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Manufacturing Barometer

Business outlook report
April 2014

Special topic:
Energy costs

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Contents

Quarterly highlights

Key findings:

In the first quarter of 2014, PwC interviewed 61 US-based industrial manufacturing executives about their current business performance, their views on the state of the economy, and their expectations for business growth over the next 12 months. We then compared their responses with results from prior quarters to see how the panel's 12-month outlook has changed.

Looking ahead over the next 12 months, optimism among industrial manufacturers has increased for the US economy (71 percent, up 3 points) but faltered for the global economy (41 percent, off 6 points) after a rise the prior quarter. Uncertainty remains high in the worldwide economy (50 percent).

Own company 12-month revenue targets remained moderately high at 5.3 percent average rate of growth, similar to the prior quarter (5.4 percent), but a point above a year ago (4.3 percent). International sales retained their momentum, with a 2-point rise in prospective revenue contributions to 33 percent among those selling abroad.

Importantly, longer-term CAPEX spending was off 4 points to 39 percent– a 4-point drop from the prior quarter and a year ago. But shorter-term operational spending was up, cited by 75 percent, with product or service introductions, IT and R&D leading the way – and geographic expansion up from a year ago. M&A activity is also on the rise (28 percent).

New hiring remained flat: the majority (56 percent) plan to hire over the next 12 months, and total workforce additions planned are only 0.4 percent, similar to the prior quarter, but well below a year ago (1.0 percent).

Headwinds have shifted, with concern about demand highest (44 percent), but legislative/regulatory pressures off 9 points to 38 percent (55 percent a year ago). Up this quarter was lack of qualified workers, capital constraints, and concern about decreased profitability.

Finally, in 1Q 2014, gross margins were higher. Costs increased but were offset by price flexibility. Yet greater concern existed about profitability over the next 12 months (28 percent, up 8 points).

- **Optimism increases in US but flattens worldwide.** Optimism among industrial manufacturers about the US economy's prospects over the next 12 months rose an additional 3 points to 71 percent, 16 points higher than a year ago. Only two percent were pessimistic, and 27 percent were uncertain. Perceptions of US economy growing in 1Q 2014 was at 79 percent, 17 points above a year ago.

  However, optimism about the world economies' prospects among industrial manufacturers who market abroad dropped 6 points to 41 percent, although it was higher than a year ago (36 percent). Nine percent are pessimistic, down 10 points from a year ago. However, a large minority, 50 percent, remain uncertain about global prospects.

- **Own-company revenue growth forecasts sustained.** The own-company revenue forecasts for the next 12 months continued at 5.3 percent, similar to last quarter's moderately high 5.4 percent pace of growth. A year ago, 12-month forecasts were a point lower at 4.3 percent, and calendar year 2013 ended with a notably lower 4.3 percent growth rate. Looking ahead, 82 percent expect positive revenue growth for their own companies over the next 12 months, with 15 percent forecasting double-digit growth and 67 percent forecasting single-digit growth. Only 5 percent forecast negative growth, 7 percent zero growth, and 6 percent were not reported.

- **International sales retain momentum.** Despite drop-off in optimism about the world economy's prospects, quarterly sales among international marketers remained in an upward movement: 30 percent reported an increase in international sales in 1Q 2014 (up 1 point) and 10 percent reported a decrease (2 points lower), for a net 20 percent increasers. The expected contribution of international sales to total revenues among those selling abroad over the next 12 months continued two points higher quarter-to-quarter, at 33 percent, reflecting an upward movement.

- **Majority are hiring, but at a moderate pace.** The majority of industrial manufacturers (56 percent) plan net new hiring over the next 12 months, 4 points below the prior quarter, but 11 points above a year ago (45 percent). Only 3 percent plan to reduce the number of full-time equivalent employees, and 41 percent will likely stay about the same. The total net workforce projection for the next 12 months is a plus 0.4 percent additional workers, similar to last quarter (0.5 percent) but half of a year ago (1.0 percent). The most sought after employees will be skilled labor (33 percent), followed by production workers (30 percent) and professionals/technicians (28 percent). Plans to hire sales/marketing employees remain limited (15 percent), indicative of slow expansion.

- **CAPEX lower but budget spending increases.** Fewer, 39 percent, of US industrial manufacturers plan major new investments of capital over the next 12 months, off 4 points from the prior quarter's 43 percent and a year ago (43 percent). Their mean investment as a percentage of total sales was a moderate 5.4 percent, above the 4.8 percent in the prior quarter, and above the 4.8 percent a year ago – indicative of spending continuity at a moderate level in the year ahead.

  Operational spending increases in 2014 are planned by 75 percent (up 2 points). Leading increased investment areas will be new product or service introductions (44 percent), information technology (38 percent), and R&D (34 percent). Increased spending on geographic expansion was cited by 21 percent, up 3 points from the prior quarter and 11 points higher than a year ago. Marketing and sales promotion remained low (13 percent), and few plan increases in advertising (only 3 percent) – also indicative of slow expansion.

M&A activity is on the rise, planned by 28 percent (up 5 points) in the year ahead, focused on purchase of another business (25 percent), sale of part/all of own business (7 percent), or an equity carve-out/spin-off (3 percent). Expansion to new markets abroad was off slightly to 18 percent (off 2 points), but new facilities abroad rose 5 points to 13 percent.

- **Headwinds to growth shifting.** Lack of demand rose 2 points to 44 percent and is the leading potential barrier to growth over the next 12 months. Legislative/regulatory pressures dropped 9 points to 38 percent and is now in second position. On the rise this quarter were capital constraints, rising 11 points to 28 percent, along with lack of qualified workers, 28 percent (up 8 points), and decreasing profitability, 28 percent (up 8 points). Next were oil energy prices (26 percent), competition from foreign markets (25 percent), and taxation policies (23 percent).

- **Margins, costs, and prices all increased.** In 1Q 2014, gross margins were higher for 31 percent and lower for 13 percent – a net plus 18 percent higher, well above the 5 percent increases a year ago. Costs were sharply higher: up for 33 percent, lower for 12 percent, much higher than a year ago. But prices remained notably more flexible: 33 percent up, 10 percent down, a net 23 percent higher (8 points above a year ago). Looking ahead, decreasing profitability over the next 12 months was cited by 28 percent as a potential barrier (up 8 points quarter-to-quarter).

A quarter-over-quarter comparison of key indicators shows the business outlook for the next 12 months and how the views of the panel have changed each quarter (see chart 1.1). The pages that follow provide a detailed look at each question for the past five quarterly surveys.

Special topic:
Impact of lower energy costs

- **Cost of energy will be lower over the next 2-3 years.** Industrial products manufacturers surveyed are split on the cost of energy becoming significantly lower for US manufacturers over the next 2-3 years: 46 percent agree it will be lower, while 54 percent disagree.
- **Company plans for lower overall energy costs.** Relatively few, 19 percent, report that their own companies are anticipating lower overall energy costs short-term (next 12-18 months), but a large minority, 42 percent, anticipate lower overall energy costs over the next 2 to 3 years.
- **Impact of lower energy prices.** While 62 percent believe lower energy prices will have a positive impact on the US economy, only 39 percent believe it will have a positive impact on the US job market and new hiring. Fewer, 33 percent, believe it will have a bolstering impact on their own companies' revenues.
- **Impact of current energy prices over the past 12 months.** Panelists believe that current energy prices have had a positive impact on 28 percent of their own companies and a negative impact on 16 percent over the past 12 months. The majority (56 percent) report very little impact at all.
- **How "energy premium" is likely to be employed.** It is significant that the most probable use of an "energy premium" by their own company would be to create higher bottom-line profits (74 percent).

