

Consumer Products Barometer™

Business outlook 2Q 2008

Contents

1 Quarterly highlights	Page
1.1 Key indicators for the business outlook	4
2 Economic views	
2.1 View of US economy, this quarter	6
2.2 View of US economy, next 12 months	7
2.3 View of world economy, this quarter	8
2.4 View of world economy, next 12 months	9
3 Company performance	
3.1 Company revenue growth, calendar year	11
3.2 Industry growth rate, calendar year	12
3.3 International sales	13
3.4 Changes in gross margins	14
3.5 Changes in costs and prices	15
3.6 Inventory movement	16
3.7 Level of operating capacity	17
4 Business outlook, next 12 months	
4.1 Revenue growth, next 12 months	19
4.2 International sales, next 12 months	20
4.3 Percent planning to hire	21
4.4 Percent planning to hire by type of employee	22
4.5 Percent planning major new investments of capital	23
4.6 Percent planning to increase operational spending	24
4.7 Expected barriers to business growth	25
4.8 Plans for M&A and other business initiatives	26
5 Survey demographics and research methodology	27

Quarterly highlights

In 2Q 2008, PricewaterhouseCoopers interviewed a panel of 59 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 with the prior quarter's results to see how the 12-month outlook has changed. The final step was to compare their views with a wider panel to help us understand how the industry differs from the broader population.

Key findings:

- **Pessimism toward US economy settles on high a plateau.** Almost half (48 percent) of consumer products senior executives remain pessimistic that the US economy will grow over the next 12 months. Although pessimism remains high, it has leveled off from the prior quarter's high of 54 percent. Thirty-five percent are uncertain about the US economic prospects and only 17 percent are optimistic. The same number (17 percent) are optimistic that the world economy will grow over the next 12 months, and 27 percent are pessimistic. Most (56 percent) are uncertain.
- **Growth hits a lull.** Panelists sharply lowered their own company 12-month revenue growth targets to an average 3.2 percent – down from 5.7 percent from 1Q 2008. Positive growth is projected by 73 percent, with 17 percent expecting double-digit growth and 56 percent single-digit growth. However, 15 percent expect zero growth or worse.
- **Oil/energy prices continue to burden the industry.** Ninety-three percent of panelists project oil/energy prices as a barrier to growth over the next 12 months, up 14 points from the prior quarter. The widespread vulnerability is contributing to slower revenue projections, concern about profitability, and reduced spending. Other areas challenging growth for consumer products businesses are lack of demand and the monetary exchange rate.
- **Prices, cost stifle gross margins.** Cost and price increases, by a quarter-to-quarter comparison, hit a survey high in 2Q 2008. Higher costs were reported by 85 percent, and only 3 percent reported lower costs. Prices followed costs, as 70 percent reported higher prices and only 7 percent lowered their prices. As a result, gross

margins suffered in the second quarter for many consumer products businesses. Only 17 percent reported higher margins, and 42 percent reported lower margins.

- **International sales maintain steady pace.** In 2Q 2008, 61 percent of those surveyed increased sales abroad, 33 percent stayed about the same, and only 6 percent reported a decline. The contributions to total revenue from international sales are projected at 26 percent for the next 12 months (up 1 point from the prior quarter and up 7 points from a year ago).
- **Plans to add employees are flat.** Hiring is down, as only 24 percent of consumer products companies are planning to add to their workforce, and 17 percent will be downsizing. Overall, plans to add employees over the next 12 months are at negative 0.1 percent for panelists, a contrast to positive workforce additions planned in the prior three quarters.
- **Investments, spending slow.** Fewer consumer products companies are planning major new investments of capital over the next 12 months – 37 percent, down 8 points from the prior quarter and down 14 points from last year. Seventy-six percent of respondents plan to increase operational spending, down 12 points from the prior quarter's survey.
- **New business initiatives a bright spot.** Plans by consumer products companies to expand to markets abroad over the next 12 months are a bright spot, up 8 points from the prior quarter to 37 percent. Plans for M&A activity remain low but climbed 4 points in 2Q 2008 to 32 percent. Twenty-five percent plan to purchase another business.

A quarter-by-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 previous 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. The change column indicates the movement of opinion from the past two quarters.

Business outlook, next 12 months among large consumer products businesses	2007			2008		Change	Page
	2Q '07	3Q '07	4Q '07	1Q '08	2Q '08	1Q-2Q '08	
Optimistic about US economy	53%	29%	22%	19%	17%	=	7
Optimistic about world economy	63%	50%	48%	33%	17%	↓	9
Expect positive revenue growth	85%	92%	83%	83%	73%	↓	19
Average growth rate expected	6.3%	6.8%	5.1%	5.7%	3.2%	↓	19
Planning major new investments	51%	37%	43%	45%	37%	↓	23
New investments as a % of sales	6.1%	4.2%	7.2%	5.8%	9.7%	↑	23
Planning to hire	40%	32%	22%	22%	24%	=	21
New workers as a % of workforce (net)	-2.1%	+1.1%	+0.7%	+2.5%	-0.1%	↓	21
Expected barriers to growth							
• Oil/energy prices	51%	59%	72%	79%	93%	↑	25
• Lack of demand	17%	37%	42%	54%	54%	=	25
• Monetary exchange rate	25%	29%	36%	47%	51%	↑	25
• Decreasing profitability	13%	36%	33%	40%	49%	↑	25
• Pressure for increased wages	25%	34%	36%	24%	36%	↑	25
• Competition from foreign markets	28%	24%	31%	29%	29%	=	25
• Legislative/regulatory pressures	32%	36%	31%	24%	19%	↓	25
• Higher interest rates	26%	27%	21%	16%	19%	↑	25
• Capital constraints	13%	12%	14%	19%	17%	=	25
• Taxation policies	13%	24%	16%	17%	15%	=	25
• Lack of qualified workers	21%	29%	24%	12%	12%	=	25

