Machine-tool figures belie 'recovery'

by Marcia Merry

On the first of this month, a conflicting picture of the economy was painted by statistics from government and industry agencies: 1) the administration's "leading indicators" index showed that the economy is in the "58th straight month of expansion," while 2) orders are plunging in the U.S. machine-tool industry—the measuring rod of capitalization of technology and industry. What this shows is that, as the "post-industrial recovery" is proceeding, so the industrial base of the country is collapsing.

From June to July, U.S. machine-tool orders fell by 19.7%. Officials for the National Machine-Tool Builders Association, which released the figures, say that summer seasonal factors can account for some of the drop, but many companies report that despite a lot of "quoting" of price estimates going on, there is no upswing in sight on definite orders.

Machine-tool orders in July were 4.2% below a year ago. Orders in July totaled $162.9 million, compared with $170.0 million in July of 1986. Because of the fall in the value of the dollar, there has been an uptick in foreign orders for U.S. machine-tools—there has been a 26.1% rise in exports, but whether the surge will turn into a trend is still "in the future."

On Sept. 1, the nation's largest machine-tool building company, Cincinnati Milacron, announced intentions to sell its metal-fabricating division, which produces iron castings used in Milacron products. Milacron has potential orders pending, but if these do not materialize soon, some shutdown of capacity will take place. As new orders have declined, the industry has worked down its backlog of orders from last year's levels by 13%. Because of the recovery, there is no use for the apparent "slack" capacity.

The "leading indicators" used by the government, which supposedly show how well the economy is doing, are a snake-oil concoction of measurements, skewed by such things as the sharp increase in stock prices over the summer. Another indicator is the rise in prices of materials the government economists regard as sensitive to business.

The latest leading indicator monthly index, released Sept. 1, showed a 0.5% increase from June to July. The largest contributor to this increase was the rise in the proportion of companies (which participate in the survey) that have reported slower deliveries from their suppliers. In June, 57% of companies reported such slow deliveries; in July, 62% reported slow deliveries. Government analysts regard this as a sign of bottlenecks, that shows the economy is expanding!

The July advance in the leading indicator index was the sixth straight month of increase, which the government calls "a modern peacetime record."

Industry officials, however, have sounded the alarm about the failing machine-tool industry, especially from the point of view of the defense industrial base—tooling for modern aircraft, tanks, vehicles, and even ammunition itself.

James Gray, president of the Machine-Tool Builders Association, speaking at a December 1986 symposium on "Threats to the U.S. Defense Industrial Base," sponsored by the American Defense Preparedness Association, said, "The American machine-tool industry is in very, very serious trouble." He reported, "In the last month, three old, prominent machine-tool builders have thrown in the towel. One of them was one of two companies that manufacture the equipment for small caliber ammunition packing and loading. In the last five years, about one-quarter of the companies in the industry have gone away. Since 1980, imports have grown from less than one-quarter of the market to about one-half of the domestic market, and in some critical segments of the market, like computer-controlled machining centers and lathes, imports now supply nearly two-thirds of the U.S. market."

Gray then took a sideswipe at the credibility of the government's evaluation of the economic boom. "Listen to this. In real terms, the cyclical peak in the current economic recovery is only about one-third of the previous cyclical peaks. Or to put it another way, the recent cyclical peak was lower than the cyclical troughs during the recessions of the 1960s and 1970s."

At the beginning of the year, voluntary agreements went into effect with Japan and Taiwan. Under the accords, these countries are to restrict exports of machine-tools to the United States for the next five years. However, U.S. industry has not been retooling for continued economic activity, despite all the riffs and flourishes about economic growth. When the demand for machine-tools is low, the restriction on imports itself will not help the lack of demand. Some 30 years ago, machine-tools accounted for about 7% of durable equipment purchases in the United States. In 1985, machine-tool purchases in the United States were 1.2% of durable equipment purchases.

Ironically, one of the upswings in orders for U.S. machine-tools over the past six months, in May and June, came from the shutdown process in the auto industry. Machine-tool orders totaled $205.8 million in June. Because the big automakers are closing down so many plants, they are replacing the production at the closed plants with purchases from outside suppliers, who in turn placed orders for some new machine-tools.