Equipment Appraisers Association of North America

Incorporated May 18, 1990

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EAANA Newsletter

Volume 10 Issue 1
March 2010

"I Believe Andy"

"In the span of six months, the U.S. economy experienced one of the most dramatic swing in history. There was a 8.6% swing in Gross Domestic Product (GDP). It was registered –6.4% in the first quarter of 2009 and rose to 2.2% in the third quarter. Corporate earnings experienced a similar, sizable rebound. The stock market soared as conditions improved." [1]

Sounds great doesn't it? Things are looking up. Well, of course things are looking up. It all depends from where your looking.

One of the several entertaining and informative speakers that we were fortunate to hear during our most recent annual meeting was Andy Fanter. [2] I find Andy to be refreshing. He is one of several economists that we pay particular attention to. Is Andy any smarter than all the rest? I don't know about that, but what I do know is that Andy deals primarily with the equipment that serves the most basic of our countries' industries. It's that old yellow iron that serves the mining, farming and construction that keeps peaking our interest. As an old coal miner there is only so much I know, but, if it's not farmed or mined it just does not exist. Accordingly, I won't talk about such things as the steepening yield curve or the difference between 2 year Bonds and 30 year bond being the widest ever, that's way beyond me. Nor will I talk about the corporate sector picking up speed in 2010, making the economy less dependent upon the stimulus. As I said I'm an old coal miner, not a Keynesian Economist.

I just know what Andy said in 2006, 2007, 2008, 2009 and now in 2010. In each of those years, he was, in my view, very accurate. This year he pointed out the following:

- National retail sales of all products remains to be 8 to 9% below the adjusted median set from 1982 through 2009. This is a drop of incredible magnitude when you consider the lowest drop in that period was 3% below that line in 1992. So, if the recovery, assuming that is what is going on now, occurs in dramatic fashion, rises as fast as it fell, it will still be late 2012 before we see a normalization.
- Total housing permits issued in the country fell steadily from a high of more than 2 million in 2004/2005 to less than 600,000 in 2009/2010, with the average over the aforementioned period being more than 1.5 million. Commercial building permits and highway related projects have dropped off similarly. Recovery periods for each of those sectors will likely lag the recovery in retail sales.
- Manufacturing output of construction and mining machinery of all types and sizes dropped from a high of nearly 200,000 annual units to approximately 40,000 units in 2009 with an average output over the last decade at about 150,000.

What does all this mean to the membership of the EAANA? Can anything but gloom be gleaned from these statistics?

We have been hearing over the past year that the corporate, banking and government sectors are recovering. While I'm sure, some of that activity will trickle down to us in the form of valuation requests for re-financing of current equipment related debt, highway and public projects and such. It seems to me that much of the activity we are seeing is related to business hardships rather than new business. It seems to me the most crucial part of the puzzle and one that affects us the most, is the economic health of small businesses. In my opinion, until the business that occupy more than 20% of the GDP and more that 33% of the countries employment begin to once again prosper, any recovery on the broad front will be slow and for the most part false. I say false since government at all levels represents nearly 50% in each of those critical categories of production and employment. The last time I checked government was not in any way a true contributor to GDP. Quite the contrary, minus positive cash flow to the US Treasury from the taxpayer, all that government activity, primarily found in wages, benefits and entitlements, serves only to further devalue the currency. But, I won't go there either, I'm not qualified, remember. I won't talk about a false recovery or dead cat bounces. Small business owners seem to agree, according to recent surveys by the National Federation of Independent Business; "This continued spending when compared to revenue is a ticking time bomb that must be at some point reconciled." I don't find much of an appetite for increased contribution on the part of regular folks, like the ones found within our membership.

I do believe however that our group will find opportunity in the current and prospective economic environment to serve our respective client bases. As this half-speed recovery continues, and it will in spite of all of those previously mentioned dire circumstances and statistics, we should find stabilizing used equipment pricing if not some outright increases as equipment manufacturers will likely be reluctant to add or restore capacity. With marginal cash flow, equipment and plant operators are more likely to finance their equipment purchases. It may be a while before lenders again lend at a healthy pace, but when they do, they surely will require added due diligence. Services of the type that our group can provide should be a valuable resource. Merger and acquisition are also consequences of a recovering economy. Again, our group is well suited to assist and provide valuation and documentation services worthy of the regulatory scrutiny that is sure to come.

This year every sector of the half-speed recovery will present opportunities to companies to redeploy assets in various forms providing opportunity to offer expertise such as that which is plentiful throughout the membership of the EAANA.

~ Mark Craig~

1 Strategies & Insights, A Quarterly Publication from the RBC Wealth Management 2 Andy Fanter is an industry analyst with Cyclast-Intercast, a sales forecasting firm that works with more than 65 equipment distributors and manufacturers throughout the U.S.