Economic views

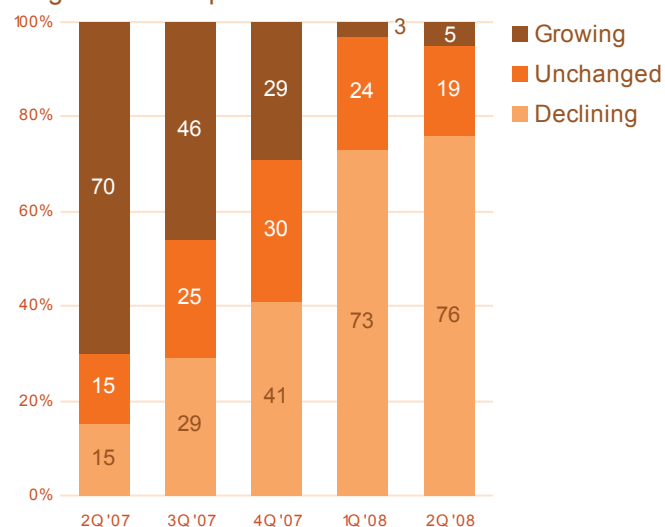
View of the US economy, this quarter

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

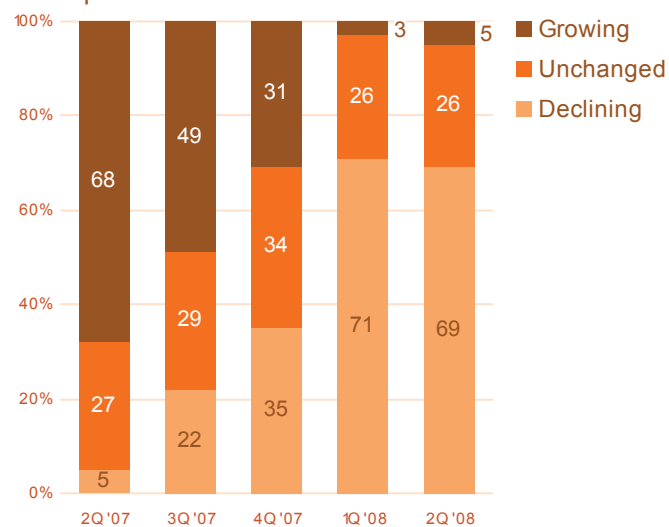
Only 5 percent of consumer products senior executives believe the US economy is growing. This is similar to last quarter's 3 percent but markedly below last year's 70 percent. Most, 76 percent, believe it is declining (up 3 points), while 19 percent view it as unchanged.

Chart 2.1 View of the US economy, this quarter

Large consumer products businesses



All respondents



Note: In 2Q 2008, large consumer products businesses n = 59, all respondents, n = 129.

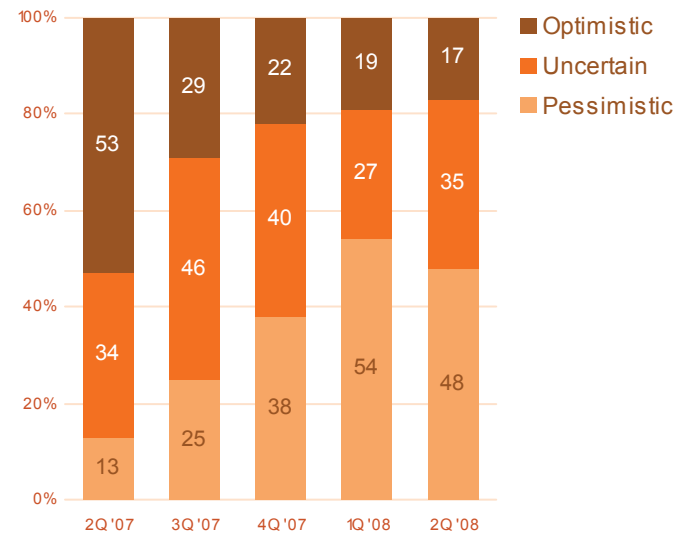
View of the US economy, next 12 months

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

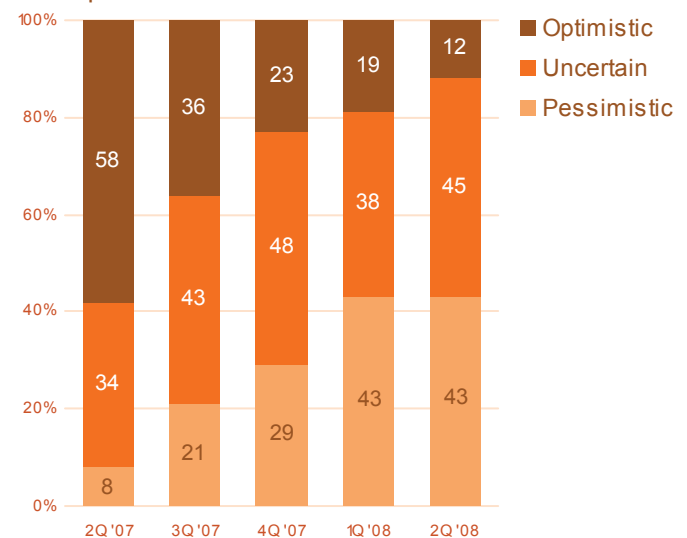
Optimism about the 12-month outlook for the US economy remains low among senior executives of consumer products companies. Only 17 percent are optimistic, off 2 points from the prior quarter and off 36 points from last year. Currently, 48 percent are pessimistic — off 6 points from a survey high of 54 percent in the prior quarter — and 35 percent are uncertain (up 8 points), as some executives moved from pessimistic to uncertain.

Chart 2.2 View of the US economy, next 12 months

Large consumer products businesses



All respondents



Note: In 2Q 2008, large consumer products businesses n = 59, all respondents, n = 129.

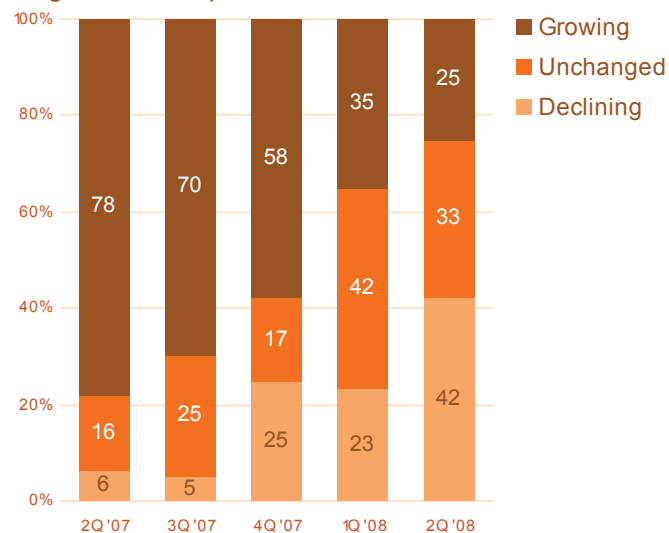
View of the world economy, this quarter

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

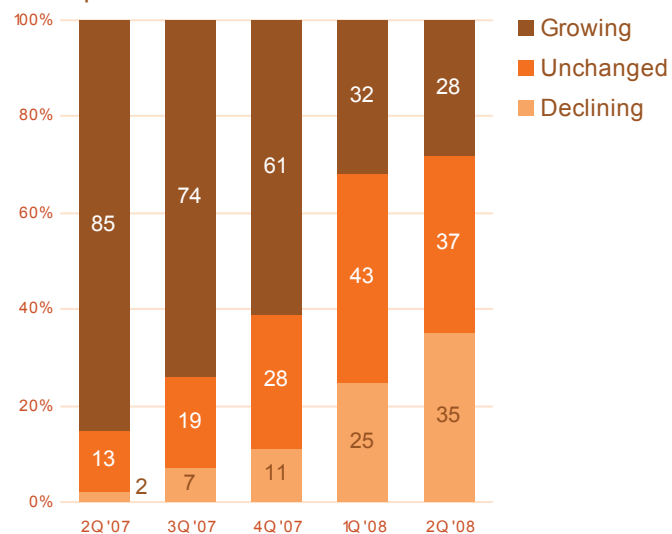
In contrast to views about the US economy, 25 percent of those marketing abroad view the world economy as growing, off 10 points from the prior quarter and well below last year's 78 percent. This quarter, 42 percent of consumer products senior executives view the world economy as declining (up 19 points).

