

Manufacturing Barometer™

Business outlook report
Fourth quarter 2009

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Quarterly highlights

In the fourth 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.

Key findings:

- **Forecast 2010 gains.** Industrial products manufacturers' average revenue growth for 2009 ended with a double-digit loss (minus 11.1 percent); only 20 percent had positive growth. In sharp contrast, 57 percent forecast positive revenue growth for their own companies in 2010, with 28 percent forecasting no growth and only 13 percent anticipating negative growth. A composite estimated revenue growth rate of 2.7 percent is forecast for the next 12 months, slightly better than the forecast from the prior quarter.
- **International sales positive.** In fourth-quarter 2009, 38 percent of panelists marketing abroad reported an increase in international sales and fewer, 22 percent, reported a decrease. Overall, those marketing abroad expect international sales to contribute 34 percent of total revenue over the next 12 months.
- **Cautious optimism about 2010.** Looking at the next 12 months, 47 percent of industrial manufacturers surveyed are optimistic about the US economy's prospects, 43 percent are uncertain, and only 10 percent are pessimistic. Similarly, 41 percent of panelists who market abroad are optimistic about prospects for the world economy, 50 percent are uncertain, and 9 percent are pessimistic.
- **Workforce flat, few rehires.** Composite workforce hiring is projected as slightly positive over the next 12 months – at 0.4 percent. Overall, 30 percent plan to add workers and only 12 plan to reduce. Of those who laid off workers due to the recession, only 8 percent report that their businesses have begun to rehire them, but an additional 24 percent plan to rehire; 60 percent have no plans to rehire workers.

- **Spending plans steady.** Thirty-five percent of panelists are planning major new investments of capital over the next 12 months, similar to the prior quarter and a year ago. Planned increases in operational expenditures were cited by 65 percent. Plans for M&A activity dropped back to 28 percent, but plans for new strategic alliances rose to 38 percent. Projects that were on hold due to the recession but are most likely to get the green light are in the areas of information technology (42 percent); new product/service introduction (38 percent); and geographic expansion (35 percent).
- **Gross margins better.** In 4Q 2009, 28 percent reported gross margins up and 22 percent down – a net 6 percent with higher margins. Only 20 percent reported higher costs in 4Q 2009, while 22 percent reported costs down. About the same number, 23 percent, reported raising prices, while 15 percent lowered them. Concern about decreasing profitability over the next 12 months is still a significant factor, cited by 42 percent.
- **Concerns rise over tax policy/legislation.** In line with the previous quarter, 75 percent of panelists have concerns about demand as a potential barrier to growth over the next 12 months. Concerns over taxation policies (53 percent) and legislative/regulatory pressures (52 percent) have risen over the past four quarters and are directly contributing to the lower average estimated revenue growth rate over the next 12 months.

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 over the past two quarters.

Business outlook, next 12 months among industrial manufacturers	2008	2009				Change	Page
	4Q '08	1Q '09	2Q '09	3Q '09	4Q '09	3Q - 4Q '09	
Optimistic about US economy	5%	16%	43%	48%	47%	=	7
Optimistic about world economy	4%	12%	43%	45%	41%	↓	9
Expect positive revenue growth	25%	34%	43%	57%	57%	=	19
Average growth rate expected	-2.4%	-0.7%	-0.4%	2.2%	2.7%	↑	19
Planning major new investments	33%	24%	27%	37%	35%	=	23
New investments as a % of sales	8.3%	5.4%	6.2%	3.9%	4.6%	↑	23
Planning to hire	10%	10%	17%	25%	30%	↑	21
New workers as a % of workforce (net)	-3.2%	-1.8%	-2.2%	-0.8%	0.4%	↑	21
Expected barriers to growth							
• Lack of demand	85%	95%	82%	75%	75%	=	25
• Taxation policies	30%	40%	43%	53%	53%	=	25
• Legislative/ Regulatory pressures	37%	44%	42%	58%	52%	↓	25
• Decreasing profitability	62%	69%	50%	42%	42%	=	25
• Competition from foreign markets	25%	39%	35%	38%	37%	=	25
• Oil/energy prices	25%	21%	28%	25%	33%	↑	25
• Capital constraints	37%	44%	40%	22%	22%	=	25
• Monetary exchange rate	38%	37%	23%	28%	22%	↓	25
• Higher interest rates	13%	15%	12%	12%	17%	↑	25
• Pressure for increased wages	10%	7%	3%	10%	13%	↑	25
• Lack of qualified workers	3%	7%	3%	8%	3%	↓	25

Economic views

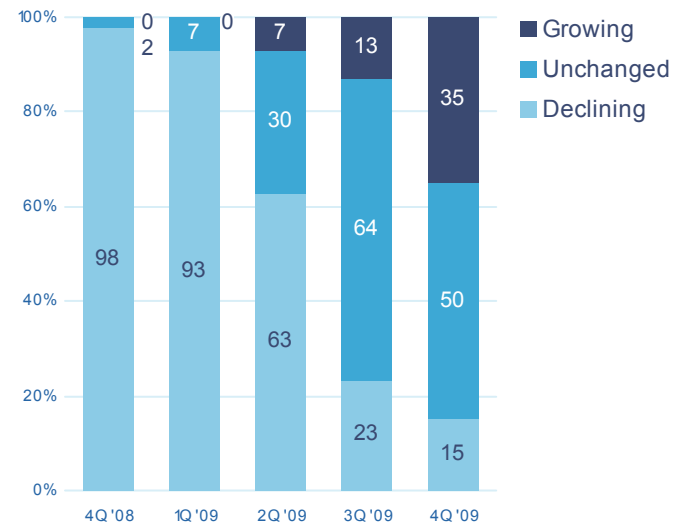
View of the US economy, this quarter

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

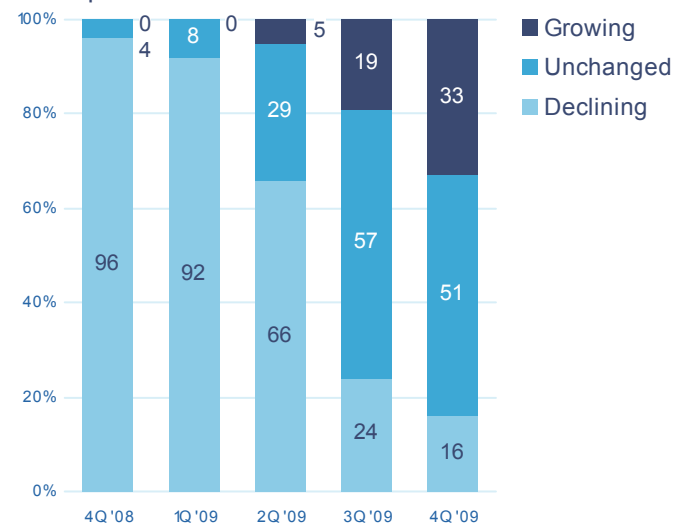
In the fourth quarter of 2009, 35 percent of panelists believed the US economy was growing (up 22 points from the prior quarter), and 15 percent believed it was declining (down 8 points). But 50 percent believed that the US economy was unchanged.

