Midwest Manufacturing: Turning Around The 2012 Decline

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Today's trend of Midwest manufacturing declining is due to a triple hit: a Chinese ordering slowdown, a languishing European economy and the domestic U.S. fiscal direction unsure following the presidential election. As a result, it's no surprise that the ability to sell and grow the movement of manufactured goods is suffering, especially on international markets.

The Current Manufacturing Climate

The global economic slowdown has been around for a while, but it's notable in the current year because theU.S.economy is now actually showing signs of improvement. As a result, the U.S. dollar is actually gaining strength against foreign currencies, especially where Europe is suffering in a prolonged financial depression. That makesU.S.goods more expensive and harder to ship overseas. Additionally, the home front has gone conservative in buying, especially in terms of capital equipment and large metal fabrication — and will likely stay that way until a new president is voted in this November, a decision that will help define how the country will function financially and politically for the next four years.

For September, manufacturing orders are down in the Midwest [1], showing an overall slowdown of approximately 2.7 percent from gross production a month earlier. This decline was almost a repeat of the 2.6 percent loss from July to August. Overall, the decline has manufacturing in the region down from 7.4 percent year to year versus 2011. The biggest loss was in automobile production — Midwest manufacturing for car production dropped 5.4 percent, following a steep loss of 10.8

percent between July and August 2012.

Signs of Growth Ahead

Economists of all stripes expect manufacturing across the country to continue struggling through the end of 2012, until a new president is sworn in. Despite all the bad tidings above, a number of fronts are working to stabilize the situation and create resources to help cause growth again:

First off, the Federal Reserve will continue its policy of keeping primary interest rates low through the end of 2012, making financing cheap and available through the next year. For large manufacturing corporations, this is good news as they will continue to be able to find low-cost financing for capital improvements and equipment replacement.

Second, the federal government continues to support taking mortgage-backed securities off the backs of banks, releasing them from their liabilities that drag their solvency down. As a result, banks get freed up to make more resources available to businesses proven to be good investments and borrowers.

However, manufacturing companies need to continue pushing hard. Quite a bit of manufacturing is driven by government spending. Whether it is in defense or domestic infrastructure, capital equipment and improvements result in millions of dollars of revenue from government projects. However, the federal government is facing significant trigger cuts come January 2013 due to Congress' inability to arrive at a long-term budget solution in 2012. As a result, even a 10 percent across-the-board reduction in government spending at the federal level can have a huge hit on manufacturing via contracts and procurement. States are in the same boat.

What the Response Needs to Be

The response from manufacturing in these financially tougher times, believe it or not, needs to be an increased presence and lobbying in the government quarters. Manufacturers who want to protect the revenue streams they have or gain more need to push on government representatives to protect their existing contracts and keep new ones coming. Otherwise, the reduction of spending will literally wipe out a number of players reliant on such contracting.

Manufacturing orders are down in the Midwest because sales have dropped. Sales continue to be the bread and butter of manufacturing. Assembly and production simply doesn't happen without orders and purchases occurring. As a result, when there's a slowdown, that's a clear signal manufacturers have to double-down efforts to increase sales figures. Whether it is government purchasing or private side orders from domestic or international buyers, sales need to increase to turn the manufacturing decline around. Fortunately, in many cases, salespeople are paid on commission. So the cost of their efforts gets paid when they are successful. As a result, the more effort thrown into the initial side of the sales channel, the more orders are likely to occur from the effort.

Streamlining operation costs is a common response in manufacturing when times get tough and orders drop. However, this is a delicate response. Cutting back too much can eliminate capacity when orders do come in, reducing sales or even losing orders being unable to meet demand. Short-term savings to reduce costs can easily result in lost profit overall. Manufacturing managers have to be extremely careful with this approach, but it can produce quick flexibility financially to stay in the black.

Overall, it’s likely the September decline will continue if Midwest manufacturers don’t take responsive action. Most are still in business because they do respond well. That said, it’s likely that much of the results will end up just holding even through the end of 2012 versus declining further. If stabilization can occur, that’s a win, especially for capital equipment manufacturers that deal with high-cost metal product production.

Tom Bonine is president of National Metal Fabricators *[2]. The Chicago area firm, established in 1944, offers custom fabrication, angle rings, welding, and bar milling services.*

Links:
[1] http://www.onewall.com/homepage.nsf/pbview?Open&FSY=Blog&RestrictToCategory=ResearchZ.ZEconomics
[2] http://www.nmfrings.com/