

# Manufacturing

## Barometer™

### **Industrial Manufacturers Report Renewed Economic Optimism, According to PricewaterhouseCoopers Survey**

*Solid Revenue Growth, New Investments Expected in 2006*

The following findings from PricewaterhouseCoopers' Manufacturing Barometer, a quarterly survey report, are based on interviews with 62 senior executives of large, U.S. industrial manufacturers about the business climate. This release summarizes results for Q4 of 2005 from interviews conducted through January 19, 2006.

**NEW YORK, January 31, 2006** — Large, U.S.-based industrial manufacturers report renewed optimism about the U.S. and world economies over the next 12 months, despite continued concern about high energy prices, according to PricewaterhouseCoopers' Manufacturing Barometer. In the year ahead, these companies expect solid revenue growth, a higher level of new investments, as well as an upturn in hiring and M&A activity.

More than three-quarters of executives interviewed (76 percent) are optimistic about the domestic economy's prospects over the next 12 months, up from a low of 45 percent in Q3 2005 and 54 percent the quarter before. Twenty-two percent are uncertain about the economy, and only two percent are pessimistic.

Additionally, 71 percent are optimistic about the world economy, up from 54 percent in Q3 2005 and 66 percent a year ago.

The Barometer shows that industrial manufacturers have recast their growth forecasts. They expect revenue gains averaging 7.7 percent over the next 12 months—consistent with the 7.8 percent estimated in the prior quarter and a year ago.

The survey also shows that while energy costs continue to be a concern for the sector, they are not as significant as they were last quarter. In fact, 65 percent of those surveyed in Q4 2005 consider escalating energy prices a potential roadblock to their company's growth over the next 12 months – still significant, but down from 80 percent in the prior quarter.

“These findings suggest that industrial manufacturers are returning to a more-positive business outlook following a debilitating prior quarter that saw two hurricane disasters, business interruptions, and continuation of shockingly high energy prices,” said Jorge Milo, leader of PricewaterhouseCoopers’ U.S. industrial manufacturing practice. “Today these leaders are holding steady to their growth targets and taking a brighter view of business conditions at home and abroad,” he added.

Fifty-seven percent of surveyed executives plan to make major new investments of capital over the next 12 months—down from 60 percent in Q3 2005—but exceeding the 45 percent of a year ago. The level of new investment is expected to be higher, averaging 9.8 percent of revenue, well ahead of the prior quarter’s estimate of 8.0 percent, and 7.9 percent a year ago. Over the next 12 months, increased investments are expected in six areas, led by business acquisitions.

In a special section of this quarter’s Barometer, more than half (55 percent) of the respondents reported involvement in M&A activities, alliances, and joint ventures during 2005 — including 34 percent participating in acquisitions and 24 percent in divestitures. Over the next 12 months, 48 percent expect to make increased M&A-related investments, with 32 percent planning greater activity in acquisitions and 10 percent planning greater M&A activity in Asia.

Sixty-one percent of those surveyed plan to increase their workforce over the next 12 months—up from 52 percent in Q3 2005 and 53 percent a year ago. As a group, industrial manufacturers now expect the size of their workforce to increase by an average of +2.0 percent, up strongly from negative growth of –0.5 percent projected in the prior quarter.

“Industrial manufacturers expect to maintain a steady, profitable growth pace, with a higher level of major new investments,” said Milo. “And, after years of caution, they now appear ready to add workers for the growth they envision.”

Higher costs and pass-through price increases have provided an opportunity for industrial manufacturers to test their pricing power and improve their gross margins. In the fourth quarter, costs were higher for 61 percent of those surveyed, and lower for only seven percent. Over half (55 percent) increased their prices, while only three percent lowered them. In the process, 37 percent increased their gross margins, while 19 percent had a decrease—for a net of 18 percent showing improvement. This compares favorably with a net of 12 percent showing improvement in the prior quarter.

Another positive indicator: Overall, only 26 percent cite decreasing profitability as a potential barrier to their company’s growth over the next 12 months, down from 30 percent a year ago.

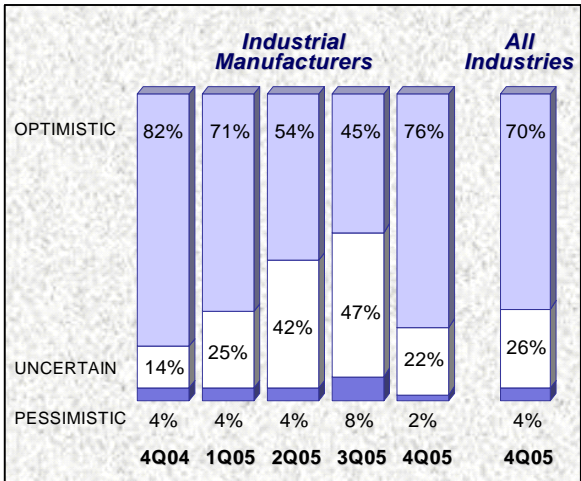
“When faced with escalating costs, these companies expect to do better than just hold their own,” said Milo. “In an improving environment, they are expecting solid revenue growth, and their margins are getting stronger.”