  Secondly, a net 53 percent will probably seek to expand their own businesses in new markets abroad (41 percent), existing markets (37 percent), and/or new markets in the US (30 percent).

  Improvement of supply chain was cited by 49 percent, while development/upgrade of manufacturing systems was cited by 39 percent.

  But... note that only 32 percent believe it would lead to an increased workforce/additional new hiring. And only 18 percent would probably increase capital spending.
- **Obstacles to capitalize on lower energy costs.** On the positive side, relatively few industrial manufacturers expect any major barriers or obstacles that may not allow their own companies to capitalize on anticipated lower energy costs (18 percent). Most see no obstacles (72 percent).

Key indicators for the business outlook

Chart 1.1 Key indicators for the business outlook

A quarter-over-quarter comparison of the survey's key indicators shows how the 12-month outlook has changed each quarter. The change column indicates the movement of opinion of those surveyed over the past two quarters.

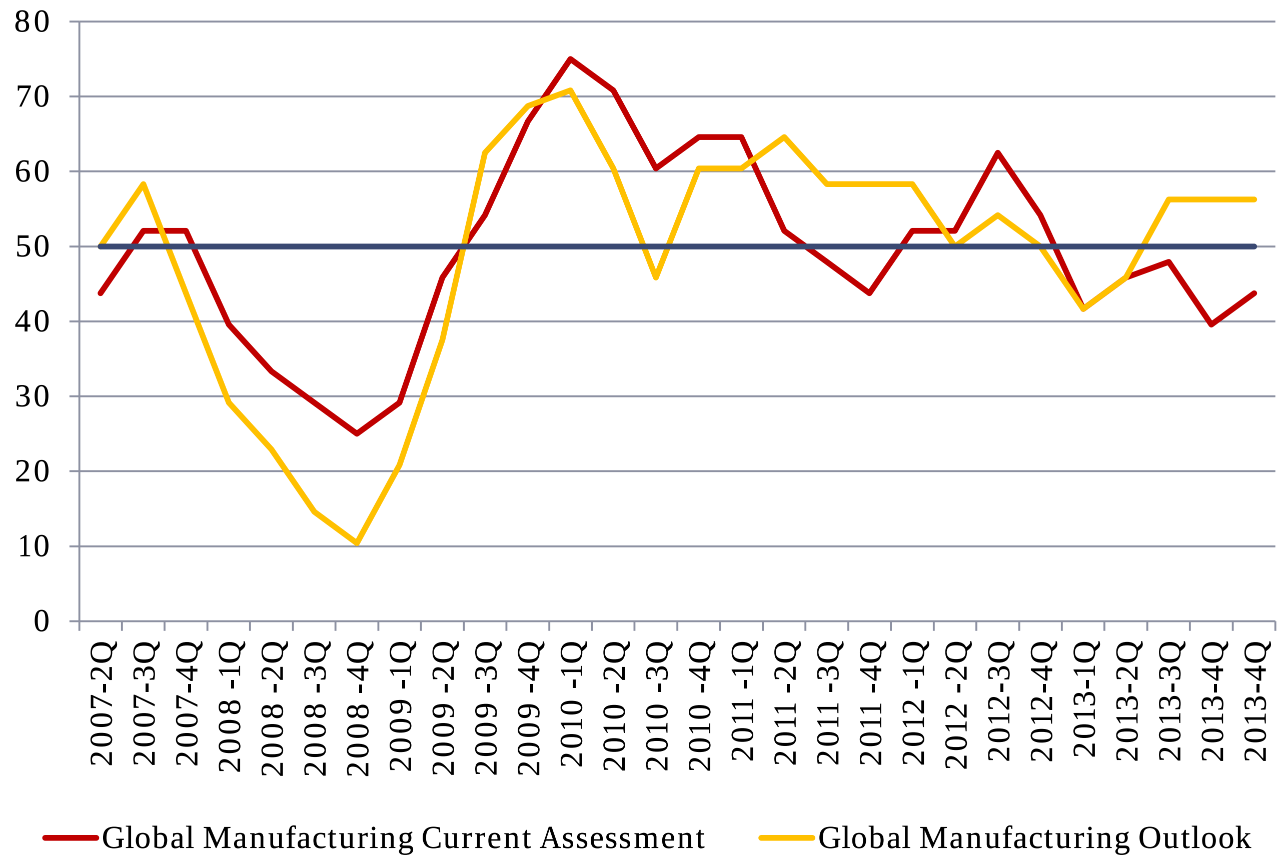
Business outlook, next 12 months among industrial manufacturers	2013				2014	Change	Page
	1Q '13	2Q '13	3Q '13	4Q '13	1Q '14	4Q'13 – 1Q'14	
Optimistic about US economy	55%	63%	60%	68%	71%	=	11
Optimistic about world economy	36%	31%	40%	47%	41%	↓	13
Expect positive revenue growth	78%	82%	82%	85%	82%	=	23
Average growth rate expected	4.3%	4.6%	4.2%	5.4%	5.3%	=	23
Planning major new investments	43%	40%	48%	43%	39%	↓	27
New investments as a % of sales	4.8%	4.0%	6.5%	4.8%	5.4%	↑	27
Planning to hire	45%	42%	58%	60%	56%	↓	25
New workers as a % of workforce (net)	1.0%	0.9%	0.7%	0.5%	0.4%	=	25
Expected barriers to growth:							
• Lack of demand	48%	47%	45%	42%	44%	=	29
• Legislative/regulatory pressures	55%	53%	58%	47%	38%	↓	29
• Lack of qualified workers	19%	13%	22%	20%	28%	↑	29
• Decreasing profitability	26%	24%	15%	20%	28%	↑	29
• Capital constraints	17%	13%	20%	17%	28%	↑	29
• Oil/energy prices	35%	22%	28%	25%	26%	=	29
• Competition from foreign markets	19%	30%	32%	27%	25%	=	29
• Taxation policies	45%	32%	22%	22%	23%	=	29
• Monetary exchange rate	12%	15%	13%	12%	18%	=	29
• Pressure for increased wages	10%	10%	8%	10%	12%	=	29
• Higher interest rates	7%	10%	13%	5%	8%	=	29

PwC global manufacturing current assessment and outlook indices

The current assessment index improved moderately this quarter as more executives reported better pricing and margins on a sequential basis. While new investments have ticked up from the previous quarter, employers have also been more cautious in their recent hiring. These sentiments contrast with components used in the outlook index, as this index suggests that employers will remain generally cautious in the operational and capital spending plans, but that the majority will add workers over the next year.

However, each of the aforementioned index components fell roughly in-line with historical norms, except for 12-month hiring plans. The percentage of manufacturers who plan to add workers is near a post-recession high, and at one of the highest levels since the question was first asked in 2003. This is also the third consecutive quarter in which the majority of executives shared that they plan to add workers. We believe that many of these companies had put off hiring after the recession but that the duration of post-recession demand growth has encouraged some increased labor-related spending.

