Manufacturing Barometer™

Business outlook 3Q 2007

In cooperation with
BSI Global Research, Inc.

PricewaterhouseCoopers

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Quarterly highlights

In 3Q 2007, 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 to the prior quarter's results to see how the panel's 12-month outlook has changed. The final step was to compare their views to a wider panel to show how the industry differs from the broader population.

Senior executives of US-based industrial manufacturers see a critical period ahead as uncertainty about the US economy has raised questions about demand, profitability, legislative/regulatory pressures and oil/energy costs. Plans for major new investments and M&A have dampened, yet strong international markets have allowed executives to be moderately bullish about their companies' prospects over the next 12 months.

Overall, despite guarded optimism for the domestic economy, US senior industry executives predict own-company revenue growth and continue to see strength in international markets.

Key findings:

- Optimism about the future of the US economy fell sharply. Optimism about prospects for the domestic economy over the next 12 months dropped sharply to the 45 percent level from 62 percent in the prior quarter (a 17 point decline). The majority have turned uncertain or pessimistic (55 percent).

- Investment and M&A plans are cooling. Plans for major new investments of capital over the next 12 months dropped 15 points from 57 percent to 42 percent. Prospective M&A initiatives were similarly impacted, dropping 16 points from 56 percent to 40 percent.

- International sales remain strong. Optimism about the world economy continued to stay strong at 79 percent, on par with the prior quarter and well above a year ago (58 percent). In 3Q 2007, 67 percent of international marketers reported increased sales, the same as the prior quarter and above a year ago (48 percent). Looking ahead over the next 12 months, the contribution of international sales to total revenue projects to 35 percent, which is in line with the last three quarters and a year ago.

- Own-company revenue projections remain positive. Despite increasing uncertainty about the US economy, senior executives of US-based industrial manufacturers project a 6.5 percent growth rate for their own companies over the next 12 months. The 6.5 percent figure is above the prior quarter's slide to 5.7 percent, but well below the 7.3 percent projected a year ago.

- Plans for new hiring are not impacted by falling optimism. The majority of US-based industrial manufacturers plan to add employees to their workforce over the next 12 months. Most of the remainder will be staying about the same (36 percent), while only 12 percent expect reductions in their workforce. The net workforce projection is now at positive 0.4 percent, compared to negative 0.4 percent in the prior quarter, but in line with a year ago (positive 0.3 percent). The industrial manufacturers planning to add employees to their workforce are a bullish group, projecting 9.2 percent revenue growth for their own companies over the next 12 months versus 3.8 percent for those staying the same or reducing their workforce. Lack of qualified workers as a potential barrier to near-future growth rose to the 37 percent level this quarter (up 7 points), an indication that key worker availability may be increasing in importance.

A quarter-over-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 past 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 industrial manufacturers	2006		2007			Change	Page
	3Q '06	4Q '06	1Q '07	2Q '07	3Q '07	2Q–3Q '07	
Optimistic about US economy	45%	64%	57%	62%	45%	↓	7
Optimistic about world economy	58%	69%	83%	78%	79%	=	9
Expect positive revenue growth	85%	85%	85%	84%	77%	↓	19
Average growth rate expected	7.3%	6.2%	6.8%	5.7%	6.5%	↑	19
Planning major new investments	47%	51%	56%	57%	42%	↓	23
New investments as a % of sales	6.6%	6.5%	7.4%	9.4%	8.7%	↓	23
Planning to hire	37%	33%	46%	51%	52%	=	21
New workers as a % of workforce (net)	+0.3%	+1.0%	+0.7%	-0.4%	+0.4%	↑	21
Expected barriers to growth							
• Oil/energy prices	48%	62%	51%	59%	57%	=	25
• Lack of demand	48%	39%	36%	34%	53%	↑	25
• Legislative/ Regulatory pressures	25%	34%	36%	36%	50%	↑	25
• Decreasing profitability	30%	21%	18%	21%	48%	↑	25
• Competition from foreign markets	38%	28%	39%	53%	43%	↓	25
• Lack of qualified workers	25%	30%	41%	30%	37%	↑	25
• Higher interest rates	32%	18%	20%	28%	35%	↑	25
• Pressure for increased wages	25%	20%	18%	23%	32%	↑	25
• Taxation policies	8%	20%	25%	23%	32%	↑	25
• Monetary exchange rate	20%	20%	21%	30%	28%	=	25
• Capital constraints	10%	12%	16%	13%	22%	↑	25

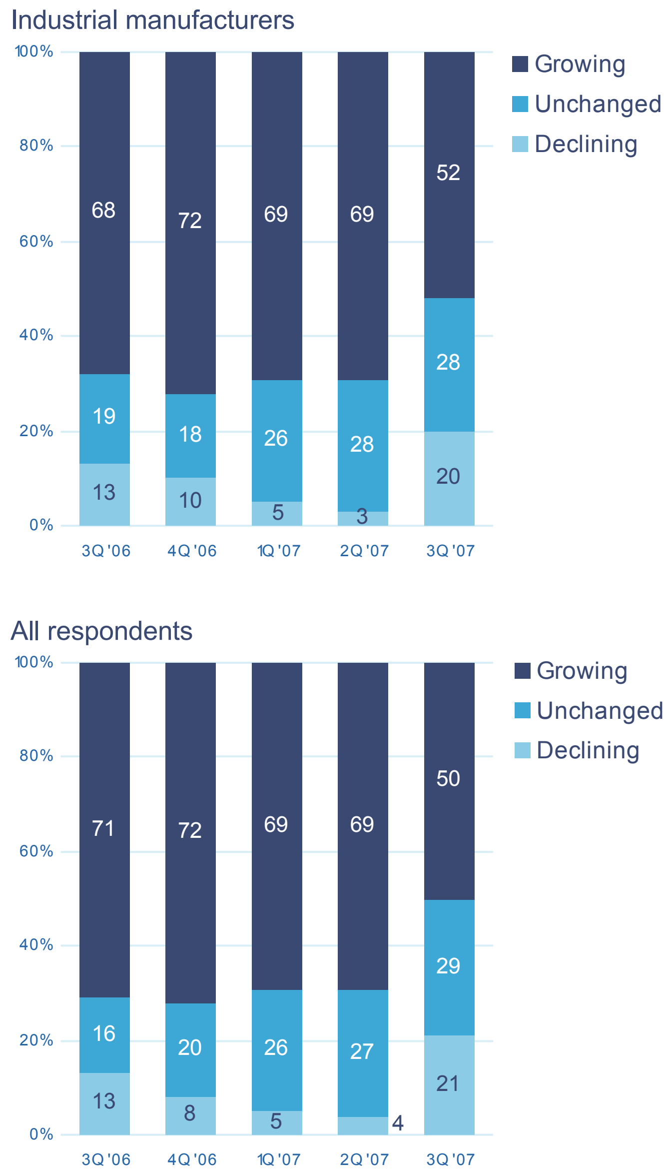
Economic views

View of the US economy, this quarter

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

Fifty-two percent of US-based industrial manufacturing executives believe the US economy continues to grow, a sharp drop-off from last quarter's 69 percent and last year's 68 percent.

