

Consumer Products Barometer™

Sponsored by the Retail & Consumer Industry Practice

REPORT ON THE ECONOMIC AND BUSINESS OUTLOOK

Consumer Products Industry

1Q 2007

In Cooperation With
BSI GLOBAL RESEARCH, INC.
May, 2007

CONTENTS

<u>THE REPORT</u>	<u>PAGE NUMBER</u>
• INTRODUCTION AND DEMOGRAPHICS	1-2
• CAPSULE OVERVIEW	3-7
• ANALYSIS OF KEY TRENDS	8-14
<u>TRENDLINE CHARTS</u>	<u>CHART NUMBER</u>
• View of U.S. Economy This Quarter	1
• View of World Economy This Quarter, Among International Marketers	2
• View of U.S. Economy Over Next 12 Months	3
• View of World Economy Over Next 12 Months, Among International Marketers	4
• Rate of Growth for Own Industry Sector: 2006 vs. 2005	5
• Revenue Growth: 2006 vs. 2005	6
• Revenue Growth: Next 12 Months	7
• Businesses Selling Abroad	8
– International Sales Past Quarter	9
• Hiring Plans Over Next 12 Months	10
– Types of Employees To Be Hired	11
– Hiring Productivity Index	12
• Level of Operating Capacity Past Quarter	13
• Plans for Major New Investments of Capital Over Next 12 Months	14
– Types of Increased Investments Expected	15
• Potential Barriers to Company & Industry Growth Over Next 12 Months	16
• Business Initiatives Over Next 12 Months	17
• Changes in Gross Margin (Past Quarter)	18
• Changes in Costs and Prices (Past Quarter)	19
• Current Inventory Movement (Past Quarter)	20

SPECIAL ISSUES: Look for news releases and special analyses on PricewaterhouseCoopers' Barometer Surveys website:

www.barometersurveys.com

mobile: wap.barometersurveys.com

INTRODUCTION

In 1Q'07, PricewaterhouseCoopers' Consumer Products Barometer interviewed senior executives about the business climate— comparing 50 in large, U.S.-based consumer products companies to 130 of their peers in a cross-section of all industry sectors.

This document recaps the survey findings—and draws comparisons between the consumer products sector and the consensus view across all industries. The accompanying charts and tables also make these comparisons.

Captured are survey participants' assessments of the direction of the economy, their company's revenue growth trend, plans for major new investments, plans to add new workers, and more. Included are perspectives on the current quarter, selected prior-quarter activities, and expectations for the next 12 months.

Interviews were conducted by the independent research firm of BSI Global Research, via telephone, from its New York/ New Jersey project headquarters, between February 23rd, 2007 and May 14th, 2007.

For latest findings and special analyses, please see PricewaterhouseCoopers' Barometer Surveys website:

www.barometersurveys.com
mobile: wap.barometersurveys.com

SURVEY DEMOGRAPHICS 1Q'07

	<u>All Industries</u>	<u>Consumer Products</u>
<input type="checkbox"/> AVERAGE # EMPLOYEES	9,313	12,327
<input type="checkbox"/> AVERAGE REVENUES	\$2.71 B	\$4.27 B
<input type="checkbox"/> ENTERPRISE REVENUES	\$7.52 B	\$10.31B
<input type="checkbox"/> MARKET CAPITALIZATION	\$13.13 B	\$16.15 B
<input type="checkbox"/> AVERAGE 5-YEAR GROWTH	28%	28%
<input type="checkbox"/> INDUSTRY SECTORS		
<input type="checkbox"/> PRODUCTS	82%	100%
MANUFACTURING	73%	100%
TRADE / DISTRIBUTION	2%	---
ALL OTHER	7%	---
<input type="checkbox"/> SERVICES	18%	---

