Consumer Products Barometer™

Business outlook report
February 2009

PricewaterhouseCoopers

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Quarterly highlights

In the fourth quarter of 2008, PricewaterhouseCoopers interviewed a panel of 54 US-based consumer products executives about their current business performance, the state of the economy, and their expectations for business growth over the next 12 months. We then compared their business outlook with the prior quarter's results to see how the 12-month outlook has changed. The final step was to compare their views with a wider panel to help us understand how the industry differs from the broader population. Overall, Consumer Products businesses project a slightly negative revenue growth in the year ahead as pessimism and uncertainty about the US and global economies prevail. International sales will be a critical uncertainty with increased expectations over the next 12 months.

Key findings:

- **Pessimism still dominates.** Of senior executives interviewed, 63 percent are pessimistic about the US economy's prospects over the next 12 months, a decrease of 11 points over the prior quarter's high (74 percent). Only 9 percent remain optimistic, and 28 percent are uncertain. Attitudes are similar toward the global economy's 12-month outlook, with 57 percent pessimistic, only 4 percent optimistic, and 39 percent uncertain.
- **International sales will be critical.** Hit by the global economic slowdown, consumer products companies selling abroad expect the contribution of international sales to total revenue to hold up in the face of declining total revenues, projecting it at a higher, 27 percent over the next 12 months (up 6 points). However, 4Q 2008 international sales lost momentum with only 22 percent up but 36 percent down.
- **Revenue projections negative.** Looking ahead, panelists reset their 12-month revenue growth projections from 2.7 percent last quarter to a minus 0.5 percent, a 3 point decrease. A year ago, projections were markedly higher, at 5.1 percent. Only 39 percent of those interviewed plan for revenue growth over the next 12 months, with 4 percent expecting double-digit growth and 35 percent expecting single-digit growth. However, 22 percent expect negative growth.
- **Demand is the chief hurdle.** Low demand is ranked as the top barrier to own-company growth over the next 12 months, cited by 69 percent. Concern about decreasing profitability in the absence of total revenue growth is now a close second, rising 20 points to 61 percent. On the positive side, oil/energy prices receded as a barrier, off 24 points to 37 percent as crude oil prices fell from $140 a barrel to the $40 range.
- **A break from the cost-price spiral.** With oil/energy and commodity prices strikingly lower, far fewer reported cost or price increases in 4Q2008. Costs increased for 32 percent of consumer products companies (off 35 points) but 32 percent decreased– a net of zero with higher costs, down from net 50 percent in the prior quarter. Similarly, price increases were reported for 26 percent (off 33 points) and lowered by 22 percent– to a net plus 4 percent, down from last quarter's net 48 percent increasers.

  However, gross margins remained almost as tight in 4Q2008 as in the prior two quarters: 26 percent were higher, and 43 percent were lower, for a net minus 17 percent. And, looking ahead, 61 percent are concerned about decreasing profitability as a barrier to growth over the next 12 months.
- **Investments, spending slower.** Fewer panelists plan major new investments of capital over the next 12 months – 22 percent, down 4 points from last quarter and 21 points below a year ago. They're also curtailing the level of capital investment over the same period, projecting it at an average 2.6 percent of sales. Increased operational spending is planned by 52 percent, down 11 points from last quarter. New product or service introductions and IT lead as spending categories. Plans to increase spending for research and development over the next 12 months remained at a low of 11 percent.
- **Workforce cutbacks ahead.** Only 13 percent of consumer products companies plan to increase their workforce over the next 12 months, down 9 points from a year ago. Thirty percent will be reducing full-time equivalent employees, up 20 points from a year ago. With this outlook, the composite workforce projection for the next 12 months is minus 2.1 percent. A year ago, it was plus 0.7 percent, prior to the last three quarters of layoffs.
- **M&A activity off sharply.** Only 22 percent report plans for M&A activity over the next 12 months. A mixed picture emerged as 30 percent plan to expand to markets abroad, up 6 points from last quarter, and 24 percent plan new facilities abroad. Strategic alliances were cited by 26 percent.

A quarter-by-quarter comparison of key indicators shows the business outlook for the next 12 months and how the views of the panel have changed each quarter (see chart 1.1). The pages that follow provide a detailed look at each question for the previous five quarterly surveys.

Key indicators for the business outlook

Chart 1.1 Key indicators for the business outlook

A quarter-over-quarter comparison of the key indicators shows how the 12-month outlook has changed. The change column indicates the movement of opinion from the past two quarters.

Business outlook, next 12 months among large consumer products businesses	2007	2008				Change	Page
	4Q '07	1Q '08	2Q '08	3Q '08	4Q '08	3Q–4Q '08	
Optimistic about US economy	22%	19%	17%	9%	9%	=	7
Optimistic about world economy	48%	33%	17%	6%	4%	=	9
Expect positive revenue growth	83%	83%	73%	63%	39%	↓	19
Average growth rate expected	5.1%	5.7%	3.2%	2.7%	-0.5%	↓	19
Planning major new investments	43%	45%	37%	26%	22%	↓	23
New investments as a % of sales	7.2%	5.8%	9.7%	5.6%	2.6%	↓	23
Planning to hire	22%	22%	24%	9%	13%	↑	21
New workers as a % of workforce (net)	+0.7%	+2.5%	-0.1%	-0.5%	-2.1%	↓	21
Expected barriers to growth							
• Lack of demand	42%	54%	54%	65%	69%	↑	25
• Decreasing profitability	33%	40%	49%	41%	61%	↑	25
• Monetary exchange rate	36%	47%	51%	35%	39%	↑	25
• Oil/energy prices	72%	79%	93%	61%	37%	↓	25
• Legislative/regulatory pressures	31%	24%	19%	28%	35%	↑	25
• Higher interest rates	21%	16%	19%	28%	28%	=	25
• Competition from foreign markets	31%	29%	29%	17%	28%	↑	25
• Capital constraints	14%	19%	17%	24%	26%	=	25
• Taxation policies	16%	17%	15%	19%	22%	↑	25
• Pressure for increased wages	36%	24%	36%	20%	13%	↓	25
• Lack of qualified workers	24%	12%	12%	9%	6%	↓	25

