

Manufacturing Barometer™

Business outlook report
April 2009

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Quarterly highlights

In the first quarter of 2009, PricewaterhouseCoopers interviewed 62 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 with the prior quarter's results to see how the panel's 12-month outlook has changed. The final step was to compare their views with a wider panel to show how the industry differs from the broader population.

Overall, US-based industrial manufacturers project more stability, if not improvement, in early 2010. Looking at the next 12 months, they project slightly negative revenue growth overall, but more expect positive rather than negative growth, a reversal from the prior quarter. Demand and decreasing profitability are overwhelming concerns, and the majority remain pessimistic about the US and world economies over the next 12 months. International sales among those marketing abroad have slowed, but the pace of layoffs may be lessening.

Key findings:

- **Forecast hints of an upturn.** Senior executives of US-based industrial manufacturers project an average minus 0.7 percent growth over the next 12 months. Although negative overall, the number of businesses projecting positive revenue has increased from the prior quarter. Calendar year 2009 looks to be a rough year for these businesses, with own-company revenue growth projections averaging minus 9.1 percent. Only 13 percent expect positive revenue growth in 2009, versus 64 percent negative growth.
- **International sales lose some resilience.** International sales turned increasingly negative in first quarter 2009 for those marketing abroad: up for 19 percent but down for 60 percent. The remaining 21 percent said sales were about the same.

However, anticipated contributions to total revenue over the next 12 months remained at 36 percent, off only 1 percentage point from the prior quarter and in line with a year ago.

- **Economic outlook shifts slightly.** Pessimism remains even toward the US and world economies over the next

12 months, with 55 percent pessimistic toward the US economy and 58 percent pessimistic toward the world economy. However, both dipped from survey highs set in the prior quarter. On the positive side, 16 percent are optimistic about the US economy (up 11 points), and 12 percent are optimistic about the world economy (up 8 points). The remainder are uncertain.

- **Weak demand weighs on minds.** Among panelists, concern about lack of demand is the overwhelming potential barrier to growth over the next 12 months, cited by 95 percent of respondents. Concern about decreasing profitability follows, cited by 69 percent.
- **Margins tighten.** Gross margins were up for only 15 percent but down for 47 percent—a net 32 percent with lower margins, reflecting greater margin pressures. Notably lower prices helped break the yearlong cost-price climb. Only 13 percent reported increased costs, while 49 percent reported decreases—a net of 36 percent reporting decreased costs. Similarly, only 11 percent raised their prices, and 34 percent lowered them—a net of 23 percent decreasing prices.
- **Investments, M&A activity plummet.** Plans for major new investments of capital over the next 12 months sank from 33 percent last quarter to 24 percent. Projected M&A activity over the next 12 months also plunged, from 32 percent to 15 percent.
- **Pace of workforce layoffs slows.** Although workforce layoffs are planned over the next 12 months (42 percent net reducing), the pace of reductions may be slowing. Composite new hiring plans are expected to be off on average minus 1.8 percent—below the minus 3.2 percent and minus 4.0 percent of the prior two quarters. Only 10 percent plan net new hiring, and 48 percent expect their workforces to stay about the same size.

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.

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 past two quarters.

Business outlook, next 12 months among industrial manufacturers	2008				2009	Change	Page
	1Q '08	2Q '08	3Q '08	4Q '08	1Q '09	4Q'08 - 1Q'09	
Optimistic about US economy	12%	8%	6%	5%	16%	↑	7
Optimistic about world economy	38%	37%	7%	4%	12%	↑	9
Expect positive revenue growth	70%	68%	54%	25%	34%	↑	19
Average growth rate expected	4.6%	3.7%	2.8%	-2.4%	-0.7%	↑	19
Planning major new investments	52%	50%	34%	33%	24%	↓	23
New investments as a % of sales	5.6%	5.4%	6.1%	8.3%	5.4%	↓	23
Planning to hire	32%	32%	12%	10%	10%	=	21
New workers as a % of workforce (net)	-0.3%	+0.1%	-4.0%	-3.2%	-1.8%	↑	21
Expected barriers to growth							
• Lack of demand	62%	60%	82%	85%	95%	↑	25
• Decreasing profitability	48%	50%	64%	62%	69%	↑	25
• Legislative/ Regulatory pressures	35%	38%	36%	37%	44%	↑	25
• Capital constraints	32%	23%	26%	37%	44%	↑	25
• Taxation policies	18%	25%	22%	30%	40%	↑	25
• Competition from foreign markets	25%	37%	34%	25%	39%	↑	25
• Monetary exchange rate	57%	40%	36%	38%	37%	=	25
• Oil/energy prices	68%	78%	62%	25%	21%	↓	25
• Higher interest rates	12%	17%	30%	13%	15%	=	25
• Pressure for increased wages	30%	50%	20%	10%	7%	↓	25
• Lack of qualified workers	23%	18%	26%	3%	7%	↑	25

Economic views

View of the US economy, this quarter

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

For the third straight quarter, an overwhelming majority of industrial manufacturing executives interviewed—93 percent—believe the US economy declined, down 5 points from last quarter's 98 percent. None of them believes it grew, and only 7 percent believe it was unchanged.