Chart 2.1 View of the US economy, this quarter



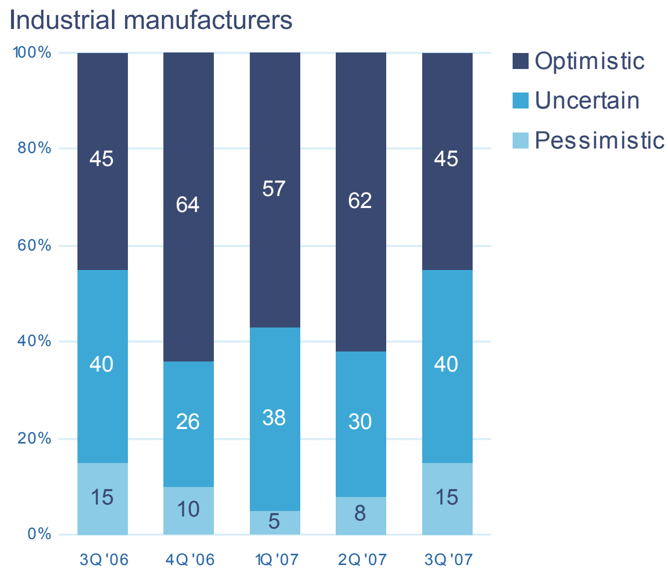
Note: In 3Q 2007 Industrial manufacturers n = 60, All respondents, n= 101

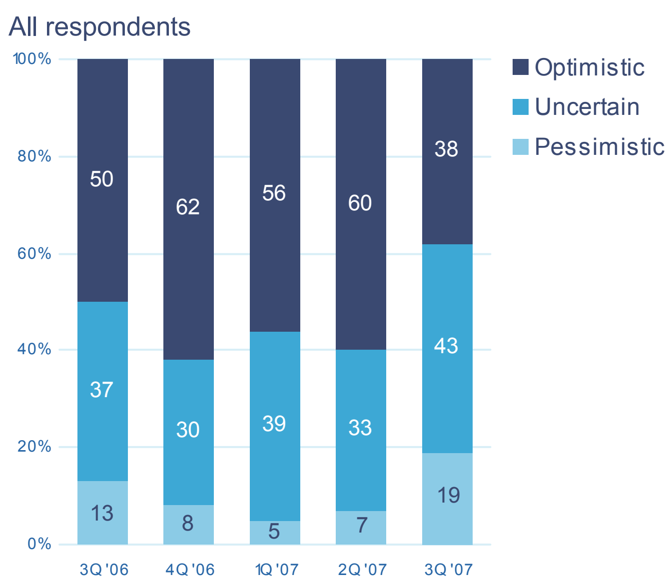
View of the US economy, next 12 months

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

Forty-five percent of US-based industrial manufacturers expressed optimism about the prospects for the US economy, down sharply from the 62 percent level of the prior quarter but comparable to the 45 percent a year ago. Their views have been on par with the broader consensus over the prior three quarters, but now they are higher.

Chart 2.2 View of the US economy, next 12 months





Note: In 3Q 2007 Industrial manufacturers n = 60,
All respondents, n= 101

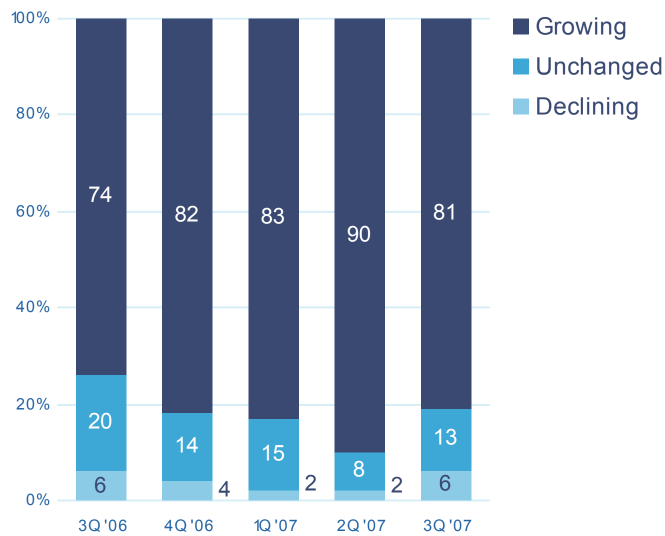
View of the world economy, this quarter

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

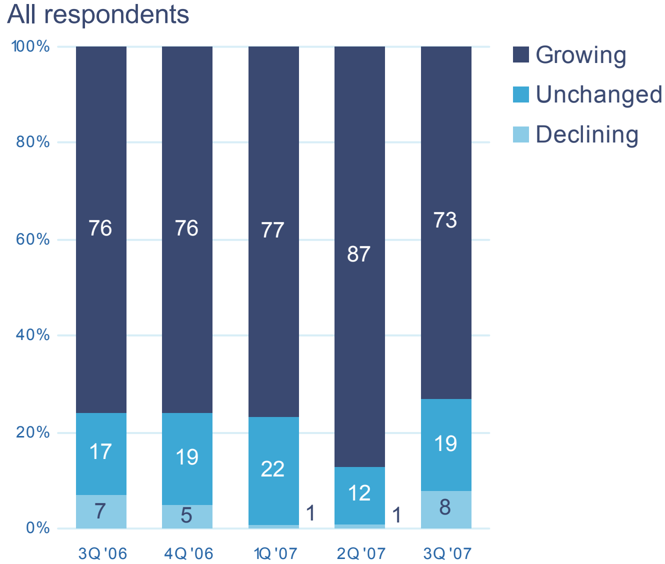
Of those marketing abroad, 81 percent view the world economy as growing, off 9 points from 90 percent in the prior quarter, but above the prior year's 74 percent. For the past four quarters, industrial manufacturers have been more optimistic about the world economy than the broader consensus.

Chart 2.3 View of the world economy, this quarter

Industrial manufacturers



All respondents



Note: In 3Q 2007 those marketing abroad, Industrial manufacturers n = 48, All respondents, n= 88

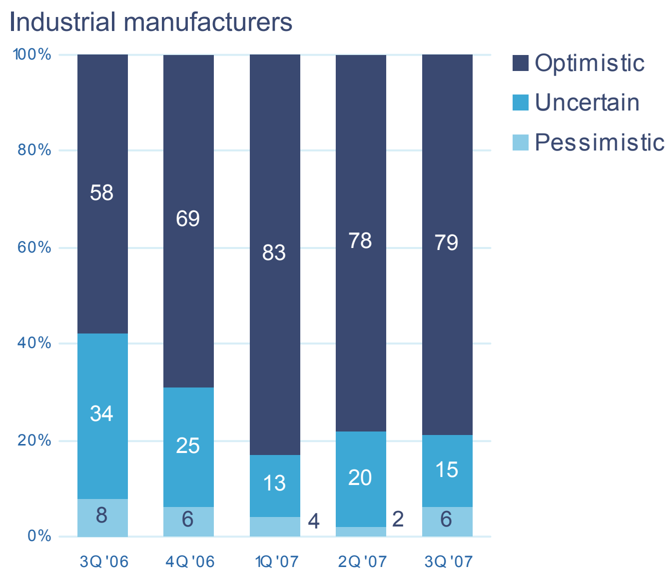
View of the world economy, next 12 months

