Heat Treating Outlook

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

2nd Quarter 2011

Billings grew 8.8% in 2nd quarter 2011 compared to 1st quarter

The MTI index of billings for the second quarter of 2011 totaled 339.0 (index number based on 2007 = 1200) compared to the first quarter total of 316.5. When adjusted for seasonal variations* this is a gain of 8.8%. The quarter was 22.6% above the year-ago second quarter and the 12-month total was 29.6% above the previous 12 months.

*We base seasonality variations on the annual share per quarter over a span of years, currently 2005-2010. For MTI, calculations lead us to expect 25.4% of billings in the 1st quarter, then 25.0%, 24.8%, and 24.8%.

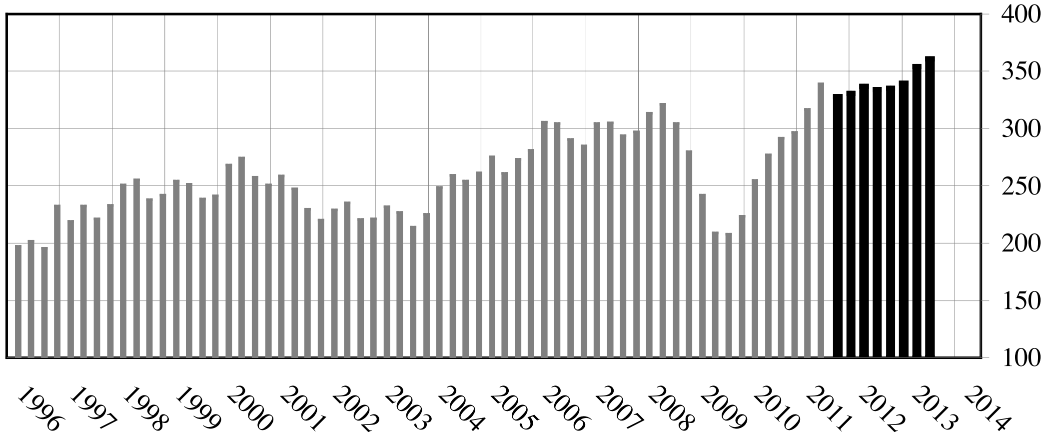
Forecast

The rate of growth for the U.S. economy has started to slow after the rapid gains following the recession. This is a normal pattern: a sharp rise from the downturn, a mild slowing, then an extended period of gentle ups and downs until the economy overheats enough to set up another recession. This whole cycle takes about ten years.

Unfortunately the initial recovery from the "great recession" was not strong enough to get the economy back on a solid footing. The collapse of the housing market will continue to be a drag on the economy for the next few years and prevent a rapid return to "normal" levels. The next two years will be marked by steady but unimpressive growth slowing to a very mild cyclical low in late 2012. This will be followed by stronger gains by mid-decade as housing recovers.

Quarterly billings for MTI have made full recovery from the recession and are now exceeding pre-recession highs. This is the exception in the current economy and outpaces overall industrial production. MTI billings will now stabilize over the next two years before increasing again in 2013. Growth is forecast to be 17.4% this year followed by slower 2.4% gains in 2012. The growth rate will increase again in 2013.

MTI Quarterly Totals - Index of Billings (ave mo in 2007=100)



The Forecast in Numbers

	Quarterly Billings			% Qtr Growth over Year-ago Qtr		
	2011	2012	2013	2011	2012	2013
I	316.5 (A)	337	354	+24.4 (A)	+6.4	+5.2
II	339.0 (A)	334	361	+22.6 (A)	-1.5	+8.1
III	328	335		+12.5	+2.1	
IV	331	340		+11.5	+2.7	
Total	1315	1346				

(To convert quarterly billings to seasonally adjusted annual averages, divide by the share of business in that quarter: I = .254, II = .250, III = .248, IV = .248).

Forecasting Your Own Billings

If you follow the industry pattern, you can forecast your own billings by multiplying your *total 2010* 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 *2010* total billings by the QFFs for 2008 through 2011 quarters to see if the results are close to your actual billings.

