

Heat Treating Outlook

Forecast for the **METAL TREATING INSTITUTE**
A DeWolf Associates Service

2nd Quarter 2008

Billings rose 1.1% in 2nd quarter compared to 1st quarter

The MTI index of billings for the second quarter 2008 totaled 405.5 (index number based on 2001 = 1200) compared to the first quarter total 393.1. When adjusted for seasonal variations* this is a gain of 1.1%. The quarter was 5.3% above the year-ago second quarter and the 12-month total was 3.5% above the previous 12 months.

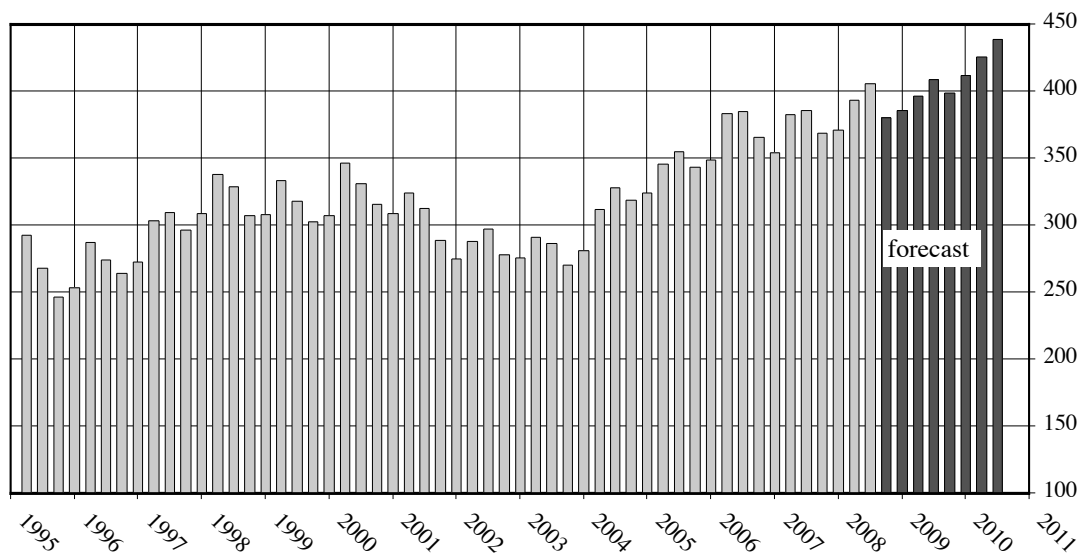
*We base seasonality calculations of the annual share per quarter over a span of years, currently 2004-2007. For MTI, calculations lead us to expect 25.1% of billings in the 1st quarter, then 25.6%, 24.6%, and 24.7%.

Forecast

The U.S. economy continues to gradually slow toward a second cyclical low in the first quarter of 2009 following the first low at the end of 2007. Whether or not it is ultimately called a recession, this has been a hard time for consumers who have been hit with housing and loan issues, high gas prices, and sharply increasing food costs. For industry this period has been a mixed bag, with manufacturing related to car and housing sales down but infrastructure and exports remaining strong. The metal treating industry is on the plus side and continues to have solid growth, although not up to the impressive rate of 2005-2006.

MTI billings are on track to end this year 3.8% better than 2007. The growth rate will dip slightly during 2009, but by the end of the year there will be 3% gains. The growth rate should continue to improve into 2010.

MTI Quarterly Totals - Index of Billings (ave mo in 2001 = 100)



The Forecast in Numbers

	Quarterly Billings			% Qtr Growth over Year-ago Qtr		
	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
I	393.1 (A)	396	426	+2.9 (A)	+0.8	+7.4
II	405.5 (A)	409	438	+5.3 (A)	+0.8	+7.3
III	380	398		+3.0	+4.8	
IV	386	412		+4.1	+6.8	
Total	1565	1615				

(To convert quarterly billings to seasonally adjusted annual averages, divide by the share of business in that quarter: I = .251, II = .256, III = .246, IV = .247).

Forecasting Your Own Billings

If you follow the industry pattern, you can forecast your own billings by multiplying your *total 2007* billings by these Quarterly Forecasting Factors (QFFs). However, you should first check to see if you do follow the industry. Make a "backwards" forecast - multiply your 2007 total billings by the QFFs for 2005 through 2008 quarters to see if the results are close to your actual billings.

