

# Manufacturing Barometer™

## Financial Crisis

As the world continued to feel the effects of the economic downturn in first quarter 2009, PricewaterhouseCoopers (PwC) reached out to a large number of US-based industrial manufacturers to determine their sentiments regarding the Troubled Assets Relief Program (TARP). Additionally, this survey uncovered the methods that organizations plan to use in their efforts to contain costs, their use of the credit markets, tax planning actions, and how companies view their cash management forecasting.

### Who is in the market for credit and why?

Forty-two percent of senior executives surveyed reported their companies were in the market for credit in the past year. However, when asked whether they plan to be in the credit market over the next six to 12 months, only 27 percent responded affirmatively. Delving further into this topic, the survey uncovered the primary reasons for credit requests as: operational capital (65 percent), business expansion (24 percent), and mergers and acquisitions (18 percent). The following comparison of the credit market from last year through the next 12 months is telling.

	Past 12 months	Plan for next 6–12 months
Any credit market action	42%	27%
<b>Primary Purpose</b>		
Operational capital	77%	65%
Business expansion	8%	24%
M&A	12%	18%
Strategic investment	8%	6%
Facilities construction	4%	6%
Other	11%	12%

While borrowing is on the decline, the reasons behind credit requests remain relatively unchanged. The perceived changes in borrowing for operational capital (decrease) and M&A (increase) are reflective of the smaller pool of organizations that will have access to available credit or plan to access credit at all. Interestingly, it appears that more organizations plan to borrow for business expansion purposes—an increase to 24 percent from 8 percent. This seems to indicate that organizations that are doing well plan to take advantage of low interest rates to expand.

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## Positive expectations regarding TARP

When asked about the government's efforts to bring liquidity to the credit markets through TARP, most senior executives (78 percent) said they expect it will have a positive impact. Most of those who felt that TARP and commercial paper underwriting could be effective (70 percent) think it will have the most impact on financial markets over the long term (beyond the next six months). Only 10 percent believe it has already been effective, and 37 percent believe it will become effective within the next three to six months.

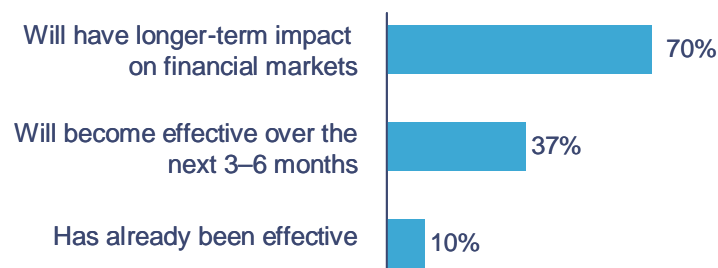
Few of the senior executives surveyed (16 percent) believe the government TARP program will benefit their company within the next six to 12 months. Sixty percent do not believe it will help them specifically, and 19 percent are uncertain. These findings are logical, considering that few senior executives said they plan to be involved in the credit markets within the next year.

## Taking actions to reduce costs

US-based industrial manufacturers are taking or plan to take multiple steps over the next six to 12 months to reduce costs and working capital requirements within their organizations. On average, respondents are taking five to six of the 12 steps surveyed. Widespread actions include: renegotiation of supply or distribution contracts (79 percent), production cuts (71 percent), inventory reduction (71 percent), and delayed or cancelled projects (68 percent). Fifty-three percent plan workforce reductions, and 26 percent plan to close plants in the United States or abroad. Following are the responses for all surveyed steps:

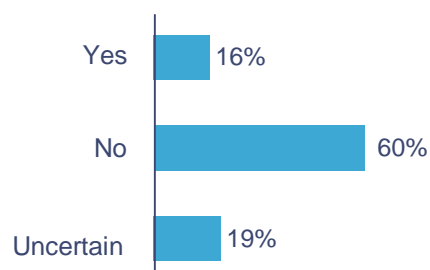
Renegotiate supply or distribution contracts	79%
Production cuts	71%
Reduce inventory	71%
Delay or cancel projects	68%
Workforce reductions	53%
Eliminate nonprofitable operations	52%
Tax planning	45%
Cut salaries or employee benefits	29%
Delay international expansion	29%
Renegotiate financing	26%
Close plants here or abroad	26%
Asset sales	23%
Other	5%

Chart 1. What do you believe is the impact of the government's efforts to bring liquidity to the credit markets over the past 3–4 months through TARP investments and commercial paper underwriting? (N/A responses not shown)



Note: Multiple responses permitted

Chart 2. Do you feel that the government bailout/TARP program will benefit your company in the near term, over the next 6–12 months? (N/A responses not shown)



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It is important to note that workforce reductions and plant closings do not top the list. Historically, organizations turn to these methods more readily when it is believed that a downturn will be long and drawn out, but they can be difficult and expensive to reverse. Although workforce reductions can be accomplished relatively quickly, they can lead to the loss of skilled workers who are difficult to replace once a recovery begins. Similarly, while simply shutting down a plant can, in some cases, be done quickly, restarting is often a lengthy and involved process. Therefore, these results indicate that organizations are hopeful that the economic downturn will not be extensive and want to be in a favorable position when the recovery process begins.

## Limiting credit exposure and taking tax planning actions

Seventy-seven percent of survey respondents plan to take actions to limit credit exposure within their organizations. In the next six to 12 months, these organizations will be assessing the risk and exposure in their commercial transactions (66 percent), financial counterparty credits (65 percent), and supply chain credits (61 percent).

Additionally, 74 percent of respondents plan to take tax planning actions within the same time frame. The majority (55 percent) anticipate a global tax position review. Other tax plans include: 10-year net operating loss carrybacks (42 percent), research and development alternative minimum tax monetization (39 percent), custom duty minimization (37 percent), and accounting method changes (16 percent). Organizations appear to be open to strategies for repatriating foreign earnings—a step that they have avoided historically because of its cost—to look for opportunities to manage cash more efficiently.

Chart 3. Does your company plan on taking any of the following actions to limit credit exposure over the next 6–12 months? (N/A responses not shown)

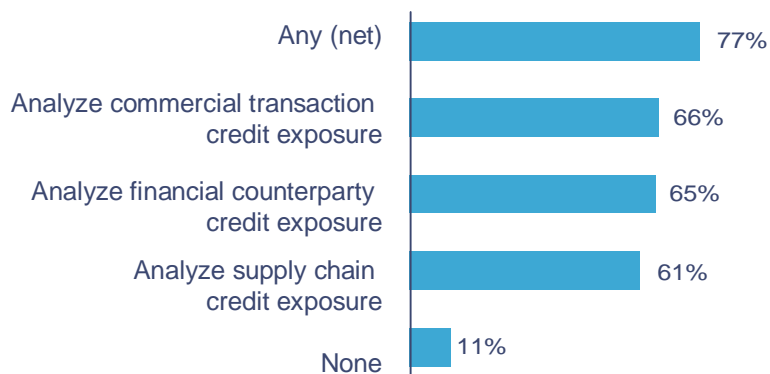
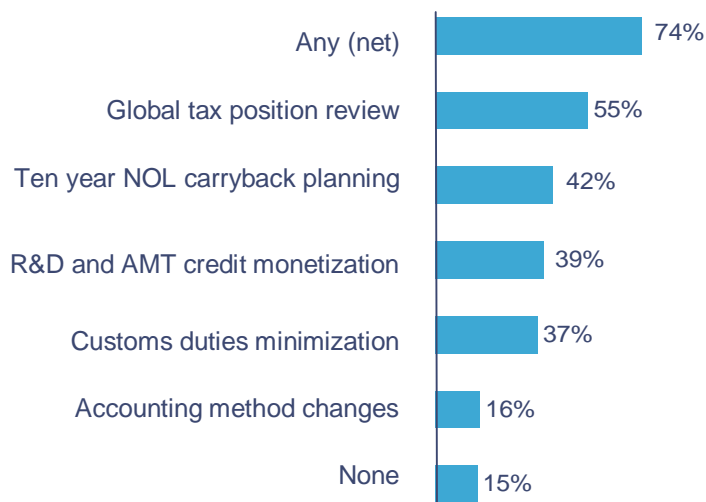


