

Buena Vista Investment Management, LLC

Creative Investment Solutions

US COMPANIES MORE OPTIMISTIC ABOUT ECONOMIC RECOVERY

By Joel Sullivan, Partner

United States companies are replacing aging equipment and even moving overseas production back from low-cost foreign markets. This is happening at the same time China's growth is slowing and Europe is in a slump. This type of activity leads one to think America may be in a position to take a bigger role in the world's economic recovery.

Carlisle Companies, a small conglomerate that makes insulation, tires and restaurant supplies, plans to open two new plants in the U.S. and bring tire production back to the U.S. from China. Rising wages overseas, higher transportation costs and the shipping time of goods from China is what prompted Carlisle to move production to Tennessee from China. Additionally, strong domestic growth led to Carlisle opening new factories in Seattle and Kingston, NY.

After keeping investment in equipment and over-all costs way down for the past several years, many companies are expanding capacity to meet rising demand. United Rentals Inc., the world's largest equipment rental company plans to raise its capital spending by about a third, to \$1 billion, this year as more construction and industrial companies are likely to increase their demand for equipment like elevated forklifts and backhoe loaders. Cummins Inc., which makes engines for trucks and heavy equipment, is boosting its capital spending to more than double the rate of two years ago.

Companies have a lot of cash on their balance sheets currently, which is due in part to the fact that they have delayed purchases over the last couple years. Economists expect capital expenditures, or capex, to grow in excess of 10% this year. This is significant because capex and hiring go hand in hand. Additionally, if company CEO's weren't seeing increasing demand in the marketplace, they wouldn't be so willing to commit dollars to capex.

Fortune Brands Home & Security Inc., whose products include Master locks and Moen faucets, recently increased spending plans for 2012 to \$80 million, up about 17% from 2011. Chris Klein, the CEO, said, "The economy isn't off to the races yet, but it is definitely firming up."

Although the recovery may be weaker than many would like, it appears we are starting to see signs of steady progress in capital spending and job growth.

Remember to tune in Friday, February 24th on WFHR at 10:30am when we will be presenting our monthly radio show "Investment Insights from Buena Vista." Also please go to our website to stay up on our latest thoughts, buenavistainv.com

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