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Supply Chain News: Recession Close to Over, Manufacturers Alliance Forecasters Say

11.9% Decline in Production Output this Year, but Most of that has Already Occurred; Big Growth Manufacturing Technology Investments Expected for 2010

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The good news: the recession likely already has hit bottom, and the US should see economic growth in the second half of 2009.

The bad news: in general, the ensuing recovery will be weak by historical standards.

That's the conclusion of the economists at the Manufacturing Alliance (MAPI), according to a new forecast issued this week.

The **Manufacturers Alliance/MAPI Quarterly Economic Forecast** expects the economy to shrink 2.9% in 2009; however, most of the damage has already occurred. MAPI predicts there will be 1.9% increase in GDP in the third quarter of 2009 and 2.5% in the fourth quarter

After 2009. MAPI sees growth rebounding to 2.1% growth in 2010, and by 3.2% in 2011. Those growth numbers, while encouraging, are well below the type of growth seen after most previous recessions.

While manufacturing activity is expected to fall even harder in 2009, the good news there is that the recovery is expected to be stronger than that of the overall economy: manufacturing production growth is expected to decline 11.9%this year before rebounding to 3.2%t growth in 2010 and 5.1% growth in 2011.

Driving that in part will be a re-stocking of badly depleted inventory levels.

"A swing from cutting inventory in 2009 to adding inventory in 2010 and 2011 has the impact of boosting production," says **Daniel J. Meckstroth**, Manufacturers Alliance/MAPI Chief Economist.

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Of course, the forecasts for 2009 and beyond vary by production sector. Production in non-high-tech industries is expected to decline by 11.8% in 2009 before increasing by 1.9% in 2010 and by 4.8% in 2011. The computers and electronics products sector, normally a consistent growth industry, will also see a drop-off this year, declining by 10.9%. High-tech industrial production, however, is expected to rebound to 8.9% growth in 2010 and by a healthy 15.4% growth in 2011. (See summary forecasts from MAPI on page 2.)

Most Expenditures to Surge in 2010

With the recession, capital expenditures on equipment and technology have also plunged, but in general are expected to start rebounding in 2010.

The inflation-adjusted investment in equipment and software is likely to decrease by 17.4% in

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A Severe Recession Followed by Moderate Recovery

Manufacturers Alliance/MAPI Economic Forecast

GDP Expenditure Categories	Inflation-Adjusted Percent Change 2009(F)	2010(F)	2011(F)
Gross Domestic Product	-2.7	2.1	3.2
Total Consumption	-0.8	1.5	2.2
Durables	-4.8	2.2	6.5
Nondurables	-1.5	1.6	1.4
Services	0.1	1.4	1.8
Nonresidential Fixed Investment	-17.5	0.3	10.8
Equipment & Software	-17.4	8.9	14.5
Information Processing Equipment	-8.8	7.2	9.1
Industrial Equipment	-22.7	-0.7	20.5
Transportation equipment	-42.8	52.1	36.4
Structures	-17.6	-15.7	1.8
Residential Fixed Investment	-22.8	14.3	23.5
Exports	-11.8	5.7	7.9
Imports	-14.0	7.3	5.6
Federal Government	4.6	1.3	-3.8
State & Local Government	-0.1	0.6	0.9

Source: Manufacturers Alliance/MAPI simulation of the Global Insight model, August 21, 2009
F=Forecast

MAPI

2009, before experiencing growth of 8.9% in 2010 and 14.5% in 2011.

MAPI expects industrial equipment expenditures to decline by a severe 22.7% this year and to further decline by 0.7% in 2010. But, MAPI predicts a significant turnaround of 20.5% growth in 2011.

The outlook for spending on transportation equipment shows extremely wide swings in either direction: a 42.8% decline in 2009, followed by a 52.1%increase in 2010, and a 36.4% advance in 2011.

"There are enough economic indicators that portend an eventual recovery following a long and deep recession," MAPI's Meckstroth says, "but any rebound at this point looks to be modest, and fragile, given the unchartered waters in which this occurred."