

# Manufacturing Barometer™

Business outlook report  
First quarter 2010

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# Quarterly highlights

In the first quarter of 2010, 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.

Key findings:

- **Outlook is brighter.** The majority of industrial products manufacturers (53 percent) are optimistic about the US economy's prospects over the next 12 months. Only 10 percent are pessimistic; 37 percent remain uncertain.

Similarly, the majority of panelists who market abroad are optimistic about prospects for the world economy over the next 12 months, up 12 points to 53 percent. Only 5 percent are pessimistic, and 42 percent uncertain.

- **Forecasts reflect optimism.** Looking at the next 12 months, 75 percent of panelists expect positive revenue growth for their companies, up 18 points from the prior quarter. Of that group, 63 percent expect single-digit growth, and 12 percent anticipate double-digit growth. Fewer expect zero or negative growth (7 percent and 15 percent respectively). The remaining 3 percent did not respond. Overall, the projected average growth rate increased from 2.7 percent in the prior quarter to 3.0 percent in the first quarter of 2010.

- **International sales pick up.** Respondents marketing abroad expect international sales to contribute 40 percent of their revenue over the next 12 months, up from 34 percent the past two quarters. In first-quarter 2010, 49 percent of panelists reported an increase in sales abroad. Only 24 percent reported a decrease, and 27 percent stayed about the same.

- **Workforce returns slowly.** Composite workforce hiring is projected to be slightly positive over the next 12 months, at plus 0.5 percent, similar to the prior quarter. Looking ahead, 27 percent plan to add employees to their workforces, 17 percent expect additional layoffs, and 56 percent expect their workforces to remain about the same.

- **Gross margins remain flat.** In the first quarter of 2010, 33 percent reported higher gross margins, and 35 percent said they were down, for a net minus 2 percent. Net costs were up slightly, higher for 20 percent and lower for 15 percent, for a net plus 5 percent. Prices showed pressure — up for only 13 percent and down for 28 percent, for a net minus 15 percent with lower pricing.

- **Spending gains momentum.** More industrial products manufacturers are planning increases in operational or budget spending over the next 12 months, rising from 65 percent in fourth-quarter 2009 to 70 percent this quarter. In particular, new product or service introductions will lead the way, cited by 43 percent. Research and development follows, cited by 28 percent.

Planned M&A activity rose 9 points to 37 percent, with a focus on the purchase of another business. Expansion to new markets abroad also was on the rise, up 8 points to 28 percent. New strategic alliances and new joint ventures remained high, at 33 percent and 27 percent, respectively. Although the number of panelists planning major new investments of capital over the next 12 months dropped slightly, they plan to spend notably more — a mean investment of 8.4 percent of total sales compared with the prior quarter's 4.6 percent.

- **US policy stirs concern.** Legislative/regulatory pressures unseated lack of demand as the most cited issue that could slow growth over the next 12 months, with 73 percent of panelists naming it as a concern. Lack of demand continues to weigh on 63 percent of respondents, but that is a 12-point drop from the prior quarter. The number concerned about decreasing profitability rose 5 points to 47 percent. Fewer cited taxation policy, which dropped 10 points, but the number who see it as a potential barrier remained moderately high, at 43 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 on Page 5). The pages that follow provide a detailed look at each question for the past five quarterly surveys.

## Special topic: Greenhouse gas emissions

With ever-increasing environmental awareness and amid the ongoing debate over greenhouse gases, we incorporated special questions into this quarter's survey to learn how potential climate change regulation and the impetus to reduce carbon emissions are affecting panelists.

Key findings:

- **All eyes on regulation.** Of survey respondents, 88 percent are aware of the EPA endangerment finding that greenhouse gases threaten public health and may be regulated under the Clean Air Act. Ten percent said they were not aware, and 2 percent were not certain. More than half (59 percent) said greenhouse gas regulations would impact their business, with 32 percent saying it would have a great impact and 27 percent anticipating a moderate impact. Twenty-eight percent said regulations would have little or no impact on their business, and 13 percent were uncertain.
- **Going green.** It is apparent that many industrial manufacturing companies are communicating with stakeholders about their efforts to reduce greenhouse gas emissions. More than half (54 percent) of respondents have publicly stated their goals to reduce emissions, and an additional 12 percent said they plan to do so within the next two years. However, one-third (33 percent) have no current plans to publically state their reduction goals.
- **Counting on numbers.** Only 25 percent of panelists are very confident that their companies' greenhouse gas emissions are being measured reliably. More are somewhat confident (37 percent) and 10 percent are not confident at all. A fairly large number (16 percent) were not certain about data reliability. Twelve percent do not measure emissions data.

# 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 over the past two quarters.

Business outlook, next 12 months among industrial manufacturers	2009				1Q '10	Change 4Q '09 - 1Q '10	Page
	1Q '09	2Q '09	3Q '09	4Q '09			
Optimistic about US economy	16%	43%	48%	47%	53%	↑	8
Optimistic about world economy	12%	43%	45%	41%	53%	↑	10
Expect positive revenue growth	34%	43%	57%	57%	75%	↑	20
Average growth rate expected	-0.7%	-0.4%	2.2%	2.7%	3.0%	↑	20
Planning major new investments	24%	27%	37%	35%	28%	↓	24
New investments as a % of sales	5.4%	6.2%	3.9%	4.6%	8.4%	↑	24
Planning to hire	10%	17%	25%	30%	27%	↓	22
New workers as a % of workforce (net)	-1.8%	-2.2%	-0.8%	0.4%	0.5%	=	22
Expected barriers to growth							
• Legislative/Regulatory pressures	44%	42%	58%	52%	73%	↑	26
• Lack of demand	95%	82%	75%	75%	63%	↓	26
• Decreasing profitability	69%	50%	42%	42%	47%	↑	26
• Taxation policies	40%	43%	53%	53%	43%	↓	26
• Monetary exchange rate	37%	23%	28%	22%	37%	↑	26
• Competition from foreign markets	39%	35%	38%	37%	33%	↓	26
• Oil/energy prices	21%	28%	25%	33%	30%	↓	26
• Capital constraints	44%	40%	22%	22%	30%	↑	26
• Higher interest rates	15%	12%	12%	17%	17%	=	26
• Pressure for increased wages	7%	3%	10%	13%	13%	=	26
• Lack of qualified workers	7%	3%	8%	3%	8%	↑	26

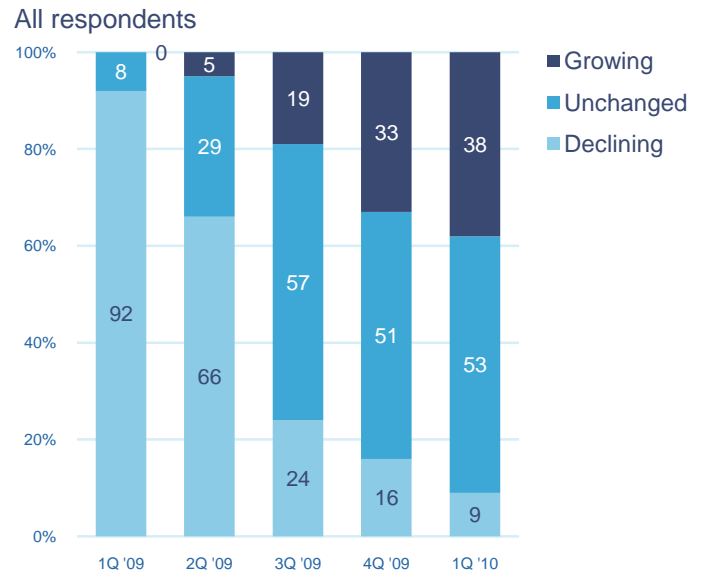
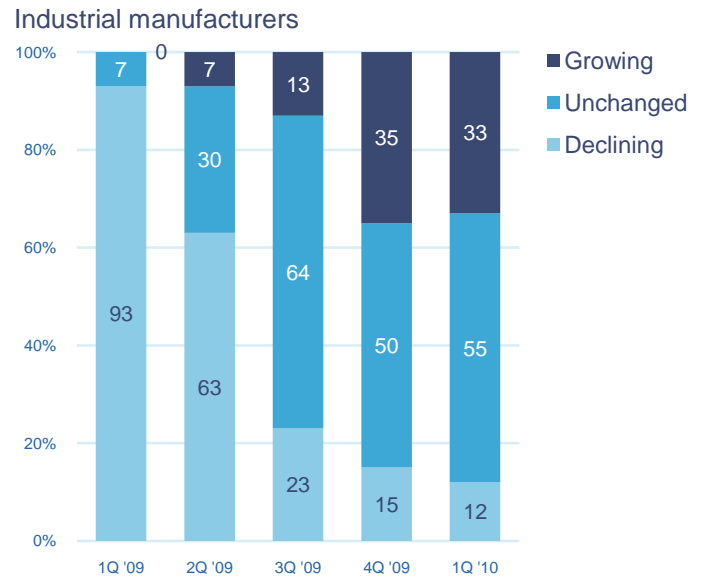
# Economic views

# View of the US economy, this quarter

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

In first-quarter 2010, 33 percent of panelists believed the US economy was growing, and 12 percent believed it was declining. The majority, 55 percent, believed that the US economy was unchanged, similar to the prior quarter.

