

# Manufacturing Barometer™

Business outlook report  
Second quarter 2009

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# Quarterly highlights

In the second quarter of 2009, PricewaterhouseCoopers interviewed 60 US-based industrial manufacturing executives about their current business performance, the state of the economy, and their expectations for business growth over the next 12 months. We then compared their responses with results from prior quarters to see how the panel's 12-month outlook has changed. The final step was to compare their views with a wider panel to show how the industry differs from the broader population.

Based on survey responses, US-based industrial manufacturers appear to have turned a corner in second quarter 2009. Looking forward, fewer are pessimistic and more are optimistic about the US and global economies. Of those surveyed, one-third continued to project negative revenue growth into mid-2010, but 43 percent expect positive revenue growth over the next 12 months. Overall, respondents projected a relatively flat revenue growth rate, at minus 0.4 percent. Contributions from international markets, which have been strong among these industrial manufacturers, are projected at 30 percent of revenue, the lowest they have been in the previous four quarters. Scarce market demand remains the chief concern or barrier to growth. Prospective investments and increased budget spending show signs of improvement, along with M&A and new business initiatives. On the workforce front, respondents projected a continued pace of reductions over the next 12 months.

Key findings:

- **Forecasting hints at turnaround.** Overall, projections are flat. Thirty-two percent of respondents continued to project negative revenue growth, and 22 percent projected zero growth. However, the number of businesses projecting positive revenue growth rose from 34 percent in the prior quarter to 43 percent, with 12 percent expecting double-digit growth and 31 percent anticipating growth in the single digits. Overall, the projected average revenue growth for industrial manufacturers over the next 12 months is minus 0.4 percent. This is well above the minus 7.9 percent for calendar year 2009 and a signal of optimism that economic conditions will stabilize.
- **International sales show a slight upturn.** International sales remained negative in second quarter 2009 for panelists marketing abroad: up for 24 percent but lower for 47 percent and about the same for the remaining 29 percent, but this is a slight improvement over the prior quarter. However, the 12-month forecast for the contribution of international sales to total revenue dropped from 36 percent in the prior quarter to 30 percent, well below the 38 percent projected a year ago.

- **Pessimism tones down.** The majority of panelists believe the US and global economies declined in second quarter 2009, but the overall outlook through second quarter 2010 shows improvement. Looking at the next 12 months, 43 percent are optimistic about the US economy (up 27 points), and only 18 percent are pessimistic (down 37 points). Prospects for the world economy among those marketing abroad also took a turn, with 43 percent optimistic (up 31 points), and only 18 percent pessimistic (down 40 points).
- **Market demand woes linger.** Although concern about market demand dropped, it remains the chief potential barrier to growth over the next 12 months, cited by 82 percent (down 13 points). Decreasing profitability follows, at 50 percent, and concern about new taxation policies continues to rise, now at 43 percent.
- **Investments and M&A show uptick.** Plans for major new investments of capital over the next 12 months rebounded to 27 percent from last quarter's survey low of 24 percent. Projected M&A activity also looks stronger, up 13 points from a low of 15 percent to 28 percent, with 25 percent of respondents indicating an intent to purchase another business. Plans to expand to markets abroad and new strategic alliance initiatives are up as well.
- **Workforce cutbacks continue.** More industrial manufacturers plan to hire over the next 12 months (up 7 points to 17 percent), and fewer plan to reduce their workforces (down 12 points to 30 percent). However, the pace of composite workforce reductions expected over the next 12 months is minus 2.2 percent. Although similar to last quarter's minus 1.8 percent projection, the current rate is about half of the survey high seen in third quarter 2008 (minus 4.0 percent).
- **Pressure holds on margins.** Gross margins were up for 23 percent but down for 45 percent – a net 22 percent with lower margins – reflecting continued pressures. Only 17 percent reported increased costs, while 42 percent reported decreases, for a net minus 25 percent. Similarly, only 18 percent raised their prices, and 30 percent lowered them, for a net minus 12 percent.

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 survey's key indicators shows how the 12-month outlook has changed each quarter. The change column indicates the movement of opinion from the past two quarters.

Business outlook, next 12 months among industrial manufacturers	2008			2009		Change	Page
	2Q '08	3Q '08	4Q '08	1Q '09	2Q '09	1Q - 2Q '09	
Optimistic about US economy	8%	6%	5%	16%	43%	↑	7
Optimistic about world economy	37%	7%	4%	12%	43%	↑	9
Expect positive revenue growth	68%	54%	25%	34%	43%	↑	19
Average growth rate expected	3.7%	2.8%	-2.4%	-0.7%	-0.4%	↑	19
Planning major new investments	50%	34%	33%	24%	27%	↑	23
New investments as a % of sales	5.4%	6.1%	8.3%	5.4%	6.2%	↑	23
Planning to hire	32%	12%	10%	10%	17%	↑	21
New workers as a % of workforce (net)	+0.1%	-4.0%	-3.2%	-1.8%	-2.2%	↓	21
Expected barriers to growth							
• Lack of demand	60%	82%	85%	95%	82%	↓	25
• Decreasing profitability	50%	64%	62%	69%	50%	↓	25
• Taxation policies	25%	22%	30%	40%	43%	↑	25
• Legislative/ Regulatory pressures	38%	36%	37%	44%	42%	=	25
• Capital constraints	23%	26%	37%	44%	40%	↓	25
• Competition from foreign markets	37%	34%	25%	39%	35%	↓	25
• Oil/energy prices	78%	62%	25%	21%	28%	↑	25
• Monetary exchange rate	40%	36%	38%	37%	23%	↓	25
• Higher interest rates	17%	30%	13%	15%	12%	↓	25
• Pressure for increased wages	50%	20%	10%	7%	3%	↓	25
• Lack of qualified workers	18%	26%	3%	7%	3%	↓	25

