Manufacturing Barometer™

Business outlook 3Q 2008

PricewaterhouseCoopers

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Quarterly highlights

In 3Q 2008, PricewaterhouseCoopers interviewed 50 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 with a wider panel to show how the industry differs from the broader population.

Overall, US-based industrial manufacturers are contracting in the face of the global credit crisis and economic slowdown. Two-thirds are pessimistic about the US economy's prospects, and nearly as many have turned pessimistic about the world economy's prospects. Own-company growth is projected at a slower pace for the next 12 months, but most expect positive growth. International sales, although strong, have slowed in their overall contribution to revenue.

Key findings:

- **Pessimism takes hold.** Sixty-six percent of senior executives interviewed are pessimistic about the US economy's prospects over the next 12 months. Only 6 percent are optimistic that the US economy will grow. With the global credit crisis, those marketing abroad have become nearly equally pessimistic. Sixty-three percent are pessimistic about its prospects over the next 12 months.
- **Growth loses momentum.** Senior executives of US-based industrial manufacturers project slower own-company average revenue growth of 2.8 percent over the next 12 months, down from 3.7 percent in the prior quarter and 6.5 percent a year ago. Fifty-four percent expect positive growth over the next 12 months, but 38 percent are projecting zero or negative growth.
- **International sales falter, but projections remain steady.** Over the next 12 months, international sales are projected to contribute 32 percent to total revenue for those selling abroad, off 6 points from the 38 percent high last quarter but only slightly off from last year's 35 percent. In 3Q 2008, 45 percent of international marketers reported an increase in sales from abroad. Although positive, it is 21 points down from the prior quarter's 66 percent.
- **Investments, M&A activity hit a lull.** Plans for major new investments of capital over the next 12 months dropped 16 points to 34 percent and came in well below last year's 42 percent. The mean investment as a percentage of total sales remained at a moderate 6.1 percent, below last year's 8.7 percent. Operational spending increases also declined, dropping 13 points from the prior quarter to 64 percent and down 21 points from last year's 85 percent.
- **Lack of demand stunts growth.** Among panelists, concern about lack of demand is the chief potential barrier to growth over the next 12 months, cited by 82 percent of those interviewed. Concern about oil/energy prices as a barrier to growth dropped 16 points to 62 percent.
- **Decreasing profitability looms.** Nearly two-thirds of senior executives cite concern about decreasing profitability as a leading barrier to company growth over the next 12 months, rising 14 points from 50 percent last quarter to 64 percent (a year ago, it was 48 percent).
- **Workforce reductions on the table.** Only 12 percent plan net new hiring, while 40 percent will be reducing their workforces. Composite new hiring has turned negative for the next 12 months, with workforces contracting 4 percent or more.

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	2007		2008			Change	Page
	3Q '07	4Q '07	1Q '08	2Q '08	3Q '08	2Q - 3Q '08	
Optimistic about US economy	45%	29%	12%	8%	6%	↓	7
Optimistic about world economy	79%	64%	38%	37%	7%	↓	9
Expect positive revenue growth	77%	81%	70%	68%	54%	↓	19
Average growth rate expected	6.5%	5.4%	4.6%	3.7%	2.8%	↓	19
Planning major new investments	42%	41%	52%	50%	34%	↓	23
New investments as a % of sales	8.7%	9.0%	5.6%	5.4%	6.1%	↑	23
Planning to hire	52%	36%	32%	32%	12%	↓	21
New workers as a % of workforce (net)	+0.4%	+0.1%	-0.3%	+0.1%	-4.0%	↓	21
Expected barriers to growth							
• Lack of demand	53%	61%	62%	60%	82%	↑	25
• Decreasing profitability	48%	31%	48%	50%	64%	↑	25
• Oil/energy prices	57%	66%	68%	78%	62%	↓	25
• Monetary exchange rate	28%	44%	57%	40%	36%	↓	25
• Legislative/ Regulatory pressures	50%	29%	35%	38%	36%	=	25
• Competition from foreign markets	43%	44%	25%	37%	34%	↓	25
• Higher interest rates	35%	29%	12%	17%	30%	↑	25
• Capital constraints	22%	15%	32%	23%	26%	↑	25
• Lack of qualified workers	37%	22%	23%	18%	26%	↑	25
• Taxation policies	32%	20%	18%	25%	22%	↓	25
• Pressure for increased wages	32%	25%	30%	50%	20%	↓	25

Economic views

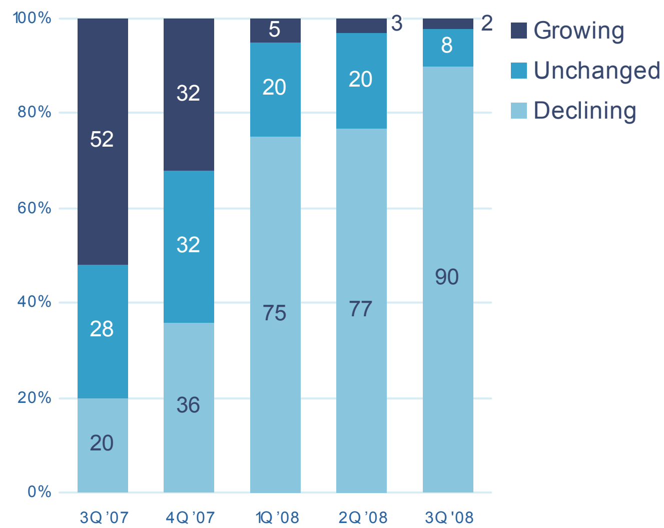
View of the US economy, this quarter

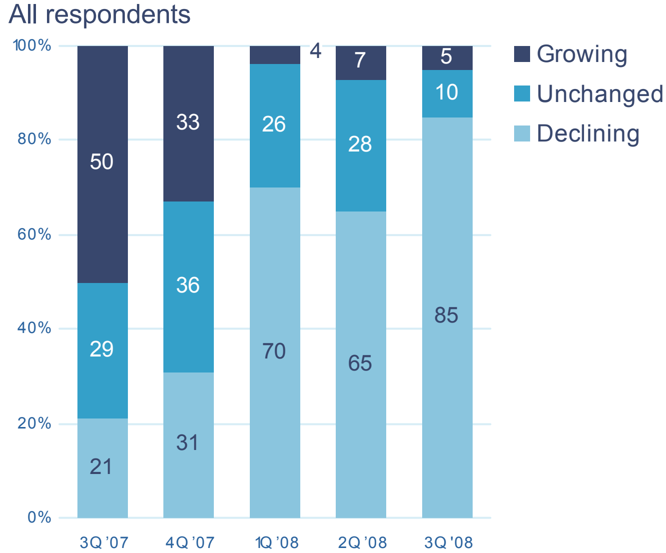
Which best describes your view of the US economy this quarter?