Chart 2.1 View of the US economy, this quarter



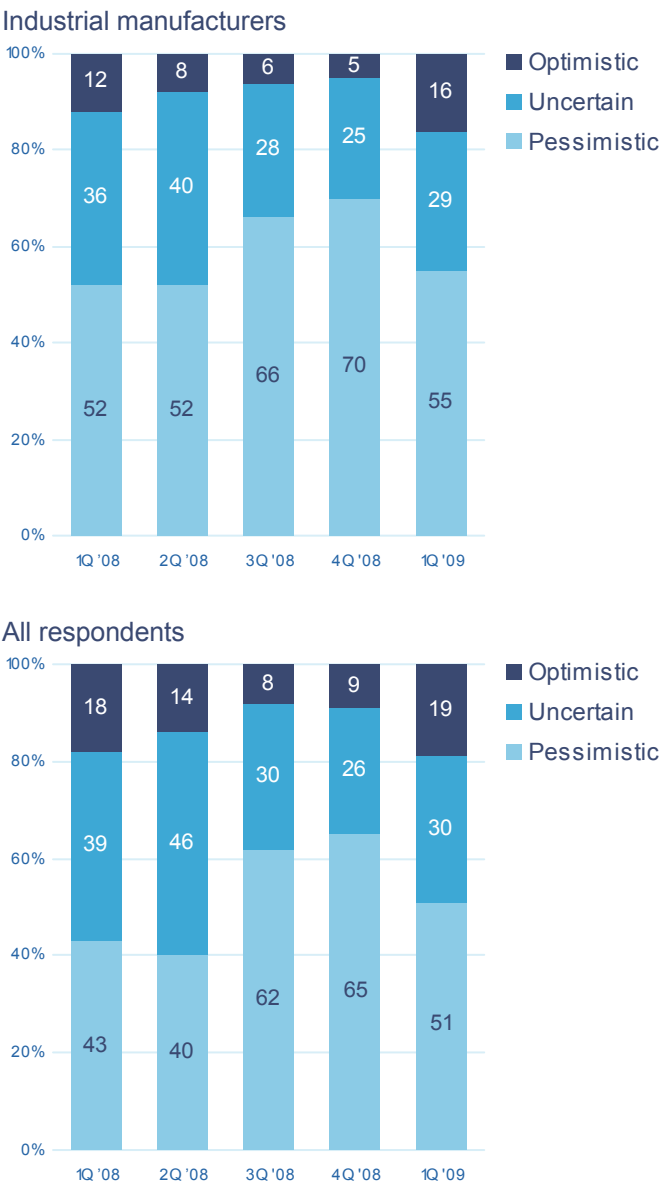
Note: In 1Q 2009 Industrial manufacturers n=62, All respondents, n=100

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, 16 percent of respondents express optimism about the 12-month outlook for the US economy, ahead of the prior quarter's 5 percent and last year's 12 percent. Fifty-five percent remain pessimistic, and 29 percent are uncertain.

Chart 2.2 View of the US economy, next 12 months



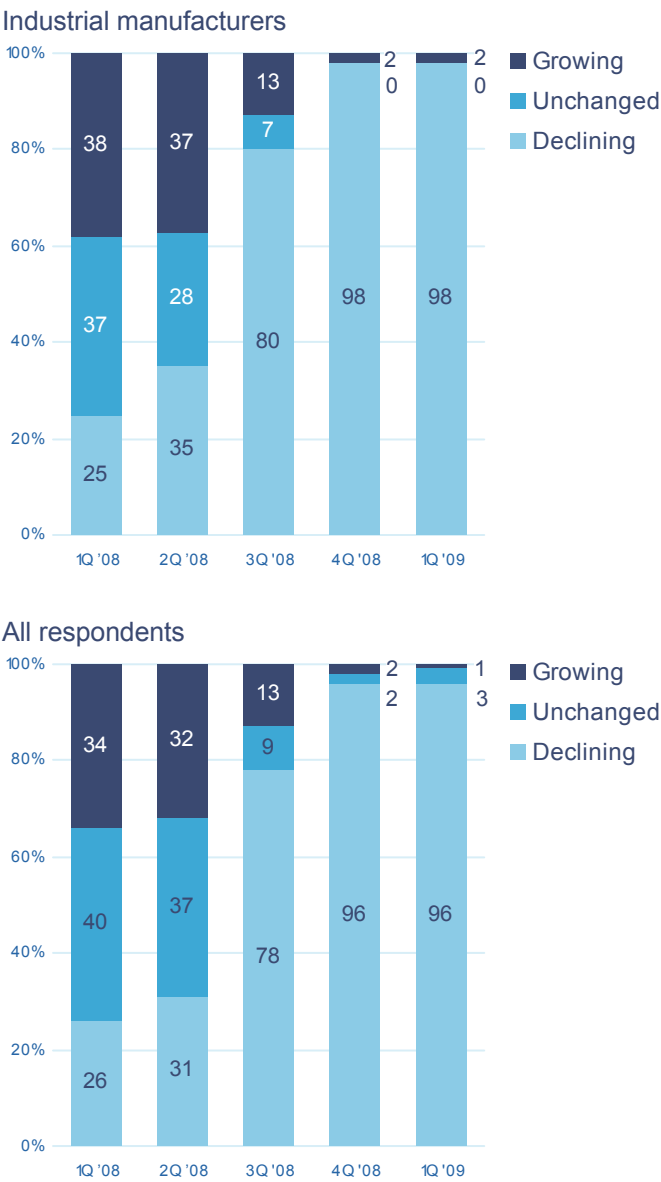
Note: In 1Q 2009 Industrial manufacturers n=62, All respondents, n=100

View of the world economy, this quarter

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

Virtually all of those marketing abroad—98 percent—believe the world economy declined in the fourth quarter, same as the prior quarter.

Chart 2.3 View of the world economy, this quarter



Note: In 1Q 2009 those marketing abroad, Industrial manufacturers n=60, All respondents, n=90

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)

Of US-based industrial manufacturers who market abroad, 12 percent are optimistic about the prospects for the world economy over the next 12 months—up from 4 percent last quarter. Thirty percent are uncertain, and 58 percent said they are pessimistic.

