Manufacturing Barometer™

Business outlook 1Q 2008

PricewaterhouseCoopers

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Quarterly highlights

In 1Q 2008, PricewaterhouseCoopers interviewed 60 US-based industrial manufacturing executives about their current business performance, the state of the economy and their expectations for business growth over the next 12 months. We then compared their responses to the prior quarter's results to see how the panel's 12-month outlook changed. The final step was to compare their views to a wider panel to show how the industry differs from the broader population.

Of those surveyed, the majority of US-based industrial manufacturers said they are pessimistic about the prospects for the US economy over the next 12 months, and most of the others said they are uncertain. Only 12 percent remain optimistic. Their overall uncertainty now includes the world economy where 21 percent say they are pessimistic and 41 percent say they are uncertain about the next 12 months.

Overall, US-based industrial manufacturers will be readjusting to a slower-paced domestic economy for most of 2008, but with the continued strength of international sales, an uptick is anticipated as they move into the first months of 2009.

Key findings:

- Optimism drops dramatically. Those optimistic about the 12-month outlook for the US economy fell to a low of 12 percent, off 17 points from its 29 percent low in the prior quarter. The majority is now pessimistic (52 percent) about the US economy, and 36 percent remain uncertain. Far fewer are optimistic about the prospects for the world economy this quarter, dropping from 64 percent the prior quarter to 38 percent in 1Q 2008.
- Revenue projections are lowered. Own-company revenue projections remain positive for 70 percent (off 11 points). However, in the face of growing pessimism, senior executives of US-based industrial manufacturers have reset their targets, lowering them, on average, nearly a full point from 5.4 percent in the prior quarter to 4.6 percent. Largely responsible for these lowered projections, the oil/energy-vulnerable segment plans a 3.9 percent revenue growth rate vs. 6.1 percent for its non-vulnerable peers, or 36 percent lower.
- International sales remain brisk for those selling abroad. In 1Q 2008, 63 percent of international marketers reported increased sales abroad, and 37 percent reported about the same. Looking ahead over the next 12 months, the contribution of international sales to total revenues projects to 35 percent.
- Fewer new workforce additions are expected. Overall, fewer companies plan to add employees over the next 12 months, a drop from 36 percent the prior quarter to 32 percent in 1Q 2008. Conversely, 15 percent expect a reduction in workers, which is similar to the prior four quarters. The net workforce projection is a negative 0.3 percent, below last quarter's plus 0.1 percent and last year's plus 0.7 percent.
- Investments are up, but M&A plans cool. Currently, 52 percent plan major new investments of capital, up from 41 percent last quarter. Two types of increased expenditures continue to lead the way: information technology (40 percent) and new product or service introductions (38 percent). M&A plans are off from the prior quarter, 37 percent vs. 44 percent, respectively.
- Gross margins show strain. Gross margins became an issue for industrial manufacturers in 1Q 2008, turning directionally net negative: 23 percent up, 35 percent down – or net minus 12 percent (vs. plus 14 percent in the prior quarter). Both costs and prices were higher in 1Q 2008.
- Growth concerns emerge. Potential barriers to company growth over the next 12 months were again led by oil/energy prices and market demand. On the monetary side, concern about decreasing profitability and monetary exchange rates were on the rise, while capital constraints also began to emerge. The profitability issue must be carefully monitored in 2008, as higher prices may have limits in chasing higher costs.

A quarter-over-quarter comparison of the 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 survey question for the past five quarters of the survey.

Key indicators for the business outlook

Chart 1.1 Key indicators for the business outlook

A quarter-over-quarter comparison of the key indicators shows how the 12-month outlook has changed each quarter. The change column indicates the movement of opinion from the last two quarters.

Business outlook, next 12 months among industrial manufacturers	2007				2008	Change	Page
	1Q '07	2Q '07	3Q '07	4Q '07	1Q '08	4Q '07–1Q '08	
Optimistic about US economy	57%	62%	45%	29%	12%	↓	7
Optimistic about world economy	83%	78%	79%	64%	38%	↓	9
Expect positive revenue growth	85%	84%	77%	81%	70%	↓	19
Average growth rate expected	6.8%	5.7%	6.5%	5.4%	4.6%	↓	19
Planning major new investments	56%	57%	42%	41%	52%	↑	23
New investments as a % of sales	7.4%	9.4%	8.7%	9.0%	5.6%	↓	23
Planning to hire	46%	51%	52%	36%	32%	↓	21
New workers as a % of workforce (net)	+0.7%	-0.4%	+0.4%	+0.1%	-0.3%	↓	21
Expected barriers to growth							
• Oil/energy prices	51%	59%	57%	66%	68%	=	25
• Lack of demand	36%	34%	53%	61%	62%	=	25
• Monetary exchange rate	21%	30%	28%	44%	57%	↑	25
• Decreasing profitability	18%	21%	48%	31%	48%	↑	25
• Legislative/regulatory pressures	36%	36%	50%	29%	35%	↑	25
• Capital constraints	16%	13%	22%	15%	32%	↑	25
• Pressure for increased wages	18%	23%	32%	25%	30%	↑	25
• Competition from foreign markets	39%	53%	43%	44%	25%	↓	25
• Lack of qualified workers	41%	30%	37%	22%	23%	=	25
• Taxation policies	25%	23%	32%	20%	18%	=	25
• Higher interest rates	20%	28%	35%	29%	12%	↓	25

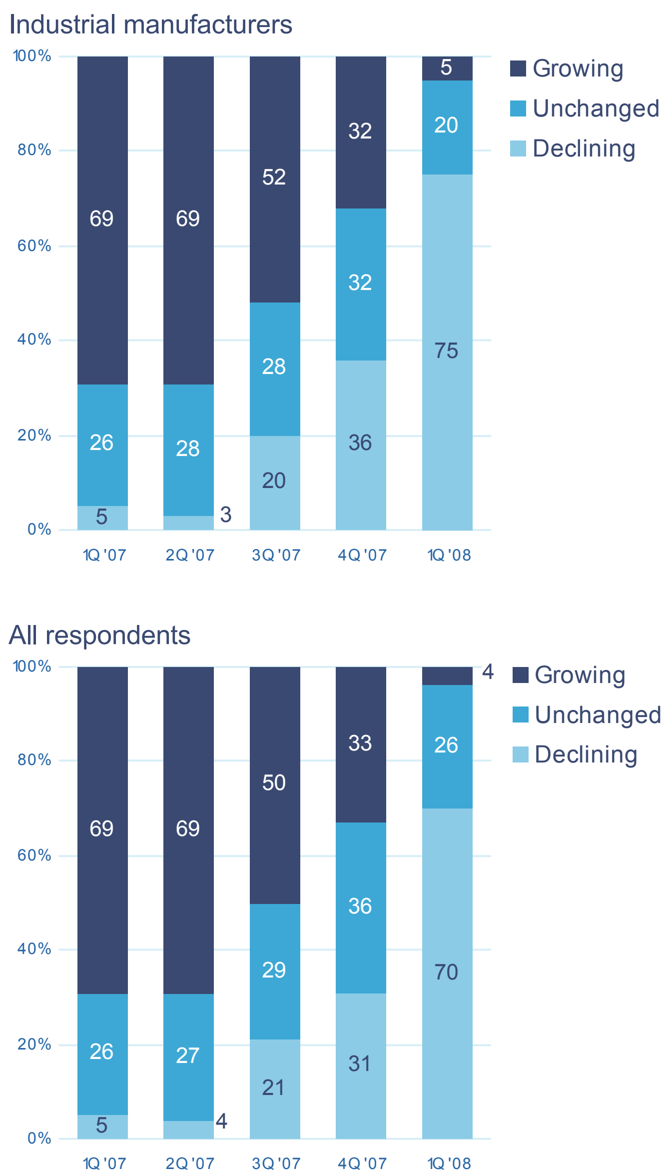
Economic views

View of the US economy, this quarter

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

Only 5 percent of US-based industrial manufacturing executives believe the US economy continued to grow in 1Q 2008, a sharp drop from last quarter's 32 percent and drastically lower than last year's 69 percent. Most, 75 percent, now believe the US economy is declining, more than twice last quarter's 36 percent.

