

NO CURRENT SIGNS OF A U.S. MANUFACTURING SLUMP

Machinery may outperform the market through the end of the year, as the new orders rebound, thus helping to defy the concerns about another U.S. recession. According to the data from the Census Bureau released on Oct. 26, in September, American manufacturers booked \$32.6 billion in new orders for machinery equipment, the most it's been since July 2008. Since Oct. 3, the Standard & Poor's Super-composite Machinery Index, which actually includes Caterpillar Inc. (CAT) and Deere & Co. (DE), has gained 26 percent, while the S&P 500 has risen 13 percent. The machinery index lagged behind between July 7 and Oct. 3, at the time when it fell 35 percent, compared with a 19 percent decline for the S&P index. "There's skepticism about the industrial economy and machinery stocks, but robust activity suggest the risk of a double-dip recession is less likely," says Steven Volkmann, who is a New York-based analyst at Jefferies & Co. He added that the sector may continue to rally through December, as it has tended to outperform from November through year-end during the past decade. Ann Duignan, who is a New York-based analyst at JPMorgan Chase & Co., says that there is "no evidence" of a collapse in North American manufacturing as shipments are still growing. The Census Bureau data shows that the total for September was \$31.1 billion worth of machinery equipment, which is up 13 percent from a year ago. "Companies are still reporting modest growth with no wholesale change in demand," says Duignan. Parker Hannifin Corp. (PH), which is based in Cleveland, increased its fiscal 2012 outlook for industrial North American-segment revenue growth to somewhere around 8.3 percent from about 6.2 percent, as the orders "re-accelerated" during the period ended Sept. 30, says Duignan, who still maintains a "neutral" rating on the stock. The company said on Oct. 18 that the motion- and control-technology maker's orders from the region grew 16 percent compared with a year ago, following an 11 percent rise in the previous quarter. "There's a lot of activity," and "order trends here in North America are still very positive," said President and Chief Executive Officer Donald Washkewicz on an Oct. 18 conference call. Caterpillar, who is based in Peoria, Illinois, reported a third-quarter revenue of \$15.7 billion, compared with \$11.1 billion a year ago, the company said on Oct. 24. The construction and the agricultural-equipment maker's order backlog was around \$24.4 billion, which is up 40 percent. "Although there is a good deal of economic and political uncertainty in the world, we are not seeing it as much in our business at this point," says Chairman and Chief Executive Officer Doug Oberhelman in a statement. "This was the best quarter for sales in our history,



and our order backlog is at an all-time high."

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