

# Consumer Products Barometer™

Business outlook 1Q 2008

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# Quarterly highlights

In 1Q 2008, PricewaterhouseCoopers interviewed 58 US-based consumer products 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 business outlook to the prior quarter's results to see how the 12-month outlook has changed. The final step was to compare their views to a wider panel to help us understand how the industry differs from the broader population.

## Key findings:

- Most are pessimistic that the US economy will grow over the next 12 months. The number of respondents who are pessimistic about the US economy's prospects rose sharply to 54 percent (up 16 points), and those who are optimistic dipped to 19 percent (off 3 points). The remaining 27 percent are uncertain.
- Most are uncertain that the world economy will grow over the next 12 months. Optimism about the world economy's prospects dropped 15 points from the prior quarter to a low of 33 percent. The majority of international marketers are uncertain (53 percent), but relatively few (14 percent) are pessimistic.
- Despite the pessimistic outlook, revenue projections remain steady. Currently, 83 percent plan for growth, either double-digit (14 percent) or single-digit (69 percent), which was similar to the prior quarter. In 1Q 2008, consumer products businesses raised their average revenue projections from 5.1 percent in the prior quarter to 5.7 percent, but they remain well behind the 6.3 percent and 6.8 percent projections reported in mid-2007.
- International sales projections rose. Among those doing business abroad, international sales projections as a percent of total revenue in the next 12 months rose to 25 percent, up from 19 percent last quarter and 21 percent a year ago. In 1Q 2008, 56 percent reported increased international sales, 44 percent reported the same level of international sales, and less than 1 percent reported a decrease.

- Concern about barriers to future business growth increased. Concern about oil/energy prices rose 7 points to a high of 79 percent. This quarter, concern increased for three other barriers: lack of demand, which rose 12 points to 54 percent; the monetary exchange rate, which rose 11 points to 47 percent; and concern about decreasing profitability, which rose 7 points to 40 percent.
- Overall, gross margins look flat. In 1Q 2008, 36 percent of consumer products executives reported higher margins and 33 percent reported lower margins, for a net of 3 percent with higher margins. More reported an increase in costs (74 percent, up 12 points) and prices (59 percent, up 11 points) this quarter. Clearly, price flexibility has allowed consumer products businesses to keep up with rising costs.
- New capital investment plans rose slightly. More consumer products businesses plan to make new investments of capital in the next 12 months – 45 percent, up 2 points from last quarter. However, the mean investment as a percentage of total sales dropped from 7.2 percent to 5.8 percent. Twenty-two percent of consumer products businesses plan to add to their workforces, and the total workforce size among those businesses is projected to grow a net 2.5 percent.
- In many categories, fewer companies plan to increase operational spending. A smaller number of consumer products companies reported increased operational spending plans for new product or service introductions, marketing and sales promotion, and information technology. Initiatives to expand to new markets abroad fell among consumer products companies, and fewer also plan M&A activity.

A quarter-by-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 previous 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 large consumer products businesses	2007				2008	Change	Page
	1Q '07	2Q '07	3Q '07	4Q '07	1Q '08	4Q'07–1Q'08	
Optimistic about US economy	50%	53%	29%	22%	19%	↓	7
Optimistic about world economy	67%	63%	50%	48%	33%	↓	9
Expect positive revenue growth	82%	85%	92%	83%	83%	=	19
Average growth rate expected	4.8%	6.3%	6.8%	5.1%	5.7%	↑	19
Planning major new investments	48%	51%	37%	43%	45%	=	23
New investments as a % of sales	5.5%	6.1%	4.2%	7.2%	5.8%	↓	23
Planning to hire	30%	40%	32%	22%	22%	=	21
New workers as a % of workforce (net)	+0.5%	-2.1%	+1.1%	+0.7%	+2.5%	↑	21
Expected barriers to growth							
• Oil/energy prices	70%	51%	59%	72%	79%	↑	25
• Lack of demand	30%	17%	37%	42%	54%	↑	25
• Monetary exchange rate	16%	25%	29%	36%	47%	↑	25
• Decreasing profitability	20%	13%	36%	33%	40%	↑	25
• Competition from foreign markets	32%	28%	24%	31%	29%	=	25
• Pressure for increased wages	28%	25%	34%	36%	24%	↓	25
• Legislative/regulatory pressures	34%	32%	36%	31%	24%	↓	25
• Capital constraints	12%	13%	12%	14%	19%	↑	25
• Taxation policies	20%	13%	24%	16%	17%	=	25
• Higher interest rates	26%	26%	27%	21%	16%	↓	25
• Lack of qualified workers	26%	21%	29%	24%	12%	↓	25

# Economic views

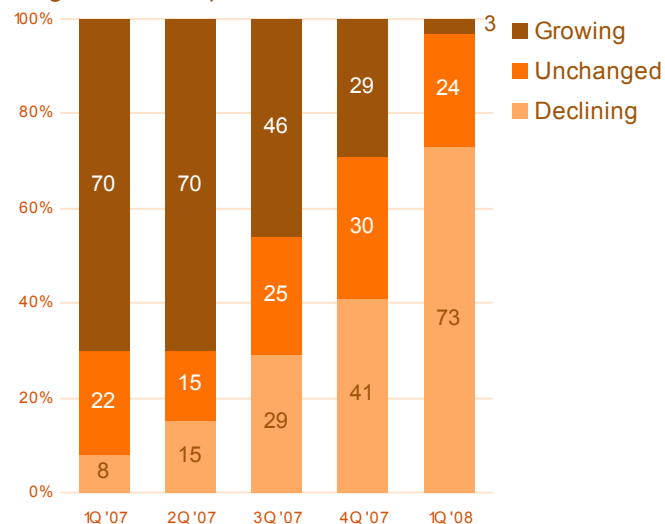
# View of the US economy, this quarter

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

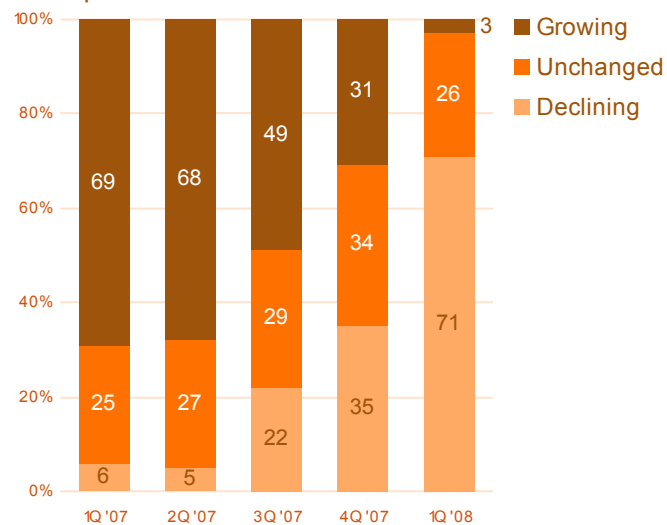
Only 3 percent of consumer products senior executives believe the US economy continues to grow. This is down 26 points from last quarter's low of 29 percent and markedly below last year's 70 percent. Most, 73 percent, now believe it is declining (up 32 points), while 24 percent view it as unchanged.

Chart 2.1 View of the US economy, this quarter

### Large consumer products businesses



### All respondents



Note: In 1Q 2008, large consumer products businesses n = 58, all respondents, n = 129.