Chart 2.3 View of the world economy, this quarter

Large consumer products businesses



All respondents



Note: In 2Q 2008, large consumer products businesses n = 49, all respondents, n = 111.

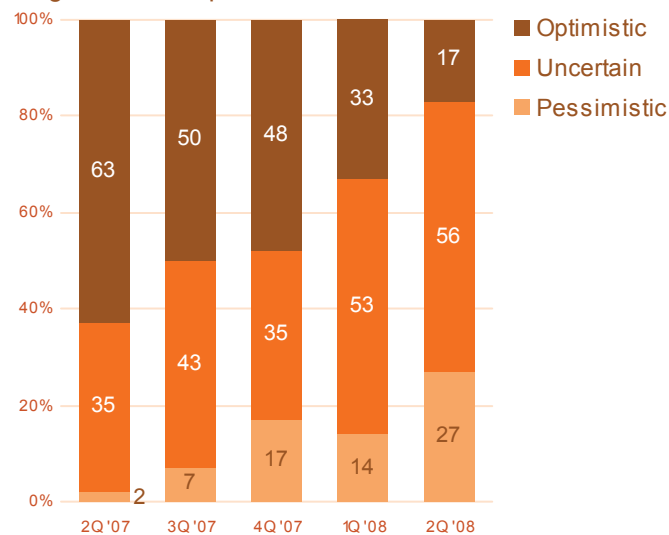
View of the world economy, next 12 months

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

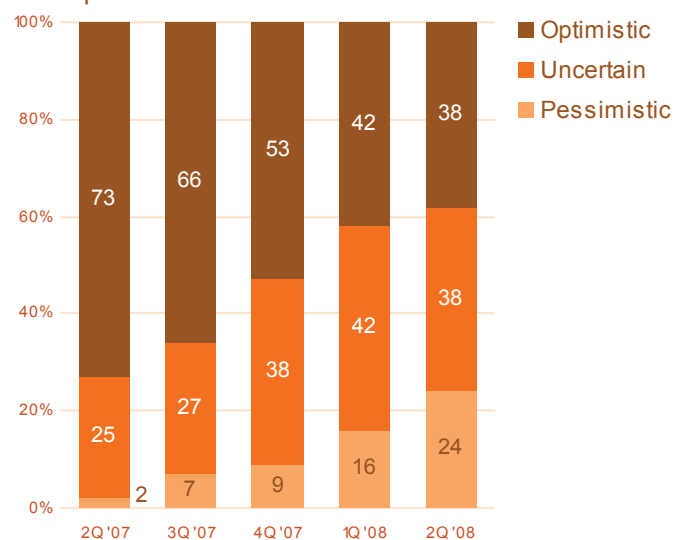
Currently, 17 percent of panelists whose businesses market abroad are optimistic about the prospects for the world economy, a sharp dip from last quarter and well below a year ago. The majority (56 percent) is uncertain, and 27 percent are pessimistic (up 13 points).

Chart 2.4 View of the world economy, next 12 months

Large consumer products businesses



All respondents



Note: In 2Q 2008, large consumer products businesses n = 49, all respondents, n = 111.

Company performance

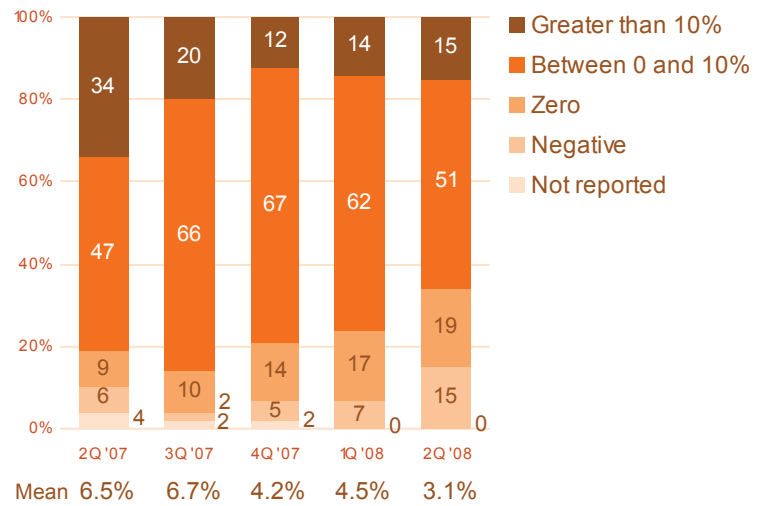
Company revenue growth, calendar year

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

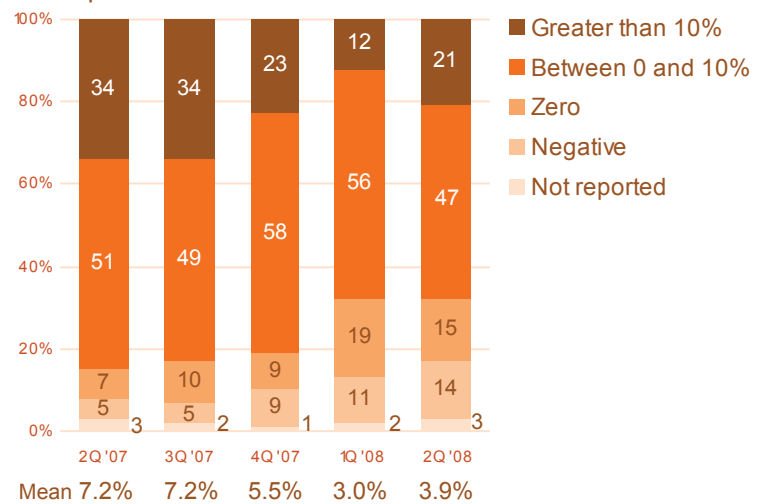
Faced by uncertain economic outlook, 66 percent of respondents expect revenue growth in 2008 — 15 percent expect double-digit growth, and 51 percent expect single-digit growth. Fifteen percent project negative growth (up 8 points). Overall, the average growth estimate decreased sharply from 4.5 percent in the previous quarter to 3.1 percent in 2Q 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 2Q 2008, large consumer products businesses n = 59, all respondents, n = 129..