In line with the prior quarter, only 2 percent of US-based industrial manufacturing executives interviewed believe the US economy continued to grow in the third quarter. Nearly all executives — 90 percent — believe the US economy declined, 13 points up from last quarter's 77 percent.

Note: In 3Q 2008 Industrial manufacturers n=50, All respondents, n=103

Chart 2.1 View of the US economy, this quarter





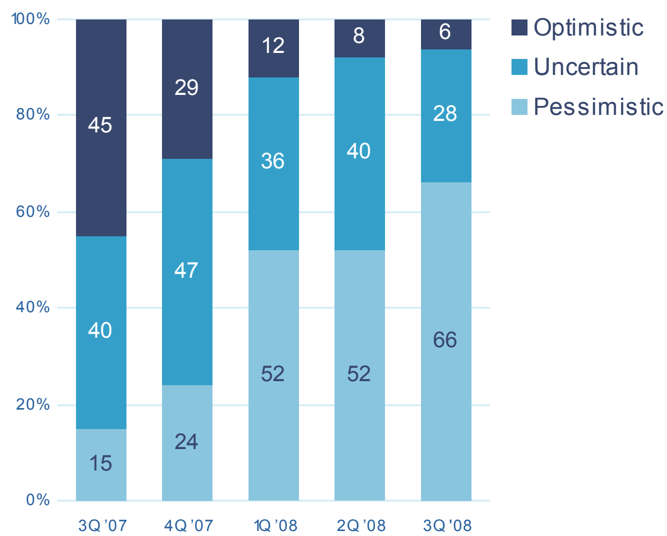
View of the US economy, next 12 months

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

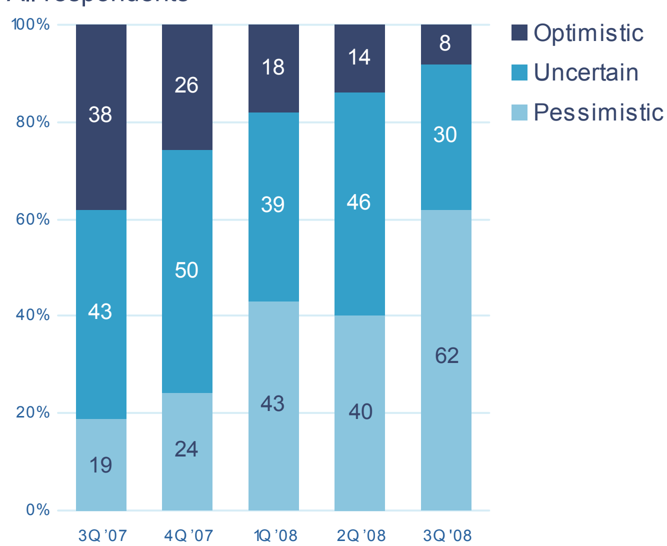
In view of the US credit crisis, only 6 percent of US-based industrial manufacturers expressed optimism about the 12-month outlook for the US economy, down slightly from the prior quarter's 8 percent but sharply below last year's 45 percent. Two-thirds (66 percent) are pessimistic, and 28 percent are uncertain.

Chart 2.2 View of the US economy, next 12 months

Industrial manufacturers



All respondents



Note: In 3Q 2008 Industrial manufacturers n=50,
All respondents, n=103

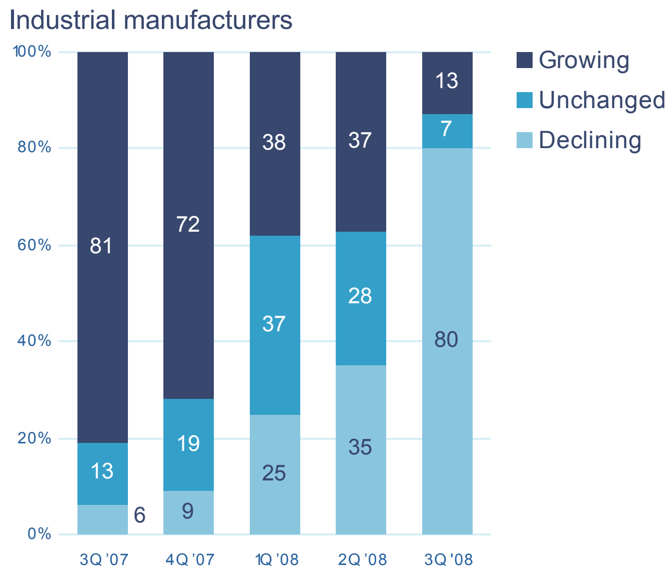
View of the world economy, this quarter

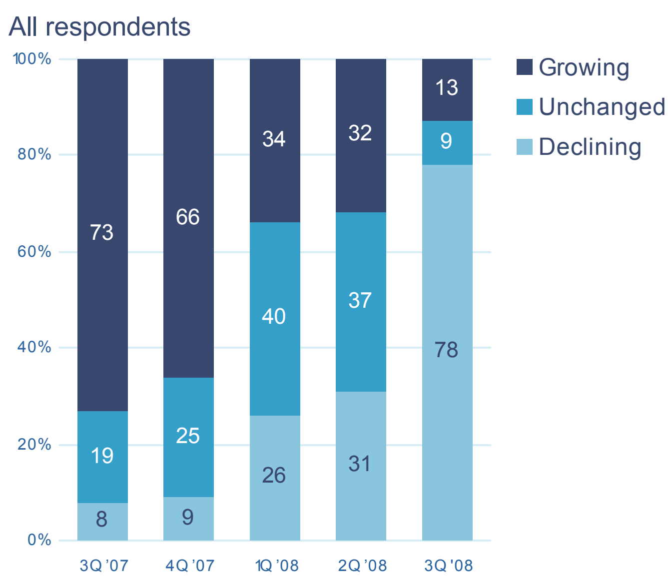
Which best describes your view of the world economy this quarter? (international marketers only)

Of those marketing abroad, only 13 percent viewed the world economy as growing during the third quarter, sharply off from the prior quarter's 37 percent and a fraction of last year's 81 percent. Eighty percent said it declined. For the past four quarters, industrial manufacturers have been more optimistic about the world economy than the broader consensus, but this quarter they are the same.