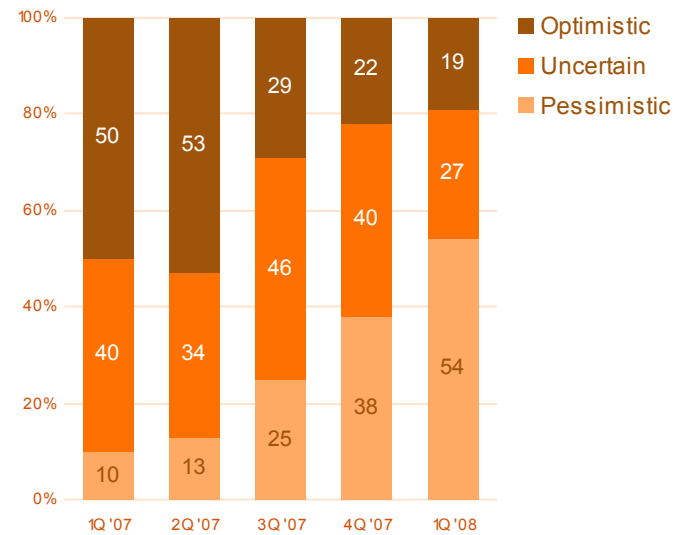
# View of the US economy, next 12 months

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

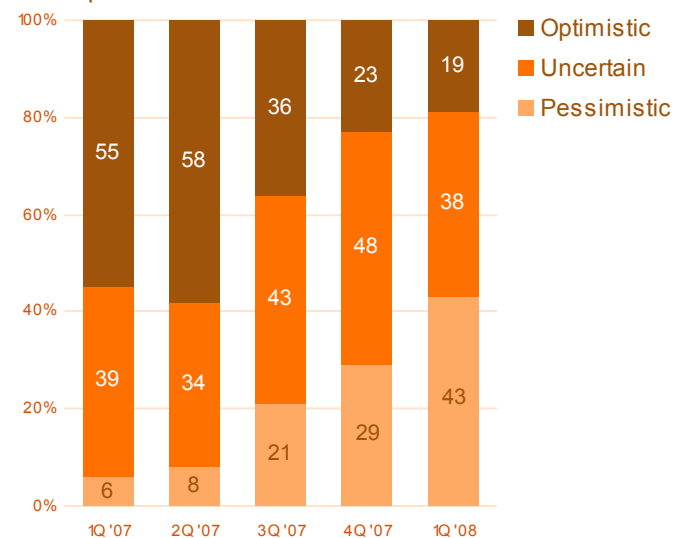
Optimism about the 12-month outlook for the US economy remained low among senior executives of consumer products companies. Only 19 percent are now optimistic about the prospects for the US economy, off 3 points from 22 percent the prior quarter and 31 points from last year's 50 percent. The majority, 54 percent, are now pessimistic — this is almost three times more than the percentage of optimistic viewpoints. Another 27 percent remain uncertain.

Chart 2.2 View of the US economy, next 12 months

### Large consumer products businesses



### All respondents



Note: In 1Q 2008, large consumer products businesses n = 58, all respondents, n = 129.

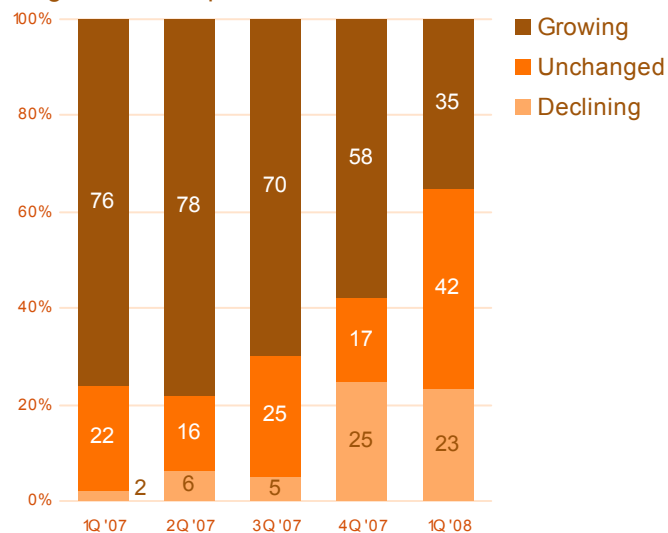
# View of the world economy, this quarter

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

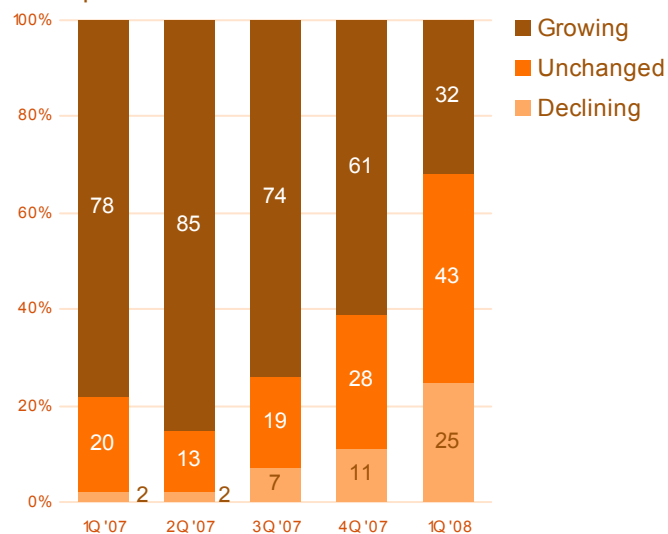
In contrast to views about the US economy, 35 percent of those marketing abroad view the world economy as growing, off 23 points from 58 percent in the prior quarter. Only 23 percent view the world economy as declining.

Chart 2.3 View of the world economy, this quarter

### Large consumer products businesses



### All respondents



Note: In 1Q 2008, large consumer products businesses n = 57, all respondents, n = 111.

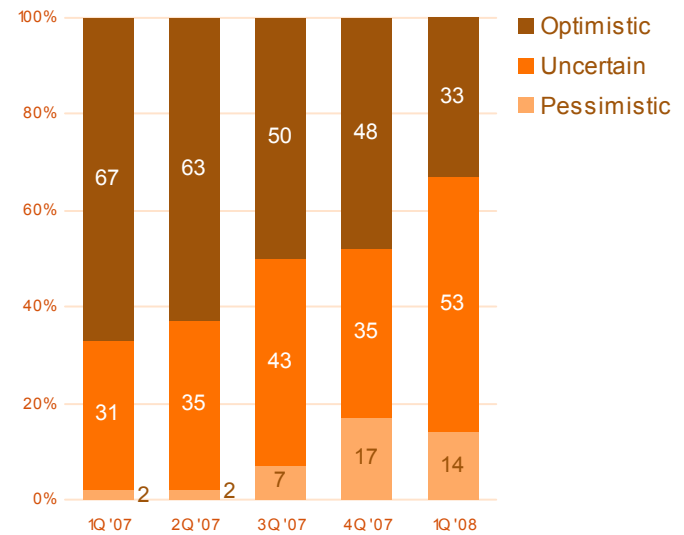
# View of the world economy, next 12 months