CAPSULE OVERVIEW

**Large Consumer Products Businesses
Lower Optimism About the U.S. Economy**

Revenue Growth Targets Lowered As Oil/Energy Concerns Rise Sharply

Quick Scorecard:	All Industries			Consumer Products		
	<u>3Q06</u>	<u>4Q06</u>	<u>1Q07</u>	<u>3Q06</u>	<u>4Q06</u>	<u>1Q07</u>
Believe domestic economy is growing	72%	73%	69%	72%	80%	70%
Optimistic about U.S. economy next 12 mo.	55	63	55	64	72	50
Optimistic about world economy	67	68	74	60	71	67
Expect positive revenue growth next 12 mo.	84	84	85	83	84	82
Average % growth expected	7.5	7.8	7.0	5.7	6.6	4.8
Planning major new investments next 12mo.	47	56	53	43	56	48
New investments as a % of sales	8.2	6.5	7.8	4.7	8.1	5.5
Planning to add workers next 12 mo.	46	40	45	28	30	30
New workers as a % of workforce (net)	+0.4	+0.8	+1.2	-1.4	-1.1	+0.5

Senior executives of large Consumer Products businesses lowered their optimism about prospects for the U.S. economy over the next 12 months. Projective revenue targets for the year ahead were similarly cut back to an average of 4.8 percent, below the 6.6 percent estimated in the prior quarter. Consumer products businesses fell back to 31 percent below the all-industry revenue consensus of 7.0 percent. (See Chart 7)

Gross margins remained slightly negative in 1st Quarter 2007, as more consumer products companies reported higher costs (60 percent, up six points from the prior quarter). Higher prices were reported by 36 percent, up four points from the prior quarter but in line with the all-industry consensus. But higher costs were well above the all-industry benchmarks. (See Chart 18 and 19)

Looking ahead, the major barrier to achieving revenue targets over the next 12 months was the rising oil/energy barrier (70 percent, up 16 point). Several other barriers emerged, including concern about new legislation/regulatory pressures, competition from foreign markets, and concern about demand. (See Chart 16)

International optimism remained at a high 67 percent, and prospective revenue contributions from abroad were higher (21.3 percent). (See Chart 4 and 9)

continued...

CAPSULE OVERVIEW (continued)

On the positive side, a near majority of these businesses are now planning major new investments of capital (48 percent, off eight points), although prospective levels of investment were lowered. Increased investments expected over the next 12 months were found for: New product/service introductions (64 percent), Information technology (50 percent), Marketing & sales promotion (44 percent), and R&D (40 percent). (See Charts 14 and 15)

While investment plans were fairly high, new hiring remained on the flat side: 30 percent planning net new additions to their workforce, and more, 20 percent, reducing workers. On average, these composite workforces will be up slightly, +0.5 percent, up from -1.1 percent, but behind the positive all-industry consensus (+1.2 percent). (See Chart 10)

An Optimistic Outlook With Higher Growth Targets

- **Optimism about the U.S. economy:** 50 percent are now optimistic about the domestic economy's prospects over the next 12 months (off 22 points). Another 40 percent are uncertain, and ten percent are pessimistic. Optimism has now moved slightly behind the consensus (55 percent). (See Chart 3)
- **Optimism about the world economy:** 67 percent are optimistic about the world economy (off four points), 31 percent are uncertain and two percent are pessimistic. This is now behind the all-industry global optimism which rose to 74 percent. (See Chart 4)
- **Target growth projections cut back:** Consumer products businesses cut back revenue growth targets for the next 12 months, averaging 4.8 percent versus 6.6 percent in the prior quarter, or off 27 percent. The all-industries benchmark continued at 7.0 percent, and consumer products averages are now 31 percent lower. (See Chart 7)
- **Major concern is energy prices:** 70 percent, now see escalating energy prices as a potential barrier to their companies' growth over the next 12 months, up 16 points from 54 percent in the prior quarter. Concerns about energy are strikingly higher than the all-industry consensus (45 percent). (See Chart 16)

