

# Washington Manufacturing Alert

The Newsletter  
Of The State's  
Most Important Industry

Vol. 9, Issue 1  
Jan. 2, 2017

**Newsire:** GM Nameplate launches first consumer product; Omak plywood mill closes again; Interfor sells former Tacoma lumber mill site; CMC Biologics acquired; Jorgensen Forge gets new owner; Blue Marble Biomaterials signs development deal with Welch's; plus other news items. **Page 4**

**Our Next Issue:**  
Jan. 16

## Outlook 2017

### How Many Questions Can One Year Generate?

**BY BILL VIRGIN**  
Editor/Publisher

Don't like uncertainty in your business?

Tough. In 2017, It's coming at you by the truckload.

Whether it's Boeing, China, energy prices, housing, industrial demand and production, the economy, trade policy, interest rates, wage increases, the dollar's exchange rates, tax-law changes or the new administration in Washington, uncertainty seems to be the one constant in forecasts.

The new year is starting off right, as least locally, says Eric Sprink, president of Everett-based Coastal Community Bank. "Things are as strong as they have been in a long time." Customers, including manufacturers, are investing in equipment and new and expanded production facilities. "We see that trend continuing through '17," or at least the first half of the year, he says.

That upbeat outlook is echoed by several local manufacturers. Some companies are anticipating good years. "Irish Foundry is looking at 2017 with very optimistic eyes," says Charles Irish, owner of the Seattle-based company. "We are already speaking with three new accounts that require some complexity, that makes 'Made in the USA' even more advantageous."

Adds Paul Clark, vice president and co-owner of Granite Falls-based Cobalt Enterprises, "During 2016, we merged three other companies and integrated their customers, employees, suppliers and systems into Cobalt. Cobalt is expecting a better

*(Continued on page 2)*

## Legislature 2017: Impasse, Dealmaking, And Maybe A Lot Of Both

Gov. Jay Inslee's budget proposal is, depending on who's describing it, a call for "bold action now," a "starting point" for discussions or "dead on arrival."

Since that last viewpoint reflects the sentiments of many in the Senate's Majority Coalition Caucus, it looks to be a long, contentious session, what with split political control of the Legislature.

Given the amount of time to be spent on such budget-related issues as taxes, education funding, an overhaul of the state's mental-health system and pay raises for state employees, manufacturers aren't likely to see much out of the session on their issues.

Manufacturing does figure prominently in one of the governor's proposals. Inslee is making another run at a carbon tax, which would apparently be in addition to the Ecology Department's recently enacted air-emissions rule. The tax proposal (\$25 a ton, increasing 3.5 percent plus inflation each year) would be imposed on "any company that generates or imports electricity, natural gas or petroleum," according to the governor's office.

The governor is also calling for increased business &

occupation taxes on professional services including accountants, lawyers and real-estate agents, as well as a capital-gains tax on stocks and bonds.

Inslee proposed just five relatively small changes to tax breaks and incentives, including repeal of a sales-tax break on bottled water, and an exemption for fuel when used in the same process, such as at oil refineries. Wood byproducts like hog fuel would still be exempt.

The operating budget calls for ending a state contract with the Northwest Agriculture Business Center, which helps farms and food businesses, while the capital budget proposes a \$20 million building for the Center for Advanced Materials and Clean Energy Technology at the University of Washington.

The Association of Washington Business lists among its legislative priorities protecting "the predictability of the tax code and structural tax incentives, such as those for aerospace, agriculture, manufacturing, and small businesses, from any attempt to add requirements or barriers."

The Legislature convenes Jan. 9 and is scheduled to end its session April 23.

## Outlook 2017: At Boeing, Production Rate Cut For 777, An Increase For The 737

*Continued from page 1*

year in 2017 as we enjoy the benefits of increased capacity and capabilities.”

Where things become murky is figuring out whether that trend line continues through the latter stages of 2017 and on into 2018.

Coastal Community surveys its business customers quarterly to see what's on their mind and what they're watching out for. Close to the top of the list is an issue that hasn't been a major concern since the onset of the recession — borrowing costs. The Federal Reserve raised rates in 2016, and has signaled that several more are coming in the new year.

