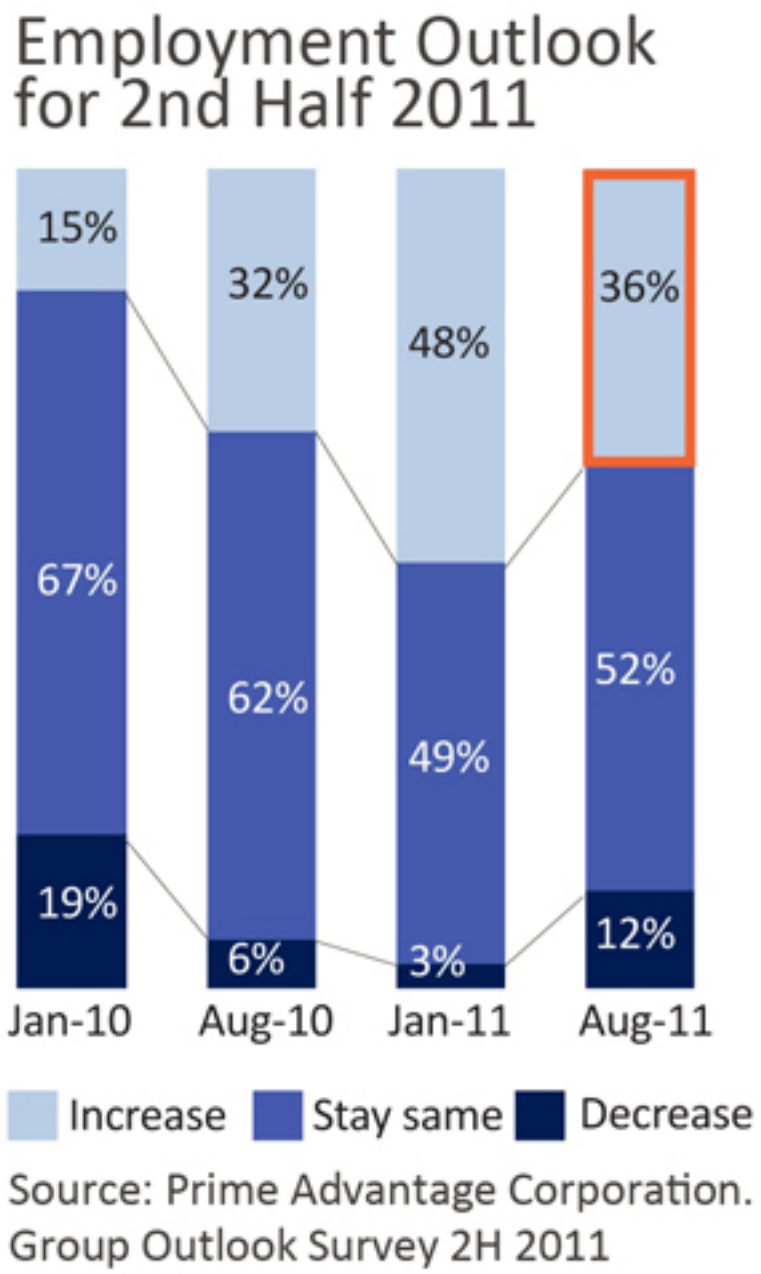
Midsized Manufacturers Continue Upward Course



The Prime Advantage Group Outlook survey reveals 87 percent of respondents predict revenues for the second half of year to be same or better than the first half 2011; 79 percent see capital spending to be the same or better than first half of 2011.

Prime Advantage announced the results of its eighth *Prime Advantage Group Outlook (GO) Survey*, revealing the top economic concerns of small and midsized North American manufacturers for the second half of 2011. The findings reveal that most of these companies are counting on continued economic growth for U.S. manufacturing for the rest of 2011, holding on to the confidence that was displayed

in the last semi-annual projection done by Prime Advantage in February 2011.

“Very positive to see that the optimism from earlier in the year is carrying through for the balance of 2011,” said Louise O’Sullivan, founder and CEO of Prime Advantage. “We’re pleased to see solid growth projections for our Members in key areas such as revenue, employment, and capital expenditures. Prime Advantage has an innovative group of company leaders in their respective industries that invested heavily in product development during the downturn, and are now reaping the benefits. Forty four percent said new products and/or new customers are fueling their growth. Clearly, our responsibility is to make sure Prime Advantage continues to provide them with a world class Endorsed Supplier base to enable further profitable growth.”

