

Off-Highway Endures Soft Markets

The off-highway industry faces low demand and weak global economies, but is soldiering on.

Alex Cannella, News Editor

The off-highway industry is one under pressure from numerous market forces. The oil sector's decline, weakened global economies (particularly China) and local government policies outnumber and outweigh relieving forces such as the FAST Act, leaving the industry in a general downturn. The outlook has yet to become truly grim, but companies are beginning to scale back.

"It is a bit unprecedented to have the four end use equipment markets for mining, agriculture, construction and energy (oil and gas) all suffer slowdowns at the same time," Greg Moreland, global manager of market and product research at Oerlikon Fairfield, said.

The oil industry's turbulence is no secret — thanks to an almost overwhelming tide of oversupply, oil prices have nosedived to the lowest point they've been in decades, prompting many of the major oil companies to cut back on costs. BP has had multiple waves of layoffs to match their decreasing profits, the most recent cutting 4,000 jobs in January. Shell also announced they would cut 7,500 jobs last year, and both companies have announced more to come. Many smaller businesses that took advantage of the previously exploding fracking industry have outright shut down or gone bankrupt.

Worse, the price has yet to stabilize, much less begin to climb back to its previous state of \$100 a barrel. The energy sector still has a lot to sort out before they're in a position to invest in new equipment, and it will take even longer before anyone starts thinking about expanding operations or new businesses start to replace the ones that have gone under.

"In a longer term, I believe CAPEX will return to the oil and gas markets," Moreland said. "But there will be a period of adjustment where industry will need to adapt to the reality of lower oil and gas prices for the foreseeable future."

The real issue for companies like Oerlikon Fairfield is that other industries that could support them while the oil industry restructures itself are also facing their own struggles. The mining industry is running into the same problem oil is — the raw materials they're producing just aren't selling for what they used to, and that means companies don't have enough money to pay their own workers, much less invest in the latest drives for their equipment. Agriculture had, according to Moreland, reached the end of a buying cycle. Construction has seen hits to sales due to economic slowdown in countries such as China and Brazil. Even in the United States, things have been rocky in some sectors. Dodge Data and Analytics reported a 28 percent downturn last year in manufacturing plant construction, which they largely attributed to "pull-back by large petrochemical starts."

According to Moreland, it's not doom and gloom on literally every front. There are some portions of the construction market, primarily residential and commercial, that are faring a little better than their more industrial counterparts.

But the construction projects that are still going strong are only a small portion of the overall customer base manufacturers like Oerlikon Fairfield supply, and demand is declining. Like many companies that primarily supply off-highway products, simultaneous downturns in each of the major industries Oerlikon Fairfield supports, along with global economic woes, have made business more difficult.

"We have been dealing with the reduced business environment by leveraging supply chains and structuring the business to adapt to the conditions,"

Moreland said. "It is important, however, to protect key parts of the business that will be needed when conditions improve."

The Silver Lining

Even faced with uniformly soft markets, Oerlikon Fairfield has managed to score some hits. Most of their successes have come from individual products that have overcome low demand with specific features and advantages over their competition.

"Our successes tend to be product specific," Moreland said. "...We have recent releases with track drives and wheel drives which have applications in the construction equipment and agricultural equipment sectors. Although these are not strong and growing markets, because the new products offer some performance or feature advantages, they are being



adopted into new machine designs."

One such success has been the Champion series of hydrostatic drives designed for agricultural spray tractors. One of the series' primary selling points is its internal wet service brake, which

removes the need for the extra mounting hardware required to support external braking systems and protects the brakes from potential chemical corrosion, eliminating a safety and maintenance issue.

Individual hits such as the Champion series aren't the only thing Oerlikon Fairfield has going for it. While the off-highway industry may have been dealt a mostly bust hand, not every market force is working against them. Most notably, the Fix America's Surface Transportation Act (FAST Act) was passed in December.

For years, piecemeal and short-term bills have siphoned a trickle of federal funds into maintaining and developing America's infrastructure. The FAST Act, which is the first of its kind in over a decade, will provide \$305 billion over the next five years towards highway construction and maintenance, public transportation and more. Highway construction companies and other businesses maintaining the U.S. infrastructure system, metaphorically speaking, finally know where their next meal is coming from, and can safely plan longer and more intensive projects without worrying about funding being cut come the following year. And that means more sales for the off-highway industry, where some of that money is almost guaranteed to go. The FAST Act is a welcome and much needed boon for the industry.


But according to Moreland, it won't be enough to balance out the industry on its own, and there's other legislation that's as prohibitive as the FAST Act is helpful. Moreland believes that governments will have to go farther and reform corporate taxes, as well as institute more pro-growth legislation.

"Obviously, the U.S. government is not functioning in an ideal manner," Moreland said. "But, others are in the same situation. Policies enacted in Brazil have all but destroyed their AG equipment business. Starting with our government, and hopefully spilling around the world, useful pro-growth policies which support business and remove uncertainty can go a long way in stimulating global GDP."

Many of the industries off-highway supports are still trying to piece themselves back together and are a long way

from stabilizing — which means off-highway has a long way to go, as well, before the economic weather begins clearing. In the meantime, however, Moreland suggests that while weathering economic conditions, make sure you preserve foundational assets for better days in the future.

"I would suggest to follow those actions necessary to weather the current downturn, but always protecting those assets which form a company's DNA

and sustain growth in the up cycle," Moreland said. "Growth in these markets will return eventually. Although facing difficult conditions at this moment, the recent Bauma...was well attended, and this suggests that better days are ahead." 

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