“Borrowing costs for manufacturers are going up,” Sprink says, adding that most finance operating costs with variable-rate lines of credit.

Rising interest rates and borrowing costs could put strain on some companies, which Sprink as a banker is watching warily. History suggests that large interest-rate hikes are followed 18 months later by an increase in troubled assets, in the form of credit delinquencies and defaults.

The other significant cost increase manufacturers face in 2017 is for labor, with the state minimum wage going to \$13.50 over four years (some cities like Seattle are already higher, at \$15; WMA Nov. 21, 2016).

That's going to be an issue for those manufacturers competing in national or global markets against states with lower minimums.

But how businesses cope with those increases will determine whether, as Sprink puts it, the Washington manufacturing economy appears headed for a cliff in the latter part of this year or is headed into 2018 with as much optimism.

A look at other sectors and factors affecting the state's economic outlook in 2017:

- **Boeing**, the state's largest manufacturer, has contrib-

uted to the uncertainty about 2017, particularly with its Everett widebody-jet assembly facility.

Late in 2016 Boeing said it will be cutting production of the 777 from seven planes a month to five beginning in August 2017; it had cut output from 8.3 planes a month to seven in 2016.

“Market demand drives production rates both to the upside and the downside,” Vice President and General Manager Elizabeth Lund said in a memo to employees. “The market is signaling near-term hesitation in some regions. Despite tireless work by the sales team, orders have slowed. This is due in part to several ongoing twin-aisle campaigns that haven't concluded in time to keep the rate steady. Therefore we must adjust accordingly to ensure we are running a healthy business and the production line remains stable.”

Lund said the production rate cut will mean employment reductions, although it's not known yet how many jobs will be affected.

But those cuts will come on top of a steady decline in Boeing employment; from late January to late November, the company reduced jobs in Washington by 5,600, to 72,593.

But Sprink isn't panicking over the trend. “We're net-net neutral on Boeing over the next three to five years,” he says, citing such balancing factors as hiring for the company's 777X wing-production plant. “Nothing too dramatic to sway the macro-economic outlook” for the region.

Boeing is hoping that freighter orders and a new Air Force One for the president will keep the 747 line alive; the 767 line, sustained by freighter orders from customers like FedEx and tankers for the U.S. Air Force, is scheduled for a rate increase from two planes a month to 2.5 in the fourth quarter of 2017.

The unsung hero is the 737 produced at Renton. With  
*(Continued on page 3)*

**WASHINGTON MANUFACTURING ALERT** is published 25 times a year by Northwest Newsletter Group. Contents are copyright 2017 and all rights are reserved. Please do not reproduce or transmit this newsletter or its contents without prior permission from the publisher.

Bill Virgin, Editor and Publisher. Editing assistance: Jenny Cole. Send news items, letters, subscription requests and other queries to the editor, at 15642 129th Court SE, Renton, WA, 98058 or bill.virgin@yahoo.com. Phone: 425-227-4471.

Subscriptions are \$140 a year for e-mail delivery, \$160 a year by mail; Washington residents, please add appropriate sales tax (available at Department of Revenue website, www.dor.wa.gov). Discounts are available for multiple e-mail subscriptions to different addresses ordered by one company or organization (\$120 each for two to four subscriptions, \$100 each for five or more).

Please contact the publisher for rates on advertising in The Manufacturing Marketplace.

## Outlook 2017: What's Ahead For China, Reshoring, Housing, Taxes, Freight

*(Continued from page 2)*

an order backlog (as of September) of more than 4,300 planes, Renton will increase production from the current 42 a month to 47 in the third quarter. That's to be followed by two more, to 52 a month in 2018 and 57 a month in 2019. The newest version of the 737, the Max, is to get its first customer delivery in the first half of 2017.

Boeing suppliers are dealing with not just the production-rate fluctuations but pressure from the company to drive down costs. Rosemary Brester, president and chief executive of aerospace supplier Hobart Machined Products, says a slowdown in airplane sales and model changeovers will affect suppliers' employment levels and revenues.