Chart 2.1 View of the US economy, this quarter



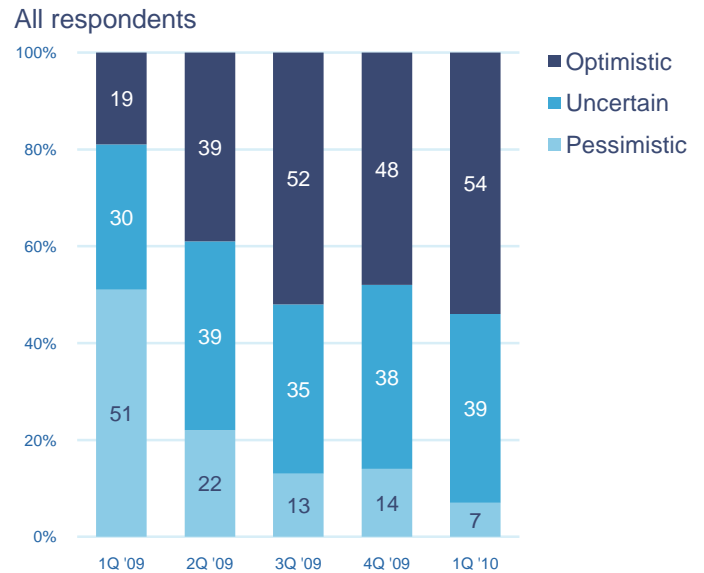
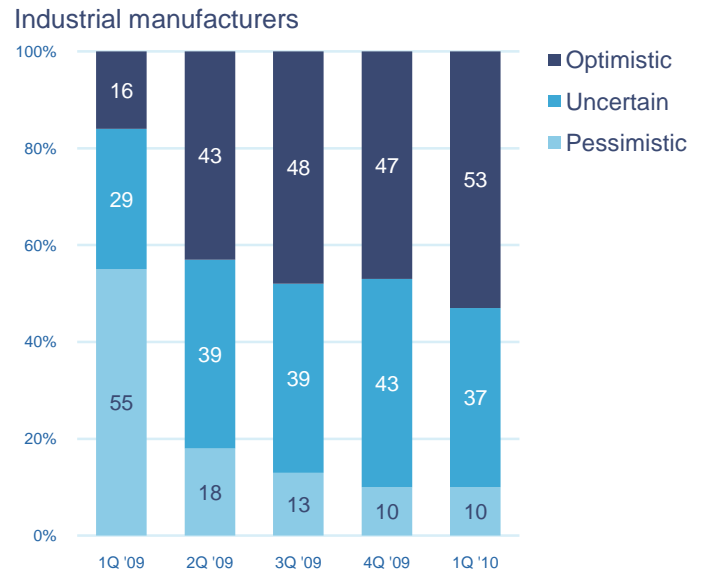
Note: In 1Q 2010 Industrial manufacturers n=60, All respondents, n=106

# 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, 53 percent of respondents expressed optimism about the 12-month outlook for the US economy, up 6 points from the prior quarter. Only 10 percent remain pessimistic, a sharp contrast to 55 percent a year ago. Thirty-seven percent are uncertain.

Chart 2.2 View of the US economy, next 12 months



Note: In 1Q 2010 Industrial manufacturers n=60, All respondents, n=106

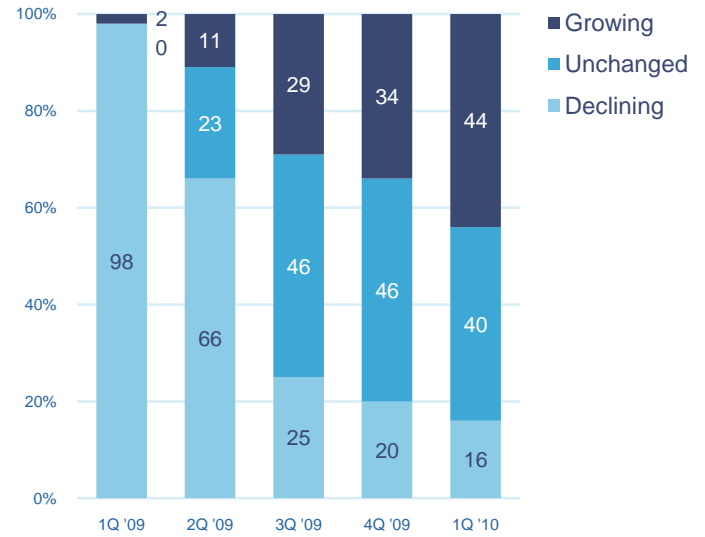
# View of the world economy, this quarter

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

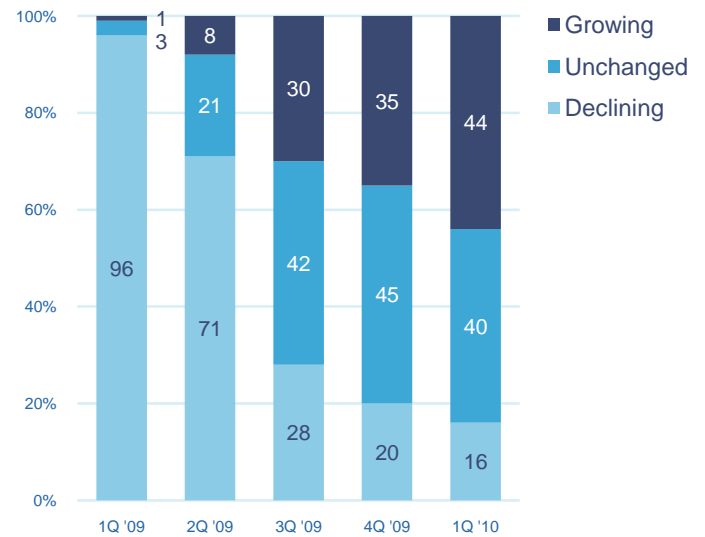
In first-quarter 2010, 44 percent of international panelists viewed the world economy as growing, and 16 percent believed it was declining. Forty percent felt the world economy was unchanged.