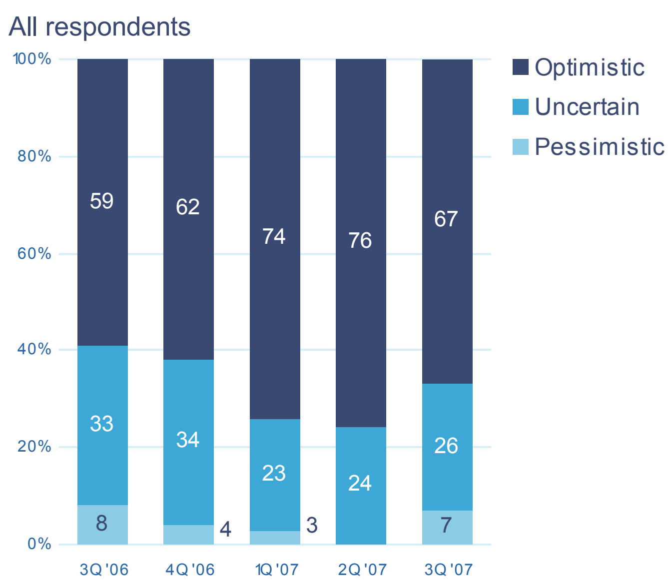
Looking ahead over the next 12 months, how do you feel about the prospects for the world economy? (international marketers only)

Seventy-nine percent of US-based industrial manufacturers who market abroad are optimistic about the prospects for the world economy, 1 point above the prior quarter's 78 percent, and well above the 58 percent level of a year ago. The bullish views of those marketing abroad have been higher than the broader consensus over the past four quarters.

Note: In 3Q 2007 those marketing abroad, Industrial manufacturers n = 48, All respondents, n= 88

Chart 2.4 View of the world economy, next 12 months





Company performance

Company revenue growth, calendar year

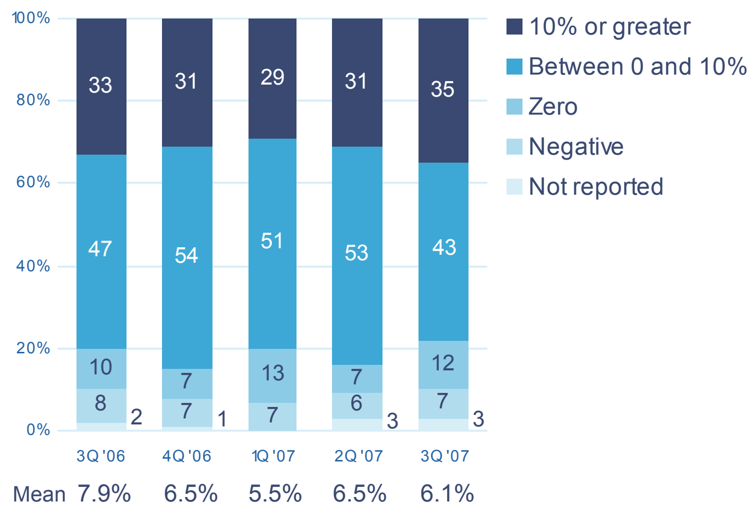
What is your company's estimated revenue growth rate for the calendar year?

Currently, 78 percent of US-based industrial manufacturers expect revenue growth in 2007, with 35 percent expecting double-digit growth and 43 percent expecting single-digit growth. Overall, the mean growth estimate has fallen to 6.1 percent from 6.5 percent the previous quarter. The pace of revenue growth expected in 2007 among US-based industrial manufacturers once again fell below the broader consensus 7.5 percent average. For more information on revenue expectations, see chart 4.1, revenue expectations, next 12 months.

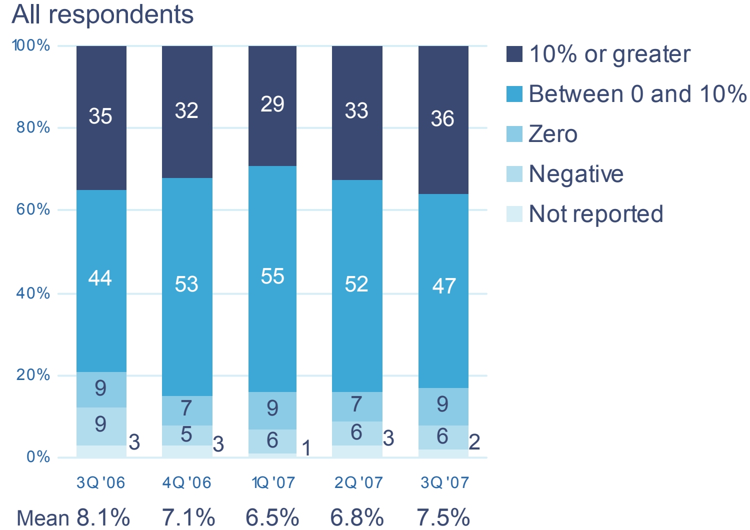
Note: In 3Q 2007 Industrial manufacturers n = 60,
All respondents, n= 101

Chart 3.1 Company revenue growth, calendar year

Industrial manufacturers



All respondents



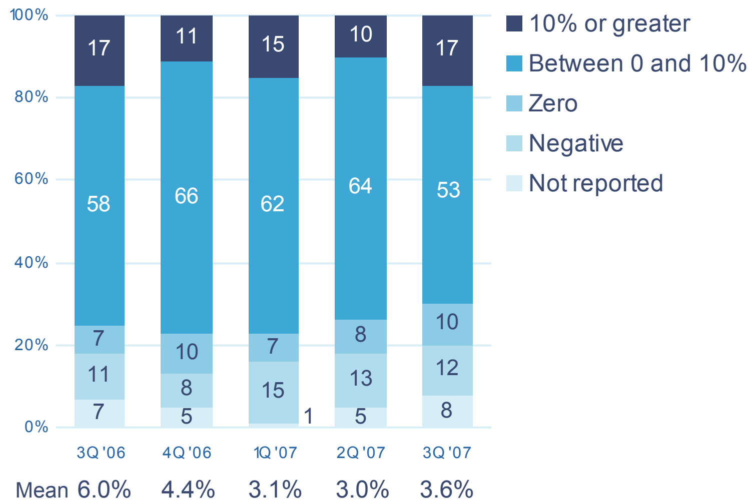
Industry growth, calendar year

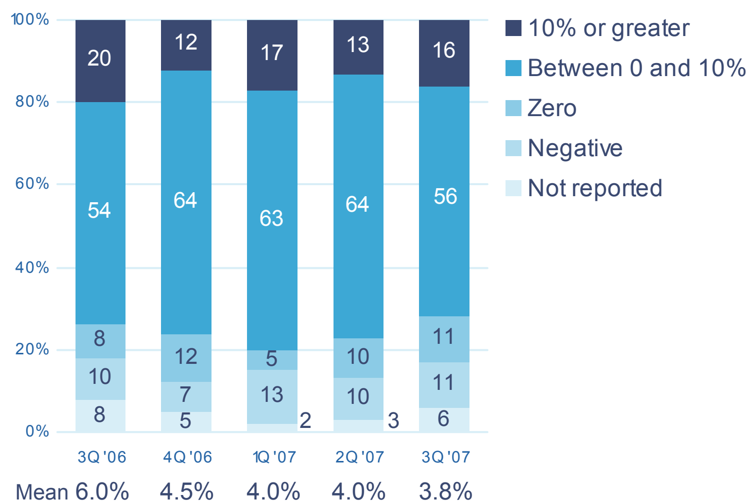
What is your industry's estimated growth rate for the calendar year?

