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The NAM/IndustryWeek Manufacturing Index -- 1st Quarter 2009

Confidence Among Manufacturers Sinks to Record Low Levels

The business outlook for manufacturers plummeted to a new record low in the first quarter of 2009, with just 28% of survey respondents having a positive business outlook. The first quarter results of the NAM/IndustryWeek Manufacturing Index show that the manufacturing sector remains in a deep recession and prospects for a near-term recovery are dim. The 12-month outlook for sales, pricing power, investment, inventories, employment and wage growth all fell to their lowest levels on record in the first quarter of 2009.

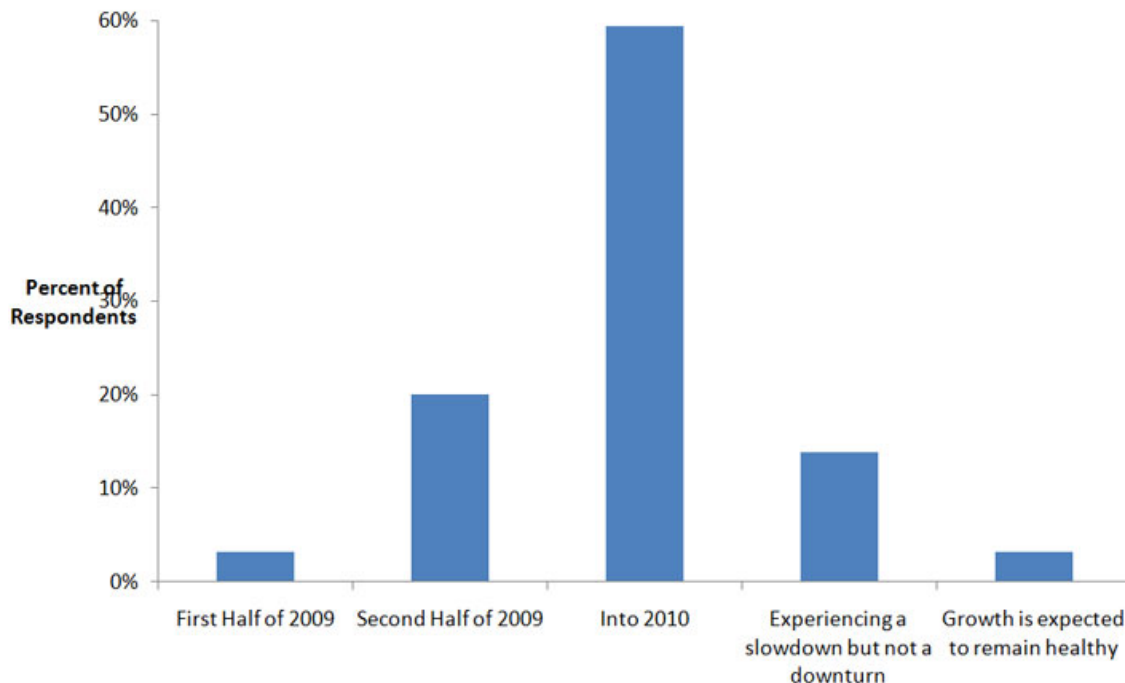
By David Huether, Chief Economist, National Association of Manufacturers

Results of the first quarter survey are based on responses of 504 members of the National Association of Manufacturers (NAM). Companies recorded their business outlook as well as their 12-month expectation on sales, prices, capital investment, inventories, employment and wages. In addition, companies were asked: From your company's perspective, how long will a downturn in production last?

From your company's perspective, how long will a downturn in production last?

The vast majority (83%) of respondents to the first quarter survey reported a downturn in production, while 14% reported a slowdown (but not a downturn) and 3% reported that production is expected to remain healthy. While a fifth (20 percent of total respondents) expects production declines to extend into the second half of 2009, a clear majority (60 percent of total respondents) expect a downturn in their company's production will continue into 2010.