Chart 2.1 View of the US economy, this quarter

Industrial manufacturers



All respondents



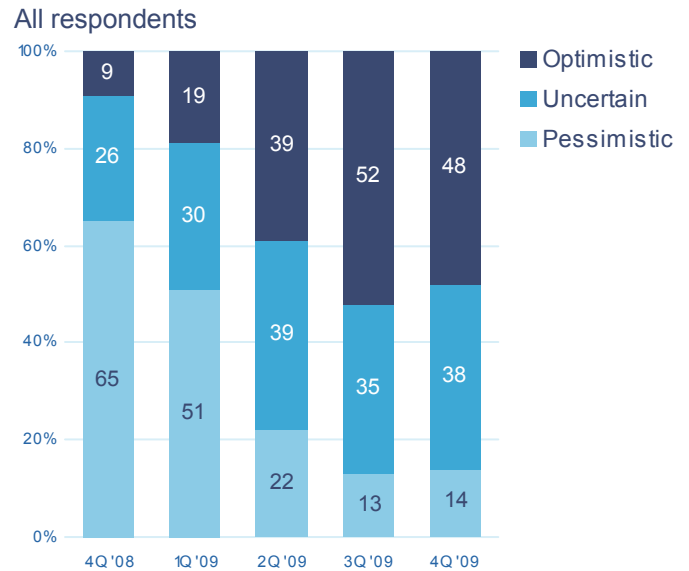
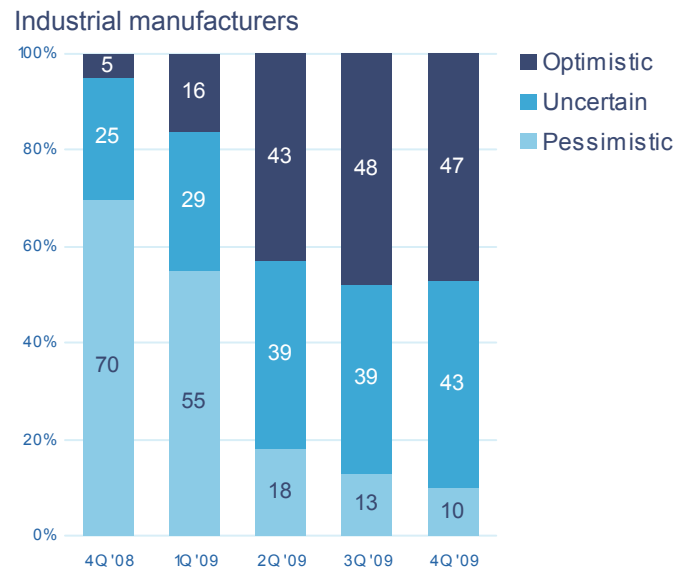
Note: In 4Q 2009 Industrial manufacturers n=60, All respondents, n=104

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, 47 percent of respondents expressed optimism about the 12-month outlook for the US economy, similar to the prior quarter. Only 10 percent remain pessimistic, which is a sharp contrast to 70 percent a year ago, and 43 percent are uncertain.

Chart 2.2 View of the US economy, next 12 months



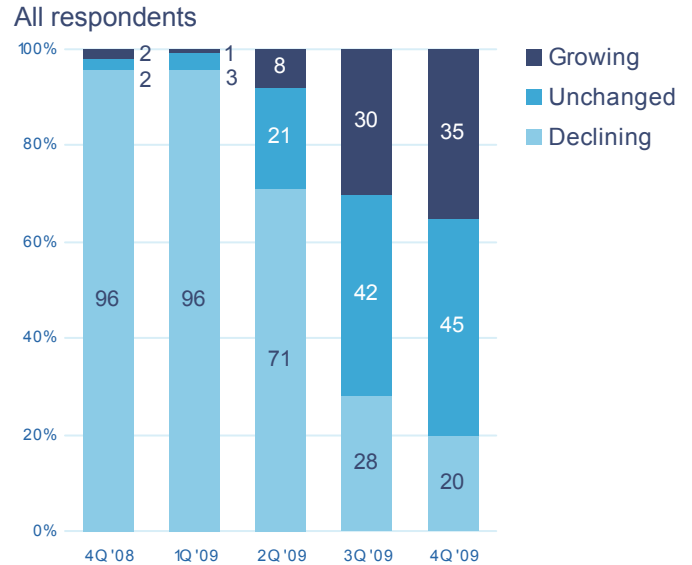
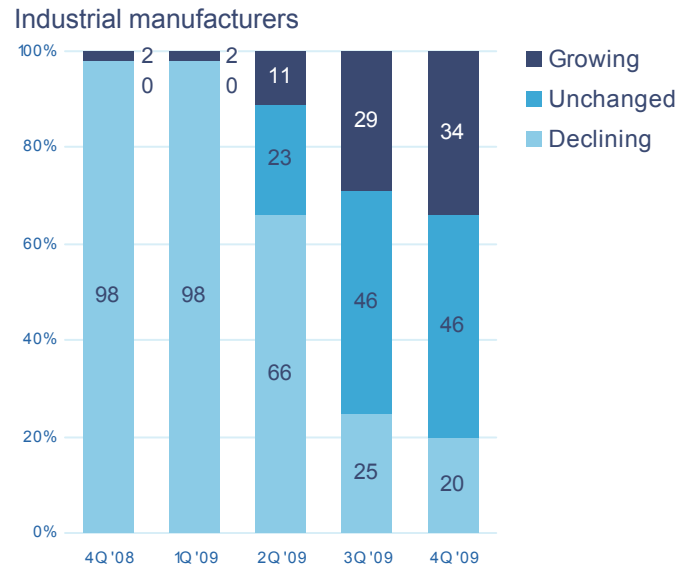
Note: In 4Q 2009 Industrial manufacturers n=60, All respondents, n=104

View of the world economy, this quarter

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

In fourth-quarter 2009, 34 percent of international panelists viewed the world economy as growing, while 20 percent believed it was declining. For the second straight quarter, most (46 percent) felt the economy was unchanged.

Chart 2.3 View of the world economy, this quarter



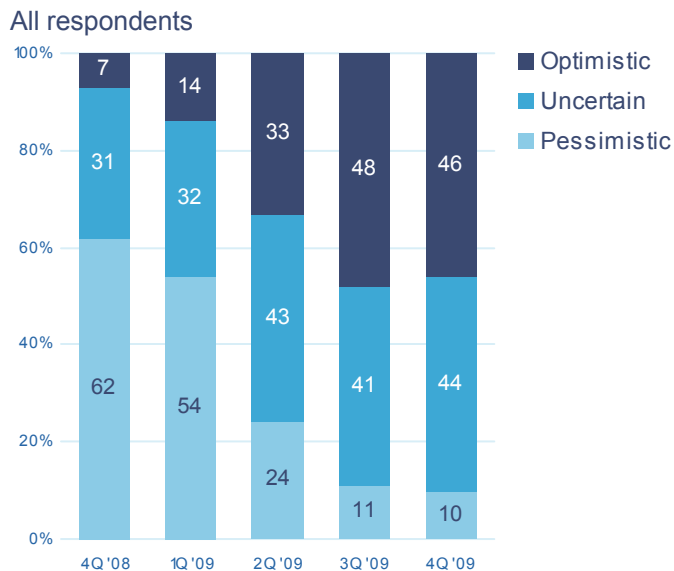
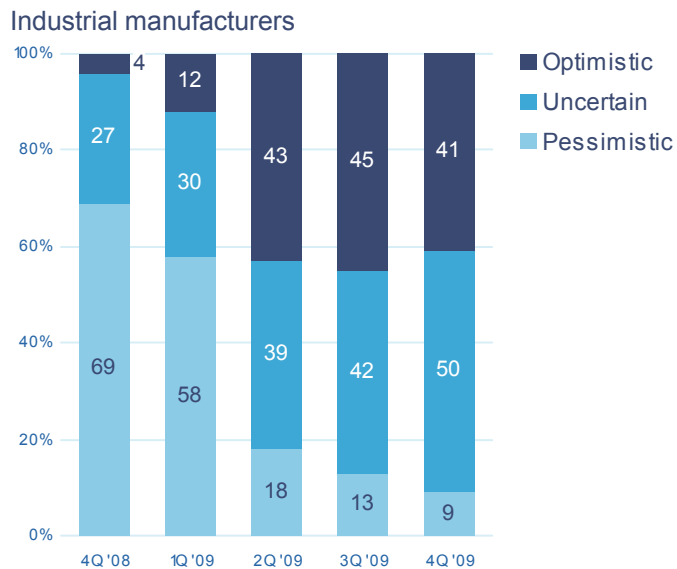
Note: In 4Q 2009 those marketing abroad, Industrial manufacturers n=56, All respondents, n=94

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, 41 percent are optimistic about the prospects for the world economy over the next 12 months, 50 percent are uncertain, and only 9 percent said they are pessimistic.

