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## The economy: It could be worse

The status of **Cummins** perhaps best sums up the manufacturing economy at large. We may be on the rebound, but all of the unemployed aren't heading back to work tomorrow.

Last week the engine maker reported third quarter profits that exceeded expectations. Like so many, they got there by cutting jobs and inventory. According to a Bloomberg report, the company "cut about 7,500 workers, including full-time and temporary employees, from late 2008 through June, and has since recalled about 900."

About 900? That's good ... I guess.

This week the **Institute for Supply Management** released its monthly manufacturing report, which had more good news. ISM's manufacturing index rose to 55.7 in October, a three-year high. Reporting the news, **Bloomberg** interviewed some rather upbeat analysts who seemed to be looking to manufacturing as the fountainhead of economic recovery.

John Herrmann, president of Herrmann Forecasting in Summit, N.J., told the news service that "the recovery remains firmly on track" and that manufacturing is "laying the groundwork for a very strong inventory and restocking cycle."

Chris Rupkey, chief financial economist at the Bank of Tokyo-Mitsubishi UFJ Ltd. in New York, said, "The economic outlook is brightening ... Manufacturing is in the driving seat at this stage of the recovery."

Yesterday I chatted with Chris Kuehl, economist for the **Fabricators & Manufacturers Association, International**®, about the seemingly upbeat signals. From his responses, and from all the news reports, I think the economy could be summed up in that timeless Midwestern phrase: It could be worse.

Kuehl spoke of several points to watch over the coming months that may be central to the recovery. First is international markets, which will be (and in some cases already are) leading the economic recovery. Hundreds of millions of newly middle class citizens have growing appetites for consumption, appetites U.S. manufacturers can't ignore.

Second is the U.S. consumer, which never should be underestimated. Right now "a lot of consumer withdraw [from the retail market] has been voluntary," Kuehl said. "Even with restricted credit, they're sitting on a lot of money. Once they have a sense that the big layoffs are over, those that have a job will relax and start spending." He added that while unemployment near 10 percent is not a good thing, "it's not crippling, and we've had much higher."

His third point, probably the most troubling point for U.S. manufacturers, is structural unemployment: those who had jobs that just aren't coming back, because of market or technology changes. I see this as a shift of the entry-level worker. This recession has reinforced a harsh reality. In much of modern manufacturing, there's no room on the payroll for the unskilled. You're either skilled, or you're unemployed.

So manufacturing is cranking up again. That's good. Employment is lagging. That's normal. And many jobs that were there before the recession just aren't coming back.

Well, it could be worse.

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