Chart 2.3 View of the world economy, this quarter

### Industrial manufacturers



### All respondents



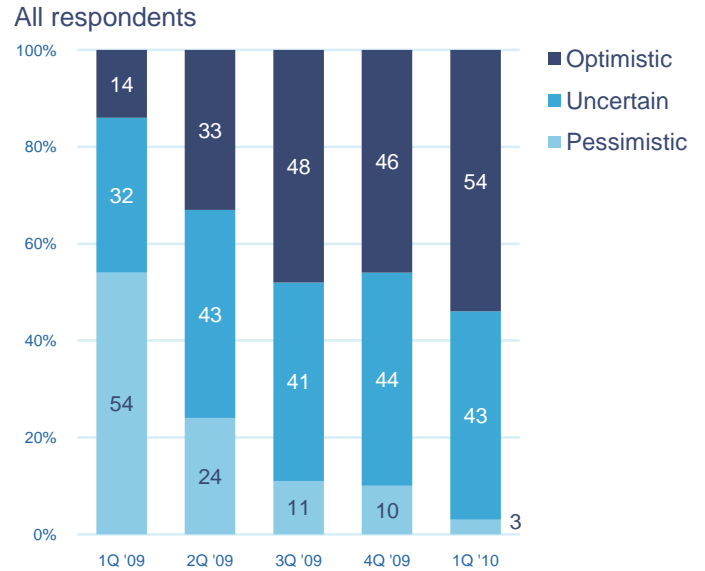
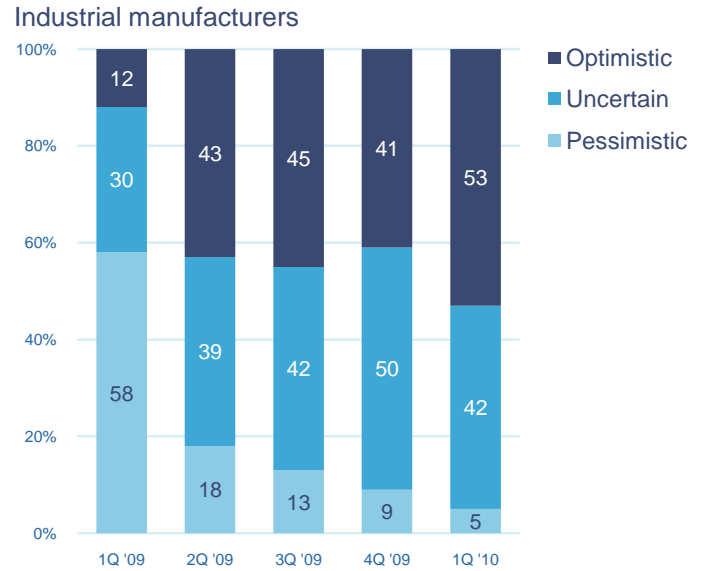
Note: In 1Q 2010 those marketing abroad, Industrial manufacturers n=57, All respondents, n=96

# 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, 53 percent are optimistic about the prospects for the world economy over the next 12 months, up 12 points from the prior quarter. Forty-two percent are uncertain, and only 5 percent said they are pessimistic.

Chart 2.4 View of the world economy, next 12 months



Note: In 1Q 2010 those marketing abroad, Industrial manufacturers n=57, All respondents, n=96

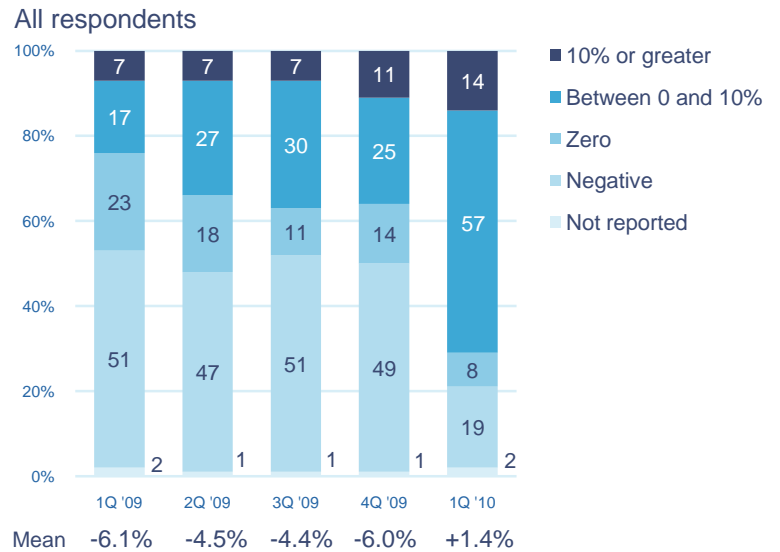
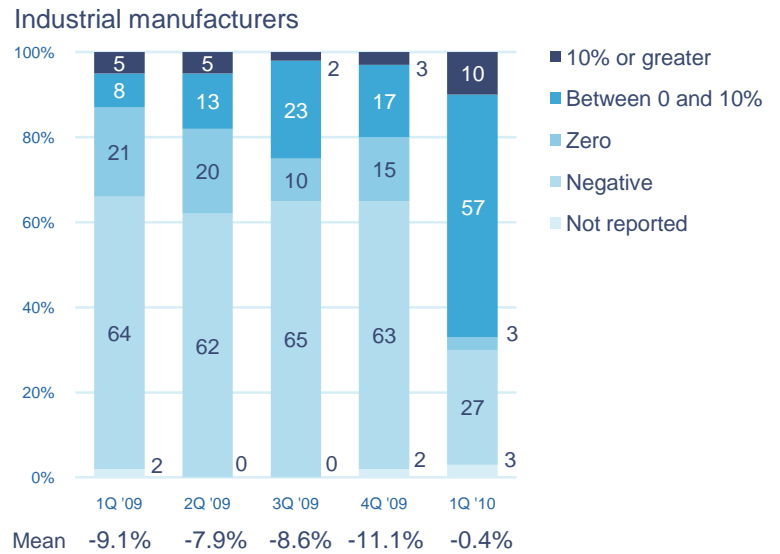
# Company performance

# Company revenue growth, calendar year

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

The composite average growth estimate for the calendar year improved substantially, from minus 11.1 percent in 2009 to minus 0.4 percent for the current year. In the first quarter, 67 percent of US-based industrial manufacturers surveyed forecasted positive own-company growth for calendar year 2010 – 10 percent with double-digit growth and 57 percent with single-digit growth.

Chart 3.1 Company revenue growth, calendar year



Note: In 1Q 2010 Industrial manufacturers n=60, All respondents, n=106

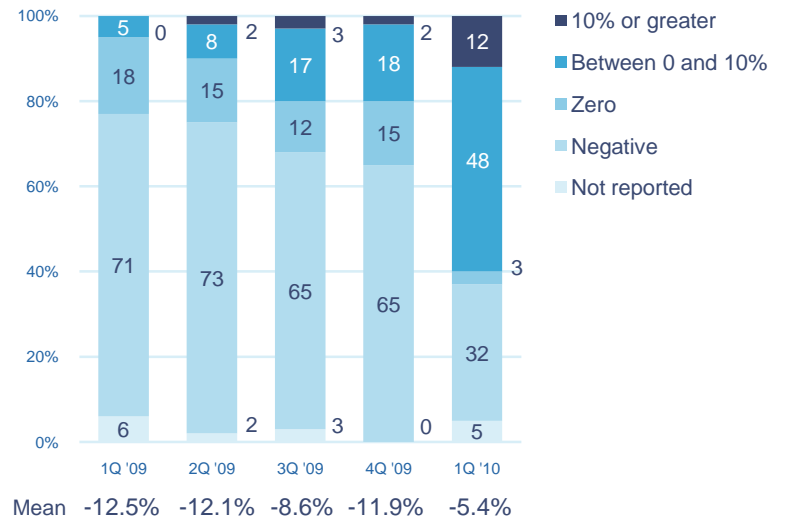
# Industry growth, calendar year

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

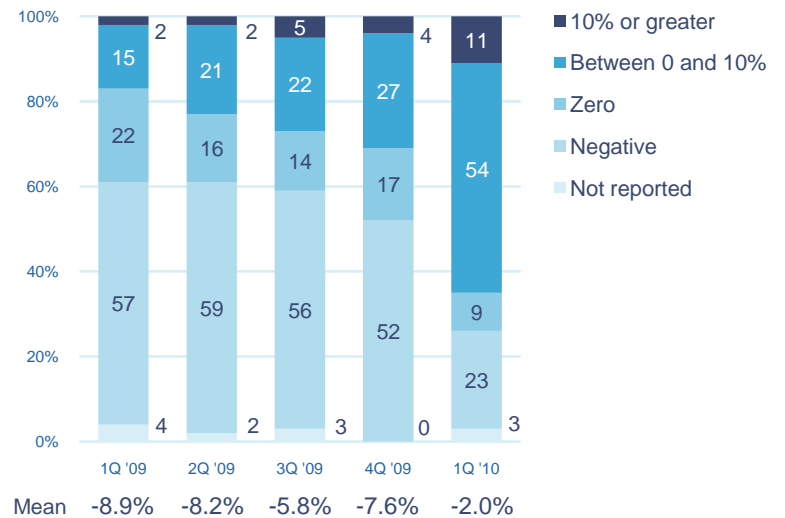
Industry growth estimates for calendar year 2010 improved over the prior year but remain low, at an average minus 5.4 percent. Sixty percent of panelists expect positive industry growth in 2010, 32 percent are on the negative side, and 3 percent expect zero growth.