Brester also said she expects to see a continuation of merger and acquisition activity "within the lower tiers of the aerospace sector. The increase of regulations and certifications being driven down to all aerospace companies regardless of size may drive some companies into other markets."

An ongoing issue for manufacturing companies, particularly in aerospace, is finding workers with the necessary skills, "Skills shortages or gaps will continue as many OEMs offer buyouts or voluntary quits to reduce overhead costs," Brester predicts.

■ Because of its status as global competitor, supplier and market, **China** figures large in discussions about Washington manufacturing. That will be even more true in 2017 with the incoming Trump administration signaling a more confrontational approach on trade issues.

The big uncertainty about China is just how well the economy is actually performing, and whether it might have to export its way out of recessionary threats.

"China has kept out of the headlines over the past year, and we see that as good news," says an analysis from Seattle-based Russell Investments. "Skepticism was rife amongst commentators earlier in 2016, when reported Chinese GDP growth rates of 6.7 percent had implausibly dislocated from more transparent indicators of activity. Electricity production growth slowed perilously close to zero, for example, and freight volumes were in outright decline.

"As we move towards 2017, these doubts are abating. The bounce in commodity prices through 2016 has stabilized China's heavy manufacturing sectors and, while this favorable reversal is slowing the structural adjustment process, it is also providing some stability to the transition. ...China's leading indicators are now turning convincingly upwards for the first time in nearly four years."

■ Going hand in hand with the issue of China is the discussion of **reshoring**, the term for moving production work

and the associated jobs back to the U.S.

A.T. Kearney, a research and consulting firm, has in recent years published reports indicating that on balance the trend has still been toward moving work to other countries. But in a report issued in December, the firm said changes may be coming.

"The president-elect has made clear his resolution to increase domestic employment and grow the middle class. With the geopolitical landscape shifting and technology proliferating and advancing, it's clear the political winds of change are blowing, particularly in the direction of U.S. companies," the report said.

"It's possible the new administration could maintain the status quo, but this seems unlikely in light of the fact that, since his victory, the president-elect has been doubling down on the level of rhetoric around the topic of defending U.S. jobs." The report says the administration may try a combination of import tariffs, subsidies and incentives and taxes and penalties to drive more work back to the U.S.

■ **Housing construction** was a driver of the last recession, hitting Washington lumber mills and building-product producers, and it's been slow to recover. The most recent National Association of Home Builders estimates call for 1.24 million housing starts in 2017, up from 1.16 million in 2016. Housing starts could top 1.3 million in 2018. However, the long-term average has been 1.5 million.

■ In addition to the increased costs mentioned previously, Washington businesses face bigger **tax bills** in 2017. In the Puget Sound region, businesses are dealing with increases in the motor vehicle excise tax and property taxes, due to go up in January due to a vote to finance expansion of Sound Transit. A sales-tax increase is coming in March or April 2017.

Worker's compensation taxes went up an average of 0.7 percent, but the increases depend on individual company and industry experience. In manufacturing categories, increases are higher, with metal and machinery going up an average of 2 percent (a handful of subcategories actually had decreases)

Unemployment insurance costs, on the other hand, are going down, the state says, from an average of 1.38 percent in 2016 to 1.24 percent in 2017.

■ The marine, truck and rail **freight markets** were all roiled in 2016 by volume drops, excess capacity and the dissolution of a major ocean carrier.

The trucking sector, for one, is "seeing some improvement that will continue into 2017," the American Trucking Associations report. "Retail sales are good, the housing market is solid, and the inventory overhang throughout the supply chain is coming down, all of which will help support truck freight volumes in 2017."

