Manufacturers Lead The Way To A Stronger Future

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The Fabricators & Manufacturers Association (FMA) can’t predict how many refrigerators, ovens and conveyors are going to be sold in 2013, but we can talk about capital expenditures for the metal forming and fabricating machine tools used to produce equipment essential to the food industry. The good news is that investments are increasing across the board. That translates to more efficient production of the equipment that creates efficiencies for food production.

In talking with our association members, publication readers, exposition exhibitors and attendees, and looking at results from our annual Capital Spending Forecast survey, we see positive indicators regarding the two major motivators that influence equipment purchase decisions.

The first is the need for increased capacity, driven by customers of the end product. The second is the need to increase production and reduce costs to make manufacturing more economical and efficient.

For the third consecutive year, 2012 saw capacity utilization rise. Our indicators say that the upward trend will continue into 2013. The rule of thumb is that companies add equipment when capacity reaches 80 percent. We aren’t quite there yet. In fact, we haven’t passed the 80 percent mark since 2008, but we are approaching it and purchases are on the rise.

Current utilization is hovering around 78 percent for manufacturers with one to 100 employees, and averaging 79.5 percent for companies that employ more than 100 workers.

Of companies indicating they were going to be purchasing equipment in the 2013, 61 percent plan to invest in new machine tools; 28 percent in used; and nearly 11 percent in rebuilt or upgraded equipment.

FMA’s core membership is comprised of small to medium job shops, the companies that support the large original equipment manufacturers (OEMs). Many of these shops report running multiple shifts, but they are still cautious with their money. They aren’t hoarding cash, but they intend to keep a reserve on hand “just in case.” Yet 52 percent of buying companies plan to use available funds. This is impressive since new fabricating equipment can carry a large price tag. A new laser with automation, for example, can top $1 million.

Although many questions remain within the global economy, forcing manufacturers to continue to be frugal, there seems to be enough confidence that the grip on savings is relaxing to allow purchases that contribute to upgrading capabilities and productivity.

To predict 2013 quarter-by-quarter, we turn to our industry's economic history. With the exception of the mid-2000 boom when there was a consistent increase throughout the year, there is a traditional summer dip in equipment purchases bracketed by positive sales trends in the first, second, and fourth quarters of the year. When we began climbing out of the recession in 2010 this pattern resumed.

In the first quarter of 2012 the economy continued to inch up along with equipment sales, then boom, we saw the slow-down. As fall brought temperatures down, sales began to rise. By the end of this year, we expect to see a respectable finish of 1.5 to 2 percent in equipment sales, mirroring the general economy.

We think 2013 will be good. It might be a bit optimistic, but if there isn't some kind of black swan, we might have a chance at hitting a 2 percent increase in machine tool sales. Getting past the presidential election will eliminate some of the business climate uncertainty and help company owners plan their expenditures for the next four years.

One equipment builder spoke of trends in an interesting light, saying, "We are having a very good year, the trouble is, we don't know why." What he meant was that they are doing well despite the economic uncertainty — the national deficit, depressed housing market, European debt and deficit issues, and the China slow-down. Fortunately, manufacturers have been busy and are ready to use their cash reserves to invest in the future.

New product and technology innovations, the status of the dollar in the international market, and the ability of the U.S. to export are advantages being leveraged. Manufacturing will continue to lead the U.S. out of this recession.

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