Highlights Of The Findings

- Forty percent said they expected to see increased revenues for the second half of 2011
- Nearly one quarter of the small and midsized manufacturing professionals who took the survey reported that their companies expect capital spending increases in the second half of 2011, while 55 percent said their capital expenditures would remain about the same as the first half of 2011
- Thirty six percent said they were planning new hires in the second half of 2011, and 52 percent said their staff levels would remain steady through the end of the year
- Nearly one-third of all survey respondents said that their business was negatively impacted by the earthquake and tsunami that hit Japan in April. Other events, including unrest in Libya and damage from violent storms, also contributed to respondents’ needing to find alternative sources and work to control logistics cost increases.

Revenue Expectations For 2011 Continue To Show Optimism

Forty percent of survey respondents are expecting revenue increases over the last half of 2011. The leading drivers of this expected increase include new product lines and overall growth in customer demand. Respondents are more positive this year than in August 2010, when 36 percent of respondents expected revenues to increase in the next 6 months. Another 47 percent believe that revenues will remain the same for the rest of the year, on par with August 2010, where 45 percent felt revenues would remain the same.

Just 13 percent said they predicted revenues would fall in the last half of 2011, with anticipated slowdown in specific markets and overall customer demand listed as main reasons for the decline. This number shows improved confidence when compared to August 2010, when 18 percent anticipated revenues to decline.

This positive outlook is also reflected in the recent National Association of Manufacturers Survey [1], with an equal percentage of respondents (86 percent) forecasting revenue increases over the next year.

Capital Spending More Careful

Seventy nine percent of those surveyed stated capital spending, such as purchases of property or equipment, would stay equal to February projections, or increase over the last half of 2011. Of these, 54 percent predicted their capital spending would remain steady and 24 percent predicted an increase. Another 21 percent said they would decrease their spending as compared to the first half of 2011, on par with August 2010 (20 percent). Similar projections were just announced in the National Association of Manufacturers Survey, with 82 percent of manufacturers expecting capital spending to increase or stay the same over the next year.

Employment Outlook More Conservative

Eighty eight percent of the respondents surveyed expect employment levels to either match February projections or increase, with 51 percent holding steady and 36 percent expecting to increase employment in the second half of 2011. These numbers show a slight increase over the expectations from August 2010 (when 32 percent expected more hiring), while results of the June RSM McGladrey Manufacturing & Distribution Monitor Report [2] reflected slightly more optimism, with the majority of respondents expecting an increase in hiring.

Survey respondents also expect a slight increase in layoffs from the beginning of this year (11 percent over the last half of 2011, compared to just three percent predicted for the first half of 2011, and six percent in August 2010). This result is far from the levels of January 2010, when 20 percent of companies expected layoffs.

Top Cost Pressures: Raw Materials & Components, Logistics & Health Care

The top cost pressures that most concern mid-sized manufacturing companies over the next six months include the cost of raw materials (82 percent), followed by the cost of base materials for components (72 percent). Logistics and healthcare nearly tied as the third highest cost pressure concern (43 percent and 40 percent, respectively).

Raw materials and components (such as metals and plastics) have appeared as the top cost pressure in every Group Outlook survey conducted since June 2008. However, this survey's results suggest the situation is improving slightly over the January 2011 results, when 96 percent of respondents including it as a top three concern. The recent Beige Book [3] echoes that, with a majority of districts reporting fewer price pressures.

Supply Chain Focus Issues

When asked to rank supply chain focus points for the remainder of 2011, 81 percent said that cost containment and reduction was the top issue, followed by the need to reduce inventory levels (59 percent), managing and reducing supply chain risks (45 percent), and eliminating inefficient processes (44 percent).

Work Culture Changes With Younger Employees

Almost half of all respondents indicated they feel noticeable differences between generations. The following areas were the top three most frequently cited differences:

1. Expectations for having ideas heard and used
2. Willingness to challenge authority/status quo
3. Comfort mixing aspects of personal life and business life

In the past 10 years, Prime Advantage has returned more than $110 million in rebates and discounts to its members. These real savings are helping U.S. companies gain a powerful competitive advantage.

Methodology: In August 2011, Prime Advantage surveyed executives and purchasing professionals that represent durable goods manufacturing firms, with annual revenues ranging between $10 million and $1 billion, of which the majority ranges between $20 million and $500 million. The survey received a 14 percent response rate from 528 top professionals representing U.S.-based manufacturers in more than 25 different industries, including commercial foodservice, packaging, truck and trailer, material handling, food processing, and construction. Prime Advantage has polled its membership for their impressions of current economic conditions on a semi-annual basis since February 2008.

To request a copy of the Prime Advantage 2011 2H Group Outlook Survey visit: www.primeadvantage.com/groupoutlook/ [4].

Founded in 1997, Prime Advantage is a buying consortium for industrial manufacturers with more than 700 members and more than 125 endorsed suppliers. For more information on Prime Advantage, visit the website at www.primeadvantage.com *[5].*

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