PwC: U.S. Industrial Manufacturers Are Optimistic

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NEW YORK — Sentiment regarding the prospects for the U.S. economy in the year ahead increased among U.S. industrial manufacturers [1], while uncertainty around outlook for the world economy prevailed, according to the Q4 2012 Manufacturing Barometer [2] released by PwC US [3]. According to PwC's survey, 48 percent of respondents expressed optimism about the 12-month outlook for the U.S. economy during the fourth quarter of 2012, up 11 points from the third quarter, while only seven percent were pessimistic.

Reflecting the increased level of optimism, 83 percent of respondents forecast revenue growth at their own companies for the next 12 months, and only three percent expect negative results. Along with greater optimism, indications regarding new hiring increased to 58 percent, up 21 points from the same quarter in 2011. In addition, the projected average growth rate for own-company revenue over the next 12 months increased to 5.2 percent in the fourth quarter of 2012 up from a forecast of 4.6 percent in the third quarter of 2012 and 4.4 percent in the fourth quarter of 2011. These numbers contrast with sentiment regarding the international markets, where optimism regarding the 12-month outlook remained low at 32 percent and uncertainty remained high at 53 percent.

"Overall sentiment among U.S. industrial manufacturers regarding the prospects for the domestic economy rose in the fourth quarter along with company growth projections, which trended higher as well," said Bobby Bono, U.S. industrial manufacturing leader for PwC. "The improved sentiment regarding the domestic outlook contrasts with the continued high level of uncertainty concerning the international stage. This dichotomy appears to be playing out in the healthy indications for net new hiring and operational investment, which contrast with the pullback in plans for international expansion. Management teams are placing their bets on the U.S. economy as they seek avenues to strengthen their competitive positions and foster growth."

According to the fourth quarter survey, among the 58 percent of respondents who intend to hire over the next 12 months, the most sought-after employees are expected to be professionals/technicians (58 percent), skilled laborers (35 percent) and production workers (43 percent). All of these categories increased over the third quarter and only seven percent of survey respondents plan to reduce the number of full-time equivalent employees.

With regard to investment spending, 47 percent of respondents plan major capital investments over the next 12 months, slightly below last quarter (49 percent) and well below a year ago (67 percent). The mean investment as a percentage of total sales was 5.3 percent, similar to the third quarter's 5.8 percent and up from 4.2 percent in the fourth quarter of 2011. According to PwC's survey respondents, operational spending plans remained consistent in the fourth quarter of 2012, with

80 percent planning increased spending in the next 12 months, off slightly from 83 percent in the third quarter of 2012. The top categories pertaining to increased expenditures included facilities expansion (43 percent), new products or service introductions (40 percent) and research & development (38 percent).

Plans for M&A activity over the next 12 months remained consistent with 35 percent of respondents, compared to 37 percent in the third quarter of 2012. Of that number, 32 percent are looking at purchasing another business, while 13 percent are considering a sale of part or all of their own business. Companies planning to expand into new markets abroad remained low at 23 percent, consistent with the third quarter of 2012, but down considerably from 40 percent in the fourth quarter of 2011. In addition, only 17 percent of respondents indicated plans to establish new facilities abroad, similar to the third quarter's 16 percent, but off significantly from 32 percent in last year's fourth quarter.

"We are clearly seeing a pullback in overseas expansion planning, as management teams cautiously analyze the global outlook and keep their cash onshore," Bono continued. "Bolstered by strong balance sheets, we can expect to see a reversal of these trends as the global macroeconomic climate improves and companies seek to more aggressively compete for business in international markets." According to the Q4 Barometer, 87 percent of respondents are currently conducting business in the BRIC countries, with China leading the way at 79 percent, while expansion plans for the next one-to-two years, are expected to focus on India and Russia.

With regard to barriers to growth during the next 12 months, industrial manufacturers continued to point to lack of demand (52 percent) as the greatest concern, although this category lessened in the fourth quarter of 2012 from 67 percent in the third quarter of 2012. Other factors included legislative/regulatory pressures (47 percent) and oil/energy prices (42 percent). Survey respondents also identified taxation policies as a barrier to growth at 33 percent, up 10 points from the third quarter of 2012. This notable spike can potentially be attributed to the growing uncertainty companies faced leading up to presidential election and impending fiscal cliff resolution. In addition, potential concerns regarding decreasing profitability rose to 30 percent, up 9 points from the third quarter of 2012.

Gross margins rose moderately in the fourth quarter of 2012. They were higher for 35 percent of panelists (up 9 points) and lower for 22 percent (off 1 point), for a net plus 13 percent, ten points higher than the third quarter's plus three percent. At the same time, costs and prices rose moderately in the fourth quarter of 2012. Thirty-five percent of industrial manufacturers reported higher costs (up 5 points), and 17 percent reported lower costs, for a net plus 18 percent higher, two points above the third quarter's 16 percent. On the price side, 25 percent raised prices (off three points) but 15 percent lowered them, for a net plus 10 percent reporting higher prices, in line with the third quarter.

About the Manufacturing Barometer

PwC's Manufacturing Barometer *[2] is a quarterly survey based on interviews with*

57 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 Q4 2012 and was conducted from October 9, 2012 to January 14, 2013. 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

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