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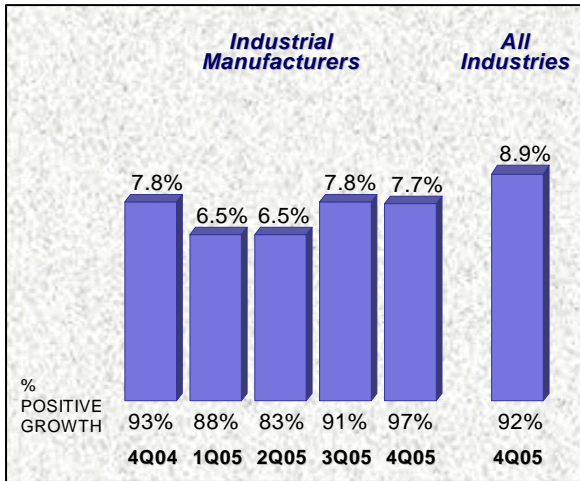
Quick Scorecard	2004	2005				Quarterly Movement
	4Q	1Q	2Q	3Q	4Q	
Believe domestic economy is growing (most recent quarter)	84%	89%	82%	75%	87%	↑
Optimistic about US economy next 12 months	82	71	54	45	76	↑
Optimistic about world economy	66	70	46	54	71	↑
Expect positive revenue growth next 12 months	93	88	83	91	97	↑
Average % growth expected	7.8	6.5	6.5	7.8	7.7	↔
Planning major new investments next 12 months	45	60	42	60	57	↔
New investments as a % of revenue	7.9	6.3	8.3	8.0	9.8	↑
Planning to add workers next 12 months	53	52	43	52	61	↑
New workers as a % of workforce (net)	+0.8	+0.9	+0.6	-0.5	+2.0	↑

