

Hope Springs Eternal

As I write this editorial, much of America seems frozen solid. It snowed again here in Chicago yesterday, and last night the wind chill was -30°F (-34°C). It's been cold like this for more than a week, and the forecasters are predicting more of the same. After a while, such a deep freeze can be depressing.

Except I know that Spring is coming.

For several years now, the American economy—in fact, much of the whole world—has also been in a deep freeze, and that, too, can be depressing.

Except I know that Spring is coming.

Signs of an economic thaw have been developing for some time. According to the U.S. Bureau of Economic Analysis, U.S. real gross domestic product has increased for nine consecutive quarters. GDP growth in the fourth quarter of 2003 was at an annualized rate of 4.0%.

Unemployment, although still fairly high at 5.7%, is at its lowest level since October 2002, and it declined in each of the last three months of 2003.

Even manufacturing seems to be gaining momentum. The Purchasing Managers' Index (PMI) released by the Institute for Supply Management has been at 50 or above every month since May 2003. A reading above 50 generally means that the manufacturing economy is expanding. In January, the index was at 63.6, its highest level in more than 20 years.

"Manufacturing is in a definite recovery with six months of month-over-month growth at this point," said Norbert J. Ore, chairman of the Manufacturing Business Survey Committee, in the institute's January 2004 *Report on Business*.

Other manufacturing indicators are also on the rise, such as the quarterly Business Conditions Index (BCI), prepared by the Tooling & Manufacturing Association, a non-profit organization whose members include 1,500 precision manufacturers and their suppliers in the Chicago area. The January 2004 report put the BCI at 38, placing business conditions between "Fair" (25) and "Good" (50). Although 38 is still considered weak based on past ratings, the index hasn't registered this high since the first quarter of 2001. It is also a vast improvement over the third quarter's mark of 28.

With all of these positive trends, it's easy to get excited about where we're headed. But it's also important to note that most of the statistics available are broad aggregates, taking into account many industries that are unrelated to gear manufacturing.

Some of you may be wondering when all this increased activity is going to show up as orders and cash flow in your own company. I realize that many of you may still be struggling, and that my telling you that things are heating up is a little like consoling a man in the street with no jacket when you tell him that instead of 30 below, tomorrow's temperature is only going to be 20 below.

But it *is* getting better. The more gear manufacturers I talk to, the more I hear that they are getting busier. A few I know are doing quite well. Cutting tool people also tell me they are seeing increases in their business, which means more teeth are being cut.

We'll know things have turned around definitively when the machine tool market picks up. That will signal that manufacturing companies are investing again. So far, machine tool sales are spotty, at best, and well below its levels from the mid- to late 1990s.

Through November 2003, machine tool consumption was down 8% versus the same period in 2002, according to the Machine Tool Consumption Report, compiled by AMT—The Association for

Manufacturing Technology and the American Machine Tool Distributors Association (AMTDA). However, the November numbers themselves are up significantly compared to October 2003.

One economic variable helping American manufacturers right now is the weakness of the U.S. dollar. As the dollar weakens, goods from American manufacturers are becoming more affordable overseas than they've been in a long time, making American-made products more competitive than we previously thought.

But a weak dollar cuts both ways. Many of the suppliers to the gear industry—including machine tool and cutting tool manufacturers—are outside the United States. While U.S. exported goods are getting cheaper, many imported goods will become more expensive in the near future. Right now, the machine tool importers are pre-buying machinery and hedging currencies to keep price increases to a minimum, but they can only keep this up for so long. Eventually, their sales prices have to go up, too. (Thinking about buying a machine tool? Now might be the time!)

It may seem like your business is operating in a solid block of ice right now, but take heart, because Spring is coming. We're all anxious for business to pick up, but sometimes Mother Nature—and the economy—have a way of taking their own sweet time. Just remember that in the history of the world, there hasn't been a winter yet—nor an economic downturn—that hasn't turned itself around.

Yeah, it's been cold for a long time, but today, finally, the sun is shining. Outside my window, I can see drips from ice melting off the eaves. Although I can't yet see or smell the flowers, I know the bulbs are down there, getting ready to sprout.



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P.S.—Want more info?

The following websites might prove useful:

The Institute for Supply Management
www.ISM.ws

The U.S. Bureau of Economic Analysis
www.bea.gov

The White House Economic Statistics Briefing Room
www.whitehouse.gov/fsbr/esbr.html

The Tooling and Manufacturing Association
www.tmanet.com

The American Machine Tool Distributors Association
www.amtada.org

AMT—The Association for Manufacturing Technology
www.mfgtech.org