Chart 2.4 View of the world economy, next 12 months



Note: In 4Q 2009 those marketing abroad, Industrial manufacturers n=56, All respondents, n=94

Company performance

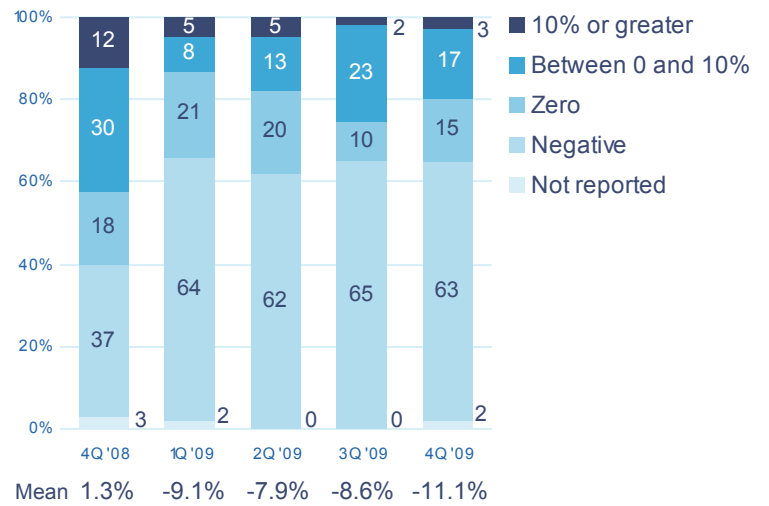
Company revenue growth, calendar year

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

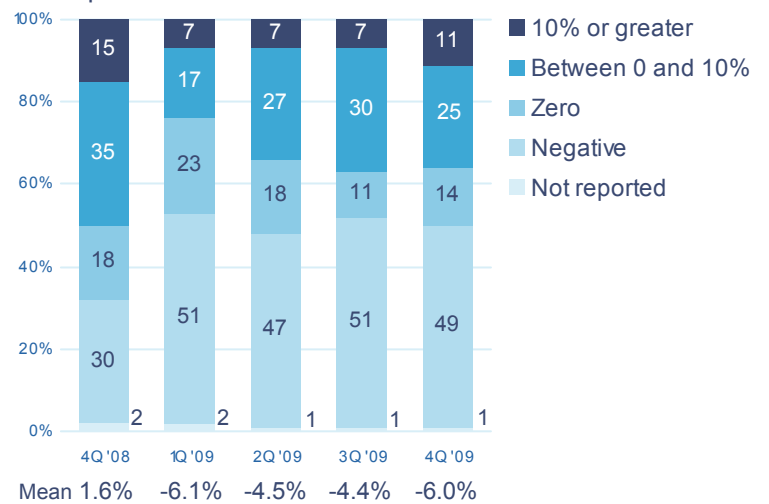
In the fourth quarter, only 20 percent of US-based industrial manufacturers surveyed reported positive own-company growth for 2009 – 3 percent with double-digit growth and 17 percent with single-digit growth. Overall, the composite average growth estimate for the year dropped from minus 8.6 percent in the prior quarter to minus 11.1 percent.

Chart 3.1 Company revenue growth, calendar year

Industrial manufacturers



All respondents



Note: In 4Q 2009 Industrial manufacturers n=60, All respondents, n=104

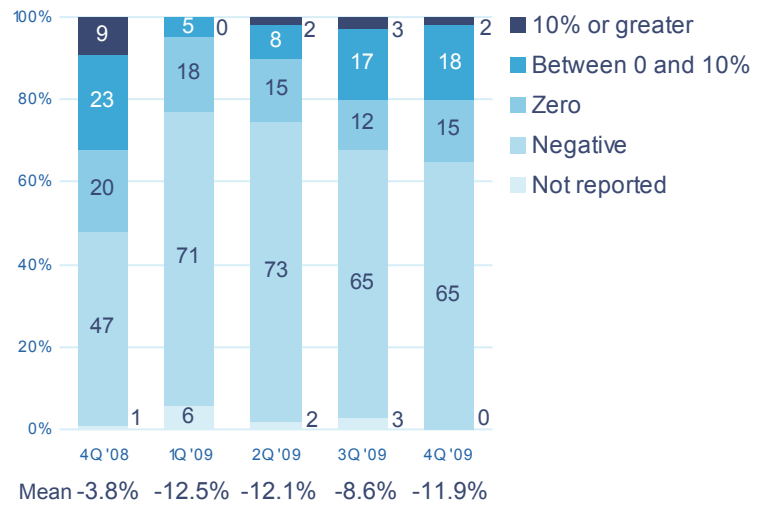
Industry growth, calendar year

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

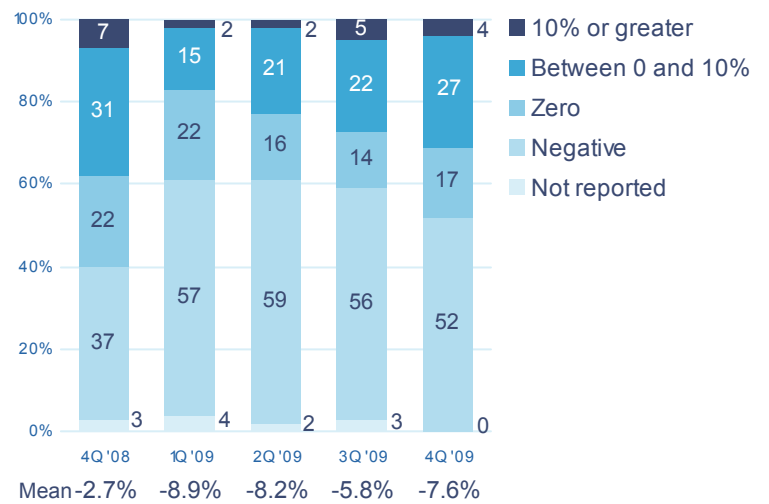
Industry growth for calendar year 2009 remained low, at an average minus 11.9 percent. Sixty-five percent of panelists experienced negative industry growth in 2009, only 20 percent were on the positive side, and 15 percent experienced zero growth.

Chart 3.2 Industry growth, calendar year

Industrial manufacturers



All respondents



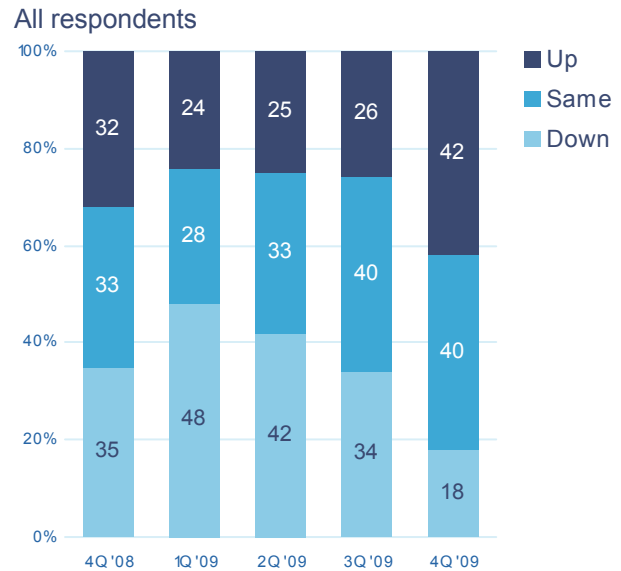
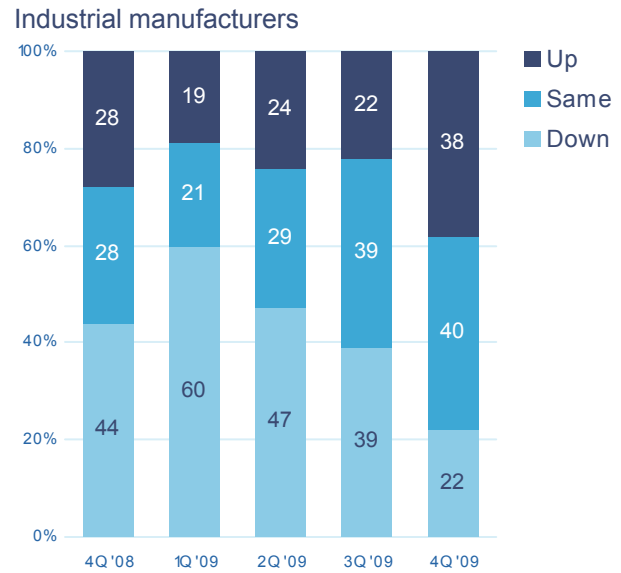
Note: In 4Q 2009 Industrial manufacturers n=60, All respondents, n=104

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 an improvement in fourth-quarter 2009. Thirty-eight percent reported an increase in sales abroad, up from 22 percent last quarter. The number reporting a decrease fell to 22 percent from 39 percent in the prior quarter.

