



ASSOCIATION OF  
EQUIPMENT MANUFACTURERS

AGRICULTURE  
CONSTRUCTION  
FORESTRY  
MINING  
UTILITY

**House Committee on Transportation and Infrastructure Testimony**  
**James McCullough, CEO & President of CNH Construction**  
**and First Vice Chair of the Association of Equipment Manufacturers (AEM)**  
**September 29, 2010**

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## **Introduction**

Good morning. My name is Jim McCullough. I am CEO and President of CNH Construction headquartered in Racine, Wisconsin. As Vice Chair of the Association of Equipment Manufacturers (AEM), I am here today representing the construction equipment manufacturing sector.

AEM is the North American-based international trade group providing business development resources for manufacturers of equipment, products and services used worldwide in the construction, agriculture, forestry, mining and utility fields. The association owns or co-owns and produces several tradeshow which are the industry leaders for their market segments, providing a cost-effective way for buyers and sellers to connect and conduct business.

Earlier today, I participated in the launch of “I Make America”, AEM’s new public affairs campaign – a national grassroots effort to broaden awareness about how vital equipment manufacturing is to the U.S. economy and our global competitiveness, and show widespread support for policies that create and protect U.S. manufacturing jobs. Our members don’t just make equipment, they make prosperity. Each individual who works in our industry plays a part in making America a better place – safer, cleaner, more prosperous, more efficient, more competitive – and they each have a story to tell about how they help “make America”.

Mr. Chairman, I am pleased to be here today to give you a glimpse of the current economic status of the construction equipment sector and to provide some observations on the impact of stimulus funding on the construction equipment sector. Most importantly, I am here today to urge this Committee to continue the push for a long term surface transportation funding authorization bill. We applaud your leadership in developing a reauthorization proposal and ensuring that transportation funding was included in the American Recovery and Reinvestment Act (ARRA). However, for the construction equipment sector, short term extensions and short term funding solutions may keep some engines running, but a long term transportation funding bill is critical to jumpstart the construction industry and generate widespread economic activity.

## **Background**

The heavy construction equipment industry is a major contributor to the U.S. economy and substantially impacts the economy of every state and congressional district. In 2008, equipment manufacturers, distributors, and independent maintenance providers had a \$364.9 billion impact on the U.S. economy, supported more than 2 million American jobs, and paid \$111.3 billion in wages, salaries, and benefits. According to the Federal Highway Administration, every \$1 billion invested in highway construction would support approximately 27,800 jobs, including approximately 9,500 in the construction sector, approximately 4,300 jobs in industries supporting the construction sector, and approximately 14,000 other jobs induced in non-construction related sectors of the economy. Traffic congestion costs the U.S. economy \$87 billion in wasted time and fuel, and half of all traffic deaths are attributable in part to poor road conditions. Despite these stark facts, Congress has allowed SAFETEA-LU (the most recent federal highway authorization law) to expire and enacted a series of short-term extensions.

Because spending on surface transportation, water infrastructure, airport, commercial and residential construction has an enormous impact on the equipment industry, our members are keenly aware of the crisis our nation faces.

Mr. Chairman, it was almost a year ago when you joined equipment manufacturers and dealers on the National Mall for a Start Us Up USA rally to urge enactment of a long term surface transportation bill. The rally included 10 flatbed trucks loaded with idle equipment that circled the Mall. While most indicators from AEM’s Second Quarter Industry Conditions Survey are trending up, I am here to tell you that our economic improvement is relative; we are still at 50% of 2007 activity.

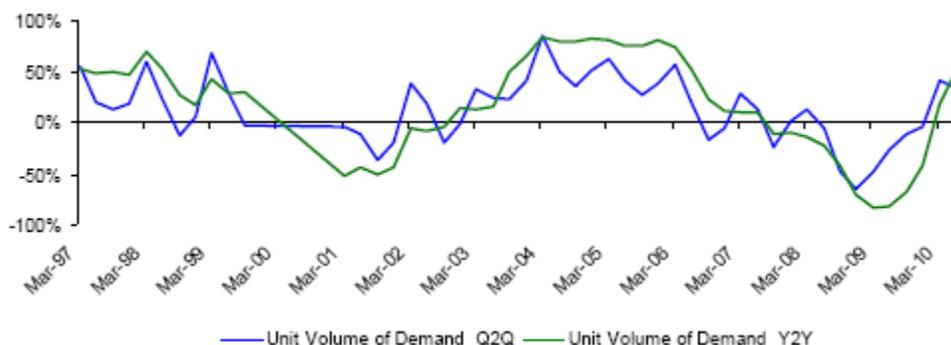
### **Current State of the Construction Equipment Industry**

Below is AEM’s Second Quarter 2010 summary of some of the key industry indicators from a survey of over a 100 construction equipment manufacturers.