Industry growth for the calendar year is now estimated at 3.6 percent – well below the 6.0 percent level a year ago. Note that the industry growth estimate is typically lower than the average company growth rate. US-based industrial manufacturers anticipate an average growth rate of 6.1 percent for their own companies in 2007, nearly two times greater than the estimated growth rate of 3.6 percent for their industry.

Note: In 3Q 2007 Industrial manufacturers n = 60, All respondents, n= 101

Chart 3.2 Industry growth, calendar year





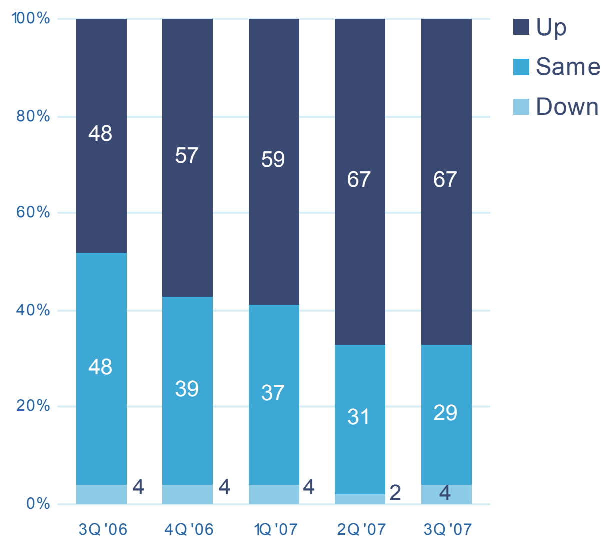
International sales

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

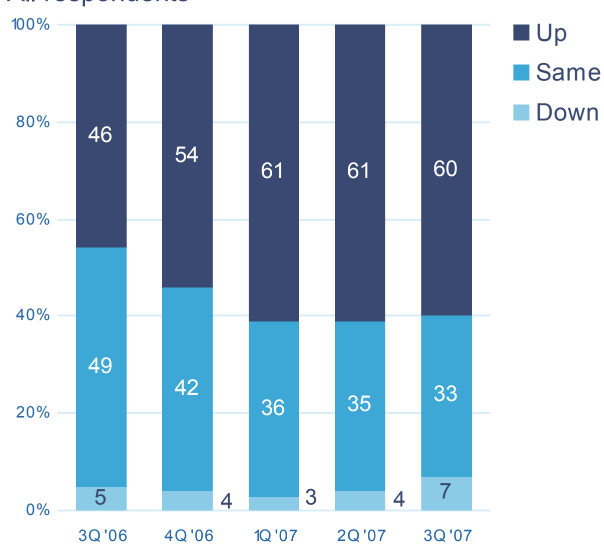
International markets continue to be very strong for US-based industrial manufacturers. The strongest quarterly performance was reported in 3Q 2007, as 67 percent of international marketers increased sales abroad, the same as the prior quarter and 19 points higher than a year ago. Companies showing a quarterly decrease were a low 4 percent in 3Q 2007.

Chart 3.3 International sales

Industrial manufacturers



All respondents



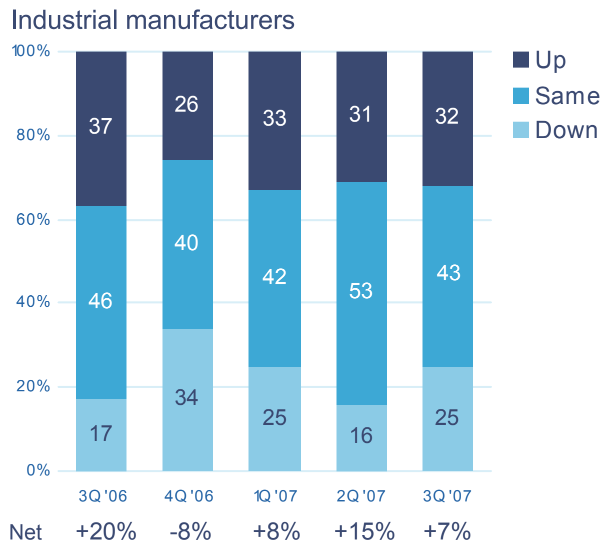
Note: In 3Q 2007 those marketing abroad, Industrial manufacturers n = 48, All respondents, n= 88

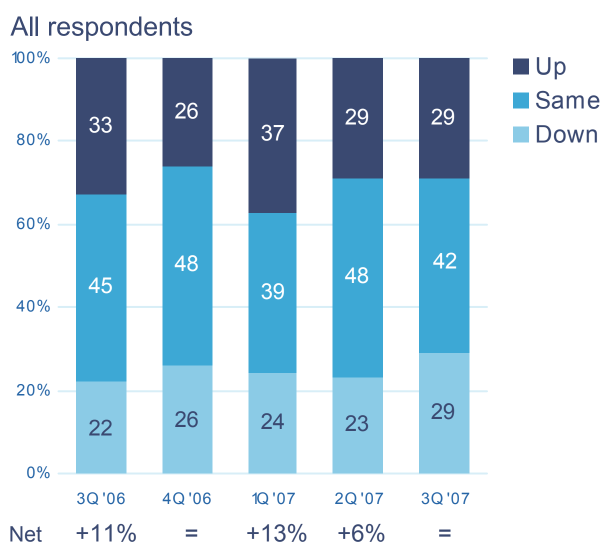
Changes in gross margins

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

In 3Q 2007, gross margins were higher for 32 percent of US-based industrial manufacturers and lower for 25 percent, a net positive 7 percent. While this number was 8 points below the net positive 15 percent reported in the prior quarter, more US-based industrial manufacturers saw increases in gross margins than the broader peer group.

