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Prices fall, sellers await sales rally sometime in 2002

By Elena Epatko Murphy -- Purchasing, 10/4/2001

Weak demand is dragging down prices for cutting tools of late despite stiff supply-side pressure. Currently, key markets remain soft though order placement is brisk in a few industries. Despite the unpredictability of demand, supply is plentiful and buyers can expect cutting tools will be readily available through the coming year due to ample production capacity.

"Demand in the U.S. definitely has been softer this year," says Derwin Gilbreath, chief operating officer, Metalworking Solutions and Services Group, Kennametal, Latrobe, Pa. He notes that orders have dropped in a number of industries, including automotive, heavy trucks and general engineering. "We started seeing this softness around January and it has continued to date."

Automotive demand, in particular, has plunged. Bradley Teets, vice president of business development, at Iscar Metals, Arlington, Texas, says the high availability of capacity is "most evident in the automotive industry, which accounts for roughly 25% of all cutting tool consumption." Year-to-date production, he says, has fallen 13% in the industry, while overall orders for cutting tools have dipped 3%.

A number of sources say orders sank to their lowest point midway through the year, but now have stabilized. "The weakest overall demand was during second quarter 2001," says Lou Bloch, vice president of marketing, Viking Tool & Drill, St. Paul, Minn.

Despite the overall downturn, there are markets that continue to be active. "The aerospace and oil and gas industries are showing positive developments, offsetting what we're experiencing in the automotive niche," says Alan Godfrey, vice president—marketing, Sandvik Coromant USA, Fairlawn, N.J.

Though there are some bright spots, most industry sources believe demand for cutting tools will not recover until early next year. Bob McKee, president, Milacron, Cincinnati, Ohio, expects business to grow "late this year or in the first quarter of next year." Kennametal's Gilbreath identifies lower interest rates and the tax rebate as factors that will raise consumer spending and increase demand for products made with cutting tools.

Pricing is mixed

As demand has sagged this year, prices have flattened then fallen. The few increases issued earlier by cutting tools suppliers were attributed to high raw materials tags. Though producers are predicting a turnaround in a few months, sources report there have been deep cuts in pricing for certain products in order to diminish inventories.

"Pricing has been stable with the slowdown in the economy," says McKee. Adds Bloch, "There is resistance to any upward price pressure."

But cutting tools producers say they are still feeling the effects of spikes in raw materials prices. For instance, demand in the electronics industry for tantalum caused tags to jump over 400% last year, and though tantalum prices are now lower, they are still high compared to recent years, according to one source. Also, China, which supplies more than 80% of ammonium paratungstate (APT), has restricted exports, says Gilbreath. This has resulted in a price increase "of more than 75% compared to last year," he says.

To offset these increases in raw materials costs in a slower marketplace, Gilbreath says Kennametal has focused on "productivity improvements, cost reductions, and nominal price increases." Industry wide, cutting tools producers are reducing plant staffs to contain costs in the lackluster market.

And to offset implementation of a few successful price increases, there have been significant cuts on certain product lines, according to industry sources. One supplier notes, "Pricing is moving a bit lower as some players try to increase market share with special deals." In addition, he says a number of producers are "looking to dump inventory at lower than normal prices or very extended terms."

Supply plentiful

Supply will be plentiful in the coming year. Leadtimes will stay short as producers compete for market share. Any new capacity investments will be in production equipment at existing facilities.

Milacron's McKee says, "Supply of cutting tools is at a very good level because of the downturn." Teets at Iscar Metals says there is "excess capacity in the cutting tools industry."

Existing leadtimes for standard product are off-the-shelf, says Gilbreath, while leadtimes for custom products vary. No changes are expected in the next 12 months, as the industry is running well below full capacity, confirm a number of sources.