Chart 2.4 View of the world economy, next 12 months



Note: In 1Q 2009 those marketing abroad, Industrial manufacturers n=60, All respondents, n=90

Company performance

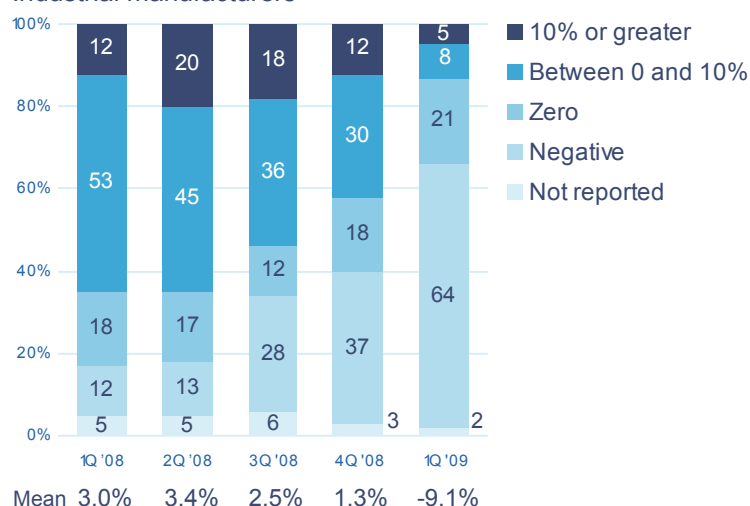
Company revenue growth, calendar year

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

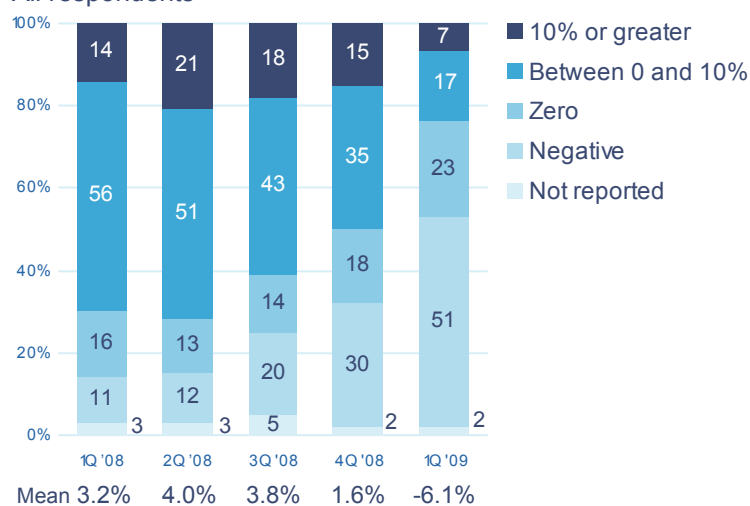
In the first quarter, only 13 percent of US-based industrial manufacturers expected positive growth in 2009. Of those, 5 percent forecast double-digit growth, and 8 percent forecast single-digit growth. Overall, the composite average growth estimate has dropped sharply to minus 9.1 percent from plus 1.3 percent in the prior quarter and plus 3 percent last year. Sixty-four percent project negative revenue growth in 2009.

Chart 3.1 Company revenue growth, calendar year

Industrial manufacturers



All respondents



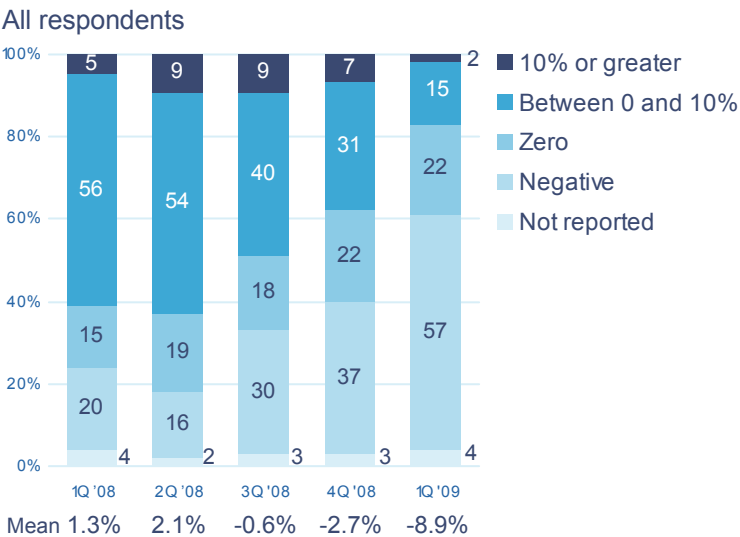
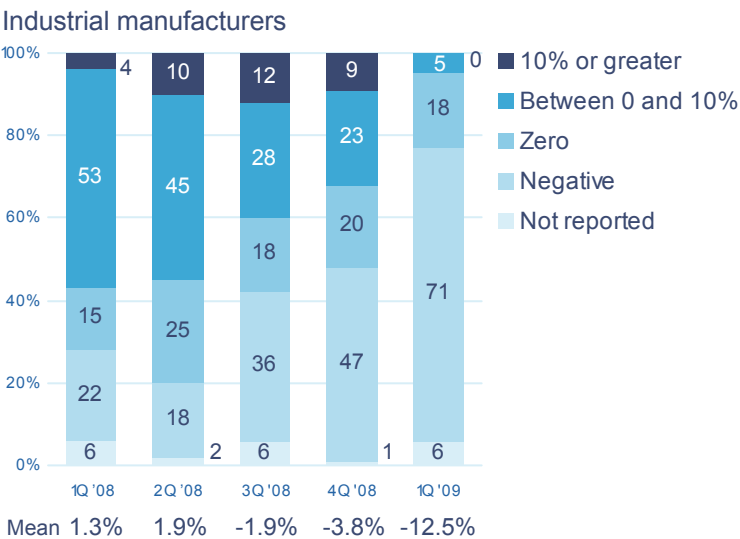
Note: In 1Q 2009 Industrial manufacturers n=62, All respondents, n=100

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 wane to an average minus 12.5 percent, well below last quarter's minus 3.8 percent. Seventy-one percent expect negative industry growth in 2009. US-based industrial manufacturers interviewed anticipate an average growth rate of minus 9.1 percent for their companies in 2009, only slightly better than the estimated negative growth rate for their industry.

