10-10/11	Percent Change Inventory 9/11-10/11	Percent Change Inventory 10/10-10/11
42	**U.S. Total**	**406,001**	**470,183**	**1.16**	**0.9**	**13.1**	**1.6**	**10.9**
423	**Durable**	**182,221**	**274,588**	**1.51**	**-0.1**	**12.4**	**0.8**	**11.6**
4231	Automotive	30,818	43,829	1.42	3.9	21.0	0.9	19.6
4232	Furniture & Home Furnishings	4,650	6,979	1.50	2.8	3.1	-0.2	0.4
4233	Lumber & Other Construction Materials	8,848	12,107	1.37	1.1	10.9	0.2	5.3
4234	Prof. & Commercial Equip. & Supplies	31,035	32,428	1.04	-1.9	3.1	0.6	8.9
42343	Computer Equipment & Software	16,508	12,680	0.77	-1.2	2.6	0.1	7.9
4235	Metals & Minerals	12,655	26,176	2.07	0.8	16.9	1.8	18.0
4236	Electrical Goods	33,944	40,982	1.21	0.3	8.6	1.3	9.2
4237	Hardware, Plumbing, & Heating Equipment	8,694	17,654	2.03	-0.8	10.0	1.2	11.1
4238	Machinery, Equipment & Supplies	31,456	69,321	2.20	1.3	17.9	0.2	11.6
4239	Miscellaneous Durable	20,121	25,112	1.25	-6.8	16.0	0.6	7.4
424	**Nondurable Goods**	**223,780**	**195,595**	**0.87**	**1.7**	**13.5**	**2.8**	**9.8**
4241	Paper & Paper Products	6,942	7,412	1.07	0.1	0.5	3.2	2.4
4242	Drugs	35,258	31,593	0.90	2.1	12.4	-1.1	2.3
4243	Apparel, Piece Goods & Notions	11,117	22,094	1.99	2.2	4.3	-0.9	15.3
4244	Groceries &Related Products	50,360	34,005	0.68	0.6	12.9	0.8	17.4
4245	Farm-product Raw Materials	21,884	24,638	1.13	11.7	3.0	14.4	-6.0
4246	Chemicals & Allied Products	9,935	11,630	1.17	-0.4	13.2	-0.7	18.7
4247	Petroleum & Petroleum Products	60,172	24,552	0.41	0.0	29.4	5.7	13.5
4248	Beer, Wine & Distilled Beverages	9,677	12,665	1.31	-1.0	4.1	3.2	9.5
4249	Miscellaneous Nondurable Goods	18,435	27,006	1.46	1.7	4.0	2.0	19.1

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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ISM Semiannual Forecast: Manufacturing Sector Positive

The manufacturing sector is positive about prospects in 2012, according to the December 2011 Semiannual Economic Forecast from the Institute for Supply Management. Revenues are expected to increase in 17 industries, while the non-manufacturing sector appears slightly less positive about the year ahead, with 15 industries expecting higher revenues.

Capital expenditures, a major driver in the U.S. economy, however, will increase only modestly in the manufacturing sector, while investment in the non-manufacturing sector will remain essentially flat.

These projections are part of the forecast issued by the Business Survey Committee of the Institute for Supply Management.

Manufacturing Summary

Expectations for 2012 are positive as 69 percent of survey respondents expect revenues to be greater in 2012 than in 2011. The panel of purchasing and supply executives expects a 5.5 percent net increase in overall revenues for 2012, compared to a 7 percent increase reported for 2011 over 2010 revenues.

The following 17 manufacturing industries expecting revenue improvement over 2011 – listed in order – are: Computer & Electronic Products; Machinery; Petroleum & Coal Products; Wood Products; Nonmetallic Mineral Products; Electrical Equipment, Appliances & Components; Apparel, Leather & Allied Products; Furniture & Related Products; Transportation Equipment; Paper Products; Printing & Related Support Activities; Plastics & Rubber Products; Food, Beverage & Tobacco Products; Primary Metals; Fabricated Metal Products; Chemical Products; and Miscellaneous Manufacturing.

Manufacturing has been resilient throughout the recovery, with growth dating back to August 2009, according

continued on p.3 of this section

M&A

DXP Enterprises Inc., Houston, TX, No. 17 on MDM's list of the top 40 industrial distributors, has agreed to acquire **C.W. Rod Tool Company**, Houston, TX, a distributor of cutting tools, abrasives, coolants and machine shop supplies.