Chart 4. Does your company plan on taking any of the following tax planning actions over the next 6–12 months? (N/A responses not shown)



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Fifty-eight percent of senior executives also said that changes in tax law for investment tax credits and depreciations would be helpful to their organizations. This included 13 percent who said they would be very helpful and 45 percent who said somewhat helpful. The remaining executives said they do not believe this would help their companies (18 percent) or were not certain (11 percent)—13 percent did not respond.

## Cash management forecasting

Most senior executives appear to be at least somewhat satisfied with the timeliness of their organizations' cash management forecast information (81 percent) and its accuracy (80 percent). However, few are very satisfied (28 percent for both).

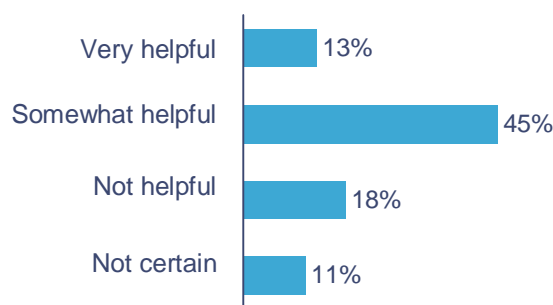
	Timeliness	Accuracy
Very satisfied	28%	28%
Somewhat satisfied	53%	52%
Not satisfied	11%	13%
Not certain	3%	3%
Not reported	5%	4%

As economic turmoil appears to lessen—compared with the volatility organizations were experiencing in recent months—and more companies adapt their processes to react accordingly, they can expect the timeliness and accuracy of forecasts to improve. This will help executives feel more comfortable that the decisions they make are based on reliable information.

Fewer senior executives felt satisfied with long- (61 percent) and mid-term forecasts (74 percent) than they did with short-term forecasts (81 percent). Because the economy has not stabilized, these responses are logical, as it is more difficult to anticipate what is in store in the long term in today's business environment.

	Short-term forecasts	Mid-term forecasts	Long-term forecasts
Very satisfied	29%	21%	16%
Somewhat satisfied	52%	53%	45%
Not satisfied	10%	16%	28%
Not certain	5%	5%	6%
Not reported	4%	5%	5%

Chart 5. How helpful would tax law changes in investment-tax credits and depreciation be to your company in the near term, over the next 6–12 months? (N/A responses not shown)



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## **Is the economy finally stabilizing?**

Considering these survey results, coupled with the results of the Manufacturing Barometer, it appears that US-based industrial manufacturers are starting to feel slightly more optimistic about economic conditions. While caution is still prevalent, trends indicate reduced volatility. Organizations are looking for alternative methods to reduce costs and improve savings and are optimistic about government attempts to enhance liquidity.

## **Contact**

Bob McCutcheon  
Partner, US Industrial Products Sector  
+1.412.355.2935

Barry Misthal  
US Industrial Manufacturing Leader  
+1.267.330.2146

## 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](http://www.barometersurveys.com). To receive our survey results by email, visit: [www.barometersurveys.com/mail](http://www.barometersurveys.com/mail).

## 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

## Demographics

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Who	Sixty-two senior executives of US-based, industrial manufacturing organizations
Interview dates	January 17, 2009 Through April 14, 2009
Average number of employees	7,609
Average business unit revenues	\$4.68 billion
Average enterprise revenues	\$9.83 billion
Market capitalization	\$6.58 billion

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