Chart 2.1 View of the US economy, this quarter



Note: In 1Q 2008 Industrial manufacturers n=60, All respondents, n=108

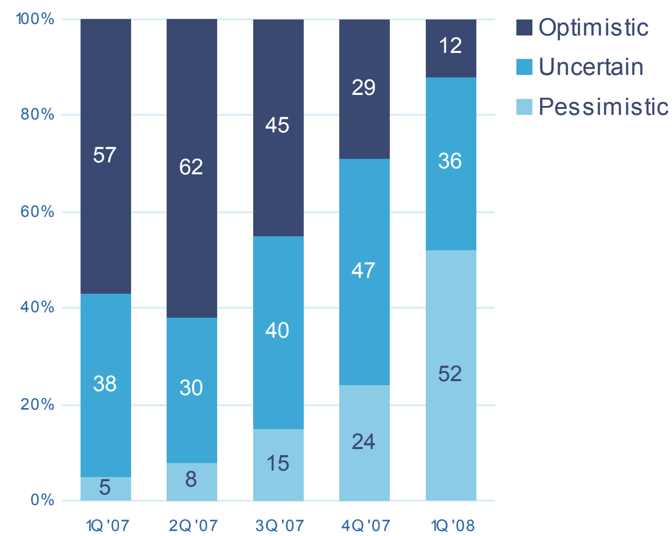
View of the US economy, next 12 months

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

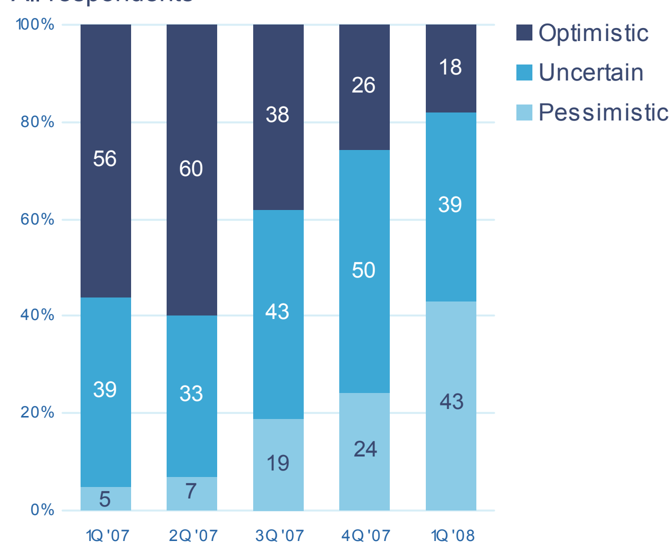
Only 12 percent of US-based industrial manufacturers expressed optimism about the prospects for the US economy, down sharply from the prior quarter's 29 percent and last year's 57 percent. Pessimism about the US economy's prospects rose 28 points to 52 percent, while 36 percent were uncertain.

Chart 2.2 View of the US economy, next 12 months

Industrial manufacturers



All respondents



Note: In 1Q 2008 Industrial manufacturers n=60,
All respondents, n=108

View of the world economy, this quarter

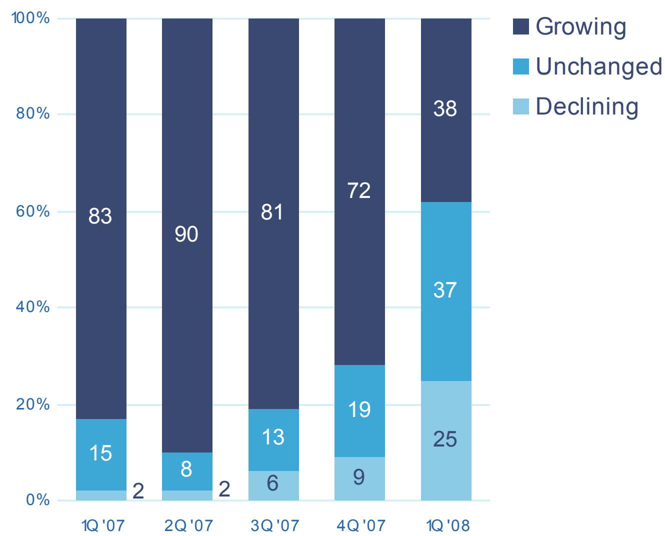
Which best describes your view of the world economy this quarter? (international marketers only)

Of those marketing abroad, 38 percent view the world economy as growing, a steep decline of 34 points from the prior quarter and less than half of the prior year's 83 percent. For the past five quarters, industrial manufacturers have been more optimistic about the world economy than the broader consensus, but they now are on par.

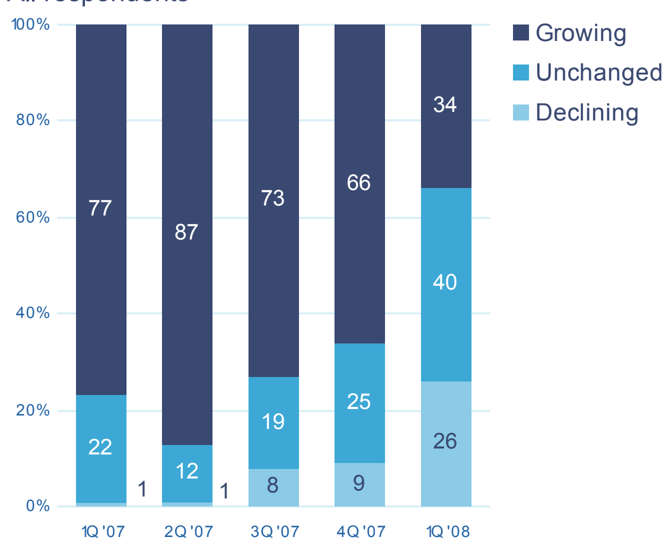
Note: In 1Q 2008 those marketing abroad, Industrial manufacturers n = 48, All respondents, n= 89