Note: In 3Q 2008 those marketing abroad, Industrial manufacturers n=46, All respondents, n=87

Chart 2.3 View of the world economy, this quarter





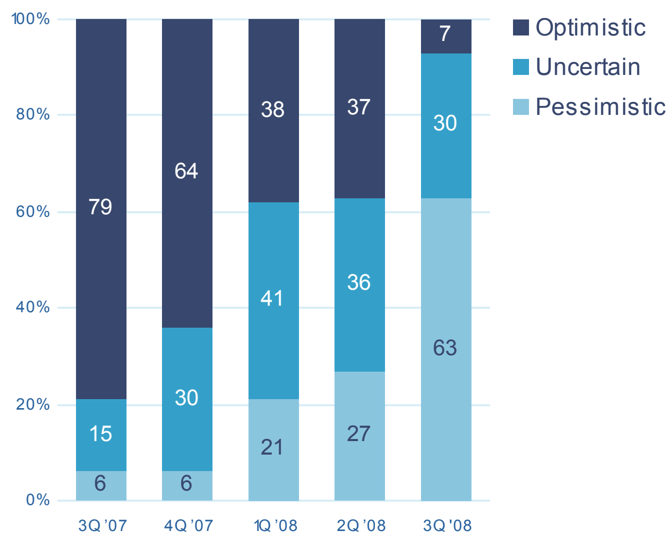
View of the world economy, next 12 months

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

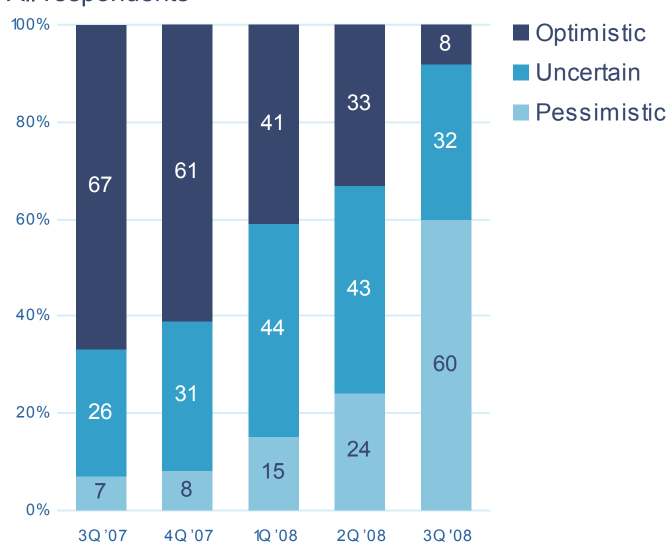
Only 7 percent of US-based industrial manufacturers who market abroad are optimistic about the prospects for the world economy over the next 12 months, compared with 37 percent last quarter and 79 percent last year. Thirty percent expressed uncertainty, but 63 percent said they are pessimistic about the prospects for the world economy over the next 12 months. Pessimism increased 36 points since the prior quarter.

Chart 2.4 View of the world economy, next 12 months

Industrial manufacturers



All respondents



Note: In 3Q 2008 those marketing abroad, Industrial manufacturers n=46, All respondents, n=87

Company performance

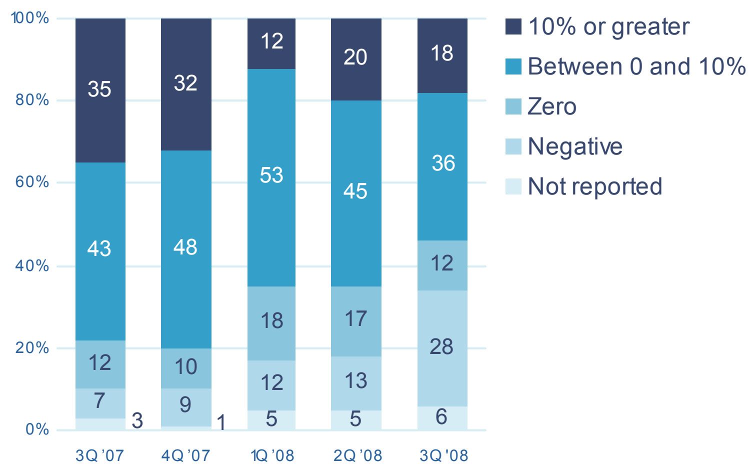
Company revenue growth, calendar year

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

In 3Q 2008, 18 percent of US-based industrial manufacturers expected double-digit growth, and 36 percent reported single-digit growth. Overall, the composite average growth estimate dipped about a point to 2.5 percent from 3.4 percent in the prior quarter, and it sits well below last year's 6.1 percent.

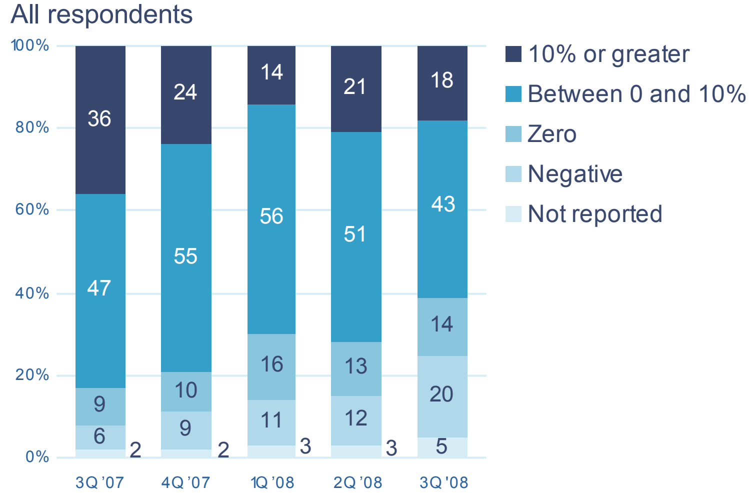
Chart 3.1 Company revenue growth, calendar year