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

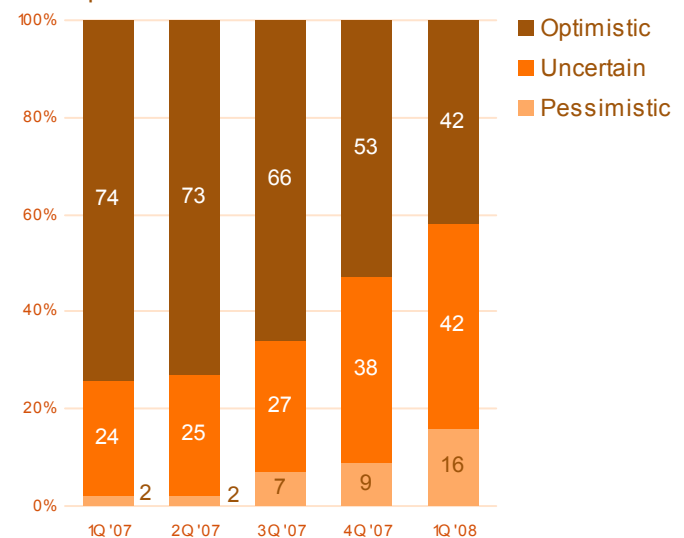
Currently, 33 percent of consumer products senior executives whose businesses market abroad are optimistic about the prospects for the world economy. This is 15 points below the prior quarter's 48 percent and less than half the 67 percent level a year ago. The majority (53 percent) are now uncertain, but only 14 percent are pessimistic (down 3 points).

Chart 2.4 View of the world economy, next 12 months

## Large consumer products businesses



## All respondents



Note: In 1Q 2008, large consumer products businesses n = 57, all respondents, n = 111.

# Company performance

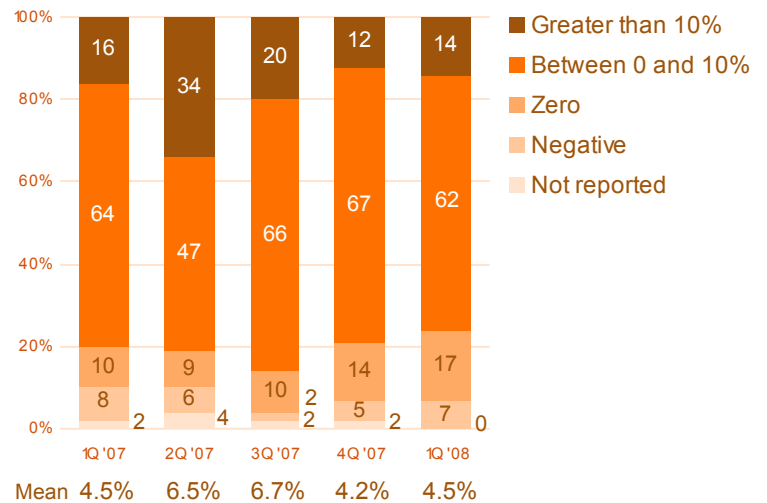
# Company revenue growth, calendar year

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

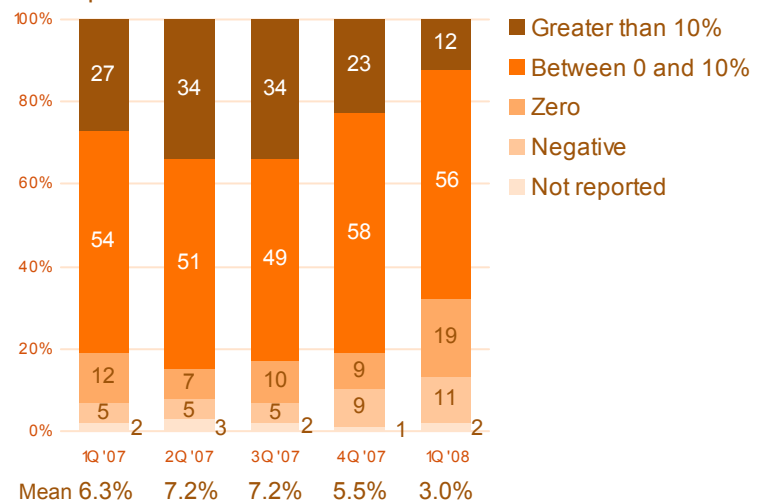
Despite an uncertain economic outlook, 76 percent of consumer products company executives project revenue growth in 2008 — 14 percent expect double-digit growth, and 62 percent expect single-digit growth. Overall, the average growth estimate of 4.5 percent increased slightly over the 4.2 percent level the previous quarter. For the first time in the last five quarters, the pace of revenue growth expected in 2008 among US-based consumer products firms moved above the broader consensus, which fell to a 3.0 percent average in 1Q 2008. (For more information on revenue expectations, see chart 4.1, revenue expectations, next 12 months.)

Chart 3.1 Company revenue growth, calendar year

### Large consumer products businesses



### All respondents



Note: In 1Q 2008, large consumer products businesses n = 58, all respondents, n = 129.

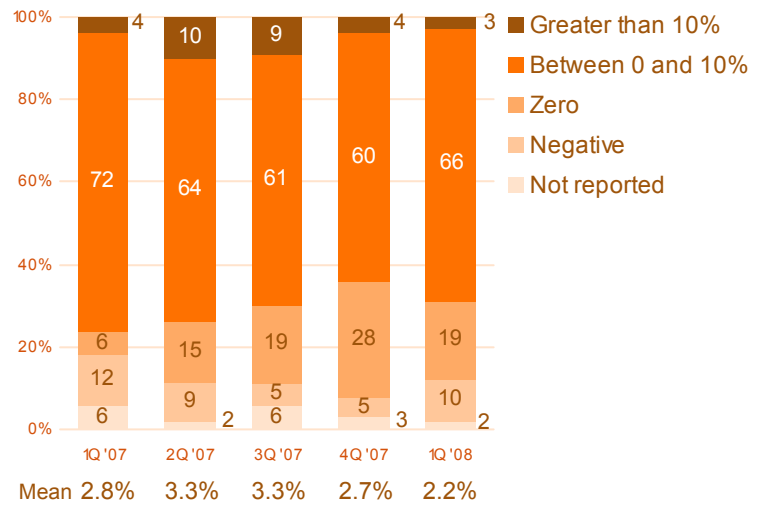
# Industry growth rate, calendar year

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

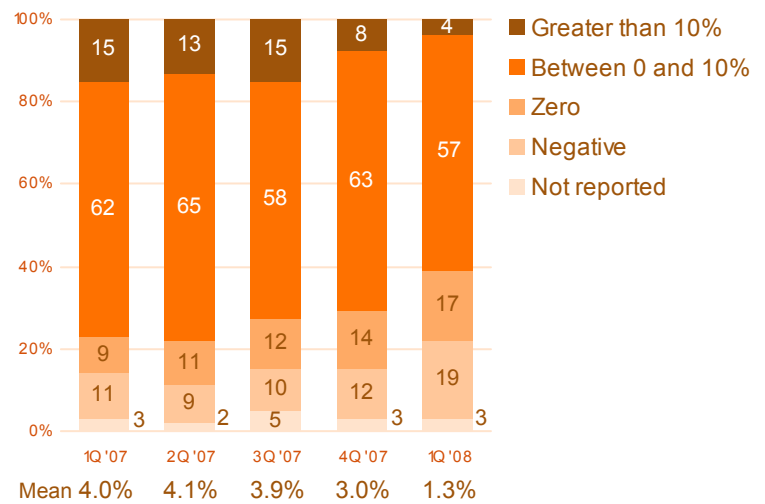
The average industry growth estimate in 2008 for large consumer products businesses is now 2.2 percent, a half a percentage point below the prior quarter's 2.7 percent. Note that the average industry growth estimate is typically lower than the average company growth rate. US-based consumer products manufacturers anticipate an average growth rate of 4.5 percent for their own companies in 2008, double the estimated growth rate of 2.2 percent for their industry.