**From Your Company's Perspective,
How Long Will a Downturn in Production Last?**



Source: NAM

The Business Outlook. Just 28% of manufacturing companies who responded to the first quarter survey had a positive business outlook for their company. This marks the fifth consecutive quarterly decline in the series, which began in the fourth

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quarter of 1997. While the first quarter results mark a new record low in confidence, the pace of the first quarter decline was slightly milder than the declines that took place during the prior three quarters. Still, share of respondents with a negative outlook (72 percent in the first quarter) was nearly double (98 percent higher) than the 37 percent reporting a negative outlook a year earlier in the first quarter of 2008.

To put the current climate in a historical context, the current level of business confidence is 41% below the lowest level recorded during the 2001 recession (47.2% reported positive outlook in the third quarter of 2001).

The confidence level (the share of survey respondents with a positive business outlook) of manufacturers has gone through six cycles since the survey began in late 1997.

	Very Positive	Somewhat Positive	Somewhat Negative	Very Negative
First Quarter 2009	3%	25%	43%	29%

- In the tail end of the 1990s expansion, the percent of survey respondents with a positive outlook averaged around 80%.
- During the 2001 recession, confidence fell to 58.8%.
- During the 2002-2003 period, a slow initial recovery held confidence down at 70.6%.
- It was not until the 2004-2005, when the manufacturing recovery picked up significant momentum, that confidence increased to an average level of 87.6%.
- After peaking at 91% in the fourth quarter of 2005, confidence began to moderate in 2006 and 2007, as the housing market began to falter and energy prices began to rise.
- Since the current recession began at the end of 2007, manufactures' business outlook has eroded significantly.

Business Outlook



Source: NAM

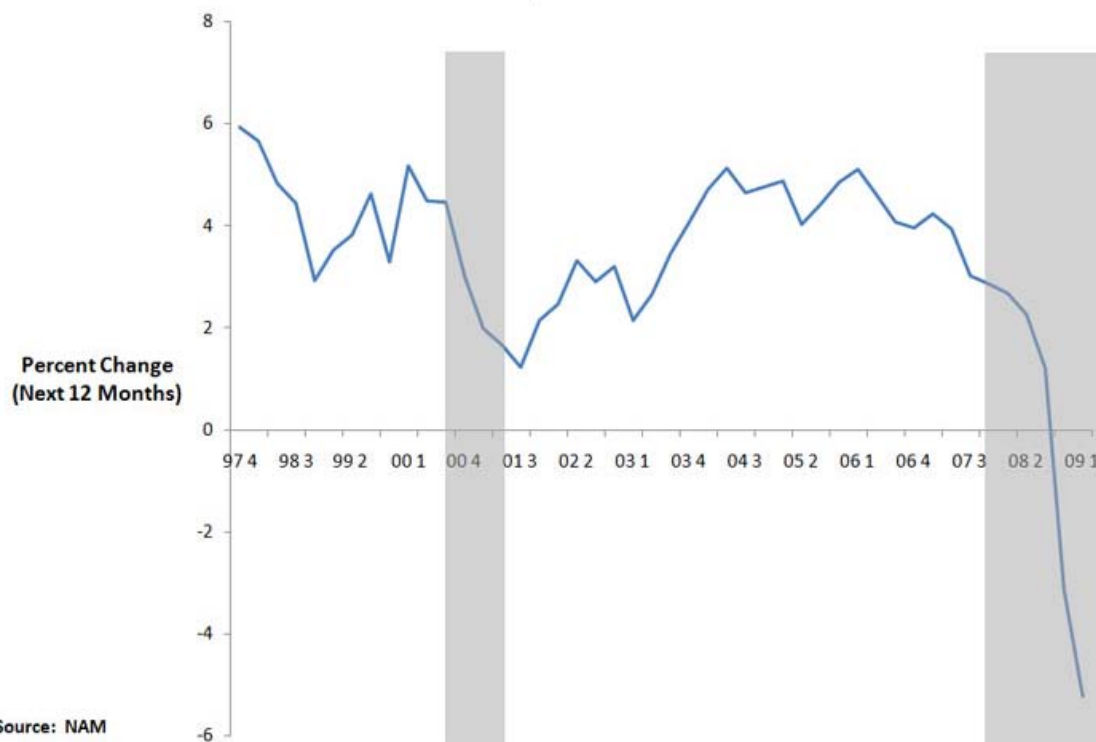
Business Outlook
(Percentage of firms with a positive business outlook)