**ECONOMIC OUTLOOK AND PLANS FOR NEXT 12 MONTHS  
(AS OF 4Q 2005)**

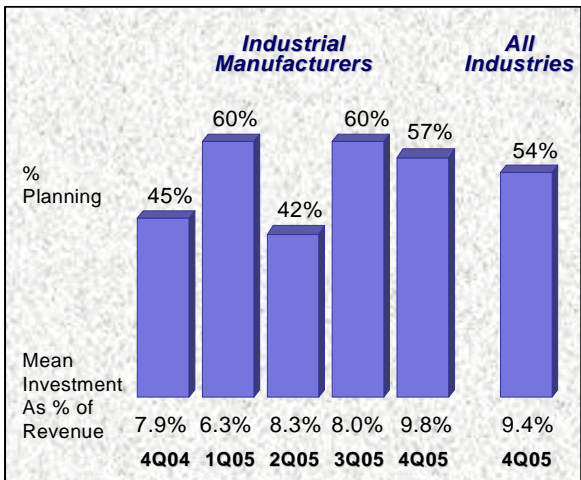
**VIEW OF THE U.S. ECONOMY**



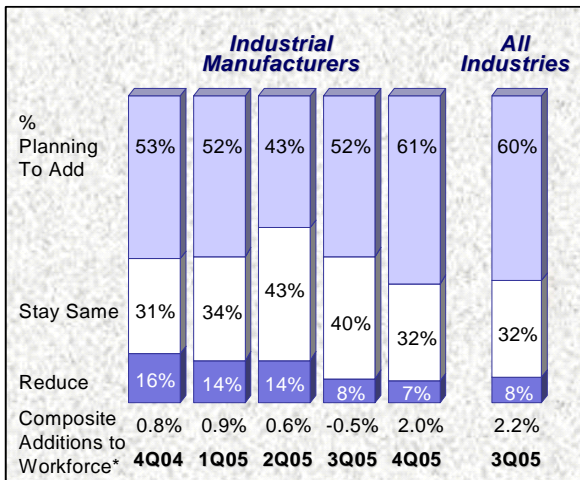
**ESTIMATE OF OWN REVENUE GROWTH**



**PLANS FOR MAJOR NEW INVESTMENTS OF CAPITAL**



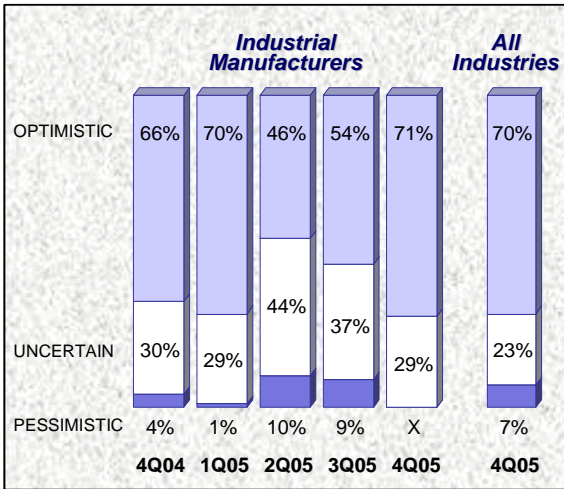
**PLANS TO ADD NEW WORKERS**



\*Weighted by Total Employees

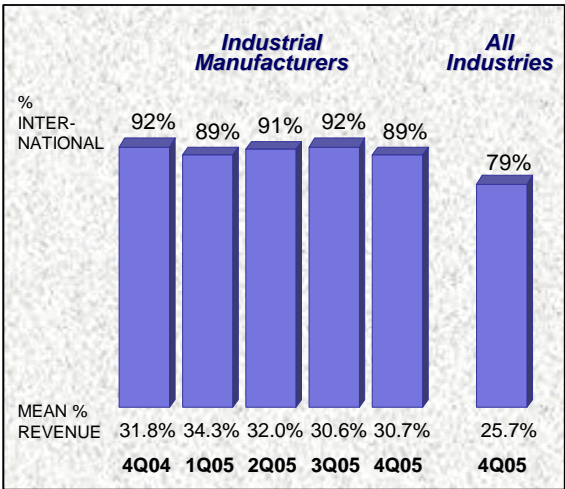
**INTERNATIONAL MARKETING**

**VIEW OF THE WORLD ECONOMY\***

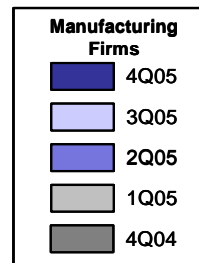
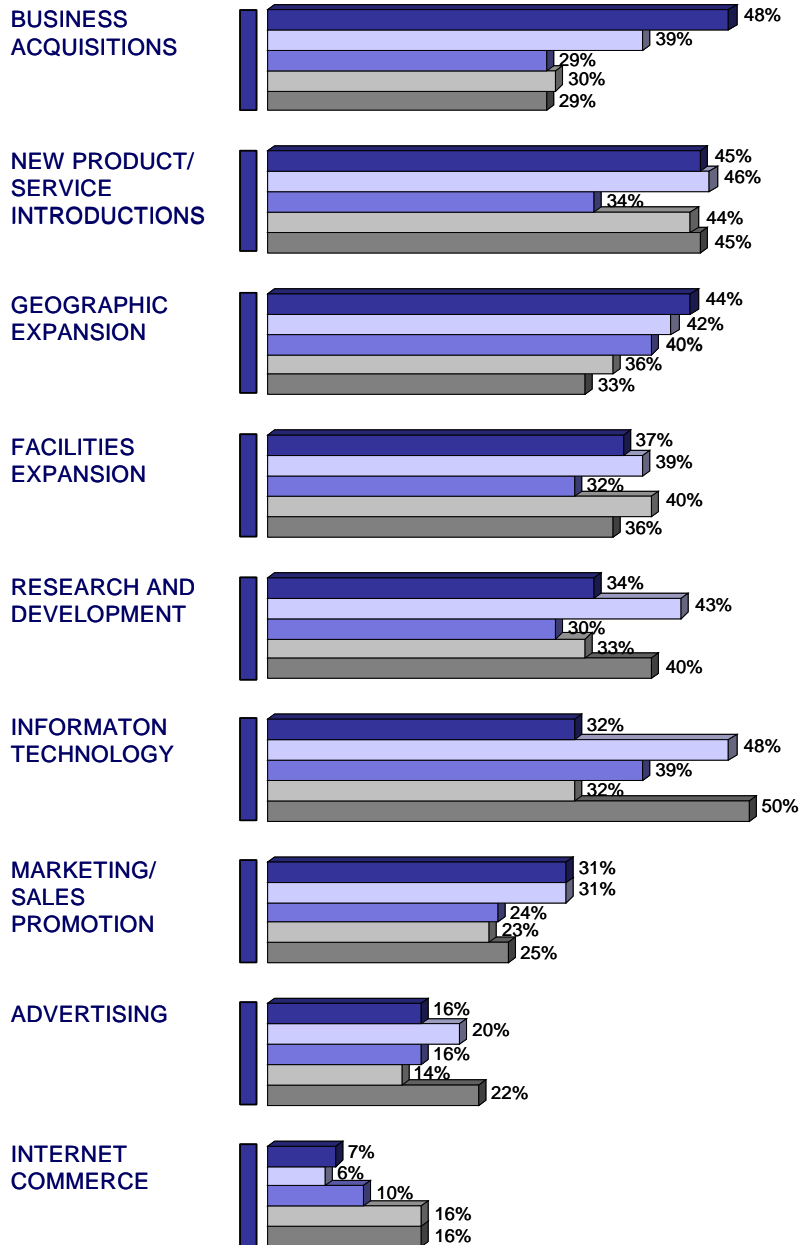