## 2016 In Review: What Made News In Washington Manufacturing

### Acquisitions/Sales/Deals

- Sensor Medical Technology, Maple Valley, acquired by Katena Products, Denville, N.J.
- AIM Aerospace, Renton, acquired by Liberty Hall Capital Partners.
- Totally Chocolate, Blaine, acquired by Tricor Pacific Founders Capital Inc., Vancouver, B.C.
- Cascade Windows, Spokane, acquired by Altamont Capital Partners.
- Physio-Control Inc., Redmond, acquired by Stryker Corp., Kalamazoo, Mich.
- Weyerhaeuser Co., sale of most of its cellulose-fibers business to International Paper.
- GlobalTech Plastics, Auburn, acquired Shyft Advanced Manufacturing, Woodinville.
- Hoquiam Plywood Products, acquired by Willis Enterprises, Inc.
- Johnson Insulation LLC, Spokane, acquired by Houston-based Distribution International Inc.,
- Weyerhaeuser Co., sale of liquid packaging board business at Longview to Nippon Paper Industries Co.
- J&M Machine LLC, Renton, acquired by Liberty Hill Capital Partners.
- Mold Rite Inc., Woodinville, acquired by Sound-Rite Plastics Ltd., Coeur d'Alene, Idaho.
- EnerG2, Seattle, acquired by BASF Venture Capital America Inc.
- TNTGamble Inc., Redmond, acquired by Probi AB, based in Sweden.
- Mills Manufacturing, Clarkston, acquired by Brunswick Corp.
- Fletcher's Fine Foods, Auburn, acquired by Hempler Foods Group LLC., Vancouver, B.C.
- The January Co., Kent, acquired by Tall Tree Foods, part of Altamont Capital Partners.
- Coffee Kinetics LLC, Burlington, acquired by Coffee Holding Co., Staten Island, N.Y.
  - Orion Industries, Auburn, merged with Diversified Industries Inc., Mukilteo
- Seattle Metrics Inc., Kent, acquired by Onicon Inc., Largo, Fla.,
- Concut Inc., Kent, acquired by Dixie Diamond Manufacturing Inc., headquartered in Lilburn, Ga.
- Cadet Manufacturing, Vancouver, acquired by Glen Dimplex Group, based in Ireland.
  - Weyerhaeuser Co., sale of North Pacific Paper Co., Longview, to One Rock Capital Partners LLC.
- Raisbeck Engineering, Seattle, acquired by Acorn Growth Companies, Oklahoma City.
- Seattle Cider Company and Two Beers Brewing, acquired by Agrial, based in France.

- Diamond Technology Innovations, Olympia, acquired by Alleghany Capital Corp.

### New Investments/Projects//Facilities

- Oberto Brands, expansion of Ken plant
- Sunlight Supply Inc./National Garden Wholesale, Vancouver, construction of 306,000-square-foot facility.
- Inventure Foods Inc., second processing plant in Whatcom County.
- Schweitzer Engineering, Pullman, two additional buildings totaling 200,000 square feet.
- Exotic Metals Forming, Kent, expansion of production facility.
- Oldcastle APG West, construction of 55,000-square-foot plant at Frederickson
- Systima Technologies Inc., Kirkland, acquisition of building.
- Aero-Vac Alloys & Forge Inc., moving corporate headquarters and production facility from Orange County, Calif., to the Port of Kalama.
- Lamb Weston, addition of second French fry production line at Richland plant.
- Accra-Fab, Liberty Lake, expansion.
- Crimson Wine Group, construction of 47,000-square-foot winemaking facility in West Richland
- Just Biotherapeutics Inc., Seattle, pilot plant and lab space.
- Renaissance Marine Group, Clarkston, purchase of 65,000-square-foot production building.
- HiTest Sand Inc., Edmonton, proposed silicon plant, Usk, Pend Oreille County.
- Heatcon Composite Systems, Tukwila, move to larger facility.
- Sigma Design Inc., Vancouver, acquired a 56,000-square-foot building in Camas.
- Qualitel, Everett, added 33,000-square-foot final-assembly, warehouse and distribution building.
- Volm Companies Inc., Antigo, Wisc., building 90,000-square-foot plant in Pasco.

### Closings/Layoffs

- Applied Industries Inc., Longview, closed.
- Northwest Innovation Works, canceled planned liquid methanol plant in Tacoma
- Cablecraft Motion Controls, closed Tacoma facility.
- Spectrum Glass, Woodinville, closed.
- Cuizina Food Co., closed Woodinville manufacturing plant.
- L'Oreal, outsourcing Clarisonic production, cutting 120 jobs.