Chart 2.3 View of the world economy, this quarter

Industrial manufacturers



All respondents



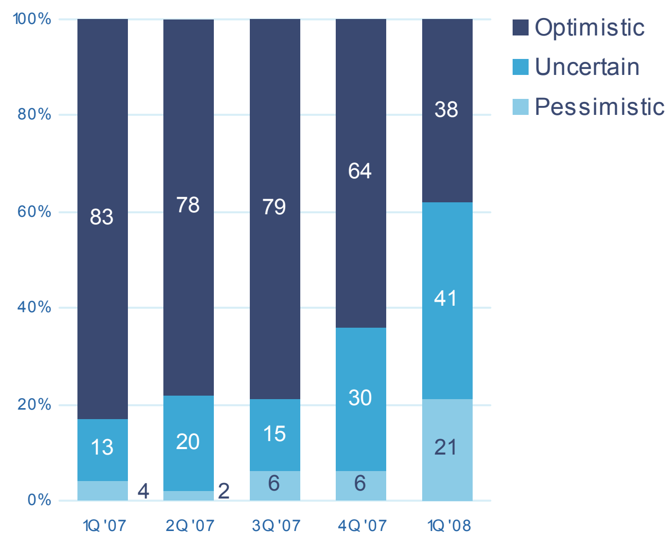
View of the world economy, next 12 months

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

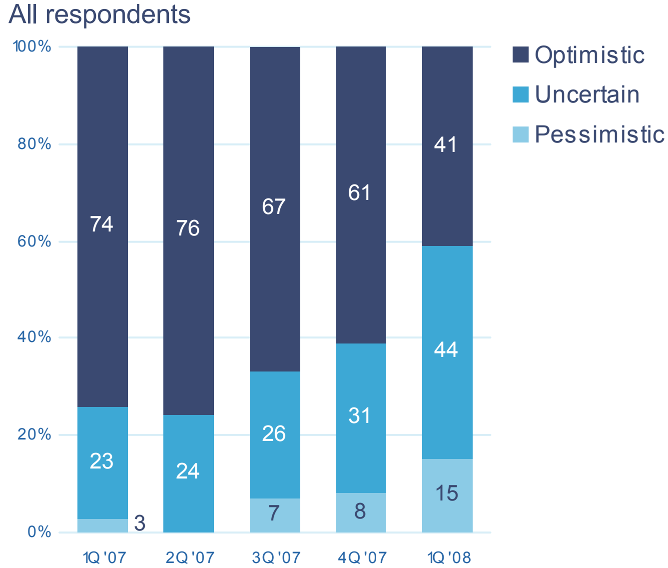
Thirty-eight percent of US-based industrial manufacturers who market abroad are optimistic about the prospects for the world economy, 26 points below the prior quarter's 64 percent and well below the 83 percent level of a year ago. Most now express uncertainty (41 percent), and more than a fifth of respondents say they are pessimistic (21 percent).

Chart 2.4 View of the world economy, next 12 months

Industrial manufacturers



All respondents



Note: In 1Q 2008 those marketing abroad, Industrial manufacturers n = 48, All respondents, n= 89

Company performance

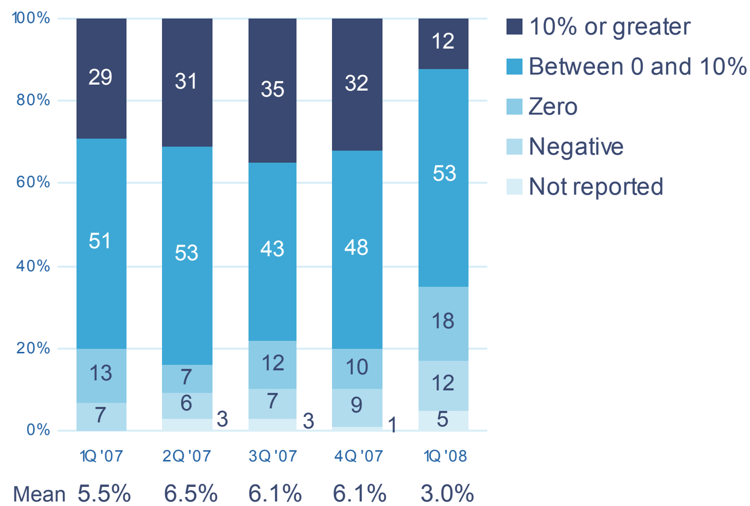
Company revenue growth, calendar year

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

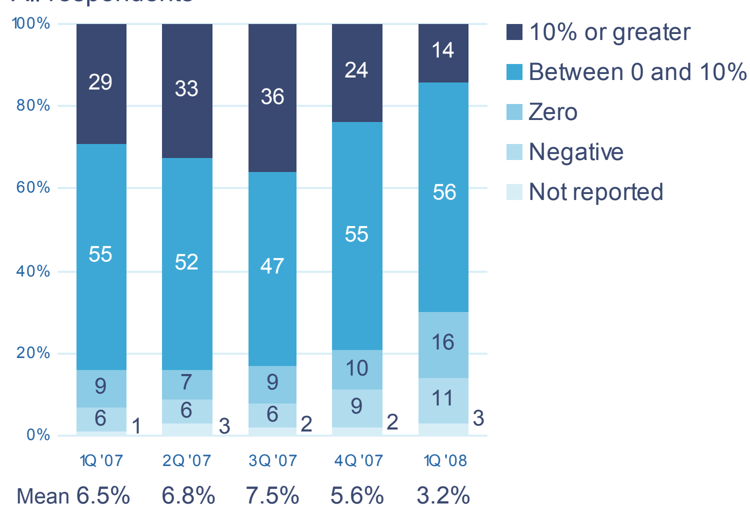
Currently, only 12 percent of US-based industrial manufacturers expect double-digit growth and 53 percent report single-digit growth. Overall, the composite average growth estimate dropped to 3.0 percent, down sharply from last year's 6.1 percent. For more information on revenue expectations, see chart 4.1, revenue expectations, next 12 months.

Chart 3.1 Company revenue growth, calendar year

Industrial manufacturers



All respondents



Note: In 1Q 2008 Industrial manufacturers n=60, All respondents, n=108

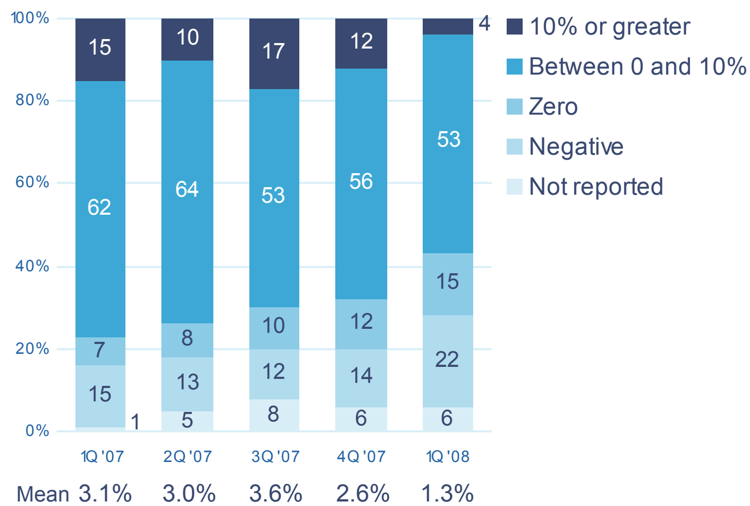
Industry growth, calendar year

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

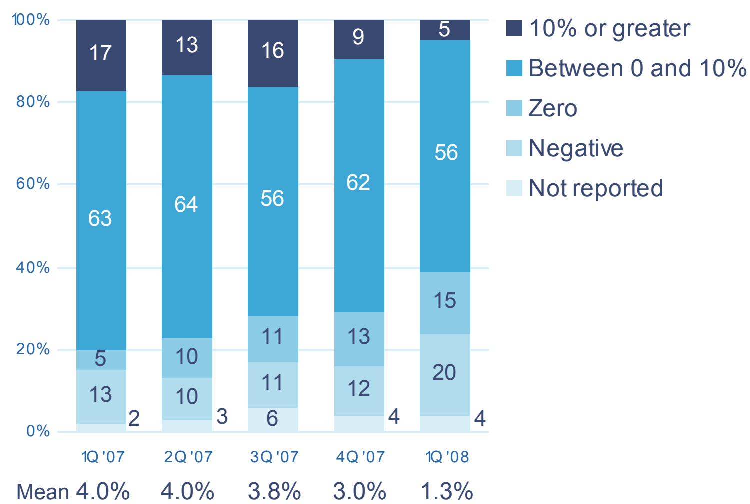
Industry growth for the calendar year is expected to average 1.3 percent, half the 2.6 percent level the prior quarter. Note that the industry growth estimate is typically lower than the average company growth rate. US-based industrial manufacturers anticipate an average growth rate of 3.0 percent for their own companies in 2008, more than two times greater than the estimated growth rate of 1.3 percent for their industry.