Chart 3.4 Changes in gross margins





Note: In 3Q 2007 Industrial manufacturers n = 60,
All respondents, n= 101

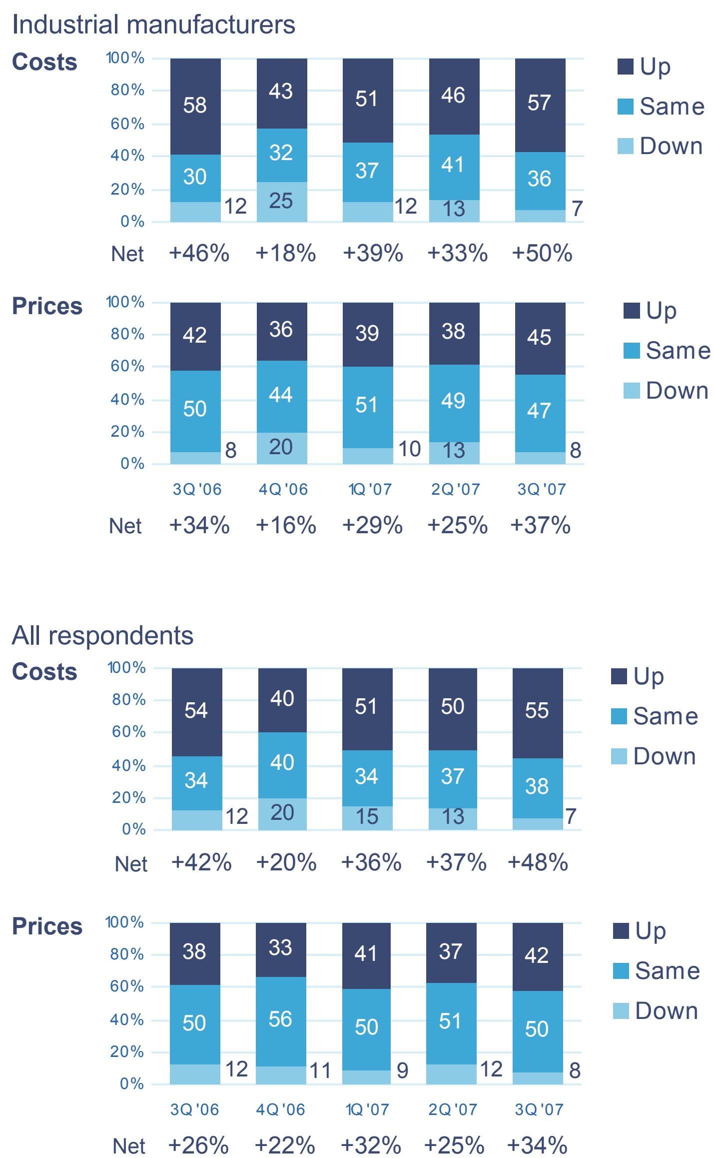
Changes in costs and prices

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

Costs, in 3Q 2007, increased for 57 percent of US-based industrial manufacturers and decreased for only 7 percent — a net of 50 percent with higher costs. Directionally on the high side, the net percentage of executives who reported higher costs is 17 points above the previous quarter.

The 3Q 2007 prices followed suit at a lower level, with 45 percent raising prices and 8 percent lowering them — a net of 37 percent with higher prices. The net percentage of US-based industrial manufacturing executives who reported higher prices is 12 points above the prior quarter and directionally high. The upward changes in costs and prices were quite similar to the broader consensus.

Chart 3.5 Changes in costs and prices



Note: In 3Q 2007 Industrial manufacturers n = 60,
All respondents, n= 101

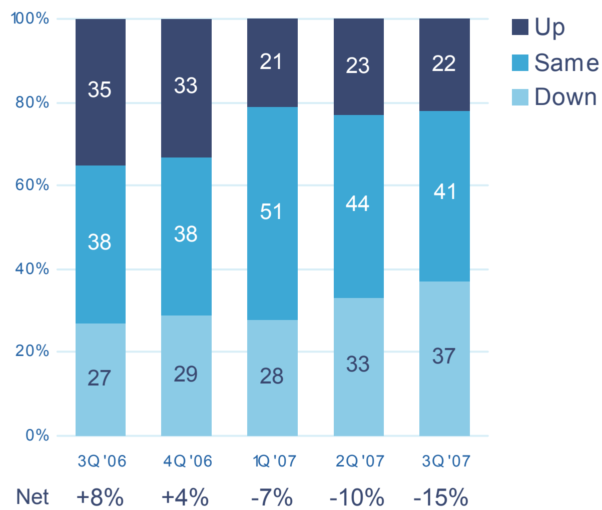
Inventory movement

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

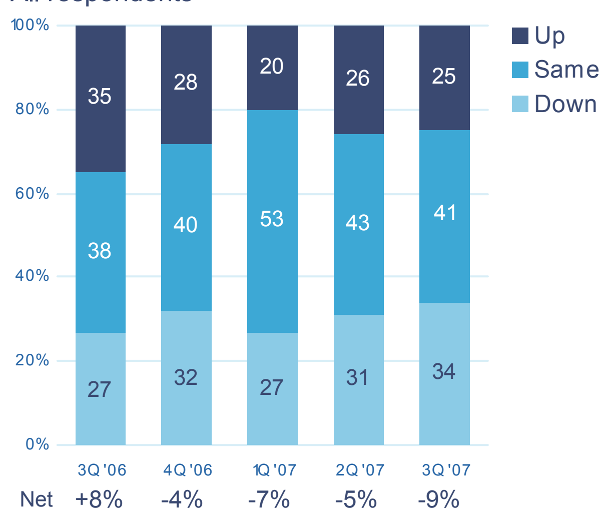
Overall, net inventories were down for 15 percent of US-based industrial manufacturers: 22 percent reported higher inventories, 37 percent lower and 41 percent about the same. This is lower than the prior quarter, and directionally different from a year ago. The broader peer group shows a fairly similar pattern.

Chart 3.6 Inventory movement

Industrial manufacturers



All respondents



Note: In 3Q 2007 Industrial manufacturers n = 60,
All respondents, n= 101

Level of operating capacity

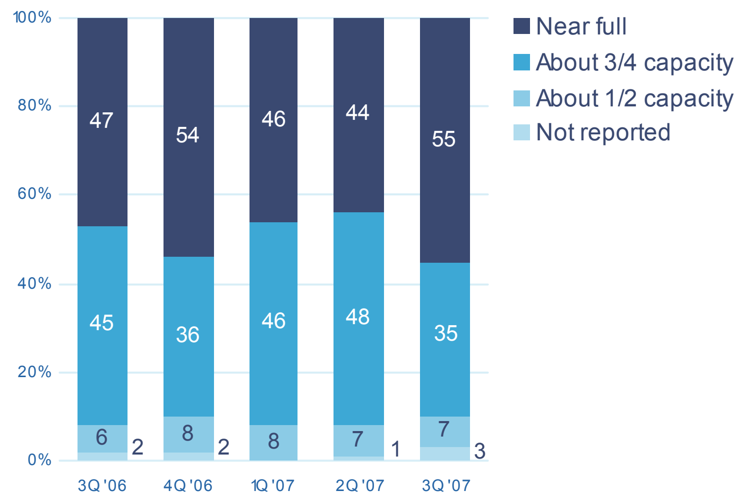
What is your organization's current operating capacity?

Operating capacity is an estimate of the current level of permanent staffing compared to what is needed for full-capacity output. In 3Q 2007, the average level of operating capacity for US-based industrial manufacturers was an estimated 85.5 percent of capacity — above the prior quarter and the past year. This quarter, 55 percent of industrial manufacturers claimed to be at or near full capacity. It is common for the broader consensus — 58 percent reportedly at or near full capacity in 3Q 2007 — to report a higher operating capacity compared to the industry group.

