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**THIS WEEK'S ISSUE**

## Manufacturers still skeptical

*Nationwide, industry conditions favorable for improvement, but struggle remains for locals*

By **DAN SHINGLER**

4:30 am, January 18, 2010



For the United States, various economic indicators point to a rebounding industrial sector in which factory orders are on the rise and companies are becoming more optimistic about their futures. But here on the ground in Northeast Ohio, there is no such consensus.

"There are a lot of positives for manufacturing. I can see at a national level the industrial production indicators turning positive," said economist Ken Mayland, president of ClearView Economics in Pepper Pike. "What I cannot say is that I've got an indication here in Northeast Ohio that (the rebound) is being felt. I just don't have that anecdotal information."

Dr. Mayland is a favorite of many local manufacturers who pay for his prognostications. He relies on them for anecdotal evidence of what is happening at a micro level and below the radar of national indicators.

He spoke to *Crain's* just days after the U.S. Department of Commerce reported factory orders were up more than 1% in November, and the Institute for Supply Management reported a fifth straight month of improvement in the manufacturing sector's sentiments and prospects for growth. Both reports came out in early January.

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Those numbers support Dr. Mayland's belief that the conditions are in place for manufacturing to improve, even though that's not yet what he's hearing from manufacturers.

Many local manufacturers say they are seeing continued slow sales that leave them questioning whether the national numbers are telling a true tale of what's happening in their sector.

"Listening to the economist I subscribe to, I (should) expect an increase in business this year over last. (But) I do not expect a return to a normal growth pattern, as in returning to 2008 levels," said

Morgan McIntosh, CEO of AMFM Inc., a small manufacturer in Willoughby that supplies metal hose makers.

"I am planning for a year that is busier than 2009, but not by a great deal," Mr. McIntosh said. "My customers and those I speak to in my industry seem no more sure than I. In fact, some are more skeptical that I am."

Roger Sustar, owner and president of contract machining shop Fredon Corp. in Mentor, might be counted among those skeptics.

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"Our sales for the last six months are down 22%, and orders are down 30%," Mr. Sustar said. "I still have not seen any rebound."

Mr. Sustar generally has reported faring better than most throughout most of the recession. His business is largely geared toward defense contracts and medical devices — sectors that held up better throughout 2009 than did automotive or consumer appliances. But even he and others selling into what are often thought of as "recession-proof" markets say they've been feeling the pinch.

"I've not seen any significant pickup, and we do aerospace and high-end commercial work," said Brendan Slabe, owner of Slabe Machine Products in Willoughby, another contract machining company.

### Double dip feared

Indeed, some manufacturers are reporting that rather than picking up, business appears to be slowing again. Mr. McIntosh, for one, said his business was improving in 2009 until the end of the year.

"That uptick lasted into and peaked in October and continued into November," Mr. McIntosh said. "December was a slower month again for us. It is a little early to tell for January, (but) the first week of the year has been off to a slow start."

Such reports raise the specter of an economic recovery with no staying power — the dreaded "double-dip" recession. Dr. Mayland said, however, he's not yet worried about a double dip, because there are too many factors pushing the economy to grow.

For one, automotive sales have rebounded from their low levels of 2009. Light vehicles were selling at a pace of 11.2 million units per year in December, Dr. Mayland noted, which is up from a rate of 10.9 million vehicles per year in November and above the 10.9 million vehicles sold in all of 2009. It's an even better improvement, considering the pace of sales for much of 2009 was running well below 10 million vehicles per year before receiving a boost last summer from the government's Cash for Clunkers program.

Inventories still are at extremely low levels at retailers, distributors and throughout the production chain.

Those low inventories are bound to give the economy some bounce, while probably stressing manufacturers' supply chains at the same time, Dr. Mayland said.

"No one's taking any speculative position" by restocking their inventories, Dr. Mayland said. "They're just living hand to mouth. All that means is that the rubber band is stretched even further, which means it's just going to snap back faster when it does. ... At some point, someone has to put in an order and something new has to be manufactured."

### Signs of hope

To be sure, there are businesses that are reporting increasing sales. Those increases sometimes are due to inventories being restocked or rising demand, and sometimes because they are taking business away from failed competitors.

"We see some upward movement, but we have a long way to go before I will say we are getting busy," said Charlie Kerr, owner of Kerr-Lakeside, which makes precision socket screws in Cleveland for various industries.

"I think part of what is happening is everybody let their inventories go lower than they would ordinarily, which prolonged the sluggishness," Mr. Kerr said. "But now they need to replenish and enough are doing it at the same time to cause the index to move up."

In Avon Lake, plastic molder Thogus Products spent a good portion of 2009 taking in new molds to make plastic parts for new customers. In the plastic molding industry, customers often own their own molds, or tooling, which they then lend to their suppliers of plastic parts to use.

In 2009, a lot of automakers and other big customers took their tooling away from struggling suppliers they feared might fail. They transferred that tooling to other, more stable companies, such as Thogus, allowing them to gain market share in the down economy.

"Business started picking up late second quarter 2009," said Thogus CEO Matt Hlavin.

The 60-year-old private company does not disclose its revenues, but Mr. Hlavin said the fourth quarter "was Thogus' best in history," with sales up 16% from a year ago.

"The uptick is from new customers, existing customers and specifically from our special tool transfer program," Mr. Hlavin said, referring to his efforts to get more molds transferred to his shop for production.

No doubt, most local manufacturers are not expecting to see record revenues in 2010. But, going forward, more should see their businesses improve. It might take some time to convince all the skeptics, but there is an actual recovery afoot and business will improve generally, promises Dr. Mayland.

"Nobody's talking about it yet, but I've got to believe it will," Dr. Mayland said. "The question becomes, is it a real recovery or a flash in the pan?" he asked, adding, "It's a real recovery."



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