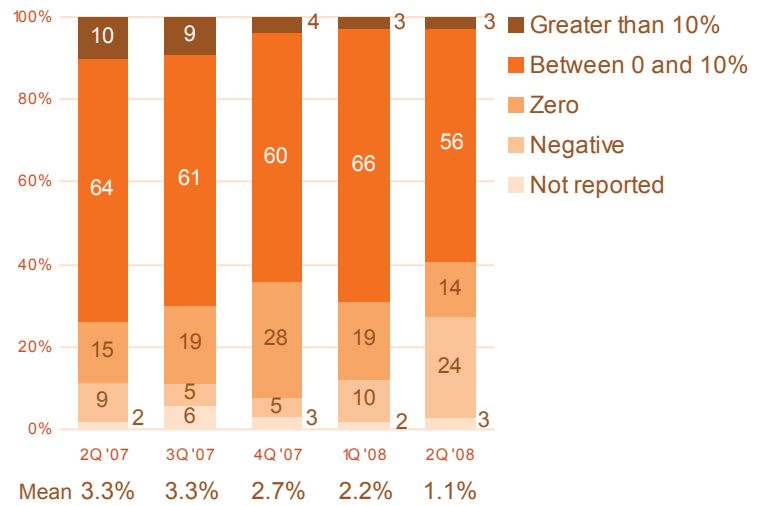
Industry growth rate, calendar year

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

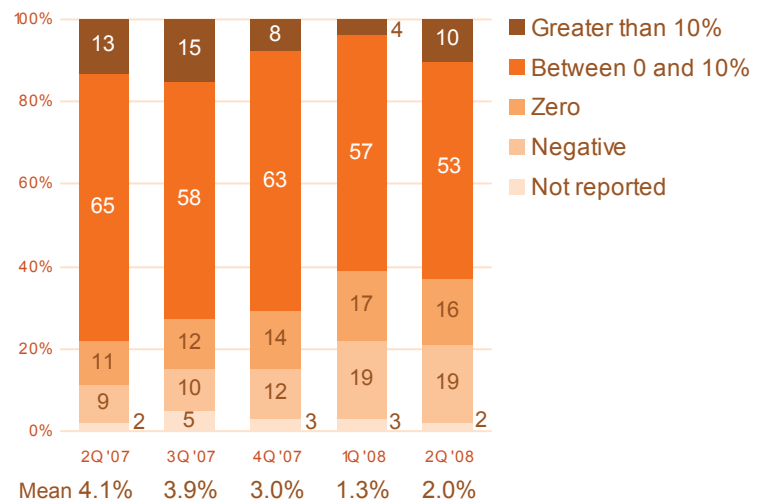
The average industry growth estimate in 2008 for large consumer products businesses fell to 1.1 percent. As shown in the previous chart, US-based consumer products manufacturers anticipate an average growth rate of 3.1 percent for their own companies in 2008, nearly three times the estimated growth rate of 1.1 percent for their industry.

Chart 3.2 Industry growth rate, calendar year

Large consumer products businesses



All respondents



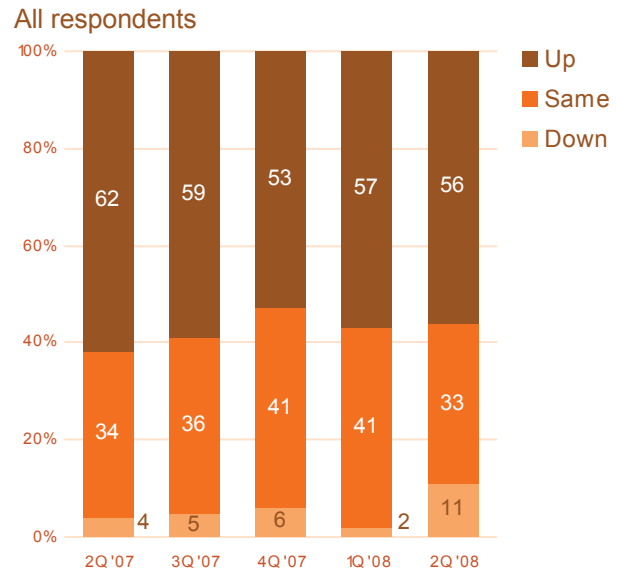
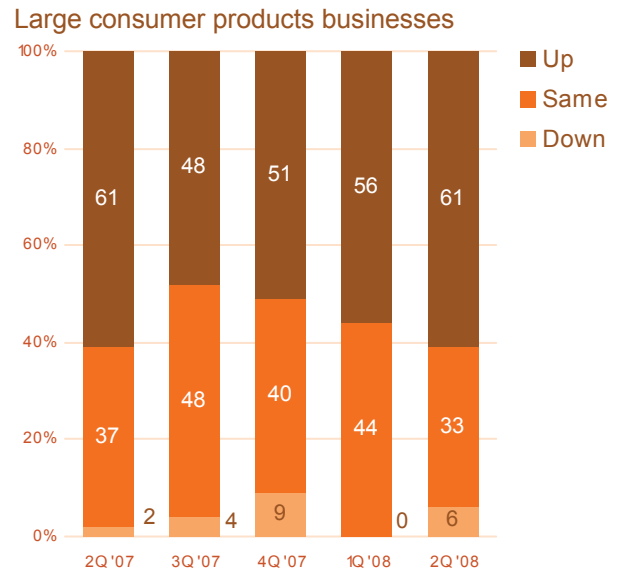
Note: In 2Q 2008, large consumer products businesses n = 59, all respondents, n = 129.

International sales

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

International markets continue to show positive growth for consumer products companies that sell abroad. Quarterly performance kept pace in 2Q 2008, as 61 percent of international marketers increased sales abroad, up 5 points from the prior quarter. Only 6 percent reported a decrease in international sales in 2Q 2008.