Chart 3.2 Industry growth, calendar year

Industrial manufacturers



All respondents



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All respondents, n=108

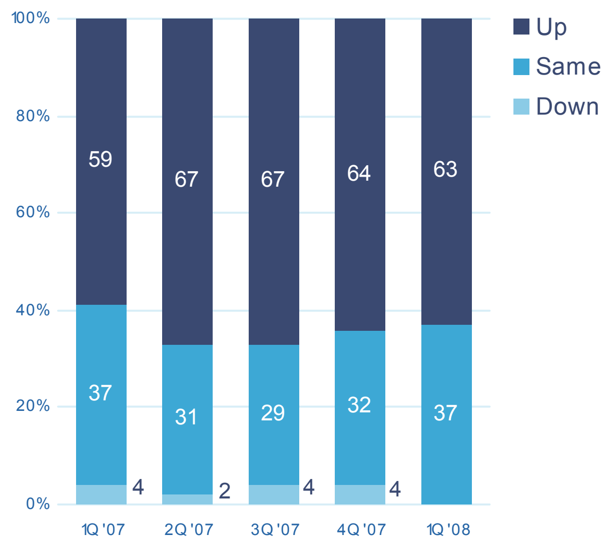
International sales

Are international sales up, down or the same compared to three months ago?

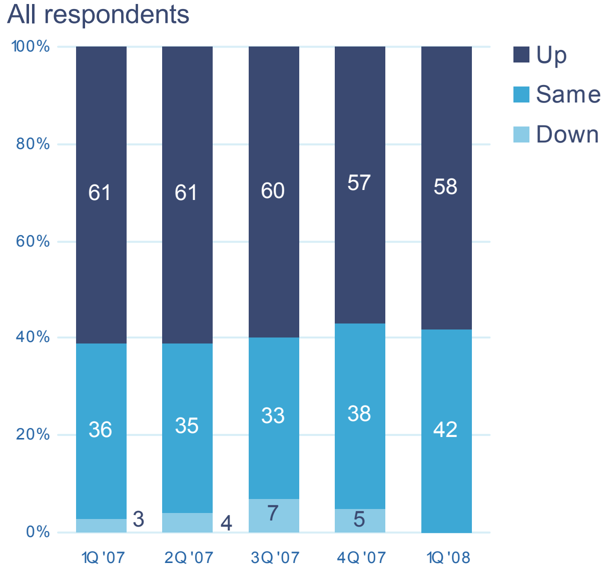
International markets continue to be very strong for US-based industrial manufacturers that sell abroad. One of the strongest quarterly performances was reported in 1Q 2008, as 63 percent of international marketers increased sales abroad, similar to the prior three quarters and 4 points higher than a year ago.

Chart 3.3 International sales

Industrial manufacturers



All respondents



Note: In 1Q 2008 those marketing abroad, Industrial manufacturers n = 48, All respondents, n= 89

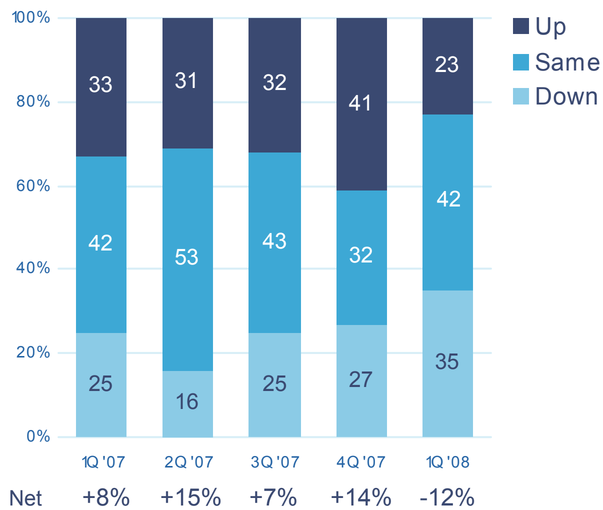
Changes in gross margins

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

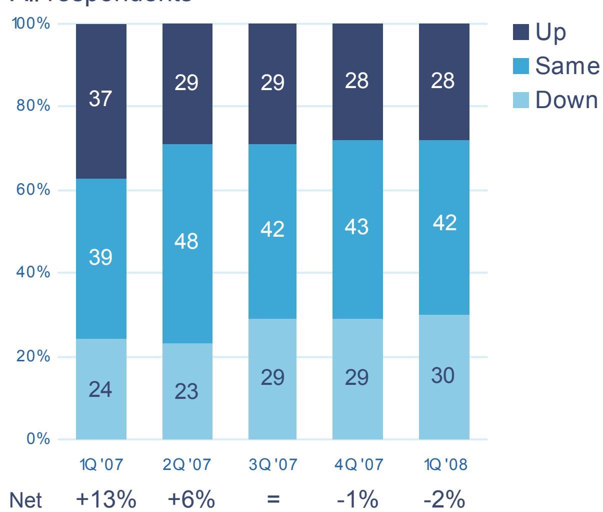
In 1Q 2008, gross margins were higher for only 23 percent of US-based industrial manufacturers and lower for 35 percent, a net negative 12 percent. This number was 26 points below the net positive 14 percent reported in the prior quarter.