Quarterly Forecasting Factors

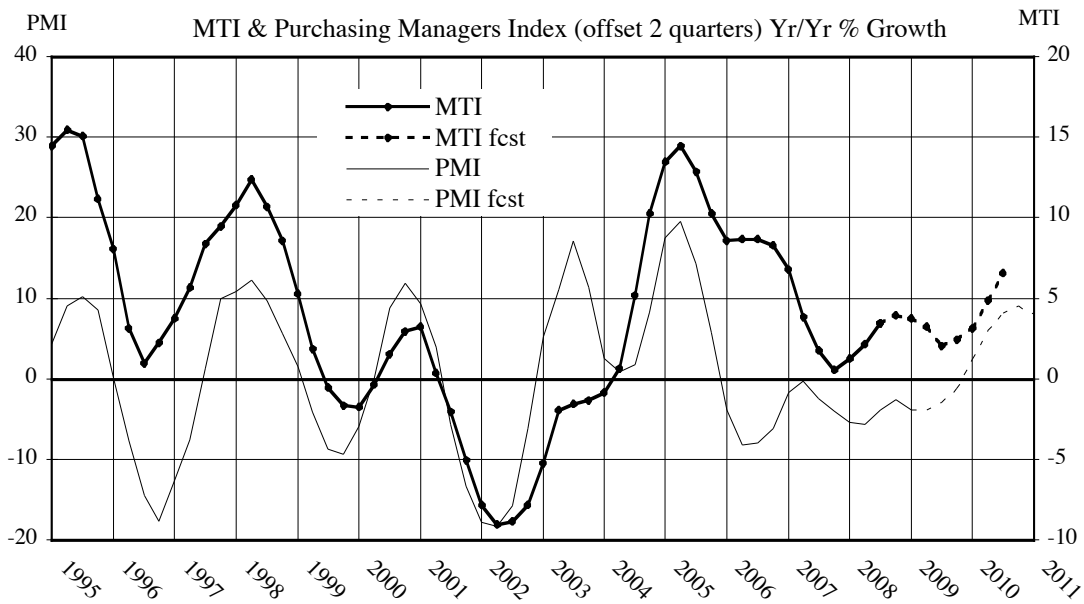
<u>Qtr.</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>
I		.263	.282	.229	.254	.254	.261
II		.271	.291	.236	.255	.256	.269
III	.252	.264		.228	.242	.245	
IV	.256	.273		.231	.235	.246	

Some Other Forecasts . . .

Gross Domestic Product - The advance number for the second quarter GDP was at a 1.9% annual rate, an improvement over the 0.9% in the first quarter. In the annual revision numbers were revised, generally downward, from 2005-2008 but the forecast remains essentially unchanged with 1.7% growth this year followed by 2.4% gains in 2009.

Industrial Production – While many industries remain strong, total industrial production slowed in the second quarter as energy and material costs rose sharply. The growth rate will slip to only 0.2% at the end of this year before improving to 2.1% at the end of 2009.

Light Vehicle Sales – There is not much encouraging to say about domestic light vehicle sales (U.S. sales of vehicles assembled in the U.S., Canada, and Mexico). Light truck sales have been hurt badly by high gas prices. Automobiles have taken up some of the slack but sales are still below last year. It now appears that vehicle sales will be down 14% this year before a slight 2% recovery in 2009.



USING THE CYCLICAL FORECAST METHOD

A yr/yr curve (also called a “12/12” curve) is a plot of the billings for the years ending in Jan, Feb, etc, divided by the total 12 months of billings ending with the same month one year earlier and converted to percent growth. The yr/yr curve for MTI billings was at +3.5 in June 2008, indicating shipments were 3.5% better than the 12 months ending with June 2007. The curve will slow slightly over the next few quarters, but it no longer appears that it will slip into negative territory. Growth will remain positive over the next two years, increasing in 2010.

The graph of the MTI yr/yr curve is shown plotted with the yr/yr curve for the Purchasing Managers Index (PMI) offset two quarters. The PMI is an excellent short-term leading indicator for overall industrial production as well as MTI. MTI billings have been doing better than both industrial production and the PMI, so the growth curve is higher although the paths remain similar.

Forecasted yr/yr percent growth for MTI over the next two years is . . .

<u>Qtr</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
I	+2.2 (A)	+3.3	+4.9
II	+3.5 (A)	+2.1	+6.6
III	+4.0	+2.5	
IV	+3.8	+3.2	

DeWolf Associates, who makes these forecasts for MTI, will be glad to forecast billings (or orders) for individual MTI-member companies, using the same forecasting technique employed in making the forecasts in this report. The company needs to supply monthly billings for at least the last four years. These data and resulting forecasts will be kept absolutely confidential. To purchase company forecasts or to request simple instructions (no charge) for constructing a yr/yr curve of billings to make your own forecast, contact Deborah DeWolf Allen at: 928/443-5422, email debbieallen@cableone.net.