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Outlook for manufacturing headed in multiple directions

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Manufacturing is a bit of a mixed bag right now.

On one hand, there's the booming automotive business, where consumers are continuing to buy new cars at record levels. On the other, there's the struggling steel industry, which has taken a hit from a strong dollar and an influx of imports.

"2016 is going to be really two tracks for manufacturing," said Mekael Teshome, an economist with Pittsburgh-based PNC Financial Services Group.

There will be strong segments, like automotive and housing, as well as weak ones tied to the energy industry. Markets with global exposure, like steel, are struggling because of currency issues and cheap imports. Teshome expects auto sales to be even better in 2016 than in the already strong 2015, and for housing to see slow growth. Overall, he's expecting 2016 to look a lot like 2015 for manufacturing, and he's not anticipating a turnaround until 2017.

Chris Wimmer, vice president and senior credit officer for New York City-based Moody's Investors Service, has a slightly gloomier outlook on the sector.

Moody's took its rating outlook for industrial manufacturing, which excludes consumer products, from stable to negative in October. The slowdown in the energy sector, along with the strong dollar and pain in the agriculture and mining sectors, pointed to something negative and meaningful, Wimmer said. Additionally, the slowing economy in China has a strong secondary effect, as it means the country then invests less in oil and gas and commodities.

The low commodity prices, strong U.S. dollar and weakness in emerging markets made for a tough 2015 for North Canton-based Timken Co.

The full-year results for the maker of bearing, transmissions and other products included $2.9 billion in sales, about 7% lower than 2014, or about 2% lower if currency factors are discounted. And executive vice president and CFO Philip Fracassa said he is expecting 2016 to be "challenging," as well. The company is expecting revenue to be down 4% to 5% in 2016 due to currency factors and decreased sales in both its mobile industries and process industries segments. Timken serves a diverse set of industrial markets but many, aside from automotive and wind energy, are flat or struggling, Fracassa said.

Teshome said diverse companies will be able to best weather this soft patch, a point Wimmer also made. It will still show in their results, Wimmer said, but the smaller, more-focused companies will suffer more.

Trying something different

That need for diversification is something with which Fairlawn-based plastic compound and resin supplier A. Schulman Inc. is familiar. The company embarked on an M&A strategy to add more specialty businesses in 2010, said CEO and president Bernard Rzepka. Before that, it was a more commodities-based company.

And the oil and gas and commodities markets are struggling, Rzepka said, and the whole market is "diverse and challenging." But demand is strong in the automotive, household and electronics markets, which A. Shulman supplies. Net sales for the first quarter of 2016 were up about 5.6% to $649.2 million (though the company noted that discounting negative currency impacts and revenue from its Citadel acquisition, net sales would have declined about 2.4%.)

Injection molder Thogus in Avon Lake also works with customers in a wide variety of markets — from healthcare and hunting supplies to automotive and small appliances.

"When you're tied to one market, you're subject to the ebb and flow of that. But we're diversified," said CEO Matt Hlavin.

Instead of just operating as a contract manufacturer, Thogus provides services like consulting, engineering and prototyping through its family of companies. It looks to be an expert in different areas, like 3-D printing through rp+m and medical regulatory systems through Jalex Medical. Last year, Hlavin said the company did some reorganizing after significant sales growth from 2010 to 2014, and he's expecting to see growth in 2016. The company's pipeline is promising, he said, and Thogus may even have to expand or invest in new equipment and technology if some of those opportunities in the pipeline come to fruition.

And Thogus isn't the only company taking that approach.

A. Schulman continues to invest in research and development and in new products and new plants, Rzepka said. At Timken, the company is focused on "operational excellence," which in this business climate tends to mean cost reductions, Fracassa said. And it's trying to outgrow its current markets and expand market share. He said the company thinks it is well positioned for when markets do turn around.

Nothing wrong with flat

T.J. Monico, director of KeyBanc Capital Markets in Cleveland, said there's uncertainty in the industry, but the firm's clients are "opportunistic." It gives them a chance to "play offense," he said — launching new products and investing in research and development. Companies also are looking to supplement their organic growth, which may be lagging, with mergers and acquisitions, he said.

Overall, Monico said he is expecting the broader industrial base to be flat this year, because some markets are up while others are down. He's looking for companies to invest in their business and their people.

Matthew Nipper, KeyBank's commercial team lead for Northeast Ohio, said companies have the chance to broaden and diversify their manufacturing base when conditions slow down a little.

"Flat isn't necessarily a bad thing," Nipper said.

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