1998-2000	2001	2002-2003	2004-2005	2006-2007	2008 (q1)	2008 (q2)	2008 (q3)	2008 (q4)	2009 (q1)
79.2%	52.8%	70.6%	87.6%	79.4%	63.5%	52.3%	41.3%	33.3%	27.8%

Sales Expectations. Looking ahead 12 months, respondents to the first quarter 2009 survey expect sales to decrease by 5.2%. This is just the second time in the 11 year history of the survey that manufacturers expect their sales to decline (the fourth quarter 2008 survey reported a 3.1% anticipated decline over the coming 12 months.)

Expectations of slower sales growth began in 2006 and gradually intensified in 2007 and through the first three quarters of 2007 before deteriorating significantly during the past two quarters.

Sales Expectations



Source: NAM

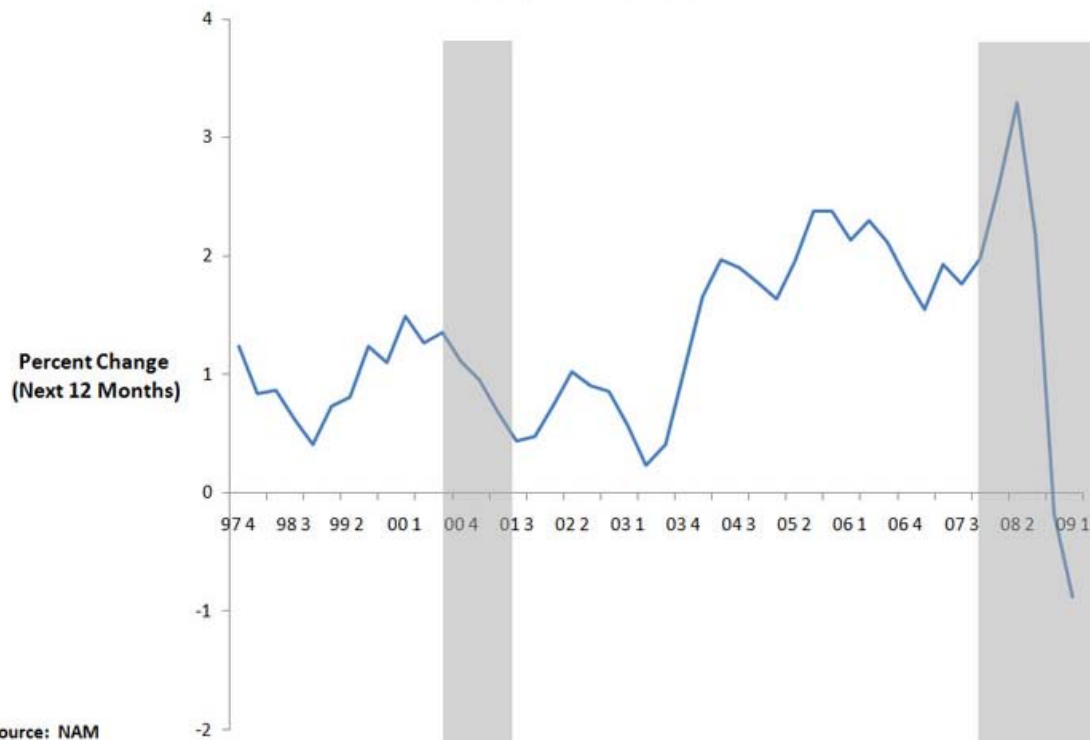
Sales Outlook (12-Month Percent Change Expectation)

1998-2000	2001	2002-2003	2004-2005	2006-2007	2008 (q1)	2008 (q2)	2008 (q3)	2008 (q4)	2009 (q1)
4.2	1.8	3.0	4.7	4.0	2.7	2.3	1.2	-3.1	-5.2

Pricing Expectations. Looking ahead 12 months, respondents to the first quarter 2009 survey expect their prices (the prices of their overall product line) to decrease by 0.9%. Similar to sales, this is just the second time in the 11 year history of the survey that manufacturers expect their pricing power to decline (the fourth quarter 2008 survey reported an 0.2% anticipated decline over the coming 12 months.)

