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ARE THINGS AS BAD AS THEY SEEM? YES AND NO

Since everyone is talking about economic conditions, in particular the price of gasoline, why shouldn't I take my turn. There is a difference. "My turn" gets published and could come back to haunt me—and I have been tasked to lead off the IUUV Technology Conference in September with an economic forecast. So, consider this a warm-up—an assessment of where the economy is now, as a basis for the forthcoming outlook.

Let's identify the key economic issues, sketch out some brief histories, and then focus directly on the impacts on the industrial utility vehicle industry—and the business environment in which the industry operates.

The basic concerns are, aside from the personal angst at the pump, how will our businesses be affected by current economic conditions—and how long can or will the present aggravations continue?

The major economic problems plaguing the U.S. economy at this time actually derive from two separate, independent sources: The subprime/financial industry crisis and, of course, the energy market, focused on oil and gas. Like many a storm in nature, this perfect economic storm has been brewing for some time—particularly with respect to the energy crisis.

The Subprime Debacle—How We Got There

The subprime debacle is of a more recent origin dating to 9/11 and the concern over its economic impact. To keep the economy going, the Fed under Allen Greenspan began driving interest rates down by flooding the economy with liquidity.

No banker likes to keep cash on hand, so to speak, so financiers began searching for ways to make loans and broaden the net of loan recipients. New mortgages and refinancing burgeoned and were packaged, securitized and resold as mortgage-backed securities. These securities were hedged and insured, thereby further broadening the potential impact of weakness in the underlying mortgage pool. Many, many billions of dollars in asset value, both here and abroad, were leveraged off what was becoming a riskier and riskier pool of mortgages.

Thus, there was a disconnect between the Federal Reserve macroeconomic focus (on growth) and the nitty-gritty of financial markets, participants in which were mainly concerned with exhausting (and profiting from) the liquidity so nicely provided by the Fed.

Energy Crisis—Storm Clouds on the Real Side of the Economy

Few developed countries in the world have had the audacity or arrogance to maintain they had no energy problem—other than the United States. Most European countries have an energy policy based on conservation, and France has a dedicated oil independence policy based on nuclear. Japan, while still energy dependent, has a large fraction of its energy resources derived from nuclear power. Meanwhile, the United States for partisan political reasons has put known reserves on public lands off-limits to drilling

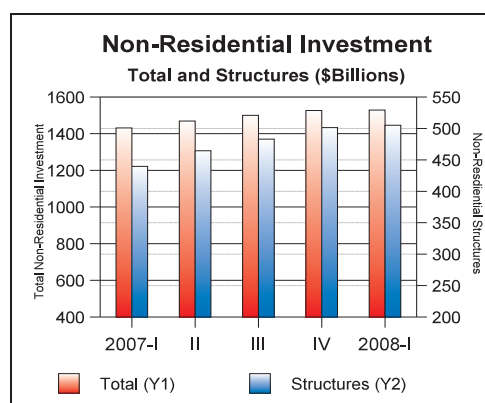
for many years. Go figure—and kindly remember this when you go to the voting booth this November.

Now, of course, the foul-smelling substance has hit the fan and the economy is feeling the heat of inflation and slow growth. When these two economic barometers work together in this way, we have what is known as stagflation, and it arises when production in the economy is hit by events which undercut productive capacity. Can the Fed do anything about this? Very little. Can George Bush do anything about this, or Mr. McCain, or the messiah, Mr. Obama? From an economic point of view, NO. From a political standpoint, YES: Drill here-drill now, lower corporate profits taxes, and otherwise broadly encourage investment in energy saving efficiencies. All of the above (incumbent and candidates) can make matters worse, of course—in particular with any policy that prolongs the ban on hydrocarbon drilling. Please remember this when you go to the voting booth this November. (Did I say that already?...)

How is the Economy Holding Up?