Chart 3.3 International sales



Note: In 4Q 2009 those marketing abroad, Industrial manufacturers n=56, All respondents, n=94

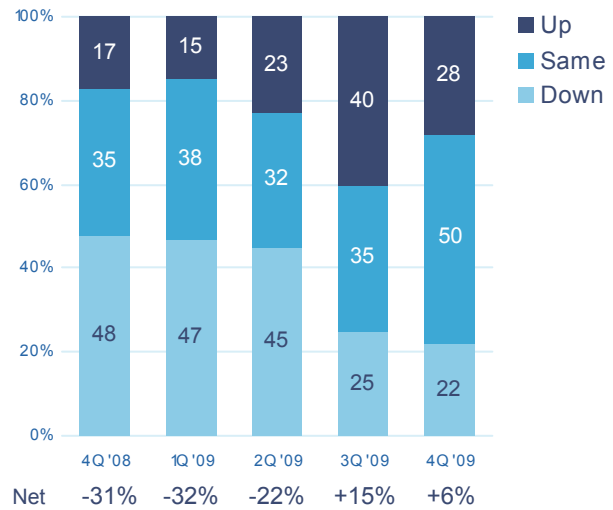
Changes in gross margins

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

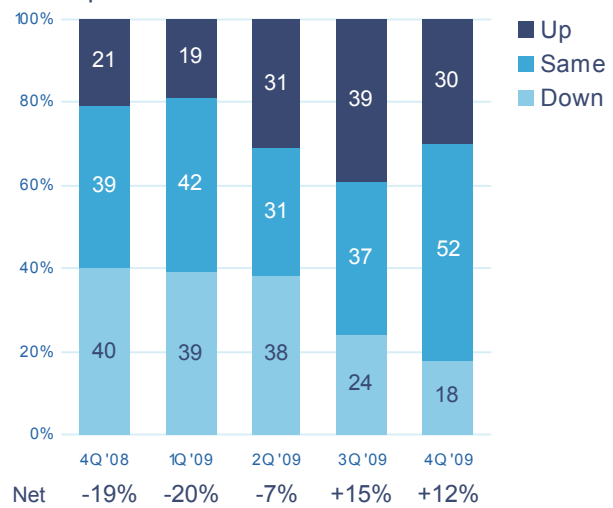
In fourth-quarter 2009, gross margins were higher for 28 percent of panelists and lower for 22 percent, for a net plus 6 percent, below the prior quarter's plus 15 percent, but still trending on the higher side.

Chart 3.4 Changes in gross margins

Industrial manufacturers



All respondents



Note: In 4Q 2009 Industrial manufacturers n=60, All respondents, n=104

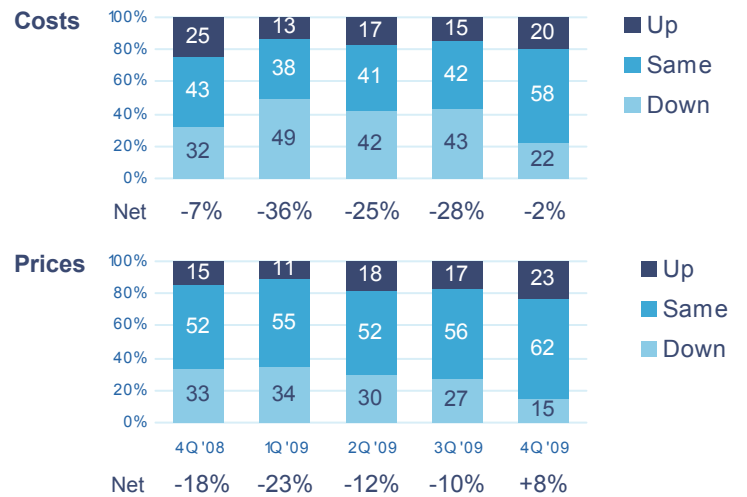
Changes in costs and prices

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

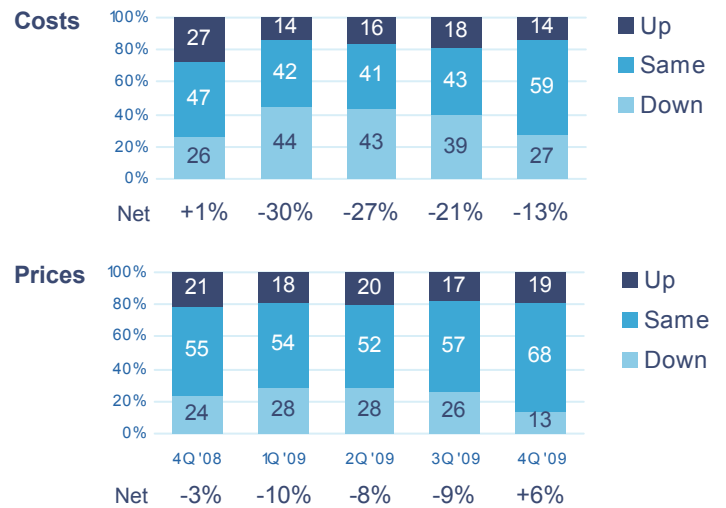
In fourth-quarter 2009, 20 percent of US-based industrial manufacturers reported higher costs, and 22 percent reported lower costs – for a net minus 2 percent. On the pricing side, 23 percent raised prices, and only 15 percent lowered them, for a net plus 8 percent.

Chart 3.5 Changes in costs and prices

Industrial manufacturers



All respondents



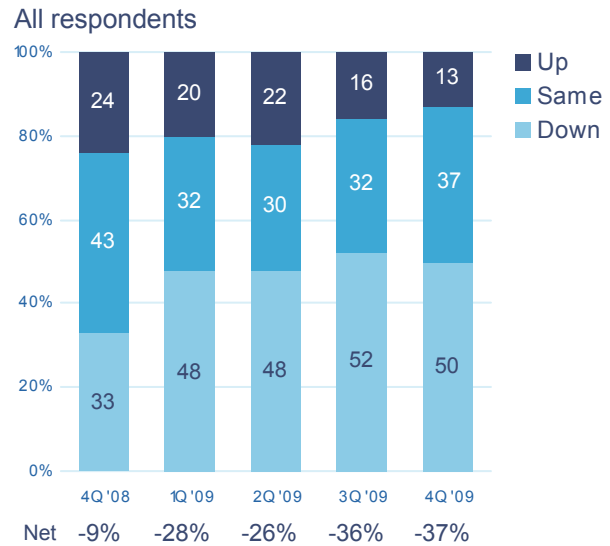
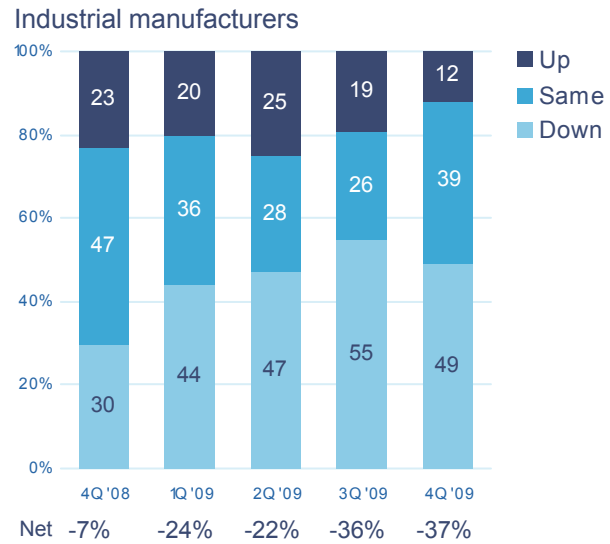
Note: In 4Q 2009 Industrial manufacturers n=60, All respondents, n=104

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 49 percent of US-based industrial manufacturers and up for only 12 percent, for a net minus 37 percent.