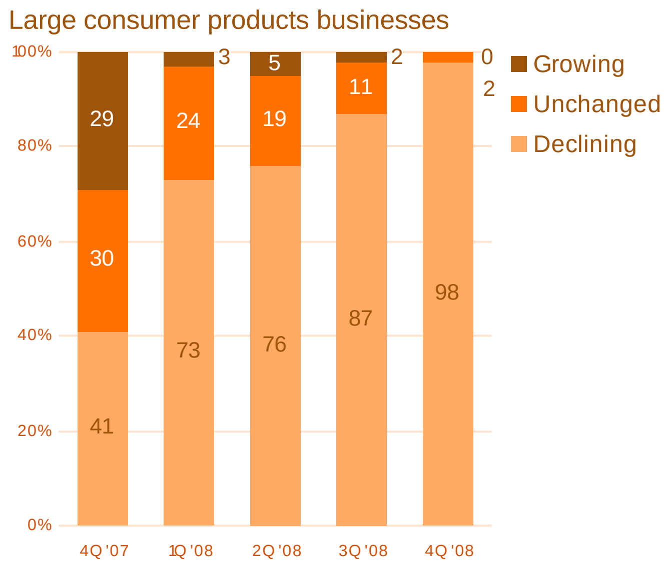
Economic views

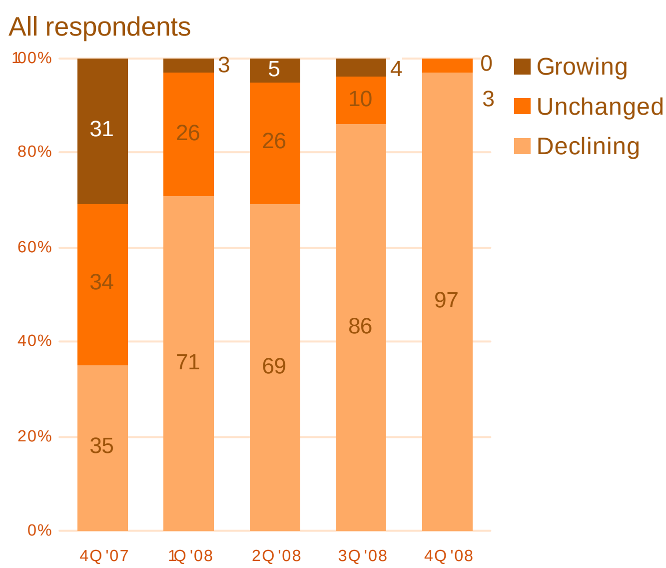
View of the US economy, this quarter

Which best describes your view of the US economy this quarter?

None of consumer products senior executives believe the US economy is growing. This is markedly below last year's 29 percent. Most, 98 percent, believe it is declining, and 2 percent view it as unchanged.

Chart 2.1 View of the US economy, this quarter





Note: In 4Q 2008, large consumer products businesses n = 54, all respondents, n = 130.

View of the US economy, next 12 months

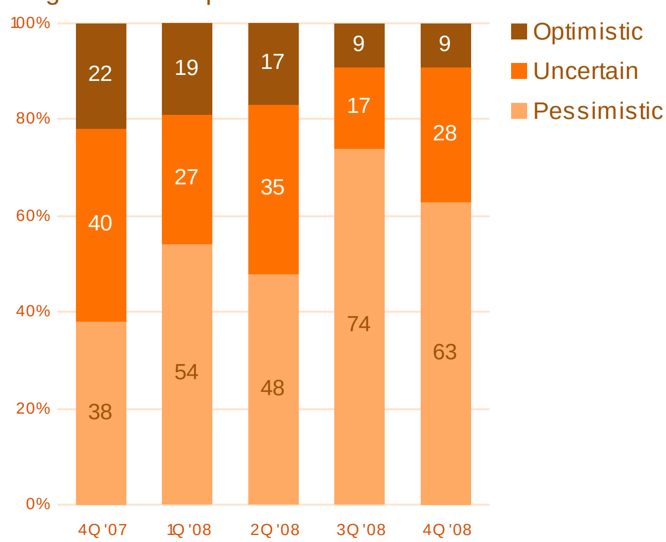
Looking at the next 12 months, how do you feel about the prospects for the US economy?

Only 9 percent of senior executives surveyed are optimistic about the US economy over the next 12 months, same as the prior quarter and 13 points below last year. Currently, 63 percent are pessimistic — off 11 points from 74 percent in the third quarter. And 28 percent are uncertain.

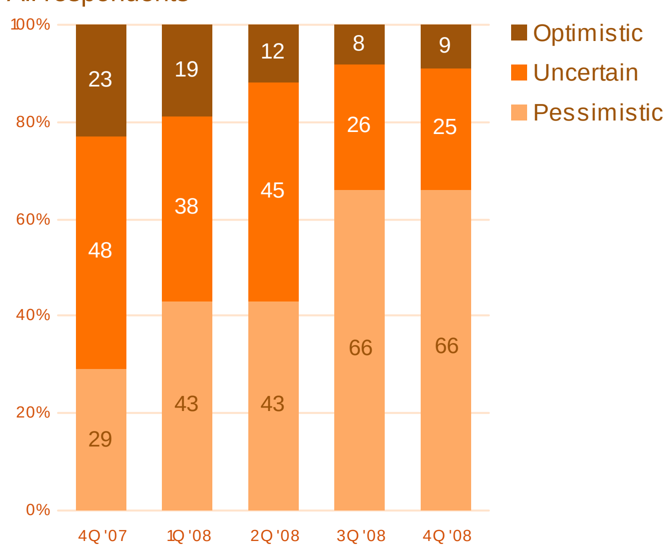
Note: In 4Q 2008, large consumer products businesses n = 54, all respondents, n = 130.

Chart 2.2 View of the US economy, next 12 months

Large consumer products businesses



All respondents



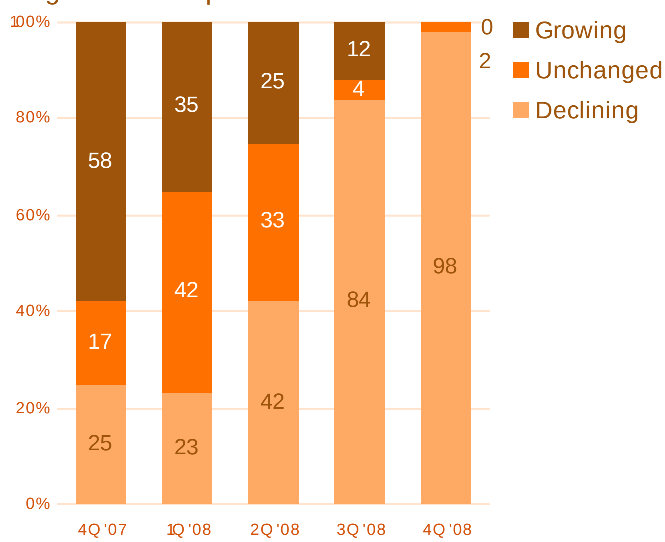
View of the world economy, this quarter

Which best describes your view of the world economy this quarter? (international marketers only)

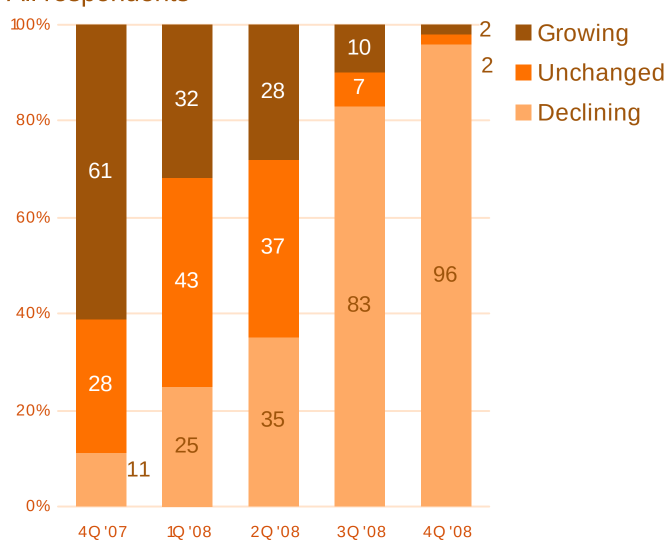
In line with views on the US economy, none of those marketing abroad view the world economy as growing, down from 12 percent the prior quarter and well below last year's 58 percent. This quarter, 98 percent of respondents view the world economy as declining, up from 84 percent last quarter.

Chart 2.3 View of the world economy, this quarter

Large consumer products businesses



All respondents



Note: In 4Q 2008, large consumer products businesses n = 52, all respondents, n = 115.

