

Manufacturing Recovery – Is It On The Way?

Steve Cimorelli, CFPIM

October 1, 2009

The Wall Street Journal's cover story for September 2, 2009 reads "Global Economy Gains Steam", stating that "Manufacturing gains in the U.S., Europe and Asia added to evidence the global economy is improving at a faster pace than was widely anticipated a few months ago. Their nearby chart indicated the following statistics from the ISM Index of Manufacturing activity (above 50 indicates expansion):

	<u>Score</u>	<u>Change from Previous Month</u>
U.S.	52.9	4.0
China	54.0	0.7
Euro Zone	48.2	1.9
U.K.	49.7	-0.5

Note that while the Euro Zone is not yet experiencing manufacturing growth, its score is rising to just below the 50 mark. And in the U.K., note that a 0.5 point drop indicates that in the previous month they too experienced growth.

This theme of recovery is gaining momentum as consumer confidence rises, home sales grow (albeit at still-depressed prices), and stock markets rebound. Unused manufacturing capacity is at a decades-low 67% vs. 85% in 2005-2007 (WSJ Sep 21, 2009), indicating that as the recovery gains steam, ample capacity exists to meet demands.

The time is ripe for manufacturers to look closely at their slack capacity and to take steps now to ensure they are positioned to leverage that capacity in ways which maximize their speed and agility. Whether or not demand will grow is no longer the question. Rather, the question is "how will it grow?" Demand patterns, product mix and growth trends will almost certainly be different from those of the past. As a result, reliance upon traditional forecasting and demand planning processes may not serve Production and Inventory Control planners well. Becoming leaner and more agile is, I believe, a key to emerging as a winner in the months and years ahead.

I recently wrote an article for APICS Magazine detailing this argument, and presenting a more detailed plan of action. The article includes a case study of a manufacturer who pursued this path several years ago, and reaped major improvements as a result. For a rough draft discussion of the general themes, please see the white paper titled "Manufacturing Lot Sizing" on the "Publications" page of our website (www.SCCInventory.com). Stay tuned for news about the release of the APICS Magazine article.

SCC Inventory Consulting is prepared to assist with your efforts toward becoming leaner and more agile. Whether your need is in the area of education, inventory and demand planning analysis tools, or on-site consulting, we can help. Check out our website or contact us directly at (321) 269-3407, or email at Steve.Cimorelli@SCCInventory.com.