United Rentals, Inc., Greenwich, CT, has agreed to acquire **RSC Holdings**, Inc., Scottsdale, AZ, for $4.2 billion, including $2.3 billion of net debt.

Kaman Corp., Bloomfield, CT, No. 15 on MDM's list of the top 40 industrial distributors, has acquired **Catching FluidPower** Inc., a distributor of fluid power products based in Bolingbrook, IL. With the acquisition, **Parker Hannifin** Corp. has recognized Kaman nationally as a reseller of Parker hydraulics, fluid connector and automation products.

WESCO Distribution, Inc., Pittsburgh, PA, No. 2 on the list of top electrical distributors and a subsidiary of **WESCO International**, Inc., has agreed to acquire **RS Electronics**, Livonia, MI.

AEA Investors and management have acquired **Singer Equities** Inc. from **LLR Partners**. Singer is a group of distributors in the industrial rubber products industry operating through six platform companies: **Allied Rubber and Supply, Hampton Rubber Company, National Hose and Accessory, PRC Industrial Supply, Spartan Industrial Products and RW Connection**.

Tencarva Machinery Company, Greensboro, NC, has acquired **GPM Industries** Inc., Macon, GA. GPM also has a shop in Savannah, GA, and GPM Environmental Inc., its municipal group, with an office in Atlanta, GA.

CBT Co., Cincinnati, OH, has agreed to purchase certain assets from **Rexel**, consisting of the Dayton, Hamilton and Greenville, OH, businesses. Paris, France-based Rexel ceased operations at its three facilities on Dec. 9, 2011.

Avnet Inc., Phoenix, AZ, has agreed to acquire two companies and their subsidiaries. The companies will join Avnet Integrated Resources, which provides reverse logistics and after-market services to the global technology industry. Avnet will acquire the assets of **Hartford Computer Group** Inc. and its subsidiary **Nexicore Services** LLC, Simi Valley, CA. Avnet also agreed to purchase **Round2 Technologies** Inc. and its subsidiary **ROUND2** INC, Austin, TX.

Distributor News

HD Supply Inc., Atlanta, GA, No. 2 on MDM's list of the top 40 industrial distributors, reported sales for the fiscal 2011 third quarter ended Oct. 30, 2011, were $2.1 billion, an increase of 10.7 percent from the year-ago period. Loss from continuing operations was $106 million. Gross profit was $580 million, or 28 percent of sales. Sales for the first nine months were

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$5.9 billion, an increase of 8.7 percent from the year-ago period. Loss from continuing operations for the first nine months was $360 million.

Chicago-based **Grainger** reported sales for November 2011 were up 15 percent from the prior-year period. By segment, U.S. sales in November were up 9 percent, Canadian sales up 15 percent in local currency, and Other Businesses up 23 percent excluding acquisitions.

Graybar, a distributor of electrical, communications and data networking products and provider of related supply chain management and logistics, has appointed Kathleen M. Mazzarella president as of June 1, 2012. At that time, current President and CEO Robert Reynolds Jr. will serve as executive chairman.

Kaman Industrial Technologies Corp. has relocated its headquarters from Windsor, CT, to the Bloomfield, CT, campus of its parent company, **Kaman** Corp.

Economic News

Privately-owned housing starts in November were at a seasonally adjusted annual rate of 685,000, according to the latest release from the U.S. Census Bureau and the Department of Housing and Urban Development. This is 9.3 percent above the revised October estimate of 627,000 and 24.3 percent above the November 2010 rate of 551,000.

Wholesale prices advanced 0.3 percent in November, seasonally adjusted, the U.S. Bureau of Labor Statistics reported. Finished goods prices fell 0.3 percent in October and moved up 0.8 percent in September. At the earlier stages of processing, the index for intermediate goods rose 0.2 percent and crude goods prices increased 3.8 percent. On an unadjusted basis, the finished goods index advanced 5.7 percent for the 12 months ended November 2011, the smallest year-over-year rise since a 5.6-percent increase in March 2011.