Industrial manufacturers



Mean 6.1% 6.1% 3.0% 3.4% 2.5%

All respondents



Mean 7.5% 5.6% 3.2% 4.0% 3.8%

Note: In 3Q 2008 Industrial manufacturers n=50,
All respondents, n=103

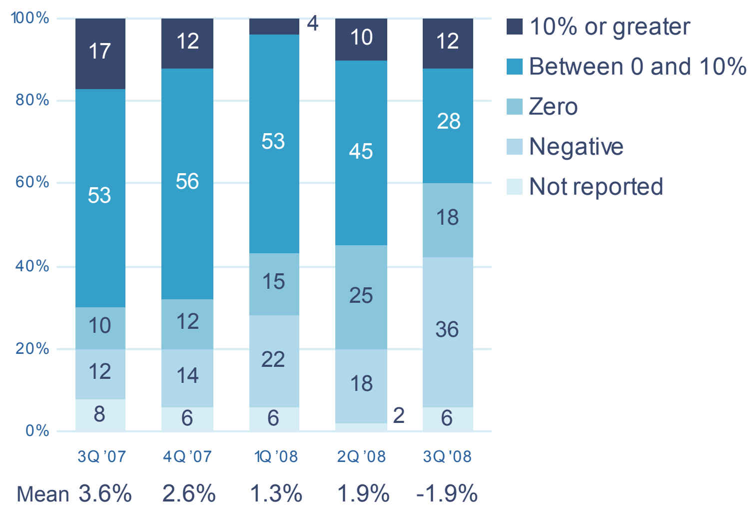
Industry growth, calendar year

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

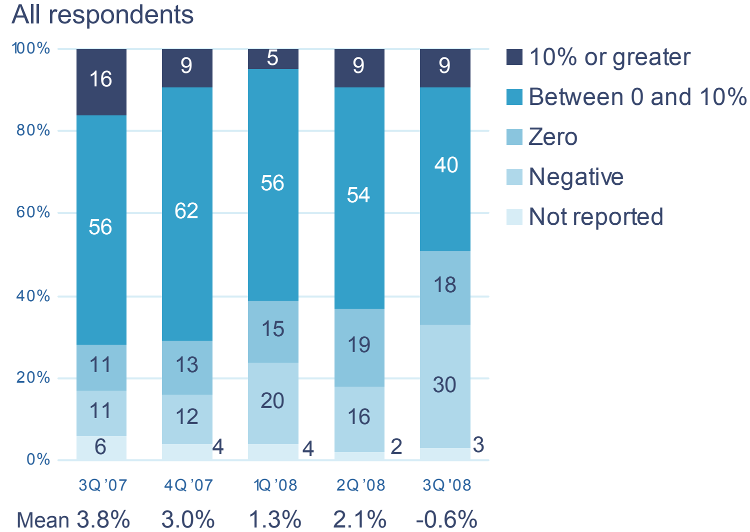
Industry growth for the calendar year is expected to turn negative, averaging minus 1.9 percent, off sharply from the prior quarter's plus 1.9 percent. US-based industrial manufacturers interviewed anticipate an average growth rate of 2.5 percent for their own companies in 2008, notably above the estimated negative growth rate of minus 1.9 percent for their industry.

Chart 3.2 Industry growth, calendar year

Industrial manufacturers



All respondents



Note: In 3Q 2008 Industrial manufacturers n=50,
All respondents, n=103

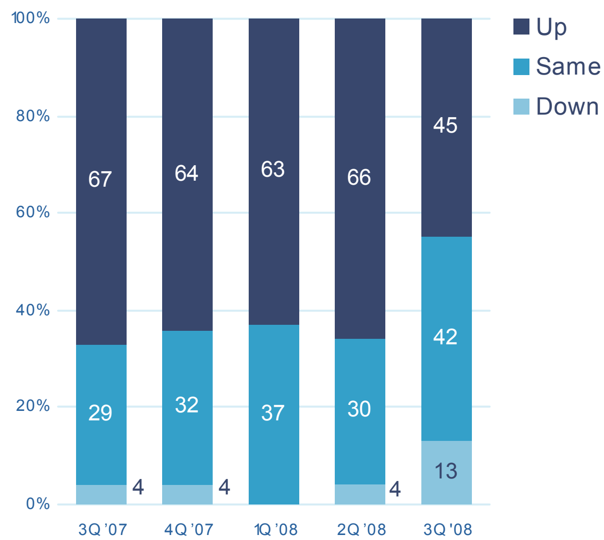
International sales

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

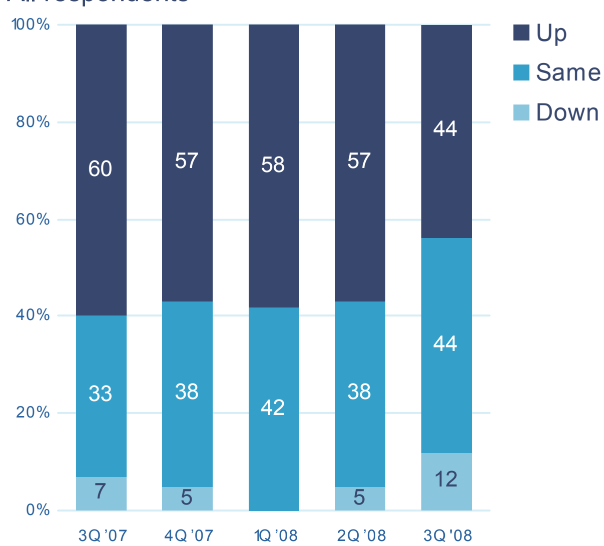
International markets remain positive for US-based industrial manufacturers that sell abroad. In 3Q 2008, 45 percent of international marketers increased sales abroad, and 13 percent reported a decrease, a falloff from much stronger performances in the prior four quarters, but still largely positive.

Chart 3.3 International sales

Industrial manufacturers



All respondents



Note: In 3Q 2008 those marketing abroad, Industrial manufacturers n=46, All respondents, n=87

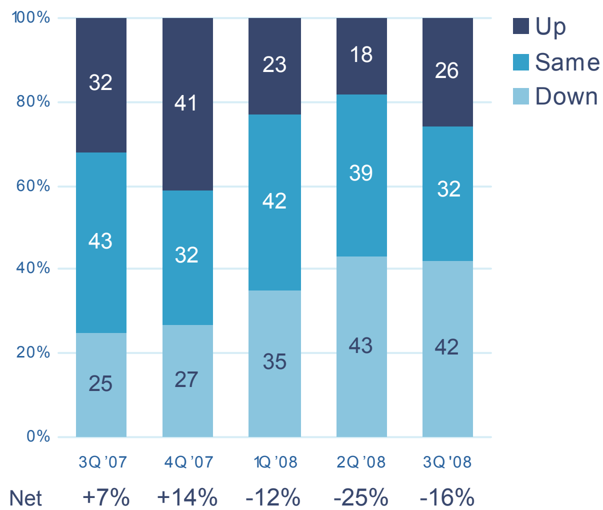
Changes in gross margins

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

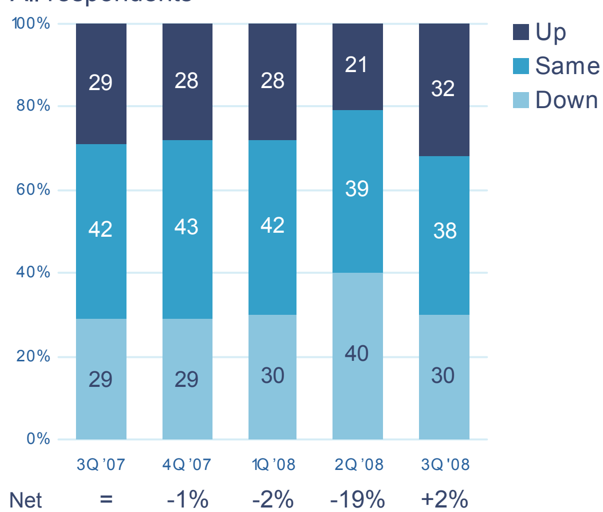
In 3Q 2008, gross margins were higher for 26 percent of US-based industrial manufacturers but lower for 42 percent, a net minus 16 percent.

