

**Thoughts on the economy and global business:  
Survey of U.S. manufacturing executives.**

Summary  
July 2009



Candor. Insight. Results.

# Survey of U.S. Manufacturing Executives: Mid-Year Perspectives on the Economy, Cap-and-Trade Legislation and Global Activity

## Key Findings Summary

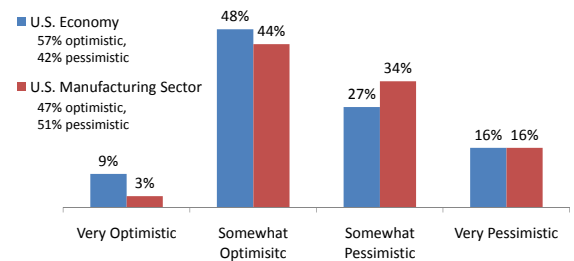
### Economic Outlook

#### **Cautiously optimistic**

Nearly six in ten manufacturing executives (57%) have a positive outlook for the U.S. economy over the next six months, but slightly (51%) more than half are pessimistic about the outlook for the manufacturing sector.

### U.S. Economic Outlook

How would you describe your outlook for the U.S. economy/manufacturing sector six months from now? Would you say you are...?

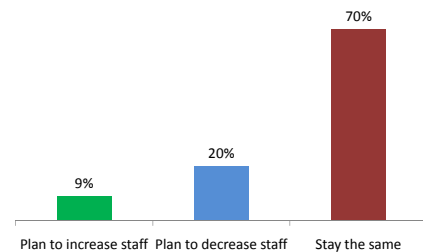


#### **Right-Sizing: Holding the line on staffing**

Over the next six months, 70% of the manufacturers surveyed said they plan to keep staffing levels the same.

### Staffing Plans

In the next six months, do you plan to have a net increase or decrease in staff, or do you plan to keep staffing levels the same?



#### **Brighter days ahead for some**

About half of executives (49%) surveyed expect their firm's performance to decline, with 12% saying their firm is in danger of failing. Executives from small firms (14%) were much more likely to report danger of failing than those from medium (2%) or large firms (3%).

### Outlook of Individual Manufacturers

Among all U.S. manufacturers

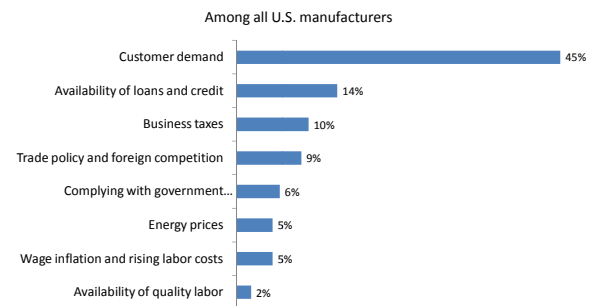


### Key growth obstacle

Over the next twelve months, the top challenge for U.S. manufacturers is raising demand for their products.

### Greatest Challenges to Expansion

Which of the following may be the greatest challenge to the expansion of your manufacturing business over the next twelve months?

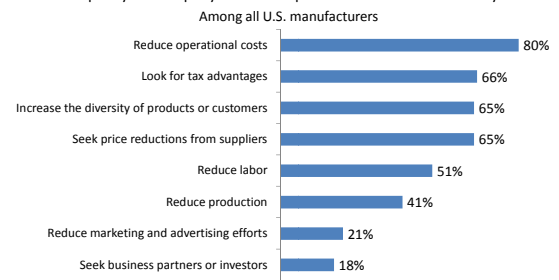


### Economic survival strategies

Over the next twelve months, the majority of manufacturing executives expect to reduce operational (80%), supplier (65%) and labor (51%) costs. They also plan to look for tax advantages (66%) and increase the diversity of product or customer base (65%).

### Responses to Current Economy

During the next twelve months, which of the following, if any, do you expect your company to do in response to the current economy?

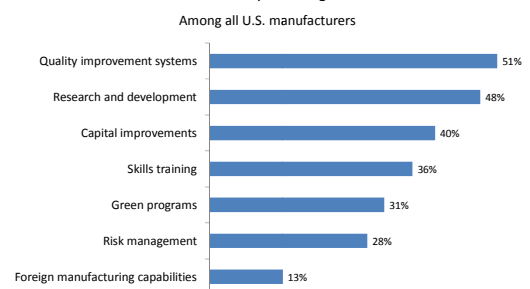


### Staying the course?

Despite pressure to reduce costs, executives said they are continuing to invest in their companies. The most common investments are in quality improvement systems (51%).

### Current Investments

And, which of the following are areas in which your company is currently investing?

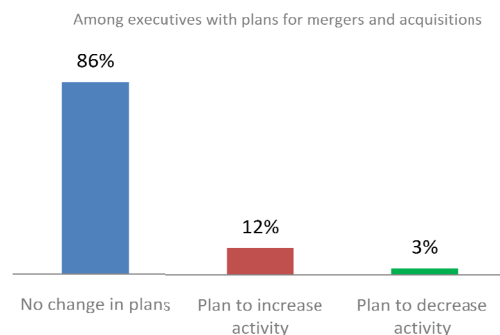


### Still hunting for bargains

Among executives with plans for M&A activity, most (85%) report no change in their plans, 12% plan to increase and 3% plan to decrease it.

