RELIEF VALVE

Some of the pressure on American manufacturers seems to be letting up. This is welcome relief, considering the squeeze they have been under for the past few years.

Not only have American manufacturers been crushed by a slowdown in the economy, but the recent high value of the U.S. dollar has made matters even worse. While the slow economy has reduced the demand for all types of goods, including those containing gears, the strong dollar has made American exported goods more expensive overseas and made imported goods less expensive. The fierce pricing pressure that resulted has led many to believe Americans could not be competitive.

But now, the economy seems to be picking up—including the manufacturing sector. Many gear manufacturers are extremely busy, some as busy as they have ever been. Just last week I spoke with a manufacturer of automotive driveline components who said his factory is running seven days a week. I also spoke with the president of a Midwest gear manufacturer specializing in aerospace parts who told me that he's just finished the two best shipping months in his company's 50+ years.

These may be isolated examples, but I'm increasingly hearing that business is improving, and there are other encouraging signs. According to U.S. Federal Reserve Board statistics, industrial production has grown in each month so far in 2002. The anecdotes and the statistics say the same thing: Manufacturing appears to be on the upswing.

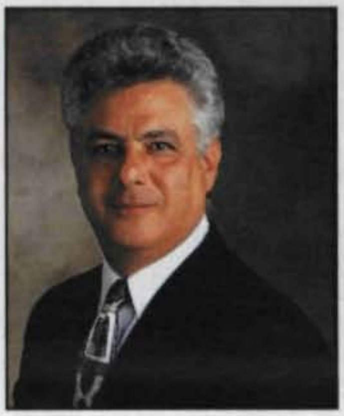
In addition, the U.S. dollar has been weakening. In fact, this summer it dipped below parity with the Euro for the first time since the Euro was launched in 1999. While a weak dollar sounds like a bad thing, it is actually beneficial to both American exporters and those that compete against imported goods. Those who try exporting will find their prices are more attractive to potential buyers overseas, and conversely, those whose markets are domestic may find that foreign import prices are less attractive to their potential customers. Either way, American gear manufacturers seem to be in a better position today than they were even several months ago, because of increased industrial activity and more favorable exchange rates. As it turns out, America is more competive than was thought.

With all of these encouraging indicators, it appears that IMTS is coming at the right moment (the show begins September 4 in Chicago). As always, the show provides an excellent opportunity to find out more about the technologies available to increase productivity or quality in your manufacturing operation. Even if you don't consider yourself in the market for machine tools right now, there are several factors you should think about that might help you decide to go to IMTS.

If demand for gears is on the rise, which it seems to be, then demand for machine tools to produce them is likely to follow. The cash prices of machine tools today are as low as they have been in a long time. With increased demand, you can expect that those prices will be firming up sometime soon.

Also, the decrease in the value of the dollar probably affects machine tool manufacturers the opposite way it affects American gear manufacturers. Many of the machine tools purchased for use in the United States are manufactured in other countries. Even American equipment manufacturers, such as Gleason Corp., manufacture some machines overseas. In the case of those companies, the weakening of the dollar will serve to increase pricing pressure because the cost of their goods is suddenly more expensive.

Of course, this doesn't necessarily mean that machine tool prices are going to go up immediately. Many machine tool manufacturers will probably be forced by competitive pressures to absorb the increased costs or find some way to protect themselves against the exchange rate risk. But if there is a window of opportunity to take advantage of the market, it is likely to occur over the next year. Your best opportunity to strike a good deal may be at IMTS.



Also, Uncle Sam has provided another reason why now may be a good time to consider a machine tool purchase. As some of you are probably aware, the U.S. government recently enacted the Job Creation and Worker Assistance Act of 2002. This tax relief act provides for an additional 30% first-year depreciation allowance on property acquired after September 10, 2001 and before September 11, 2004. Your machine tool purchases may qualify for this allowance.

All things considered, IMTS provides the best opportunity for gear manufacturers to do what they have not done in a long time: Go shopping.

Michael Goldstein

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P.S.—Thank you to the more than 500 of you who have signed up for FREE subscriptions to *E-GT*, the electronic version of *Gear Technology*, announced last issue. *E-GT* will be an exact duplicate of *Gear Technology*, prepared in PDF format and available worldwide FREE through our website, beginning with the January/February 2003 issue. If you haven't signed up yet, you can do so by visiting *www.geartechnology.com* and following the subscription link for *E-GT*. Signing up will not affect your subscription to the printed version of *Gear Technology*.