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ECONOMY

Manufacturers Saw Gains Early in the Third Quarter

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U.S. manufacturers saw gains in the early part of the third quarter in both production and orders, but remain concerned about the current quarter as deflation, led by declining import prices, spreads across the sector.

A survey of 28 major industrial sectors shows that the number experiencing year-over-year growth jumped to 16 in the third period -- up from 13 in the second quarter, and eight in the first quarter, according to the Manufacturers Alliance/MAPI, an Arlington, Va., association of manufacturers. Moreover, the survey concludes that, compared with the second quarter, more industries have passed through the worst part of the economic down cycle.

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But problems remain. Much of manufacturing's third-quarter gains were "frontloaded" on the beginning of the period. July was extremely strong for many manufacturers, followed by declining industrial production in August, September, and, more sharply, in October. This sudden slump caught many producers by surprise, creating unsold inventories, which could inhibit business activity going forward. Businesses typically wait to build product until excess is sold off.

After six months of favorable order trends, Behlen Manufacturing Co. saw orders drop 13% in October. "That was a big surprise," says A.F. "Tony" Raimondo, chairman and chief executive officer. "We're back to downsizing." The closely held Columbus, Neb., maker of metal buildings and grain silos laid off 75 of its 1,300 workers this month.

DATA AND RESOURCES

- [Economic Indicators](#)
- [U.S. Calendar](#)
- [International Calendar](#)
- [Economic Chartbook](#)
- [Reports from Briefing.com](#)

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- [U.S. Payrolls Fell in October And Manufacturing Declined](#)³
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- [Manufacturing Activity Slips After Seven Months of Growth](#)⁴
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- [Sluggish Manufacturing Levels Stoke Fears of Slow Recovery](#)⁵
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- [Manufacturing Activity Grew At Much Slower Rate in July](#)⁶
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Daniel J. Meckstroth, chief economist at the Manufacturers Alliance, says the overall picture is still more negative than positive. "If you look at the numbers on a monthly basis, you see substantial weakening in September and October, and that doesn't bode well," he says. Mr. Meckstroth believes industrial production may decline as much as 2.5% in the fourth quarter. Even so, he said recent moves, such as the cut in U.S. interest rates, should help revive activity.

Mr. Meckstroth says deflation is hurting many manufacturers. The recent recession in the U.S., a continuing recession in Latin America, continued weakness in Japan, and little growth elsewhere has left the world awash in excess capacity. He notes that producer prices for nonenergy manufactured goods excluding computers rose 1.2% in 2000, were essentially flat in 2001, but fell 0.8% in the first nine months of 2002. One factor suppressing prices of manufactured goods in the U.S., Mr. Meckstroth adds, is that prices of imported goods are falling even more so. Prices for imported goods, which were essentially flat in 2000, declined 1.3% in 2001, and fell 1.5% in the first nine months of this year.

Kurt J. Lesker, president of Kurt J. Lesker Co., isn't sure if imports are putting particular pressure on his prices, but he has faced deflation at his factory in Large, Pa., which makes vacuum equipment used in high-tech laboratories and manufacturing processes. "We try not to lower our list prices," he says, "But we've been forced to discount further and further to gain business."

The Manufacturers Alliance study found wide variation in how industrial sectors are faring. Nine segments, including semiconductors, electric lighting equipment and defense capital goods saw double-digit growth in inflation-adjusted new orders or production. Four segments had moderate growth of 5% to 9%, including industrial chemicals and housing starts, while three saw moderate growth of 1% to 2%. The industries hardest hit, falling 20% or more in the third quarter, included private nonresidential building construction and oil and natural-gas drilling production.

Even within sectors that overall are doing well, some niches are suffering. Olav Bradley, chief executive of P.M. Mold Co. in Schaumburg, Ill., says his business of making metal molds for other manufacturers is getting hammered by foreign competition, particularly low-cost Chinese producers. His business is down 25% since last year and he has laid off about the same percentage of his workers. Mold makers such as P.M. Mold are part of the metalworking machinery category, which the Manufacturers Alliance says grew 5.6% in the third quarter.

Mr. Bradley says he is starting to see some positive signs. "We've gotten a couple of big jobs now -- but they're [only] promised," he says. "Until the purchase order is here, you can't count on it."

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