U.S. Industrial Manufacturers Remain Optimistic

PwC

The majority of U.S. industrial manufacturers [1] who were surveyed remain optimistic regarding prospects for the U.S. economy, but sentiment about the global economic outlook continues to weaken, according to the Q2 2012 Manufacturing Barometer [2] released by PwC US [3]. According to the survey, overall revenue projections among U.S. industrial manufacturers remain positive, with 88 percent of respondents expecting revenue growth at their own companies and only five percent expecting negative results. In addition, 87 percent of respondents said they were planning increases in operational spending in the year ahead.

“Despite the perception by some of the increasing challenges globally, sentiment regarding the direction of the U.S. economy among U.S. industrial manufacturers remained positive during the second quarter,” said Bobby Bono, U.S. industrial manufacturing leader for PwC. “Overall spending plans remain healthy with a focus on new product introductions in the face of a competitive environment across multiple sectors. However, we are seeing some moderation in planned outlays for R&D, as well as geographic expansion, which may portend a more conservative approach given worldwide economic conditions.”

Although optimism towards the U.S. economy dropped from 70 percent in the first quarter of 2012 to 52 percent in the second quarter, U.S. industrial manufacturers remain largely positive, recording only seven percent being pessimistic and 41 percent uncertain. In contrast, only 13 percent of those selling abroad are optimistic about the world economy, a decline of 31 points from the first quarter. In addition, 20 percent are pessimistic and 67 percent are uncertain about worldwide business prospects.

Notwithstanding the respondents' comments on the global economy, the projected average revenue growth for the year ahead among those surveyed remained at 5.6 percent, consistent with the first quarter survey, but below last year’s 6.5 percent estimate. The respondents identified three key barriers to growth during the next 12 months, including legislative/regulatory pressures (58 percent, up 18 points from last quarter), lack of demand (48 percent) and oil/energy prices (48 percent).

In addition, the projected contribution from international sales among companies marketing abroad was 37 percent, relatively constant with the first quarter of 2012.

The majority (55 percent) of U.S. industrial manufacturers surveyed plan major new capital investments in the year ahead, up slightly from the first quarter of 2012. The mean investment as a percentage of total sales remained moderately high at 5.3 percent, but below last quarter’s six percent. In addition, 87 percent of respondents plan to increase operational spending, led by investment in new products or service introductions (52 percent) and information technology (50 percent). However, only 35 percent forecast increased spending on research and development, the lowest level since the second quarter of 2010.

“While U.S. industrial manufacturers are strengthening their spending plans, fewer are planning net new hiring during the next 12 months, slightly below last quarter,” continued Bono. “However, the next 12-month workforce projection is a slightly higher 0.9 percent, a sign that some companies will be adding at slightly higher rates.”

Gross margins constricted considerably in the second quarter of 2012, as only 27 percent of respondents reported higher gross margins, off 18 points from the first quarter. Cost pressures declined during the second quarter with 30 percent of respondents noting that costs rose, down 20 points from 50 percent during the first quarter. At the same time, pricing increases have also narrowed. Only 18 percent of respondents reported price increases during the second quarter, down 25 points from the previous quarter. This was the lowest level of reported price increases since the second quarter of 2010. Looking ahead, 28 percent of respondents now view decreased profitability as a barrier to growth during the next 12 months, up six points from the first quarter.

“Gross margins tightened during the quarter and both costs and prices decreased,” said PwC’s Bono. “If growth is slowed going forward, U.S. industrial manufacturers may continue to take a measured approach to pursuing growth opportunities with an emphasis on maintaining profitability and healthy cash reserves.”

PwC’s Q2 Manufacturing Barometer highlights that 40 percent of U.S. industrial manufacturers plan for merger and acquisition (M&A) activity during the next 12 months, and new strategic alliances increased seven points from last quarter to 42 percent in the second quarter of 2012. Expansion to new markets abroad also rose slightly to 37 percent from 35 percent in the first quarter, and new joint ventures rose five points from last quarter to 33 percent in the second quarter.

About the Manufacturing Barometer

PwC's Manufacturing Barometer *[2] 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 Q2 2012 and was conducted from April 25, 2012 to July 10, 2012.*

To view the complete Manufacturing Barometer report, visit http://www.pwc.com/manufacturing-barometer *[2]. For information about other Barometer surveys, including recent economic trend data and topical issues, visit* http://www.barometersurveys.com *[4].*

About PwC’s Industrial Products practice

PwC’s Industrial Products *[5] (IP) practice provides financial, operational, and strategic services to global organizations across the* aerospace & defense *[6] (A&D),* business services *[7],* chemicals *[8],* engineering & construction *[9] (E&C),* forest, *paper, & packaging [10] (FPP), industrial manufacturing [1], metals [11], and transportation & logistics [12] (T&L) industries. With more than 31,000 professionals located in over 150 countries, PwC's IP global professionals deliver a wide range of industry-focused tax, assurance, and advisory services to address critical business issues. For more information please visit: www.pwc.com/us/en/industrial-products [13]*

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