Chart 3.2 Industry growth rate, calendar year

### Large consumer products businesses



### All respondents



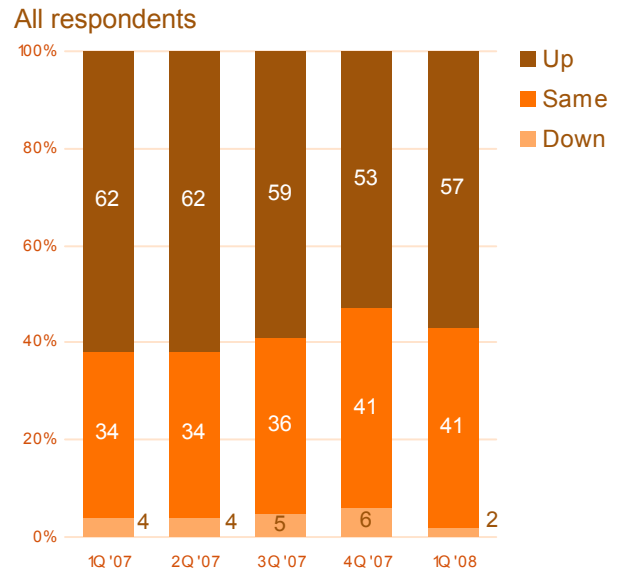
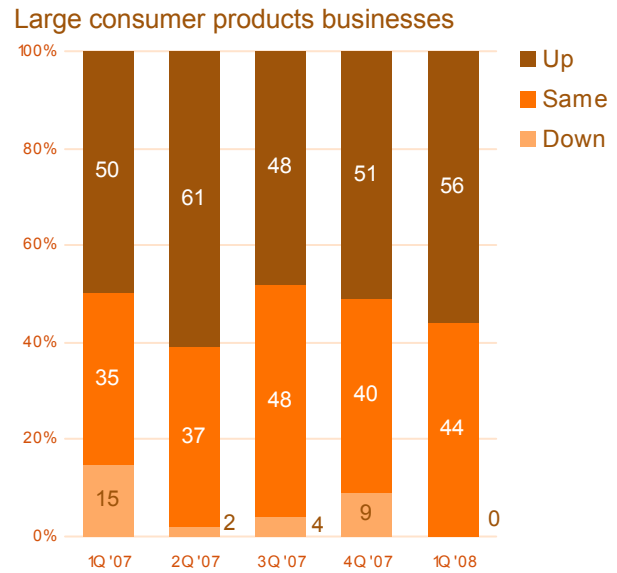
Note: In 1Q 2008, large consumer products businesses n = 58, all respondents, n = 129.

# International sales

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

International markets continue to show positive growth for consumer products companies that sell abroad. Quarterly performance was sustained in 1Q 2008, as 56 percent of international marketers increased sales abroad, up 5 points from the prior quarter. No companies reported a decrease in international sales in 1Q 2008, compared to last quarter's 9 percent with lower international sales.

Chart 3.3 International sales



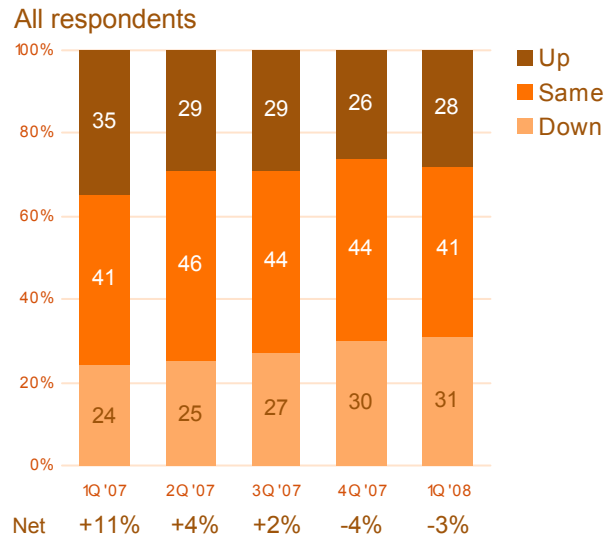
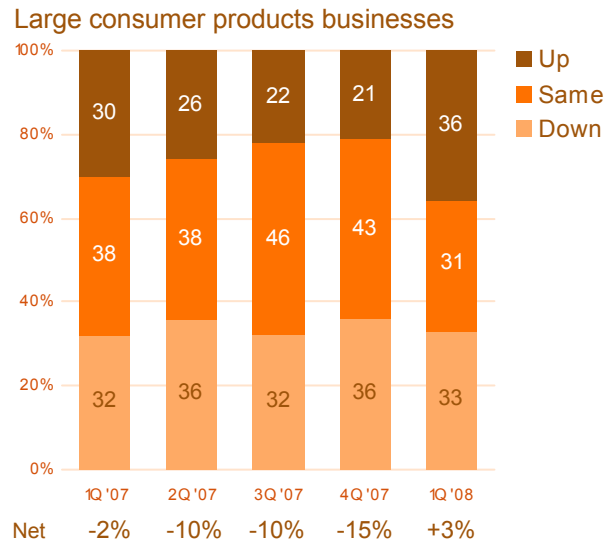
Note: In 1Q 2008, large consumer products businesses n = 57, all respondents, n = 111.

# Changes in gross margins

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

In 1Q 2008, gross margins were relatively flat for consumer products businesses overall: 36 percent were higher, and 33 percent were lower. Gross margins were a net positive 3 percent, 5 points higher than a year ago (net minus 2 percent).

Chart 3.4 Changes in gross margins



Note: In 1Q 2008, large consumer products businesses n = 58, all respondents, n = 129.