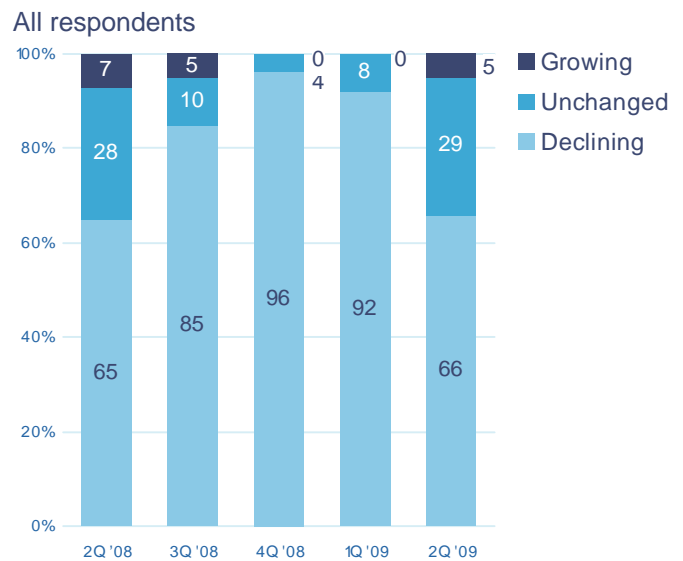
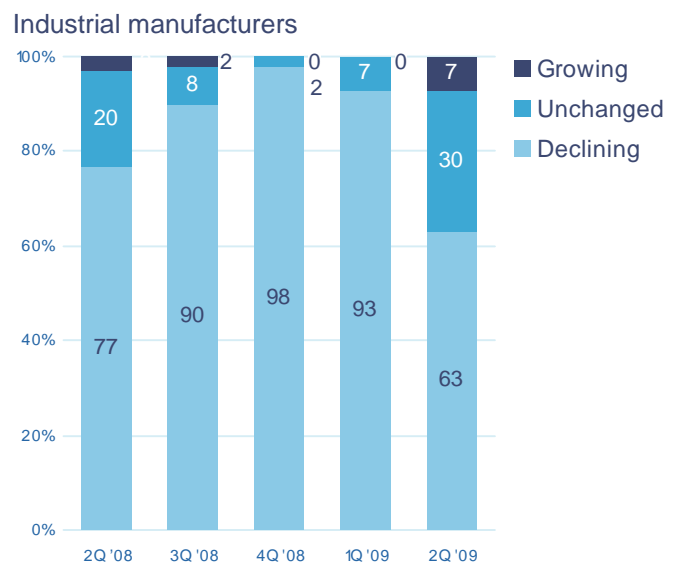
# Economic views

# View of the US economy, this quarter

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

For the past four quarters, an overwhelming majority of respondents viewed the economy as declining. In second quarter 2009, a majority – 63 percent – maintained the US economy declined, but that is down 30 points from last quarter's 93 percent. Showing a hint of optimism, 30 percent said they believe it did not change, and 7 percent said they believe it grew.

Chart 2.1 View of the US economy, this quarter



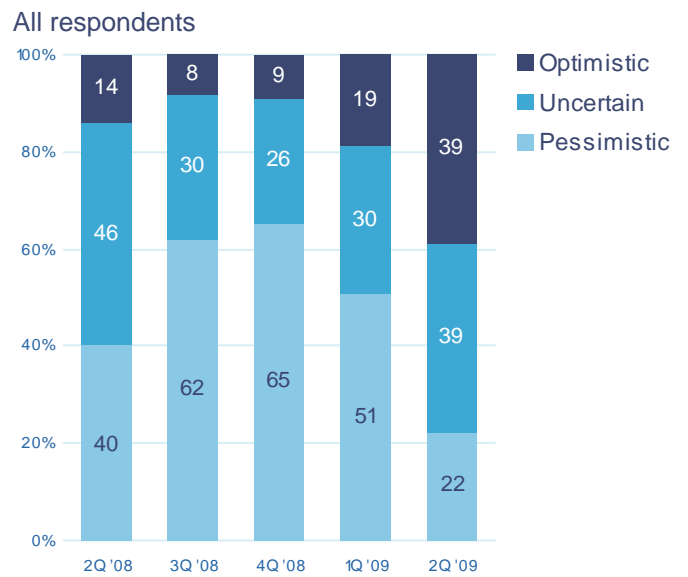
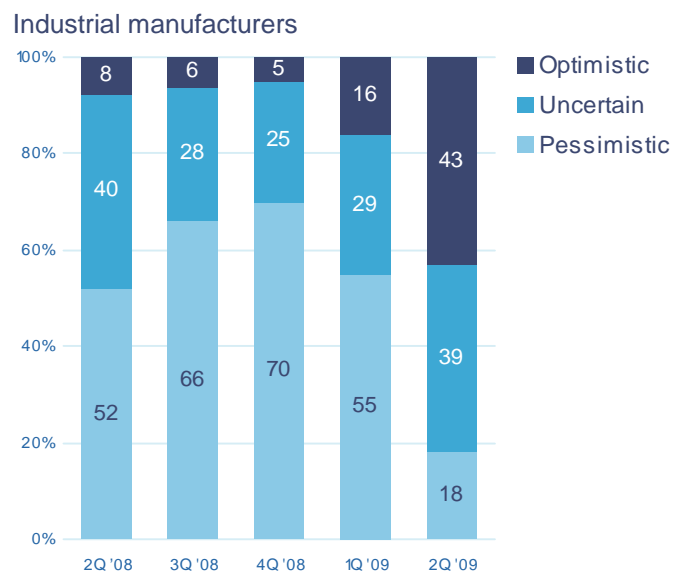
Note: In 2Q 2009 Industrial manufacturers n=60, All respondents, n=110

# View of the US economy, next 12 months

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

Looking ahead, 43 percent of respondents expressed optimism about the 12-month outlook for the US economy, well ahead of the prior quarter's 16 percent and last year's 8 percent. Only 18 percent remain pessimistic, and 39 percent are uncertain.

Chart 2.2 View of the US economy, next 12 months



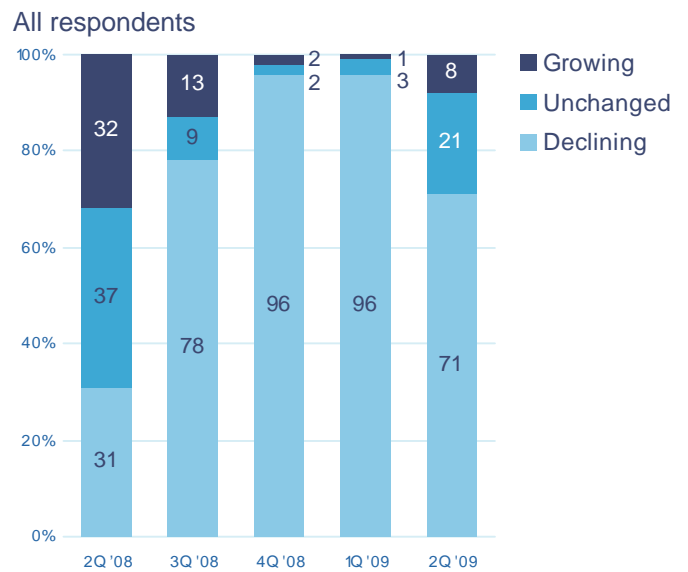
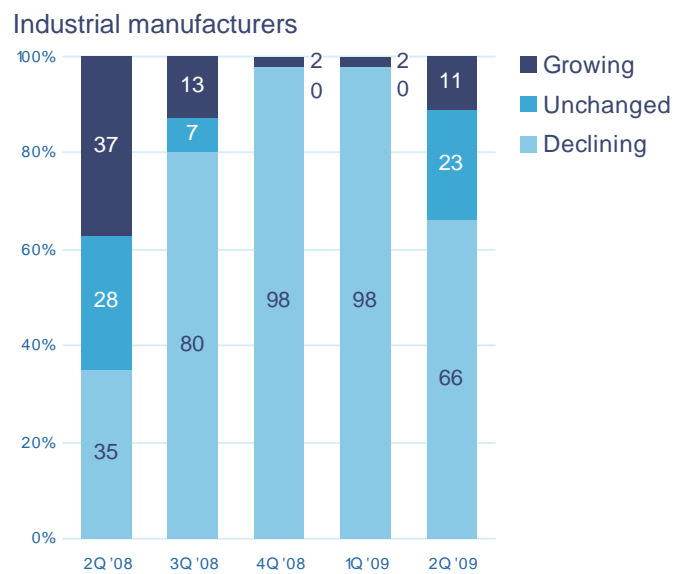
Note: In 2Q 2009 Industrial manufacturers n=60, All respondents, n=110

# View of the world economy, this quarter

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

A majority of respondents marketing abroad (66 percent) continued to view the world economy as declining in the second quarter, but that is down 32 points from the prior quarter, with 11 percent viewing it as growing, and 23 percent viewing it as unchanged.