Chart 3.2 Industry growth, calendar year



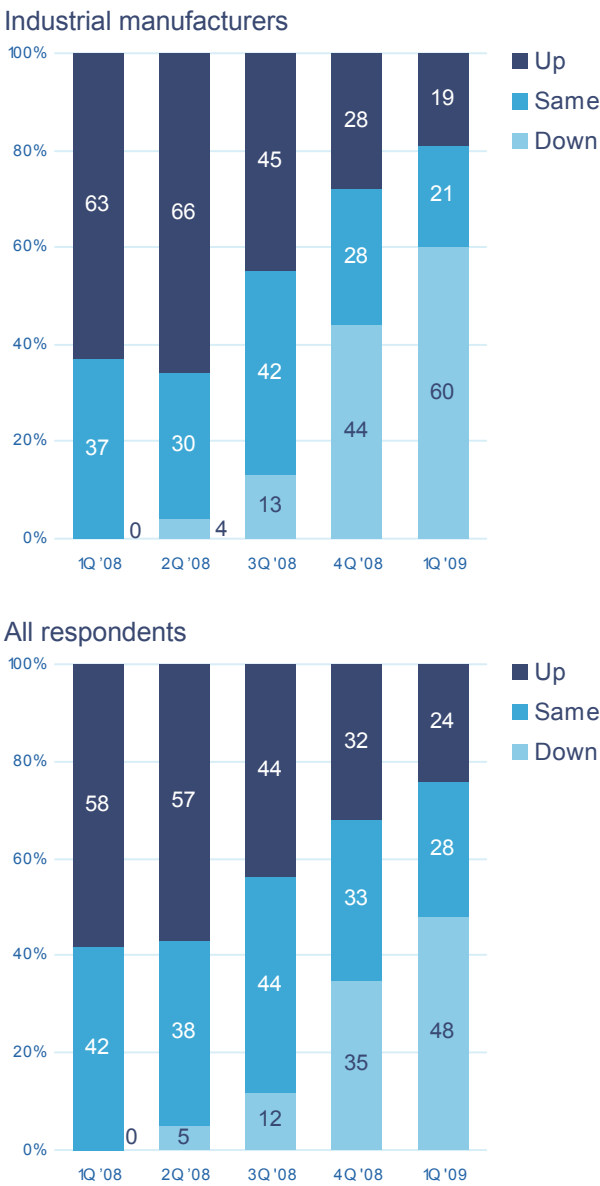
Note: In 1Q 2009 Industrial manufacturers n=62, All respondents, n=100

International sales

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

International markets turned negative for the second quarter in a row for US-based industrial manufacturers that sell abroad. In the first quarter, only 19 percent of international marketers increased sales abroad, while a survey high of 60 percent reported a decrease, well above the 44 percent who reported decreases in the prior quarter.

Chart 3.3 International sales



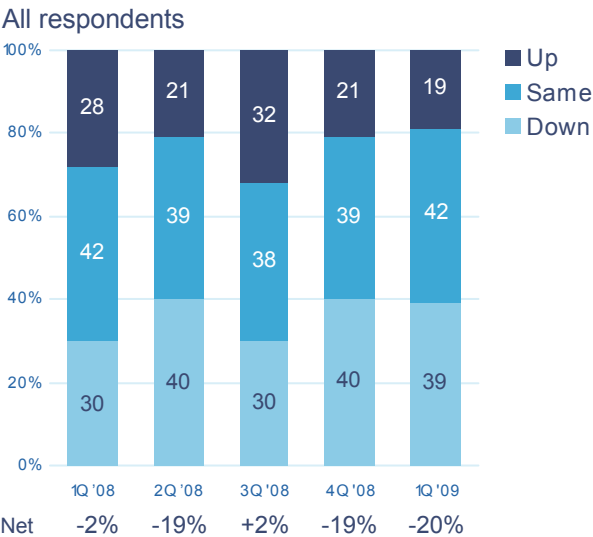
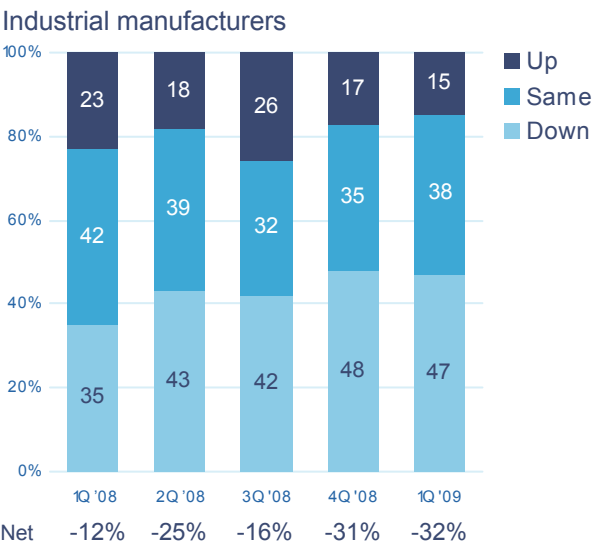
Note: In 1Q 2009 those marketing abroad, Industrial manufacturers n=60, All respondents, n=90

Changes in gross margins

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

In first quarter 2009, gross margins were higher for 15 percent of respondents but lower for 47 percent, a net minus 32 percent—continuing the downward pattern seen in the prior quarterly survey.