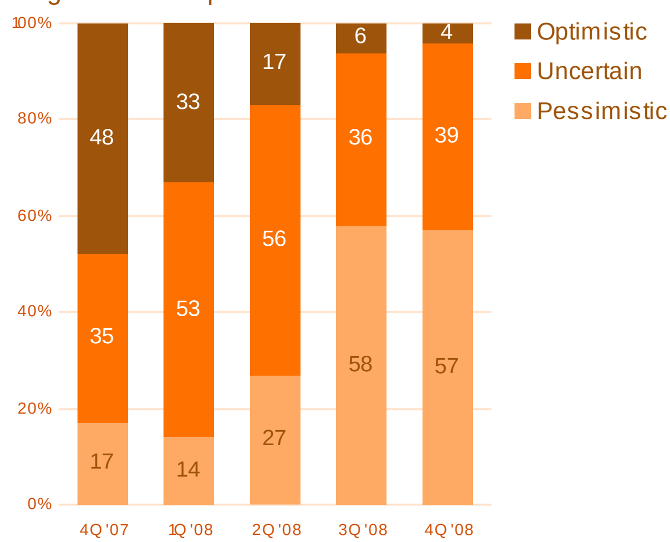
View of the world economy, next 12 months

Looking at the next 12 months, how do you feel about the prospects for the world economy? (international marketers only)

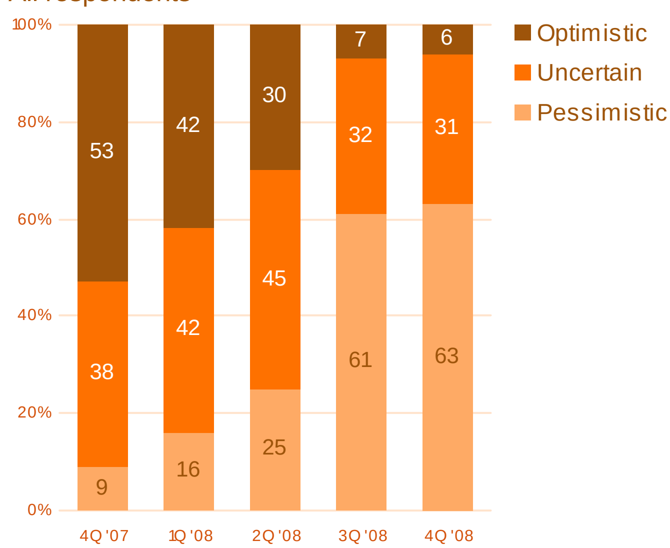
Only 4 percent of panelists whose businesses market abroad are optimistic about the prospects for the world economy over the next 12 months, similar to last quarter and well below a year ago (48 percent). Fifty-seven percent are pessimistic, similar to last quarter, and 39 percent are uncertain.

Chart 2.4 View of the world economy, next 12 months

Large consumer products businesses



All respondents



Note: In 4Q 2008, large consumer products businesses n = 52, all respondents, n = 115.

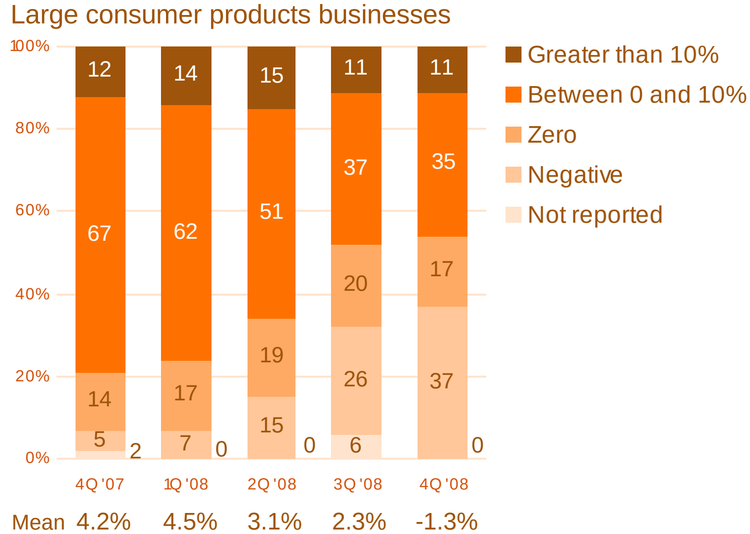
Company performance

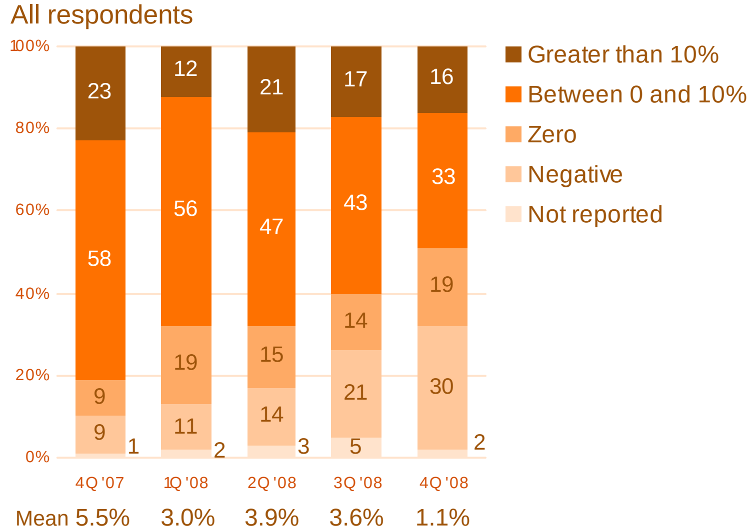
Company revenue growth, calendar year

What is your company's estimated revenue growth rate for the calendar year?

Only forty-six percent of respondents expect revenue growth in 2008; 11 percent expect double-digit growth, and 35 percent expect single-digit growth. Thirty-seven percent project negative growth (up 11 points), and 17 percent project zero growth. Overall, the average growth projection decreased from 2.3 percent in the previous quarter to minus 1.3 percent in the fourth quarter.

Chart 3.1 Company revenue growth, calendar year





Note: In 4Q 2008, large consumer products businesses n = 54, all respondents, n = 130.

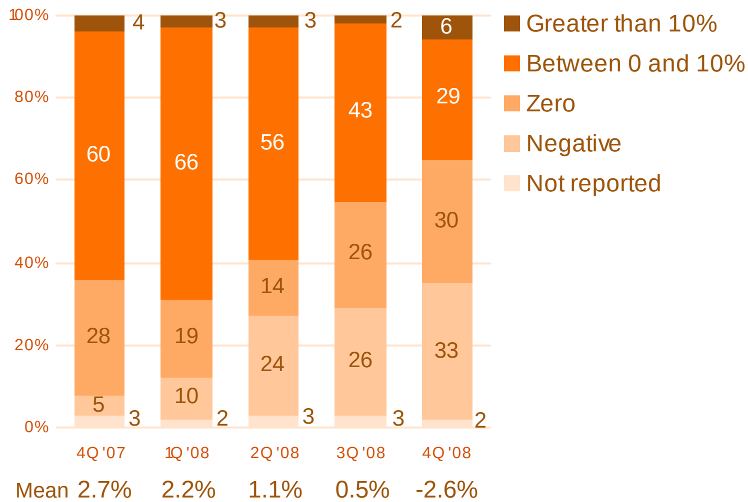
Industry growth rate, calendar year

What is your industry's estimated growth rate for the calendar year?