Quarterly Forecasting Factors

Qrtr	2011	2012	2013	2008	2009	2010	2011
I		.301	.317	.280	.216	.227	.283
II		.298	.322	.286	.187	.247	.303
III	.293	.299		.271	.186	.260	
IV	.296	.304		.250	.200	.265	

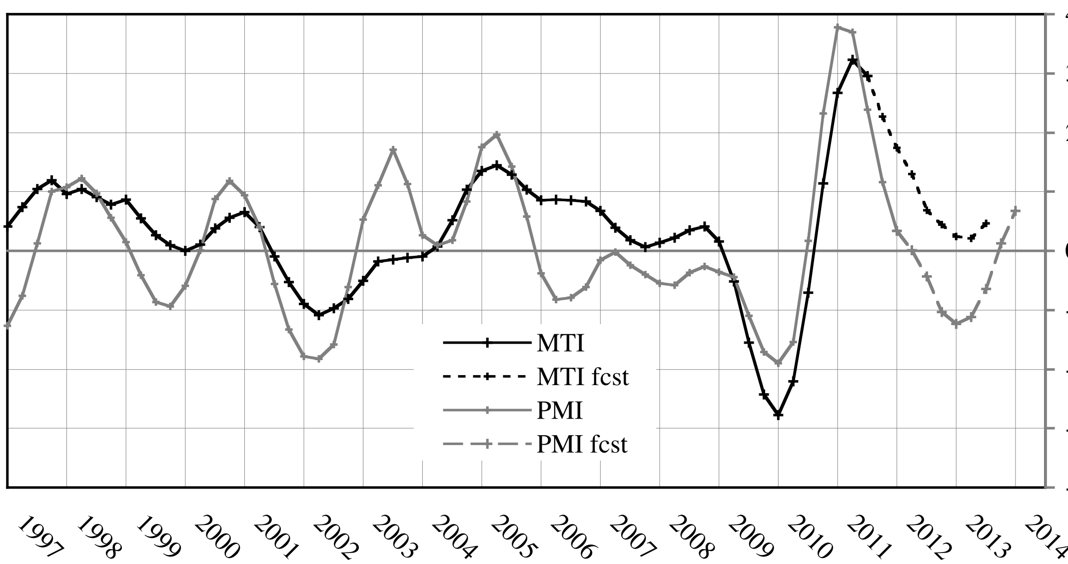
Some Other Forecasts . . .

Gross Domestic Product – Based on the “third estimate,” the first quarter GDP for 2011 increased at a +1.9% annualized rate with yr/yr growth up 2.8%. The forecast calls for unexciting growth of 2.4% in 2011 and 2.5% in 2012.

Industrial Production – The industrial production index continues to increase, but at a slower rate. Second quarter yr/yr growth was 5.6% which will now slow to 3.6% by the end of this year and 2.4% at the end of 2012. The growth rate will begin to improve steadily through 2013.

Light Vehicle Sales – Light vehicle sales (U.S. sales of vehicles assembled in the U.S., Canada, and Mexico) lost some steam in the second quarter, although the quarter was still 7.0% above the year-ago second quarter. The forecast has been lowered slightly and vehicle sales are now forecast to be up 9% this year followed by a 4% increase in 2012. Annual unit totals are expected to be 9,640 thousand in 2011 and 10,050 thousand in 2012. This is still well below the 13,500 level of 2002-2005 but a major improvement over the 7,680 total in 2009.

MTI & Purchasing Managers Index (offset 2 qtrs) Yr/Yr growth



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 +29.6 in June 2011, indicating billings were 29.6% better than the 12 months ending with June 2010. The high for the growth curve was reached this March, up 32.3%. The curve will now slow through the beginning of 2013. While the growth rate will be dropping, it will remain positive. This year is expected to end 17.4% better than 2010 followed by additional 2.4% growth in 2012. The pace of growth will start to increase again in 2013.

The graph of the MTI yr/yr curve is shown plotted with the yr/yr curve for the Purchasing Managers Index. The PMI is an excellent short-term leading indicator for overall industrial production as well as MTI.

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

Qrtr	2011	2012	2013
I	+32.3 (A)	+13.0	+2.1
II	+29.6 (A)	+6.9	+4.6
III	+22.7	+4.4	
IV	+17.4	+2.4	

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.