Chart 3.4 Changes in gross margins

Industrial manufacturers



All respondents



Note: In 1Q 2008 Industrial manufacturers n=60, All respondents, n=108

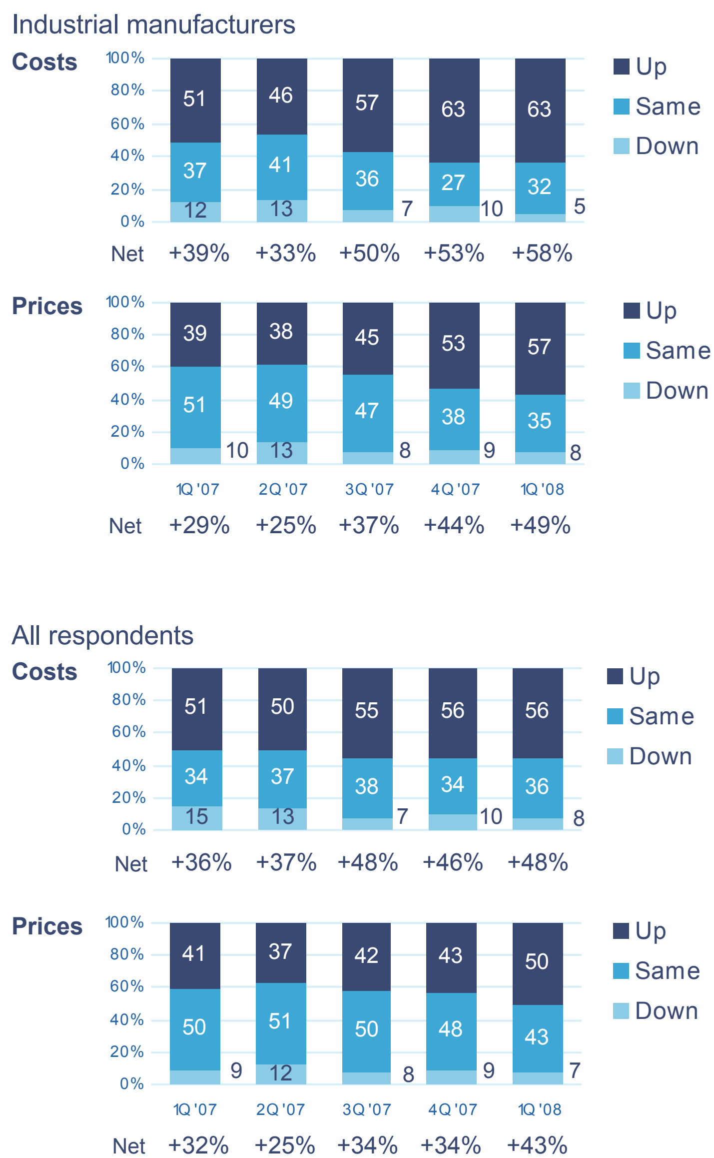
Changes in costs and prices

Are costs up, down or the same compared to three months ago? Prices?

Costs, in 1Q 2008, increased for 63 percent of US-based industrial manufacturers and decreased for only 5 percent — a net of 58 percent with higher costs. The net percentage of executives who reported higher costs is 5 points above the previous quarter and 19 points higher than a year ago.

Industrial manufacturers responded to cost increases by pushing 1Q 2008 prices upward — 57 percent raised prices and 8 percent lowered them, a net of 49 percent with higher prices. The net percentage that reported higher prices is 5 points above the prior quarter and 20 points higher than a year ago.

Chart 3.5 Changes in costs and prices



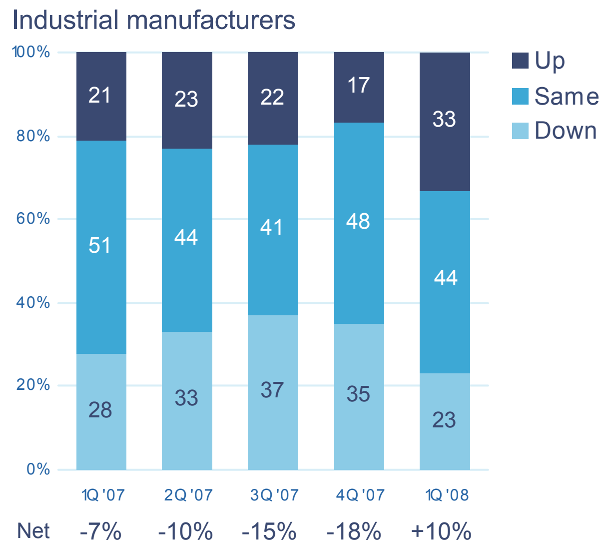
Note: In 1Q 2008 Industrial manufacturers n=60,
All respondents, n=108

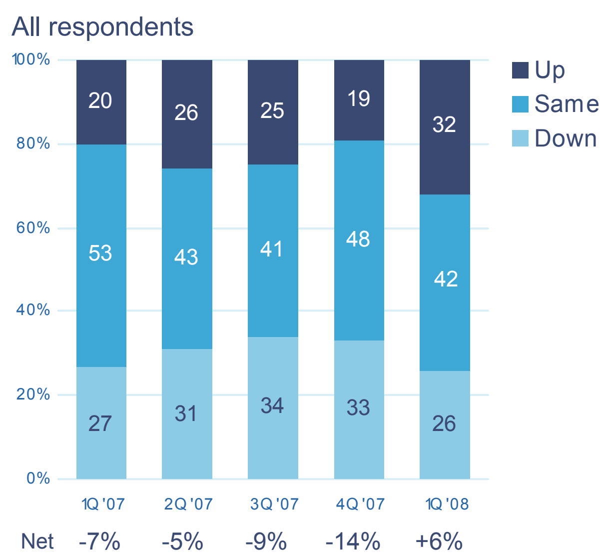
Inventory movement

Are finished inventories as a percent of sales up, down or the same compared to three months ago? (product companies only)

Overall, more US-based industrial manufacturers reported higher inventories (33 percent) than reported lower inventories (23 percent). This net positive 10 percent is well above the prior quarter's net negative 18 percent and last year's net negative 7 percent. The broader peer group shows a similar pattern.

Chart 3.6 Inventory movement





Note: In 1Q 2008 Industrial manufacturers n=60, All respondents, n=108

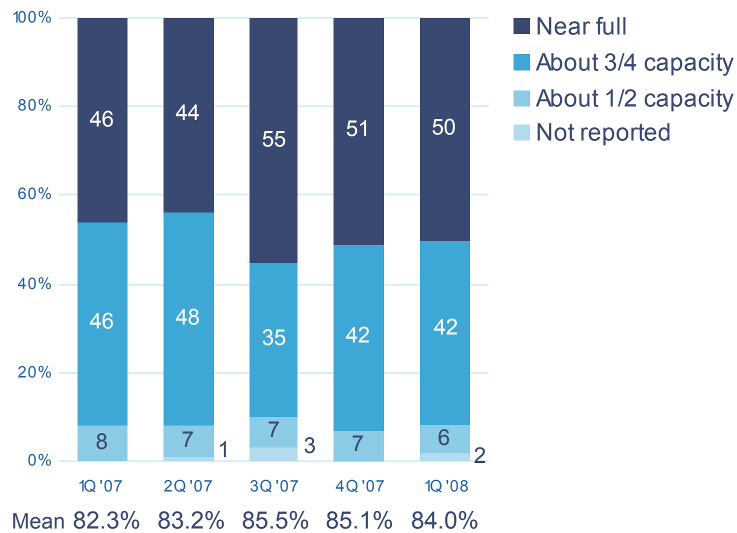
Level of operating capacity

What is your organization's current operating capacity?