The percentages of executives who believe the US economy is growing, as well as those who are optimistic over future US economic prospects, are also at post-recession highs. This contrasts with attitudes toward the global economy, which remain near their historical averages. The relative optimism over the US economy may be the result of anchoring. Specifically, current US economic performance may not be exceptionally strong, but it is significantly better when considered against the challenges that this economy faced during the Great Recession. Thus, it seems likely that this relative optimism toward the US will continue, but may not necessarily be associated with significantly improved financial performance or higher spending plans in upcoming quarters.



PwC global manufacturing current assessment and outlook indices

Background/methodology

PwC has surveyed global manufacturing executives since 2003 with the results published in our *Manufacturing Barometer* publication. The responses to these survey questions have been used to measure the sentiment of manufacturers by creating current assessment and outlook indices. The Global Manufacturing Current Assessment Index measures current trends in pricing, margins, employment, and capital expenditures, while the Global Manufacturing Outlook Index measures expectations for revenue, employment, operational spending, and capital expenditures. These results are calculated as a four-quarter moving average of diffusion indices which measure the degree to which their equal-weighted components move in the same direction at the same time. The indices are scaled between 1 and 100 with above 50 indicating more positive sentiment and below 50 indicating more negative sentiment.

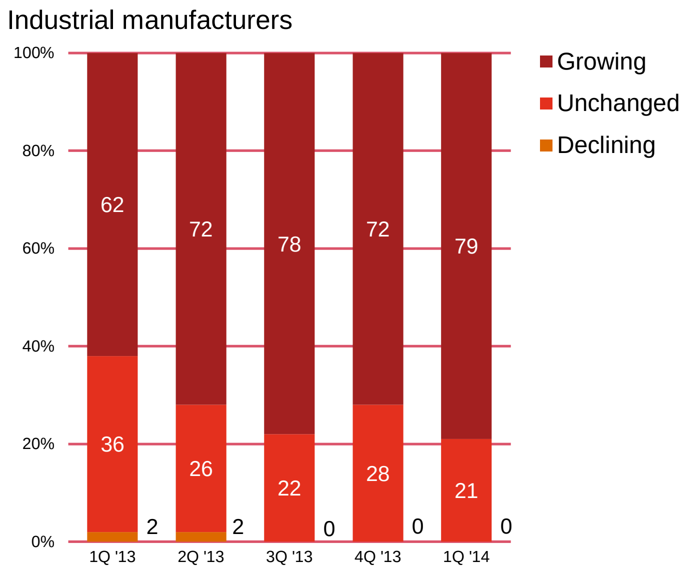
Economic views

View of the US economy, this quarter

Which best describes your view of the US economy this quarter?

In first-quarter 2014, 79 percent of US industrial manufacturers surveyed believed the US economy was growing, up 7 points from the prior quarter's 72 percent. None believed it was declining, and 21 percent saw no change from fourth-quarter 2013.

Chart 2.1 View of the US economy, this quarter



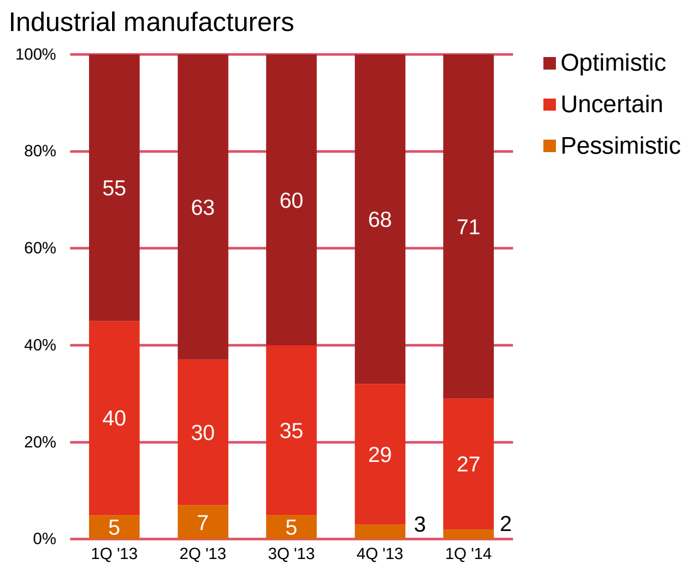
Note: In 1Q 2014 total respondents = 61

View of the US economy, next 12 months

Looking at the next 12 months, how do you feel about the prospects for the US economy?

Looking ahead, 71 percent of respondents expressed optimism about the 12-month outlook for the US economy, up 3 points from the prior quarter's 68 percent. Two percent were pessimistic (off 1 point), while 27 percent were uncertain.

Chart 2.2 View of the US economy, next 12 months



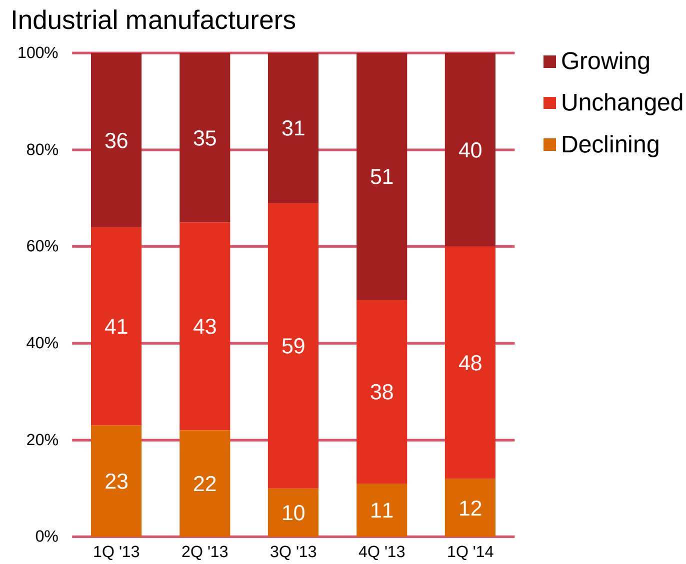
Note: In 1Q 2014 total respondents = 61

View of the world economy, this quarter

Which best describes your view of the world economy this quarter? (international marketers only)

In first-quarter 2014, 40 percent of the panelists marketing abroad viewed the world economy as growing, a notable decrease of 11 points from the prior quarter's rise to 51 percent. Twelve percent believed it was declining (up 1 point from the prior quarter), and 48 percent said they saw no change.