### M&A Plans

Over the next twelve months, do you expect your merger and acquisitions, if you have any, to increase, decrease, or not change at all?



## Cap-and-Trade Program

### **Moderate familiarity**

Half of manufacturing executives, more so among executives from large companies, are at least somewhat familiar with cap-and-trade legislation. Executives from medium and large companies are more familiar with the legislation than small companies (62% vs. 49%).

### **Strong opposition, but soft support**

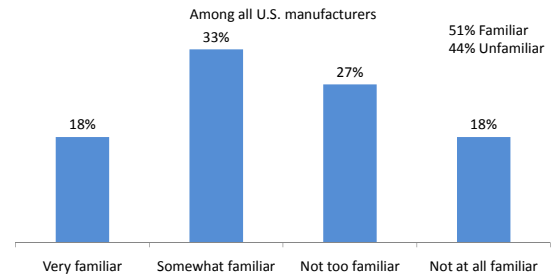
Nearly six in ten manufacturing executives (59%) oppose a cap-and-trade program. Opposition increases the more familiar executives are with cap-and-trade. Legislative support increases among executives who are optimistic about the outlook for the U.S. economy and manufacturing sector, and invest in green programs.

### **A competitive handicap**

Slightly more than four in ten (42%) manufacturing executives believe a cap-and-trade system would place them at a competitive disadvantage in the global marketplace.

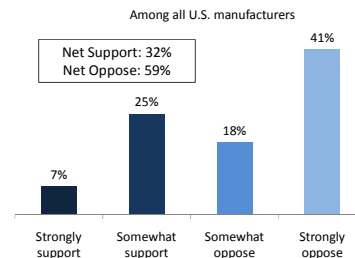
### Cap-and-Trade Familiarity

How familiar are you with Cap-and-Trade, which is proposed legislation to reduce emission of pollutants and greenhouse gases? Would you say you are very familiar, somewhat familiar, not too familiar or not at all familiar with it? If you have never heard of it, please tell me that, too.



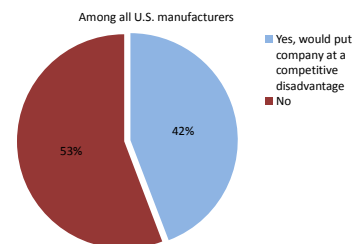
### Support for Cap-and-Trade

One version of cap-and-trade system would require companies to purchase credits for ANY pollution they emit. Do you strongly support this cap and-trade system, somewhat support it, somewhat oppose it or strongly oppose it?



### Cap-and-Trade: Disadvantageous?

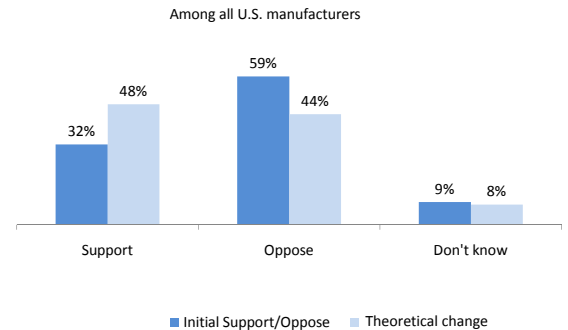
Do you believe a cap-and-trade system in the U.S. would place you at a competitive disadvantage in the global marketplace?



### Overseas adoption equals more support

Four in ten executives (40%) support an international cap-and-trade program as compared with one in three for a U.S. program. More than one fourth (28%) of executives who initially opposed cap-and-trade said overseas adoption would make them more likely to support the legislation.

### Change in Support for Cap-and-Trade with Multilateral Approach

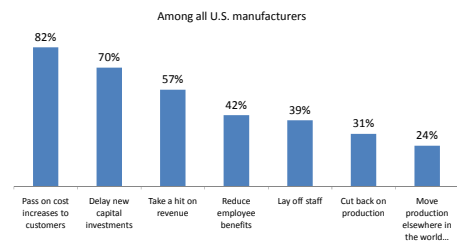


### The impact of rising energy costs

If energy costs increase under a cap-and-trade system, the most common response would be to pass on costs to their customers, followed by delaying new capital investments.

### Cap-and-Trade Responses

I am going to read different ways companies might respond if energy costs increase. For each one I read, please tell me if this is a way your company would consider responding if there were increases in energy costs because of cap-and-trade legislation...



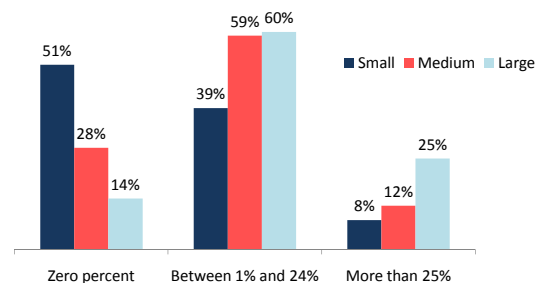
## International Plans

### Global revenue snapshot

Half of U.S. manufacturing executives (47%) report their companies have no revenue outside of the country. Among the 52% who engage in overseas commerce, 42% are collecting under 25% of their revenue from foreign markets and 10% are collecting 25% or more.