Chart 2.3 View of the world economy, this quarter



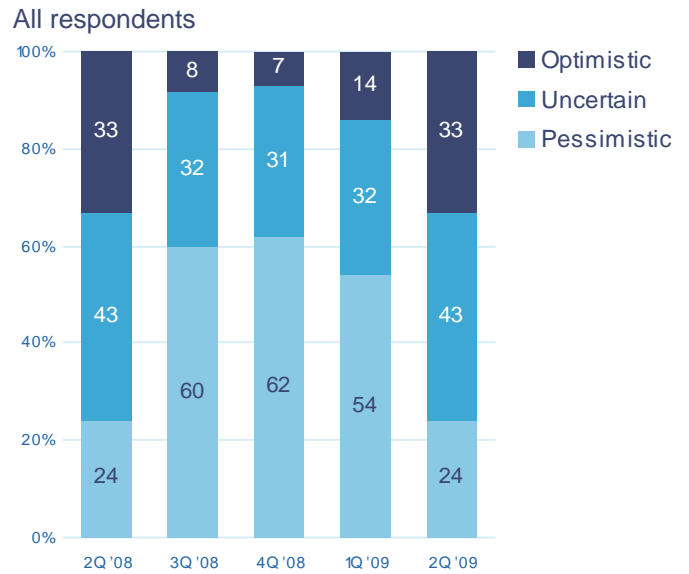
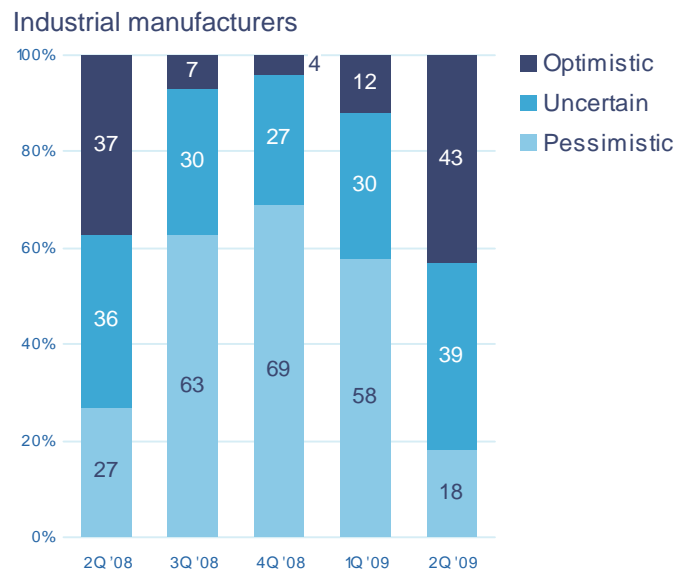
Note: In 2Q 2009 those marketing abroad, Industrial manufacturers n=56, All respondents, n=99

# View of the world economy, next 12 months

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

Of US-based industrial manufacturers who market abroad, 43 percent are optimistic about the prospects for the world economy over the next 12 months – up from 12 percent last quarter. Thirty-nine percent are uncertain, and only 18 percent said they are pessimistic.

Chart 2.4 View of the world economy, next 12 months



Note: In 2Q 2009 those marketing abroad, Industrial manufacturers n=56, All respondents, n=99

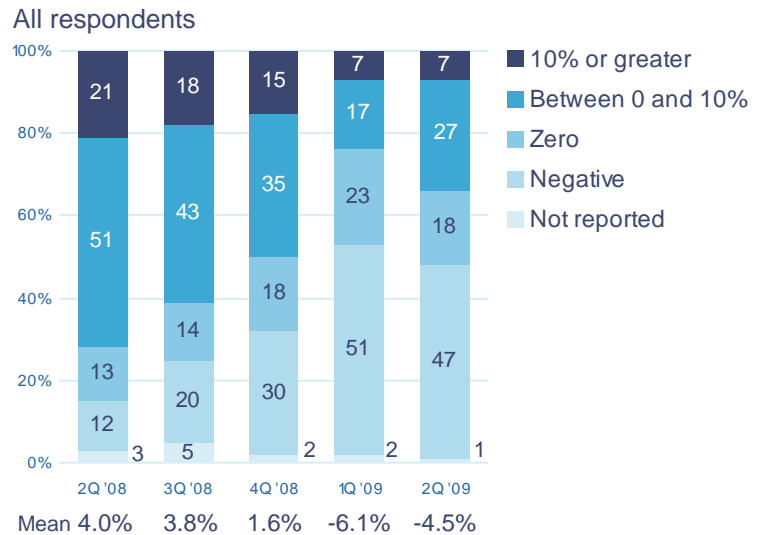
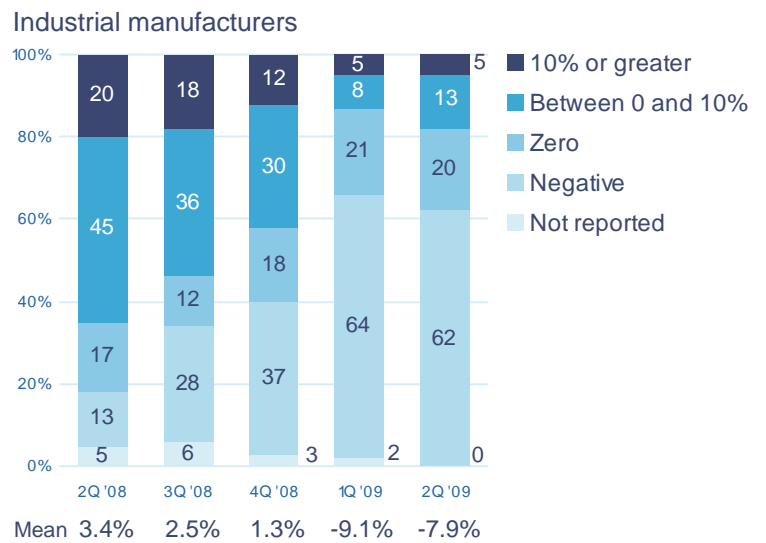
# Company performance

## Company revenue growth, calendar year

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

In the second quarter, only 18 percent of US-based industrial manufacturers expected positive growth in 2009, with 5 percent forecasting double-digit growth and 13 percent forecasting single-digit growth. Overall, the composite average growth estimate improved to minus 7.9 percent from minus 9.1 percent in the prior quarter. However, it was plus 3.4 percent a year ago.