Chart 3.3 International sales



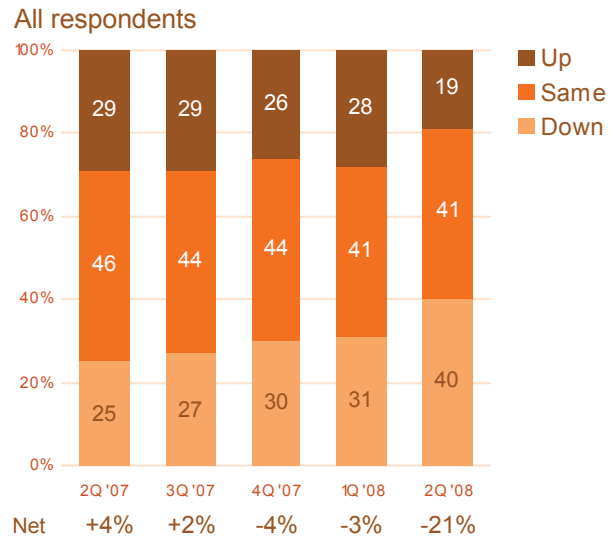
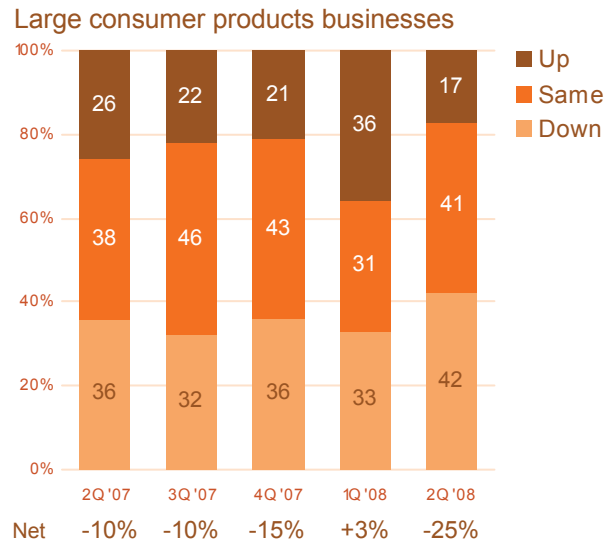
Note: In 2Q 2008, large consumer products businesses n = 49, all respondents, n = 111.

Changes in gross margins

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

In 2Q 2008, gross margins turned sharply negative for consumer products businesses overall: 17 percent were higher, and 42 percent were lower. Gross margins were a net negative 25 percent, 15 points lower than a year ago.

Chart 3.4 Changes in gross margins



Note: In 2Q 2008, large consumer products businesses n = 59, all respondents, n = 129.

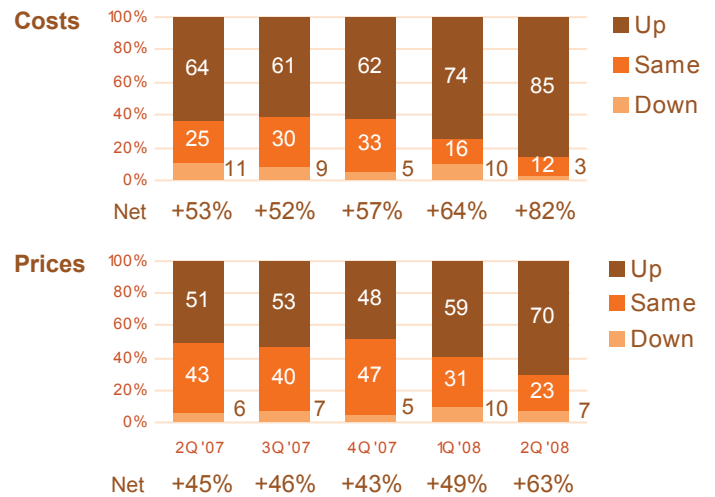
Changes in costs and prices

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

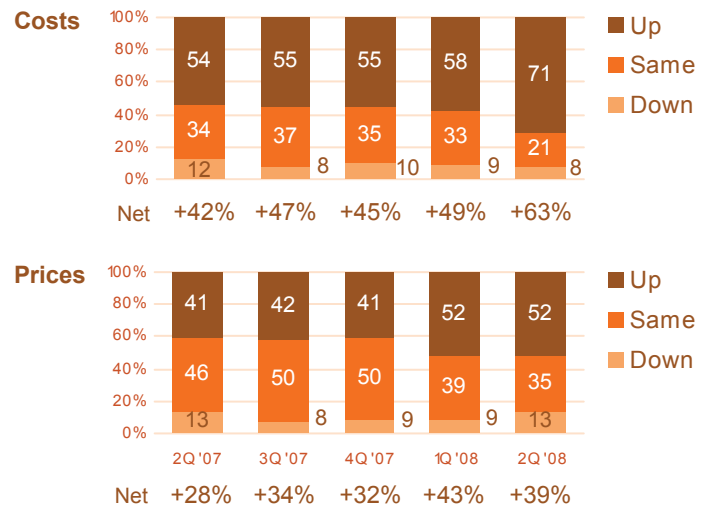
Overall, both costs and prices rose sharply in 2Q 2008. Costs increased for 85 percent of consumer products businesses and decreased for only 3 percent – a net of 82 percent with higher costs, 18 points above the prior quarter. A net 63 percent of consumer products businesses increased prices this quarter – 70 percent raising prices and 7 percent lowering them – a net 14 points above the prior quarter. These are the largest quarter-to-quarter increases in both costs and prices since the consumer products Barometer began three years ago.

Chart 3.5 Changes in costs and prices

Large consumer products businesses



All respondents



Note: In 2Q 2008, large consumer products businesses n = 59, all respondents, n = 129.

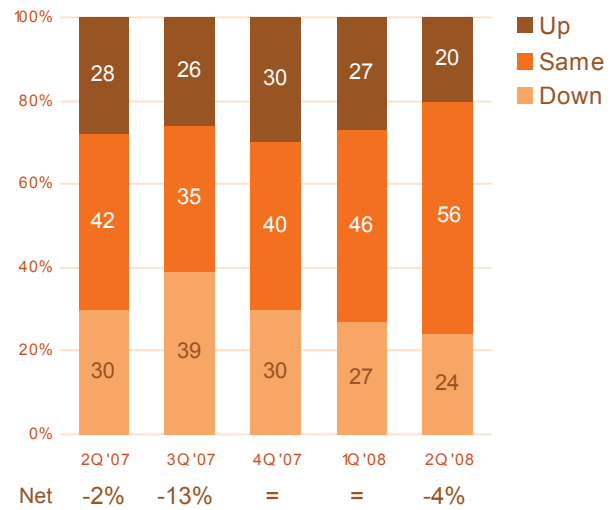
Inventory movement

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

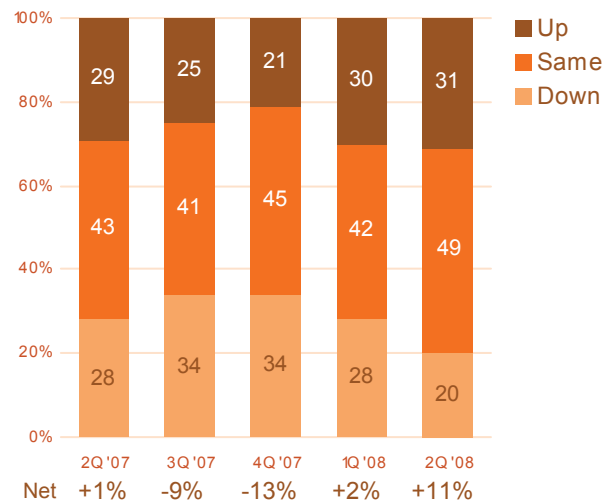
Overall, net inventories were lower for consumer products businesses: 20 percent reported higher inventories, 24 percent lower, and 56 percent were about the same.