Chart 3.6 Inventory movement



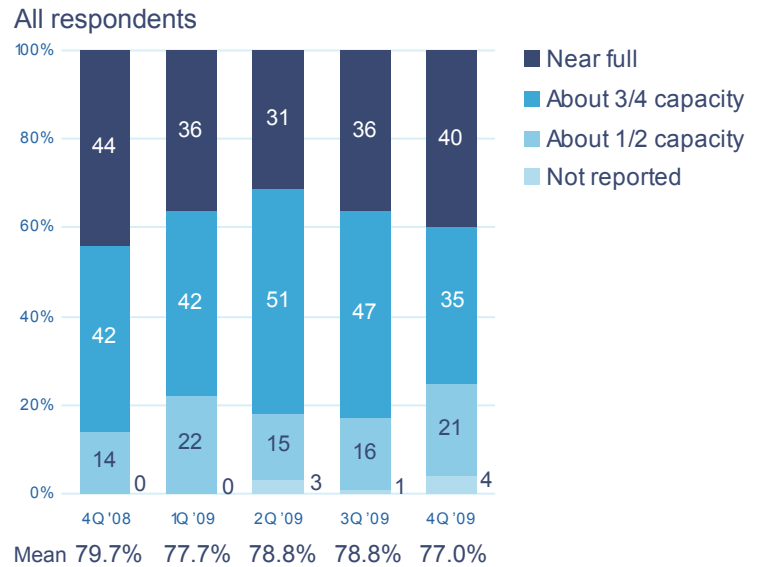
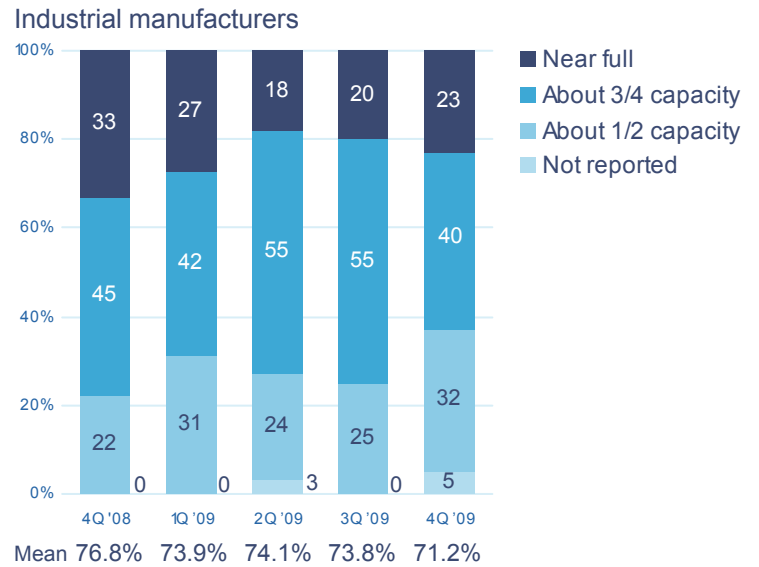
Note: In 4Q 2009 Industrial manufacturers n=60, All product sector respondents, n=84

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. In the fourth quarter, only 23 percent of industrial manufacturers surveyed claimed to be at or near capacity.

Chart 3.7 Level of operating capacity



Note: In 4Q 2009 Industrial manufacturers n=60, All respondents, n=104

Business outlook, next 12 months

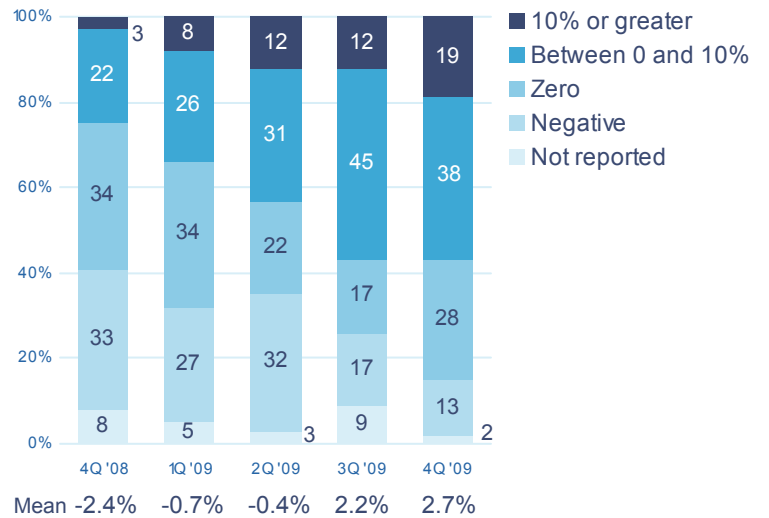
Revenue growth, next 12 months

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

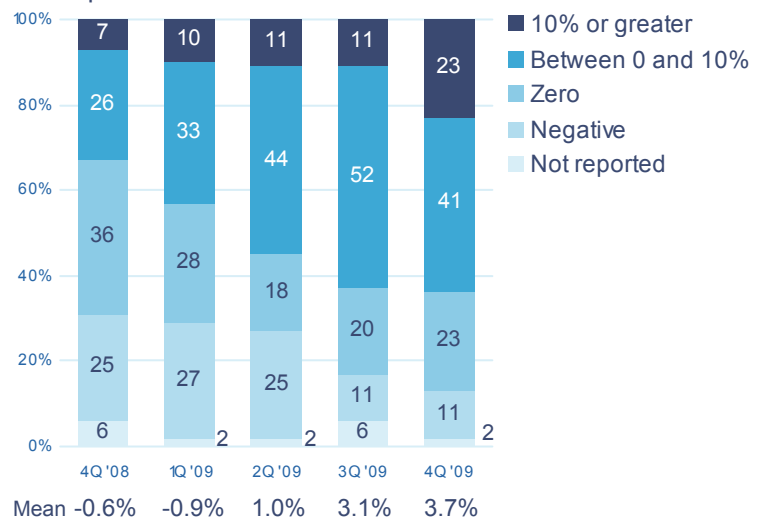
Looking ahead at the next 12 months, 57 percent of panelists expect positive growth for their own companies – with 19 percent forecasting double-digit growth and 38 percent forecasting single-digit growth. The projected average growth rate is plus 2.7 percent, slightly above the prior quarter's projected plus 2.2 percent. Only 13 percent forecast negative growth.