Gross Margins Flat Against Rising Costs

Higher costs have led to a margin squeeze for consumer products businesses, and gross margins turned slightly negative over the last quarter:

- **Costs:** In 1Q07, costs were higher for 60 percent of these surveyed (up six points), and lower for 16 percent, yielding a net 44 percent with increased costs (higher than the consensus net of 38 percent). (See Chart 19)
- **Prices:** 36 percent increased their own prices, while six percent lowered them in 1Q07, for a net of 30 percent with higher prices. This is similar to the consensus net of 33 percent, indicating an improved level of pass-through price increases among consumer products businesses. (See Chart 19)
- **Gross margins:** Overall, gross margins were slightly negative: 30 percent had an increase in 1Q07, and 32 percent a decrease, while 38 percent stayed about the same. In contrast, the cross-section of industries moved to the positive side in 1Q07. (See Chart 18)

continued...

CAPSULE OVERVIEW (continued)

Own Growth Still Outpacing Industry Sector

Consumer products' own-company revenue growth estimates dropped off to 31 percent below the consensus (4.8 percent versus 7.0 percent, respectively). Industry growth projections for the consumer products sector also sharply trails the all-industries benchmark—2.8 percent, versus 4.0 percent, respectively. (See Charts 5 & 7)

Potential Barriers to Growth Over Next 12 Months

Senior executives of large Consumer Products firms are more concerned about potential barriers to their own and industry growth over the next 12 months. Primary concern is about oil/energy prices which rose sharply, cited by 70 percent (up 16 points from the prior quarter, and five points above a year ago). Dropping sharply this quarter was anxiety about market demand, off 10 points to 30 percent (five points above a year ago). And, three other potential barriers increased this quarter: legislative/regulatory pressures, competition from foreign markets and higher interest rates. The leading barriers were:

• Oil/energy prices	70%	(Up 16 point from the prior quarter)
• Legislative/regulatory pressures	34%	(Up 2 points)
• Competition from foreign markets	32%	(Up 6 points)
• Lack of demand	30%	(Off 10 points)
• Pressure for increased wages	28%	(Off 6 points)
• Lack of qualified workers	26%	(Off 4 points)
• Higher interest rates	26%	(Up 4 points)
• Decreasing profitability	20%	(Off 2 point)

Consumer Products level of concern was well above the consensus level for oil/energy prices, but on par or slightly below the consensus on most other potential barriers. (See Chart 16)

Outlook for Less New Hiring But Higher Investment

• Hiring Plans Still On Flat Side

Only 30 percent are planning to increase their workforce over the next 12 months—staying well below the consensus 45 percent— and more (20 percent) expect a net reduction. On average, these consumer products companies expect the size of their workforce will increase slightly by +0.5 percent, below the consensus average expected increase of +1.2 percent. (See Chart 10)

continued...

CAPSULE OVERVIEW (continued)

• **Hiring Plans Still On Negative Side** (continued)

The 30 percent planning net new hiring over the next 12 months were found to be somewhat faster growing businesses, and a bit more profitable in the 1st quarter.

- Target revenue growth of 5.6 percent is expected over the next 12 months versus 4.2 percent for those not hiring, or 33 percent faster.
- Gross margins: Over the past quarter, 33 percent reported increased margins and 27 percent decreased-- for a net of six percent positive (compared to five percent negative for all others).

- **Major new investments expected**: 48 percent of surveyed consumer products businesses plan to make major new investments of capital over the next 12 months (off eight points and now below the consensus of 53 percent). These investments are expected to average 5.5 percent of revenue, notably below than the consensus, 7.8 percent. (See Chart 14)

Over the next 12 months, increased investments are expected in seven areas, led by New product/service introductions. Also above consensus levels were IT, Marketing & Sales promotion, R&D and Advertising: (See Chart 15)

• New product/service introductions	64%	(consensus: 47%)
• Information technology	50%	(consensus: 46%)
• Marketing and sales promotion	44%	(consensus: 35%)
• Research & development	40%	(consensus: 30%)
• Advertising	38%	(consensus: 24%)
• Facilities expansion	32%	(consensus: 35%)
• Internet commerce	26%	(consensus: 24%)

Those 48 percent planning major new investments of capital over the next 12 months are not faster-growing and only slightly more profitable businesses:

- Target revenue growth of 5.0 percent is expected over the next 12 months versus 4.8 percent for all others, or only four percent faster.
- Gross margins: Over the past quarter, 33 percent report increased margins and 33 percent decreased-- flat margins (compared to four percent negative for all others).

continued...