Chart 3.4 Changes in gross margins

Industrial manufacturers



All respondents



Note: In 3Q 2008 Industrial manufacturers n=50,
All respondents, n=103

Changes in costs and prices

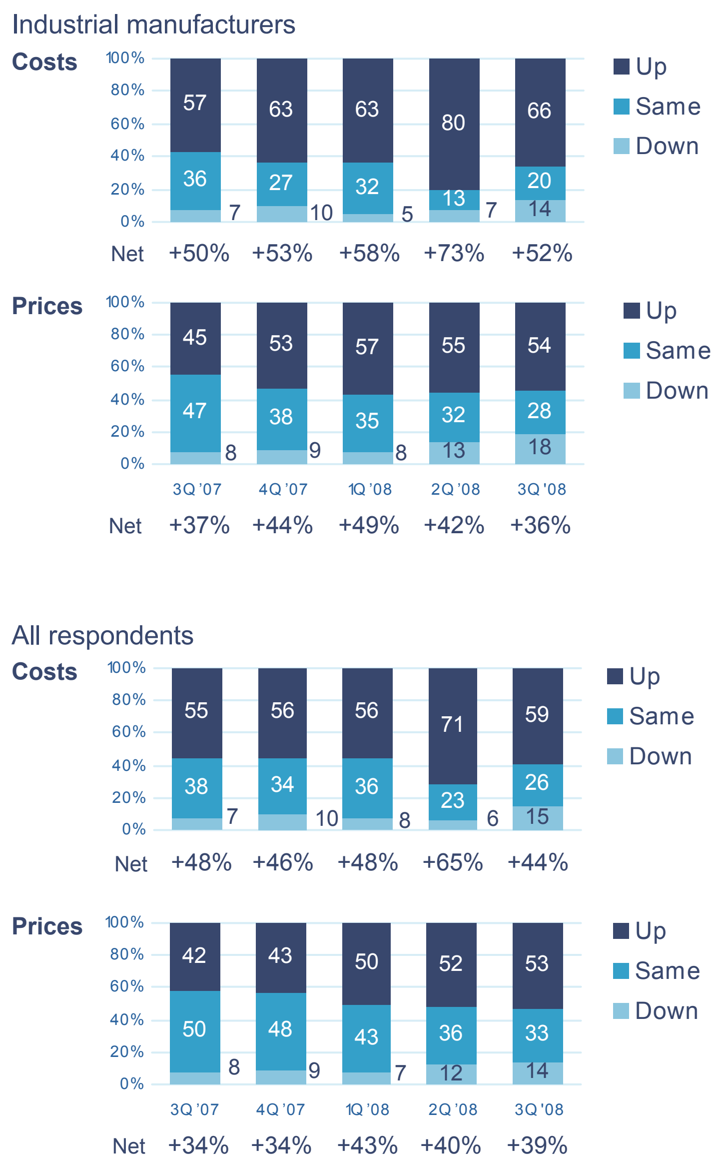
Are costs up, down, or the same compared with three months ago? Prices?

In 3Q 2008, costs remained high, increasing for 66 percent of US-based industrial manufacturers and decreasing for only 14 percent — a net of 52 percent with higher costs.

Industrial manufacturers responded to cost increases by pushing 3Q 2008 prices upward; 54 percent raised prices, and 18 percent lowered them, a net of 36 percent with higher prices.

Note: In 3Q 2008 Industrial manufacturers n=50, All respondents, n=103

Chart 3.5 Changes in costs and prices



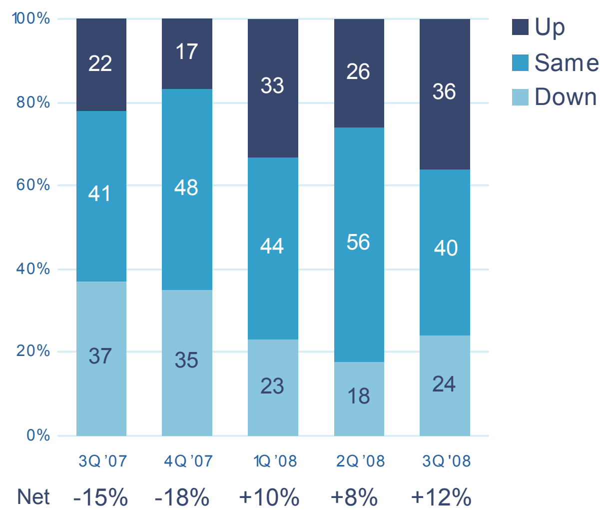
Inventory movement

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

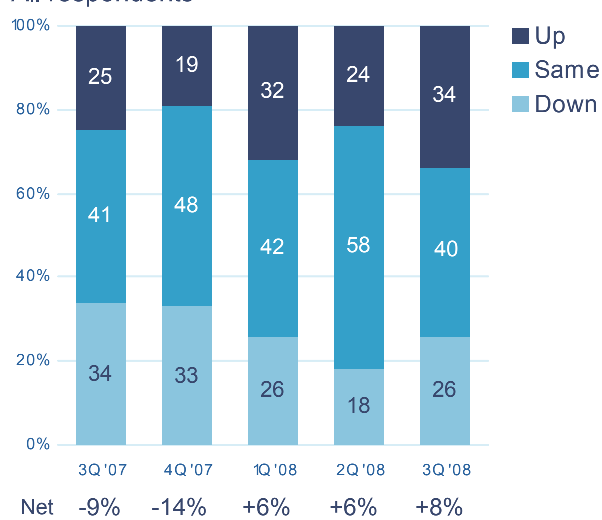
Overall, more US-based industrial manufacturers reported higher inventories (36 percent) than lower inventories (24 percent) – a net 12 percent with higher inventories.