Chart 3.6 Inventory movement

Large consumer products businesses



All respondents



Note: In 2Q 2008, large consumer products businesses n = 59, all respondents, n = 129.

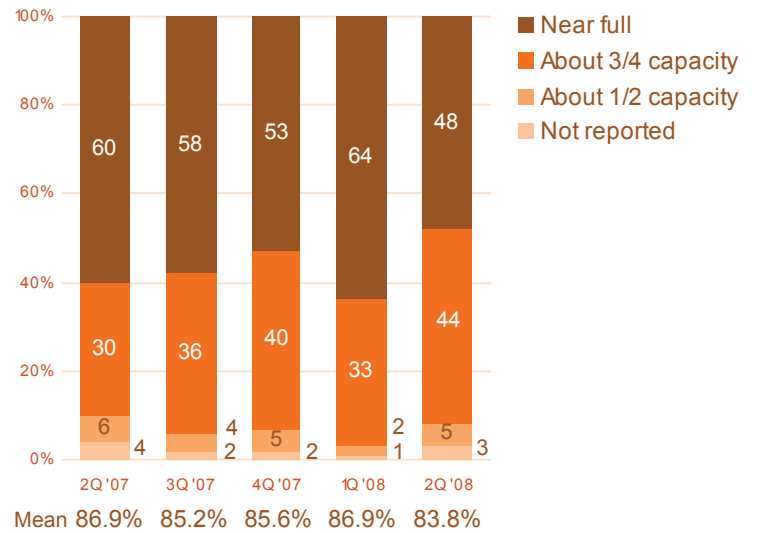
Level of operating capacity

What is your organization's current operating capacity?

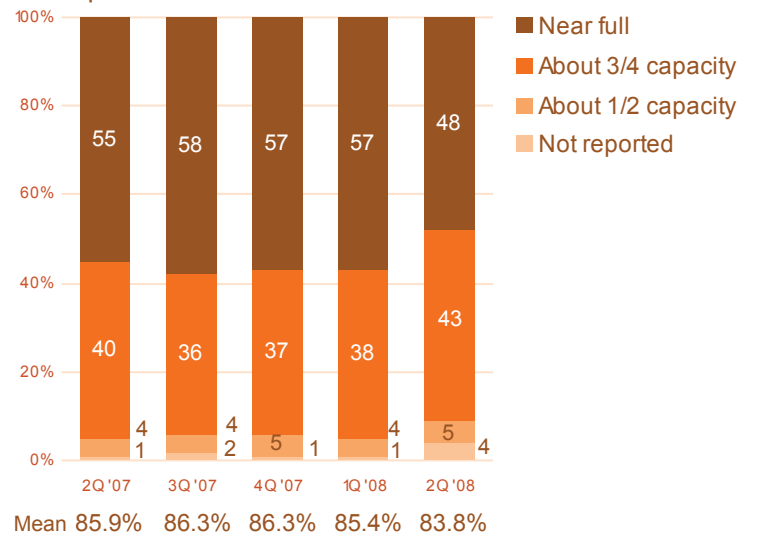
Operating capacity is an estimate of the current level of permanent staffing compared with what is needed for full-capacity output. In 2Q 2008, the average level of operating capacity for consumer products businesses was an estimated 83.8 percent – lower than the prior quarter and lower than a year ago. In the second quarter, only 48 percent claimed to be at or near full capacity (off 16 points).

Chart 3.7 Level of operating capacity

Large consumer products businesses



All respondents



Note: In 2Q 2008, large consumer products businesses n = 59, all respondents, n = 129.

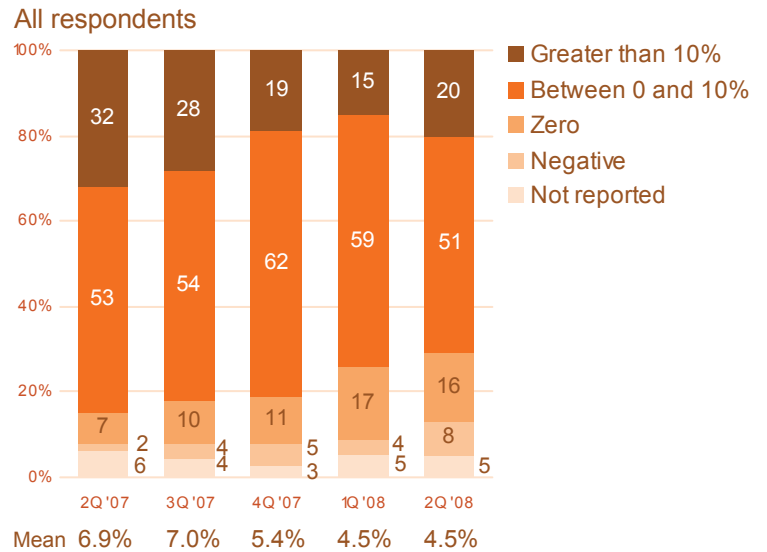
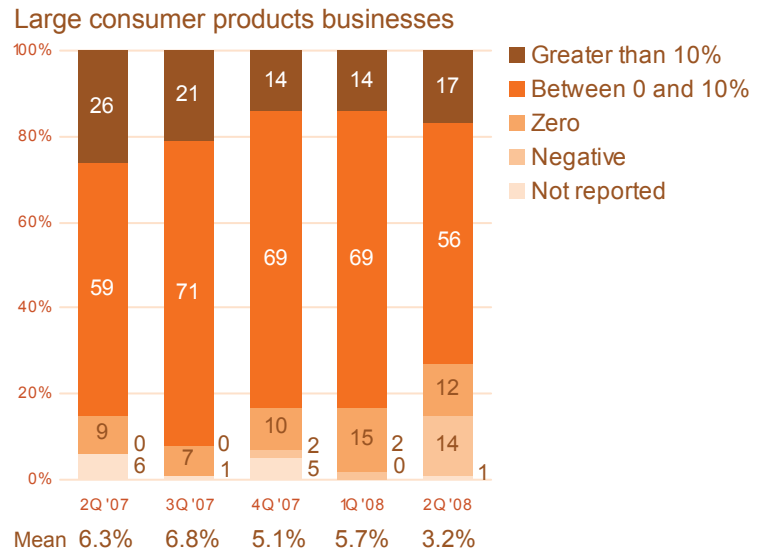
Business outlook, next 12 months

Revenue growth, next 12 months

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

Consumer products senior executives significantly reset their projections to a 3.2 percent average growth rate for their companies over the next 12 months. This is 2.5 points lower than the prior quarter and about half the projections a year ago. Currently, 73 percent plan for growth over the next 12 months, with 17 percent expecting double-digit revenue growth. But, 26 percent now expect zero/negative growth.