After remaining relatively stable in the 2004-2007 time period, price expectations surged to a record high of 3.3% in the second quarter of last year, before reversing significantly in the subsequent three quarters. This large gyration was likely caused by both the turmoil in energy prices in 2008 as well as the sharp drop off in demand more recently.

Price Expectations



Source: NAM

Price Outlook (12-Month Percent Change Expectation)

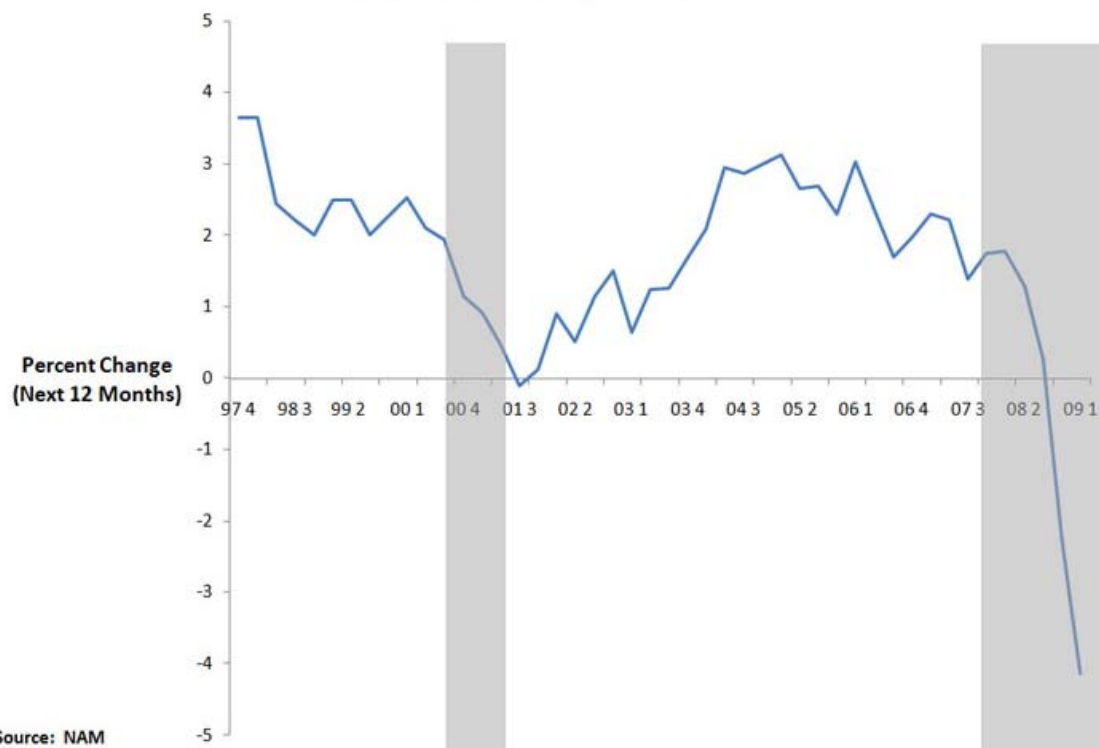
1998-2000	2001	2002-2003	2004-2005	2006-2007	2008 (q1)	2008 (q2)	2008 (q3)	2008 (q4)	2009 (q1)
1.0	0.6	0.7	2.0	2.0	2.6	3.3	2.2	-0.2	-0.9

Investment Expectations. Looking ahead 12 months, manufacturers expect their capital investment plans to decline by 4.1%, according to results of the first quarter 2009 survey. This marks the second consecutive expectation of negative investment growth going forward, and the most negative expectation in the history of the survey.

Similar to sales expectations, the investment component of the survey had been on a decelerating path since the beginning of 2006. This trend intensified over the course of 2008 and turned negative in the fourth quarter.