Chart 4.1 Revenue growth, next 12 months

Industrial manufacturers



All respondents



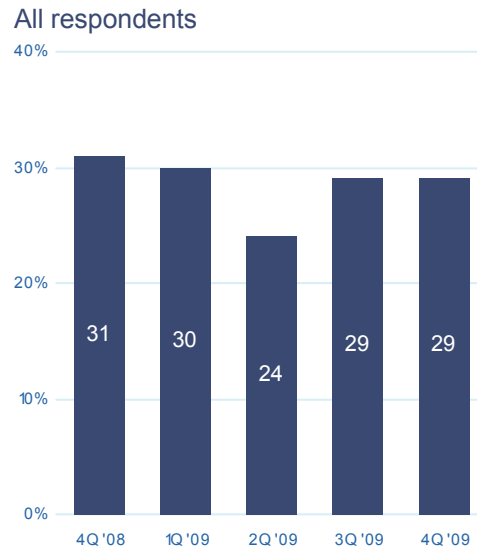
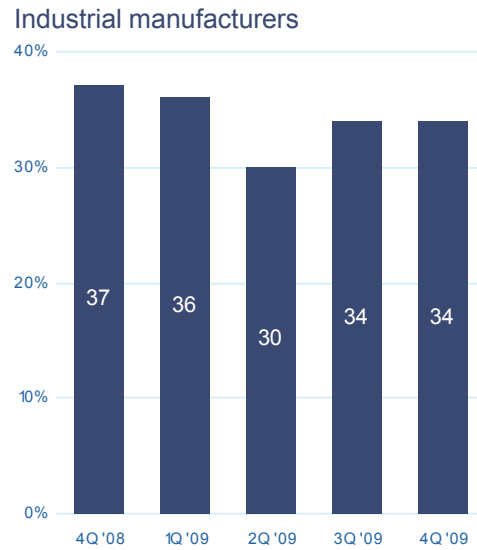
Note: In 4Q 2009 Industrial manufacturers n=60, All respondents, n=104

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 34 percent over the next 12 months, same as the prior quarter's 34 percent and slightly below last year's 37 percent.

Chart 4.2 International sales, next 12 months



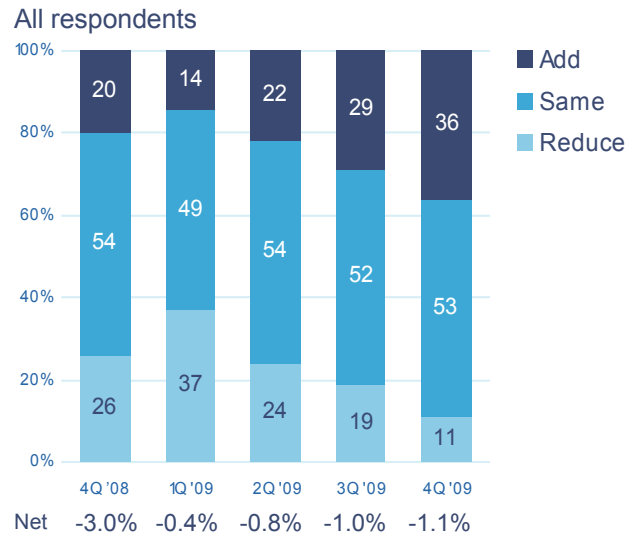
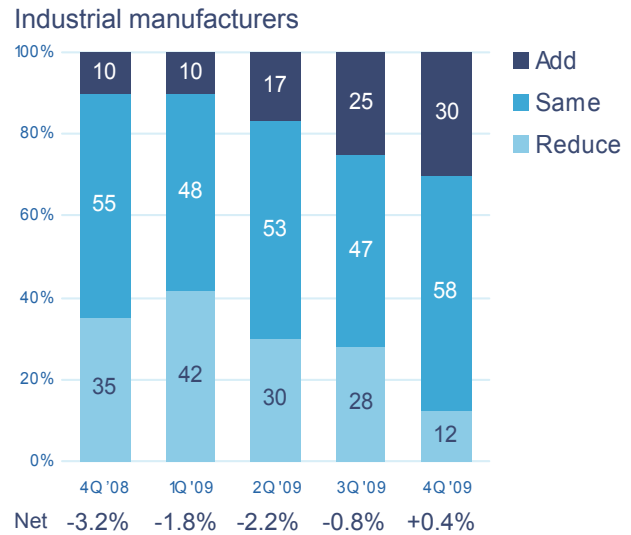
Note: In 4Q 2009 those marketing abroad, Industrial manufacturers n=56, All respondents, n=94

Percent planning to hire

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

Thirty percent of respondents plan to add employees to their workforces over the next 12 months (up 5 points), and only 12 percent plan to reduce the number of full-time equivalent employees (down 16 points). The net workforce projection is plus 0.4 percent, an improvement over last quarter's minus 0.8 percent.

Chart 4.3 Percent planning to hire



Note: In 4Q 2009 Industrial manufacturers n=60, All respondents, n=104

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 30 percent of respondents planning to hire within the next 12 months, the most sought-after employees will be professionals/technicians (23 percent).

Chart 4.4 Percent planning to hire by type of employee

Industrial manufacturers

	4Q '08	1Q '09	2Q '09	3Q '09	4Q '09
Planning to hire (net)	10%	10%	17%	25%	30%
• Professionals/technicians	5%	7%	7%	15%	23%
• Production workers	2%	2%	5%	8%	13%
• Skilled labor	3%	---	8%	8%	12%
• Sales/marketing	2%	3%	3%	10%	7%
• White collar support	3%	---	---	12%	2%

All respondents

	4Q '08	1Q '09	2Q '09	3Q '09	4Q '09
Planning to hire (net)	20%	14%	22%	29%	36%
• Professionals/technicians	11%	10%	11%	20%	26%
• Production workers	6%	4%	6%	11%	13%
• Skilled labor	5%	3%	8%	9%	12%
• Sales/marketing	6%	5%	6%	14%	13%
• White collar support	8%	2%	4%	11%	9%

Note: In 4Q 2009 Industrial manufacturers n=60, All respondents, n=104

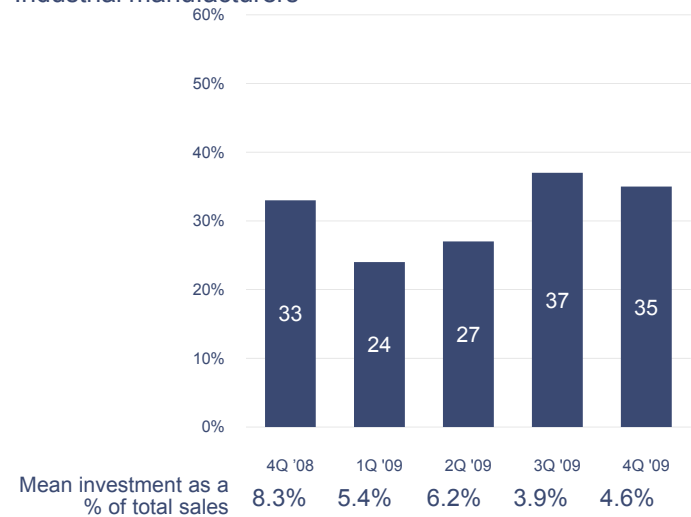
Percent planning major new investments of capital

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?

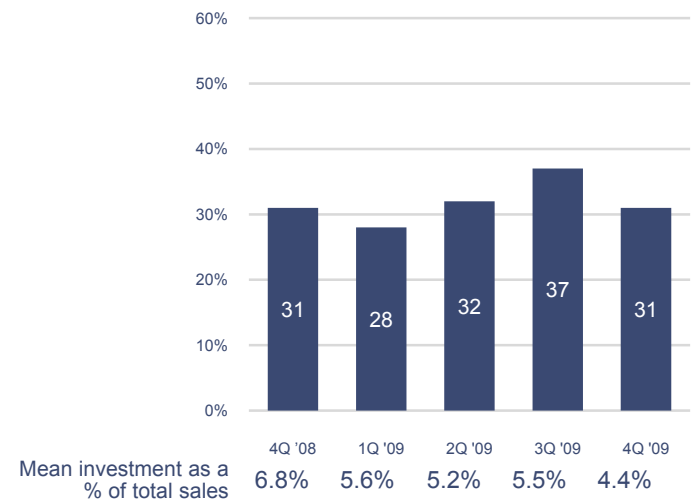
Many US-based industrial products manufacturers interviewed are planning new capital investments, but at a moderate rate. Thirty-five percent plan major new investments of capital during the next 12 months, compared with 37 percent last quarter and 33 percent last year. However, the mean investment as a percentage of total sales remained a moderate 4.6 percent compared with 3.9 percent last quarter and a high 8.3 percent a year ago.