Chart 4.1 Revenue growth, next 12 months



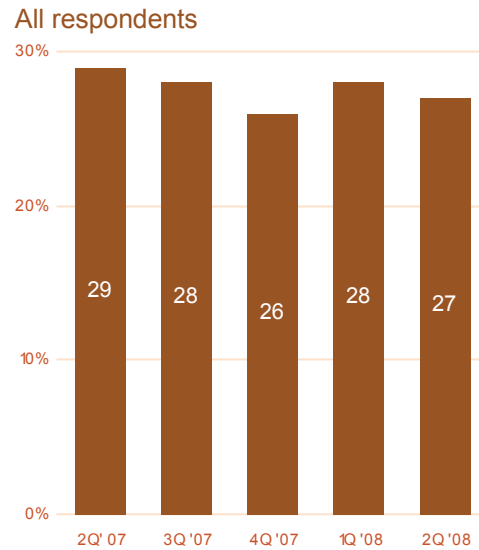
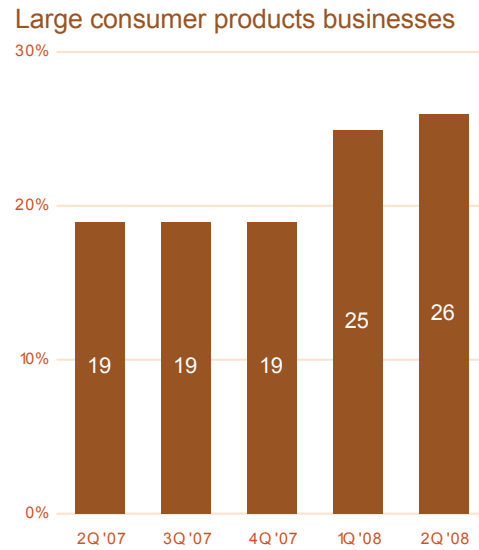
Note: In 2Q 2008, large consumer products businesses n = 59, all respondents, n = 129.

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 contribution of international sales to total revenue is projected at 26 percent over the next 12 months, above the 19 percent a year ago.

Chart 4.2 International sales, next 12 months



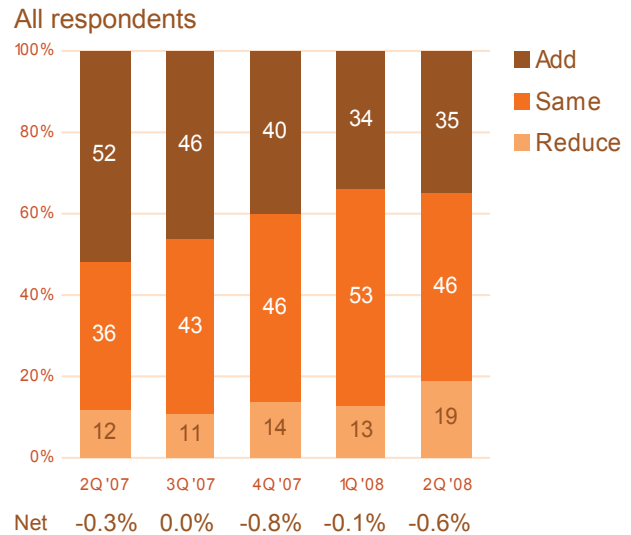
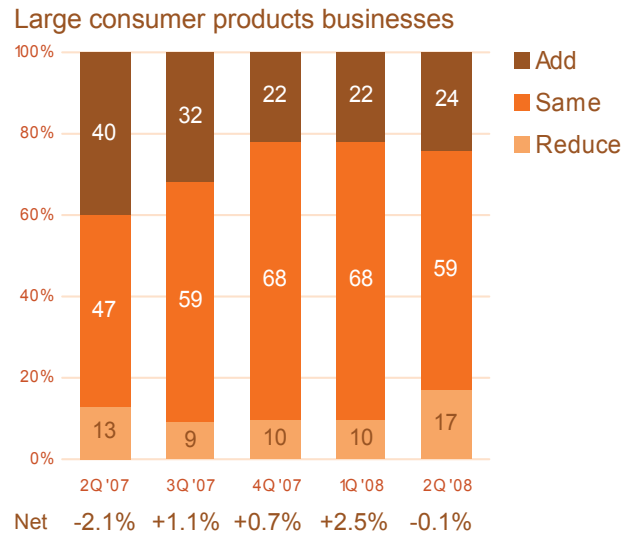
Note: In 2Q 2008, large consumer products businesses n = 49, all respondents, n = 111.

Percent planning to hire

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

Looking ahead, 24 percent of consumer products businesses plan to add employees over the next 12 months. Fewer (17 percent) plan to reduce the number of full-time-equivalent employees. With layoffs, the net projection is a flat minus 0.1 percent. In the prior quarter, the net projection was a positive 2.5 percent, so the composite workforce projection for the next 12 months is notably lower.

Chart 4.3 Percent planning to hire



Note: In 2Q 2008, large consumer products businesses n = 59, 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 primarily will be looking to hire professionals/technicians followed by white-collar management support and sales/marketing executives.

Chart 4.4 Percent planning to hire by type of employee

Large consumer products businesses

	2Q '07	3Q '07	4Q '07	1Q '08	2Q '08
Planning to hire (net)	40%	32%	22%	22%	24%
• Professionals/technicians	15%	10%	5%	7%	19%
• White collar support	30%	20%	12%	10%	14%
• Sales/marketing	21%	12%	10%	7%	12%
• Production workers	17%	15%	12%	10%	9%
• Skilled labor	11%	14%	5%	5%	5%

All respondents

	2Q '07	3Q '07	4Q '07	1Q '08	2Q '08
Planning to hire (net)	52%	46%	40%	34%	35%
• Professionals/technicians	30%	28%	26%	23%	24%
• White collar support	27%	22%	16%	15%	14%
• Sales/marketing	22%	14%	16%	12%	16%
• Production workers	25%	21%	13%	13%	9%
• Skilled labor	20%	17%	19%	15%	9%

Note: In 2Q 2008, large consumer products businesses n = 59, all respondents, n = 129.

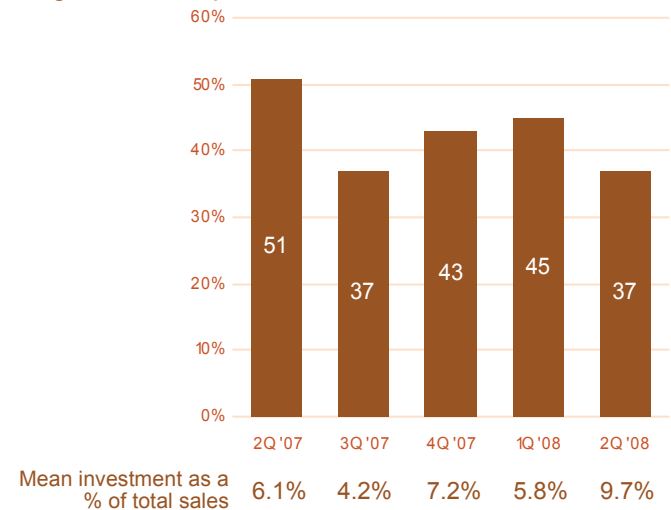
Percent planning major new investments of capital

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?