#### **Unit Volume of Demand**

*At the mid-point of 2010, it appears the construction equipment industry is in the midst of a recovery from the 2007-09 economic recession. More than 60 percent of respondents said unit volume of demand was higher in the 2nd quarter of 2010 than during the 2nd quarter of 2009, while just under 12 percent said demand was still falling, for a net rising index of 49.5. As the chart shows, this was the best survey result in more than 3 years. One respondent wrote “Business levels YTD over 2009 have improved significantly and the increase in sales has been consistent each month over the same period in 2009.” While the industry is still well below its 2006 peak, demand is nonetheless moving in the right direction. The real question now—with home ownership incentives expiring and Recovery Act spending starting to wind down—is whether the upward momentum can be maintained. The next couple of quarters will be critical. As one respondent wrote, “2nd half of 2010 will be the test to see if rising demand will continue.” By industry segment, the strongest report in the 2nd quarter came from light equipment, with a net rising index of +69.6, followed by components/attachments at +57.9, with heavy equipment bringing up the rear at a still-respectable +35.6. All were the best results in a long time.*

Net Rising Index (% Rising minus % Falling): Above Zero = Rising, Below Zero = Falling



## Unit Volume of Inventories

The rising demand has absorbed much of the industry's excess inventories and shortages are starting to be reported. While just over half of all respondents reported a satisfactory level of inventories in the 2nd quarter, more of the rest said inventories were too low (27.0 percent) than too high (20.7 percent), for a net rising index of -6.3. This is the first time in four years that the industry has not reported a large inventory overhang. Furthermore, a large number of respondents (42.3 percent) reported that inventories declined in the 2nd quarter. This is good news for the industry since it supports higher price points for construction equipment and it is good news for the economy since it will likely stimulate firms in the industry to rev up assembly lines and increase production. Again, the light equipment segment is leading the rest of the industry. Virtually all the low inventory reports came from this segment, yielding a net rising index of -34.8. For components/attachments, the index was a neutral 0.0, while for heavy equipment it was +2.2, indicating a balanced inventory situation. All three segments, however, reported that inventories fell in the 2nd quarter.

Net Rising Index (% Rising minus % Falling): Above Zero = Rising, Below Zero = Falling



## Employment

The construction equipment industry is starting to hire again. During the 2nd quarter, 31.5 percent of respondents said employment was higher than a year ago while only 21.6 percent said employment was down, for a net rising index of 9.9. While relatively low, this was the first positive reading for this indicator since the end of 2007. Economists consider employment a lagging indicator, so it is nice to see some firms in the industry with enough confidence in the outlook to start adding jobs and recalling laid-off workers. All three industry segments reported a similar hiring atmosphere, weak but positive—the net rising index for light equipment was +13, components/attachments +10.5 and heavy equipment +8.9.

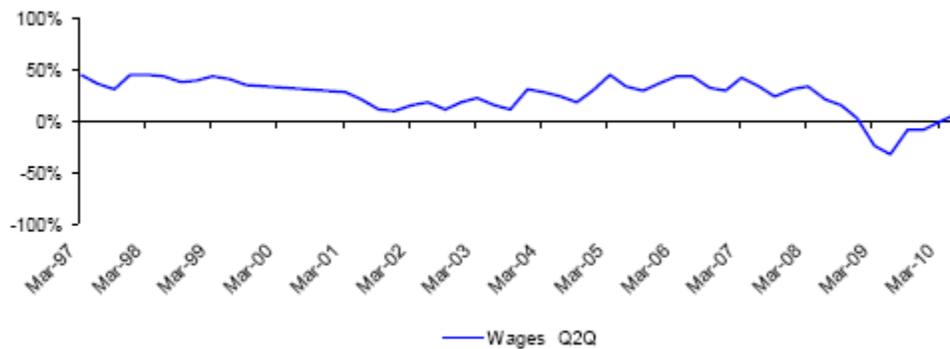
Net Rising Index (% Rising minus % Falling): Above Zero = Rising, Below Zero = Falling



## Wages

The construction equipment industry is beginning to report some upward pressure on wages and salaries, ending an unprecedented year of falling wages and salaries. In the 2nd quarter, most respondents (78.4 percent) reported that wages and salaries stayed about the same. But more of the rest reported rising wages and salaries (14.4 percent) than falling wages and salaries (7.2 percent), yielding a net rising index of +7.2 for the quarter. This doesn't mean big wage increases are on the horizon but it does suggest the unusually weak labor market conditions of the past year are coming to an end. The strongest upward pressures were reported by the heavy equipment segment, with a net rising index of +15.6, followed by light equipment at +8.7 and component/attachments at a neutral 0.0 (meaning an equal balance between those reporting rising and falling wages).