*Compiled from reports in WMA in 2016*

## Manufacturing Stocks

The state of Washington hasn't been a home for a lot of publicly-traded manufacturing companies, and the ranks of the few we had have been thinned by mergers and acquisitions. Among those names that appeared on the chart we ran in our very first issue in 2009, but don't appear on this list, are Intermec, Flow International, Sono-Site and Todd Shipyard.

Some of the companies on this list are based in Washington but have production facilities elsewhere. We've also included Boeing; although it's now headquartered elsewhere, its manufacturing presence is so huge that it makes sense to note how the stock is doing.

Washington did gain one manufacturing stock in 2016 — Everett-based Fortive, a spin off of industrial conglomerate Danaher and parent of two long-established Northwest electronics test-and-measurement companies — Fluke in Everett and Techtronix in Beaverton, Ore..

Company	Ticker	52-week range	Close 12/30
<b>Boeing</b> Chicago	BA	102.10-160.07	155.68
<b>ClearSign</b> Tukwila	CLIR	2.68-6.24	3.40
<b>Clearwater Paper</b> Spokane	CLW	32.00-69.75	65.55
<b>Cray</b> Seattle	CRAY	16.77-43.79	20.70
<b>Data I/O</b> Redmond	DAIO	2.03 - 4.40	418
<b>Esterline</b> Bellevue	ESL	45.12 - 94.73	89.20
<b>Fortive</b> Everett	FTV	46.29 - 56.24	53.63
<b>Itron</b> Liberty Lake	ITRI	29.02 - 66.10	62.85
<b>Key Technology</b> Walla Walla	KTEC	6.25 - 13.74	11.66
<b>Key Tronic</b> Spokane Valley	KTCC	7.46 - 18.9	7.82
<b>Northwest Pipe</b> Vancouver	NWPX	7.46 - 18.90	17.22
<b>Paccar</b> Bellevue	PCAR	43.46 - 68.50	63.90
<b>Weyerhaeuser</b> Seattle	WY	23.73 - 33.28	30.09

## Manufacturing Calendar

- Jan. 3-4** Eastern Washington Ag Expo, Trac Center, Pasco; easternwaagepo.com.
- Jan. 5-6** Yakima Ag Expo, SunDome; yakimaagexpo.com.
- Jan. 9-11** Northwest Food Processors Association expo and conference, Oregon Convention Center, Portland; nwfpa.org.
- Feb. 7-8** Ag Expo and Pacific Northwest Farm Forum, Spokane Convention Center; agshow.org.
- Feb. 13-16** Pacific Northwest Aerospace Alliance annual aerospace conference, Lynnwood Convention Center; pnaa.net.
- March 9** Alliance Northwest business-to-government conference, Washington State Fairgrounds, Puyallup; alliancencnorthwest.org.
- March 28-30** International Mass Timber Conference, Oregon Convention Center, Portland; masstimberconference.com.
- April 11-12** Amcon contract manufacturing show, Meydenbauer Center, Bellevue; amconshows.com.
- April 24-28** Hannover Messe, Germany (Washington delegation to attend).
- May 4** Northwest Aerospace and Defense Symposium, Joint Base Lewis McChord, Tacoma; pndc.us.
- May 22-25** Society for the Advancement of Material and Process Engineering technical conference and exhibition, Washington State Convention Center, Seattle; sampe.org.
- May 23-24** Life Science Innovation Northwest, Washington State Convention Center, Seattle; lifescience-wa.org.
- May 30-June 1** I-90 Corridor Aerospace Conference and Expo, Coeur d'Alene Resort, Idaho; inwac.org.
- June 14-15** FABREO Food & Beverage Expo, TRAC Center, Pasco; fabreo.org.
- June 19-25** Paris Air Show.
- Oct. 20** Governor's Life Sciences Summit & Annual Meeting, Meydenbauer Center, Bellevue; lifescience-wa.org.
- Nov. 1-2** Design-2-Part contract manufacturing show, Portland Expo Center; d2p.com.
- November** Pacific Marine Expo, CenturyLink Field Events Center, dates to be announced; pacificmarineexpo.com.