Chart 2.3 View of the world economy, this quarter



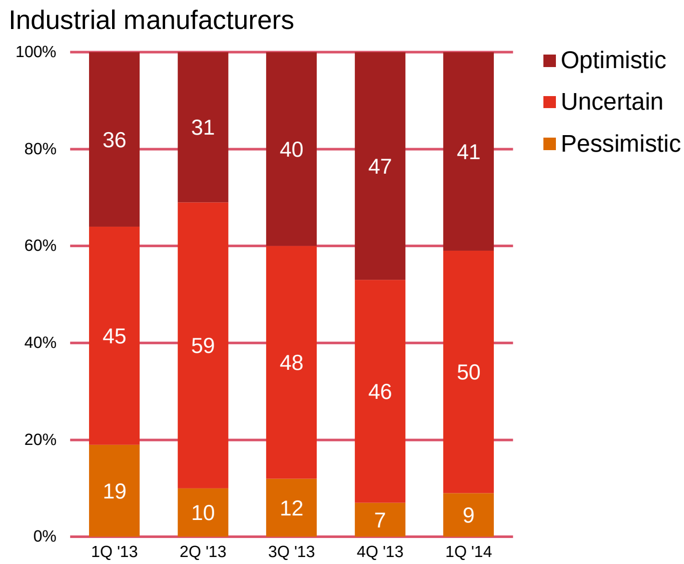
Note: In 1Q 2014 those marketing abroad = 58

View of the world economy, next 12 months

Looking at the next 12 months, how do you feel about the prospects for the world economy? (international marketers only)

Looking ahead, 41 percent, of US-based industrial manufacturers who market abroad are optimistic about the prospects for the world economy over the next 12 months, off 6 points from the prior quarter's rise to 47 percent. Nine percent are pessimistic (up 2 points), while 50 percent are uncertain. A year ago, only 36 percent were optimistic, 5 points lower.

Chart 2.4 View of the world economy, next 12 months



Note: In 1Q 2014 those marketing abroad = 58

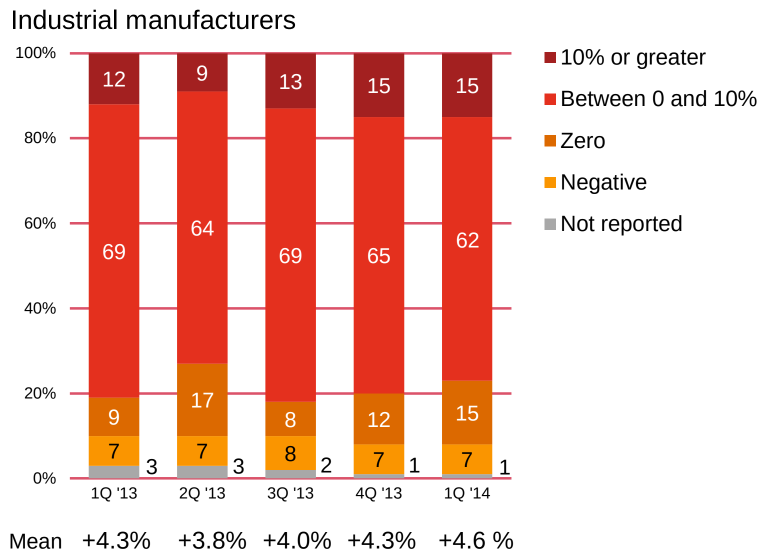
Company performance

Company revenue growth, calendar year

What is your company's estimated revenue growth rate for the calendar year?

The composite average growth estimate for own-company revenue in the calendar year 2014 was at 4.6 percent, up from 4.3 percent in the fourth quarter for calendar year 2013. Seventy-seven percent of respondents said they expect positive own-company growth, with 15 percent expecting double-digit growth and 62 percent single-digit growth. Seven percent were on the negative side, while 15 percent expected zero growth, and 1 percent was not reported.

Chart 3.1 Company revenue growth, calendar year



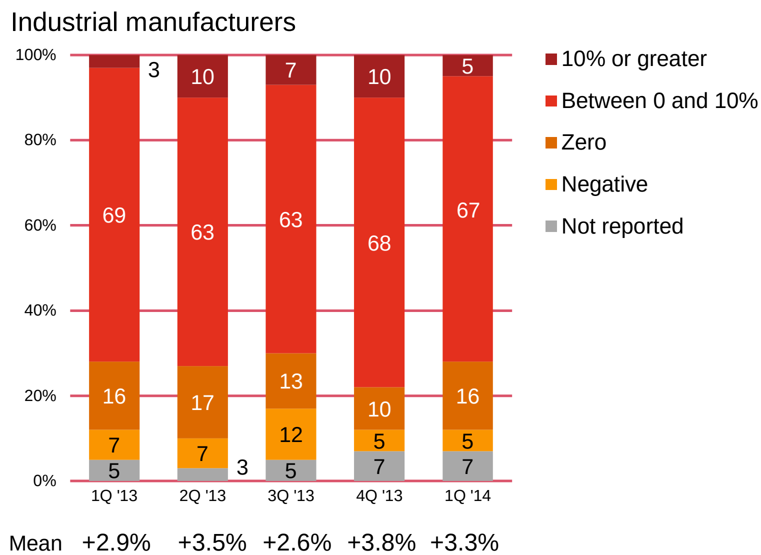
Note: In 1Q 2014 total respondents = 61

Industry growth, calendar year

What is your industry's estimated growth rate for the calendar year?

Estimated industry growth rate for calendar-year 2014 was at 3.3 percent, below the fourth quarter's 3.8 percent but higher than the 2.9 percent a year ago. Seventy-two percent of panelists reported positive industry growth for 2014 – 5 percent double-digit growth and 67 percent single-digit growth. Only 5 percent were on the negative side (same as the prior quarter). Sixteen percent expected zero growth for this year, and 7 percent were not reported.

Chart 3.2 Industry growth, calendar year



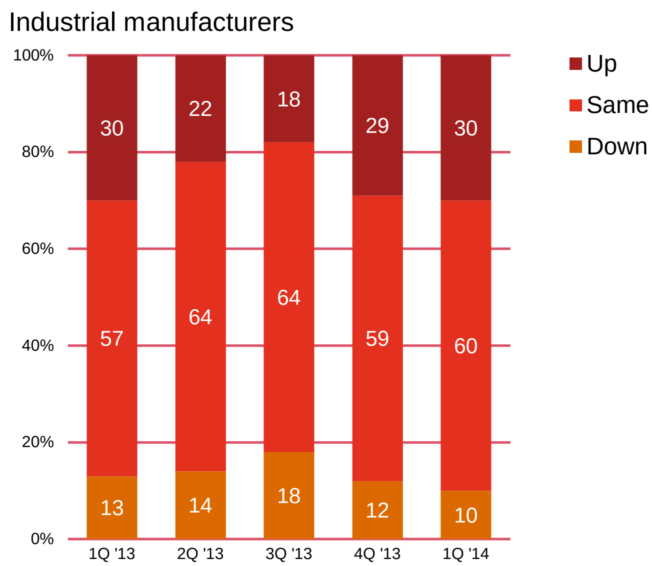
Note: In 1Q 2014 total respondents = 61

International sales

Are international sales up, down, or the same compared with three months ago? (international marketers only)

US-based industrial manufacturers that sell abroad once again reported a moderate upward movement in international revenue in first-quarter 2014, with 30 percent reporting an increase in sales (up 1 point), and 10 percent reporting a decrease (2 points lower). The remaining 60 percent said sales stayed about the same quarter to quarter.