Chart 3.6 Inventory movement

Industrial manufacturers



All respondents



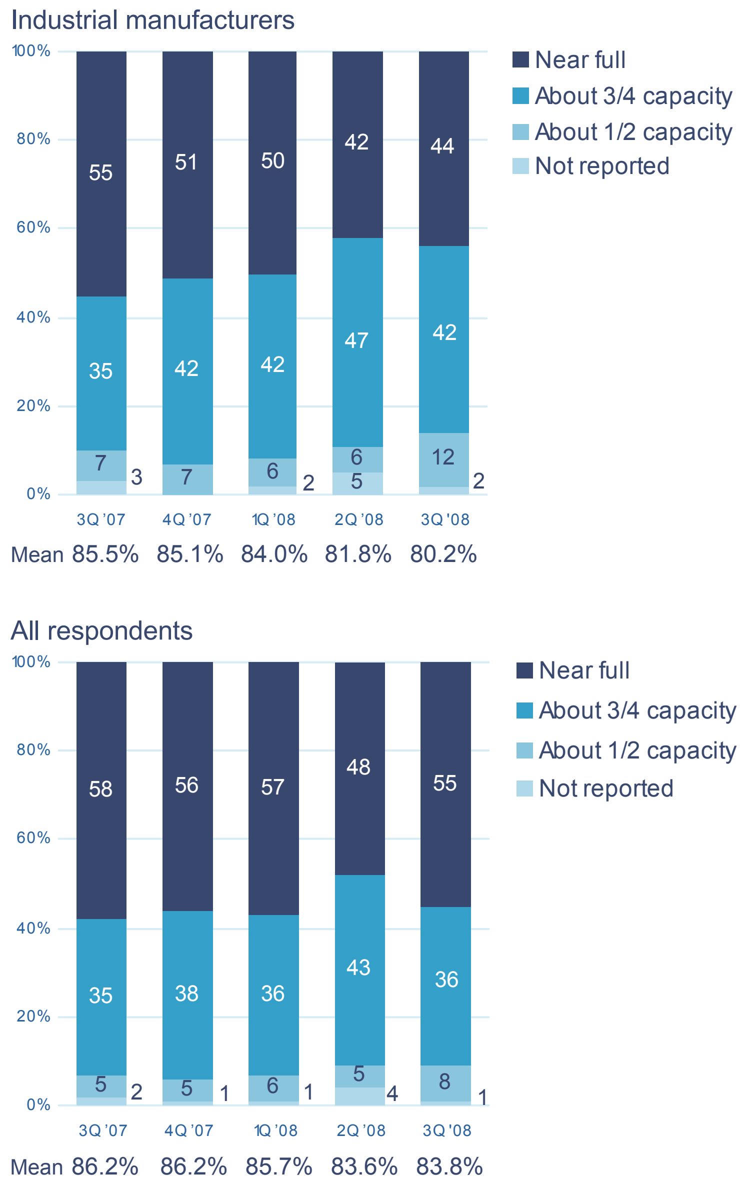
Note: In 3Q 2008 Industrial manufacturers n=50,
All respondents, n=103

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 3Q 2008, the average level of operating capacity for US-based industrial manufacturers was an estimated 80.2 percent — below the prior quarter and last year. This quarter, 44 percent of industrial manufacturers claimed to be at or near capacity.

Chart 3.7 Level of operating capacity



Note: In 3Q 2008 Industrial manufacturers n=50, All respondents, n=103

Business outlook, next 12 months

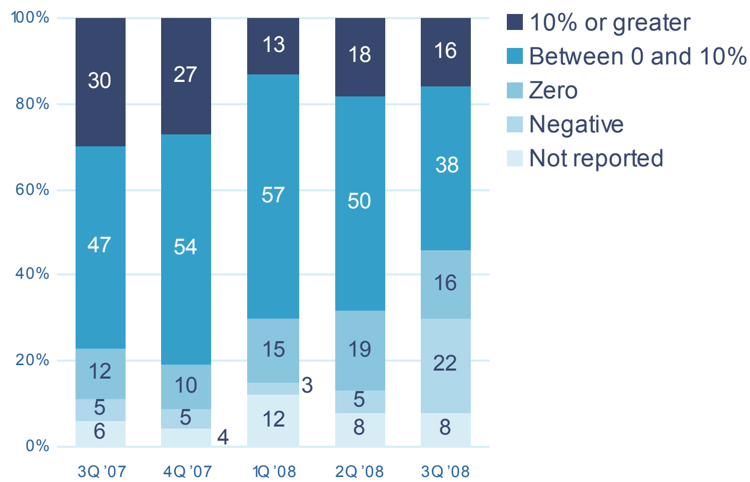
Revenue growth, next 12 months

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

US-based industrial manufacturers project a 2.8 percent average growth rate for the next 12 months, below the prior quarter's projected 3.7 percent and well below last year's 6.5 percent. Over the next 12 months, 54 percent are planning for growth — 16 percent expect double-digit revenue growth, and 38 percent expect single-digit growth.

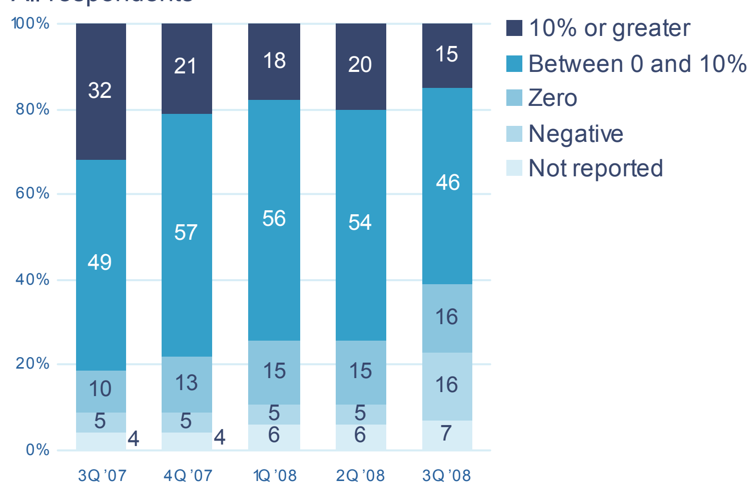
Chart 4.1 Revenue growth, next 12 months

