

Turn Off the Noise

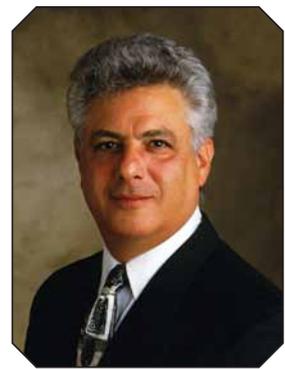
Trying to figure out what's going on in this crazy economy of ours seems a bit like reading tea leaves—one part pseudoscience and three parts wild conjecture. Of course some pundits are telling us that *this* bull market has legs, while others insist that we're due for a major correction. Some pump us up with positive news, while others remind us about scary stuff like the budget deficit, the European financial crisis and unemployment.

In March I spoke at the Gear Forum in Parma, Italy. It was a prestigious event, featuring a number of high-profile gear industry speakers, including Prof. Dr.-Ing. Karsten Stahl, Head of Institute at the FZG Gear Research Centre at the Technical University of Munich (Germany); Dr. Ulrich Kissling, founder of KISSsoft AG (Switzerland); Dr. Michel Octrue, power transmission expert at CETIM—the Centre Technique des Industries (France); Andrea Piazza, transmission & hybrid design manager at Fiat Powertrain Technologies (France); and Charlie Fischer, VP of the Technical Division at AGMA. The event was moderated by Prof. Carlo Gorla of Politecnico di Milano, who is also Technical Director of *Organi di Trasmissione*. My presentation was about the state of the gear industry. In preparation, I spent a lot of time poring over statistics from industry associations, government agencies and even our own “State of the Gear Industry” survey, which appeared in our November/December 2012 issue. Even though there was a lot of encouraging news to be found in those reports, I found that the statistics and information were either outdated or too far removed from gear manufacturing.

Sure, it's nice to know that machine tool sales last year were better than they've been in more than a decade, but I wanted to know what's going on *now* and what's going to be happening over the *next* six months. So I asked my readers and advertisers.

The gear machine tool and cutting tool suppliers all said business is very strong. Right now, they are scrambling to meet the needs of a resurgent American automobile industry. Machinery manufacturers are installing equipment for the 8-speed transmissions that are becoming a larger part of auto makers' lineups. At the same time, they're already quoting on machinery for the *next* generation of transmissions—the 9- and 10-speeds under development. Every gear machine supplier agreed that the automotive business will remain strong for some time.

I also talked with several gear manufacturers. One, a Midwest gear manufacturing job shop, serves a wide variety of industries, including aerospace, off-highway, specialty automotive, power tools, appliances, power transmission and material handling equipment. That manufacturer believes 2013 will be down compared to 2012, which was very strong compared to 2011. So they're having a very good year, just not quite as good as last year, which was outstanding.



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Another gear manufacturer I spoke with specializes in gears for mining, energy and heavy industry. Although all of those markets are either down or stagnant, he still felt positive about his business moving forward. In his case, over the past couple of years, business had been strong enough that a significant amount of work was farmed out overseas. But now that things have slowed down, much of the previously outsourced work is being brought back home. Also, the energy industry seems to be in an unusual place. For example, the fracking industry has put a hold on gearbox orders for compressors—not because the demand has dissipated, but because the industry needs to wait for pipelines to be built. Those orders should come back strongly in 2014, this manufacturer says.

Finally, I spoke with a gear manufacturer who specializes in aerospace gearing. According to him, business remains very strong despite Defense Department cuts and the European crisis. So many programs are already in place that they'll be busy filling those orders for several years.

A theme that kept coming up in my conversations was the fact that U.S. manufacturers and the American economy are well positioned with regards to the supply of energy. Our natural gas costs 25 percent of what it costs outside North America, and our oil costs 80 percent of world prices. Lower energy costs reduce overall manufacturing costs, especially for the chemical and heat treat industries. Within 5-7 years, many expect North America to be a net exporter of energy, with perhaps the largest reserves of energy in the world.

After speaking with all of these suppliers, I feel a lot better. I know that some of the core businesses that support gear manufacturing—automotive and aerospace—are going strong. Other industries that play a big role, such as energy, off-highway and farm equipment, will likely come back stronger in the second half of 2013 and the first half of 2014.

So turn off your televisions and your radios. Shut down your browsers, your apps and your streaming news feeds. Do whatever it takes to quell the barrage of headlines and opinions that compete for your attention. Once you've eliminated the noise, listen to your customers. That's what I did.