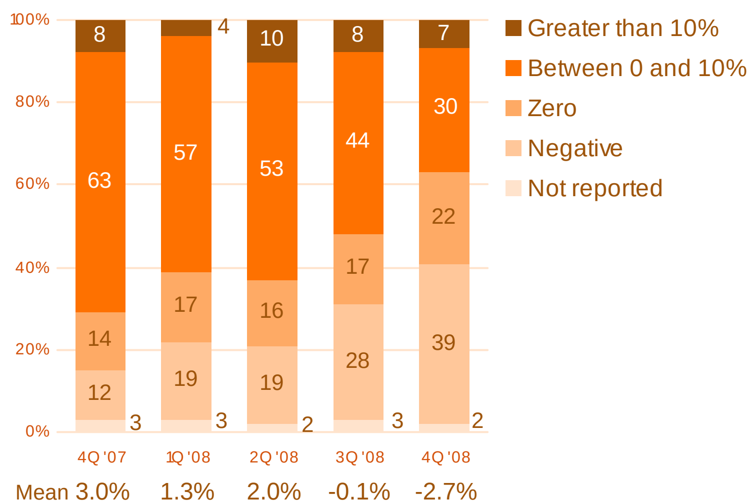
US-based consumer products manufacturers' anticipated average growth rate for their own companies in 2008 is minus 1.3 percent, as shown in the previous chart. Own company growth is well above what is estimated for the industry at minus 2.6 percent.

Chart 3.2 Industry growth rate, calendar year

Large consumer products businesses



All respondents



Note: In 4Q 2008, large consumer products businesses n = 54, all respondents, n = 130.

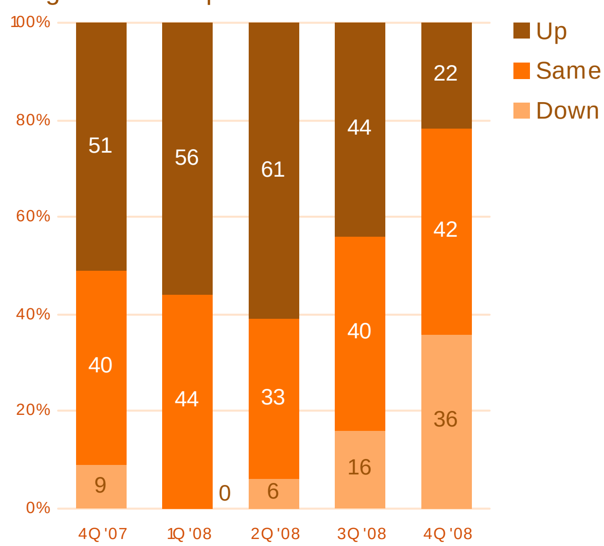
International sales

Are international sales up, down, or the same compared with three months ago?

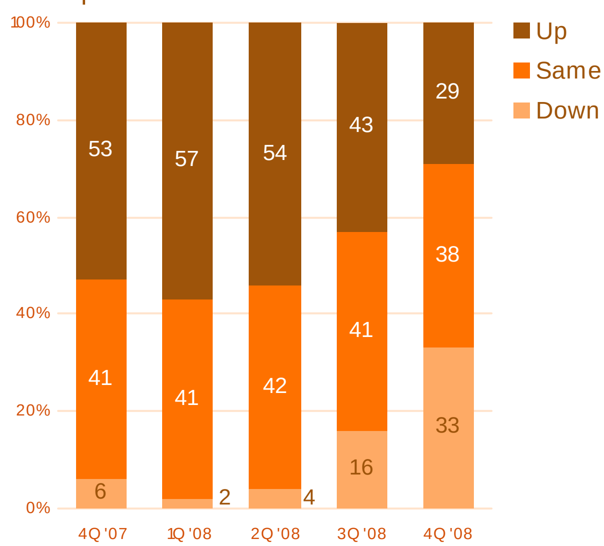
Although international marketers continue to forecast positive growth for consumer products companies that sell abroad, projections made in the fourth quarter are not as strong as those from previous quarters. Only 22 percent of international marketers project increased sales abroad, down 22 points from the third quarter. Also in the fourth quarter, 36 percent reported a decrease in international sales, up 20 points from the prior quarter. A net 14 percent were decreasers in 4Q 2008.

Chart 3.3 International sales

Large consumer products businesses



All respondents



Note: In 4Q 2008, large consumer products businesses n = 52, all respondents, n = 115.

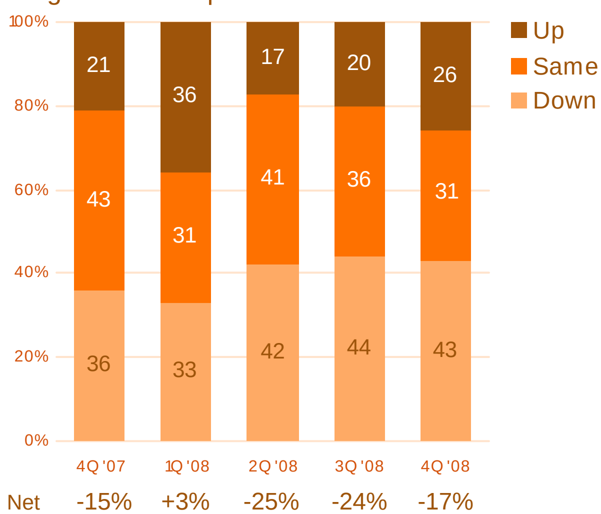
Changes in gross margins

Are gross margins up, down, or the same compared with three months ago?

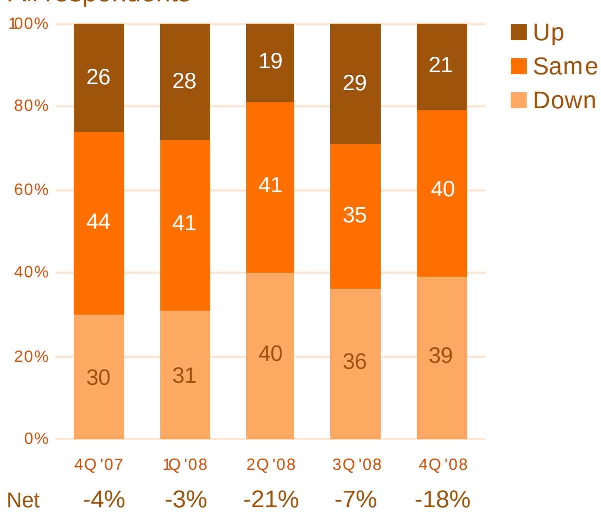
In the fourth quarter, gross margins remained negative for consumer products businesses overall; 26 percent were higher, and 43 percent were lower. Gross margins were a net negative 17 percent, above last quarter and 2 points lower than a year ago.