CAPSULE OVERVIEW (continued)

Other business initiatives considered: Three-fourths (75 percent) are considering other business initiatives over the next 12 months, led by Expanding to new markets abroad, which was above the consensus: (See Chart 17)

Expand to new markets abroad	50%	(consensus: 35%)
<u>M&A activity</u>	<u>36%</u>	(consensus: 45%)
Purchase another business	30%	(consensus: 38%)
Sale of part/all of business	6%	(consensus: 14%)
Equity carve-out/spin-off	4%	(consensus: 6%)
New strategic alliances	34%	(consensus: 38%)
New joint ventures	22%	(consensus: 22%)
Mfg/distribution facilities abroad	20%	(consensus: 17%)

Impact of the Oil Barrier

The 70 percent of executives at consumer products companies who cited oil/energy as a prospective barrier to meeting their revenue targets over the next 12 months were found to have a negative effect on gross margins and revenue growth targets. (See Chart 16)

- Revenue growth: the energy vulnerable expect to grow revenues at 3.9 percent over the next 12 months versus 6.8 percent for all others, or 43 percent slower.
- Gross margins: 26 percent reported increased margins in 1Q07, while 40 percent decreased-- a net decrease of 14 percent. In contrast, a net increase of 27 percent was reported by their non-oil barrier peers.
- Costs were higher for 71 percent of the oil barrier group versus only 33 percent of all others.
- Major barriers: Beside energy, this segment is above average in concern about legislative/regulatory pressure (40 percent); as well as pressure from increased wages (37 percent); demand (32 percent); lack of qualified workers (31 percent); higher interest rates (29 percent); decreasing profitability (29 percent).

On the positive side, the energy vulnerable group was found to be above average in planning major new investments of capital (51 percent), and for expected increased investments in IT (54 percent) and R&D (46 percent), and on par with non-barrier peers on new product/service introductions (63 percent).

ANALYSIS - 1Q07

key

- (+) Leads consensus view of all industries
- (-) Lags consensus view
- (=) Comparable to consensus view

Views of the Domestic Economy

- Seventy percent of U.S.-based consumer products executives believe that the economy is growing. Twenty-two percent view it as unchanged, and eight percent see it as declining. Similarly, 69 percent in the survey's cross-industries benchmark say that the economy is growing; and six percent say it is declining—so the view in the consumer products sector is now on par with the consensus. (=)
(See Chart 1)
- Fifty percent of consumer products executives are optimistic about the economy's prospects over the next 12 months; 40 percent are now uncertain, and ten percent are pessimistic. The cross-industries benchmark was higher: 55 percent optimistic, 39 percent uncertain, and six percent pessimistic. (-)
(See Chart 3)

Barriers to Growth

- Seventy percent of consumer products executives view rising oil/energy prices as a potential barrier to growth over the next 12 months (up 16 points), well ahead of the consensus (45 percent). (+)
- Thirty-four percent see legislative or regulatory pressures as a possible barrier— now below the benchmark view of 41 percent. (-)
- Thirty-two percent see competition from foreign markets as a potential barrier, same as the benchmark of 33 percent. (=)
- Thirty percent are concerned about the possibility of weaker market demand – similar to the consensus of 34 percent. (=)
- Twenty-eight percent are concerned about pressure for increased wages—above the benchmark of 23 percent. (+)
- The consumer products sector is below the consensus in its concern about a possible shortage of qualified workers (26 percent versus 36 percent, respectively) (-)
- Twenty percent cite higher interest rates— same as the consensus (22 percent). (=)
- The consumer products sector is similar to consensus levels for decreasing profitability (20 percent versus 21 percent). (=)
- Sixteen percent of consumer products executives are concerned about the changing monetary exchange rates – same as the consensus of 17 percent. (=)
- Concern about capital constraints was cited by 12 percent, below the consensus of 18 percent. (-)
(See Chart 16)

