



JUST A BAD DREAM?

There's a monster under the bed of the nation's economy. It has the same power over many adults as a child's nightmare. But lately, in discussions about the economy, some people have begun talking about the monster. They've been mentioning the 'R' word.

Whether the U.S. economy is in a recession—or whether it's heading there—is a matter for debate. But a wide variety of factors—from the uncertainty of a presidential election year to the subprime mortgage crisis, from soaring oil prices to the housing bubble, are causing high levels of unease about the economic future.

According to the University of Michigan's Consumer Sentiment Index, consumer confidence is at its lowest point since 1982—a time when the country was in the heart of a deep and long recession. Similarly, the Conference Board's Consumer Expectations Index is at its lowest point since 1973, when the United States was dealing with the oil embargo and Watergate. It's not yet clear how today's situation will compare with the economic troubles of the 70s or 80s.

What is very clear is that people are worried.

Some would say that the manufacturing sector is already in a recession. One popular measure, the Purchasing Managers Index (PMI), has now shown two consecutive months of contraction with the index falling below 50 February and March. A PMI below 50 indicates contraction in the manufacturing economy. Two consecutive months of contraction is the standard definition of a recession. According to the PMI, at least, we're already there.

But there's no need to hide under the covers. I'm not here to spread gloom and doom. In fact, my outlook—at least for the gear industry—is still fairly optimistic.

One reason is that many of the industries that use gears are not affected by the credit and consumer-driven woes that have everyone else on edge. Strong growth is still expected in the mining, aerospace and oilfield industries. There will be major investments in big-project infrastructure all over the world in the coming years, including power plants, maybe even nuclear, that will require a lot of gears. China is opening a new power plant every week. And of course, with wind farms popping up all around the world, the demand for wind turbine gears should remain strong for many years.

This is all happening at a time when there seems to be, at least outside the automotive industry, a shortage of gear manufacturing capacity—not just in the United States, but in many other parts of the world, too. It's also a time when there are two huge factories being built on the planet Earth. Their names are India and China, and these markets need increasing numbers of gears just to satisfy their own requirements.

Another reason I'm optimistic is that the weak U.S. dollar

makes American gears much more attractive to foreign buyers. Many U.S. gear manufacturers are expanding their overseas sales. Others are selling more gears to manufacturers of construction equipment, whose products are needed by the continued industrialization of other parts of the world, especially China.

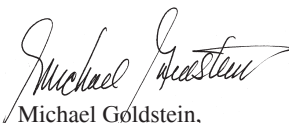
Recently, I attended the AGMA annual meeting in Las Vegas, where I had the chance to hear economist Dr. Mike Bradley speak about the gear manufacturing economy. His presentation also gave me reason for optimism. Dr. Bradley's projections indicate that orders for gears and gear products may already have bottomed out. Although there is still modest growth in gear and gear products shipments, these naturally lag orders. At the time of Dr. Bradley's presentation, it was unclear whether gear shipments would dip into negative growth, but in any case, he suggested that if there is a gear manufacturing recession, it should be shallow and short-lived.

There are, of course, some areas for concern, especially if you manufacture gears for sectors of the economy that are being affected.

One gear manufacturer who visited our office in April told us that about 80 percent of his business comes from the automotive industry. He classified these as "trying times" because of that dependence. However, because his company focuses on selling technology and solutions, he also rattled off half a dozen new business opportunities he had either recently sold or was currently working on. Even in trying times, there appear to be plenty of opportunities, at least for those who have continually invested in the latest technology.

If you're one of those gear manufacturers who is well positioned to weather the current economic storm, now might be a good time to invest in more technology of your own. The recently signed Economic Stimulus Act of 2008 provides tax relief in the form of 50 percent bonus depreciation for new capital expenditures (like machine tools) placed into service in 2008 as well as increases in the amounts small businesses can write off as expenses for new and used equipment purchases in 2008.

Overall, I expect the mitigating factors—most particularly the strength of certain gear-consuming industries and the weakness of the dollar—to keep the gear manufacturing industry out of trouble. Those who have continually invested in modern equipment and technology should be poised for years of continued growth. There's strength in the gear manufacturing industry that should keep the monster at bay.


Michael Goldstein,
Publisher & Editor-in-Chief