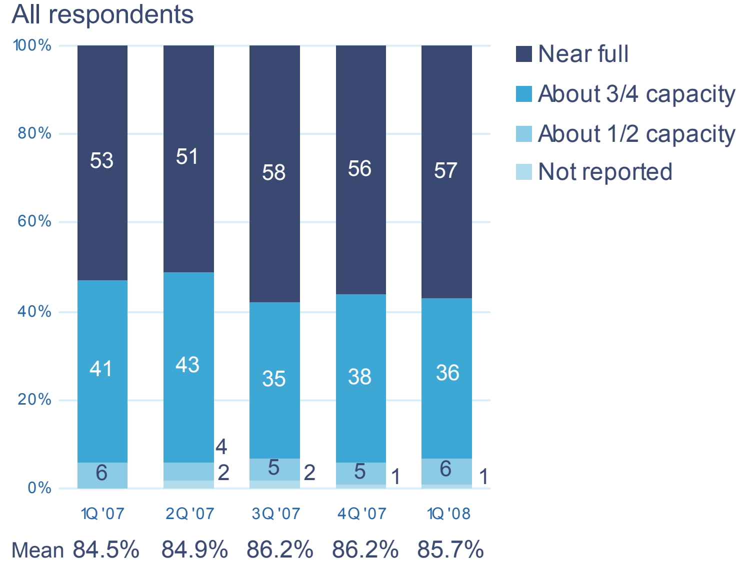
Operating capacity is an estimate of the current level of permanent staffing compared to what is needed for full-capacity output. In 1Q 2008, the average level of operating capacity for US-based industrial manufacturers was an estimated 84.0 percent — below the prior quarter but above a year ago. This quarter, 50 percent of industrial manufacturers claimed to be at or near full capacity. It is common for the broader consensus — 57 percent reportedly at or near full capacity in 1Q 2008 — to report a higher operating capacity compared to the industry group.

Chart 3.7 Level of operating capacity

Industrial manufacturers



All respondents



Note: In 1Q 2008 Industrial manufacturers n=60,
All respondents, n=108

Business outlook, next 12 months

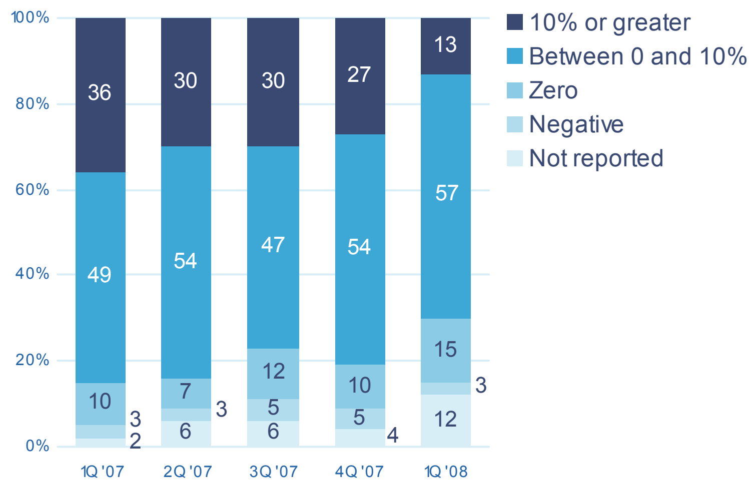
Revenue growth, next 12 months

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

With increasing pessimism about the US economy, US-based industrial manufacturers project lower revenue growth rates for their own companies over the next 12 months. The 4.6 percent average is below the prior quarter's projected 5.4 percent, and well below the 6.8 percent projection a year ago. Currently, 70 percent plan for growth over the next 12 months — 13 percent expect double-digit revenue growth and 57 percent expect single-digit growth. In contrast to last quarter, the 4.6 percent mean projected revenue growth is now below, but similar to, the broader consensus' 4.8 percent.

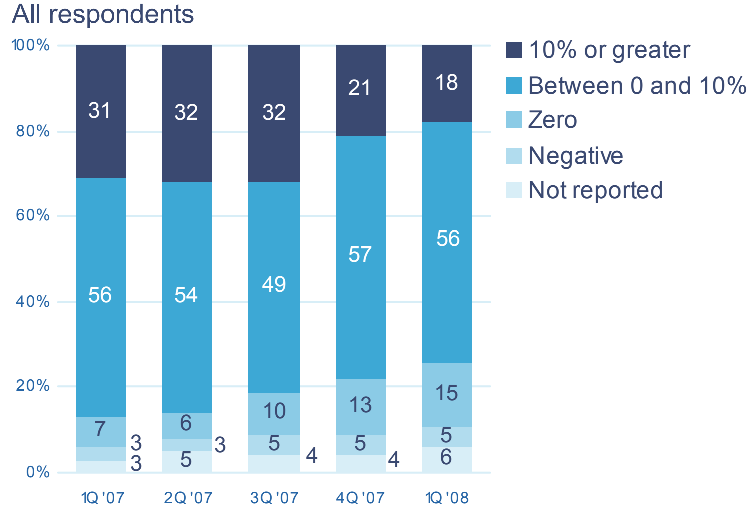
Chart 4.1 Revenue growth, next 12 months

Industrial manufacturers



Mean 6.8% 5.7% 6.5% 5.4% 4.6%

All respondents



Mean 7.4% 6.8% 7.1% 5.3% 4.8%

Note: In 1Q 2008 Industrial manufacturers n=60,
All respondents, n=108

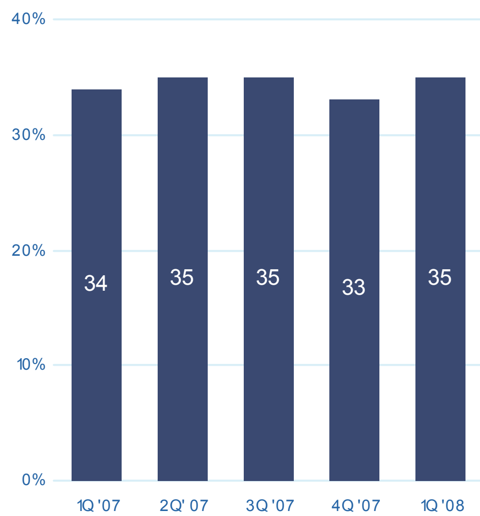
International sales, next 12 months

What percent of your business' total revenues over the next 12 months do you expect to be derived from international sales?

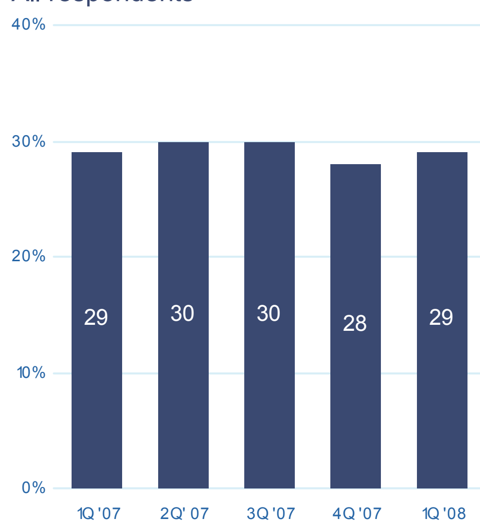
Of those selling abroad, the projected contribution of international sales to total revenue was 35 percent over the next 12 months, comparable to the prior quarters and 34 percent a year ago. Industrial manufacturers selling abroad have consistently outpaced the broader consensus in projected revenue contributions from international sales.