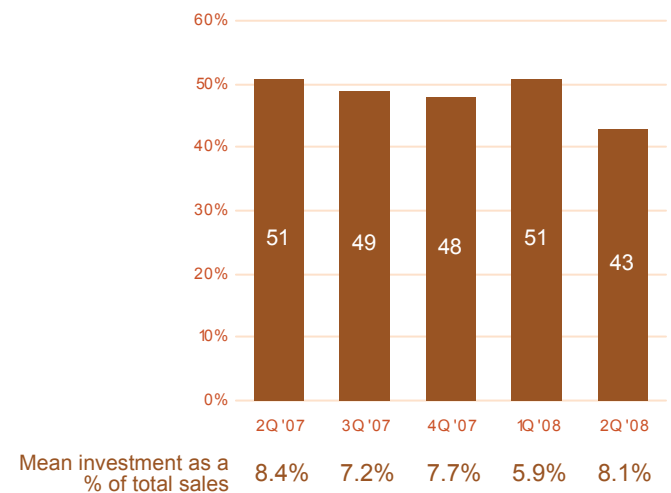
The percentage of consumer products businesses that plan major new investments of capital over the next 12 months decreased 8 points to 37 percent in 2Q 2008, notably lower than last year's 51 percent. The mean investment rose to 9.7 percent of total sales. Overall, plans for major new investments among consumer products manufacturers have been fairly strong over the past year.

Chart 4.5 Percent planning major new investments of capital

Large consumer products businesses



All respondents



Note: In 2Q 2008, large consumer products businesses n = 59, all respondents, n = 129.

Percent planning to increase operational spending

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

Seventy-six percent are planning increased operational spending over the next 12 months, off 12 points from the prior quarter. Four types of increased operational expenditures will continue to lead the way among large consumer products businesses: new product or service introductions, information technology, marketing & sales promotion and advertising.

Chart 4.6 Percent planning to increase operational spending

Large consumer products businesses

	2Q '07	3Q '07	4Q '07	1Q '08	2Q '08
Percent planning to increase spending (net)	87%	83%	86%	88%	76%
• New product or service introduction	59%	58%	60%	47%	49%
• Information technology	47%	48%	43%	36%	46%
• Marketing & sales promotion	49%	48%	45%	33%	37%
• Advertising	45%	48%	43%	28%	37%
• Research and development	38%	34%	33%	26%	24%
• Business acquisition	36%	25%	35%	28%	22%
• Facilities expansion	30%	27%	31%	22%	22%
• Internet commerce	28%	24%	19%	21%	22%
• Geographic expansion	26%	20%	29%	22%	20%

All respondents

	2Q '07	3Q '07	4Q '07	1Q '08	2Q '08
Percent planning to increase spending (net)	88%	88%	84%	84%	78%
• New product or service introduction	49%	48%	45%	39%	49%
• Information technology	47%	55%	51%	42%	43%
• Marketing & sales promotion	31%	30%	33%	23%	18%
• Advertising	25%	24%	23%	15%	13%
• Research and development	34%	32%	26%	27%	29%
• Business acquisition	40%	41%	36%	34%	30%
• Facilities expansion	36%	33%	33%	27%	30%
• Internet commerce	25%	19%	15%	16%	19%
• Geographic expansion	38%	33%	29%	26%	27%

Note: In 2Q 2008, large consumer products businesses n = 59, all respondents, n = 129.

Expected barriers to business growth

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

Virtually all consumer products respondents are concerned that oil/energy prices will challenge growth, rising 14 points in the second quarter to 93 percent. Three other concerns at or near majority levels were: lack of demand, monetary exchange rates, and decreasing profitability. Pressure for increased wages also rose.

Chart 4.7 Expected barriers to business growth



Note: In 2Q 2008, large consumer products businesses n = 59, 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 rose significantly to 68 percent (up 16 points). Plans for M&A activity over the next 12 months rose to 32 percent in 2Q 2008 but was well below a year ago (51 percent). Twenty-five percent plan to purchase another business, 9 percent might divest part of their business, and 5 percent plan an equity carve-out or spin-off.

Expansion to markets abroad rose 8 points to 37 percent for consumer products businesses. Planned business initiatives that remained fairly stable or increased slightly include new strategic alliances, new joint ventures, and development of manufacturing or distribution facilities abroad.

Chart 4.8 Plans for M&A and other business initiatives

Large consumer products businesses

	2Q '07	3Q '07	4Q '07	1Q '08	2Q '08
New business initiatives (net)	72%	61%	53%	52%	68%
• M&A activity (net)	51%	31%	33%	28%	32%
- Purchase another business	45%	25%	29%	28%	25%
- Sale part/all own business	9%	7%	10%	10%	9%
- Equity carve-out/spin-off	4%	5%	5%	3%	5%
• Expand to markets abroad	30%	29%	36%	29%	37%
• New strategic alliance	36%	27%	26%	24%	22%
• New joint venture	15%	14%	14%	17%	20%
• New facilities abroad	15%	14%	17%	17%	17%
• Close/reduce facilities abroad	8%	9%	7%	3%	7%
• Reduce activity in markets abroad	2%	3%	5%	2%	5%

All respondents

	2Q '07	3Q '07	4Q '07	1Q '08	2Q '08
New business initiatives (net)	75%	71%	64%	60%	64%
• M&A activity (net)	56%	45%	39%	38%	40%
- Purchase another business	48%	41%	34%	35%	33%
- Sale part/all own business	15%	8%	13%	7%	10%
- Equity carve-out/spin-off	9%	6%	5%	8%	7%
• Expand to markets abroad	34%	32%	26%	30%	29%
• New strategic alliance	42%	39%	37%	32%	25%
• New joint venture	25%	32%	25%	27%	29%
• New facilities abroad	17%	18%	15%	17%	12%
• Close/reduce facilities abroad	9%	9%	6%	4%	4%
• Reduce activity in markets abroad	7%	5%	9%	9%	6%

Note: In 2Q 2008, large consumer products businesses n = 59, all respondents, n = 129.

Survey demographics and research methodology

Demographics

Who	Senior financial executives of US-based consumer products businesses	
Interview dates	May 12, 2008, to August 12, 2008	
Average number of employees	All respondents (129) 7,521	Large consumer products businesses (59) 6,365
Average business unit revenue	\$2.43 billion	\$3.35 billion
Average enterprise revenue	\$9.59 billion	\$10.09 billion
Market capitalization	\$12.34 billion	\$11.46 billion
Industry sectors	Products 79% Manufacturing 68% Trade/Distribution 3% All other 8% Services 21%	Products 100% Manufacturing 100% Trade/Distribution --- All other --- Services ---

Methodology

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.

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