Industrial manufacturers



Mean 6.5% 5.4% 4.6% 3.7% 2.8%

All respondents



Mean 7.1% 5.3% 4.8% 4.8% 3.8%

Note: In 3Q 2008 Industrial manufacturers n=50, All respondents, n=103

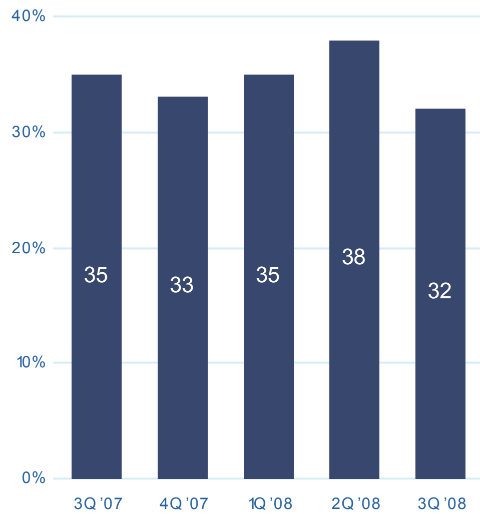
International sales, next 12 months

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

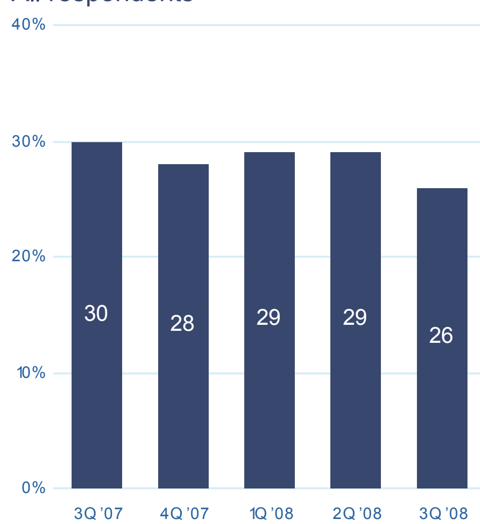
Of those selling abroad, the projected contribution of international sales to total revenue is 32 percent over the next 12 months, a drop-off from the prior quarter's 38 percent but similar to last year's 35 percent.

Chart 4.2 International sales, next 12 months

Industrial manufacturers



All respondents



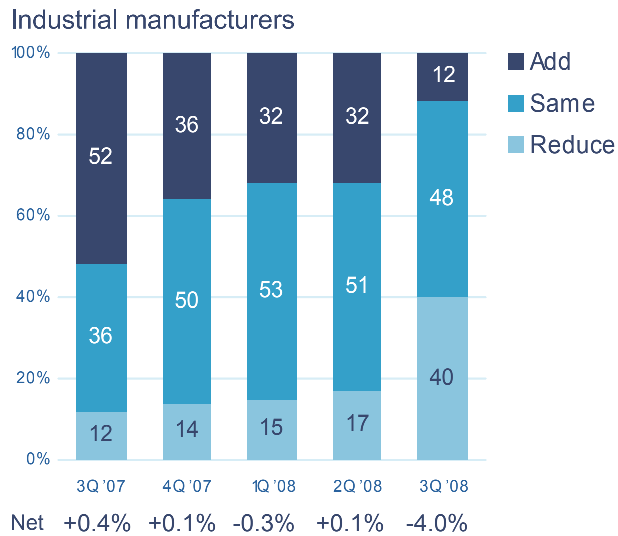
Note: In 3Q 2008 those marketing abroad, Industrial manufacturers n=46, All respondents, n=87

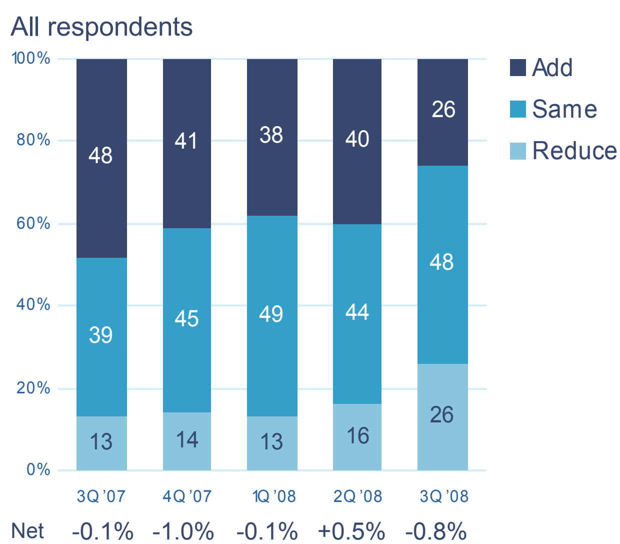
Percent planning to hire

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

Only 12 percent of US-based industrial manufacturers interviewed plan to add employees to their workforces over the next 12 months, and 40 percent plan to reduce the number of full-time equivalent employees. The net workforce projection is minus 4 percent, below last quarter's flat 0.1 percent net projection and last year's plus 0.4 percent.

Chart 4.3 Percent planning to hire





Note: In 3Q 2008 Industrial manufacturers n=50,
All respondents, n=103

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 12 percent of industrial manufacturers interviewed are planning to hire over the next 12 months, down 20 points from last quarter and 40 points from a year ago.

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Chart 4.4 Percent planning to hire by type of employee

Industrial manufacturers

	3Q '07	4Q '07	1Q '08	2Q '08	3Q '08
Planning to hire (net)	52%	36%	32%	32%	12%
• Professionals/technicians	30%	26%	23%	27%	6%
• Skilled labor	18%	24%	23%	8%	4%
• Sales/marketing	15%	12%	12%	15%	4%
• Production workers	27%	17%	13%	10%	2%
• White collar support	22%	14%	13%	10%	2%

All respondents

	3Q '07	4Q '07	1Q '08	2Q '08	3Q '08
Planning to hire (net)	48%	41%	38%	40%	26%
• Professionals/technicians	31%	27%	26%	30%	18%
• Skilled labor	17%	20%	18%	10%	8%
• Sales/marketing	17%	14%	14%	18%	11%
• Production workers	23%	13%	13%	11%	6%
• White collar support	22%	14%	17%	15%	10%

Note: In 3Q 2008 Industrial manufacturers n=50,
All respondents, n=103

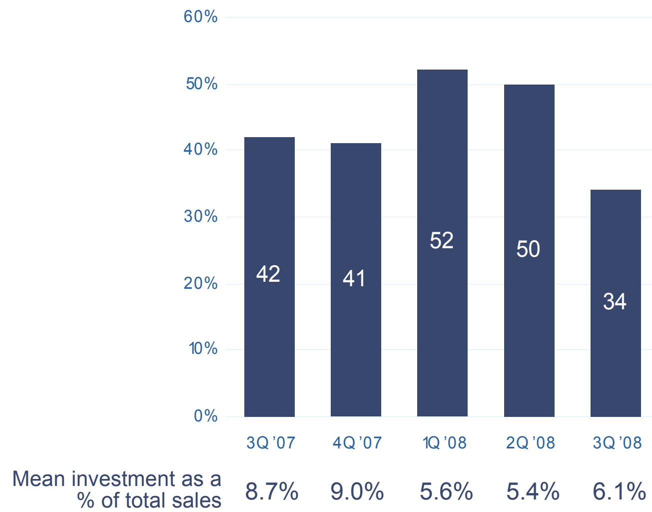
Percent planning major new investments of capital

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?