Chart 4.2 International sales, next 12 months

Industrial manufacturers



All respondents



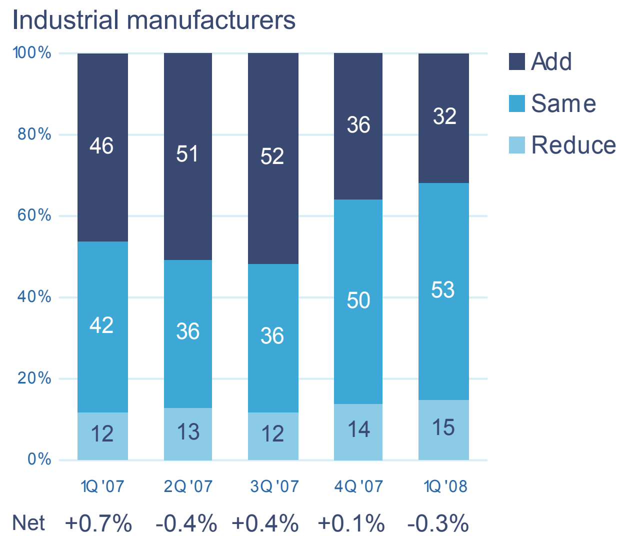
Note: In 1Q 2008 those marketing abroad, Industrial manufacturers n = 48, All respondents, n= 89

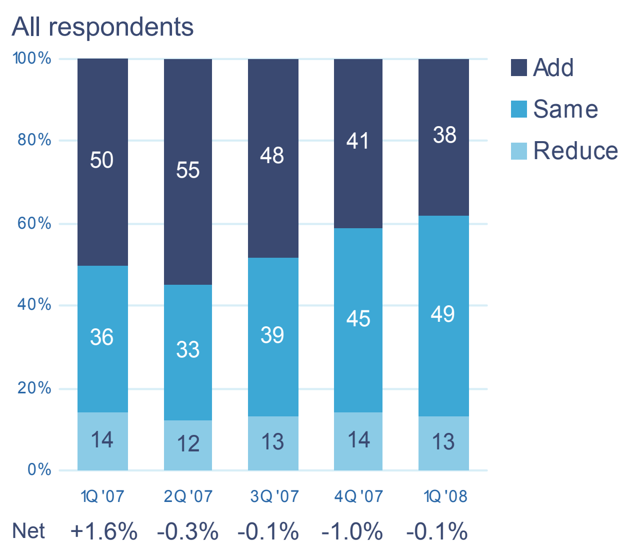
Percent planning to hire

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

Compared to last quarter, slightly fewer US-based industrial manufacturers — 32 percent — plan to add employees to their workforces over the next 12 months, but only 15 percent plan to reduce the number of full-time-equivalent employees. The net workforce projection now rests at minus 0.3 percent, less than last quarter's plus 0.1 percent net projection and well below a year ago (plus 0.7 percent). In the prior quarter, the net projection was plus 0.1 percent. Industrial manufacturers planning to add employees to their workforces project a notably higher revenue growth rate over the next 12 months (6.2 percent) than those staying the same or reducing their workforces (3.8 percent).

Chart 4.3 Percent planning to hire





Note: In 1Q 2008 Industrial manufacturers n=60,
All respondents, n=108

Percent planning to hire by type of employee

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

Over the next 12 months, industrial manufacturers will primarily be looking for professionals/technicians and skilled labor.

Chart 4.4 Percent planning to hire by type of employee

Industrial manufacturers

	1Q '07	2Q '07	3Q '07	4Q '07	1Q '08
Planning to hire (net)	46%	51%	52%	36%	32%
• Professionals/technicians	25%	26%	30%	26%	23%
• Skilled labor	25%	26%	18%	24%	23%
• Production workers	33%	33%	27%	17%	13%
• White collar support	26%	30%	22%	14%	13%
• Sales/marketing	25%	18%	15%	12%	12%

All respondents

	1Q '07	2Q '07	3Q '07	4Q '07	1Q '08
Planning to hire (net)	50%	55%	48%	41%	38%
• Professionals/technicians	26%	32%	31%	27%	26%
• Skilled labor	24%	23%	17%	20%	18%
• Production workers	22%	28%	23%	13%	13%
• White collar support	28%	28%	22%	14%	17%
• Sales/marketing	28%	24%	17%	14%	14%

Note: In 1Q 2008 Industrial manufacturers n=60,
All respondents, n=108

Percent planning major new investments of capital

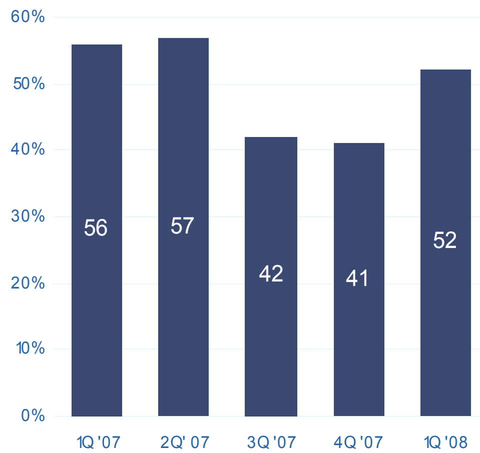
Are you actively planning any major new investments of capital over the next 12 months? If so, what percent of total sales do you expect to invest?

More than half — 52 percent — of US-based industrial manufacturers plan major new investments of capital during the next 12 months, above the prior quarter's 41 percent, but 4 points below a year ago. The mean investment as a percentage of total sales (including an M&A component) dropped from 9.0 percent in 4Q 2007 to 5.6 percent in 1Q 2008.

Note: In 1Q 2008 Industrial manufacturers n=60, All respondents, n=108

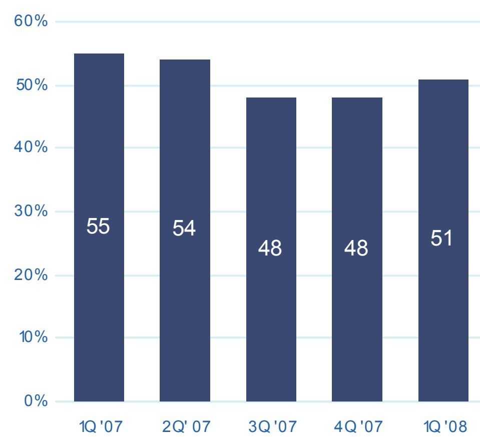
Chart 4.5 Percent planning major new investments of capital

Industrial manufacturers



Mean investment as a % of total sales	7.4%	9.4%	8.7%	9.0%	5.6%

All respondents



Mean investment as a % of total sales	8.2%	8.8%	7.8%	8.6%	5.9%

Percent planning to increase operational spending

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

Looking ahead over the next 12 months, two types of increased expenditures lead the way among US-based industrial manufacturers: information technology and new product or service introductions. Plans for research and development and business acquisitions were in the next strata of increases this quarter. Far fewer industrial manufacturers now plan increased expenditures in geographic expansion than a year ago. The broader consensus was higher on information technology, but fewer planned increases in R&D.