Industrial production decreased 0.2 percent in November after having advanced 0.7 percent in October. At 94.8 percent of its 2007 average, total industrial production for November was 3.7 percent above its year-earlier level. Capacity utilization for total industry decreased to 77.8 percent, a rate 2.0 percentage points above its level from a year earlier but 2.6 percentage points below its long-run (1972-2010) average.

U.S. manufacturing industrial production rebounded in the third quarter of 2011, growing by 4 percent, and is extending into the final months of the year, according to the **Manufacturers Alliance for Productivity and Innovation (MAPI) U.S. Industrial Outlook**, a quarterly report that analyzes 27 major industries. The report offers economic forecasts for 24 of the 27 industries. MAPI anticipates that 18 of the 24 industries will show gains in 2012, led by housing starts with 20 percent growth, albeit from severely depressed levels in 2011.

Canadian manufacturing sales fell 0.8 percent in October to $48.7 billion after rising in each of the three previous months, according to Statistics Canada. Despite the decline, October's sales were the second highest of any month in 2011, surpassed only by September. The decrease in October largely reflected lower sales in the petroleum and coal product, and the aerospace product and parts industries. These declines were partially offset by advances in the motor vehicle parts, computer and electronic product, and wood product industries.

October **U.S. manufacturing technology orders** totaled $463.32 million according to the Association for Manufacturing Technology and the American Machine Tool Distributors' Association. This total, as reported by companies participating in the USMTO program, was down 22.4 percent from September but up 20.3 percent when compared with the total of $385.21 million reported for October 2010. With a year-to-date total of $4,529.11 million, 2011 is up 80.5 percent compared with 2010.

Manufacturer News

Diversified industrial manufacturer Actuant Corp., Milwaukee, WI, reported sales for the first quarter ended Nov. 30, 2011, were $393 million, up 23 percent over the prior year quarter. Core sales increased 7 percent with acquisitions contributing 15 percent.

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Continued from p. 1 of this section

to ISM.

In the manufacturing sector, respondents report operating at 79.2 percent of their normal capacity, down from 83.2 percent reported in April 2011. Purchasing and supply executives predict that capital expenditures will increase by 1.9 percent in 2012 over 2011, compared to an 11 percent increase reported for 2011 over 2010.

Survey respondents also forecast that they will reduce inventories by 1.2 percent in an effort to improve their purchased inventory-to-sales ratio in 2012.

Manufacturers have an expectation that employment in the sector will increase by 1.3 percent, while labor and benefit costs are expected to increase an average of 2.4 percent in 2012.

Manufacturing purchasers are predicting growth in exports and imports in 2012. Respondents also expect the U.S. dollar to weaken very slightly on average against the currencies of major trading partners.

The panel also predicts the prices they pay for raw materials will increase 2 percent during the first four months of 2012, and will increase an additional 0.9 percent during the balance of the year, with an overall increase of 2.9 percent for 2012. This compares to a reported 5.7 percent increase in raw materials prices for 2011 compared with 2010.

Survey respondents report that the most challenging problems facing their businesses as they plan for 2012 are: poor sales (43.9 percent); government regulations (22 percent); inflation (17.4 percent); cost of labor (4.5 percent); quality of labor (4.5 percent); taxes (4.5 percent); and interest rates and finance (3 percent).

Non-Manufacturing Summary

Fifty-eight percent of non-manufacturing supply management executives expect their 2012 revenues to be greater than in 2011. They currently expect a 3.1 percent net increase in overall revenues for 2012 compared to a 1.5 percent increase reported for 2011 over 2010 revenues.

Fifteen non-manufacturing industries expect revenue improvement in 2012 over 2011 including wholesale trade.

Non-manufacturing supply managers report operating at 85.2 percent of their normal capacity, more than the 83.7 percent reported in April 2011.

They are optimistic about continued growth in the first half of 2012 compared to the second half of 2011, and they have a higher level of optimism about the next 12 months than they had last December for 2011.

Non-manufacturing supply managers forecast their capacity to produce products and provide services will rise by 3.2 percent during 2012, and capital expenditures will increase by 0.1 percent from the 2011 level. Non-manufacturers also predict their employment will increase by 1.1 percent during 2012.

Respondents in non-manufacturing industries expect the prices they pay for materials and services will increase by 2.7 percent during 2012. They also forecast their overall labor and benefit costs will increase 1.8 percent in 2012.