Chart 4.5 Percent planning major new investments of capital

Industrial manufacturers



All respondents



Note: In 4Q 2009 Industrial manufacturers n=60, All respondents, n=104

Percent planning to increase operational spending

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

Looking at the next 12 months, 65 percent of respondents plan to increase operational spending, similar to last quarter's 68 percent. Among increased expenditures, new product or service introductions and research and development lead the way (37 percent each).

Chart 4.6 Percent planning to increase operational spending

Industrial manufacturers

	4Q '08	1Q '09	2Q '09	3Q '09	4Q '09
Percent planning to increase spending (net)	57%	53%	53%	68%	65%
• New product or service introduction	23%	29%	30%	40%	37%
• Research and development	15%	15%	18%	35%	37%
• Geographic expansion	30%	13%	17%	22%	27%
• Business acquisition	18%	8%	18%	33%	23%
• Facilities expansion	18%	11%	8%	18%	22%
• Information technology	28%	13%	12%	17%	22%
• Marketing & sales promotion	7%	5%	10%	7%	12%
• Advertising	2%	3%	7%	3%	8%
• Internet commerce	3%	3%	2%	3%	3%

All respondents

	4Q '08	1Q '09	2Q '09	3Q '09	4Q '09
Percent planning to increase spending (net)	58%	58%	56%	67%	70%
• New product or service introduction	21%	33%	29%	34%	41%
• Research and development	15%	14%	16%	29%	31%
• Geographic expansion	28%	16%	22%	24%	29%
• Business acquisition	22%	11%	24%	29%	24%
• Facilities expansion	20%	12%	16%	17%	20%
• Information technology	33%	18%	17%	27%	28%
• Marketing & sales promotion	14%	13%	17%	15%	23%
• Advertising	10%	10%	12%	14%	15%
• Internet commerce	7%	7%	7%	8%	7%

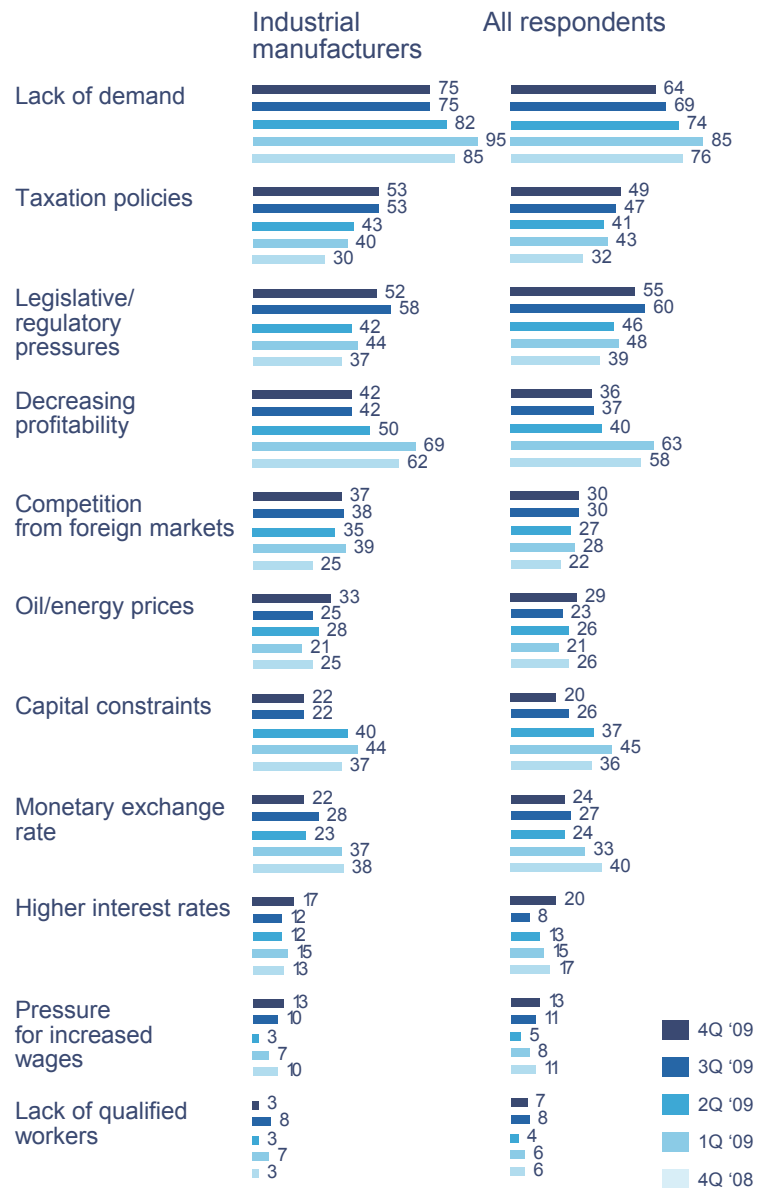
Note: In 4Q 2009 Industrial manufacturers n=60, All respondents, n=104

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 still the chief barrier to growth, cited by 75 percent of respondents. Concern about taxation policies remains high, at 53 percent, and decreasing profitability remains at 42 percent. Concern about legislative/regulatory pressures dropped 6 points to 52 percent. In contrast, oil/energy prices rose 8 points to 33 percent, but the number of respondents concerned is well below 2008 survey highs.

Chart 4.7 Expected barriers to business growth



Note: In 4Q 2009 Industrial manufacturers n=60, All respondents, n=104

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 dropped to 28 percent in the fourth quarter from 38 percent in the prior quarter. It was still driven by an interest in purchasing another business, indicated by 27 percent. New strategic alliances rose 5 points to a high 38 percent, and plans to expand to markets abroad climbed 5 points to 20 percent.

Chart 4.8 Plans for M&A and other business initiatives

Industrial manufacturers

	4Q '08	1Q '09	2Q '09	3Q '09	4Q '09
New business initiatives (net)	60%	55%	52%	70%	57%
• New strategic alliance	30%	27%	30%	33%	38%
• M&A activity (net)	32%	15%	28%	38%	28%
- Purchase another business	25%	10%	25%	37%	27%
- Sale part/all own business	8%	7%	5%	5%	7%
- Equity carve-out/spin-off	3%	2%	3%	2%	3%
• New joint venture	25%	20%	23%	22%	25%
• Expand to new markets abroad	32%	18%	27%	15%	20%
• New facilities abroad	20%	13%	13%	15%	12%
• Reduce activity in markets abroad	15%	16%	13%	12%	10%
• Close/reduce facilities abroad	13%	19%	10%	15%	8%

All respondents

	4Q '08	1Q '09	2Q '09	3Q '09	4Q '09
New business initiatives (net)	60%	58%	54%	63%	60%
• New strategic alliance	27%	25%	31%	33%	35%
• M&A activity (net)	33%	21%	32%	36%	28%
- Purchase another business	27%	16%	30%	34%	27%
- Sale part/all own business	9%	4%	7%	6%	6%
- Equity carve-out/spin-off	5%	3%	5%	3%	3%
• New joint venture	25%	20%	24%	21%	22%
• Expand to new markets abroad	30%	18%	28%	18%	27%
• New facilities abroad	16%	13%	11%	11%	12%
• Reduce activity in markets abroad	12%	15%	13%	12%	11%
• Close/reduce facilities abroad	9%	16%	6%	9%	7%

Note: In 4Q 2009 Industrial manufacturers n=60, All respondents, n=104

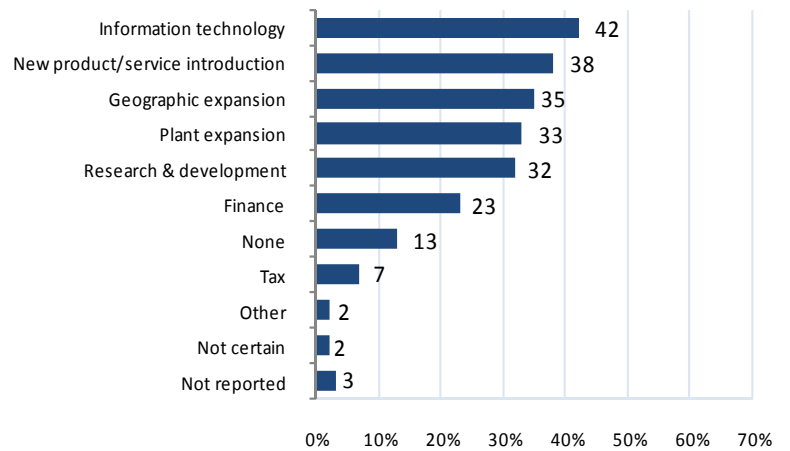
Special topics: project plans,
rehiring, and internal audit

What type of projects will start up again?