This trend is consistent with a slowdown in overall business investment spending that has taken place over the past year and a half. The first quarter survey suggests that investment spending by manufacturers will remain negative through the rest of 2009.

Investment Expectations



Source: NAM

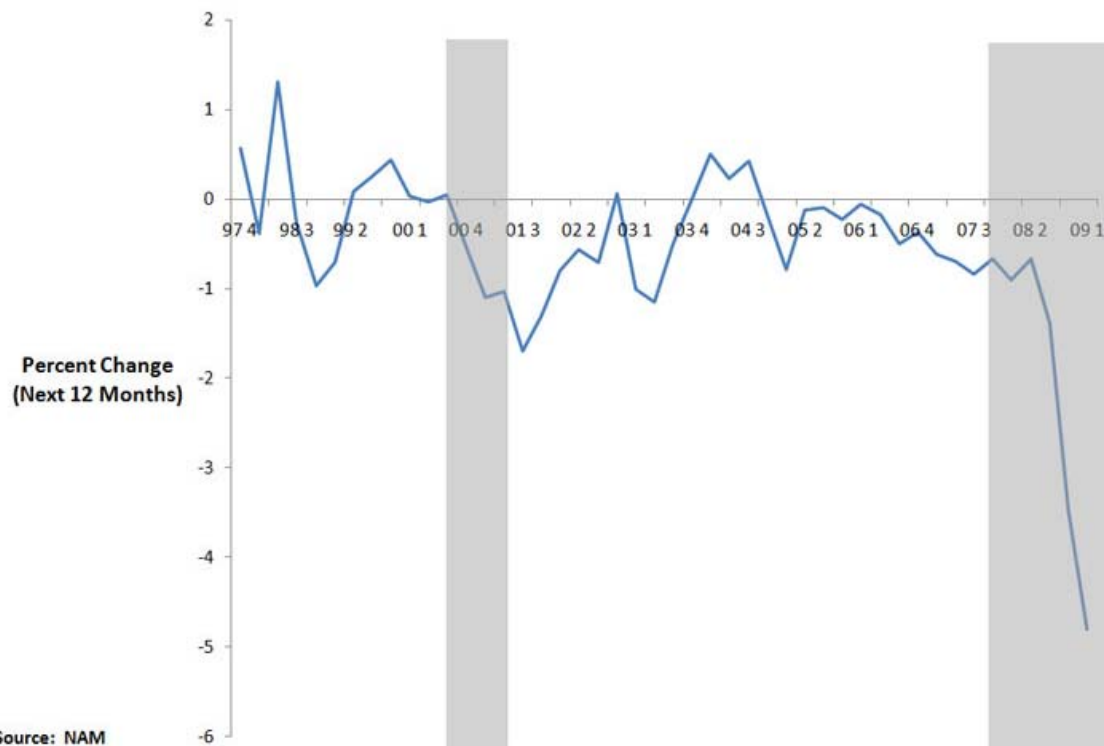
Investment Outlook (12-Month Percent Change Expectation)

1998-2000	2001	2002-2003	2004-2005	2006-2007	2008 (q1)	2008 (q2)	2008 (q3)	2008 (q4)	2009 (q1)
2.3	0.4	1.1	2.7	2.1	1.8	1.3	0.3	-2.2	-4.1

Inventory Expectations. Respondents expect to reduce inventory levels significantly. Manufacturers expect to reduce inventories by 4.8% over the next 12 months, this an acceleration from the fourth quarter of last year when company respondents expected to reduce inventories by 3.5% over the coming year.

The need to reduce inventories is largely being driven by the fact that since the second quarter of last year, manufacturers have not been able to reduce inventories to match the sharp decline in shipments. As a result, the inventory to sales ratio in the manufacturing sector reached a 13-year high in the first quarter of 2009. The results of the first quarter survey signal that manufacturers expect to continue to work down inventories over the rest of 2009. This will also have a dampening effect on production going forward until the excess inventories are brought down to lower level.