Chart 3.4 Changes in gross margins

Large consumer products businesses



All respondents



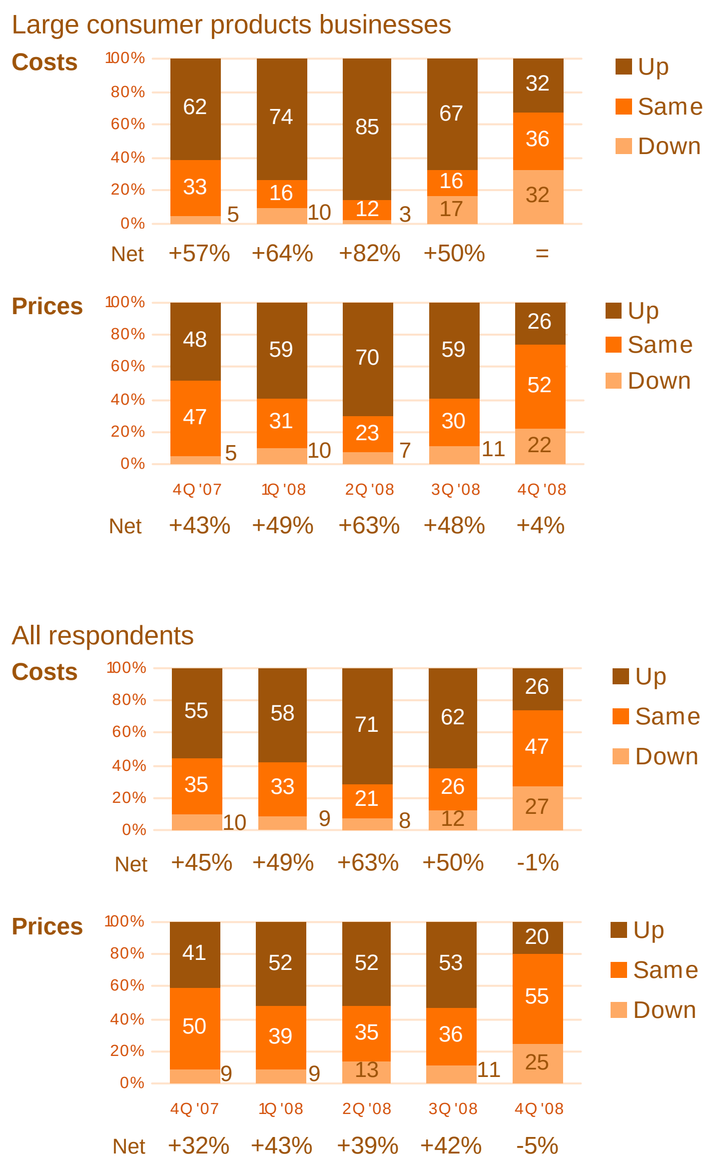
Note: In 4Q 2008, large consumer products businesses n = 54, all respondents, n = 130.

Changes in costs and prices

Are costs up, down, or the same compared with three months ago? Prices?

The cost-price spiral ended in 4Q2008. Costs increased for 32 percent of consumer products businesses (off 35 points) but decreased for 32 percent – a net of zero with higher costs, down from 50 percent the prior quarter. Prices were up for 26 percent of respondents (off 33 points), and down for 22 percent – for a net of plus 4 percent with higher prices, down from last quarter's 48 percent.

Chart 3.5 Changes in costs and prices



Note: In 4Q 2008, large consumer products businesses n = 54, all respondents, n = 130.

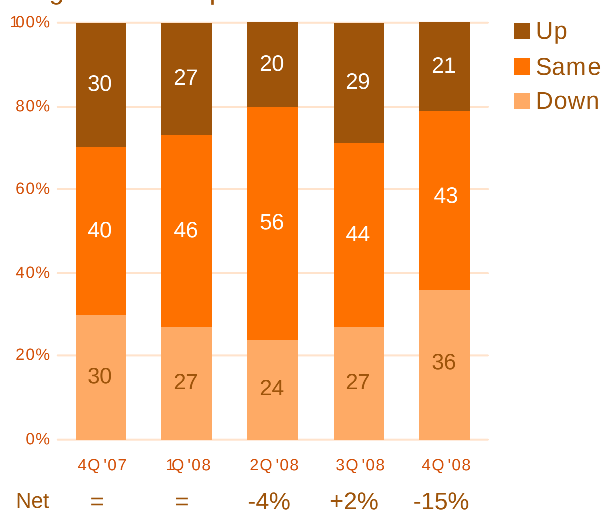
Inventory movement

Are finished inventories as a percent of sales up, down, or the same compared with three months ago?

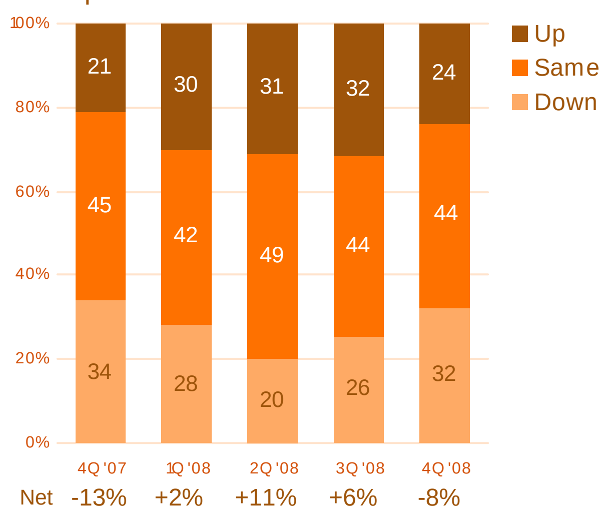
Overall, net inventories were lower for panelists: 21 percent reported higher inventories, 36 percent lower, and 43 percent were about the same.

Chart 3.6 Inventory movement

Large consumer products businesses



All respondents



Note: In 4Q 2008, large consumer products businesses n = 54, all respondents, n = 130.

Level of operating capacity

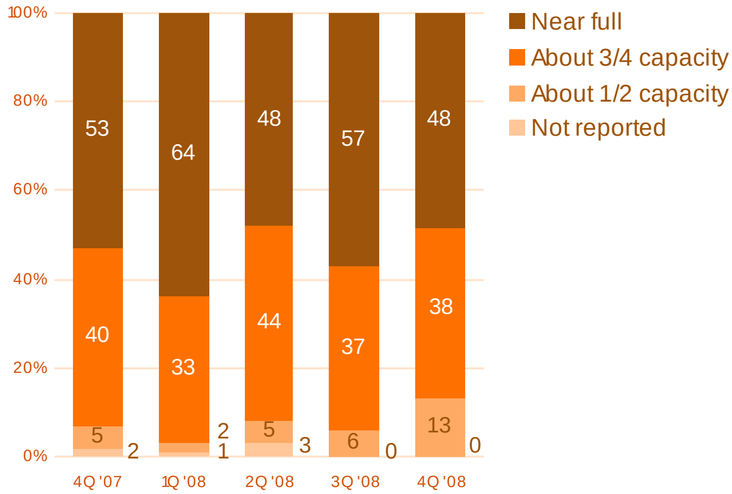
What is your organization's current operating capacity?

Operating capacity is an estimate of the current level of permanent staffing compared with what is needed for full-capacity output. In the fourth quarter, the average level of operating capacity for respondents was an estimated 80.3 percent – notably below the prior quarter and a year ago. In the fourth quarter, 48 percent claimed to be at or near full capacity, a decrease of 9 points.

Note: In 4Q 2008, large consumer products businesses n = 54, all respondents, n = 130.

