

Hopeful Sign: Small Manufacturers Buy Big Machines

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NEW YORK (AP) — Small businesses that make machines and components for other manufacturers are experiencing an upswing that could be a sign of things to come for the broader economy.

The industries fueling the demand vary. In some cases, business is coming from medical device makers, which are expected to see increasing growth as baby boomers age and need more medical care. An uptick in orders is coming from oil and gas producers supplying energy to growing economies in countries such as China and India. And then some are getting a pop in sales from aerospace manufacturers that are busy building fuel-efficient aircraft and engines and need special parts to get the job done.

As different as these manufacturers may be, they have two things in common: Their industries are expected to see continued growth and they're investing in expensive machinery that can cost millions of dollars.

This small manufacturer machinery boom may seem at odds with an economy that is suffering from slow job growth following the worst recession many can remember. But the increase in demand for gear that businesses use to make a variety of machines, parts, tools and devices is a sign that companies are more confident and are willing to spend. They're also getting loans from banks to buy the equipment — evidence that lenders are feeling more secure.

Last year, industrial and materials manufacturers had a 37 percent increase in big equipment purchases, according to PayNet, a company that tracks lending to small businesses. That compares to an average of 17 percent for all the industries PayNet follows.

"We're positioning ourselves now to have the capacity to respond quickly," says Pat Pastoors, general manager of Dynamic Sealing Technologies, which last month spent \$450,000 on new equipment after spending \$800,000 last year. In 2011, Dynamic Sealing paid \$3.2 million to expand its Andover, Minn., factory. The company makes manufacturing equipment for companies including food packagers and oil and gas producers. Pastoors says the company sees good potential growth in the industries it serves. The company's revenue rose 20 percent last year after doubling in 2010.

THE FIRST STEP

Skeptics should talk to the bankers who grant loans to companies that make gear and parts for other manufacturers, like Anthony Cracchiolo, president of U.S. Bank's

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equipment finance unit. U.S. Bank's lending through its Manufacturing Vendor Services division, part of the equipment finance unit, is up 15 percent this year from the same period of 2011. And last year's lending level was up 26 percent from 2010. Equipment sales had fallen 70 percent during the recession. More recently, the bank, which is based in Minneapolis and has branches in 25 states, has seen an increase in demand for big machines like lasers, molding equipment and plastic injection machines.

By the end of this year, U.S. Bank expects this type of lending to be at 90 percent of pre-recession levels. It expects the recovery among these manufacturers to reach other parts of the economy.

"This is the first step, the people that build the machines," Cracchiolo says.

Sales for privately held industrial machinery manufacturers, including companies of all sizes, are up nearly 23 percent in the last 12 months, according to Sageworks, a financial research firm.

Wells Fargo & Co. also is seeing an increase in lending to companies that manufacture products for other companies, says Hugh Long, head of business banking. The bank would not provide a breakdown of how much lending to companies that make machinery and components has gone up, but "that particular subset of the manufacturing business is quite active," Long says.

Morris Technologies spent \$1 million on an electronic beam melting machine in January. The company, based in Cincinnati, uses a sophisticated technology called additive metal fabrication to create complex parts for planes, turbines, medical equipment and other machinery. It's a manufacturing method that uses computer models and molten metals to build components one layer at a time rather than carving them out of a block of metal.

CEO Greg Morris says the interest he's seeing in the technology from his customers justifies the purchase of an expensive machine even though the economy is looking a little more uncertain these days.

"I think the handwriting on the wall is that this technology is going to be huge," he says.

Generous tax breaks that small businesses got during the recession were also an incentive for these manufacturers to buy big equipment. Morris said the laws that allowed him to speed up depreciation of new equipment were a factor in his decision to buy. However, those breaks have been scaled back dramatically this year. For example, what was a \$500,000 deduction last year is now down to \$125,000. It's not certain that Congress will increase them before Dec. 31.

TAKING BUSINESS FROM CHINA

Many of these small manufacturers spend months on design and development to customize parts for their customers. The complexities involved have given U.S.

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manufacturers an edge. That's helped some small companies in the U.S. take business away from manufacturers in China.

"For specialty manufacturing products, the end users are concluding it's better to have production close by, here in the U.S.," says William Phelan, the president of PayNet. "If there's a problem, they can get the parts shipped overnight, and transportation costs are less."

Wells Fargo also sees the trend in its lending to small manufacturers. "We're seeing this reverse offshoring — some call it onshoring," Long says.

Some of these companies are getting more business from the government. Peter Boucher, whose company, 3v Precision Machining, makes components for industries including aerospace and medical devices, is also making parts for the new F-35 fighter plane. He began buying machines during the recession and will buy one this year. He has spent \$1.6 million on four machines since 2007.

Boucher says his business from aircraft makers has risen sharply because airlines that weren't buying planes during the recession now want to replace them. When Boeing Co. released its first-quarter earnings in April, it said it had orders for more than 4,000 commercial planes.

"It's a good food chain to be involved in," says Boucher, whose company is located in Tacoma, Wash.

The heavy toll that the recession took on the manufacturing business has also encouraged many companies to buy machinery. Manufacturers that went out of business left behind a glut of machines.

John Maurer has bought four machines in the last year and has been getting bargains — some cost just 40 percent of the price of a new one and were only a year old. He expects to buy two this year for his family's Springfield, Ohio-based company, Esterline & Sons Manufacturing, whose customers include aerospace and medical device companies and power plants.

"We were able to jump on some good bargains," says Maurer, the company's chief operating officer.

But the deals are disappearing — which is actually a good sign for the overall economy because it points to the increase in demand. It's become rare to find deals on gently used equipment, says Pastoors of Dynamic Sealing.

"This year, you have to order from the factory," he says.

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