Note: In 1Q 2008 Industrial manufacturers n=60, All respondents, n=108

Chart 4.6 Percent planning to increase operational spending

Industrial manufacturers

	1Q '07	2Q '07	3Q '07	4Q '07	1Q '08
Percent planning to increase spending (net)	92%	89%	85%	83%	75%
• Information technology	38%	48%	57%	48%	40%
• New product or service introduction	46%	48%	47%	43%	38%
• Research and development	30%	43%	37%	36%	35%
• Business acquisition	31%	38%	37%	34%	33%
• Geographic expansion	44%	36%	42%	31%	27%
• Facilities expansion	41%	34%	32%	34%	25%
• Marketing & sales promotion	33%	21%	25%	29%	23%
• Advertising	18%	13%	13%	15%	15%
• Internet commerce	18%	15%	10%	9%	15%

All respondents

	1Q '07	2Q '07	3Q '07	4Q '07	1Q '08
Percent planning to increase spending (net)	91%	87%	87%	83%	84%
• Information technology	46%	49%	55%	49%	46%
• New product or service introduction	45%	49%	48%	44%	36%
• Research and development	30%	36%	30%	26%	27%
• Business acquisition	37%	40%	43%	37%	33%
• Geographic expansion	38%	39%	35%	31%	27%
• Facilities expansion	37%	38%	37%	31%	29%
• Marketing & sales promotion	32%	28%	28%	32%	22%
• Advertising	23%	22%	17%	22%	14%
• Internet commerce	23%	24%	15%	14%	17%

Expected barriers to business growth

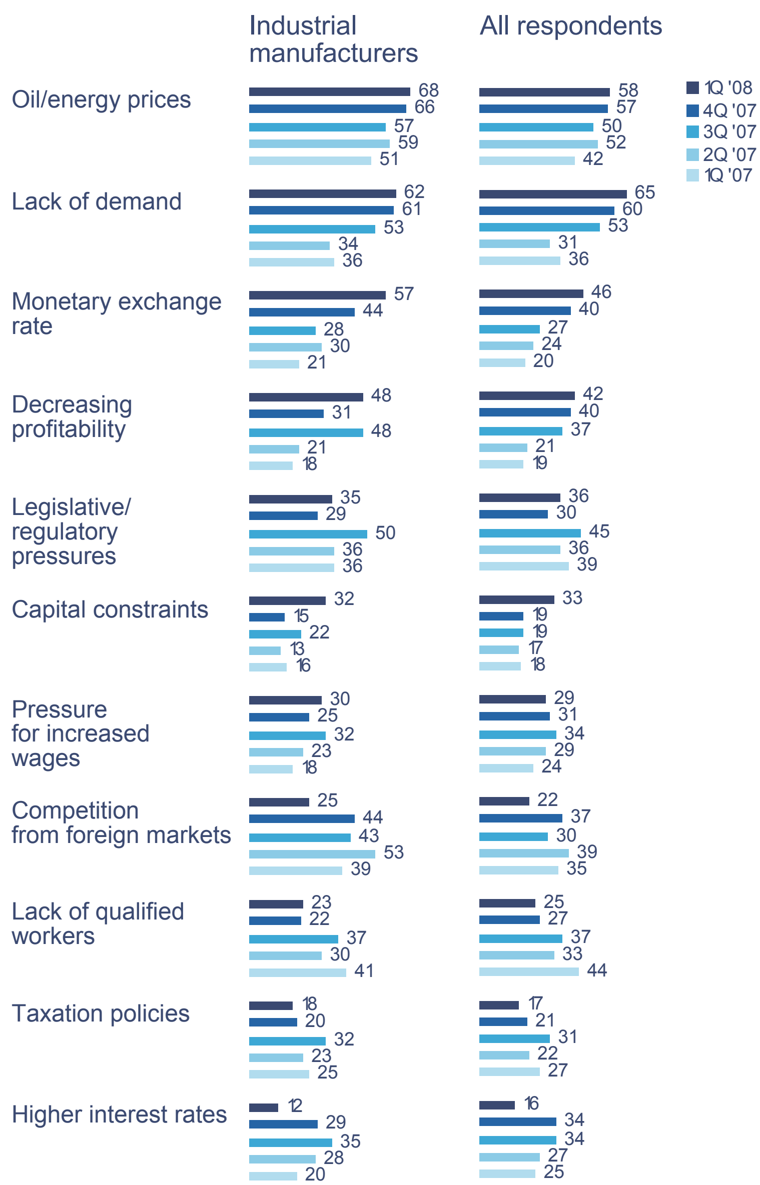
Over the next 12 months, will any of the following represent barriers to business growth?

Three potential barriers to business growth during the next 12 months — lack of demand, monetary exchange rates and decreasing profitability — joined oil/energy prices at the top of the list of barriers to business growth. In contrast, concern among US-based industrial manufacturers dropped sharply in two areas: competition from foreign markets and higher interest rates.

Those concerned about oil/energy costs (68 percent of total industrial manufacturers) reported higher costs and prices and lower margins in 1Q 2008, and they projected lower revenues for the next 12 months.

Note: In 1Q 2008 Industrial manufacturers n=60, All respondents, n=108

Chart 4.7 Expected barriers to business growth



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?

Plans for M&A activity among US-based industrial manufacturers during the next 12 months decreased 7 points to the 37 percent level in 1Q 2008, similar to a year ago (38 percent). Thirty-three percent plan to purchase another business, while 7 percent might divest parts of their own businesses and 8 percent plan equity carve-outs or spin-offs.

Other business initiatives planned include expansion to new markets abroad, new strategic alliances, new joint ventures and development of manufacturing or distribution facilities abroad. Compared to the all-industry consensus, more industrial manufacturers plan new manufacturing/distribution facilities abroad.

Note: In 1Q 2008 Industrial manufacturers n=60, All respondents, n=108

Chart 4.8 Plans for M&A and other business initiatives

Industrial manufacturers

	1Q ‘07	2Q ‘07	3Q ’07	4Q ’07	1Q ’08
New business initiatives (net)	67%	79%	68%	66%	60%
• M&A activity (net)	38%	56%	40%	44%	37%
- Purchase another business	31%	48%	38%	36%	33%
- Sale part/all own business	13%	16%	10%	14%	7%
- Equity carve-out/spin-off	5%	8%	3%	9%	8%
• New strategic alliance	33%	46%	32%	37%	30%
• Expand to new markets abroad	39%	43%	38%	29%	30%
• New joint venture	28%	30%	33%	27%	30%
• New facilities abroad	26%	23%	27%	20%	25%
• Reduce activity in markets abroad	7%	10%	8%	14%	10%
• Close/reduce facilities abroad	10%	12%	15%	10%	10%

All respondents

	1Q ‘07	2Q ‘07	3Q ’07	4Q ’07	1Q ’08
New business initiatives (net)	71%	79%	68%	67%	60%
• M&A activity (net)	45%	56%	45%	43%	40%
- Purchase another business	37%	49%	43%	36%	36%
- Sale part/all own business	16%	17%	9%	14%	7%
- Equity carve-out/spin-off	7%	8%	5%	6%	9%
• New strategic alliance	38%	45%	37%	40%	32%
• Expand to new markets abroad	36%	36%	34%	29%	32%
• New joint venture	25%	26%	33%	28%	27%
• New facilities abroad	16%	18%	19%	14%	17%
• Reduce activity in markets abroad	8%	7%	7%	10%	10%
• Close/reduce facilities abroad	8%	9%	11%	8%	5%

Survey demographics and research methodology

Demographics

Who	Senior executives of US-based, industrial manufacturing organizations	
Interview dates	January 28, 2008, to April 15, 2008	
	Industrial manufacturers (60)	All respondents (108)
Average number of employees	8,998	9,380
Average business unit revenues	$3.47 billion	$3.69 billion
Average enterprise revenues	$9.27 billion	$9.10 billion
Market capitalization	$10.38 billion	$9.71 billion
Industry sectors	Products 100% Manufacturing 100% Trade/Distribution --- All other --- Services ---	Products 80% Manufacturing 70% Trade/Distribution 2% All other 8% Services 20%

Methodology

PricewaterhouseCoopers' 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 PricewaterhouseCoopers. 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 from www.barometersurveys.com.

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