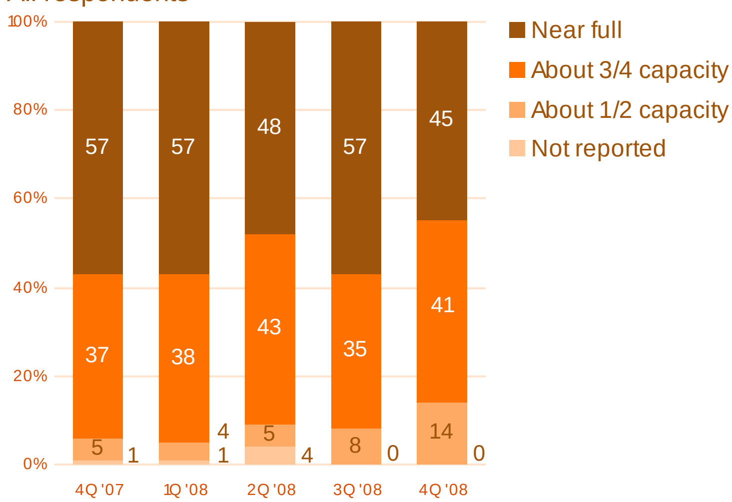
Chart 3.7 Level of operating capacity

Large consumer products businesses



Mean 85.6% 86.9% 83.8% 84.8% 80.3%

All respondents



Mean 86.3% 85.4% 83.8% 84.1% 80.5%

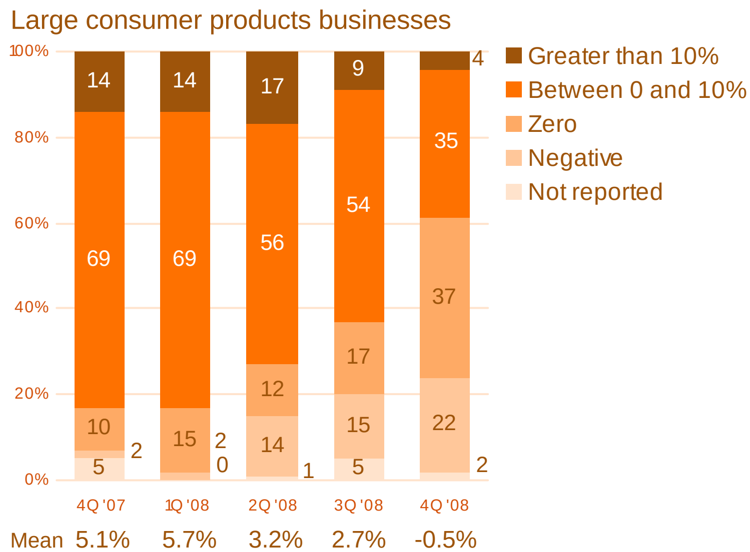
Business outlook, next 12 months

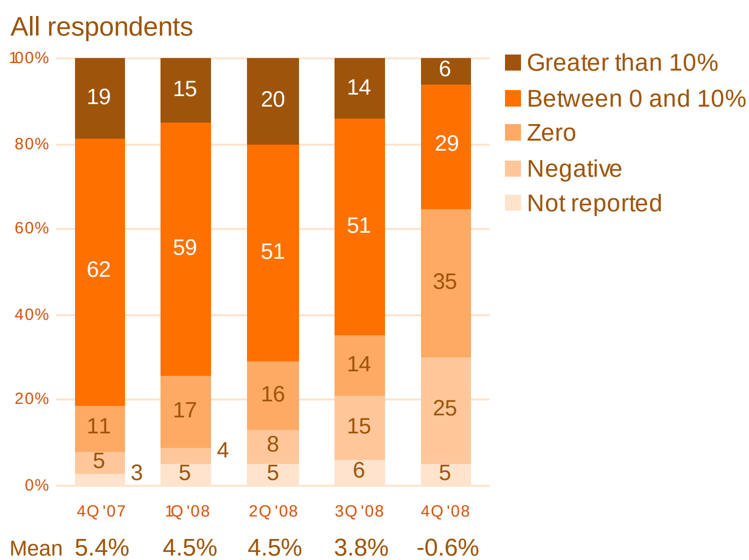
Revenue growth, next 12 months

What is your organization's estimated revenue growth rate for the next 12 months?

Senior executives surveyed reset their projections again to a flat, minus 0.5 percent average growth rate for their companies over the next 12 months. This is lower than the prior quarter's plus 2.7 percent and notably lower than projections a year ago (5.1 percent). Currently, 39 percent plan for positive growth over the next 12 months, with only 4 percent expecting double-digit revenue growth. But, 37 percent expect zero growth, and 22 percent expect negative growth in the year ahead.

Chart 4.1 Revenue growth, next 12 months





Note: In 4Q 2008, large consumer products businesses n = 54, all respondents, n = 130.

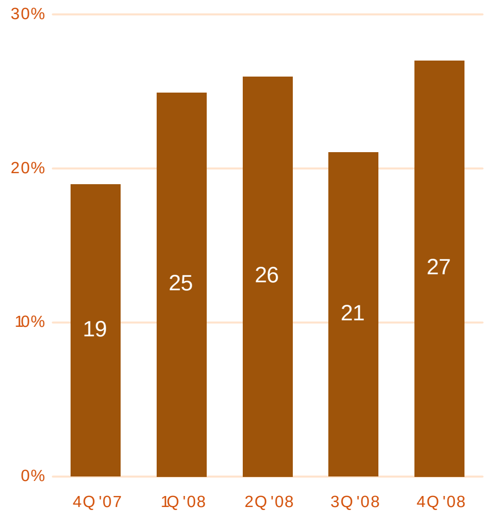
International sales, next 12 months

What percent of your business's total revenue over the next 12 months do you expect to be derived from international sales?

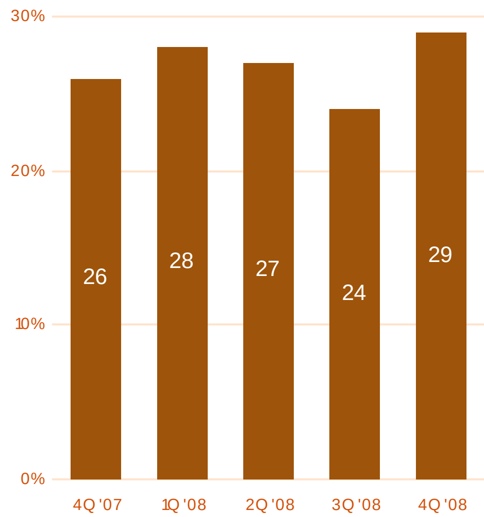
Of those selling abroad, the contribution of international sales to total revenue is projected at a high 27 percent over the next 12 months, up from 21 percent in the prior quarter, and above the 19 percent a year ago. Note that international revenue projections remain high against notably lower total revenue expectations.

Chart 4.2 International sales, next 12 months

Large consumer products businesses



All respondents



Note: In 4Q 2008, large consumer products businesses n = 52, all respondents, n = 115.

Percent planning to hire

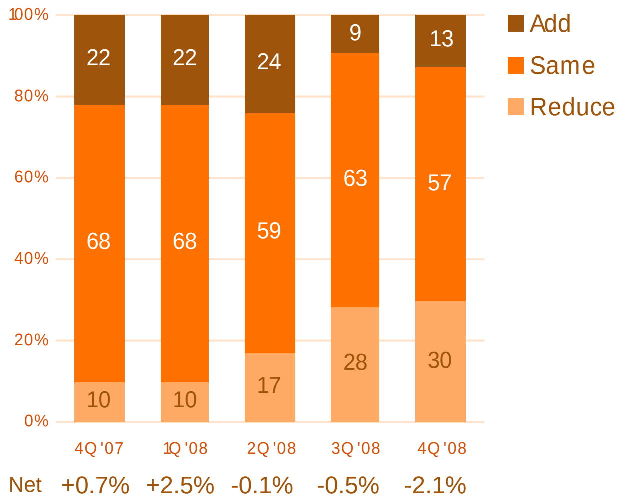
Do you plan to add or reduce the number of full-time-equivalent employees over the next 12 months?