Profit margins are reported to have de-

continued on the next page

Planned Supply Chain Improvements in 2012

In its survey for its semiannual forecast, ISM asked an additional question about what supply chain improvements respondents plan to make in 2012.

Manufacturing

Seventy-four percent reported they plan to take steps during the coming year to improve their supply chain management practices. The five most frequently cited approaches are listed below:

- Supplier performance management
- Strategic sourcing/supply base rationalization
- Demand planning to reduce supply lead times
- Inventory management and control
- Process and information systems improvements.

Non-Manufacturing

Seventy-two percent of non-manufacturing respondents reported they plan to take steps during the coming year to improve their supply chain management practices. The five most frequently cited approaches are listed below:

- Supply management/process improvement
- Leverage new and existing technology
- Contract management
- Professional development
- Strategic sourcing.

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ISM Semiannual Forecast

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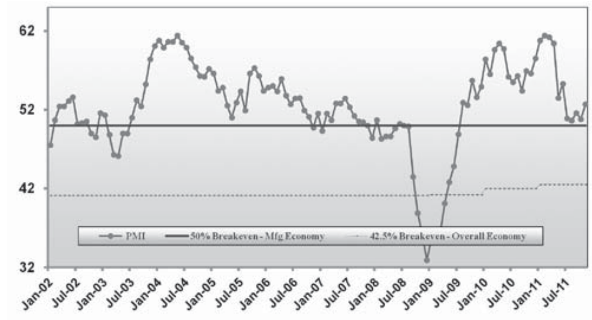
creased in the second and third quarters of 2011, and respondents expect them to increase between now and April 2012.

Survey respondents report that the most challenging problems facing their businesses as they plan for 2012 are: poor sales (34.4 percent); government regulations (26.4 percent); inflation (10.4 percent); interest rates and finance (9.6 percent); cost of labor (8.8 percent); taxes (5.6 percent); and quality of labor (4.8 percent).

Purchasing Managers Index: 2002-Nov. 2011

Source: Insttitute for Supply Management



Decrease in Brazilian Factory Output May Slow 2012 Growth in Latin America

Latin America's largest economies will experience lower growth than previously forecast in 2011, due largely to a soft patch in Brazilian factories' output, but the region should see moderate growth in 2012, according to the Manufacturers Alliance for Productivity and Innovation (MAPI) Latin America Manufacturing Outlook, a semiannual analysis that examines trends and provides a forecast for 16 major industries.

The report, authored by Fernando Sedano, MAPI economic consultant, focuses on Latin America's three largest economies – Brazil, Argentina, and Mexico – as these countries are responsible for more than 80 percent of the manufacturing output in the region. Brazil's economy has posted virtually no growth in the last few months and is slowing considerably as a result of the challenging global environment.

MAPI forecasts that overall manufacturing output in Latin America will grow 2.5 percent in 2011, lower than the 4.2 percent predicted in its July 2011 report, and will show 4.4 percent growth in 2012. Both are a sizable deceleration relative to the 9 percent expansion in 2010.

A sudden slowdown among car makers in Brazil is translating into a dwindling demand for capital equipment and for intermediate products or inputs, leading to an across-the-board output deceleration across all sectors of activity.

Mexico's export-linked manufacturers continue growing on the heels of a resilient U.S. demand and a healthier domestic consumption. However, Sedano notes that the latest survey on manufacturers' expectations showed downward trends in all indexes – production, domestic demand, exports, and investment – suggesting slower growth in the next few months.

Despite strong growth shown so far this year, Sedano says a major slowdown is under way and remains cautious about the outlook for Argentine-based manufacturers given the existence of ever-rising labor costs and a limited supply of energy.

"The most rapidly growing subsectors will be the other transport equipment (production, assembly, and repair of ships, boats, railroad equipment, aircraft, and other equipment such as motorcycles and bicycles); radio, television and communication equipment; and office, accounting, and computing machinery," Sedano said.

The report sees growth in 12 of 16 industries in 2011 and in all 16 industries in 2012. Three industries – food and beverages, motor vehicles, and machinery and equipment – account for roughly 45 percent of the region's manufacturing.

Food and beverages production, the largest industry in the region and one of the most stable, should grow by 2.6 percent in 2011 and by 3.9 percent in 2012. The automotive sector is forecast to improve by 11.2 percent in 2011 but decelerate to 3.7 percent in 2012.

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