Chart 3.3 International sales



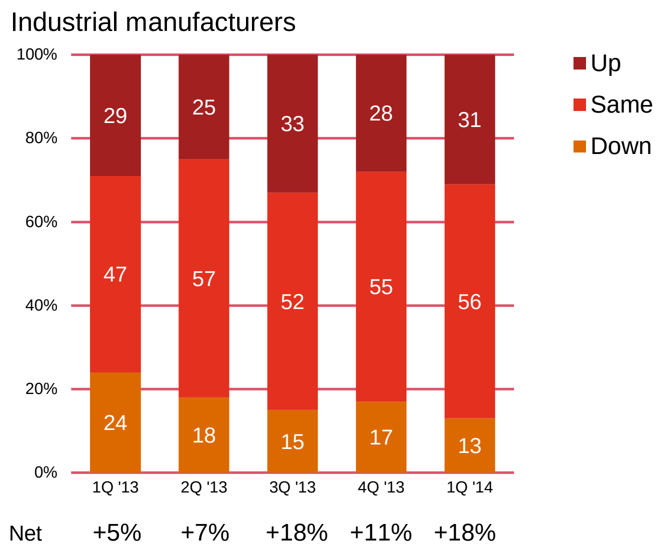
Note: In 1Q 2014 those marketing abroad = 58

Changes in gross margins

Are gross margins up, down, or the same compared with three months ago?

In first-quarter 2014, gross margins increased. They were higher for 31 percent of panelists (up 3 points) and lower for 13 percent (off 4 points), for a net plus 18 percent, 7 points above the prior quarter's plus 11 percent. Fifty-six percent stayed about the same.

Chart 3.4 Changes in gross margins



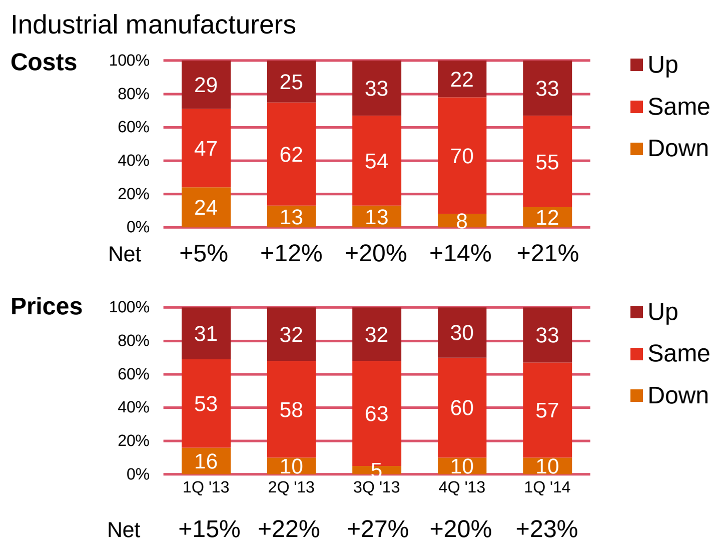
Note: In 1Q 2014 total respondents = 61

Changes in costs and prices

Are costs up, down, or the same compared with three months ago? prices?

In first-quarter 2014, costs increased greatly and prices remained higher. Thirty-three percent of US-based industrial manufacturers reported higher costs (up 11 points), and 12 percent reported lower costs (up 4 points), for a net plus 21 percent higher, 7 points above the prior quarter's 14 percent. On the price side, 33 percent raised prices (up 3 points) and 10 percent lowered them (same), for a net plus 23 percent reporting higher prices (3 points higher than the prior quarter).

Chart 3.5 Changes in costs and prices



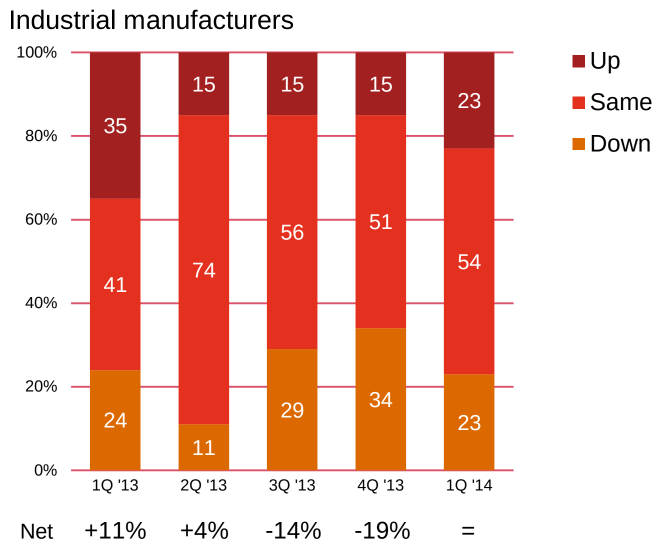
Note: In 1Q 2014 total respondents = 61

Inventory movement

Are finished inventories as a percentage of sales up, down, or the same compared with three months ago?

Inventories as a percentage of sales grew for 23 percent of US-based industrial manufacturers in the first quarter, 8 points higher than the prior quarter. Levels were down for 23 percent (off 11 points), indicating flat inventory growth in first-quarter 2014 after notably lower inventories in the third and fourth quarters of 2013.

Chart 3.6 Inventory movement



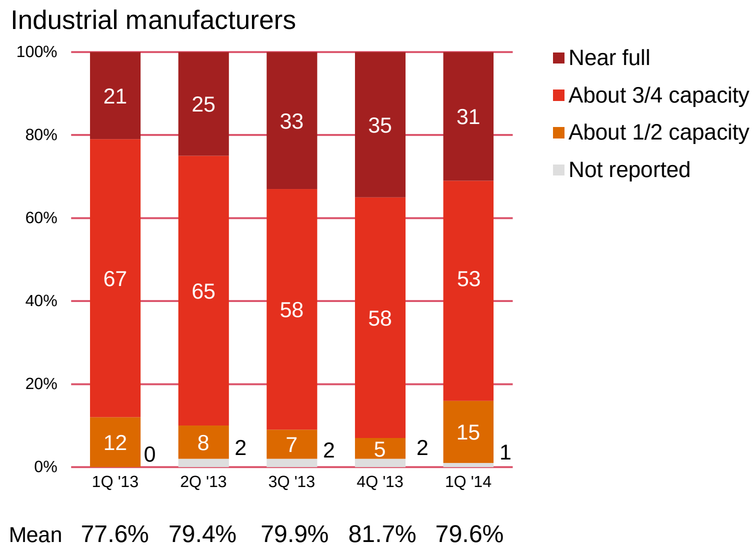
Note: In 1Q 2014 total respondents = 61

Level of operating capacity

What is your organization's current operating capacity?

Operating capacity is an estimate of the current level of permanent staffing and operations compared with what is needed for full-capacity output. In the first quarter, the mean dropped 2 points to 79.6 percent of capacity, below the previous quarter's 81.7 percent, with 31 percent of industrial manufacturers surveyed claiming to be at or near full capacity (off 4 points).