Chart 3.1 Company revenue growth, calendar year



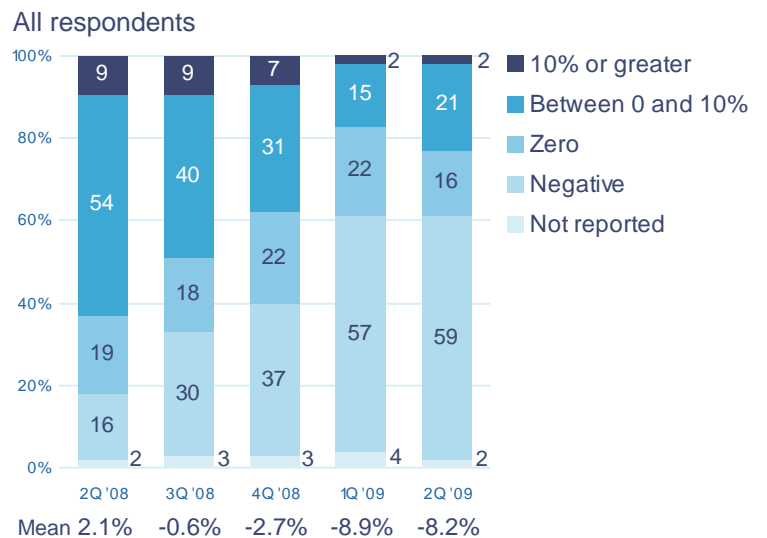
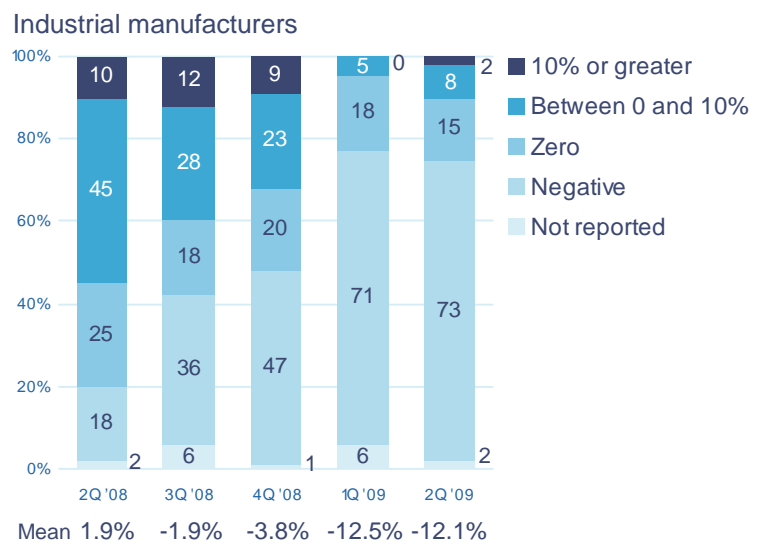
Note: In 2Q 2009 Industrial manufacturers n=60, All respondents, n=110

# 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 remain low for 2009, at an average minus 12.1 percent, in line with last quarter. Seventy-three percent of panelists expect negative industry growth in 2009. Respondents' projections for their own companies, shown in Chart 3.1, are notably better than their expectations for the industry as a whole.

Chart 3.2 Industry growth, calendar year



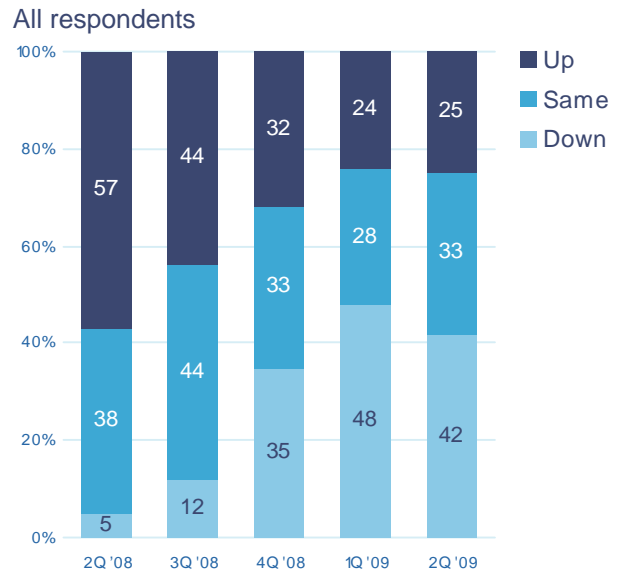
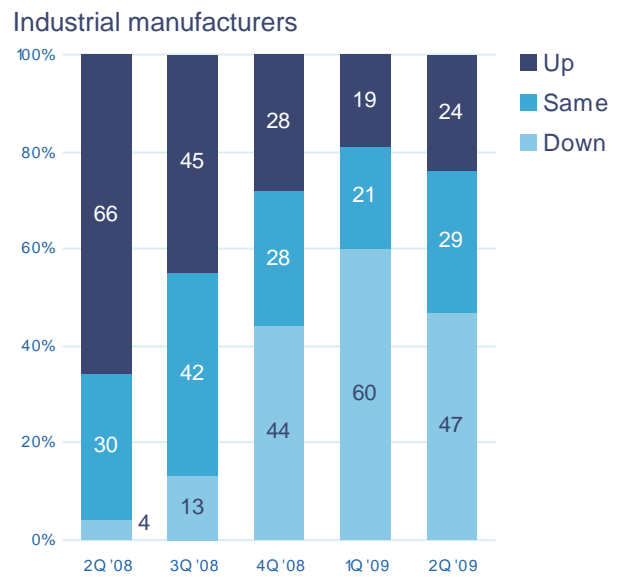
Note: In 2Q 2009 Industrial manufacturers n=60, All respondents, n=110

# International sales

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

For US-based industrial manufacturers that sell abroad, international markets showed a slight upturn in second quarter 2009 after dropping for the past four consecutive quarters. However, the 24 percent that reported an increase in sales abroad represent a low number compared with a year ago. The number reporting a decrease fell to 47 percent from 60 percent in the prior quarter.