Note: In 3Q 2007 Industrial manufacturers n = 60, All respondents, n= 101

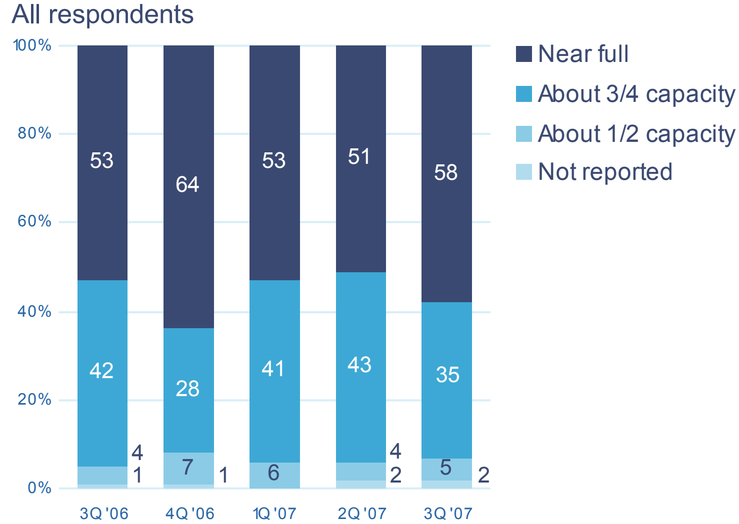
Chart 3.7 Level of operating capacity

Industrial manufacturers



Mean 82.3% 83.0% 82.3% 83.2% 85.5%

All respondents



Mean 84.7% 86.7% 84.5% 84.9% 86.2%

Business outlook, next 12 months

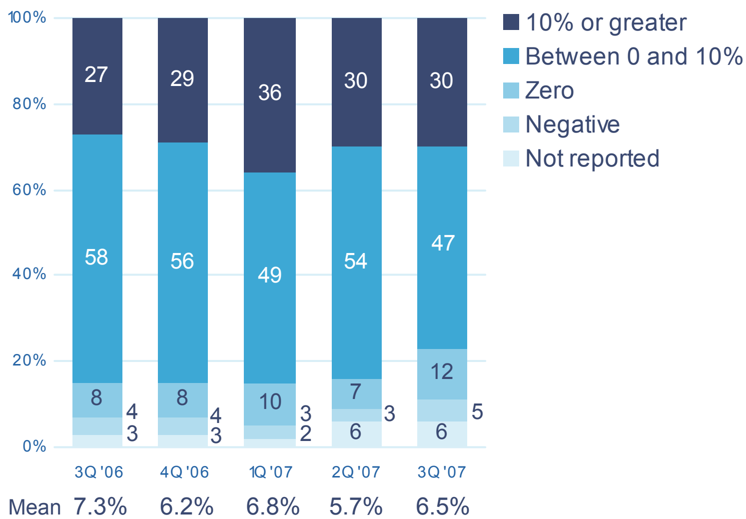
Revenue growth, next 12 months

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

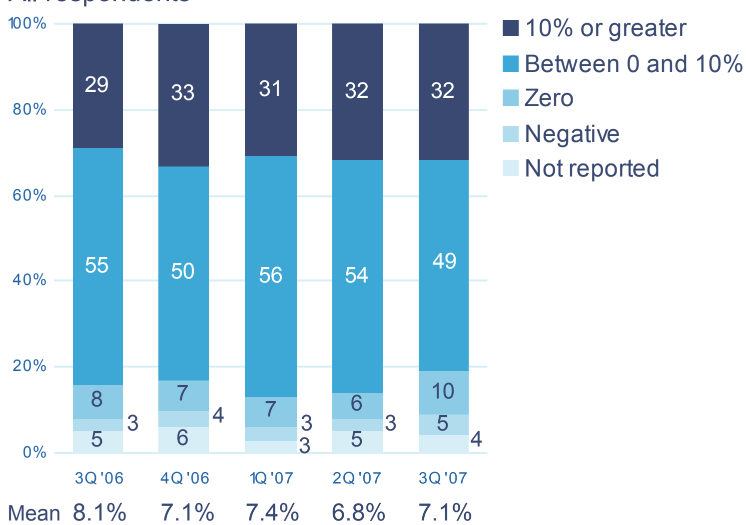
Despite increasing uncertainty about the US economy, US-based industrial manufacturers project a higher revenue growth rate for their own companies over the next 12 months. The 6.5 percent average is above the prior quarter's projected 5.7 percent, but well below the 7.3 percent projection a year ago. Currently, 77 percent plan for growth over the next 12 months — 30 percent expect double-digit revenue growth and 47 percent expect single-digit growth. Compared to last quarter's results, the pace of revenue growth over the next 12 months now lags the broader consensus by a smaller margin — 6.5 percent for the industry versus 7.1 percent for the consensus group.

Chart 4.1 Revenue growth, next 12 months

Industrial manufacturers



All respondents



Note: In 3Q 2007 Industrial manufacturers n = 60, All respondents, n= 101

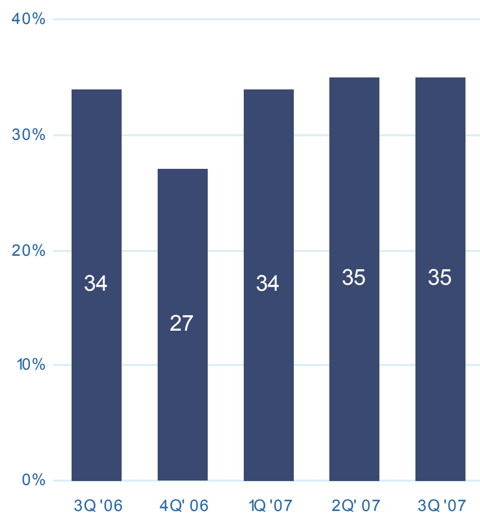
International sales, next 12 months

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

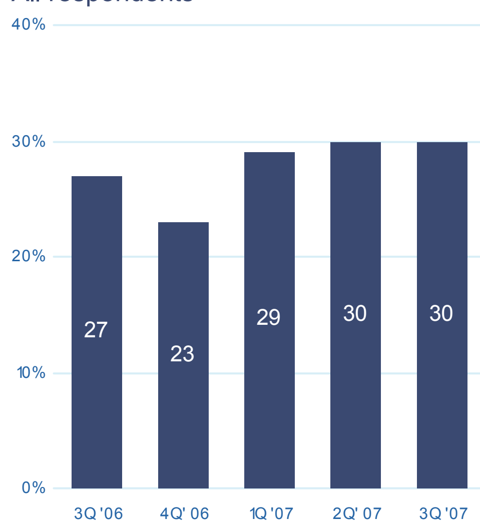
Of those selling abroad, the contribution of international sales to total revenue idles at 35 percent over the next 12 months, comparable to 35 percent in the prior quarter and 34 percent a year ago. Industrial manufacturers selling abroad have consistently outpaced the broader consensus in projected revenue contributions from international sales.

Chart 4.2 International sales, next 12 months

Industrial manufacturers



All respondents



Note: In 3Q 2007 those marketing abroad, Industrial manufacturers n = 48, All respondents, n= 88

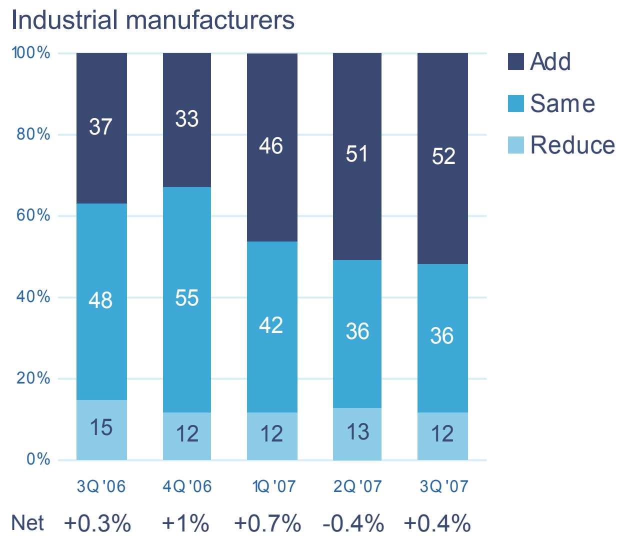
Percent planning to hire

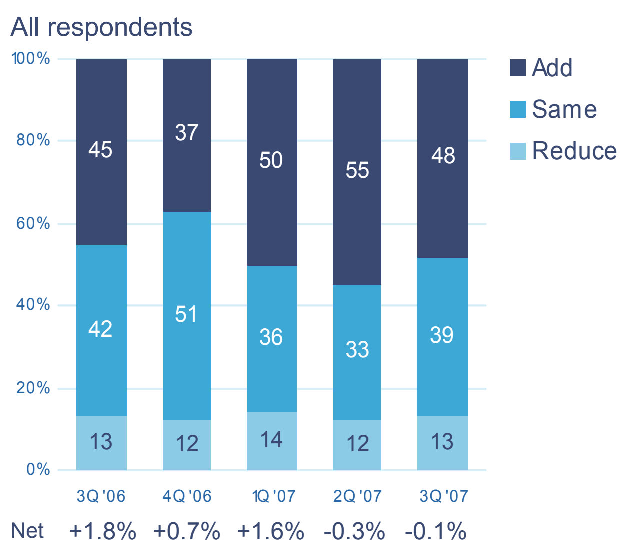
Do you plan to add or reduce the number of full-time equivalent employees over the next 12 months?