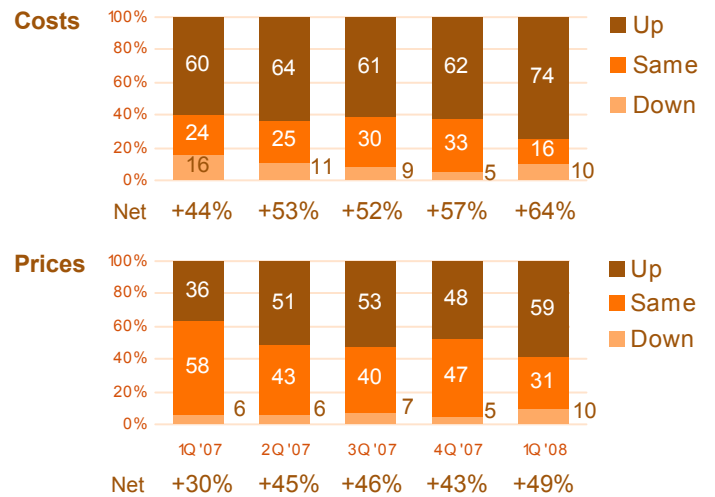
# Changes in costs and prices

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

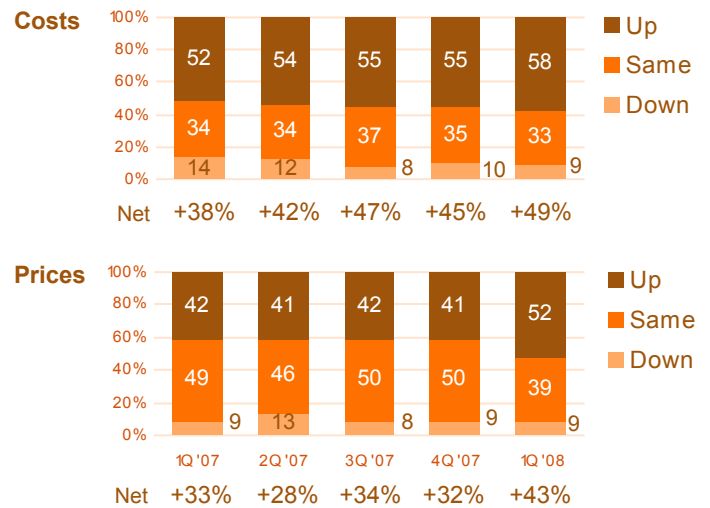
Overall, both costs and prices rose substantially in 1Q 2008. Costs increased for 74 percent of consumer products businesses and decreased for only 10 percent – a net of 64 percent with higher costs, 20 points above a year ago. A net 49 percent of consumer products businesses increased prices this quarter (59 percent raising prices and 10 percent lowering them).

Chart 3.5 Changes in costs and prices

### Large consumer products businesses



### All respondents



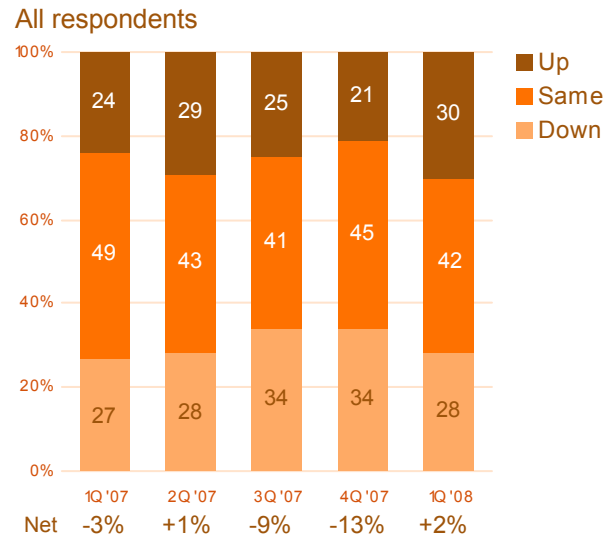
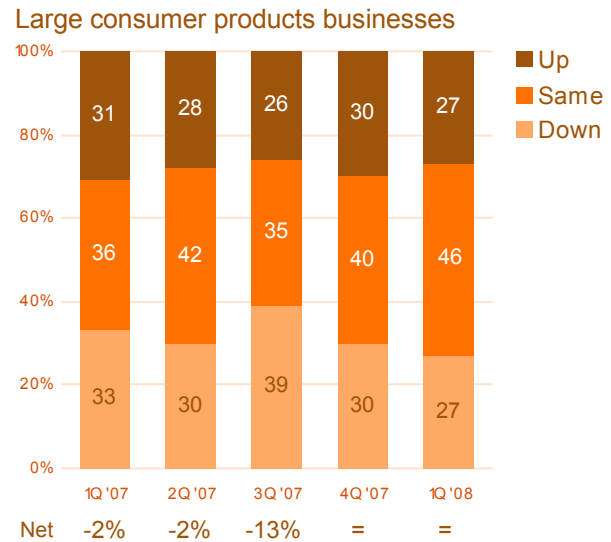
Note: In 1Q 2008, large consumer products businesses n = 58, all respondents, n = 129.

# Inventory movement

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

Overall, net inventories were flat for consumer products businesses: 27 percent reported higher inventories, 27 percent lower, and 46 percent were about the same.

Chart 3.6 Inventory movement



Note: In 1Q 2008, large consumer products businesses n = 58, all respondents, n = 129.

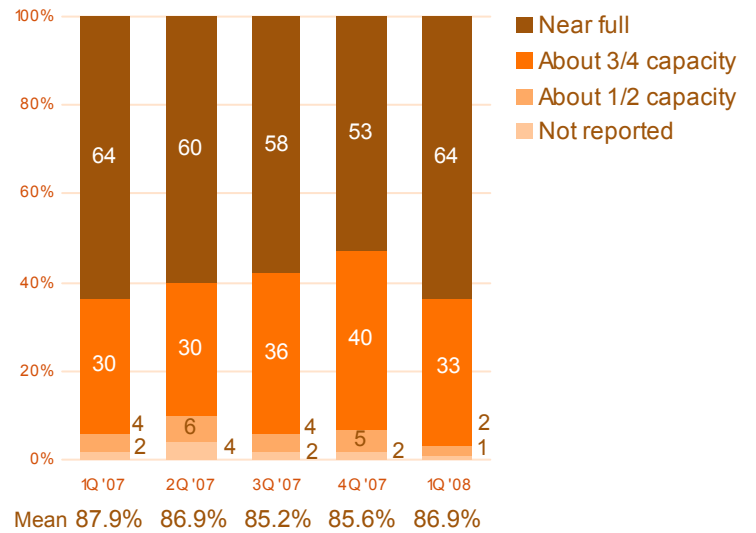
# Level of operating capacity

## What is your organization's current operating capacity?

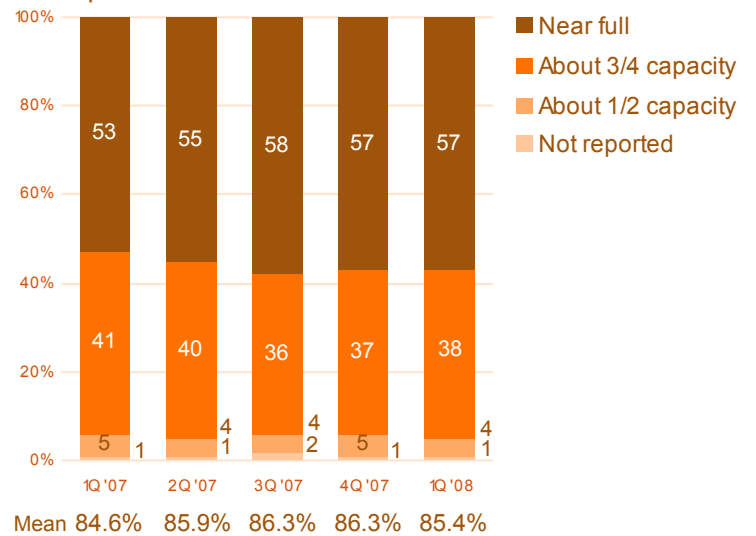
Operating capacity is an estimate of the current level of permanent staffing compared to what is needed for full-capacity output. In 1Q 2008, the average level of operating capacity for consumer products businesses was an estimated 86.9 percent – higher than the prior quarter, but lower than a year ago. This quarter, 64 percent claimed to be at or near full capacity (up 11 points).