International

- Sixty-seven percent of consumer products executives marketing abroad counted themselves optimistic about the direction of the world economy over the next 12 months; 31 percent were uncertain and only two were pessimistic. This is now below the consensus view of 74 percent optimistic. (-)
(See Chart 4)
- International sales are expected to contribute 21.3 percent of revenues for consumer products businesses that market abroad—well below the cross-industries benchmark of 28.4 percent. (-)
(See Chart 9)

ANALYSIS - 1Q07 (Continued)

key

(+) Leads consensus view of all industries

(-) Lags consensus view

(=) Comparable to consensus view

Revenue Growth

- Consumer products business leaders project a cutback of their pace of revenue growth— averaging 4.8 percent over the next 12 months. This lags the consensus growth target of 7.0 percent. (-)
(See Chart 7)
- Industry sector growth among consumer products companies dropped to 2.8 percent, and is now well below the all-industries consensus which remained at 4.0 percent. (-)
(See Chart 5)

Margins, Costs, and Pricing

- Gross margins were up for 30 percent of surveyed consumer products companies last quarter; down for 32 percent, for a net of minus two percent. This compares to a net of plus 11 percent across all industries. (-)
(See Chart 18)
- Costs were higher for 60 percent of consumer products businesses, and lower for 16 percent, for a net of plus 44 percent—compared to a net of plus 38 percent for the consensus. (+)
(See Chart 19)
- Prices were increased by 36 percent of consumer products businesses, and lowered by six percent, for a net of plus 30 percent—compared to a net of plus 33 percent across-the-board. (=)
(See Chart 19)

New Investment Plans

- Forty-eight percent of consumer products executives say their business expects to make major new investments of capital over the next 12 months, now below the consensus of 53 percent. Spending for consumer products companies is expected to average only 5.5 percent of revenue, above the consensus level which rose to 7.8 percent. (-)
(See Chart 14)
- Sixty-four percent of consumer products businesses are expecting increased budgets for new product and service introductions over the next 12 months. Other areas with expected budget increases: IT, cited by 50 percent; marketing and sales promotion, 44 percent; R&D, 40 percent; advertising, 38 percent; facilities expansion, 32 percent; Internet commerce, 26 percent; geographic expansion, 24 percent; and business acquisitions, 24 percent. Consumer products businesses are ahead of, or comparable to the all-industries consensus on new product/service introductions, IT, marketing and sales, research & development, advertising, and Internet commerce.
(See Chart 15)

ANALYSIS - 1Q07 (Continued)

key

- (+) Leads consensus view of all industries
- (-) Lags consensus view
- (=) Comparable to consensus view

New Hiring Plans

- Consumer products businesses expect to slightly increase their current workforce by an average of +0.5 percent over the next 12 months. This is well below the planned increase of +1.2 percent for the all-industries benchmark. The number of consumer products businesses expecting net hiring is only 30 percent, and more, 20 percent are planning to reduce their workforce. In the consensus view, 45 percent are planning to hire, and 15 percent expect a reduction. (-)
(See Chart 10)
- Analysis by worker categories shows greatest interest in hiring sales/marketing executives over the next 12 months: (See Chart 11)

Consumer Products Businesses:

	<u>Percent Planning To:</u>	
	<u>Add to</u>	<u>Reduce</u>
	<u>Workforce</u>	<u>Workforce</u>
• Sales/ Marketing.....	16%	14%
• White Collar Support.....	14%	16%
• Professionals/Technicians.....	10%	12%
• Production Workers.....	10%	14%
• Skilled Workers.....	8%	14%
>Total (Net).....	30%	20%

Business Initiatives Under Consideration

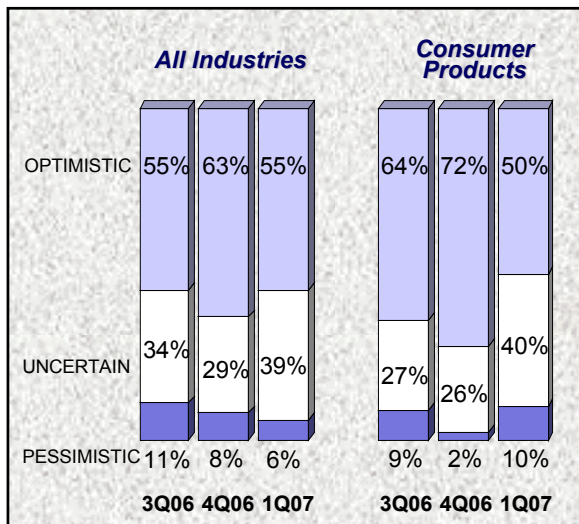
- Expansion to new markets abroad rose sharply, and is now planned by 50 percent – well above the consensus 35 percent. (+)
- Over the next 12 months, 36 percent of consumer products companies expect to consider M&A transactions—including 30 percent contemplating purchase of another business; six percent, the sale of their own business, whole or in part; and four percent, equity spin offs. In comparison, the consensus considering M&A transactions is a higher 45 percent. (-)
- New strategic alliances are being considered by 34 percent, similar to the cross-industries benchmark of 38 percent; and new joint ventures by 22 percent (consensus: 22 percent). (=)
(See Chart 17)

Current Level of Operating Capacity

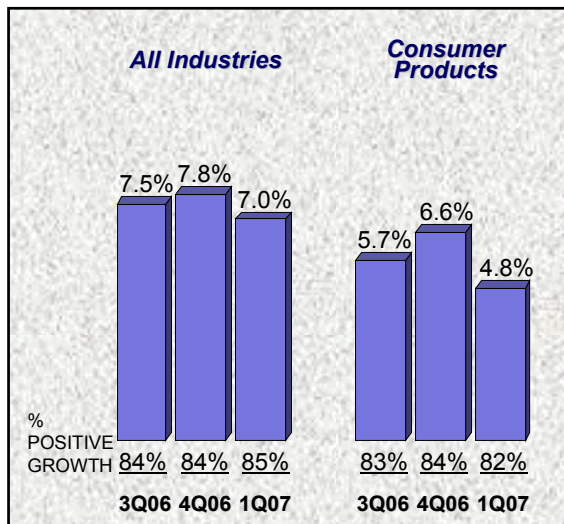
- Consumer products businesses report operating at an average of 87.9 percent of capacity in 1Q'07. This is above the all-industries benchmark of 84.6 percent. (+)
(See Chart 13)

ECONOMIC OUTLOOK AND PLANS FOR NEXT 12 MONTHS (AS OF 1Q 2007)