The majority of US-based industrial manufacturers — 52 percent — plan to add employees to their workforce over the next 12 months. Fewer, only 12 percent, plan to reduce the number of full-time-equivalent employees. The net workforce projection now rests at positive 0.4 percent, similar to a year ago (positive 0.3 percent). In the prior quarter, the net projection was at minus 0.4 percent, so composite workforce projections for the next 12 months are higher.

Industrial manufacturers planning to add employees to their workforce project a much higher revenue growth rate over the next 12 months — 9.2 percent versus 3.8 percent for those staying the same or reducing their workforce.

Chart 4.3 Percent planning to hire





Note: In 3Q 2007 Industrial manufacturers n = 60,
All respondents, n= 101

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, industrial manufacturers will primarily be looking for professionals/technicians and blue-collar production workers.

The broader consensus is less interested in blue-collar production workers — 27 percent versus 23 percent — but otherwise reflects a similar hiring pattern.

Chart 4.4 Percent planning to hire by type of employee

Industrial manufacturers

	3Q ’06	4Q ‘06	1Q ‘07	2Q ‘07	3Q ‘07
Planning to hire (net)	37%	33%	46%	51%	52%
• Professionals/technicians	23%	26%	25%	26%	30%
• Production workers	18%	17%	33%	33%	27%
• White collar support	15%	20%	26%	30%	22%
• Skilled labor	20%	18%	25%	26%	18%
• Sales/marketing	17%	18%	25%	18%	15%

All respondents

	3Q ’06	4Q ‘06	1Q ‘07	2Q ‘07	3Q ‘07
Planning to hire (net)	45%	37%	50%	55%	48%
• Professionals/technicians	28%	23%	26%	32%	31%
• Production workers	16%	15%	22%	28%	23%
• White collar support	19%	18%	28%	28%	22%
• Skilled labor	16%	17%	24%	23%	17%
• Sales/marketing	21%	22%	28%	24%	17%

Note: In 3Q 2007 Industrial manufacturers n = 60,
All respondents, n= 101

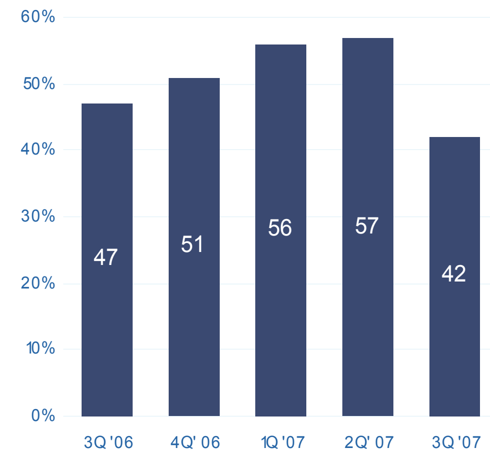
Percent planning major new investments of capital

Are you actively planning any major new investments of capital over the next 12 months? If so, what percent of total sales to you expect to invest?

Less than half of US-based industrial manufacturers (42 percent) are now planning for major new investments in business growth over the next 12 months, off 15 points from the prior quarter's 57 percent, and 5 points below a year ago (47 percent). The mean investment is 8.7 percent of total sales (including an M&A component). Overall, plans for major new investments among industrial manufacturers have been consistently strong over the past three quarters, before the 3Q 2007 drop-off.

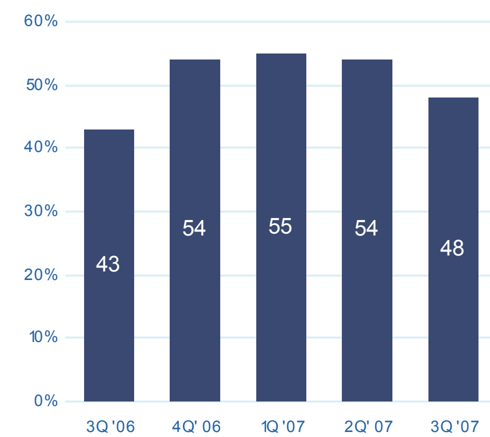
Chart 4.5 Percent planning major new investments of capital

Industrial manufacturers



Mean investment as a % of total sales	6.6%	6.5%	7.4%	9.4%	8.7%

All respondents



Mean investment as a % of total sales	7.1%	6.7%	8.2%	8.8%	7.8%

Note: In 3Q 2007 Industrial manufacturers n = 60,
All respondents, n= 101

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 lead the way among US-based industrial manufacturers: information technology, new product or service introductions, and geographic expansion. Plans for research and development dropped off this quarter. The broader consensus was equally high on two of these three types of expenditures, lower only in geographic expansion. The consensus also planned fewer increases in R&D. On the down side, fewer industrial manufacturers are now planning increased expenditures in facilities expansion.

Note: In 3Q 2007 Industrial manufacturers n = 60, All respondents, n= 101

Chart 4.6 Percent planning to increase operational spending

Industrial manufacturers

	3Q ’06	4Q ‘06	1Q ‘07	2Q ‘07	3Q ’07
Percent planning to increase spending (net)	80%	84%	92%	89%	85%
• Information technology	43%	39%	38%	48%	57%
• New product or service introduction	47%	43%	46%	48%	47%
• Geographic expansion	35%	43%	44%	36%	42%
• Research and development	33%	30%	30%	43%	37%
• Business acquisition	40%	34%	31%	38%	37%
• Facilities expansion	38%	41%	41%	34%	32%
• Marketing & sales promotion	28%	25%	33%	21%	25%
• Advertising	18%	13%	18%	13%	13%
• Internet commerce	12%	16%	18%	15%	10%

All respondents

	3Q ’06	4Q ‘06	1Q ‘07	2Q ‘07	3Q ’07
Percent planning to increase spending (net)	82%	84%	91%	87%	87%
• Information technology	48%	47%	46%	49%	55%
• New product or service introduction	44%	40%	45%	49%	48%
• Geographic expansion	34%	37%	38%	39%	35%
• Research and development	27%	25%	30%	36%	30%
• Business acquisition	39%	37%	37%	40%	43%
• Facilities expansion	32%	40%	37%	38%	37%
• Marketing & sales promotion	26%	30%	32%	28%	28%
• Advertising	17%	23%	23%	22%	17%
• Internet commerce	15%	22%	23%	24%	15%