Chart 3.3 International sales



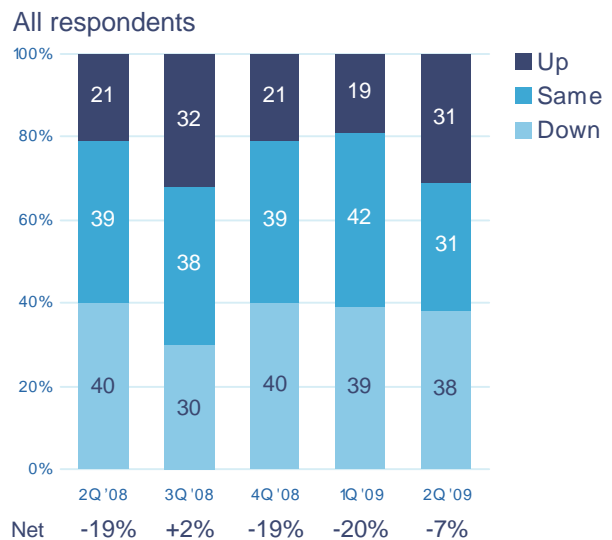
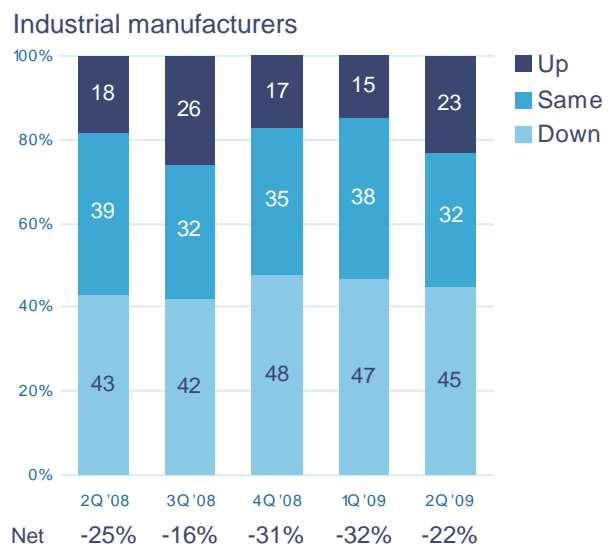
Note: In 2Q 2009 those marketing abroad, Industrial manufacturers n=56, All respondents, n=99

## Changes in gross margins

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

In second quarter 2009, gross margins were higher for 23 percent of respondents (up 8 points) but lower for 45 percent, a net minus 22 percent – an improvement from the two previous quarters but remaining on the negative side.

Chart 3.4 Changes in gross margins



Note: In 2Q 2009 Industrial manufacturers n=60, All respondents, n=110

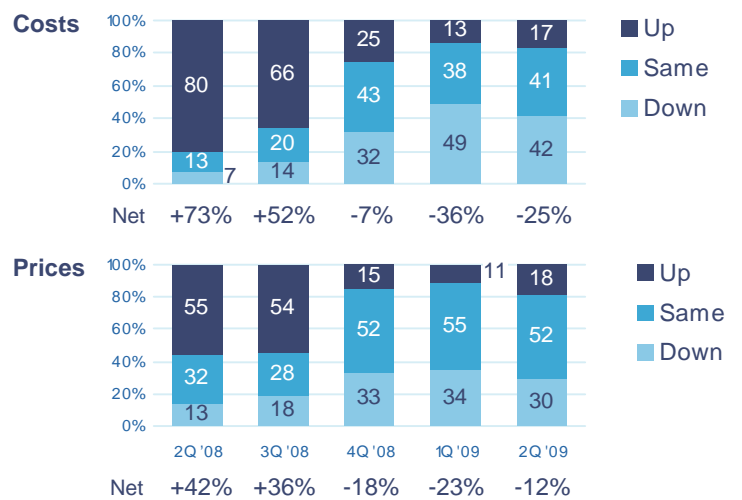
# Changes in costs and prices

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

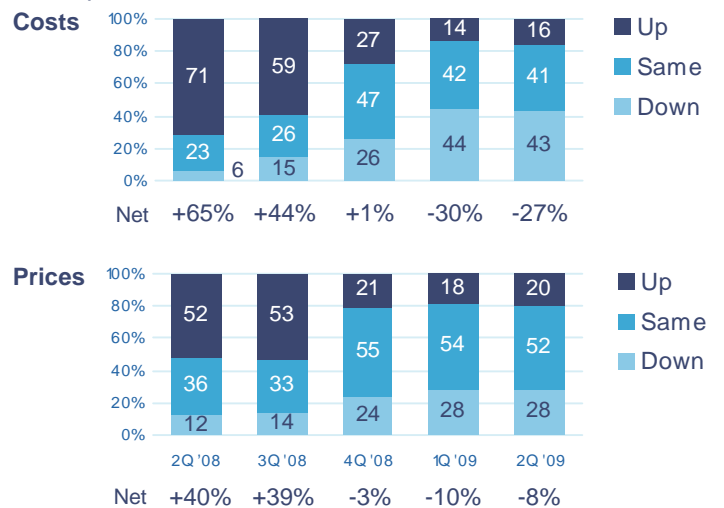
In the second quarter, costs and prices continued to show a net decrease. However, more respondents say costs and prices are increasing, and fewer say they are decreasing, which is a reversal of the trend seen in the previous four quarters. Only 17 percent of US-based industrial manufacturers reported higher costs, and 42 percent reported lower costs – for a net minus 25 percent. On the pricing side, only 18 percent raised prices, and 30 percent lowered them, for a net minus 12 percent.

Chart 3.5 Changes in costs and prices

### Industrial manufacturers



### All respondents



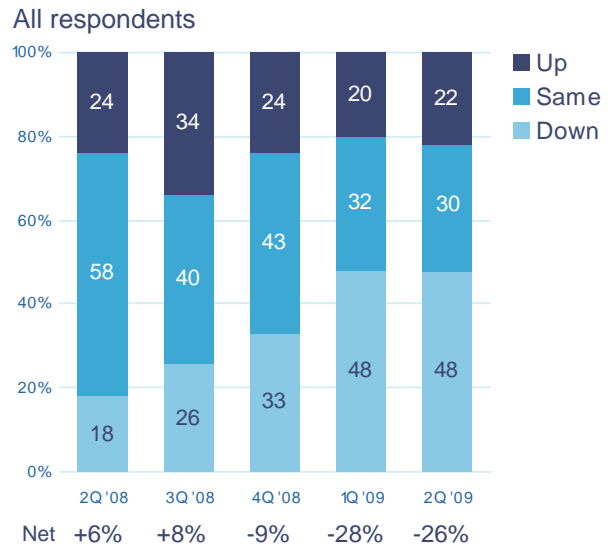
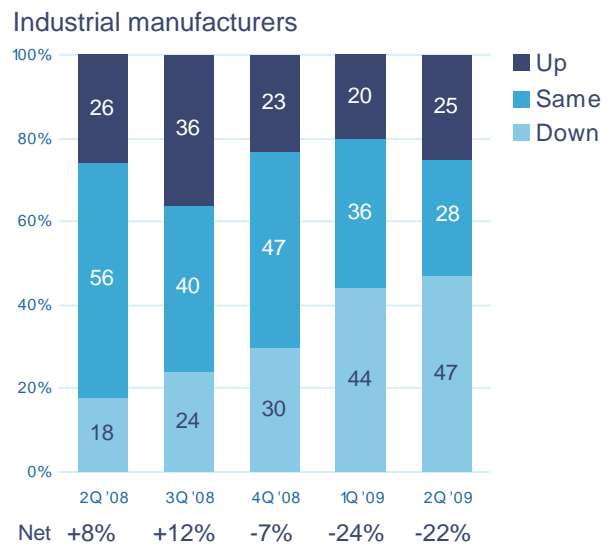
Note: In 2Q 2009 Industrial manufacturers n=60, All respondents, n=110

# Inventory movement

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

Inventory is down for 47 percent of US-based industrial manufacturers and up for 25 percent, for a net minus 22 percent. These numbers are similar to the previous quarter.

