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Equipment leasing, machine tool sales on rise

Indicators point to economic improvements, though manufacturing remains a concern

By Kirby Lee Davis
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TULSA – Equipment leasing and machine tool sales have picked up in Oklahoma, say industry executives. While that indicates improvements in the general economy, the manufacturing sector remains a strong concern.

"The economy's perking along," said Richard M. Dericks, president of Dericks Leasing and Financial Co. of Tulsa. "And equipment leasing, based on investments in the country, is perking along, too."

Since opening in 1984, the Tulsa firm has carved a unique niche across the southwest United States by not only connecting middle-market players and governments with their equipment and real estate leasing needs, but also financing them. Dericks said business at his five-employee firm has increased as 2005 progressed, standing 10 percent above '04 levels.

"A lot of calls are coming from various out-of-state finance houses seeking to acquire equipment leases," he said of October and November business. "We're getting a lot of that now."

That would fit the state's broad-based economic expansion tracked by economists at Oklahoma State University's Center for Applied Economic Research. But documenting leasing activity remains difficult, due to its wide scope and Oklahoma's fate of falling in different regions depending on the source material.

"The reason it's difficult to track by region or state by state is because it's not where the leasing or finance company is located, it's where that company is placing its equipment. That's all over the country," said Ralph Petta, vice president of industry services for the Equipment Leasing Association of America, based at Arlington, Va.

The ELA estimates business investment in equipment nationwide will end this year up 9.5 percent at $791 billion. It projects 7.4 percent growth next year to $850 billion. Equipment leasing volume was projected to rise 7 percent this year to $213 billion and another 7.5 percent next year to $229 billion, giving the sector a 26.9 percent market penetration rate.

"Volume for October is way up basically across the board," said Petta. "For whatever reason the economy is chugging along and October's volume is really quite high." And as most firms make their equipment acquisitions in the third and fourth quarter, "we expect the fourth quarter will be very robust."

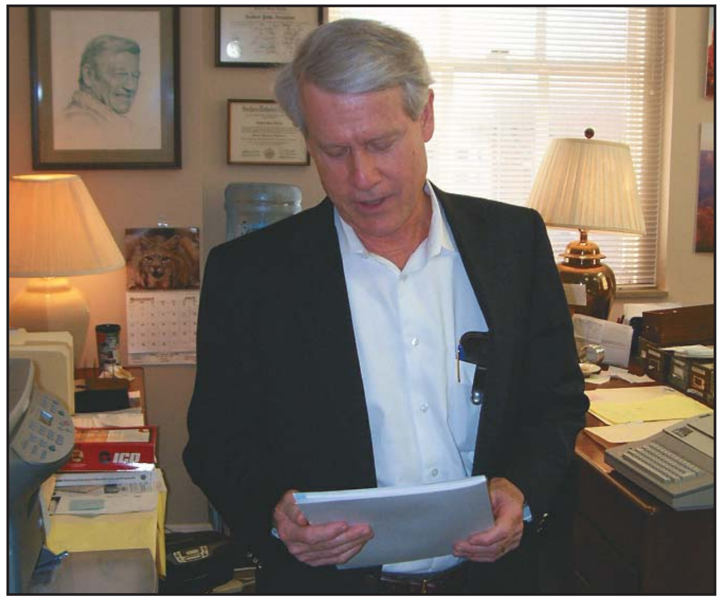
Though the association could not provide regional or state numbers, Petta projected most equipment leased in the Sooner State would involve transportation assets – trucks, trailers. After that would come construction and agricultural equipment.

Because of the energy industry's resurgence, Dericks expects Oklahoma to equal or exceed the national growth projections for 2006. Petta agreed.

"There's been an increase in energy activity nationwide," he said, though his firm was still putting together the data on that.

Through the first nine months of 2005, machine tool consumption rose 10.2 percent nationwide to $2.28 billion, according to a November report by the United States Machine Tool Consumption, a program by the Association For Manufacturing Technology and the American Machine Tool Distributors' Association. The central region, which includes Oklahoma, recorded 21.9 percent growth to $472.6 million.

"The September results capped a strong third quarter for U.S. machine tool orders," said John B. Byrd III, president of the AMT. "Indicators suggest that this trend will continue given the improved U.S. currency position and manufacturers' solid profitability. In addition, high energy costs are helping to make offshore manufacturing less attractive."



RICHARD M. DERICKS, president of Dericks Leasing and Financial Co. of Tulsa, matches middle-market players and governments with their equipment and real estate leasing needs. PHOTO BY KIRBY LEE DAVIS

But not everyone in the sector remains positive. Sales have risen "20 percent or better" at Kansas-Oklahoma Machine Tools in Wichita, which has offices in Tulsa, Oklahoma City and Kansas City. But while positive, Chairman Ron Evans at the Tulsa office downplayed the significance of that, noting the cyclical nature of his industry made predictions difficult. He attributed the boost to pent-up demand, especially in Oklahoma.

"I expect we're in the second year of a five-year cycle, a mildly continuing upward trend," said Evans. "In my opinion what we're foreseeing is a major recession in the manufacturing jobs industry. There's a lot of jobs being lost in the state, and I don't think the state's doing anything to stop it."

Economists at OSU share his concerns. While strongly positive in their 2006 economic outlook, the analysts pointed to the manufacturing sector as "chronically weak." That group has shed nearly 40,000 jobs since 2000, with another 2,000-plus on the block with the announced closing of the General Motors Assembly Plant in Oklahoma City. Enhancing the problem, the ripple effects from such losses exceed those of most service-producing industries, said OSU center Director Mark C. Snead.

Oklahoma's overall outlook, however, remains positive.

"Most major industry sectors in Oklahoma are expected to add jobs in what should be a broad-based economic expansion in 2006," said Snead.

All of which bolsters the equipment leasing sector, said Dericks.

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