Inventory Expectations



Source: NAM

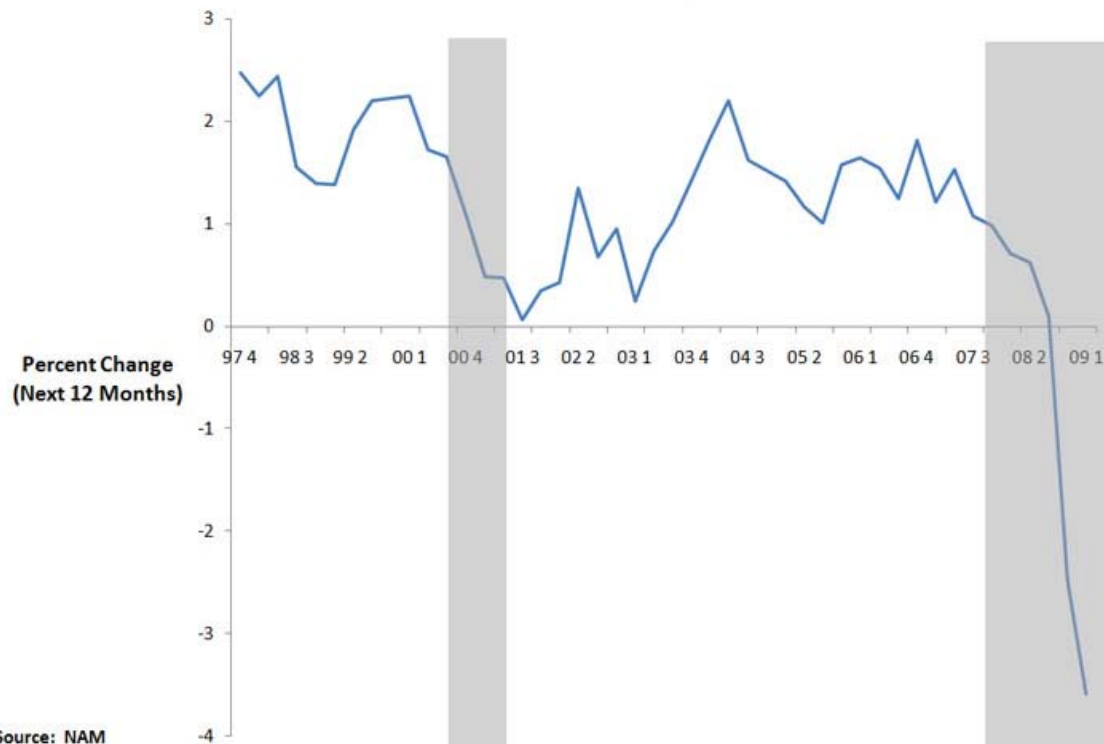
Inventory Outlook (12-Month Percent Change Expectation)

1998-2000	2001	2002-2003	2004-2005	2006-2007	2008 (q1)	2008 (q2)	2008 (q3)	2008 (q4)	2009 (q1)
-0.1	-1.3	-0.6	0.0	-0.5	-0.9	-0.7	-1.4	-3.5	-4.8

Employment Expectations. Reflecting the deep declines expected in sales, capital investment and inventories, going forward over the next 12 months, respondents to the first quarter survey expect to decrease employment by 3.6% over the next 12 months. This is just the second anticipated employment decline in the history of the survey (in the fourth quarter, firms expected employment to decline by 2.5% over the coming 12 months).

The intensifying downturn in employment expectations mirrors the Labor Department's report on overall manufacturing employment. Of the 1.5 million jobs lost since the beginning of the recession, 40% (592,000) took place in the first quarter of 2009. The positive news is that the 3.6% employment decline expected over the next 12 months is much smaller than the 10% decline (according to the U.S. Department of Labor) that took place during the 12 months that ended in March 2009, which indicates that the worst of the employment declines may have already taken place.