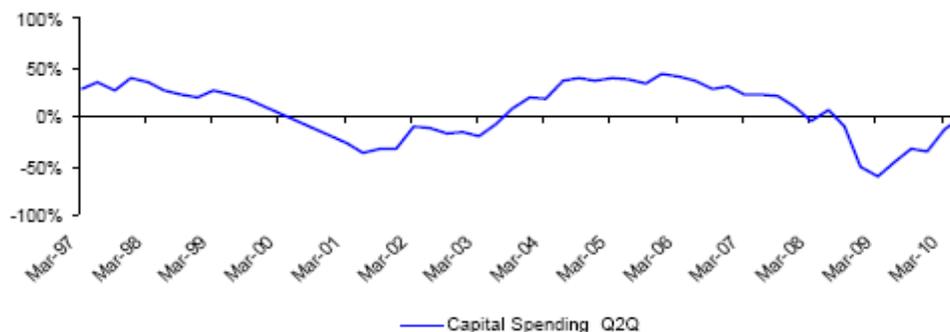
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## Capital Spending

The net rising index for capital spending by the construction equipment industry has been strengthening for the past year but was just shy of moving into positive territory in the 2nd quarter of 2010. More than two-thirds of the industry said capital spending stayed about the same in the 2nd quarter, but of the rest, slightly more said capital spending was falling (16.2 percent) than rising (15.3 percent), giving a net rising index of -0.9 for the quarter. Capital spending, like employment, is a lagging indicator and thus not surprisingly a bit weaker than other indicators, given that the recovery began just a couple of quarters ago. For all three industry segments, the net rising index for capital spending was slightly negative.

Net Rising Index (% Rising minus % Falling): Above Zero = Rising, Below Zero = Falling



## Prices Paid

The fact that the overall economy is starting to recover from the 2007-09 recession is having an unfortunate spillover effect on prices paid by the construction equipment industry for materials and inputs. More than half of all respondents (55.9 percent) reported paying higher prices for inputs in the 2nd quarter while only 1.8 percent reported paying lower prices, for a net rising index of +54.1. As the chart shows, this is comparable to what the industry was reporting during the peak years of 2005 and 2006. There was some short-lived price relief during the first half of 2009, but that has come to an end. All three segments experienced significant cost increases, led by light equipment with a net rising index of +65.2, followed by components/attachments at +57.9 and heavy equipment at +46.7.

Net Rising Index (% Rising minus % Falling): Above Zero = Rising, Below Zero = Falling



## Planning Scenario

Net Rising Index (% Rising minus % Falling): Above Zero = Rising, Below Zero = Falling



## **Observations on Stimulus**

AEM also asked in the Second Quarter Industry Conditions survey what the impact of the stimulus funding has been on our members' business. About one fifth of respondents said they are seeing some impact from the highway and other stimulus spending. But that funding was, as the Committee is well aware, far below the our transportation system's required investment needs, and the focus on "shovel ready" projects focused the majority of the work on road resurfacing, reconstruction, and rehabilitation of existing bridges and roadways. A large number of equipment product lines such as earthmoving and lift equipment are typically not utilized in these types of projects. We believe a long term transportation bill will provide critical funding for "bulldozer ready" projects with long term value to ease congestion and more efficiently move people and goods.

As of the end of July, 2010, the American Association of State Highway and Transportation Officials (AASHTO) reported that almost 15,734 highway and transit projects were underway. That means that our customers were utilizing their fleets of equipment to undertake this work. We have seen some increase in parts and maintenance work that has benefitted medium and small suppliers and service providers.

This infusion of additional capital has kept many of our customers in business and may have provided a lifeline to the anticipated increased economic activity a long term reauthorization plan will provide. It is critical that Congress and the Administration move quickly before the end of the current extension to avoid a dramatic reduction in funding.

### **Summary**

Mr. Chairman, there is little question that the construction equipment sector is still challenged by uncertainty in the North American construction market. This uncertainty is not only being fueled by the lack of a long term transportation plan, but also by instability in housing and other non-road construction markets and a generally trying business environment. The fact of the matter is that, without the ARRA, our sector and the entire highway construction sector would be in dramatically worse economic condition.

We thank this Committee for its leadership to develop a long range reauthorization proposal and pledge our support for timely enactment. Thank you for the opportunity to appear before the Committee.