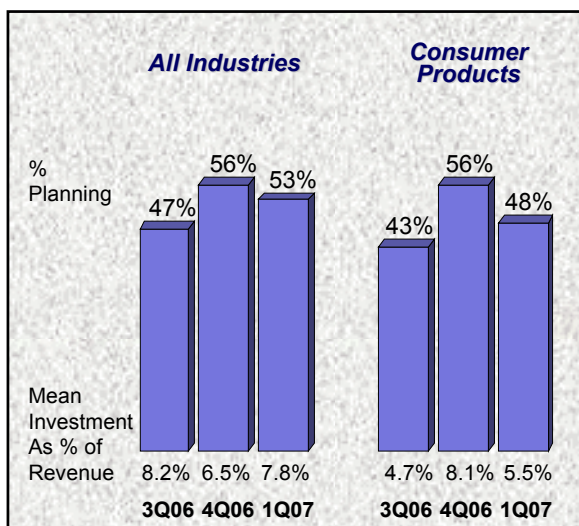
VIEW OF THE U.S. ECONOMY



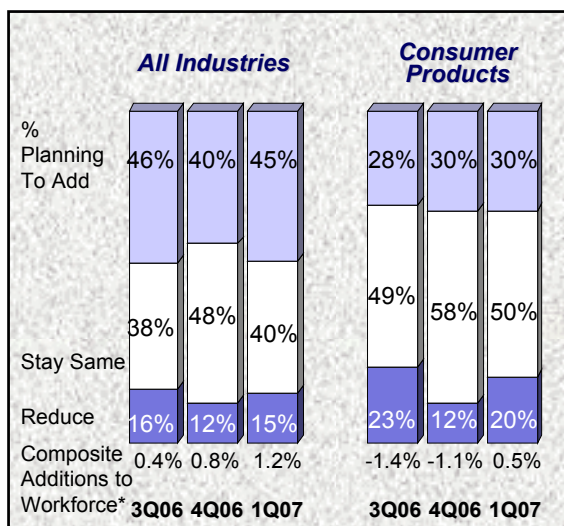
ESTIMATE OF OWN REVENUE GROWTH



PLANS FOR MAJOR NEW INVESTMENTS OF CAPITAL



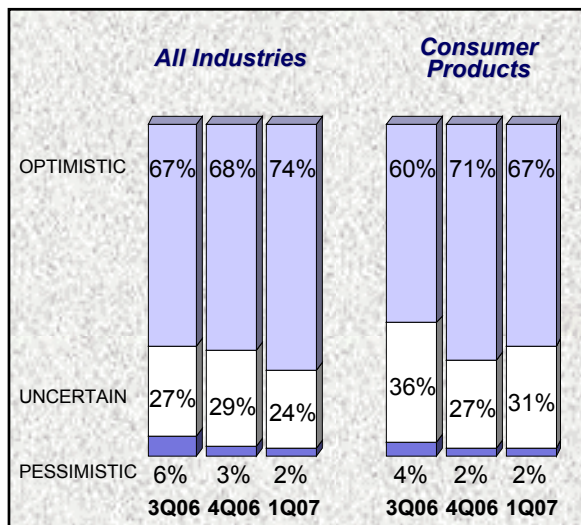
PLANS TO ADD NEW WORKERS



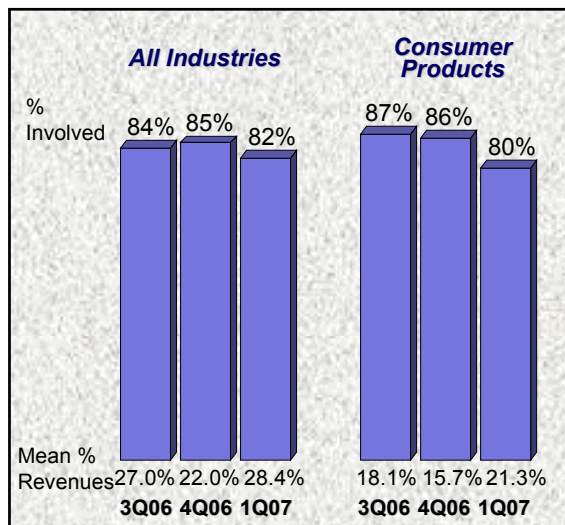