Chart 3.2 Industry growth, calendar year

### Industrial manufacturers



### All respondents



Note: In 1Q 2010 Industrial manufacturers n=60, All respondents, n=106

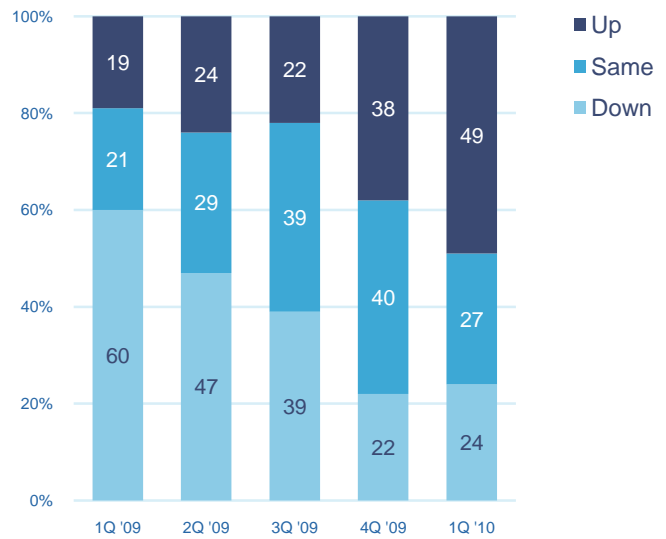
# International sales

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

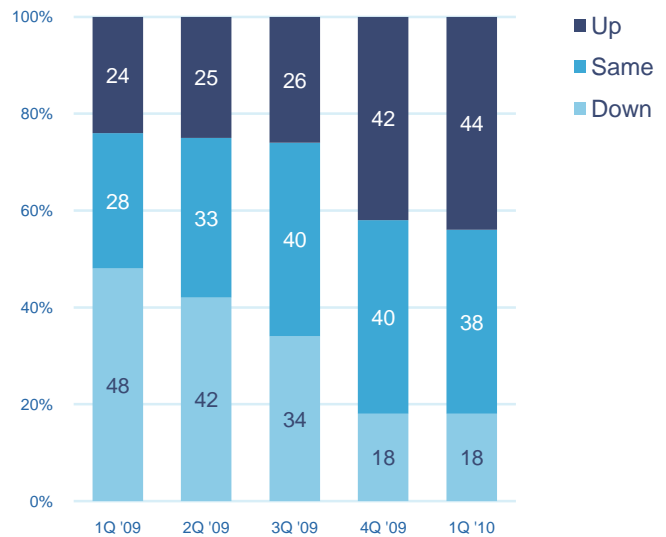
For US-based industrial manufacturers that sell abroad, international markets showed further improvement in first-quarter 2010. Forty-nine percent reported an increase in sales, up from 38 percent last quarter. The number reporting a decrease was 24 percent, while 27 percent were about the same.

Chart 3.3 International sales

### Industrial manufacturers



### All respondents



Note: In 1Q 2010 those marketing abroad, Industrial manufacturers n=57, All respondents, n=96

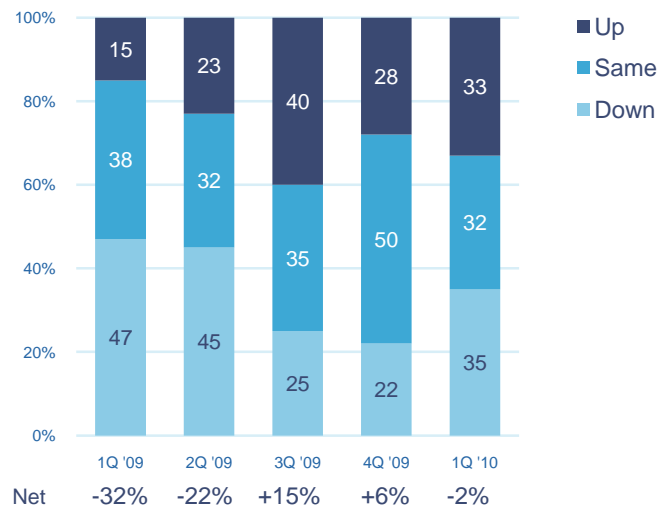
# Changes in gross margins

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

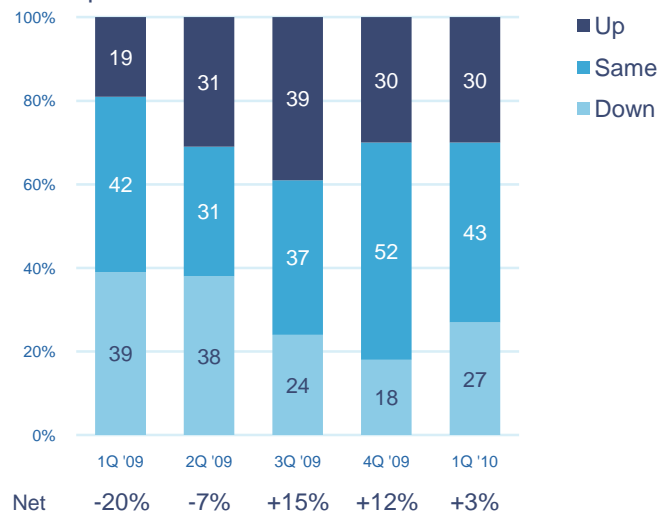
In first-quarter 2010, gross margins were flat: higher for 33 percent of panelists and lower for 35 percent, for a net minus 2 percent, below the prior quarter's plus 6 percent.

Chart 3.4 Changes in gross margins

### Industrial manufacturers



### All respondents



Note: In 1Q 2010 Industrial manufacturers n=60, All respondents, n=106

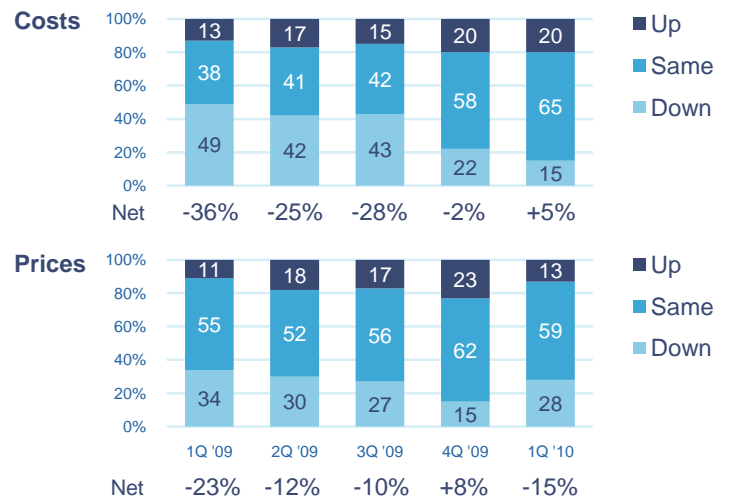
# Changes in costs and prices

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

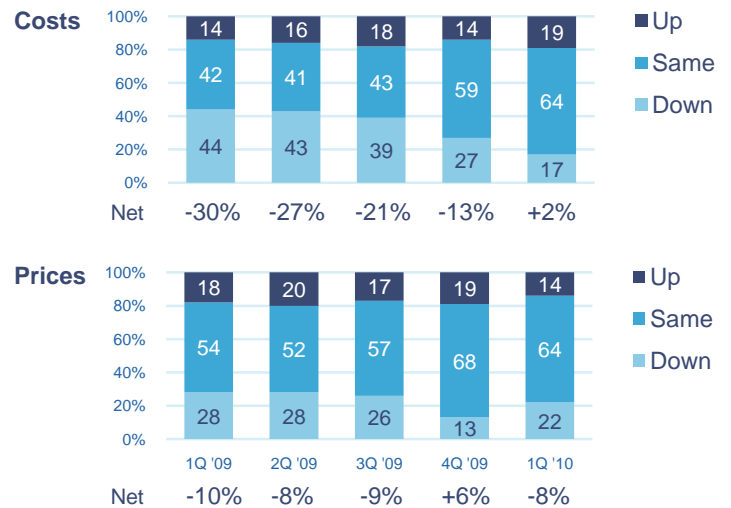
In first-quarter 2010, costs were slightly up: 20 percent of US-based industrial manufacturers reported higher costs, and 15 percent reported lower costs – for a net plus 5 percent. On the pricing side, only 13 percent raised prices, and 28 percent lowered them, for a net minus 15 percent, notably below the prior quarter.