Looking ahead, only 13 percent of panelists plan to add employees over the next 12 months, down from 22 percent a year ago. Thirty percent plan to reduce the number of full-time-equivalent employees. The net projection is a minus 2.1 percent. In the prior quarter, the net projection was a minus 0.5 percent, so the composite workforce projection for the next 12 months dropped off again, anticipating many more layoffs.

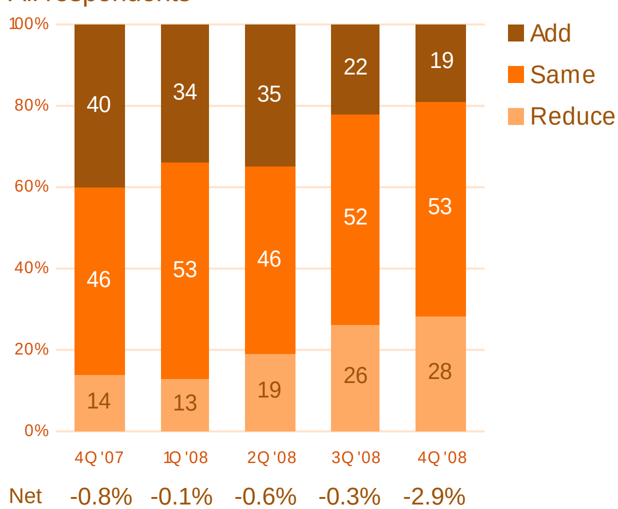
Note: In 4Q 2008, large consumer products businesses n = 54, all respondents, n = 130.

Chart 4.3 Percent planning to hire

Large consumer products businesses



All respondents



Percent planning to hire by type of employee

What types of employees do you plan to add or reduce over the next 12 months?

Over the next 12 months, far fewer respondents primarily will be looking to hire professionals/technicians, white-collar management support, and sales/marketing executives. Not shown here: many more will be laying off white and blue collar employees (26 percent each), sales/marketing executives (22 percent), skilled workers (20 percent), and professionals/technicians (19 percent).

Chart 4.4 Percent planning to hire by type of employee

Large consumer products businesses

	4Q '07	1Q '08	2Q '08	3Q '08	4Q '08
Planning to hire (net)	22%	22%	24%	9%	13%
• White collar support	12%	10%	14%	6%	7%
• Professionals/technicians	5%	7%	19%	7%	6%
• Skilled labor	5%	5%	5%	6%	4%
• Production workers	12%	10%	9%	---	4%
• Sales/marketing	10%	7%	12%	2%	2%

All respondents

	4Q '07	1Q '08	2Q '08	3Q '08	4Q '08
Planning to hire (net)	40%	34%	35%	22%	19%
• White collar support	16%	15%	14%	8%	9%
• Professionals/technicians	26%	23%	24%	15%	9%
• Skilled labor	19%	15%	9%	7%	5%
• Production workers	13%	13%	9%	5%	7%
• Sales/marketing	16%	12%	16%	8%	5%

Note: In 4Q 2008, large consumer products businesses n = 54, all respondents, n = 130.

Percent planning major new investments of capital

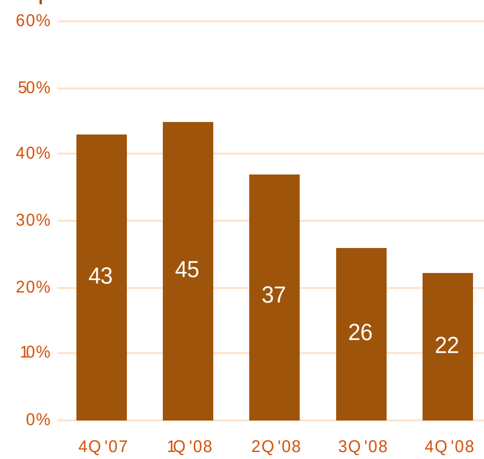
Are you actively planning any major new investments of capital over the next 12 months? If so, what percent of total sales do you expect to invest?

Fewer, 22 percent of those interviewed plan major new investments of capital over the next 12 months, down from 28 percent last quarter and 43 percent a year ago. The mean investment also decreased to 2.6 percent of total sales. Plans for major new investments among respondents have been fairly strong during the past year, peaking in the first quarter of 2008 but then decreasing sharply over the past two quarters.

Note: In 4Q 2008, large consumer products businesses n = 54, all respondents, n = 130.

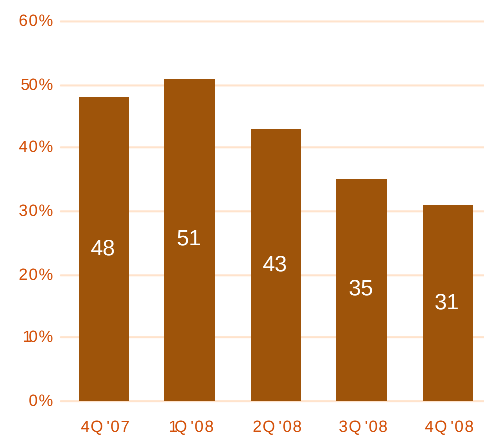
Chart 4.5 Percent planning major new investments of capital

Large consumer products businesses



Mean investment as a % of total sales	7.2%	5.8%	9.7%	5.6%	2.6%

All respondents



Mean investment as a % of total sales	7.7%	5.9%	8.1%	7.8%	6.7%

Percent planning to increase operational spending

Over the next 12 months, where do you expect to increase spending?

Fifty-two percent are planning to increase operational spending over the next 12 months, off 11 points from the prior quarter and 34 points from a year ago. New product or service introductions and Information technology were leaders, but notably below a year ago.

Chart 4.6 Percent planning to increase operational spending

Large consumer products businesses

	4Q '07	1Q '08	2Q '08	3Q '08	4Q '08
Percent planning to increase spending (net)	86%	88%	76%	63%	52%
• New product or service introduction	60%	47%	49%	41%	32%
• Information technology	43%	36%	46%	20%	26%
• Business acquisition	35%	28%	22%	22%	17%
• Marketing & sales promotion	45%	33%	37%	28%	13%
• Advertising	43%	28%	37%	26%	13%
• Research and development	33%	26%	24%	9%	11%
• Geographic expansion	29%	22%	20%	11%	9%
• Facilities expansion	31%	22%	22%	15%	6%
• Internet commerce	19%	21%	22%	15%	6%

All respondents

	4Q '07	1Q '08	2Q '08	3Q '08	4Q '08
Percent planning to increase spending (net)	84%	84%	78%	68%	55%
• New product or service introduction	45%	39%	49%	33%	21%
• Information technology	51%	42%	43%	28%	30%
• Business acquisition	36%	34%	30%	24%	20%
• Marketing & sales promotion	33%	23%	18%	20%	12%
• Advertising	23%	15%	13%	17%	9%
• Research and development	26%	27%	29%	14%	13%
• Geographic expansion	29%	26%	27%	22%	24%
• Facilities expansion	33%	27%	30%	22%	18%
• Internet commerce	15%	16%	19%	13%	5%

Note: In 4Q 2008, large consumer products businesses n = 54, all respondents, n = 130.