Chart 3.6 Inventory movement



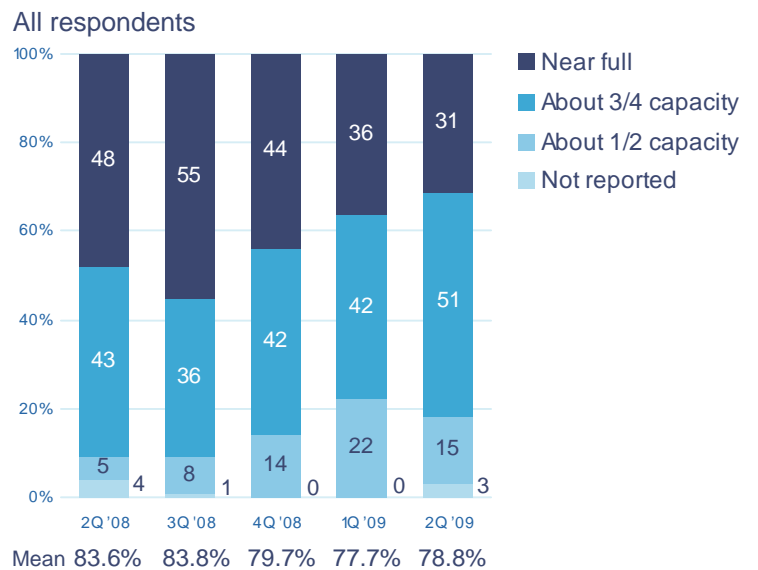
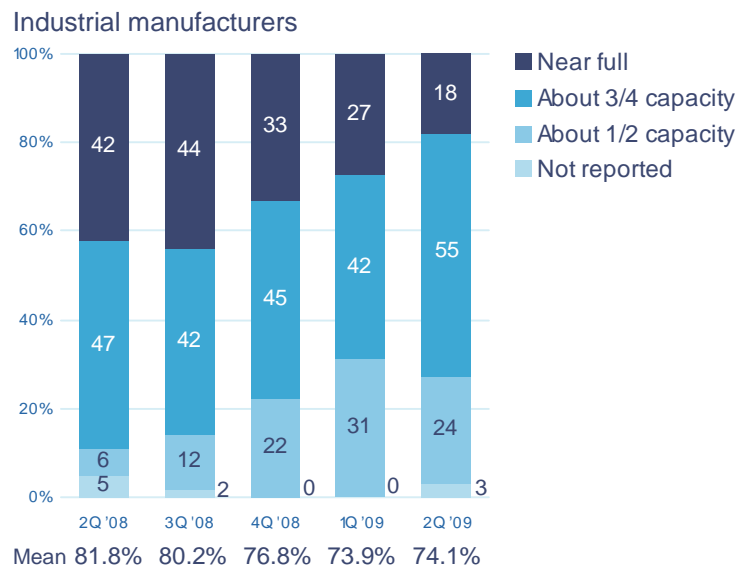
Note: In 2Q 2009 Industrial manufacturers n=60, All respondents, n=110

## 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 second quarter 2009, the average level of operating capacity for US-based industrial manufacturers remained at a low level, an estimated 74.1 percent. A year ago, operating capacity was at 81.8 percent. This quarter, only 18 percent of industrial manufacturers claimed to be at or near capacity.

Chart 3.7 Level of operating capacity



Note: In 2Q 2009 Industrial manufacturers n=60, All respondents, n=110

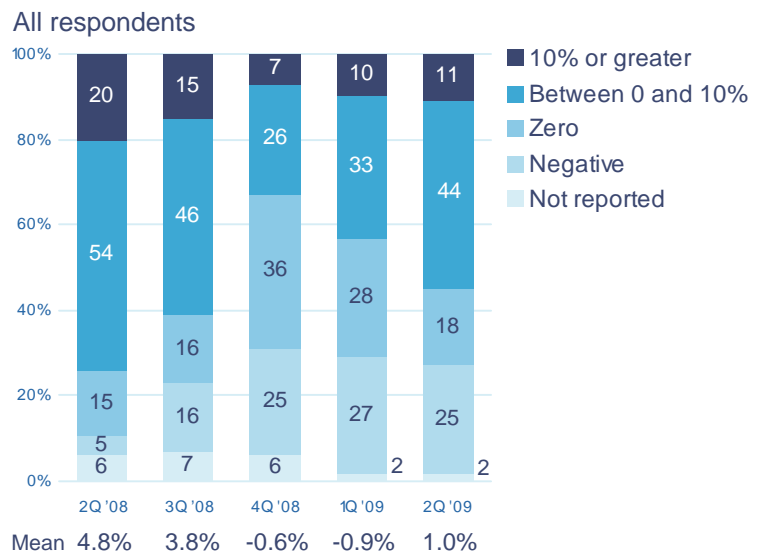
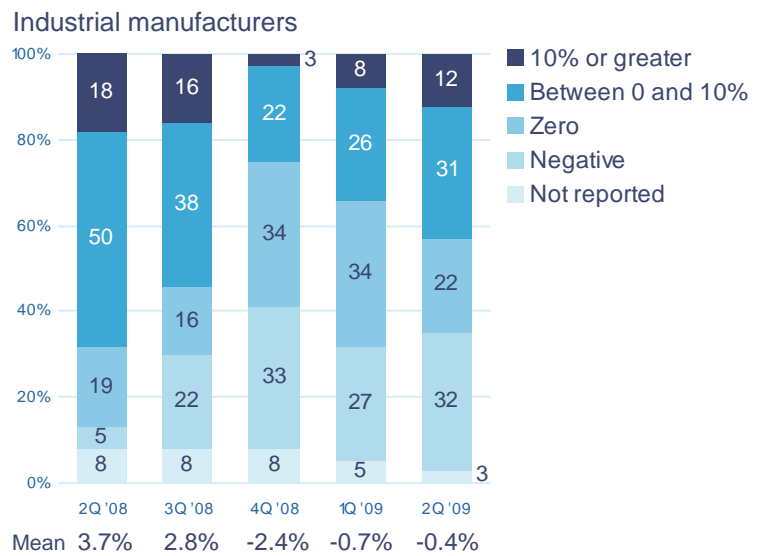
# Business outlook, next 12 months

# Revenue growth, next 12 months

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

Looking ahead at the next 12 months, more survey panelists expect positive growth than negative growth – 43 percent versus 32 percent – with 12 percent forecasting double-digit growth, and 31 percent forecasting single-digit growth. The projected average growth rate is nearly flat, at minus 0.4 percent. That is similar to the prior quarter's projected minus 0.7 percent but well below last year's projected plus 3.7 percent.