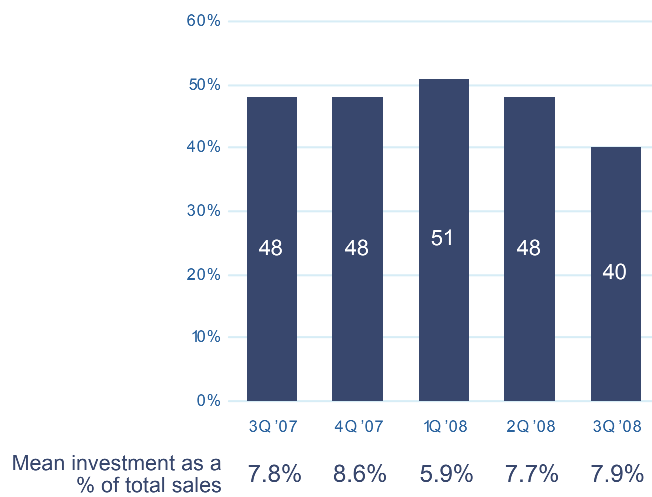
Thirty-four percent of US-based industrial manufacturers interviewed plan major new investments of capital during the next 12 months, 16 points down from the prior quarter and 8 points down from last year's 42 percent. The mean investment as a percentage of total sales rose to 6.1 percent but is off from 8.7 percent a year ago.

Chart 4.5 Percent planning major new investments of capital

Industrial manufacturers



All respondents



Note: In 3Q 2008 Industrial manufacturers n=50,
All respondents, n=103

Percent planning to increase operational spending

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

Looking at the next 12 months, four types of increased expenditures lead the way among US-based industrial manufacturers: business acquisitions; new product or service introductions; information technology; and research and development – but all at lower levels than prior quarters.

Note: In 3Q 2008 Industrial manufacturers n=50, All respondents, n=103

Chart 4.6 Percent planning to increase operational spending

Industrial manufacturers

	3Q '07	4Q '07	1Q '08	2Q '08	3Q '08
Percent planning to increase spending (net)	85%	83%	75%	77%	64%
• New product or service introduction	47%	43%	38%	48%	26%
• Business acquisition	37%	34%	33%	30%	26%
• Research and development	37%	36%	35%	40%	24%
• Information technology	57%	48%	40%	38%	24%
• Geographic expansion	42%	31%	27%	35%	20%
• Facilities expansion	32%	34%	25%	27%	20%
• Marketing & sales promotion	25%	29%	23%	13%	14%
• Advertising	13%	15%	15%	12%	12%
• Internet commerce	10%	9%	15%	17%	12%

All respondents

	3Q '07	4Q '07	1Q '08	2Q '08	3Q '08
Percent planning to increase spending (net)	87%	83%	84%	78%	69%
• New product or service introduction	48%	44%	36%	48%	30%
• Business acquisition	43%	37%	33%	30%	25%
• Research and development	30%	26%	27%	29%	17%
• Information technology	55%	49%	46%	43%	29%
• Geographic expansion	35%	31%	27%	30%	23%
• Facilities expansion	37%	31%	29%	29%	24%
• Marketing & sales promotion	28%	32%	22%	16%	18%
• Advertising	17%	22%	14%	12%	15%
• Internet commerce	15%	14%	17%	18%	13%

Expected barriers to business growth

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

Three major potential barriers to business growth are expected during the next 12 months — lack of demand, decreasing profitability, and higher oil/energy prices. Concern about lack of demand is the chief barrier among respondents.

Note: In 3Q 2008 Industrial manufacturers n=50, All respondents, n=103

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 declined 8 points to 32 percent in 3Q 2008. Twenty-eight percent plan to purchase another business, 2 percent indicated they might divest parts of their businesses, and 4 percent plan equity carve-outs or spin-offs.

Note: In 3Q 2008 Industrial manufacturers n=50, All respondents, n=103

Chart 4.8 Plans for M&A and other business initiatives

Industrial manufacturers

	3Q '07	4Q '07	1Q '08	2Q '08	3Q '08
New business initiatives (net)	68%	66%	60%	63%	70%
• M&A activity (net)	40%	44%	37%	40%	32%
- Purchase another business	38%	36%	33%	33%	28%
- Sale part/all own business	10%	14%	7%	10%	2%
- Equity carve-out/spin-off	3%	9%	8%	8%	4%
• Expand to new markets abroad	38%	29%	30%	30%	32%
• New strategic alliance	32%	37%	30%	23%	32%
• New joint venture	33%	27%	30%	27%	28%
• New facilities abroad	27%	20%	25%	17%	20%
• Reduce activity in markets abroad	8%	14%	10%	10%	16%
• Close/reduce facilities abroad	15%	10%	10%	5%	10%

All respondents

	3Q '07	4Q '07	1Q '08	2Q '08	3Q '08
New business initiatives (net)	68%	67%	60%	62%	63%
• M&A activity (net)	45%	43%	40%	40%	32%
- Purchase another business	43%	36%	36%	31%	27%
- Sale part/all own business	9%	14%	7%	11%	5%
- Equity carve-out/spin-off	5%	6%	9%	8%	5%
• Expand to new markets abroad	34%	29%	32%	29%	26%
• New strategic alliance	37%	40%	32%	23%	30%
• New joint venture	33%	28%	27%	29%	26%
• New facilities abroad	19%	14%	17%	12%	13%
• Reduce activity in markets abroad	7%	10%	10%	8%	12%
• Close/reduce facilities abroad	11%	8%	5%	3%	5%

Survey demographics and research methodology

Demographics

Who	Senior executives of US-based, industrial manufacturing organizations	
Interview dates	August 12, 2008 to October 31, 2008	
	Industrial manufacturers (50)	All respondents (103)
Average number of employees	7,125	7,074
Average business unit revenue	$3.22 billion	$3.40 billion
Average enterprise revenue	$8.00 billion	$11.51 billion
Market capitalization	$5.92 billion	$8.74 billion
Industry sectors	Products 100% Manufacturing 100% Trade/Distribution --- All other --- Services ---	Products 81% Manufacturing 71% Trade/Distribution 2% All other 8% Services 19%

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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