

Global Industrial Outlook: Oil Slick Cascading Through Sector

Brian Langenberg

Third-quarter earnings are confirming the worst-case scenario, i.e.—not only are energy-related end markets in a downturn, but conditions *continue to worsen*.

Maintenance, repair and overhaul (MRO) is holding up relatively well (which actually means down less), but upstream activity is getting killed. Two companies with “big project” oil and gas exposure are citing bad pricing with Emerson stated, “worse we’ve seen in years,” and Flowserve confirming, “down 5-10%,” on large projects. Here are energy-specific results for selected companies, quarter-to-date:

Canada will offer no respite. Not only will low oil prices (and the associated strong dollar) continue to weigh on energy and exports, but I also think you can kiss the Keystone Pipeline goodbye—even after 2017. New Canadian Prime Minister Justin Trudeau has voiced some support for Keystone XL, likely meant to garner electoral support out of Alberta; but his heart is with the “climate change” crowd and repairing Canadian relations with Obama. His life story and track record do not scream “drill baby drill.”

Partial off-sets are on the horizon beyond 2016 from non-residential construction, improving home prices and municipal budgets. Caterpillar voiced optimism about a highway bill before year end which, now that we have a speaker, is possible. However, it is more of an extension of current activity and hardly a “rebuild the country” move.

Machinery outlook for '16 is negative. Aside from truck (replacement mostly), expect continued negative comparisons from oil and gas, mining, agriculture, and power generation.



Highway Bill: Not a hockey stick — but a stick

The recently passed \$300 billion, 6-year measure is the longest-term highway bill in a decade. While not enough to drive significant growth, it is at least a markedly better Band-Aid than the shorter-term funding of recent years and, as a bonus for exporters, renews the Export-Import Bank for another few years (a boon to Boeing and other large manufacturers, but also smaller ones).

Oil Slick! The Procession of Pain Continues

		Jun13	Sep 13	Dec13	Mar14	Jun 14	Sep 14	Dec14	Mar 15	Jun 15	Sep 15
OIL & GAS											
Grainger	Canada - core r	+2	+4	+3	(2)	(3)	+6	+4	(4)	(6)	(12)
Wesco Intl	Industrial - core	(2.7)	+0.2	(3.2)	+2.1	+5.0	+7.0	+5.8	(4.1)	(10.2)	(14.2)
Ametek	EIG, O&G core	#1 up	#1 up	strong	up	+4-6	+3-5	+slightly	down	(10-13)	(12-15)
Dover Corp.	Drilling & Prod i				+4	+5	+9	+19	(15)	(30)	(31)
Emerson	Process orders	+8	+5	+3	+12	+9	+9-12	+7	(2)	(12)	(13)
Emerson	Process rev	+3	+6	+5	+1	+2	+5	+6	+2	(4)	(10)
Flowserve	O&G Orders	+8	(7)	+26	+3	+25	+18	up	(24)	(32)	(30)
Honeywell	HPS Core rev	+4	+7	+1	+3	flat	+5	+6	(3)	(4)	(5)
Honeywell	UOP Core rev	+11	flat	+17	+9	+6	+7	(1)	+9	(8)	(15)
General Electric	O&G Core rev	+8	+8	+8	+19	+13	+10	+0	+0	(4)	(7)
MINING											
Caterpillar	Resources - col	(34)	(43)	(49)	(33)	(25)	(17)	(9)	(9)	(11)	(17)
Caterpillar	Constr - LatAm	(4)	+12	+21	(2)	+1	(15)	(24)	(23)	(47)	(43)
Grainger	US Nat Res.	+4-6	+4-6	+4-6	+7-9	+4-5	+10-12	+10-12	(4-6)	(11-13)	(17-19)

Focus Company: General Electric (GE)

Suppliers to GE's Power Generation business take note. The Alstom deal is closed now and it is game on for them to find cost outs and supplier consolidation with the assets and business of Alstom. A major initiative of theirs will be building an effective service business in Europe to support the installed gas and coal assets of Alstom. This may be opportunity for you — or it may be a threat. Studying your exposure by product line is critical now to assessing your risk. CEO Jeff Immelt wants to go out with a win and this will be his trophy deal — or his albatross.

Further your career: On July 1, 2015 I took over as Chair (and Lecturer) of Graduate Business Programs at Aurora University. The Dunham Graduate School of Business MBA with a Leadership concentration is ideally suited for technical or engineering professionals seeking to gain the business skills, tools, and mentorship to further their careers. AU also offers adult degree completion programs.

Corporate Services: Langenberg & Company provides a range of consulting services — strategy, financial benchmarking, M&A pipeline development — for private or public companies and executives. Contact Brian@Langenberg-llc.com to discuss.

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has earned recognition as a member of the Institutional Investor All-America Research Team, a Wall Street Journal All-Star, and Starmine Best on the Street. As Principal of Langenberg & Company, he advises CEOs and senior executives on strategy and capital markets, and makes numerous public speaking appearances. In July 2015 he was named Chair (and Lecturer) of Graduate Business Programs at Aurora University.