Chart 4.1 Revenue growth, next 12 months



Note: In 2Q 2009 Industrial manufacturers n=60, All respondents, n=110

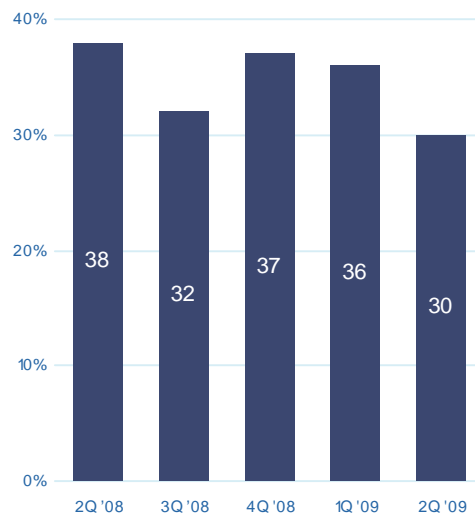
## International sales, next 12 months

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

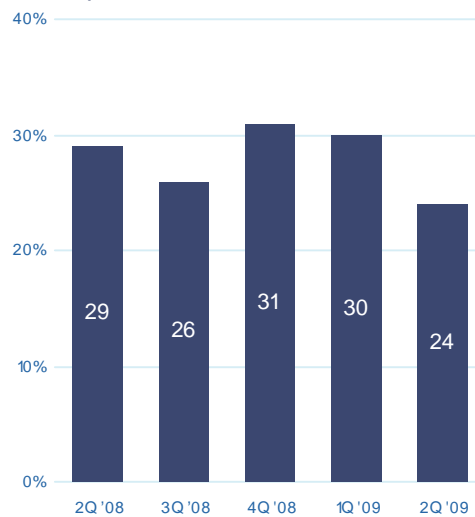
Of respondents selling abroad, the projected contribution of international sales to total revenue is 30 percent over the next 12 months, down from the prior quarter's 36 percent and last year's 38 percent. However, international industrial products marketers still expect to draw a solid share of their revenue from world markets, ahead of the all-industry consensus.

Chart 4.2 International sales, next 12 months

### Industrial manufacturers



### All respondents



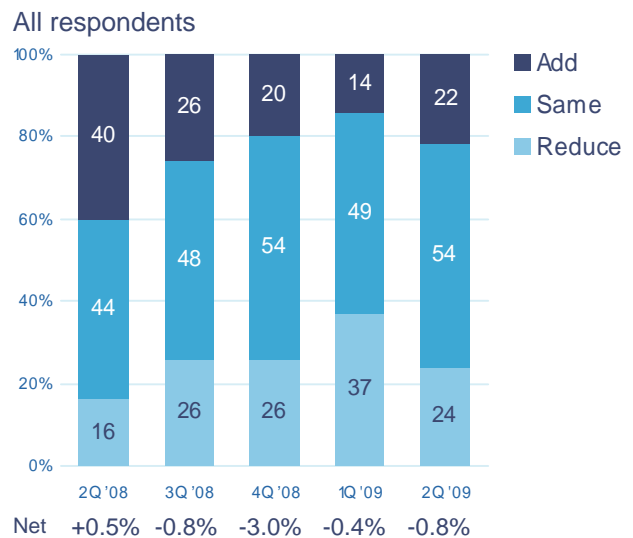
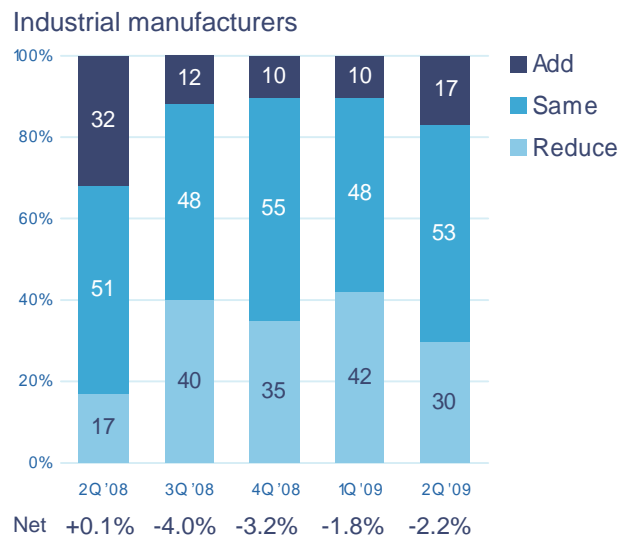
Note: In 2Q 2009 those marketing abroad, Industrial manufacturers n=56, All respondents, n=99

## Percent planning to hire

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

Seventeen percent of respondents plan to add employees to their workforces over the next 12 months (up 7 points), and 30 percent plan to reduce the number of full-time equivalent employees (down 12 points). The net workforce projection remains low, at minus 2.2 percent, similar to last quarter's minus 1.8 percent. A year ago, it was a plus 0.1 percent.

Chart 4.3 Percent planning to hire



Note: In 2Q 2009 Industrial manufacturers n=60, All respondents, n=110

## Percent planning to hire by type of employee

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

Seventeen percent of respondents plan to hire within the next 12 months, up 7 points from last quarter but well below last year's 32 percent. Skilled labor is not only the category with the most planned hiring but also shows a significant increase over the prior quarter, rising from 0 to 8 percent.

Chart 4.4 Percent planning to hire by type of employee

#### Industrial manufacturers

	2Q '08	3Q '08	4Q '08	1Q '09	2Q '09
Planning to hire (net)	32%	12%	10%	10%	17%
• Skilled labor	8%	4%	3%	---	8%
• Professionals/technicians	27%	6%	5%	7%	7%
• Production workers	10%	2%	2%	2%	5%
• Sales/marketing	15%	4%	2%	3%	3%
• White collar support	10%	2%	3%	---	---

#### All respondents

	2Q '08	3Q '08	4Q '08	1Q '09	2Q '09
Planning to hire (net)	40%	26%	20%	14%	22%
• Skilled labor	10%	8%	5%	3%	8%
• Professionals/technicians	30%	18%	11%	10%	11%
• Production workers	11%	6%	6%	4%	6%
• Sales/marketing	18%	11%	6%	5%	6%
• White collar support	15%	10%	8%	2%	4%