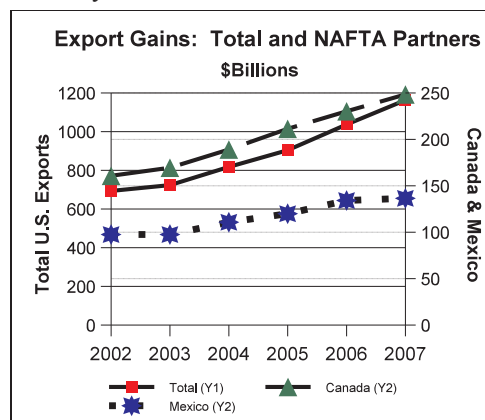
With all this bad news, it is a little surprising to find that the economy, particularly in areas which tend to affect our industry, is not pitching off a cliff. Yes, there is a great deal of anxiety, but so far, key indicators are holding up:

1. While residential construction is faltering rather badly, non-residential construction has actually increased so far in 2008, according to data from McGraw Hill. For the first five months of 2008, non-residential building was up 13%, despite significant weakness in certain sectors, such as office buildings. This is confirmed in Department of Commerce BEA data.



2. Warehouse construction in particular has held steady with a 2% gain in May over April, although the rate of increase is quite a bit lower than in recent years.

3. Exports have been booming. Exports rose 11.2% in 2007 over 2006 and have increased by 17.2% through March of this year.



4. Finally, with all the talk of a recession, if the measure of a recession is two consecutive quarters of negative growth or two quarters of negative growth within an annual pe-

riod, the fact is that the numbers don't support such a conclusion.

Survey by NAM Shows Strong Support for the North American Economic Base

Recently, under the sponsorship of the National Association of Manufacturers, Deloitte Research conducted a survey of North American manufacturers, which focused on their views of current and future competitiveness. Far from being overwhelmed by the current gloom and doom, respondents were surprisingly optimistic about the competitive status of North America and the United States.

In particular, the NAM survey asked the question, "How competitive will North America be as a location in 2012?" Respondents were to indicate one of three alternative choices: "Weaker", "Same", or "Stronger". Competitiveness was broken out into eight business activities, including sales & marketing, information & technology, customer service, R&D/engineering, finance & accounting, distribution & logistics, human resources, and production.

In only one activity did more than one-fifth of respondents indicate that North America would be weaker. Predictably, that activity was production. In other words, in all other activities, 80% or more of respondents indicate North America as a location would be either the same or more competitive by 2012—and notably in the category of distribution & logistics, which heavily influences our industry, 87% indicated North America to be competitively the same or stronger by 2012, as compared to other global locations.

Paradox of the Production Outlook

Moreover, despite the fact that a whopping 61% of respondents thought that North America would be competitively weaker as a production location by 2012, 44% indicated that they would be *expanding* production facilities in the United States through 2012—and this was the *highest* percentage of all alternative locations, including China, Mexico, and Europe.

Thus, although a majority of respondents held the view that North America would be comparatively weaker with regard to production, nonetheless, the clear intention of a plurality of respondents was to invest in the United States and North America (37% intended to expand in Mexico, 24% in Canada). The possible reasons for this paradox will be explored in future columns.

The Secret of Good Forecasting...

In summary, the current economy as it impacts the utility vehicle industry could be considered remarkably strong, if hardly booming, given the context of panicky headlines we see in the Wall Street Journal on a daily basis. And based on the NAM competitiveness survey, the longer term outlook is positive. Can real gloom and doom take its toll in the mid-term? Possibly. Keep tuned. As a well known economist once said, "The secret of good forecasting is to forecast often."

Stephen Metzger PhD, Managing Director, International Market Solutions, a management consulting firm, whose prime focus is putting companies into the international market arena on a cost-efficient basis. Mr. Metzger is also Principal of International Competitive Assessments (ICA), the market research arm of IMS. ICA has undertaken extensive market research and consulting assignments covering a broad range of products and markets. Mr. Metzger and his staff and associates have produced three groundbreaking studies of small, task-oriented vehicle market in the United States since 2000. Mr. Metzger, an economist by background, is also an adjunct professor of business and economics at Iona College and Mercy College.