Chart 3.4 Changes in gross margins



Note: In 1Q 2009 Industrial manufacturers n=62, All respondents, n=100

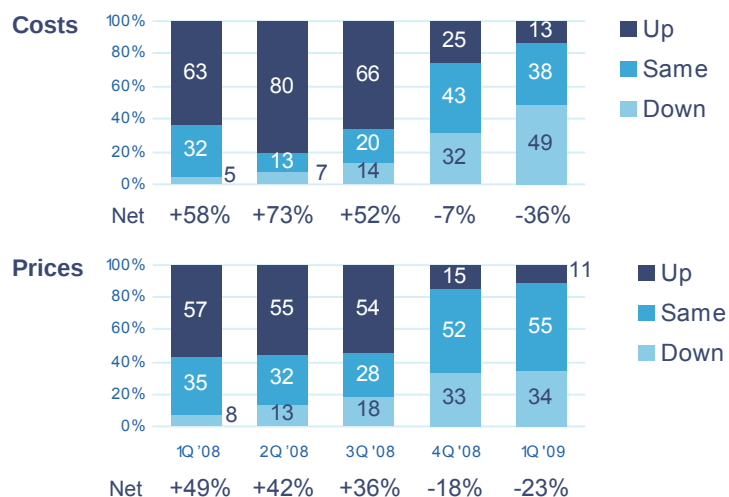
Changes in costs and prices

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

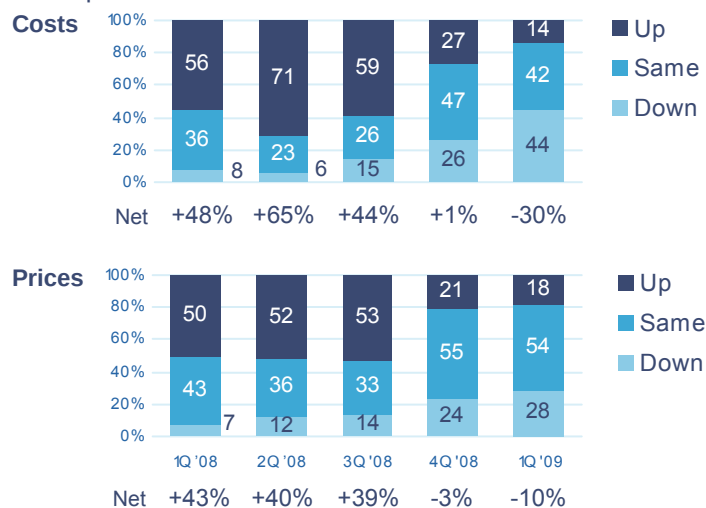
In the first quarter, a pattern of lower costs and lower prices continued. Only 13 percent of US-based industrial manufacturers reported higher costs, and 49 percent reported lower costs—a net minus 36 percent with lower costs. As a result, only 11 percent raised prices while 34 percent lowered them, a net minus 23 percent with lower prices.

Chart 3.5 Changes in costs and prices

Industrial manufacturers



All respondents



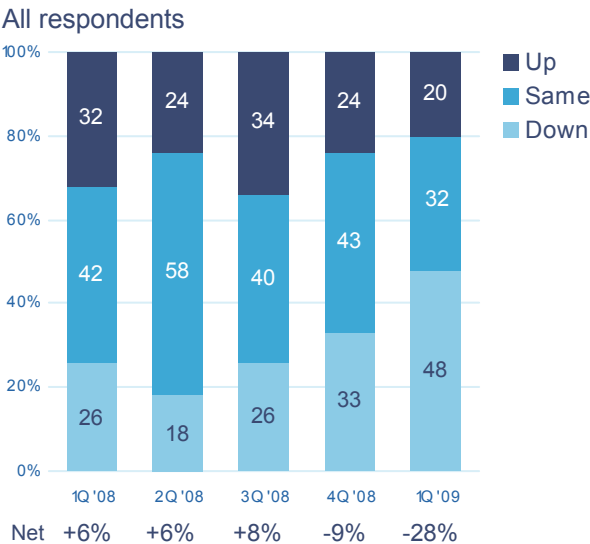
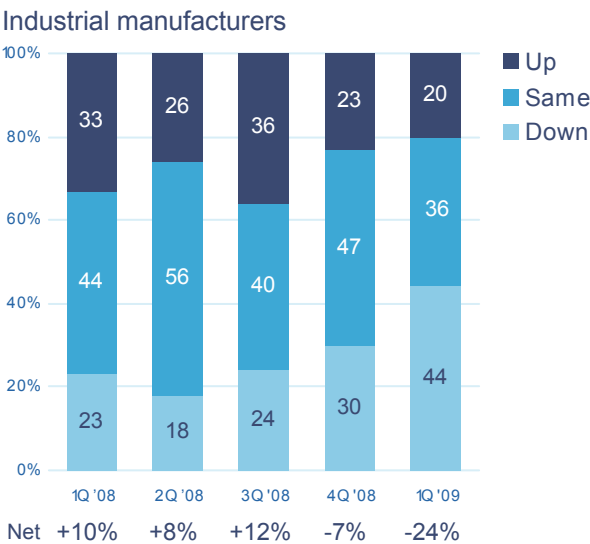
Note: In 1Q 2009 Industrial manufacturers n=62,
All respondents, n=100

Inventory movement

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

Many more US-based industrial manufacturers reported lower inventories (44 percent) than higher inventories (20 percent), for a net 24 percent with lower inventories, compared with a net 7 percent that reported lower inventories last quarter.

Chart 3.6 Inventory movement



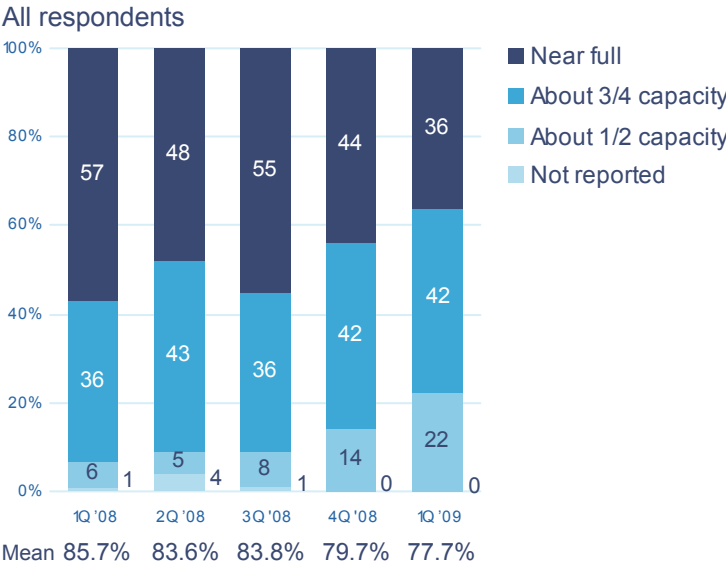
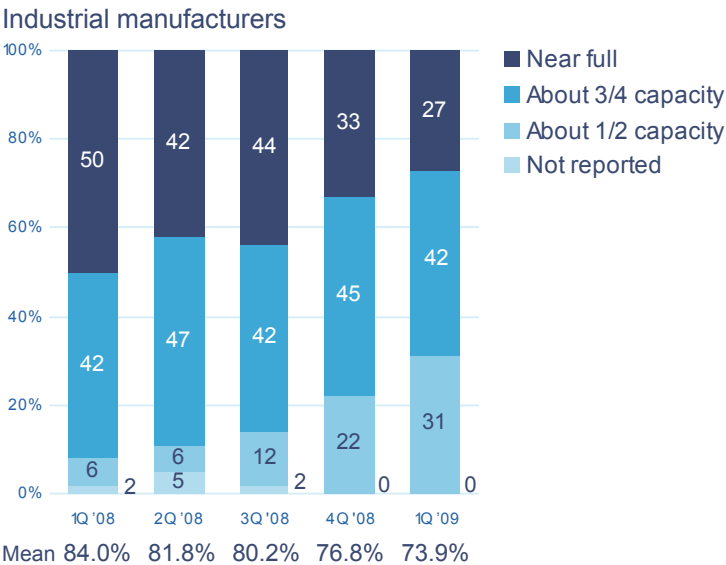
Note: In 1Q 2009 Industrial manufacturers n=62, All respondents, n=100