Chart 3.7 Level of operating capacity

### Large consumer products businesses



### All respondents



Note: In 1Q 2008, large consumer products businesses n = 58, all respondents, n = 129.

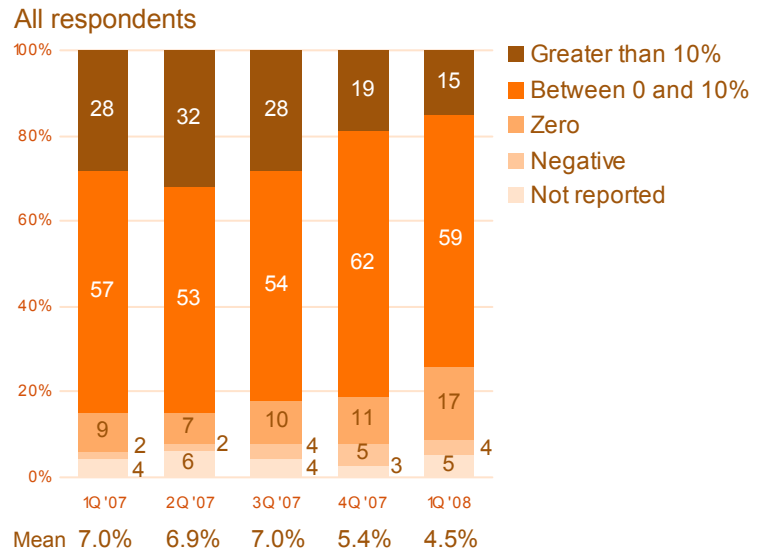
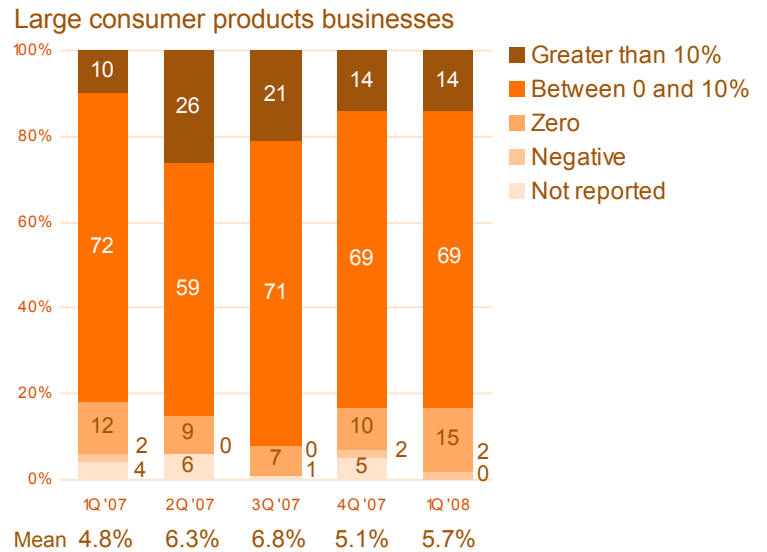
# Business outlook, next 12 months

# Revenue growth, next 12 months

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

Consumer products senior executives projected a 5.7 percent average growth rate for their own companies over the next 12 months. This is slightly above the prior quarter's projected 5.1 percent and almost a full point above the 4.8 percent projection a year ago. Currently, 83 percent plan for growth over the next 12 months, with 14 percent expecting double-digit revenue growth.

Chart 4.1 Revenue growth, next 12 months



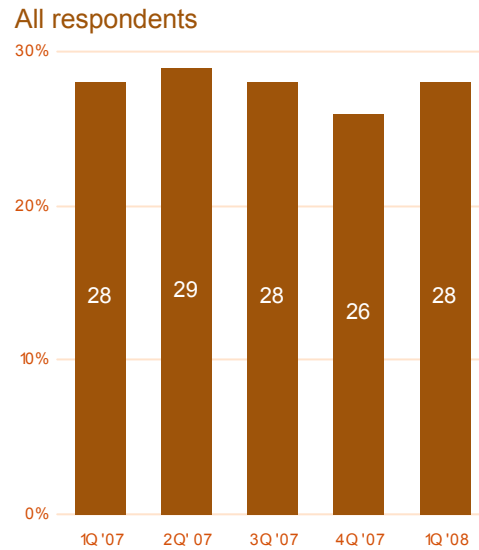
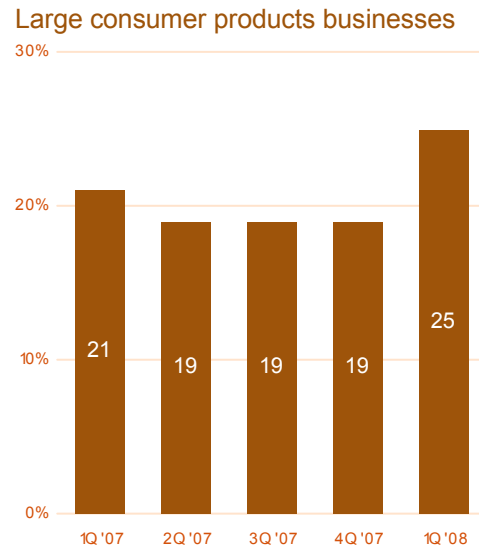
Note: In 1Q 2008, large consumer products businesses n = 58, all respondents, n = 129.

## 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 contribution of international sales to total revenue is projected at 25 percent over the next 12 months, above the 21 percent a year ago. The broader consensus consistently outpaces consumer products businesses selling abroad in projected revenue contributions from international sales.

Chart 4.2 International sales, next 12 months



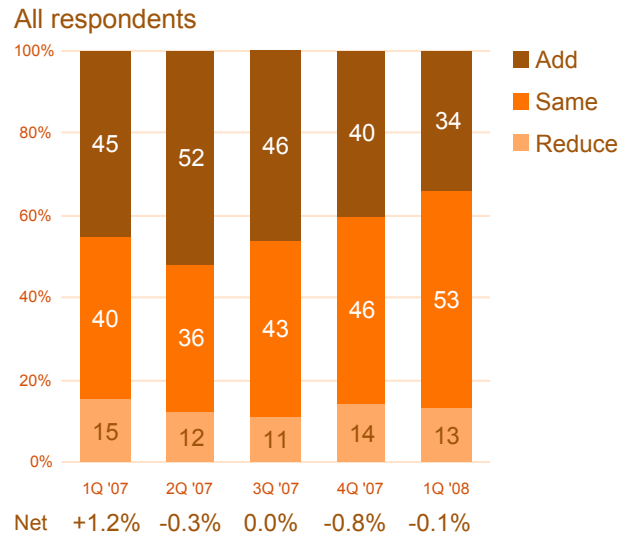
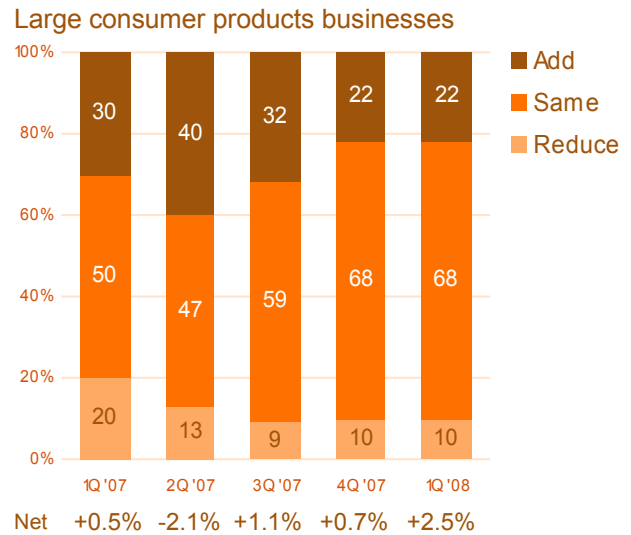
Note: In 1Q 2008, large consumer products businesses n = 57, all respondents, n = 111.