Chart 3.7 Level of operating capacity



Note: In 1Q 2014 total respondents = 61

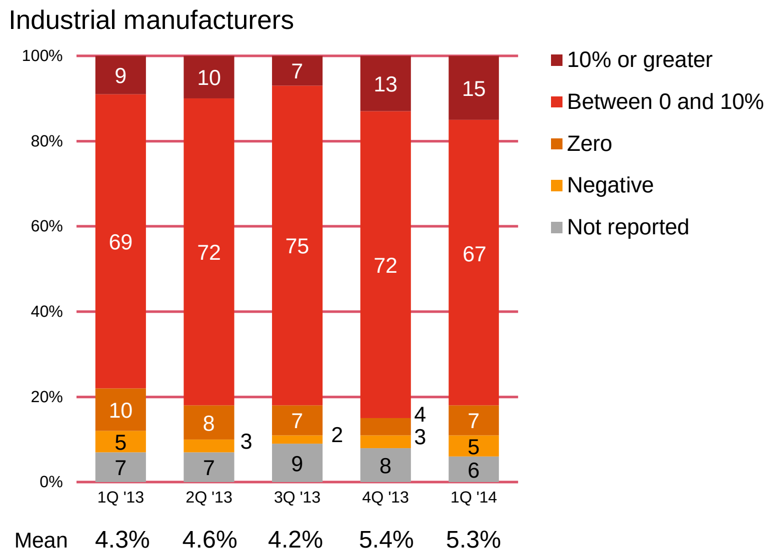
Business outlook, next 12 months

Revenue growth, next 12 months

What is your organization's estimated revenue growth rate for the next 12 months?

The projected average revenue growth rate over the next 12 months among panelists continued at a moderate 5.3 percent, similar to the prior quarter's 5.4 percent but well above a year ago (4.3 percent). Eighty-two percent expect positive revenue growth for their own companies, with 15 percent forecasting double-digit growth and 67 percent forecasting single-digit growth. Only 5 percent forecast negative growth, 7 percent forecast zero growth, and 6 percent were not reported.

Chart 4.1 Revenue growth, next 12 months



Note: In 1Q 2014 total respondents = 61

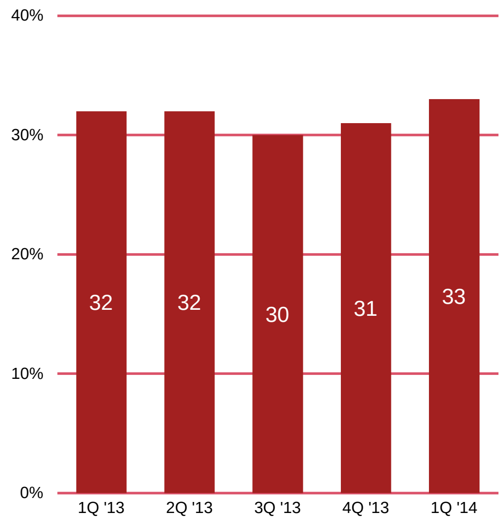
International sales, next 12 months

What percentage of your business's total revenue over the next 12 months do you expect to be derived from international sales? (international marketers only)

Of respondents selling abroad, the projected contribution of international sales to total revenue over the next 12 months was higher, up to the 33 percent level, 2 points above the prior quarter. A year ago, it was at a similar 32 percent level.

Chart 4.2 International sales, next 12 months

Industrial manufacturers



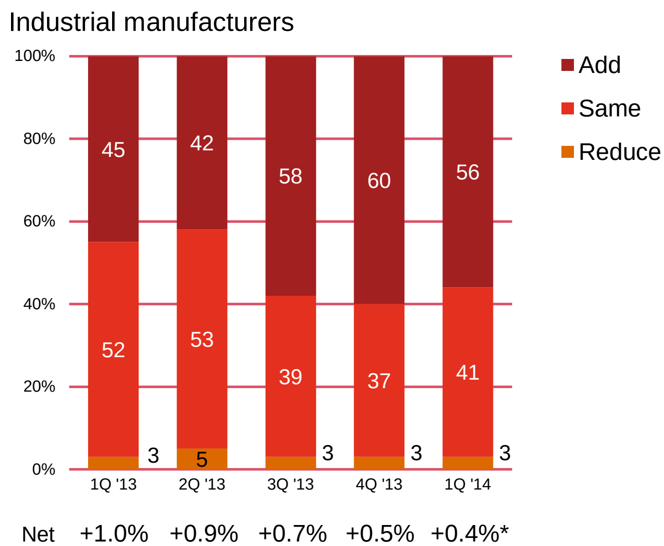
Note: In 1Q 2014 those marketing abroad = 58

Percent planning to hire

Do you plan to add or reduce the number of full-time equivalent employees over the next 12 months?

The majority, 56 percent, of industrial manufacturers surveyed plan to add employees to their workforce over the next 12 months, off 4 points from fourth-quarter 2013 estimates. Only 3 percent plan to reduce the number of full-time equivalent employees, and 41 percent will stay about the same. Total net workforce projection was 0.4 percent, similar to last quarter's plus 0.5 percent but less than half of last year's 1.0 percent, indicating a continuation of moderate hiring among these industrial manufacturing firms, despite their steady growth.

Chart 4.3 Percent planning to hire



* Percent (%) reported for US hiring, 87%

Note: In 1Q 2014 total respondents = 61

Percent planning to hire by type of employee

What types of employees do you plan to add over the next 12 months?

Among the 56 percent of respondents planning to hire within the next 12 months, the most sought-after employees will be skilled labor (33 percent), production workers (30 percent), and professionals/technicians (28 percent). Note that more white collar support hiring is now planned, 20 percent (up 7 points).

Chart 4.4 Percent planning to hire by type of employee

Industrial manufacturers

	1Q '13	2Q '13	3Q '13	4Q '13	1Q '14
Planning to hire (net)	45%	42%	58%	60%	56%
• Skilled labor	19%	23%	35%	42%	33%
• Production workers	23%	23%	30%	28%	30%
• Professionals/technicians	29%	18%	35%	30%	28%
• White collar support	7%	7%	17%	13%	20%
• Sales/marketing	5%	10%	7%	12%	15%

Note: In 1Q 2014 total respondents = 61

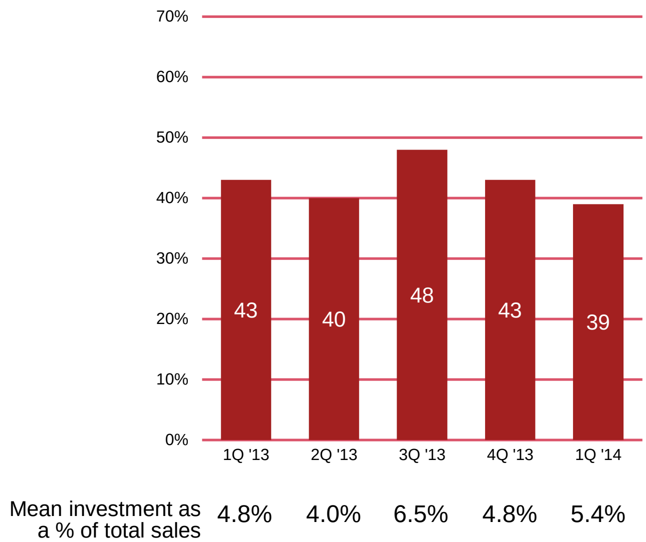
Percent planning major new investments of capital

Are you actively planning any major new investments of capital over the next 12 months? If so, what percentage of total sales do you expect to invest?

Overall, fewer (39 percent) of US industrial products manufacturers surveyed plan major new investments of capital during the next 12 months, off 4 points from the prior quarter's 43 percent, and from a year ago (43 percent). The mean investment as a percentage of total sales was higher than the prior quarter's 4.8 percent, at 5.4 percent – indicative of moderate spending among fewer of these panelist businesses.