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 with what is needed for full-capacity output. In first quarter 2009, the average level of operating capacity for US-based industrial manufacturers dropped for the fourth straight quarter to an estimated 73.9 percent. A year ago, operating capacity was at 84 percent. This quarter, only 27 percent of industrial manufacturers claimed to be at or near capacity.

Chart 3.7 Level of operating capacity



Note: In 1Q 2009 Industrial manufacturers n=62, All respondents, n=100

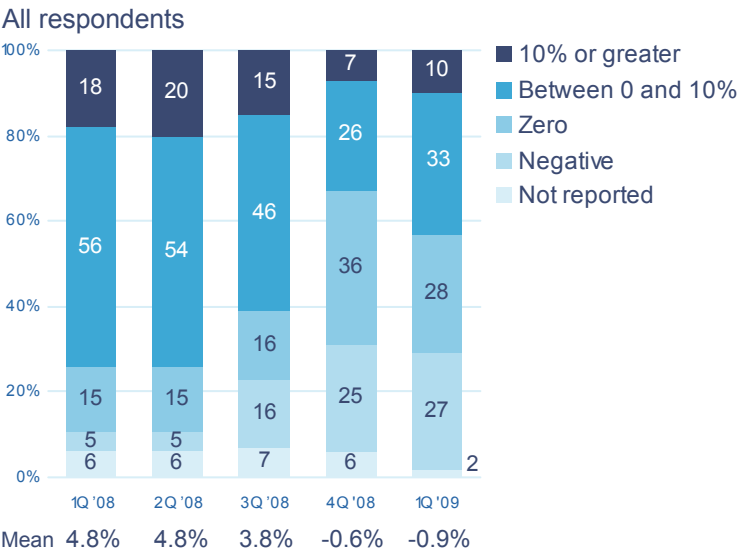
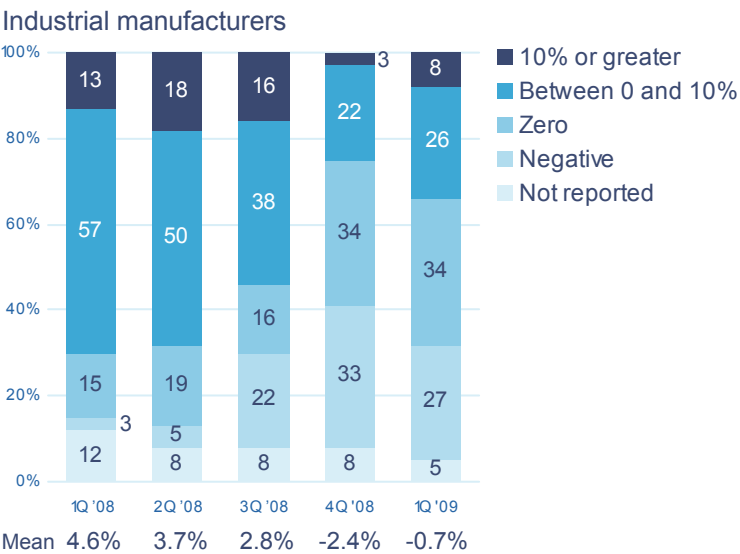
Business outlook, next 12 months

Revenue growth, next 12 months

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

Respondents anticipate a positive turn in early 2010, projecting a nearly flat minus 0.7 percent average growth rate—better than the prior quarter's projected minus 2.4 percent but below last year's projected 4.6 percent. Looking ahead at the next 12 months, more businesses expect positive growth than negative growth—34 percent versus 27 percent. Of those planning for positive revenue growth, 8 percent forecast double-digit growth, and 26 percent forecast single-digit growth.

Chart 4.1 Revenue growth, next 12 months



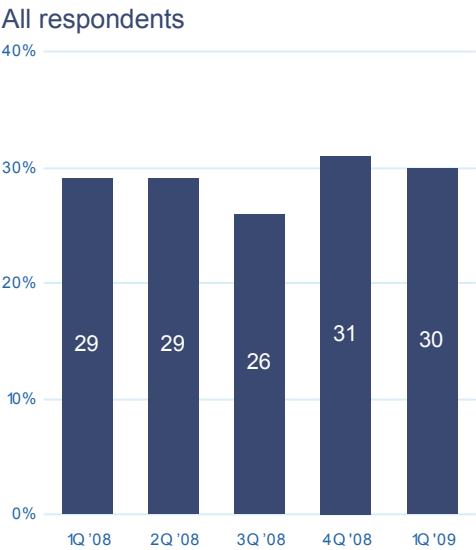
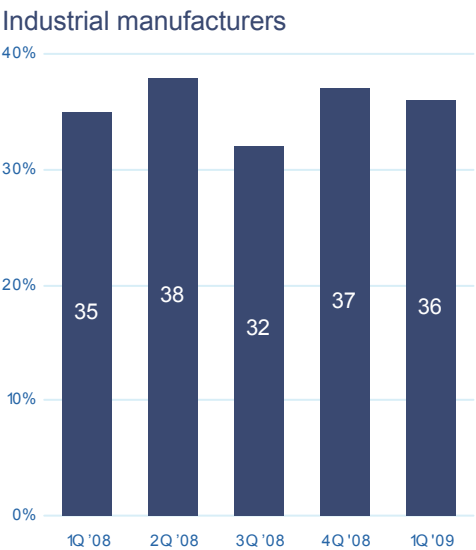
Note: In 1Q 2009 Industrial manufacturers n=62, All respondents, n=100

International sales, next 12 months

What percent of your business’s total revenue 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 is 36 percent over the next 12 months, slightly off the prior quarter’s 37 percent but in line with last year’s 35 percent. International marketers still expect to draw a consistent share of their now-declining revenue from world markets.