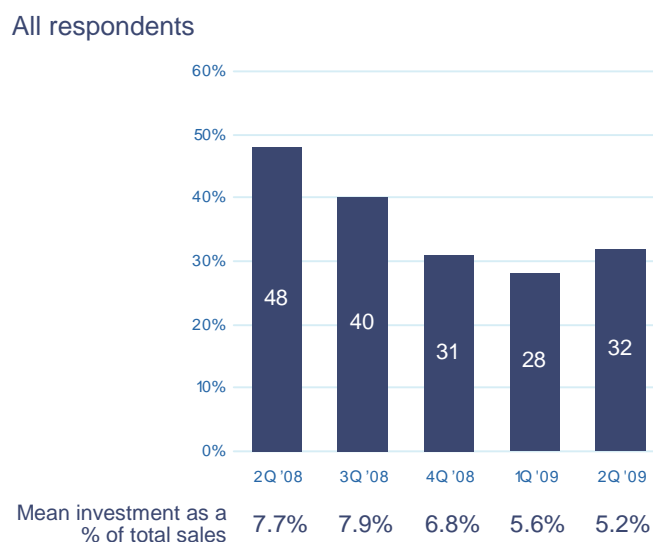
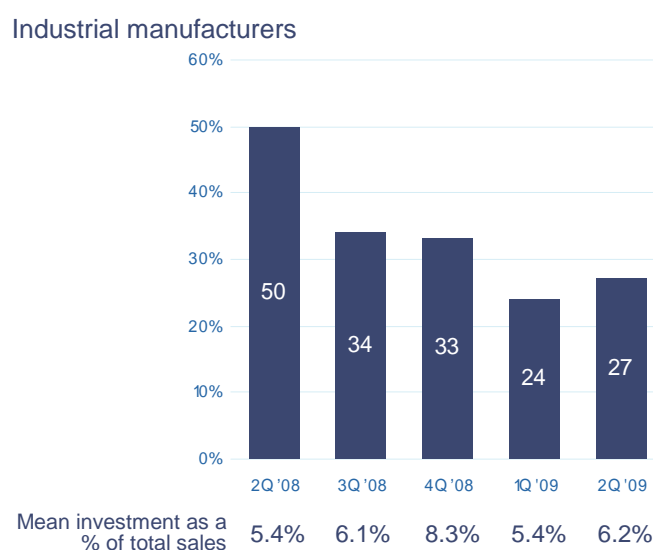
Note: In 2Q 2009 Industrial manufacturers n=60, All respondents, n=110

## 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?

Twenty-seven percent of US-based industrial manufacturers interviewed plan major new investments of capital during the next 12 months, higher than last quarter's 24 percent but only half of last year's 50 percent. The mean investment as a percentage of total sales moved higher to 6.2 percent, from 5.4 percent last quarter and a year ago.

Chart 4.5 Percent planning major new investments of capital



Note: In 2Q 2009 Industrial manufacturers n=60, All respondents, n=110

## Percent planning to increase operational spending

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

Looking at the next 12 months, the majority of respondents (53 percent) plan to increase operational spending, in line with last quarter. Among increased expenditures, new product or service introductions lead the way, up 1 point to 30 percent, followed by research and development, business acquisitions, and geographic expansion.

Chart 4.6 Percent planning to increase operational spending

Industrial manufacturers					
	2Q '08	3Q '08	4Q '08	1Q '09	2Q '09
Percent planning to increase spending (net)	77%	64%	57%	53%	53%
• New product or service introduction	48%	26%	23%	29%	30%
• Research and development	40%	24%	15%	15%	18%
• Business acquisition	30%	26%	18%	8%	18%
• Geographic expansion	35%	20%	30%	13%	17%
• Information technology	38%	24%	28%	13%	12%
• Marketing & sales promotion	13%	14%	7%	5%	10%
• Facilities expansion	27%	20%	18%	11%	8%
• Advertising	12%	12%	2%	3%	7%
• Internet commerce	17%	12%	3%	3%	2%
All respondents					
	2Q '08	3Q '08	4Q '08	1Q '09	2Q '09
Percent planning to increase spending (net)	78%	69%	58%	58%	56%
• New product or service introduction	48%	30%	21%	33%	29%
• Research and development	29%	17%	15%	14%	16%
• Business acquisition	30%	25%	22%	11%	24%
• Geographic expansion	30%	23%	28%	16%	22%
• Information technology	43%	29%	33%	18%	17%
• Marketing & sales promotion	16%	18%	14%	13%	17%
• Facilities expansion	29%	24%	20%	12%	16%
• Advertising	12%	15%	10%	10%	12%
• Internet commerce	18%	13%	7%	7%	7%

Note: In 2Q 2009 Industrial manufacturers n=60, All respondents, n=110

# Expected barriers to business growth

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

Concern about lack of demand is lower but still the chief barrier concerning respondents, cited by 82 percent (off from the survey high of 95 percent last quarter). Decreasing profitability and taxation policies also topped the list.

Chart 4.7 Expected barriers to business growth



Note: In 2Q 2009 Industrial manufacturers n=60, All respondents, n=110

## Plans for M&A and other business initiatives

Over the next 12 months, do you expect to participate in any of the following new business initiatives?

Plans for M&A activity during the next 12 months among US-based industrial manufacturers rose from a survey low of 15 percent in the previous quarter to 28 percent in the second quarter. This was primarily driven by an interest in purchasing another business, which grew from 10 percent to 25 percent. Plans to expand to new markets abroad are also stronger, rising to 27 percent from 18 percent. New strategic alliances remain high, rising to 30 percent.

Chart 4.8 Plans for M&A and other business initiatives

### Industrial manufacturers

	2Q '08	3Q '08	4Q '08	1Q '09	2Q '09
New business initiatives (net)	63%	70%	60%	55%	52%
• M&A activity (net)	40%	32%	32%	15%	28%
- Purchase another business	33%	28%	25%	10%	25%
- Sale part/all own business	10%	2%	8%	7%	5%
- Equity carve-out/spin-off	8%	4%	3%	2%	3%
• New strategic alliance	23%	32%	30%	27%	30%
• Expand to new markets abroad	30%	32%	32%	18%	27%
• New joint venture	27%	28%	25%	20%	23%
• New facilities abroad	17%	20%	20%	13%	13%
• Reduce activity in markets abroad	10%	16%	15%	16%	13%
• Close/reduce facilities abroad	5%	10%	13%	19%	10%

### All respondents

	2Q '08	3Q '08	4Q '08	1Q '09	2Q '09
New business initiatives (net)	62%	63%	60%	58%	54%
• M&A activity (net)	40%	32%	33%	21%	32%
- Purchase another business	31%	27%	27%	16%	30%
- Sale part/all own business	11%	5%	9%	4%	7%
- Equity carve-out/spin-off	8%	5%	5%	3%	5%
• New strategic alliance	23%	30%	27%	25%	31%
• Expand to new markets abroad	29%	26%	30%	18%	28%
• New joint venture	29%	26%	25%	20%	24%
• New facilities abroad	12%	13%	16%	13%	11%
• Reduce activity in markets abroad	8%	12%	12%	15%	13%
• Close/reduce facilities abroad	3%	5%	9%	16%	6%

Note: In 2Q 2009 Industrial manufacturers n=60, All respondents, n=110

# Survey demographics and research methodology

## Demographics

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Who	Senior executives of US-based, industrial manufacturing organizations	
Interview dates	April 15, 2009 to July 16, 2009	
	<b>Industrial manufacturers (60)</b>	<b>All respondents (110)</b>
Average number of employees	5,779	8,549
Average business unit revenue	\$2.47 billion	\$3.70 billion
Average enterprise revenue	\$9.57 billion	\$12.17 billion
Market capitalization	\$8.04 billion	\$10.04 billion
Industry sectors	Products 100% Manufacturing 100% Trade/Distribution --- All other --- Services ---	Products 82% Manufacturing 73% Trade/Distribution 3% All other 6% Services 18%

## Methodology

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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.

# www.pwc.com/manufacturing

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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](http://www.barometersurveys.com).

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