

State of Distribution Great Lakes Region

February 3

2010

We polled a cross section of Industrial Supply Distributors and asked what they'd experienced in 2009 and what they anticipate for the 2010 business climate relating to their respective businesses. The following is our version of the distributors "State of the Economy".

I'm sure it will come as no surprise to anyone who reads a newspaper or catches the evening news that two of the major components of the US economy and perhaps the largest employer in our region are in turmoil. The auto and steel industry and virtually all of its sub-components suppliers are at best treading water.

US Steel Corporation reported a net loss of \$267M compared to a net profit of \$290M in the same period last year. ***Financial Times, January 26, 2010**

Unemployment in the "rust belt" states has hit highs last seen during the Great Depression and few industrial sectors are seeing growth. To give you a clearer economic picture of our region, I've provided the most recent reporting of the national unemployment statistics as reported in the January 22nd release of the ***Bureau of Labor Statistics for December 2009**.

Michigan 14.6%
Ohio 10.9%
Indiana 9.9%
Illinois 11.1%
Wisconsin 8.7%
Regional average 11.04%
National average 10.0

A recent report from the ***Institute for Supply Management**, confirms what we're being told, "levels of stock are being maintained at a minimum and speculation is non-existent". "We're not buying anything that we don't have orders for" seems to be the mantra commonly heard at the purchasing level.

When asked what the number one challenge distribution faces for 2010, access to capital. Available investment was a common concern shared by virtually all distributors that rely on lines of credit to fund their roller coaster cash flow needs.

There are however some bright spots on the horizon and they include sectors that supply either directly or indirectly, non-metallic commodities that include coal, natural gas, and

their related infrastructure. Additionally some US auto makers are currently calling back furloughed employees at a number of assembly plants in Ohio, Illinois and Michigan. Ford announced last week that they will invest \$400M and hire or call back 1200 employees for its Chicago based Explorer plant. And anyone that pays attention to the stock market has kept an eye on Peoria based Caterpillar Corp. Cat; the largest manufacturer of heavy equipment exports about two thirds of its products.

The company reiterated its 2010 sales outlook, saying "revenues would be up between 10 per cent and 25 per cent from last year, while profit would be about \$2.50 per share"
***Caterpillar Q4 report January 27th 2010.**

Anticipation of the ongoing release of funds from the ***American Recovery and Reinvestment Act** launching the much needed infrastructure rehabilitation has distributors cautiously optimistic for Q2 & Q4 of the \$275 billion available in grants, contracts and loans, only about 20% has been paid out.

(The ARRA total is \$787B of that only \$275B is available for grants, contracts and loans. The balance of \$512B is divided \$288B in tax benefits and \$224B in entitlements)

Funding by state

Ohio \$6.6 B

Illinois \$7.86 B

Michigan \$7.4 B

Indiana \$4.2 B

Wisconsin \$3.0 B

Total \$28.6 B

FYI California \$29.06B

***Recovery.gov**

To summarize the "State of Distribution" in the Great Lakes Region, Distributors appear to have made the necessary adjustment in inventory and staff levels to accommodate the reduced volumes and the "hunker down" mentality has kept them viable.

While manufacturing and production has been volatile, distribution has not. Other than some high visibility mergers and acquisitions on a national level, we've not seen the expected Distributor closures .

The weak dollar pumping up Imports continue to create opportunities for importers however concerns about import quality and the recent issues with Toyota accelerators and Chinese drywall have consumers at the distributor and user level, re-evaluating their "cheap" alternatives.

It's my opinion that the entrepreneurial sprit that fuels distribution appears to have enough in the tank to make it to the next economic recovery that appears to be, just around the corner.

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"I'm not a hunter or gatherer.
I'm in marketing"