Chart 3.5 Changes in costs and prices

### Industrial manufacturers



### All respondents



Note: In 1Q 2010 Industrial manufacturers n=60, All respondents, n=106

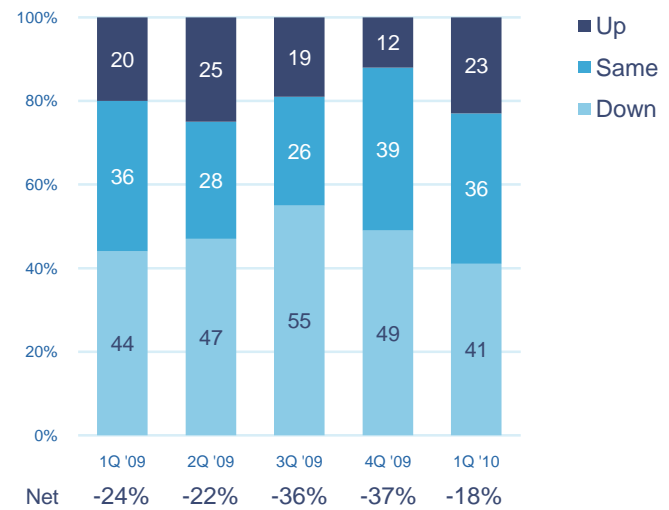
# Inventory movement

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

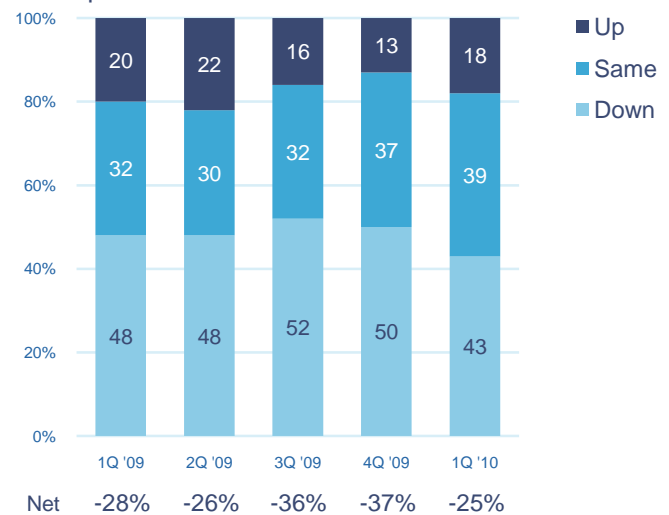
Inventory remained down for 41 percent of US-based industrial manufacturers and up for 23 percent, for a net minus 18 percent, an improvement from last quarter and indicating some activity in inventory replenishment.

Chart 3.6 Inventory movement

### Industrial manufacturers



### All respondents



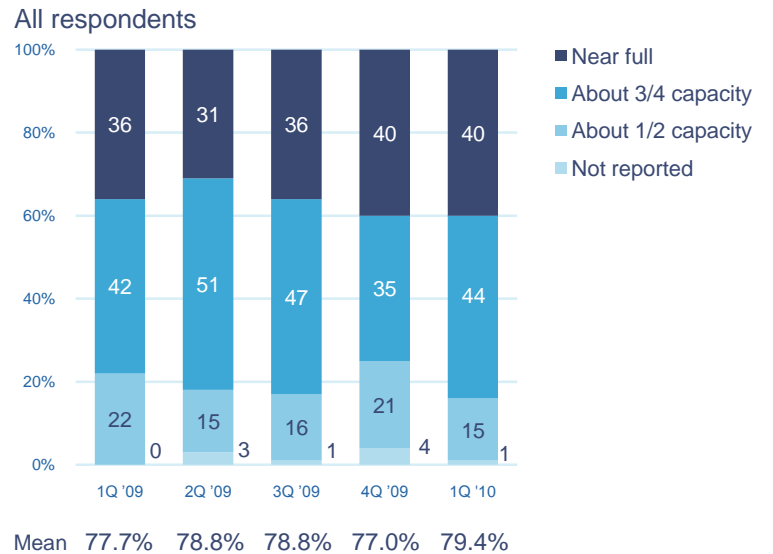
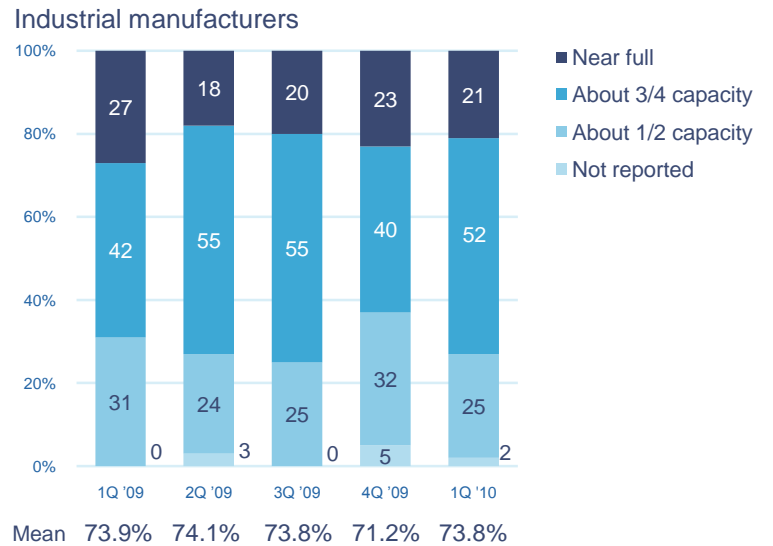
Note: In 1Q 2010 Industrial manufacturers n=60, All product sector respondents, n=84

# 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. Although the mean shows slight upward movement, only 21 percent of industrial manufacturers surveyed claimed to be at or near capacity in the first quarter.

Chart 3.7 Level of operating capacity



Note: In 1Q 2010 Industrial manufacturers n=60, All respondents, n=106

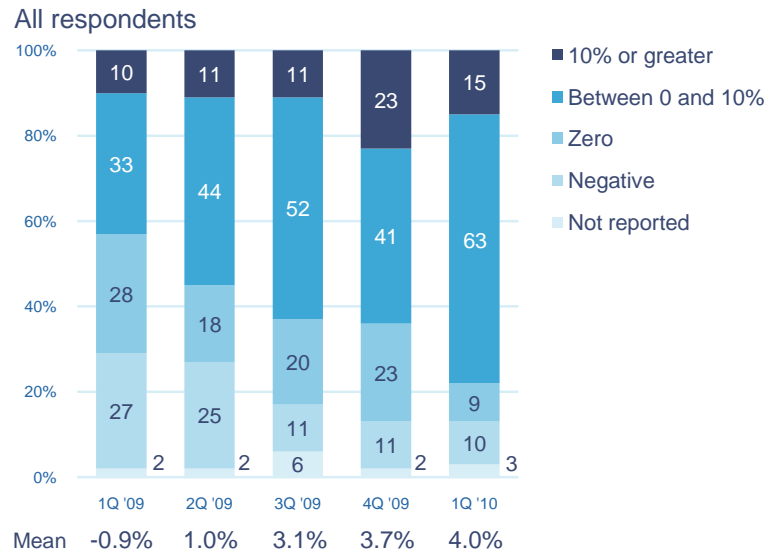
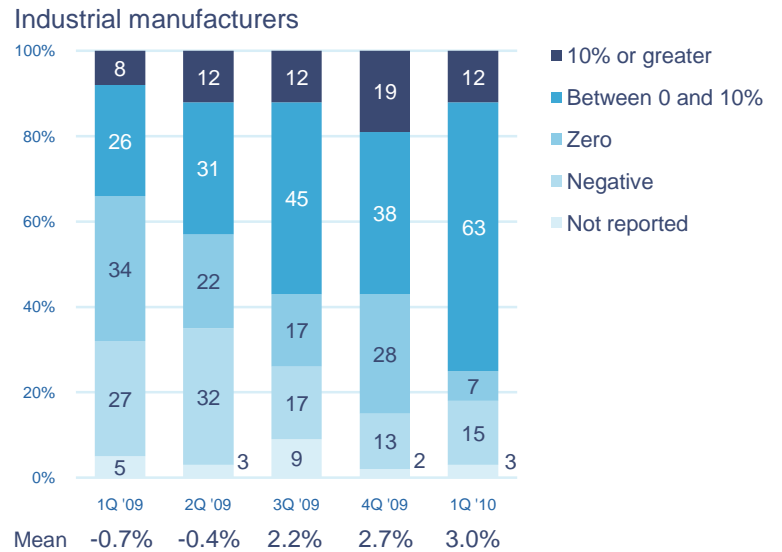
# Business outlook, next 12 months

# 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, 75 percent of panelists expect positive growth for their own companies, with 12 percent forecasting double-digit growth and 63 percent forecasting single-digit growth. The projected average growth rate is plus 3.0 percent, above the prior quarter's projected plus 2.7 percent. Only 15 percent forecast negative growth, and 7 percent forecast zero growth.

