

Industrial Manufacturers Optimistic About U.S. Economy

PwC

U.S. industrial manufacturers expect continued global economic growth in 2012, with optimism regarding the prospects for the U.S. economy continuing to rise, according to the Q1 2012 Manufacturing Barometer released by PwC US. Optimism regarding the broader world economy also improved, but only moderately as uncertainty remains prevalent across the globe. Reflecting the overall rise in sentiment, more companies plan to hire employees in the year ahead, while a majority forecast increased investment spending. In addition, companies are reporting improved profitability and decreased concerns regarding barriers to growth, despite volatile oil/energy prices worldwide and ongoing concerns regarding legislative/regulatory issues, among other factors.

Optimism regarding the prospects of the U.S. economy during the next 12 months rose 40 points among industrial manufacturers, to 70 percent in the first quarter of 2012 from 30 percent in the fourth quarter of 2011. The gain follows considerable fluctuation in sentiment during the past year, including the historically low level of optimism of five percent, recorded in last year's third quarter.

According to the PwC Manufacturing Barometer, optimism about the world's economic prospects also increased, rising to 44 percent in the first quarter of 2012, up 28 points from 16 percent in the fourth quarter of 2011. However, 45 percent of survey participants remain uncertain, while 11 percent are pessimistic regarding the world economy. Underscoring the increased confidence levels overall, the projected average growth rate for own-company revenues rose to 5.6 percent for the year ahead, up from 4.4 percent reported in the fourth quarter of 2011. Overall, 92 percent of respondents expect positive revenue growth from their operations, with 17 percent forecasting double-digit gains and 75 percent seeing single-digit growth.

"Optimism regarding the U.S. economy among U.S. industrial manufacturers improved markedly during the first quarter of 2012, while views of the worldwide economy remain guarded, improving only modestly due to continued high levels of uncertainty. The positive gains in sentiment, primarily in the U.S., have been buttressed by higher forecasts for own-company revenue in 2012, as well as perceived decreases in barriers to growth. Moreover, margins remained positive, aiding confidence levels and supporting plans for hiring and investment," said Barry Misthal, global industrial manufacturing leader for PwC. "Following a prolonged period of streamlining and cost-cutting during the economic downturn, there is no question that companies have achieved efficiency gains, while balance sheets improved measurably. Hence, management teams are increasingly focusing on strengthening their product offerings and competitive positioning, as well as evaluating global expansion strategies through both M&A and new facilities

Industrial Manufacturers Optimistic About U.S. Economy

Published on Industrial Maintenance & Plant Operation (<http://www.impomag.com>)

building.”

Looking back at the first quarter of 2012, 68 percent of U.S. industrial manufacturers surveyed believed the U.S. economy was growing, up 40 points from 28 percent reported in the fourth quarter of 2011. None believed it was declining, and 32 percent saw no change from the fourth quarter of 2011. Thirty-six percent of the respondents marketing abroad believed the world economy was also growing, up 20 points from the fourth quarter of 2011, while 16 percent believed that the world economy was declining, off 20 points from the fourth quarter, and 48 percent said they saw no change. Regarding own-company international revenues, U.S.-based industrial manufacturers that sell abroad noted improved upward movement in the first quarter, with 48 percent reporting an increase in worldwide sales (up 12 points), and only eight percent reporting a decrease. Forty-four percent said sales remained about the same.

Gross margins improved during the first quarter of 2012, moving higher for 45 percent of respondents and lower for 13 percent, for a net plus 32 percent – nine points higher than the prior quarter. In the first quarter 2012, costs and prices rose sharply: 50 percent of U.S.-based industrial manufacturers reported higher costs, and only eight percent reported lower costs, for a net plus 42 percent, 25 points above the prior quarter. Forty-three percent raised prices but seven percent lowered them, for a net plus 36 percent reporting higher prices, up 14 points over the previous quarter.

“In spite of exposure to increased costs globally, industrial manufacturers generated margin growth in the first quarter as they continued to benefit from operating efficiencies and improved pricing flexibility. This uptick in profit levels bodes well for investment spending as companies put their cash to work in the coming months,” added Misthal.

