Precision Machining Industry Outlook: You Should Be Bullish Too

By Miles Free – Director of Technology and Industry Research

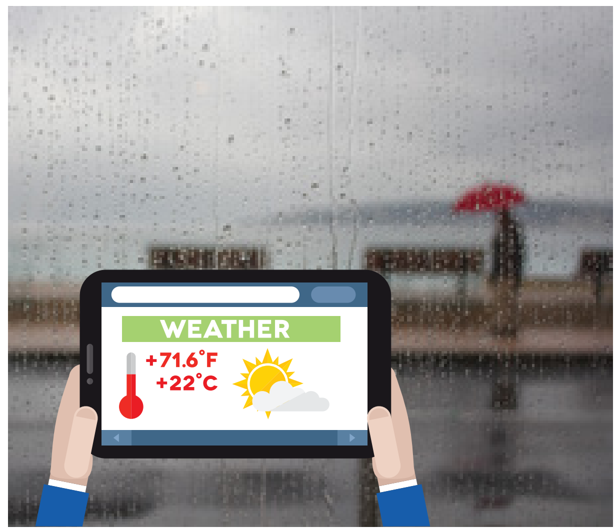
What are the indicators we use to guide our outlook, planning and investment? We learn at a very early age to check the weather before heading outside. Is it raining? Snowing? Sunny and hot? Obviously we need to respond to the conditions we face. It is the same in business. Are federal regulators modeling police state attitudes and speaking of being new sheriffs in town? Or, can you see a diminished emphasis on enforcement and punishment as the agencies refocus on their core missions? Is the market providing clear and sunny indications, or is it showing us storm clouds on the horizon?

To sustain our businesses successfully, we need to intelligently manage risk, but for too many years, we have been conditioned by the market and the federal government to hunker down and try to avoid all risk. Avoiding risk makes sense when we have an environment that is outright hostile to investment and employment, but when the conditions for business have changed, it is time to reevaluate our thinking on what we mean by "intelligently managing risk." There are two major risks that our precision machining businesses face, those from the market and those from the government.

Governmental and Regulatory Risk

The president's decision to sign the Resolution of Disapproval of the Volks Rule (signed April 3, this year) provides us a clear signal that under the current administration, the focus of safety agencies is thought to be safety outcomes, not just writing up employers for paperwork violations. I see attitude of regulatory agencies as significant input to our shop's decisions to invest and grow or remain in a conservative hunker-down mode. The de-emphasis of hostile enforcement by the regulatory agencies under the new administration is a convincing reason to consider again the opportunities to grow and invest in our shops.

Other indicators of less hostility from the federal government you should be considering in your decision making include the issuance of executive orders and presidential memoranda to review Dodd Frank, expedite environmental review of infrastructure projects, appointment of regulatory reform officers at each federal agency and reduction of regulatory burdens for domestic manufacturers. At the time of this writing, the second attempt to review and reform the Affordable Care Act had just passed the House. Issues that can chill manufacturing investment are clearly on the agenda in Washington, D.C., to be addressed.



Regulatory hostility is only one factor that emanates out of our nation's capital. Tax, trade and spending policy are other important bellwethers. Pending legislation also can embolden our thinking and give us courage to continue to grow our business.

Tax reform is another positive indicator that seems to bode well for our prospects in the coming year. We have already had success by getting permanent 14 percent R&D tax credit for small businesses to claim against the alternative minimum tax (AMT), got permanent Section 179 expensing and extensions of bonus depreciation through 2019 again, with ability to claim against AMT. The two-year moratorium on the Medical Device Excise Tax remains in effect through the end of this year. There were a number of other small business-focused extensions and provisions as well.

Market Risk

Our shops serve many markets, and the outlook for many of them is quite positive. While many of us would say we have been challenged in recent years by a less than full recovery, the 2014 data available from the U.S. Census shows that since 2010, the dollar value of our industries' shipments has grown by 40.42 percent, our number of employees increased by 29.49 percent and our payrolls have grown 38.59 percent. The market weather has been far more pleasant than many of us would care to admit.

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Here are some market indicators at the time I write this that bode well for our industry in the near term:

PMPA Business Trends Shipments Index most recently hit a new all-time high of 138. The index was 100 for calendar year 2010.

The Housing Market Index hit a 12-year high, its highest since June 2005. Many precision parts are involved in the equipping of homes with appliances, HVAC and electronics, not to mention the vehicles and tools purchased by the builders as their business expands. Single-family housing starts jumped from 819,000 to 872,000 earlier this year, a pace unseen since February 2007.

Retail sales remain high at 5.7 percent to 6 percent, the highest year-over-year performance since 2012.

Specific market sectors that appear to be level or growing this year include U.S. housing starts, industrial machinery new orders, industrial production and North American light vehicle production.

What's our take?

Economic expansion and recovery is once again underway. The list of positive indicators that point to higher industrial activity in 2017 is growing. PMPA's own indicators for shipments, lead times, employment (96 percent of respondents expecting employment to remain the same or increase in the next three months) and profitability all point to manufacturing optimism at this time. The labor force participation rate is finally recovering; U.S. private sector employment averaged a record 122.6 million for the 12 months ending in March.

Something has changed. The risk we face in our shops has declined. Have you changed your outlook based on the view of these facts out your window lately?