Chart 4.1 Revenue growth, next 12 months



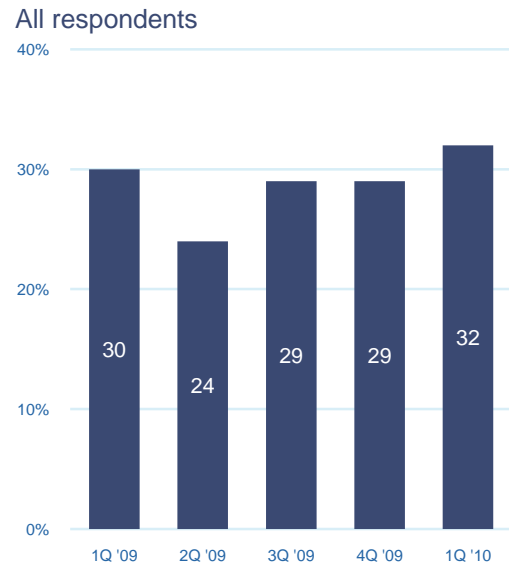
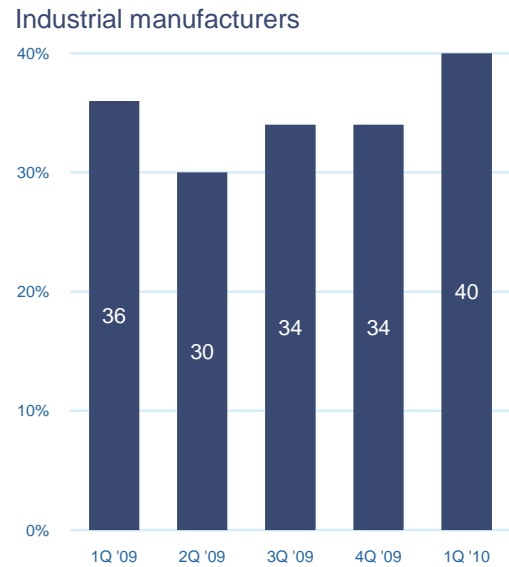
Note: In 1Q 2010 Industrial manufacturers n=60, All respondents, n=106

# 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 40 percent over the next 12 months, notably above the prior quarter's 34 percent and last year's 36 percent.

Chart 4.2 International sales, next 12 months



Note: In 1Q 2010 those marketing abroad, Industrial manufacturers n=57, All respondents, n=96

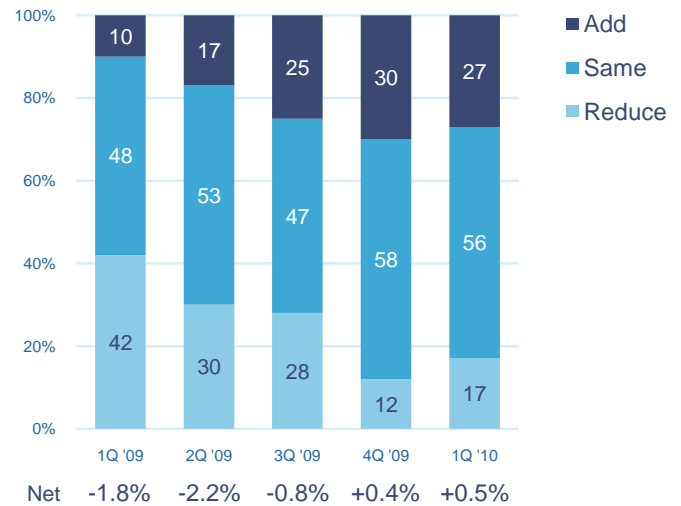
# Percent planning to hire

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

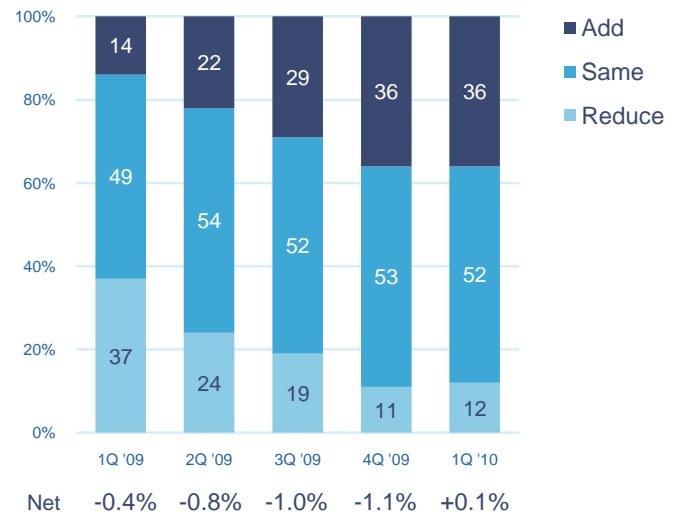
Twenty-seven percent of respondents plan to add employees to their workforces over the next 12 months, and 17 percent plan to reduce the number of full-time equivalent employees. The net workforce projection is plus 0.5 percent, similar to last quarter's plus 0.4 percent.

Chart 4.3 Percent planning to hire

### Industrial manufacturers



### All respondents



Note: In 1Q 2010 Industrial manufacturers n=60, All respondents, n=106

## Percent planning to hire by type of employee

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

Of the 27 percent of respondents planning to hire within the next 12 months, the most sought-after employees will be professionals/technicians and production workers.

Chart 4.4 Percent planning to hire by type of employee

### Industrial manufacturers

	1Q '09	2Q '09	3Q '09	4Q '09	1Q '10
Planning to hire (net)	10%	17%	25%	30%	27%
• Professionals/technicians	7%	7%	15%	23%	17%
• Production workers	2%	5%	8%	13%	13%
• White collar support	---	---	12%	2%	10%
• Sales/marketing	3%	3%	10%	7%	8%
• Skilled labor	---	8%	8%	12%	2%

### All respondents

	1Q '09	2Q '09	3Q '09	4Q '09	1Q '10
Planning to hire (net)	14%	22%	29%	36%	36%
• Professionals/technicians	10%	11%	20%	26%	22%
• Production workers	4%	6%	11%	13%	13%
• White collar support	2%	4%	11%	9%	11%
• Sales/marketing	5%	6%	14%	13%	16%
• Skilled labor	3%	8%	9%	12%	6%

Note: In 1Q 2010 Industrial manufacturers n=60, All respondents, n=106

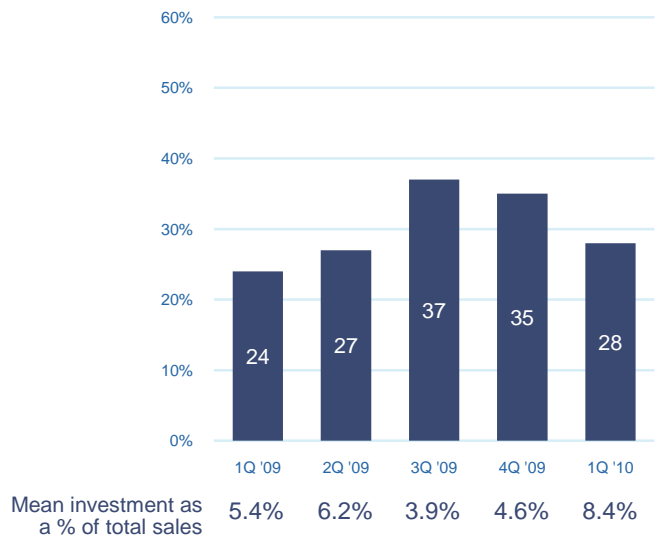
## Percent planning major new investments of capital

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?