Chart 4.2 International sales, next 12 months



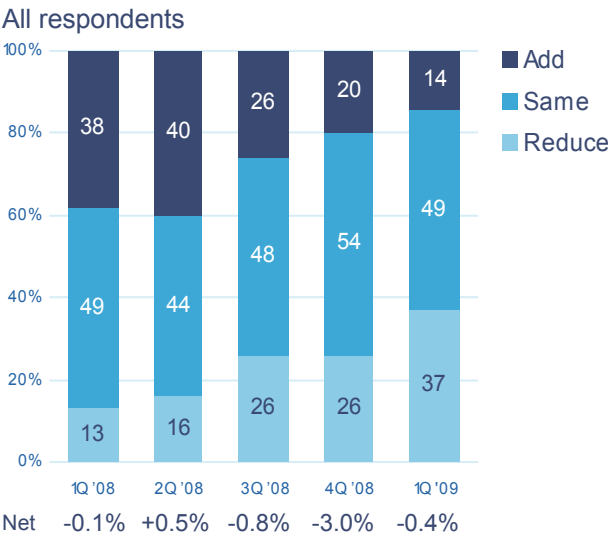
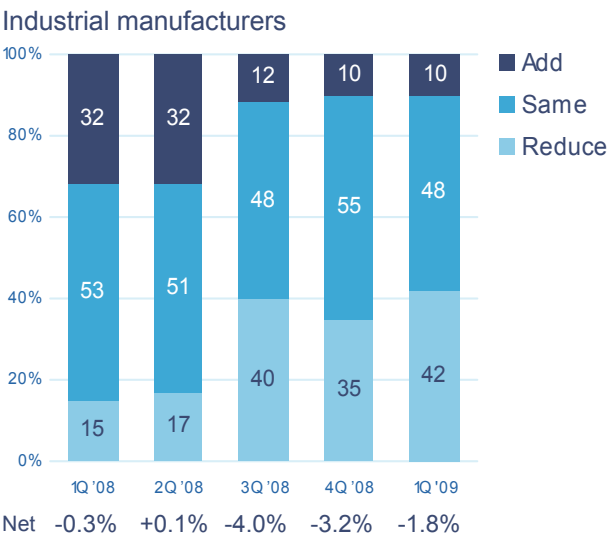
Note: In 1Q 2009 those marketing abroad, Industrial manufacturers n=60, All respondents, n=90

Percent planning to hire

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

In line with fourth quarter 2008, only 10 percent of US-based industrial manufacturers interviewed plan to add employees to their workforces over the next 12 months, but 42 percent plan to reduce the number of full-time equivalent employees. The net workforce projection is minus 1.8 percent, better than last quarter's minus 3.2 percent net projection. A year ago, it was a minus 0.3 percent.

Chart 4.3 Percent planning to hire



Note: In 1Q 2009 Industrial manufacturers n=62, All respondents, n=100

Percent planning to hire by type of employee

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

Only 10 percent of respondents plan to hire within the next 12 months, same as the last quarter but well below last year's 32 percent.

Chart 4.4 Percent planning to hire by type of employee

Industrial manufacturers

	1Q '08	2Q '08	3Q '08	4Q '08	1Q '09
Planning to hire (net)	32%	32%	12%	10%	10%
• Professionals/technicians	23%	27%	6%	5%	7%
• Sales/marketing	12%	15%	4%	2%	3%
• Production workers	13%	10%	2%	2%	2%
• Skilled labor	23%	8%	4%	3%	---
• White collar support	13%	10%	2%	3%	---

All respondents

	1Q '08	2Q '08	3Q '08	4Q '08	1Q '09
Planning to hire (net)	38%	40%	26%	20%	14%
• Professionals/technicians	26%	30%	18%	11%	10%
• Sales/marketing	14%	18%	11%	6%	5%
• Production workers	13%	11%	6%	6%	4%
• Skilled labor	18%	10%	8%	5%	3%
• White collar support	17%	15%	10%	8%	2%

Note: In 1Q 2009 Industrial manufacturers n=62,
All respondents, n=100

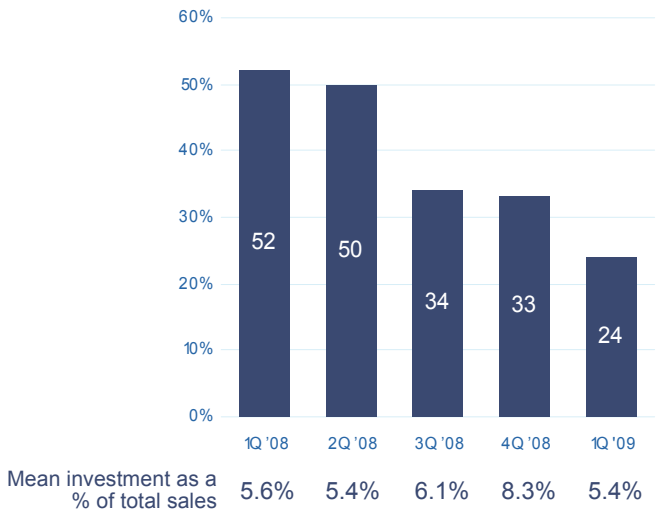
Percent planning major new investments of capital

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?