*Weighted by Total Employees

INTERNATIONAL MARKETING

VIEW OF THE WORLD ECONOMY*



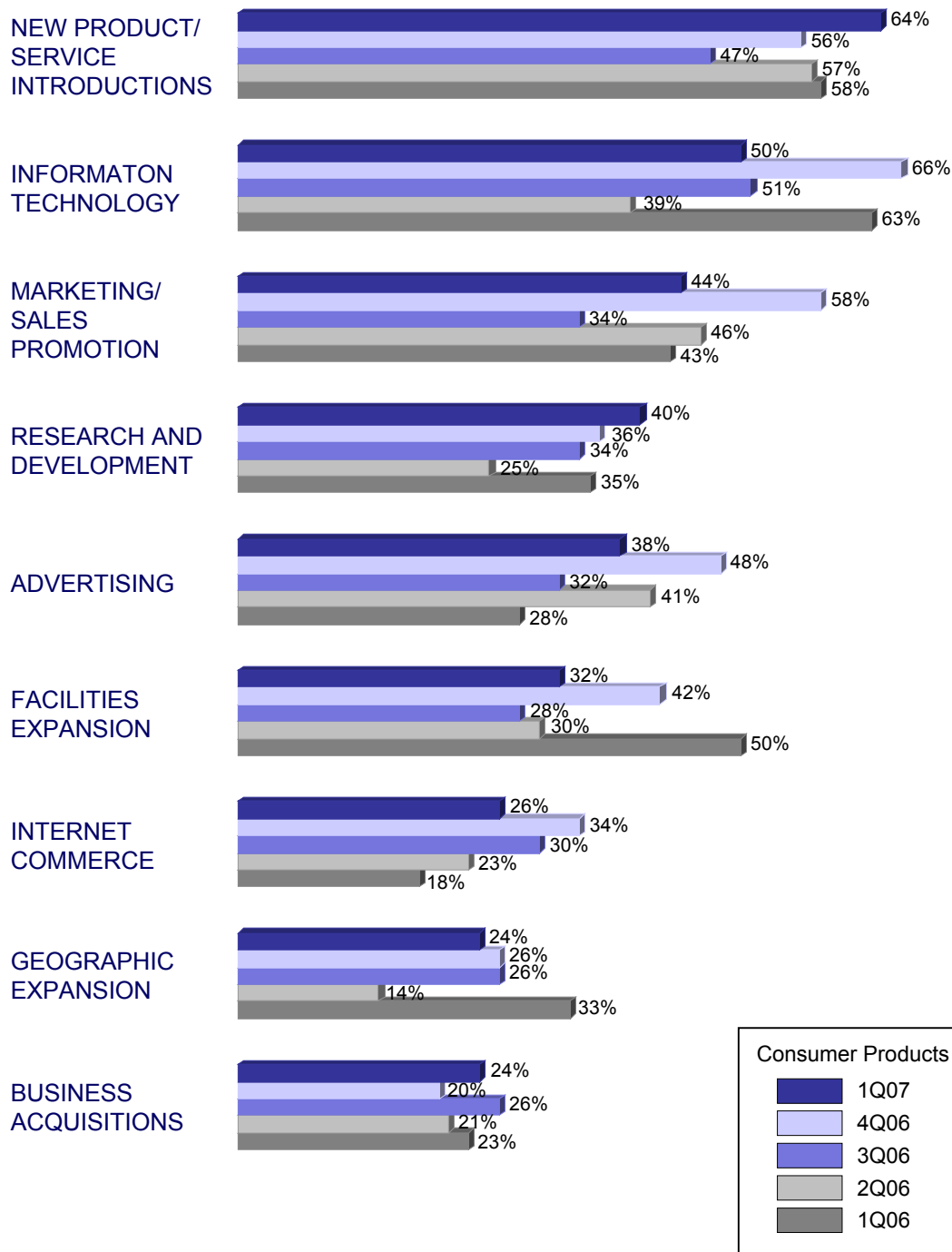
INTERNATIONAL REVENUES*



* Among International Marketers

INTERVIEWING IN 1Q 2007
NEXT 12 MONTHS

TYPES OF INCREASED INVESTMENTS EXPECTED



POTENTIAL BARRIERS TO GROWTH