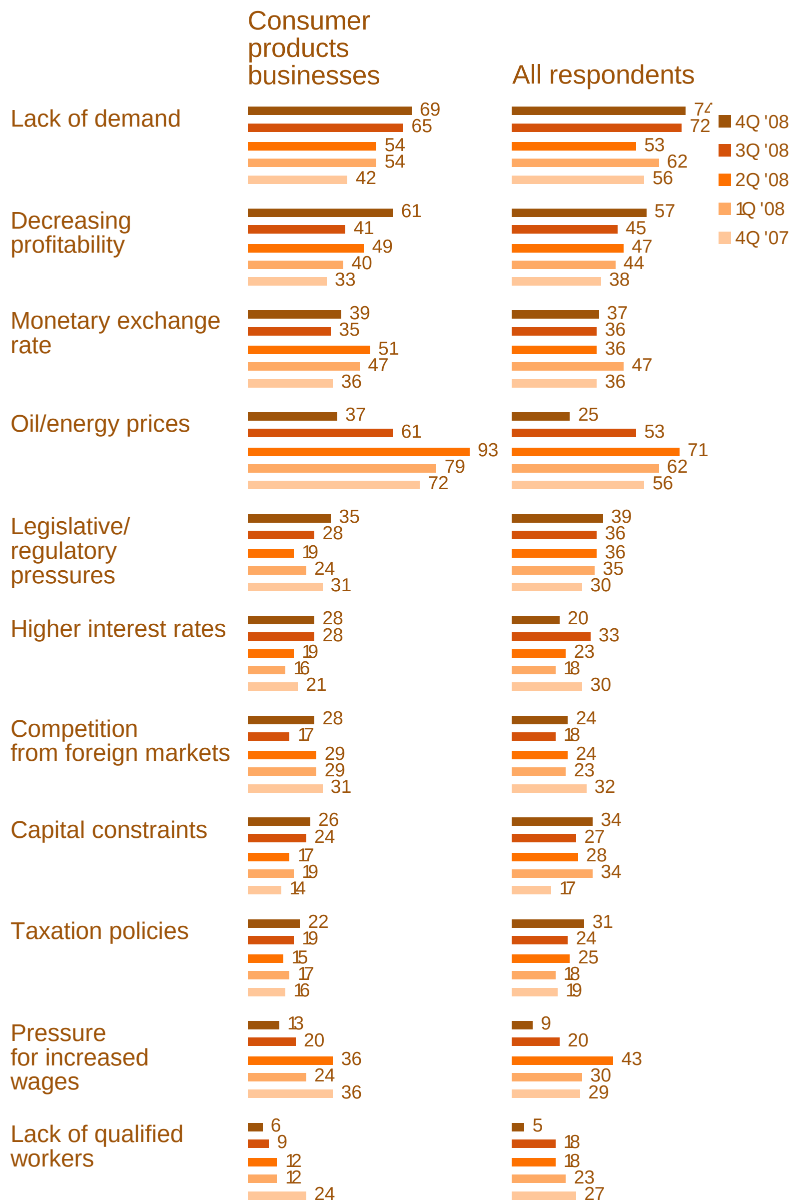
Expected barriers to business growth

Over the next 12 months, will any of the following represent barriers to business growth?

Concern about prospective lack of demand remained the leading barrier, up 4 points to 69 percent. Decreasing profitability rose sharply, up 20 points to 61 percent and is now a close second as a potential barrier to growth over the next 12 months. Oil/energy prices dropped 24 points from 61 points, as crude oil dropped from $140 a barrel to the $40 range.

Note: In 4Q 2008, large consumer products businesses n = 54, all respondents, n = 130.

Chart 4.7 Expected barriers to business growth



Plans for M&A and other business initiatives

Over the next 12 months, do you expect to participate in any of the following new business initiatives?

Plans for new business initiatives among those surveyed remain notably high at 59 percent. But, plans for M&A activity over the next 12 months are at 22 percent for the fourth quarter, well below last quarter's 30 percent. Fifteen percent plan to purchase another business, 7 percent might divest part of their business, and 6 percent plan an equity carve-out or spin-off.

Expansion to markets abroad and new facilities abroad lead the way, rising as focus on international markets rose in importance. Strategic alliances and new joint ventures were also cited.

Note: In 4Q 2008, large consumer products businesses n = 54, all respondents, n = 130.

Chart 4.8 Plans for M&A and other business initiatives

Large consumer products businesses

	4Q '07	1Q '08	2Q '08	3Q '08	4Q '08
New business initiatives (net)	53%	52%	68%	65%	59%
• Expand to markets abroad	36%	29%	37%	24%	30%
• New strategic alliance	26%	24%	22%	30%	26%
• New facilities abroad	17%	17%	17%	22%	24%
• New joint venture	14%	17%	20%	20%	24%
• M&A activity (net)	33%	28%	32%	30%	22%
- Purchase another business	29%	28%	25%	26%	15%
- Sell part/all own business	10%	10%	9%	2%	7%
- Equity carve-out/spin-off	5%	3%	5%	6%	6%
• Reduce activity in markets abroad	5%	2%	5%	15%	7%
• Close/reduce facilities abroad	7%	3%	7%	4%	7%

All respondents

	4Q '07	1Q '08	2Q '08	3Q '08	4Q '08
New business initiatives (net)	64%	60%	64%	64%	61%
• Expand to markets abroad	26%	30%	29%	27%	32%
• New strategic alliance	37%	32%	25%	30%	26%
• New facilities abroad	15%	17%	12%	15%	17%
• New joint venture	25%	27%	29%	26%	23%
• M&A activity (net)	39%	38%	40%	31%	30%
- Purchase another business	34%	35%	33%	27%	25%
- Sell part/all own business	13%	7%	10%	5%	9%
- Equity carve-out/spin-off	5%	8%	7%	5%	4%
• Reduce activity in markets abroad	9%	9%	6%	13%	12%
• Close/reduce facilities abroad	6%	4%	4%	5%	7%

Survey demographics and research methodology

Demographics

Who	Senior financial executives of US-based consumer products businesses	
Interview dates	November 12, 2008, to February 10, 2009	
	All respondents (130)	Large consumer products businesses (54)
Average number of employees	9,712	10,468
Average business unit revenue	$3.36 billion	$6.47 billion
Average enterprise revenue	$10.85 billion	$14.51 billion
Market capitalization	$8.88 billion	$10.21 billion
Industry sectors	Products 82% Manufacturing 74% Trade/Distribution 2% All other 6% Services 18%	Products 100% Manufacturing 100% Trade/Distribution --- All other --- Services ---

Methodology

PricewaterhouseCoopers' Consumer Products Barometer is a quarterly telephone survey conducted by the independent research firm BSI Global Research Inc. The survey panel consists of senior executives from a geographically balanced sample of large, multinational 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.

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About the research:

The Consumer Products Barometer is one in a series of quarterly business outlook surveys from PricewaterhouseCoopers. The Barometer provides a view on the direction of the economy, including revenue growth, new investments, new hiring plans, emerging business barriers and more. Other Barometer surveys include the Trendsetter Barometer, which tracks fast-growth private companies; the Management Barometer, which tracks a cross-sector of large multinational companies; and the Manufacturing Barometer, which tracks the views of US industrial manufacturers. In addition to the quarterly 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.

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