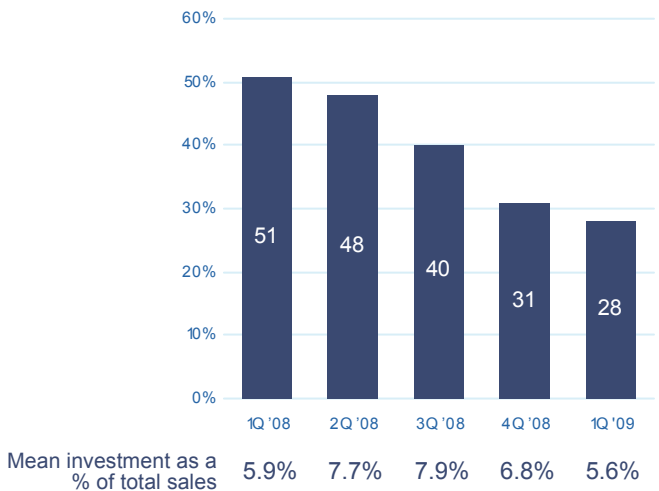
Only 24 percent of US-based industrial manufacturers interviewed plan major new investments of capital during the next 12 months, below last quarter's 33 percent and last year's 52 percent. The mean investment as a percentage of total sales moved lower to 5.4 percent, in line with 5.6 percent a year ago.

Chart 4.5 Percent planning major new investments of capital

Industrial manufacturers



All respondents



Note: In 1Q 2009 Industrial manufacturers n=62, All respondents, n=100

Percent planning to increase operational spending

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

Looking at the next 12 months, the majority of respondents plan to increase operational spending (53 percent, down 4 points). Among increased expenditures, new product or service introductions lead the way (29 percent, up 6 points).

Chart 4.6 Percent planning to increase operational spending

Industrial manufacturers

	1Q '08	2Q '08	3Q '08	4Q '08	1Q '09
Percent planning to increase spending (net)	75%	77%	64%	57%	53%
• New product or service introduction	38%	48%	26%	23%	29%
• Research and development	35%	40%	24%	15%	15%
• Geographic expansion	27%	35%	20%	30%	13%
• Information technology	40%	38%	24%	28%	13%
• Facilities expansion	25%	27%	20%	18%	11%
• Business acquisition	33%	30%	26%	18%	8%
• Marketing & sales promotion	23%	13%	14%	7%	5%
• Internet commerce	15%	17%	12%	3%	3%
• Advertising	15%	12%	12%	2%	3%

All respondents

	1Q '08	2Q '08	3Q '08	4Q '08	1Q '09
Percent planning to increase spending (net)	84%	78%	69%	58%	58%
• New product or service introduction	36%	48%	30%	21%	33%
• Research and development	27%	29%	17%	15%	14%
• Geographic expansion	27%	30%	23%	28%	16%
• Information technology	46%	43%	29%	33%	18%
• Facilities expansion	29%	29%	24%	20%	12%
• Business acquisition	33%	30%	25%	22%	11%
• Marketing & sales promotion	22%	16%	18%	14%	13%
• Internet commerce	17%	18%	13%	7%	7%
• Advertising	14%	12%	15%	10%	10%

Note: In 1Q 2009 Industrial manufacturers n=62, All respondents, n=100

Expected barriers to business growth

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

Concern about lack of demand is the chief barrier concerning respondents, up 10 points to a survey high of 95 percent. Also up is anxiety about decreasing profitability, rising 7 points to 69 percent.

Chart 4.7 Expected barriers to business growth



Note: In 1Q 2009 Industrial manufacturers n=62, All respondents, n=100

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 during the next 12 months among US-based industrial manufacturers dropped sharply to 15 percent in the first quarter from 32 percent last quarter. Plans to expand to new markets abroad are also weaker, dropping to 18 percent from 32 percent. On the positive side, new strategic alliances remain high, at 27 percent.

Chart 4.8 Plans for M&A and other business initiatives

Industrial manufacturers

	1Q '08	2Q '08	3Q '08	4Q '08	1Q '09
New business initiatives (net)	60%	63%	70%	60%	55%
• New strategic alliance	30%	23%	32%	30%	27%
• New joint venture	30%	27%	28%	25%	20%
• Close/reduce facilities abroad	10%	5%	10%	13%	19%
• Expand to new markets abroad	30%	30%	32%	32%	18%
• Reduce activity in markets abroad	10%	10%	16%	15%	16%
• M&A activity (net)	37%	40%	32%	32%	15%
- Purchase another business	33%	33%	28%	25%	10%
- Sale part/all own business	7%	10%	2%	8%	7%
- Equity carve-out/spin-off	8%	8%	4%	3%	2%
• New facilities abroad	25%	17%	20%	20%	13%

All respondents

	1Q '08	2Q '08	3Q '08	4Q '08	1Q '09
New business initiatives (net)	60%	62%	63%	60%	58%
• New strategic alliance	32%	23%	30%	27%	25%
• New joint venture	27%	29%	26%	25%	20%
• Close/reduce facilities abroad	5%	3%	5%	9%	16%
• Expand to new markets abroad	32%	29%	26%	30%	18%
• Reduce activity in markets abroad	10%	8%	12%	12%	15%
• M&A activity (net)	40%	40%	32%	33%	21%
- Purchase another business	36%	31%	27%	27%	16%
- Sale part/all own business	7%	11%	5%	9%	4%
- Equity carve-out/spin-off	9%	8%	5%	5%	3%
• New facilities abroad	17%	12%	13%	16%	13%

Note: In 1Q 2009 Industrial manufacturers n=62, All respondents, n=100

Survey demographics and research methodology

Demographics

Who	Senior executives of US-based, industrial manufacturing organizations	
Interview dates	January 17, 2009 to April 14, 2009	
	Industrial manufacturers (62)	All respondents (100)
Average number of employees	7,609	8,645
Average business unit revenue	\$4.68 billion	\$3.74 billion
Average enterprise revenue	\$9.83 billion	\$8.93 billion
Market capitalization	\$6.58 billion	\$5.95 billion
Industry sectors	Products 100% Manufacturing 100% Trade/Distribution --- All other --- Services ---	Products 82% Manufacturing 75% Trade/Distribution 3% All other 4% Services 18%

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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Email: barometer.surveys@us.pwc.com

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