What type of projects does your business anticipate starting up again over the next six to 12 months that were put on hold due to the recession?

Projects that were on hold due to the recession but are most likely to get the green light are in the areas of information technology (42 percent); new product/service introduction (38 percent); and geographic expansion (35 percent).

Chart 5.1 Projects to move ahead post-recession (multiple answers allowed)

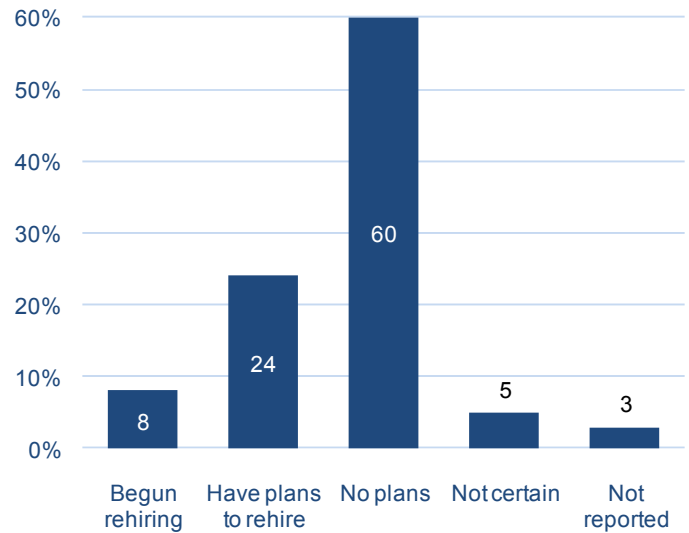


Rehiring laid-off workers

In the hiring area, has your business begun or does it have plans to rehire workers who were laid off during the economic downturn?

Sixty-percent of panelists said they have no plans to rehire workers who were laid off during the economic downturn. Of those planning to rehire workers, 8 percent have already started and an additional 24 percent have plans to rehire workers.

Chart 5.2 Rehiring laid-off workers



The role of the internal audit department during the downturn

Has internal audit played an important role over the past 12 months in helping your organization reduce costs during the downturn?

Twenty-four percent of panelists said their internal audit department has played an important role over the past 12 months in helping their organizations reduce costs during the downturn (for example: by eliminating waste, identifying fraud, increasing contract compliance, etc.) However, 68 percent did not, and 8 percent were not certain or did not report.

Twenty-five percent said their internal audit departments were downsized or experienced loss because of cost-cutting during the downturn, but 67 percent said their departments were not affected.

Outsourcing of internal audit functions during the downturn was reported by 18 percent. Most, 72 percent, did not outsource, and 10 percent were not certain or did not report.

Chart 5.3.1 Has internal audit played an important role in reducing costs during the downturn?

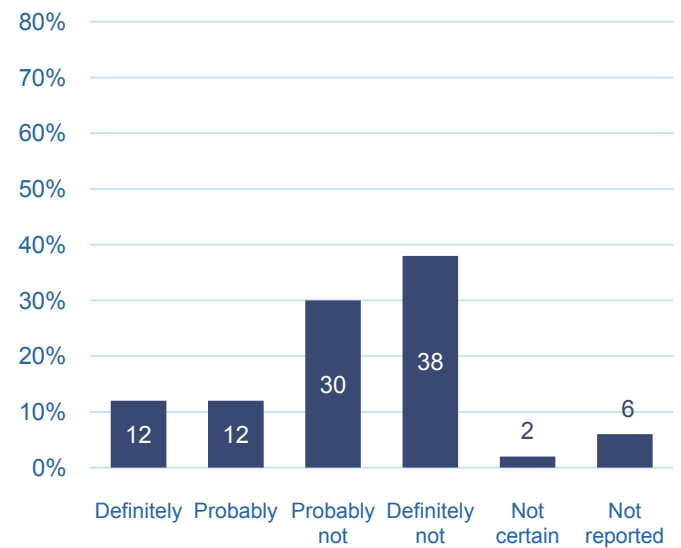


Chart 5.3.2 Did your firm downsize or cut costs of your internal audit department during the downturn?

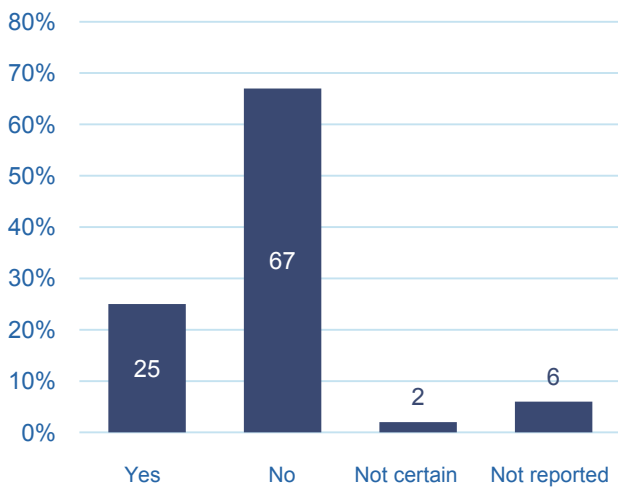
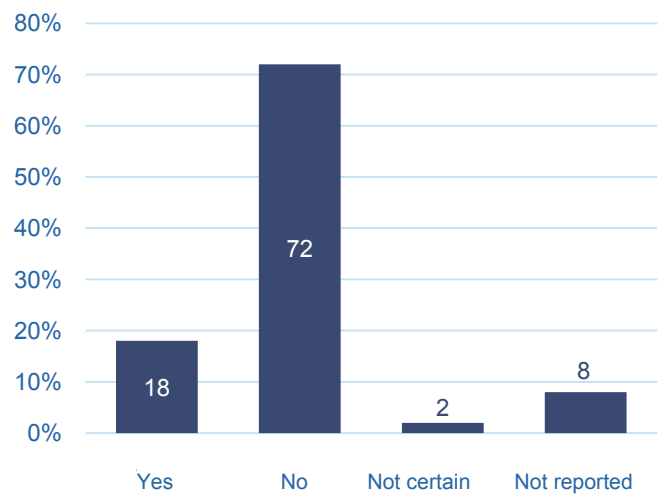


Chart 5.3.3 Did your firm begin outsourcing some or all of the functions of your internal audit department during the downturn?



Survey demographics and research methodology

Demographics

Who	Senior executives of US-based, industrial manufacturing organizations	
Interview dates	October 13, 2009 to January 12, 2010	
	Industrial manufacturers (60)	All respondents (104)
Average number of employees	7,216	7,870
Average business unit revenue	\$3.21 billion	\$3.00 billion
Average enterprise revenue	\$8.94 billion	\$8.76 billion
Market capitalization	\$9.19 billion	\$9.18 billion
Industry sectors	Products 100% Manufacturing 100% Trade/Distribution --- All other --- Services ---	Products 81% Manufacturing 71% Trade/Distribution 1% All other 9% Services 19%

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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