Chart 4.5 Percent planning major new investments of capital

Industrial manufacturers



Note: In 1Q 2014 total respondents = 61

Percent planning to increase operational spending

Over the next 12 months, where do you expect to increase spending?

Looking at the next 12 months, shorter-term spending was up: 75 percent of respondents plan to increase operational spending, up 2 points from the fourth quarter. Leading increased expenditures were new product or service introductions (44 percent), information technology (38 percent, up 6 points), and research and development (34 percent). Plans for geographic expansion rose 3 points to 21 percent, while business acquisitions rose 4 points to 21 percent. Both are notably higher than a year ago. Marketing and sales remained relatively low.

Chart 4.6 Percent planning to increase operational spending

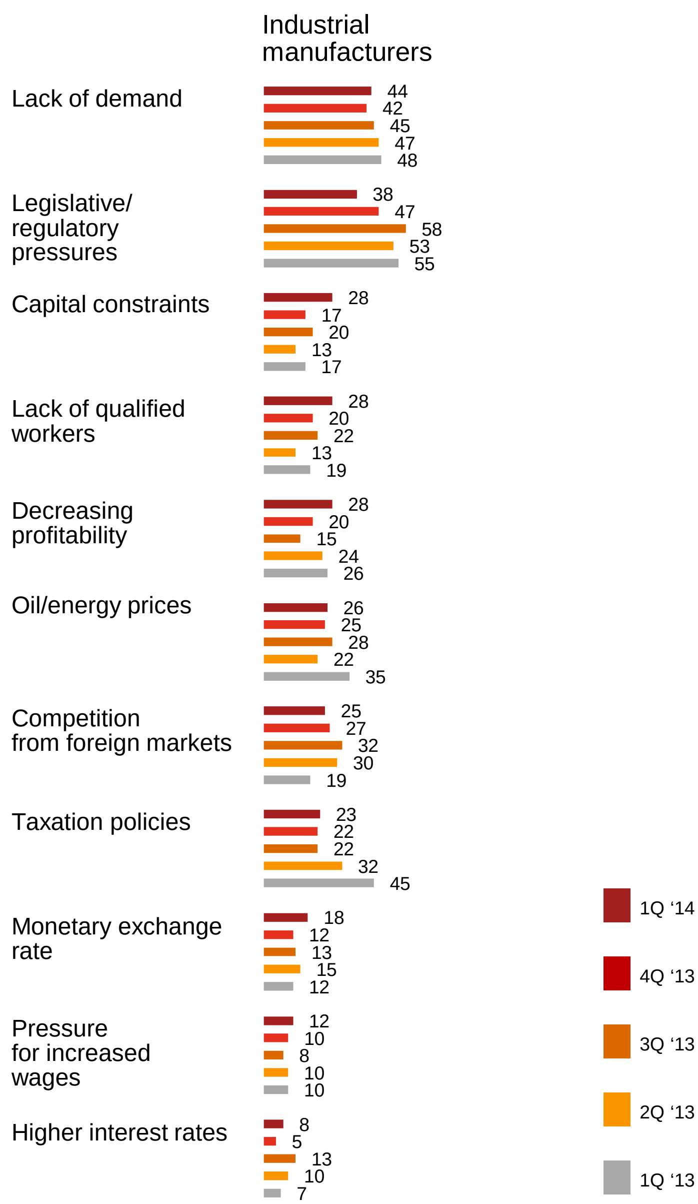
Industrial manufacturers

	1Q '13	2Q '13	3Q '13	4Q '13	1Q '14
Percent planning to increase spending (net)	71%	73%	78%	73%	75%
• New product or service introduction	38%	45%	55%	45%	44%
• Information technology	28%	28%	35%	32%	38%
• Research and development	52%	38%	38%	37%	34%
• Facilities expansion	17%	20%	30%	23%	21%
• Geographic expansion	10%	15%	23%	18%	21%
• Business acquisition	12%	20%	15%	17%	21%
• Marketing and sales promotion	14%	17%	15%	13%	13%
• Advertising	7%	7%	8%	2%	3%
• Internet commerce	5%	7%	2%	2%	2%

Note: In 1Q 2014 total respondents = 61

Expected barriers to business growth

Chart 4.7 Expected barriers to business growth



Over the next 12 months, will any of the following represent barriers to business growth?

Lack of demand rose 2 points to 44 percent and is the leading potential barrier to growth over the next 12 months. Legislative/regulatory pressures dropped 9 points to 38 percent and is now in second position. On the rise this quarter were capital constraints, rising 11 points to 28 percent, along with lack of qualified workers, 28 percent (up 8 points), and decreasing profitability, 28 percent (up 8 points). Next were oil energy prices (26 percent), competition from foreign markets (25 percent), taxation policies (23 percent), and monetary exchange rate (18 percent).

Note: In 1Q 2014 total respondents = 61

Plans for M&A and other business initiatives

Over the next 12 months, do you expect to participate in any of the following new business initiatives?

Importantly, more panelists are planning M&A activity over the next 12 months, up 5 points to 28 percent. Most of these, 25 percent, are looking at purchasing another business, while 7 percent plan to sell part or all of their own business. Plans for expansion to new markets abroad was off 2 points to 18 percent. New joint ventures are planned by 12 percent, and new strategic alliances was cited by 23 percent. On the debit side, reductions abroad were reported by a net 10 percent, with closing/reduction of facilities abroad cited by 8 percent. There are more panelists building abroad than closing/reducing facilities abroad – 13 percent vs. 8 percent.

Chart 4.8 Plans for M&A and other business initiatives

Industrial manufacturers

	1Q '13	2Q '13	3Q '13	4Q '13	1Q '14
New business initiatives (net)	47%	50%	58%	47%	53%
• M&A activity (net)	19%	23%	22%	23%	28%
- Purchase another business	14%	18%	17%	20%	25%
- Sell part/all own business	7%	10%	8%	8%	7%
- Equity carve-out/spin-off	---	2%	3%	5%	3%
• New strategic alliance	16%	20%	27%	22%	23%
• Expand to new markets abroad	9%	18%	18%	20%	18%
• New facilities abroad	3%	12%	8%	8%	13%
• New joint venture	22%	10%	33%	13%	12%
• Close/reduce facilities abroad	5%	7%	8%	10%	8%
• Reduce activity in markets abroad	2%	3%	5%	5%	7%

Note: In 1Q 2014 total respondents = 61

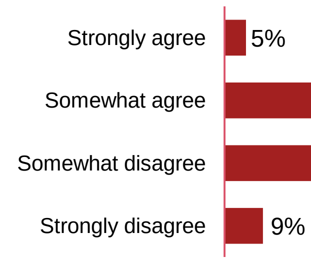
Special topic: Impact of lower energy costs

Impact of lower energy costs

To what extent do you agree with the following statement: "America is becoming energy independent and many experts predict that the cost of energy will become significantly lower for US manufacturers"?

Industrial products manufacturers surveyed are split on the cost of energy becoming significantly lower for US manufacturers over the next 2-3 years: 46 percent agree it will be lower, while 54 percent disagree.