Expected barriers to business growth

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

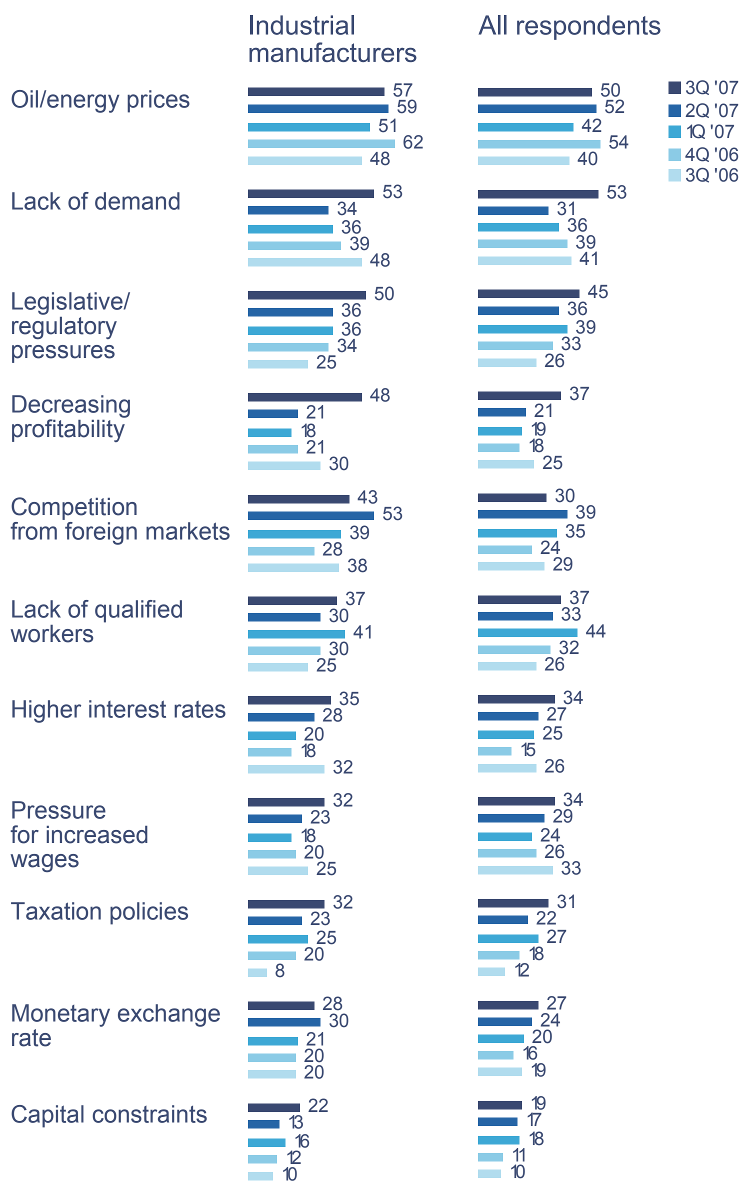
With the majority uncertain or pessimistic about the US economy (55 percent), senior executives of US-based industrial manufacturers reflected increasing concerns about a wide range of potential barriers to business growth over the next 12 months. Three major potential barriers joined oil/energy prices on top of the list: lack of demand, legislation/regulatory pressure and anxiety about decreasing profitability.

In view of these rising concerns, competition from foreign markets was seen to slide downward, though it was still a major concern among US-based industrial manufacturers.

Those concerned about oil/energy costs (57 percent of total) have above-average concerns for five other potential barriers: competition from foreign markets (47 percent); higher interest rates (47 percent); lack of qualified workers (47 percent); pressure for increased wages (41 percent); and the monetary exchange rate (32 percent). As noted earlier, those concerned about the cost of oil/energy reported higher costs and lower revenue projections for the next 12 months.

Note: In 3Q 2007 Industrial manufacturers n = 60, All respondents, n= 101

Chart 4.7 Expected barriers to business growth



Plans for M&A and other business initiatives

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

Plans for M&A activity among US-based industrial manufacturers over the next 12 months declined 16 points to the 40 percent level in 3Q 2007, lower than a year ago (48 percent). Thirty-eight percent plan to purchase another business, while 10 percent might divest part of their own business and 3 percent plan an equity carve-out or spin-off.

Other business initiatives planned include expansion to new markets abroad, new strategic alliances, new joint ventures and development of manufacturing or distribution facilities abroad. Of these initiatives, the greatest decrease occurred for new strategic alliances, off from a high of 46 percent in the prior quarter to 32 percent. Compared to the all-industry consensus, more industrial manufacturers plan involvement in expansion to new markets abroad and plan new manufacturing/distribution facilities abroad.

Note: In 3Q 2007 Industrial manufacturers n = 60,
All respondents, n= 101

Chart 4.8 Plans for M&A and other business initiatives

Industrial manufacturers

	3Q '06	4Q '06	1Q '07	2Q '07	3Q '07
New business initiatives (net)	67%	66%	67%	79%	68%
• M&A activity (net)	48%	46%	38%	56%	40%
- Purchase another business	38%	41%	31%	48%	38%
- Sale part/all own business	12%	8%	13%	16%	10%
- Equity carve-out/spin-off	2%	2%	5%	8%	3%
• Expand to new markets abroad	27%	33%	39%	43%	38%
• New joint venture	22%	18%	28%	30%	33%
• New strategic alliance	25%	26%	33%	46%	32%
• New facilities abroad	25%	23%	26%	23%	27%
• Close/reduce facilities abroad	13%	8%	10%	12%	15%
• Reduce activity in markets abroad	5%	5%	7%	10%	8%

All respondents

	3Q '06	4Q '06	1Q '07	2Q '07	3Q '07
New business initiatives (net)	66%	68%	71%	79%	68%
• M&A activity (net)	47%	45%	45%	56%	45%
- Purchase another business	41%	38%	37%	49%	43%
- Sale part/all own business	9%	13%	16%	17%	9%
- Equity carve-out/spin-off	2%	2%	7%	8%	5%
• Expand to new markets abroad	24%	27%	36%	36%	34%
• New joint venture	22%	16%	25%	26%	33%
• New strategic alliance	29%	30%	38%	45%	37%
• New facilities abroad	17%	18%	16%	18%	19%
• Close/reduce facilities abroad	9%	6%	8%	9%	11%
• Reduce activity in markets abroad	4%	4%	8%	7%	7%

Survey demographics and research methodology

Demographics

Who	Senior executives of US-based, industrial manufacturing organizations	
Interview dates	August 1, 2007 to October 12, 2007	
	Industrial manufacturers (60)	All respondents (101)
Average number of employees	7,150	8,778
Average business unit revenues	$2.94 billion	$3.56 billion
Average enterprise revenues	$8.14 billion	$8.24 billion
Market capitalization	$9.50 billion	$10.70 billion
Industry sectors	Products 100% Manufacturing 100% Trade/Distribution --- All other --- Services ---	Products 85% Manufacturing 77% Trade/Distribution 1% All other 7% Services 15%

Methodology

PricewaterhouseCoopers' Manufacturing Barometer is a quarterly telephone survey conducted by the independent research firm BSI Global Research Inc. Our regular survey panel consists of senior executives from a geographically balanced sample of large companies in the United States. Ninety-five percent of the panelists hold titles such as president, CEO, CFO, VP of finance, treasurer, controller, internal audit director or other related title.

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About the research:

The Manufacturing Barometer is one in a series of quarterly business outlook surveys from PricewaterhouseCoopers. The survey provides a view on the 12-month outlook for revenue growth, new investments, new hiring plans, emerging business barriers and more. In addition to the business outlook, we hear from our panelists about special issues they face as the business climate changes. Results of the quarterly business outlook surveys and special issue surveys are available from www.barometersurveys.com.

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