Regarding investment spending, 82 percent of panelists plan increased capital outlays in 2012, driven by new product or service introductions (52 percent), information technology (47 percent) and geographic & facilities expansion (42 percent each). The mean investment as a percentage of total sales rose from the fourth quarter’s moderate 4.2 percent to a robust 6.0 percent in the first quarter of 2012 – indicative of continued spending among the majority of panelist participants.

Industrial manufacturers are also increasingly turning to technology innovation to improve their business models and processes. Over the next one to two years, more than 90 percent of panelists plan to implement new technologies to meet the needs of consumers, customers and employees to support digital transformation.

The employment picture appears to be improving as well with 50 percent of industrial manufacturers planning to add employees to their workforce in 2012, up 13 points from the fourth quarter of 2011. Only seven percent plan to reduce the number of full-time equivalent employees, and 43 percent will stay about the same. The net workforce projection is plus 0.8 percent, up slightly from last quarter’s plus 0.7 percent. Among the respondents who plan on hiring, the most

Industrial Manufacturers Optimistic About U.S. Economy

Published on Industrial Maintenance & Plant Operation (<http://www.impomag.com>)

sought-after employees will be production workers (37 percent), professionals/technicians (32 percent), and skilled workers (32 percent).

On the M&A front, the number of respondents planning activity in 2012 rose five points to 43 percent, with 42 percent considering the purchase of another business. Plans for expansion into new markets abroad remained high at 35 percent, and plans for new strategic alliances was 35 percent. The number planning new facilities abroad was 33 percent, but new joint ventures dropped 12 points from last quarter to 28 percent. "The increase in potential acquisition activity highlights firming conviction levels regarding the economic outlook, supported by expanded liquidity and improving profitability levels," Misthal added.

Regarding perceived barriers to growth during the next 12 months, the top three categories were oil/energy prices (53 percent), lack of demand (47 percent) and legislative/regulatory pressures (40 percent). Taxation concerns dropped 13 points to 20 percent, while concern about decreasing profitability remained low at 22 percent.

Special Topic: Digital Technology Evolution

According to the 2012 first quarter PwC Manufacturing Barometer, 91 percent of industrial manufacturers surveyed believe technology is important in achieving the strategic objectives of their business and virtually all industrial manufacturers (98 percent) have used technology to improve performance in a wide array of areas to help achieve strategic goals, including manufacturing processes (84 percent), supply chain/distribution (73 percent) and business intelligence and reporting (71 percent).

Looking ahead, 71 percent of industrial manufacturers view digital change and digital transformation important to the growth of their businesses over the next 1-2 years. A net 71 percent of panelists cite changes in customer demands and needs as a result of digital change, particularly with regard to product information access. In addition, a net 67 percent of panelists cite changes in supplier/partner demands and needs as a result of digital change, with order management capabilities leading the way.

Overall, 51 percent of panelists are revising their business models to address new commerce and communication demands with their customers, with technology and supply chain models leading the way. Technology investment plans are primarily focused on mobility (69 percent) and cloud computing (57 percent). Further, among the business benefits of digital change cited by panelist companies are increased business agility (69 percent), improved operating performance (65 percent) and revenue growth (33 percent).

"The majority of major industrial manufacturers are embracing technology to drive growth and improve efficiencies across their operations," noted Misthal.

"Technology innovation has clearly emerged as a core component of strategic planning in the industrial manufacturing sector."

Industrial Manufacturers Optimistic About U.S. Economy

Published on Industrial Maintenance & Plant Operation (<http://www.impomag.com>)

About the Manufacturing Barometer

[PwC's Manufacturing Barometer](#) [1] is a quarterly survey based on interviews with 60 senior executives of large, multinational U.S. industrial manufacturing companies about their current business performance, the state of the economy and their expectations for growth over the next 12 months. This survey summarizes the results for Q1 2012 and was conducted from February 8 through April 20, 2012.

To view the complete Manufacturing Barometer report, visit <http://www.pwc.com/manufacturing-barometer> [1]. For information about other Barometer surveys, including recent economic trend data and topical issues, visit <http://www.barometersurveys.com> [2].

Source URL (retrieved on 04/28/2015 - 3:29pm):

<http://www.impomag.com/articles/2012/05/industrial-manufacturers-optimistic-about-us-economy>

Links:

[1] <http://www.pwc.com/manufacturing-barometer>

[2] <http://www.barometersurveys.com/>