# Percent planning to hire

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

Equaling the previous quarter's results, 22 percent of consumer products businesses plan to add employees over the next 12 months. Few (10 percent) plan to reduce the number of full-time-equivalent employees, and in the absence of major layoffs, the net projection is a positive 2.5 percent. In the prior quarter, the net projection was a positive 0.7 percent, so the composite workforce projection for the next 12 months is notably higher. Consumer products businesses planning to add employees to their workforces project a much higher revenue growth rate of 10.6 percent over the next 12 months compared to the 4.3 percent keeping workforce levels the same or planning a reduction.

Chart 4.3 Percent planning to hire



Note: In 1Q 2008, large consumer products businesses n = 58, all respondents, n = 129.

## 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, consumer products businesses will primarily be looking to hire production workers and white-collar management support. The broader consensus demonstrates much more interest in the professionals/technicians category – 23 percent vs. 7 percent – as well as all other types of labor.

Chart 4.4 Percent planning to hire by type of employee

#### Large consumer products businesses

	1Q '07	2Q '07	3Q '07	4Q '07	1Q '08
Planning to hire (net)	30%	40%	32%	22%	22%
• White collar support	14%	30%	20%	12%	10%
• Production workers	10%	17%	15%	12%	10%
• Sales/marketing	16%	21%	12%	10%	7%
• Professionals/technicians	10%	15%	10%	5%	7%
• Skilled labor	8%	11%	14%	5%	5%

#### All respondents

	1Q '07	2Q '07	3Q '07	4Q '07	1Q '08
Planning to hire (net)	45%	52%	46%	40%	34%
• White collar support	25%	27%	22%	16%	15%
• Production workers	20%	25%	21%	13%	13%
• Sales/marketing	23%	22%	14%	16%	12%
• Professionals/technicians	25%	30%	28%	26%	23%
• Skilled labor	22%	20%	17%	19%	15%

Note: In 1Q 2008, large consumer products businesses n = 58, all respondents, n = 129.

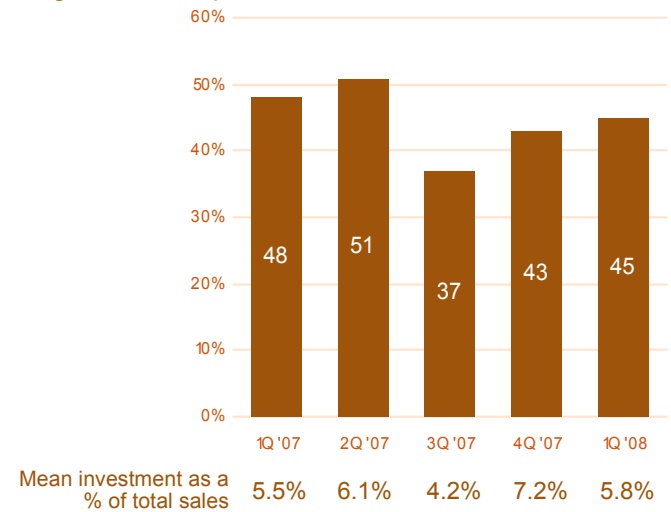
## Percent planning major new investments of capital

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?

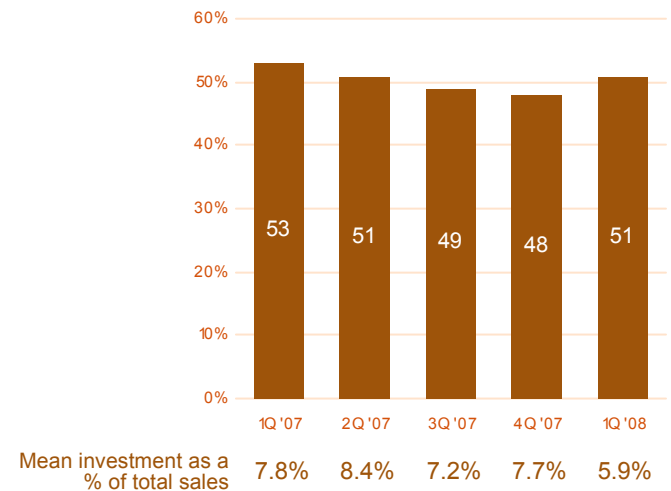
The percentage of consumer products businesses that plan major new investments of capital over the next 12 months increased 2 points to 45 percent in 1Q 2008, in line with last year's 48 percent. The mean investment dropped to 5.8 percent of total sales. Overall, plans for major new investments among consumer products manufacturers have been fairly strong over the past year, only slightly below the all-industry consensus.

Chart 4.5 Percent planning major new investments of capital

### Large consumer products businesses



### All respondents



Note: In 1Q 2008, large consumer products businesses n = 58, all respondents, n = 129.

## 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, three types of increased expenditures still lead the way among large consumer products businesses: new product or service introductions, information technology, and marketing and sales promotion. Plans for operational increases, as projected in 1Q 2008, were lower than the prior quarter in all leading categories.

Chart 4.6 Percent planning to increase operational spending

#### Large consumer products businesses

	1Q '07	2Q '07	3Q '07	4Q '07	1Q '08
Percent planning to increase spending (net)	90%	87%	83%	86%	88%
• New product or service introduction	64%	59%	58%	60%	47%
• Information technology	50%	47%	48%	43%	36%
• Marketing & sales promotion	44%	49%	48%	45%	33%
• Advertising	38%	45%	48%	43%	28%
• Business acquisition	24%	36%	25%	35%	28%
• Research and development	40%	38%	34%	33%	26%
• Facilities expansion	32%	30%	27%	31%	22%
• Geographic expansion	24%	26%	20%	29%	22%
• Internet commerce	26%	28%	24%	19%	21%

#### All respondents

	1Q '07	2Q '07	3Q '07	4Q '07	1Q '08
Percent planning to increase spending (net)	92%	88%	88%	84%	84%
• New product or service introduction	47%	49%	48%	45%	39%
• Information technology	46%	47%	55%	51%	42%
• Marketing & sales promotion	35%	31%	30%	33%	23%
• Advertising	24%	25%	24%	23%	15%
• Business acquisition	38%	40%	41%	36%	34%
• Research and development	30%	34%	32%	26%	27%
• Facilities expansion	35%	36%	33%	33%	27%
• Geographic expansion	37%	38%	33%	29%	26%
• Internet commerce	20%	25%	19%	15%	16%