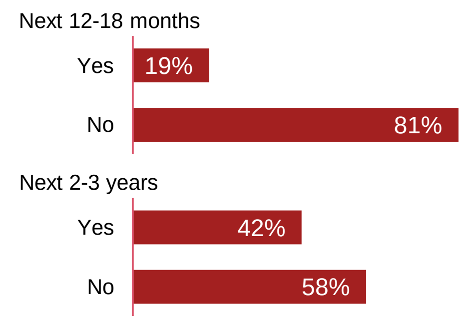
Chart 5.1 Cost of energy will be lower over the next 2-3 years



In your own company's plans for the next 12-18 months, are you anticipating lower overall energy costs? In your company's longer term plans for the next 2-3 years, are you anticipating lower overall energy costs?

Relatively few, 19 percent, report that their own companies are anticipating lower overall energy costs short-term (next 12-18 months), but a large minority, 42 percent, anticipate lower overall energy costs over the next 2-3 years.

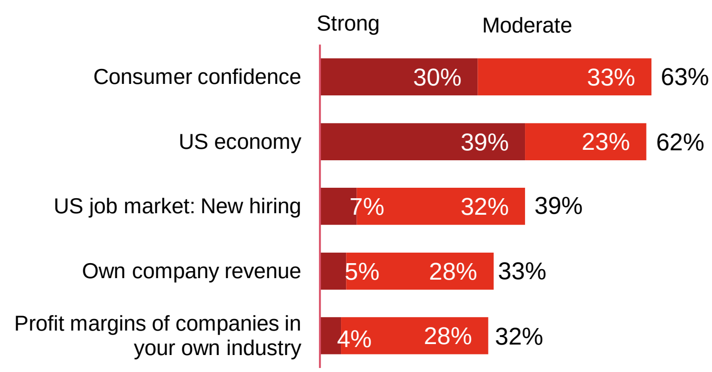
Chart 5.2 Company plans for lower overall energy costs



Looking ahead over the next 2-3 years, to what extent do you believe lower energy prices — and their contribution to many other products or services — will have a positive impact on the following?

While 62 percent believe lower energy prices will have a positive impact on the US economy, only 39 percent believe it will have a positive impact on the US job market and new hiring. Fewer, 33 percent, believe it will have a bolstering impact on their own companies' revenues.

Chart 5.3 Impact of lower energy prices



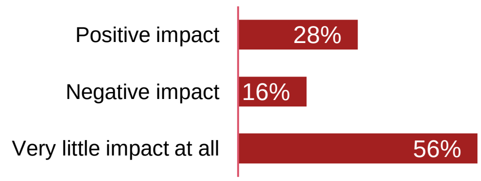
Note: In 1Q 2014 total respondents = 57

Impact of lower energy costs

To what extent have current energy prices had an impact on your own company over the past 12 months?

Panelists believe that current energy prices have had a positive impact on 28 percent of their own companies and a negative impact on 16 percent over the past 12 months. The majority (56 percent) report very little impact at all.

Chart 5.4 Impact of current energy prices over the past 12 months



Looking ahead, if energy costs become notably lower, how is your own company likely to employ this energy premium?

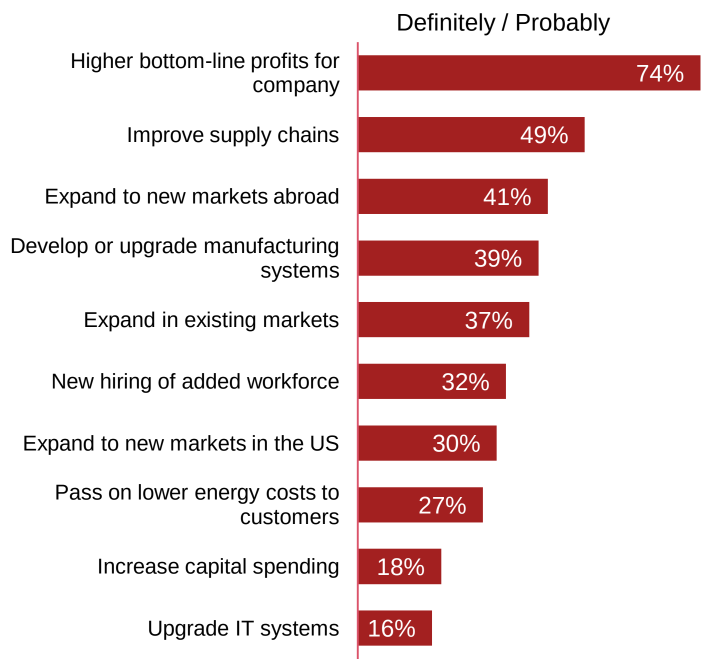
It is significant that the most probable use of an "energy premium" by their own company would be to create higher bottom-line profits (74 percent).

Secondly, a net 53 percent will probably seek to expand their own businesses in new markets abroad (41 percent), existing markets (37 percent), and/or new markets in the US (30 percent).

Improvement of supply chain was cited by 49 percent, while development/upgrade of manufacturing systems was cited by 39 percent.

But... note that only 32 percent believe it would lead to an increased workforce/additional new hiring. And only 18 percent would probably increase capital spending.

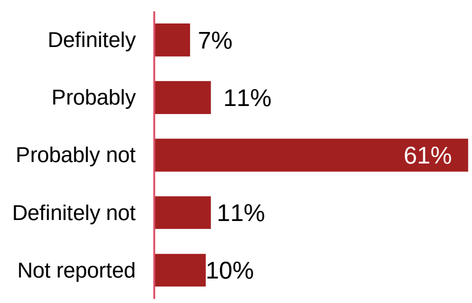
Chart 5.5 How "energy premium" is likely to be employed



Do you expect any major barriers or obstacles that may not allow your own business to capitalize on anticipated lower energy costs over the near future?

On the positive side, relatively few industrial manufacturers expect any major barriers or obstacles that may not allow their own companies to capitalize on anticipated lower energy costs (18 percent). Most see no obstacles (72 percent).

Chart 5.6 Obstacles to capitalize on lower energy costs



Note: In 1Q 2014 total respondents = 57

Survey demographics and research methodology

Demographics

Who	Senior executives of US-based industrial manufacturing organizations
Interview dates	January 9, 2014 to April 2, 2014
	Industrial manufacturers (61)
Average number of employees at location	8,747
Average business unit revenue	$3.42 billion
Average enterprise revenue	$9.84 billion
Market capitalization	$12.75 billion
Industry sectors	Products 100% Manufacturing 100%

Methodology

PwC's *Manufacturing Barometer* is a quarterly telephone survey conducted by the independent research firm BSI Global Research Inc. Our regular survey panel consists of senior executives from a geographically balanced sample of large companies in the United States. Ninety-five percent of the panelists hold titles such as president, CEO, CFO, VP of finance, treasurer, controller, internal audit director, or other related title.

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About the research:

The Manufacturing Barometer is one in a series of quarterly business outlook surveys from PwC. The survey provides a view on the 12-month outlook for revenue growth, new investments, new hiring plans, emerging business barriers and more. In addition to the business outlook, we hear from our panelists about special issues they face as the business climate changes. Results of the quarterly business outlook surveys and special issue surveys are available at www.barometersurveys.com.

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