## Newsire: The Latest In Washington Manufacturing

**SEATTLE:** GM Nameplate, a Seattle manufacturer of labels, panels, keyboards and printed electronics, has launched its first consumer product, which has received certification as an FDA Class I medical device. LEVL, a new division of GM Nameplate, is a device that measures the contents of a person's breath to determine how much fat they're burning. The company said the device could be used in gyms, training studios and wellness centers. LEVL will announce availability and pricing for the device in early 2017.

**OMAK:** Omak Wood Products, which took over operation of a plywood mill in early 2016, has issued layoff notices to 217 employees, with an effective start date of Jan. 29. The mill itself is owned by the Confederated Tribes of the Colville Reservation, which had been supplying timber to it.

**TACOMA:** Canadian forest products company Interfor has sold its 58-acre sawmill property to Industrial Property Trust, which plans to build two industrial buildings totaling 1.1 million square feet. The sales price was \$32.4 million. The mill was one of four acquired by Vancouver, B.C.-based Interfor from Simpson Lumber in March 2015, but the company said operating expenses proved greater than had been expected. The mill was shut down in May 2015. IPT Tacoma Logistics Center is scheduled to be ready in the first quarter of 2018.

**SPOKANE:** Ambient Water, which builds equipment that extracts water from humidity, has filled sales orders for residential units in Peru and Mexico.

**TUKWILA:** CE Star Holdings LLC, formed by a group of secured noteholders of Constellation Enterprises, has acquired the assets of Jorgensen Forge Corp. and two other companies in the specialty metal products business. Constellation has been in chapter 11 bankruptcy court proceedings. Jorgensen will operate under its name.

**BOTHELL:** Contract biotech manufacturer CMC Biologics, will be acquired by AGC Asahi Glass. CMC Biologics, founded in Denmark, operates a Bothell manufacturing plant. It had been owned by Monitor Clipper Partners, European Equity Partners and Innoven Partenaires. The deal is scheduled to close in January 2017. CMC Biologics will retain its brand and doesn't expect changes in operations, leadership team or employee base.

**RICHLAND:** Pacific Northwest National Laboratory will be part of the Rapid Advancement in Process Intensification Deployment institute, organized under the Manufacturing

USA Initiative and led by the American Institute of Chemical Engineers. The institute will focus on finding technologies to improve efficiency and productivity in such sectors as oil and gas, pulp and paper, and chemical refining. PNNL and Oregon State University will co-lead the Module and Component Manufacturing Focus Area for the institute. PNNL also leads the Northwest Regional Manufacturing Center.

**SEATTLE:** Blue Marble Biomaterials, which is developing plant-derived specialty chemicals for the flavor, fragrance and cosmetic industries, has signed a collaboration agreement with Welch Foods Inc. to develop biochemicals. The Seattle-based company, which operates a production plant in Missoula, Mont., plans to use waste material from Welch's production of grape and apple juice that would otherwise be used for animal feed or compost.

**BELLINGHAM:** McNett Corp., which makes outdoor gear and repair equipment, has changed its name to Gear Aid Inc.

**MONTESANO:** The city of Montesano has signed a lease with Fox Lumber of Hamilton, Mont., for the former Mary's River Lumber mill. Mary's River, based in Corvallis, Ore., closed several mills, including one in Bow, Wash., in March 2016.

**BREMERTON:** Safe Boats International has delivered the last three patrol vessels in a 10-boat order from the Israeli Marine Police.

**MUKILTEO:** UniEnergy Technologies has received an order for its energy storage systems from Las Positas College in Livermore, Calif. The 100 kilowatt vanadium-flow storage battery will help reduce peak-demand charges for the college and smooth power generated by a solar array. The contract includes an option for a second battery.

**OLYMPIA:** Manufacturing employment in the state continued to trail year-ago levels by 5,700 jobs in November, according to preliminary non-seasonally adjusted numbers from the Employment Security Department. The overall total was 284,200. The aerospace product and parts category was down by 5,100 jobs to 88,100, while food manufacturing was essentially flat at 36,600.

### PERSONNEL FILE

GM Nameplate of Seattle has named Autumn Santa Ana corporate director of quality and regulatory affairs. She succeeds Martin Espinola, who is retiring.