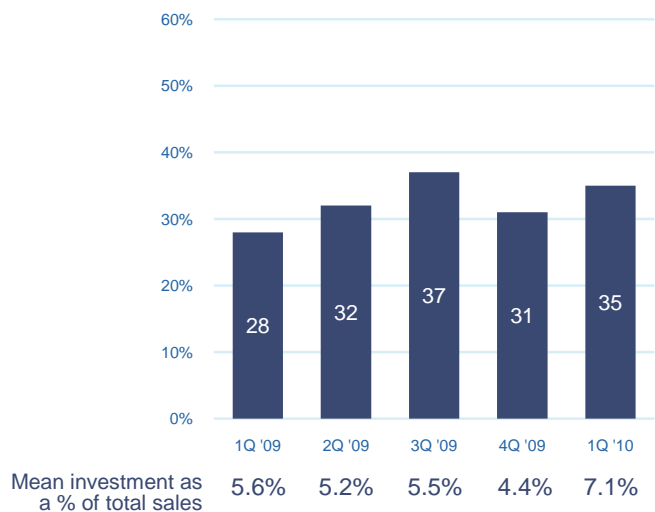
Twenty-eight percent plan major new investments of capital during the next 12 months, compared with 35 percent last quarter. Although the number is down, the mean investment as a percentage of total sales is notably higher in first-quarter 2010, at 8.4 percent compared with 4.6 percent last quarter.

Chart 4.5 Percent planning major new investments of capital

### Industrial manufacturers



### All respondents



Note: In 1Q 2010 Industrial manufacturers n=60, All respondents, n=106

## Percent planning to increase operational spending

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

Looking at the next 12 months, 70 percent of respondents plan to increase operational spending, up 5 points from last quarter's 65 percent. Among increased expenditures, new product or service introductions lead the way. R&D remained in second place.

Chart 4.6 Percent planning to increase operational spending

#### Industrial manufacturers

	1Q '09	2Q '09	3Q '09	4Q '09	1Q '10
Percent planning to increase spending (net)	53%	53%	68%	65%	70%
• New product or service introduction	29%	30%	40%	37%	43%
• Research and development	15%	18%	35%	37%	28%
• Business acquisition	8%	18%	33%	23%	23%
• Geographic expansion	13%	17%	22%	27%	22%
• Facilities expansion	11%	8%	18%	22%	20%
• Information technology	13%	12%	17%	22%	20%
• Marketing & sales promotion	5%	10%	7%	12%	13%
• Advertising	3%	7%	3%	8%	12%
• Internet commerce	3%	2%	3%	3%	5%

#### All respondents

	1Q '09	2Q '09	3Q '09	4Q '09	1Q '10
Percent planning to increase spending (net)	58%	56%	67%	70%	71%
• New product or service introduction	33%	29%	34%	41%	40%
• Research and development	14%	16%	29%	31%	27%
• Business acquisition	11%	24%	29%	24%	24%
• Geographic expansion	16%	22%	24%	29%	24%
• Facilities expansion	12%	16%	17%	20%	21%
• Information technology	18%	17%	27%	28%	26%
• Marketing & sales promotion	13%	17%	15%	23%	23%
• Advertising	10%	12%	14%	15%	22%
• Internet commerce	7%	7%	8%	7%	8%

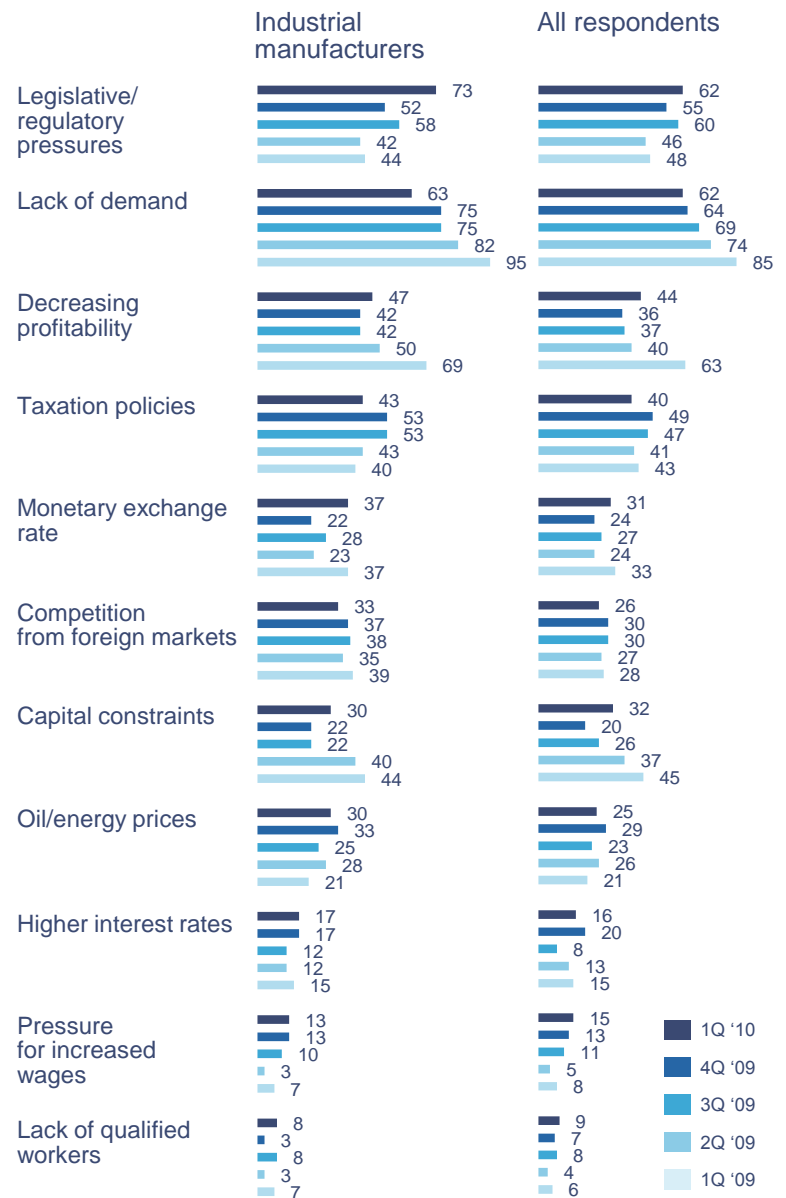
Note: In 1Q 2010 Industrial manufacturers n=60, All respondents, n=106

# Expected barriers to business growth

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

Concern about legislative/regulatory pressures rose 21 points to 73 percent and is now the most cited barrier to growth over the next 12 months. The number concerned about lack of demand is down but remains a chief barrier, cited by 63 percent of respondents. Other barriers cited by more respondents this quarter included decreasing profitability, the monetary exchange rate, and capital constraints. Fewer cited concerns about taxation policies.

Chart 4.7 Expected barriers to business growth



Note: In 1Q 2010 Industrial manufacturers n=60, All respondents, n=106

## 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 28 percent in the prior quarter to 37 percent in the first quarter of 2010. Interest in purchasing another business, indicated by 33 percent, largely boosted the number, but plans to expand to markets abroad and enter new joint ventures also added to the increase in activity.