Employment Expectations



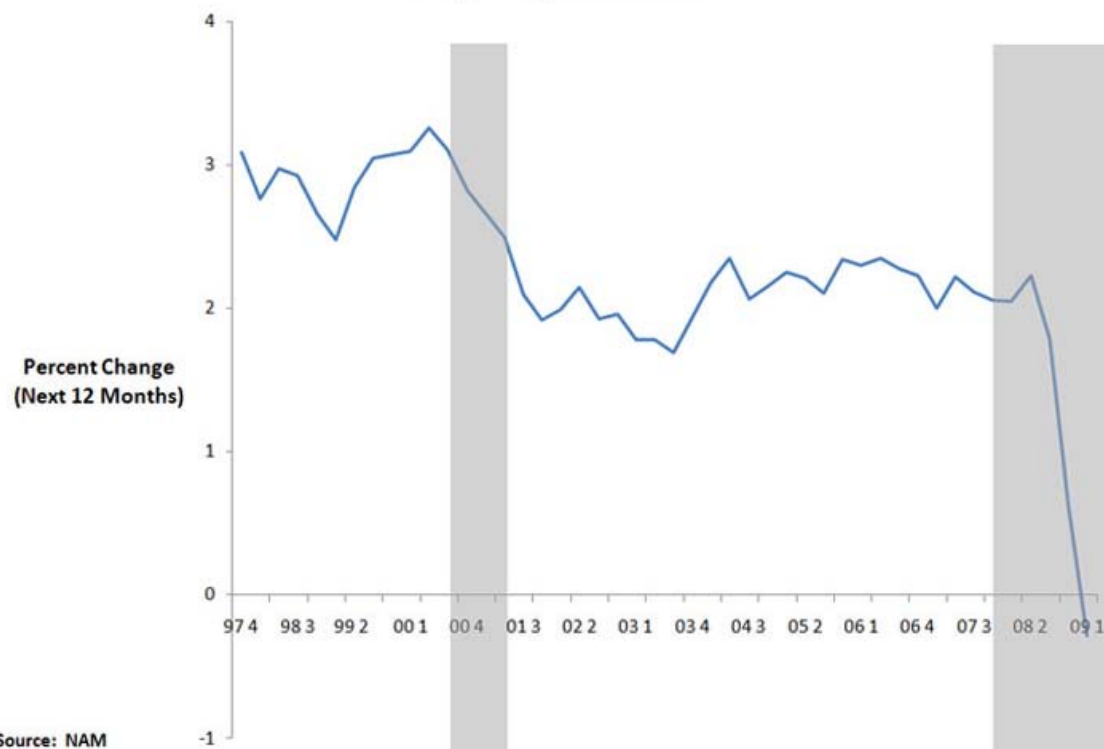
Source: NAM

Employment Outlook (12-Month Percent Change Expectation)

1998-2000	2001	2002-2003	2004-2005	2006-2007	2008 (q1)	2008 (q2)	2008 (q3)	2008 (q4)	2009 (q1)
1.8	0.3	0.9	1.5	1.4	0.7	0.6	0.1	-2.5	-3.6

Wage Expectations. After four years of steady growth, survey respondents drastically cut back expectations of wage growth starting in the third quarter of 2008. By the first quarter of 2009, survey respondents expected wage growth (which excludes benefits) to edge down 0.3% over the coming 12 months.

Wage Expectations



Source: NAM

Wage Outlook (12-Month Percent Change Expectation)

1998-2000	2001	2002-2003	2004-2005	2006-2007	2008 (q1)	2008 (q2)	2008 (q3)	2008 (q4)	2009 (q1)
1.8	0.3	0.9	1.5	1.4	0.7	0.6	0.1	-2.5	-3.6

All charts developed by the National Association of Manufacturers (NAM).

See Also:

- [2007 Quarter 1 NAM/IndustryWeek Manufacturing Index](#)
- [2007 Quarter 2 NAM/IndustryWeek Manufacturing Index](#)
- [2007 Quarter 3 NAM/IndustryWeek Manufacturing Index](#)
- [2007 Quarter 4 NAM/IndustryWeek Manufacturing Index](#)
- [2008 Quarter 1 NAM/IndustryWeek Manufacturing Index](#)
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