Manufacturers to slash spending in downturn

Thu Jan 29, 2009 3:22pm EST

By Scott Malone and Helen Chernikoff

BOSTON/NEW YORK (Reuters) - Top U.S. manufacturers, having shed tens of thousands of jobs in the face of a severe global recession, are now cutting back capital spending in a struggle to preserve cash as economic conditions worsen.

That was the word on Thursday from major diversified manufacturers including 3M Co (MMM.N: Quote, Profile, Research, Stock Buzz) and Textron Inc (TXT.N: Quote, Profile, Research, Stock Buzz).

"We believe 2009 is setting up to be the most challenging year ever for most manufacturing companies," said Textron Chief Executive Lewis Campbell on a conference call.

The world's biggest maker of corporate jets, which reported a loss after heavy charges to scale back its finance operations, plans to trim its 2009 capital spending by 42 percent to $250 million.

Blue-chip 3M said it would cut its capital spending budget by 30 percent and halt share buybacks, as it looks to preserve cash.

"You have to do that in today's environment because there is so little visibility," said Wayne Titche, co-manager of the AHA Diversified Equity Fund at AMBS Investment Counsel in Grand Rapids, Michigan, which holds 3M shares.

Still, by cutting their capital spending, industrial companies are worsening the very contraction the sector faces.

"Just like we were in a cycle on the upside, now we are in a cycle in the downside," Titche said.

3M CEO George Buckley said in a conference call that he expected the first quarter to be the worst the company would face, with conditions improving afterward.

Industrial shares slid in early trading on Thursday, with the Standard & Poor's capital-goods industry index .GSPIC down 2.7 percent, amid a broad sell-off in U.S. stocks.

Textron shares tumbled 28.3 percent to $9.54 -- briefly reaching their lowest point in more than a decade -- while 3M rose 3.2 percent to $57.19 after its CEO's comments on the first quarter representing a possible bottom. Both trade on the New York Stock Exchange.

BLEAK FORECASTS

3M lowered its full-year profit forecast, while Textron set a target that was sharply lower than Wall Street had expected.

Manufacturers across the sector are bracing for a brutal year. Some 33 percent look for revenue to decline this year, with just 25 percent expecting growth, according to the PricewaterhouseCoopers Manufacturing Barometer survey released on Thursday. It is the first time in the survey's more than five-year history that more executives expected contraction than anticipated growth.

St. Paul, Minnesota-based 3M, which makes everything from chemicals used in aircraft maintenance to Post-it notes, now sees a 2009 profit of $4.30 to $4.70 per share -- a drop of up to 17 percent from 2008.

It had previously forecast a 2009 profit of $4.50 to $4.95 per share. 3M's fourth-quarter profit, while down, was better than Wall Street had expected.

Textron reported a fourth-quarter profit that, factoring out the charges related to its finance arm, also topped analysts' expectations. But the Providence, Rhode Island-based company said it looks for 2009 earnings of $1.00 to $1.50 per share, well below the $2.35 consensus.

JETS HIT IN DOWNTURN

Textron expects to be hurt by declining demand for corporate jets -- which have become a symbol of executive excess after the heads of Detroit's automakers were chastised for flying in private jets to ask the U.S. Congress for money. Citigroup Inc (C.N: Quote, Profile, Research, Stock Buzz) this week canceled a jet order after facing criticism from Washington.

"The major variance versus our 2009 model is Cessna, which is expected to post a 17 percent revenue decline," said Citi analyst Jeffrey Sprague, in a note to clients.

Textron said Cessna had 23 jet orders canceled in the quarter and disclosed 2,000 new layoffs on Thursday.

Elsewhere in the sector, Illinois Tool Works (ITW.N: Quote, Profile, Research, Stock Buzz) and Timken Co (TKR.N: Quote, Profile, Research, Stock Buzz) set 2009 profit targets somewhat lower than Wall Street had looked for, and specialty metal and industrial toolmaker Kennametal Inc (KMT.N: Quote, Profile, Research, Stock Buzz) slashed its earnings outlook by about half.

Truckmaker Oshkosh Corp (OSK.N: Quote, Profile, Research, Stock Buzz) went a step further and withdrew its 2009 profit forecast, saying demand for its products and commodity prices had become too volatile for it to accurately predict its performance.

Oshkosh shares fell 30.7 percent to $7.50, Timken was down 9.8 percent to $15.85, Kennametal dropped 5.9 percent to $17.59 and ITW eased 2.1 percent to $34.16. All those stocks also trade on the NYSE.

(Reporting by Scott Malone in Boston and Helen Chernikoff in New York, additional reporting by James B. Kelleher in Chicago and Nick Zieminski in New York; editing by Patrick Fitzgibbons, Dave Zimmerman and Tim Dobbyn)

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AMBS Investment Counsel, LLC is a sub adviser for the AHA Diversified Equity Fund. Weights as of 12/31/08 were: 3M Co. (1.11%); Textron Inc. (0%); Citigroup Inc. (0.17%); Illinois Tool Works. (0%); . Timken Co. (0%); Kennametal Inc (0%) and Oshkosh Corp (0%)..

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