Wisconsin manufacturers caught in a global slump

Mark Hoffman

Setup engineer Jeff Kreutzer operates a CNC (computer-controlled) wire bender to create a spring at Exacto Spring Corp. in Grafton.

By Rick Barrett of the Journal Sentinel
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Wisconsin manufacturers are caught in a slumping global economy that in many cases has resulted in job losses and lowered expectations.

Weak growth overseas has reduced exports of U.S. factory goods and cut into the profits of large companies and their suppliers.

Manufacturers that provide equipment used in mining and oil and gas fields have been hit hard by downturns in those industries.

Marquette University's Center for Supply Chain Management said an October survey of manufacturers in southeastern Wisconsin and northern Illinois indicated a decline in business conditions for the seventh straight month.

"There are expectations that manufacturing will be down in the Midwest in the coming six months," the report noted.

A Federal Reserve Bank of Chicago report indicated "below average" growth in the Midwest economy in September and showed that Wisconsin lagged behind Iowa, Illinois, Michigan and Indiana.

Milwaukee-area manufacturers have cut hundreds of jobs in recent months, including salaried positions, as they have faced weak business conditions.

"We have a two-tiered economy. The service sector is pretty strong, but the industrial sector is pretty weak. Growth has been hard to come by," said Bruce Bittles, chief investment analyst for Milwaukee-based Robert W. Baird & Co. Inc.

"There's been a reluctance on the part of U.S. corporations to invest in new plants and equipment. ... Instead, they've been using the money to buy back their own stock, which is not very productive in the long term," Bittles said.

"There's no encouragement to reinvest because taxes are too high, and companies are being regulated to death," he added.

Confidence in the economy has weakened this fall, according to the Metropolitan Milwaukee Association of Commerce's Business Outlook Survey.

"Those firms expecting real sales increases posted a noticeable drop in the fourth quarter, down nine percentage points from third-quarter levels. A steeper drop in optimism was registered in profit forecasts, while job expectations largely held ground," the report noted.

"Job gains in the metro area remain consistent but unspectacular," according to the report based on a survey of 80 Milwaukee-area firms, large and small, employing more than 22,300 people.

While Milwaukee is not as dependent on manufacturing as it once was, it is still a key driver of the economy, said Bret Mayborne, economic research director at the MMAC.

If the region's economy is going to experience accelerated growth, manufacturing has to be a contributor, Mayborne said.

In September, Caterpillar Inc., a heavy-equipment manufacturer that builds some of the world's largest mining machines in South Milwaukee, said it was cutting about 10,000 jobs worldwide in the next four years.

The blue-collar workforce at the South Milwaukee plant is down to about 250 employees, with another 550 or so on layoff, according to union officials.

"It's pretty bad right now," said Ross Winklbauer, a United Steelworkers union subdistrict director in West Allis.

It's not just the large companies that are cutting jobs, Winklbauer said.

The slowdown at Caterpillar and other large manufacturers has been felt at hundreds of suppliers to those companies, including many Milwaukee-area firms.

There are strengths in the area manufacturing economy, including the automotive and consumer product categories.

Kapco Inc., a metal fabrication firm in Grafton, says it expects about 10% sales growth in 2016 — based on a product portfolio that includes parts for motorcycles, all-terrain vehicles, trucks and construction scaffolding.

Business could be down in one category but not everything at the same time, said Hani Malek, vice president of corporate development for Kapco.

Kapco spends money on technology and expansions for the long term, according to Malek.

There could be challenging times, he said, but it does not change the long-term strategy.

Exacto Spring Corp., also in Grafton, says it has done well in the automotive, medical device and consumer product categories.

The company makes springs used in a plethora of products, including car engines and household appliances. It has made springs for a prosthetic hand that is strong enough to lift a chair, yet gentle enough to hold an egg.

The automotive business has softened a bit recently, but overall it has been a good year, said company president Greg Heitz.

"You have to look at the whole year, and not just certain months," Heitz said.

The strong U.S. dollar has hurt American manufacturers by making their products more expensive overseas.

"Europe, mostly, is the big winner in being an export-oriented economy now," said Aaron Jagdfeld, president and CEO of Generac Holdings Inc., a Waukesha manufacturer of generators and other products.

Some companies have felt the slowdown for months.

"The whole year has been much slower," said Mike Retzer, controller at Strohwig Industries in Richfield.

Strohwig had a slight uptick in business earlier this fall, "but that's because of our niche of making huge tools," Retzer said. "We're still dead in the water on machining, and that's all related to oil and gas and mining."

Retzer is executive director of the Milwaukee chapter of the National Tooling and Machining Association.

Of 13 chapter members at an October meeting, he said, two companies were very busy and the rest were "just kind of treading water."

Companies may not be "on the brink of extinction," but they have reduced hiring and put off spending on machinery and equipment, Retzer said.

"They are just kind of on hold," he added.

Many company executives had been "cautious and optimistic" about 2016. Now, more of them are just "cautious," said Tim Hanley, global leader of consumer and industrial products at Deloitte Touche Tohmatsu Ltd. in Milwaukee.

The automotive industry and its suppliers are still growing.

"But most other sectors are clearly fairly soft, and I think most CEOs view the growth prospects as being soft-to-moderate at best," Hanley said.

Joe Taschler of the Journal Sentinel staff contributed to this report