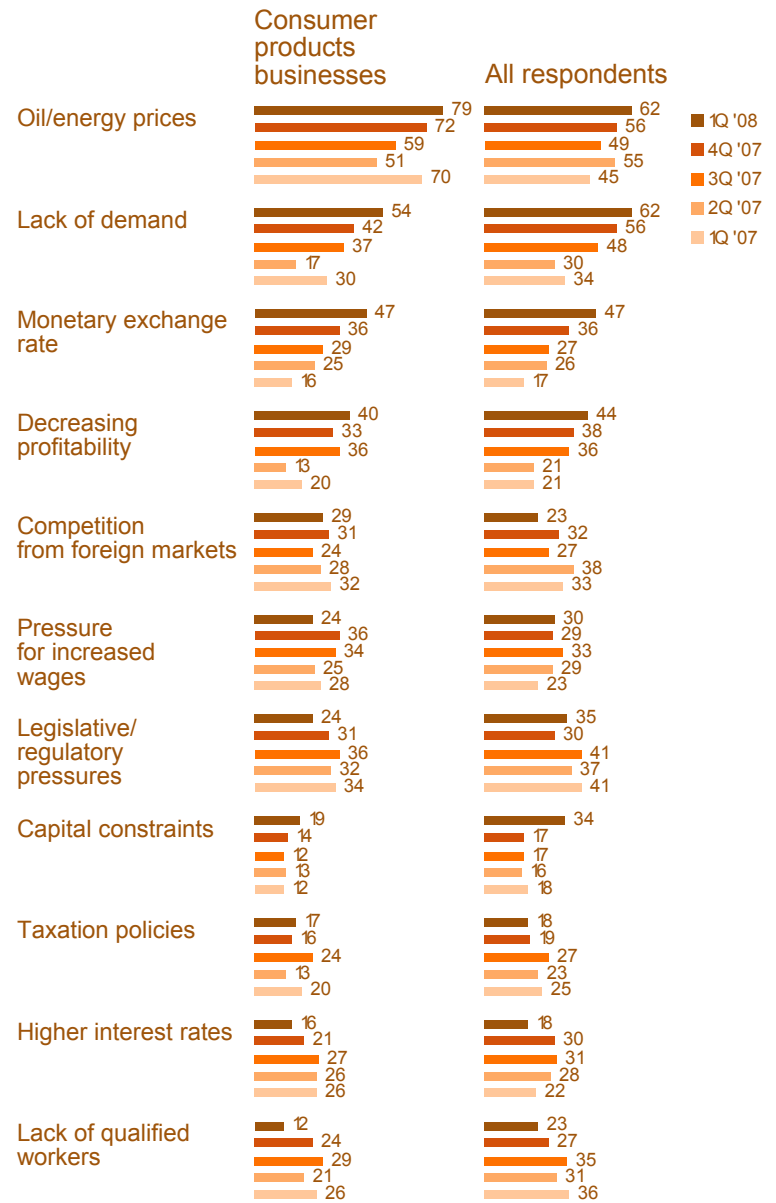
Note: In 1Q 2008, large consumer products businesses n = 58, all respondents, n = 129.

# Expected barriers to business growth

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

Oil/energy prices continued to top the list of concerns among consumer products manufacturers, rising 7 points to 79 percent. Three other concerns increased sharply this quarter: Lack of demand rose 12 points to 54 percent; monetary exchange rates rose 11 points to 47 percent; and decreasing profitability rose 7 points to 40 percent.

Chart 4.7 Expected barriers to business growth



Note: In 1Q 2008, large consumer products businesses n = 58, all respondents, n = 129.

## 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 new business initiatives among consumer products companies stalled at the 52 percent level. Plans for M&A activity over the next 12 months dropped to 28 percent in 1Q 2008, below a year ago (36 percent). Twenty-eight percent plan to purchase another business, 10 percent might divest part of their own business, and 3 percent plan an equity carve-out or spin-off.

Expansion to new markets abroad dropped 7 points to 29 percent for consumer products businesses. Planned business initiatives that remained fairly stable include new strategic alliances (24 percent), new joint ventures (17 percent) and development of manufacturing or distribution facilities abroad (17 percent).

Chart 4.8 Plans for M&A and other business initiatives

### Large consumer products businesses

	1Q '07	2Q '07	3Q '07	4Q '07	1Q '08
New business initiatives (net)	74%	72%	61%	53%	52%
• M&A activity (net)	36%	51%	31%	33%	28%
- Purchase another business	30%	45%	25%	29%	28%
- Sale part/all own business	6%	9%	7%	10%	10%
- Equity carve-out/spin-off	4%	4%	5%	5%	3%
• Expand to new markets abroad	50%	30%	29%	36%	29%
• New strategic alliance	34%	36%	27%	26%	24%
• New facilities abroad	20%	15%	14%	17%	17%
• New joint venture	22%	15%	14%	14%	17%
• Close/reduce facilities abroad	6%	8%	9%	7%	3%
• Reduce activity in markets abroad	10%	2%	3%	5%	2%

### All respondents

	1Q '07	2Q '07	3Q '07	4Q '07	1Q '08
New business initiatives (net)	72%	75%	71%	64%	60%
• M&A activity (net)	45%	56%	45%	39%	38%
- Purchase another business	38%	48%	41%	34%	35%
- Sale part/all own business	14%	15%	8%	13%	7%
- Equity carve-out/spin-off	6%	9%	6%	5%	8%
• Expand to new markets abroad	35%	34%	32%	26%	30%
• New strategic alliance	38%	42%	39%	37%	32%
• New facilities abroad	17%	17%	18%	15%	17%
• New joint venture	22%	25%	32%	25%	27%
• Close/reduce facilities abroad	7%	9%	9%	6%	4%
• Reduce activity in markets abroad	7%	7%	5%	9%	9%

Note: In 1Q 2008, large consumer products businesses n = 58, all respondents, n = 129.

# Survey demographics and research methodology

## Demographics

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Who	Senior financial executives of US-based consumer products manufacturers	
Interview dates	February 12, 2008, to May 9, 2008	
Average number of employees	All respondents (129) 8,531	Large consumer products businesses (58) 7,651
Average business unit revenues	\$3.28 billion	\$3.56 billion
Average enterprise revenues	\$10.73 billion	\$10.91 billion
Market capitalization	\$12.60 billion	\$14.57 billion
Industry sectors	Products 81% Manufacturing 72% Trade/Distribution 2% All other 7% Services 19%	Products 100% Manufacturing 100% Trade/Distribution --- All other --- Services ---

## Methodology

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PricewaterhouseCoopers' Consumer Products Barometer is a quarterly telephone survey conducted by the independent research firm BSI Global Research Inc. The survey panel consists of senior executives from a geographically balanced sample of large, multinational 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 Consumer Products Barometer is one in a series of quarterly business outlook surveys from PricewaterhouseCoopers. The Barometer provides a view on the direction of the economy, including revenue growth, new investments, new hiring plans, emerging business barriers and more. Other Barometer surveys include the Trendsetter Barometer, which tracks fast-growth private companies; the Management Barometer, which tracks a cross-sector of large multinational companies; and the Manufacturing Barometer, which tracks the views of US industrial manufacturers. In addition to the quarterly 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](http://www.barometersurveys.com).

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