### International Revenue Exposure

What percentage of your company's revenue comes from outside the United States? Is it....

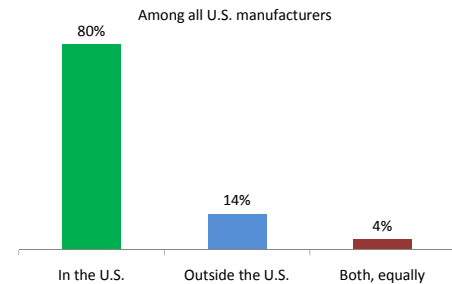


### **New customer projections**

Among manufacturers that already derive some revenue from outside the U.S., eight in ten executives (80%) said most of their new customers would come from domestic markets over the next three years. A small minority (14%) plan for most of their new customers outside.

### Source of New Customers

Looking ahead to the next three years, are most of your **new** customers coming from within the United States or from outside the U.S.?

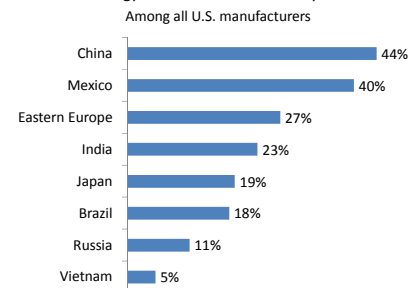


### **Global opportunity markets**

Over the next three years, manufacturers that are involved in commerce outside of the U.S. plan to focus most on China (44%) and Mexico (40%).

### Markets Targeted for Role in Growth

I am going to read to you a list of countries or regions. For each one I read please tell me which ones will play an increasing role in your global growth strategy in the next three to five years?



Base: If part of revenue from outside of U.S.; responses under 5% are not displayed

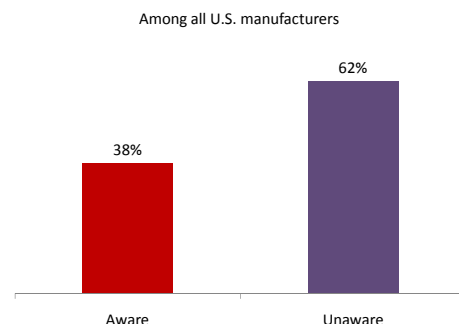
### IFRS Accounting Standards

#### **Low awareness of potential U.S. adoption**

More than six in ten executives (62%) are unaware that the U.S. is considering adopting the International Financial Reporting Standards (IFRS). However, executives at large firms were much more likely to be aware (86%) compared to small firms (32%).

### IFRS Awareness

As you may know, the United States is considering moving away from the Generally Accepted Accounting Principles and adopting the International Financial Reporting Standards or "IFRS." Were you aware of this or is this information new to you?

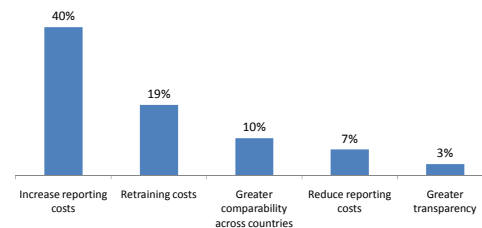


### **IFRS adoption impact**

Only one in four executives believes the adoption of IFRS would have some impact on their reporting process, although four in ten (41%) executives from medium and large firms believe there will be some impact compared with two in ten executives from small businesses (21%).

### **Perceived IFRS Effects**

How will the IFRS most affect your reporting process?  
Among all U.S. manufacturers



Base: If believe financial reporting process will be affected by the U.S. adoption of the IFRS

### **Methodology**

On behalf of Baker Tilly, KRC Research conducted a national telephone survey of 300 senior executives of U.S. manufacturing companies between June 2 and June 22, 2009. The sample was stratified to include sufficient interviews to analyze results between executives from small (n=148), medium (n=81) and large manufacturers (n=71). The sizing of each company was based on the number of employees; small companies have fewer than 100 employees, medium companies have 100 to 299 employees and large companies have 300 or more employees. Overall results were weighted to reflect the actual proportion of manufacturers of each size in the United States. The estimated margin of error is  $\pm 5.7$  percentage points at the 95% confidence level.

### **About Baker Tilly**

With staff totaling more than 1,300, Baker Tilly provides a wide range of accounting, tax, assurance and consulting services. The firm has offices in Chicago, Detroit, Minneapolis, New York, and throughout Wisconsin.

Baker Tilly is an independent member of Baker Tilly International, the world's eighth largest network made up of 145 high quality, independent accounting and business services firms in 110 countries, with more than 25,000 professionals. The combined worldwide revenue of independent member firms exceeds \$2.95 billion.