\* Among International Marketers

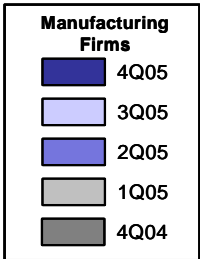
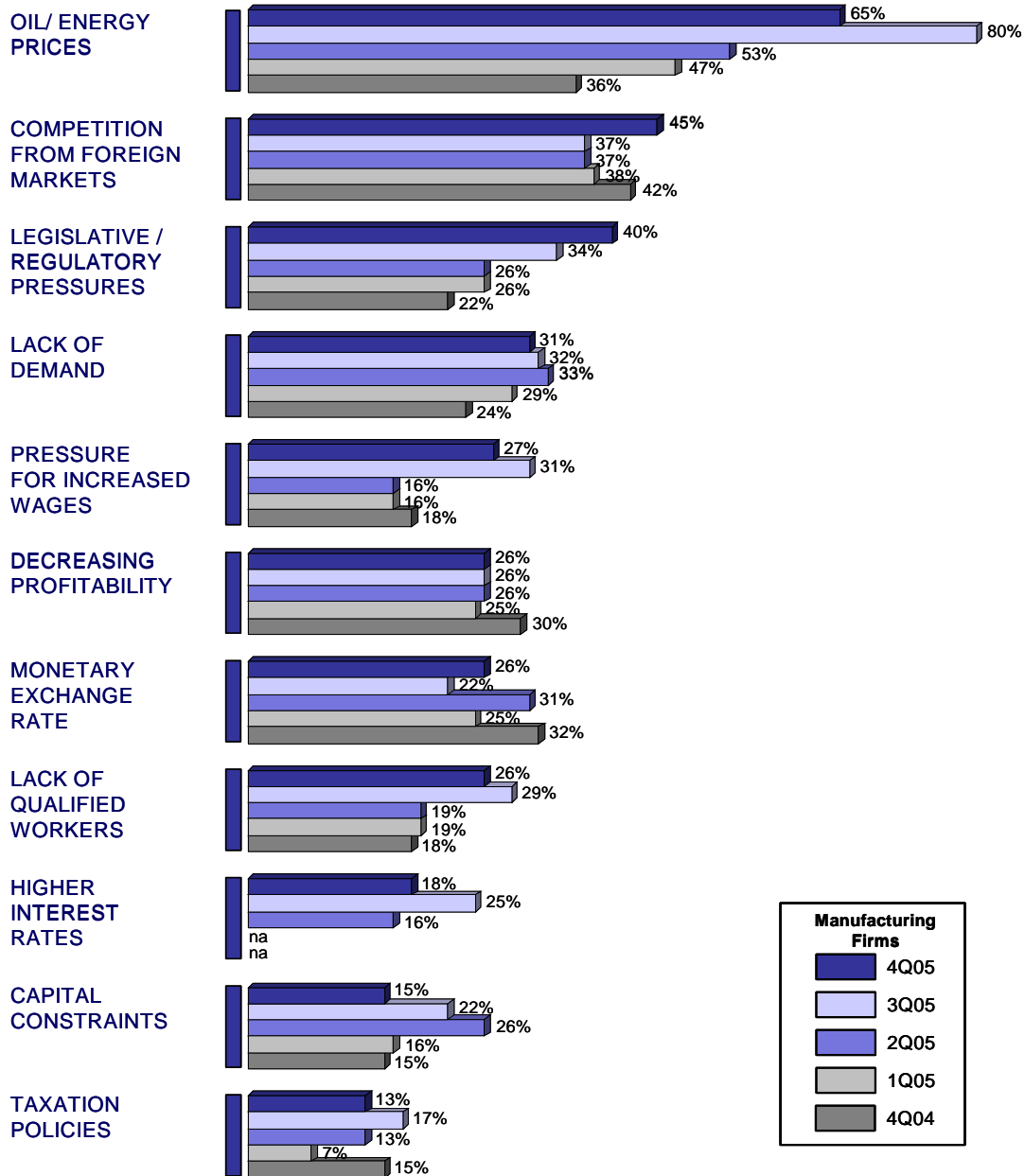
**INTERNATIONAL REVENUES\***



**TYPES OF INCREASED INVESTMENTS EXPECTED**



**POTENTIAL BARRIERS TO GROWTH**



For more information about Barometer surveys, including recent economic trend data and topical issues, please visit our web site: [www.barometersurveys.com](http://www.barometersurveys.com)

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