Chart 4.8 Plans for M&A and other business initiatives

### Industrial manufacturers

	1Q '09	2Q '09	3Q '09	4Q '09	1Q '10
New business initiatives (net)	55%	52%	70%	57%	60%
• M&A activity (net)	15%	28%	38%	28%	37%
- Purchase another business	10%	25%	37%	27%	33%
- Sale part/all own business	7%	5%	5%	7%	8%
- Equity carve-out/spin-off	2%	3%	2%	3%	3%
• New strategic alliance	27%	30%	33%	38%	33%
• Expand to new markets abroad	18%	27%	15%	20%	28%
• New joint venture	20%	23%	22%	25%	27%
• New facilities abroad	13%	13%	15%	12%	15%
• Reduce activity in markets abroad	16%	13%	12%	10%	10%
• Close/reduce facilities abroad	19%	10%	15%	8%	8%

### All respondents

	1Q '09	2Q '09	3Q '09	4Q '09	1Q '10
New business initiatives (net)	58%	54%	63%	60%	59%
• M&A activity (net)	21%	32%	36%	28%	38%
- Purchase another business	16%	30%	34%	27%	32%
- Sale part/all own business	4%	7%	6%	6%	10%
- Equity carve-out/spin-off	3%	5%	3%	3%	3%
• New strategic alliance	25%	31%	33%	35%	32%
• Expand to new markets abroad	18%	28%	18%	27%	28%
• New joint venture	20%	24%	21%	22%	26%
• New facilities abroad	13%	11%	11%	12%	12%
• Reduce activity in markets abroad	15%	13%	12%	11%	10%
• Close/reduce facilities abroad	16%	6%	9%	7%	5%

Note: In 1Q 2010 Industrial manufacturers n=60, All respondents, n=106

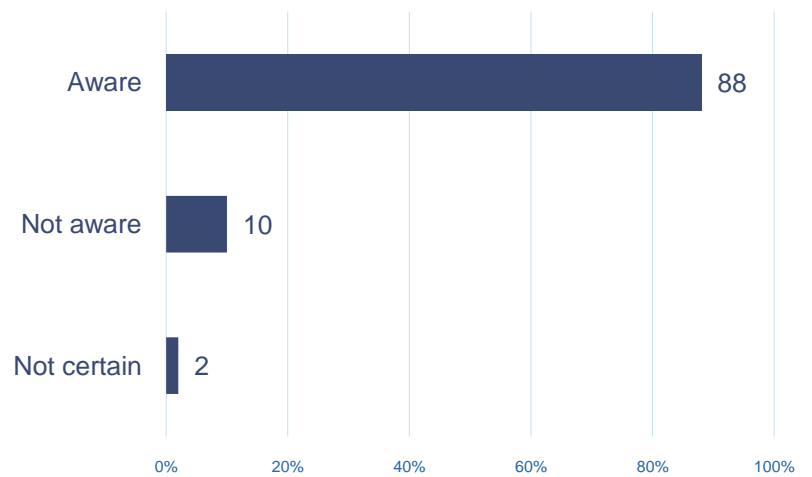
# Special topic: carbon emissions

# EPA regulation

## Are you aware of the EPA endangerment finding?

The majority of panelists are aware of the EPA's finding that greenhouse gas (GHG) emissions threaten public health and, therefore, can be regulated under the Clean Air Act. Only 10 percent said they were not aware.

Chart 5.1 Aware of EPA's endangerment finding

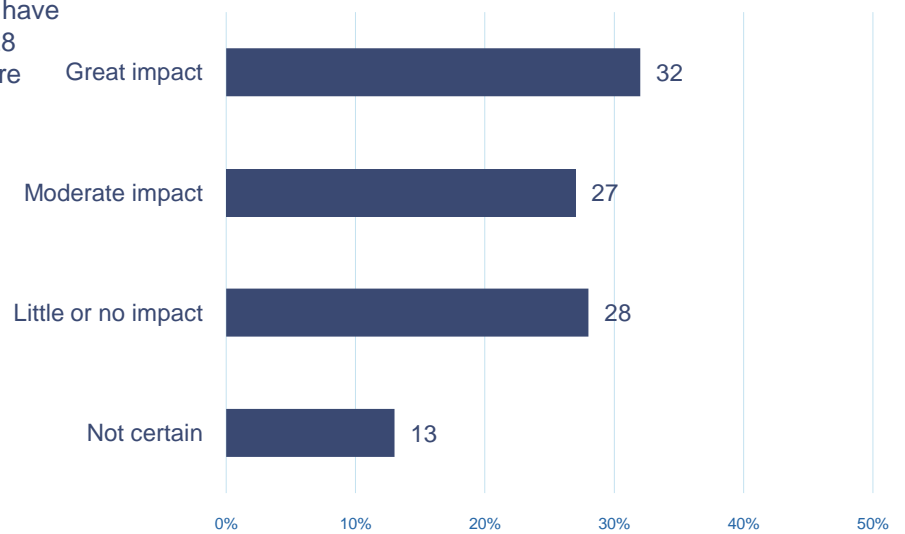


## Potential impact of regulation

Based on current information, what impact would regulation of greenhouse gases have on your business?

Of those surveyed, 59 percent said regulation would have a great or moderate impact on their business. Only 28 percent expect little or no impact, and 13 percent were not certain.

Chart 5.2 Potential impact of regulation

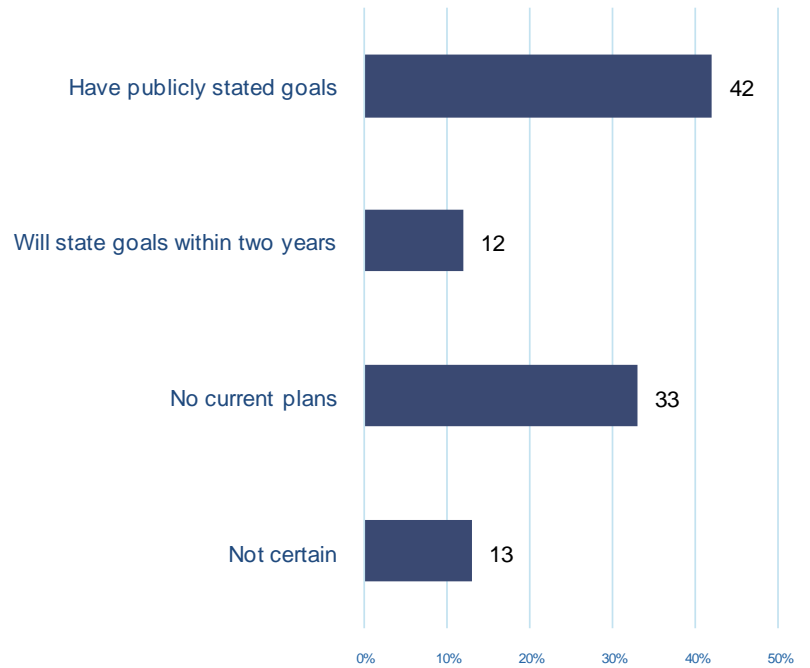


## Publicly stated goals to reduce emissions

### Has your company publicly stated any goals to reduce carbon emissions?

The majority of industrial products manufacturers (54 percent) either have already publicly stated goals to reduce carbon emissions (42 percent) or are developing goals to announce within the next two years (12 percent). One-third (33 percent) have no current plans, and 13 percent were not certain.

Chart 5.3 Companies' publicly stated goals

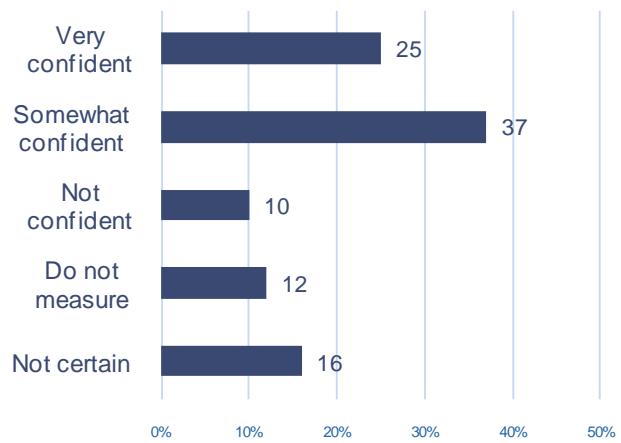


# Carbon accounting

## How confident are you that your greenhouse gas emissions are being measured reliably?

Only 25 percent of panelists are very confident that their companies' greenhouse gas emissions are being measured reliably. More (37 percent) are somewhat confident and 10 percent are not confident at all. A fairly large number (16 percent) were not certain about data reliability. Twelve percent do not measure emissions data.

Chart 5.4 Are your companies' greenhouse gas emissions being measured reliably?



# Survey demographics and research methodology

## Demographics

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Who	Senior executives of US-based, industrial manufacturing organizations	
Interview dates	January 12, 2010 to April 6, 2010	
	<b>Industrial manufacturers (60)</b>	<b>All respondents (106)</b>
Average number of employees	7,197	8,442
Average business unit revenue	\$2.62 billion	\$2.60 billion
Average enterprise revenue	\$6.56 billion	\$7.61 billion
Market capitalization	\$7.68 billion	\$9.29 billion
Industry sectors	Products 100% Manufacturing 100% Trade/Distribution --- All other --- Services ---	Products 79% Manufacturing 71% Trade/Distribution 1% All other 7% Services 21%

## 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.

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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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