

Focus on: manufacturing

International Business Report 2009 – Sector focus series

The Grant Thornton International Business Report (IBR) 2009 reveals that privately held businesses (PHBs) in the manufacturing sector are markedly less confident regarding economic prospects for the year ahead than they were in 2008, dramatically affecting the 'big decisions' these businesses have to make. In 2008 a net balance¹ of +40 per cent were optimistic compared to -19 per cent this year. Across all sectors, businesses are also less optimistic (-16 per cent) than in 2008 (+40 per cent).

IBR 2009 has examined the opinions of privately held businesses across eight sectors which we are pleased to share through our sector focus series.

Of the eight sectors, hospitality is the most buoyant with an optimism/pessimism balance of just +2 per cent; ahead of technology (-7 per cent), financial services (-9 per cent), health and education (-19 per cent), manufacturing (-19 per cent), construction and real estate (-20 per cent), retail (-20 per cent), and transport (-39 per cent).

This series will provide key findings, insights into specific national market sectors and our perspective on the outlook for each sector. It will also suggest what tactics businesses should consider in the current economic climate.

If you have 'big decisions' you need help with, please visit www.gti.org. For more information on IBR, visit www.internationalbusinessreport.com

The manufacturing sector

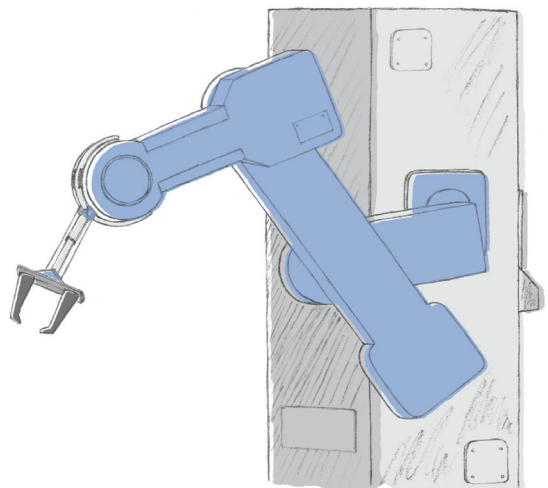
In the face of rapidly slackening demand, manufacturing companies worldwide are facing a severe test. Domestic and export orders fell dramatically in the second half of the year, therefore, production lines have been cut, shorter working

weeks have been introduced and job shedding has become widespread. The automotive industry is among the worst-hit subsectors as demand has plummeted, but the pain is widespread in the sector.

The downturn initially affected manufacturing businesses in the mature economies of North America, Japan and western Europe as consumer spending and investment eased markedly in 2008 and weakening international demand exacerbated the impact. The malaise has spread to Asia and Latin America: in mainland China, by the early weeks of 2009, over half the economy's toy factories had closed; in Brazil, output was over six per cent down in November compared with a year earlier.

Manufacturing in industrialised countries has fared even worse. In Japan, output slumped by almost ten per cent in December alone; in Germany, output was 12 per cent down in the year to December; and many other economies have seen declines in double-digits.

As demand has weakened it has become progressively difficult to raise selling prices. Cash flow problems are also more difficult to resolve as the global liquidity crisis impairs banks' lending capacity with the lack of credit availability remaining as a severe constraint.

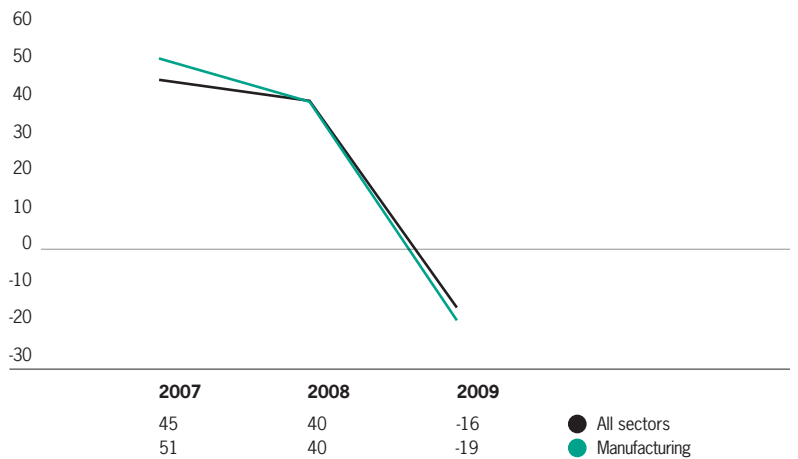


¹the balance is the proportion of companies reporting they are optimistic less those reporting they are pessimistic.

Optimism/pessimism

- PHBs in the manufacturing sector are considerably less optimistic about their country's economic outlook (-19 per cent) compared to 2008 (+40 per cent)
- across all sectors, levels of optimism regarding economic outlook are down 56 percentage points compared with 2008.

Figure 1: Outlook for the economy over the next 12 months: 2007-2009
Average percentage balance of businesses indicating optimism against those indicating pessimism

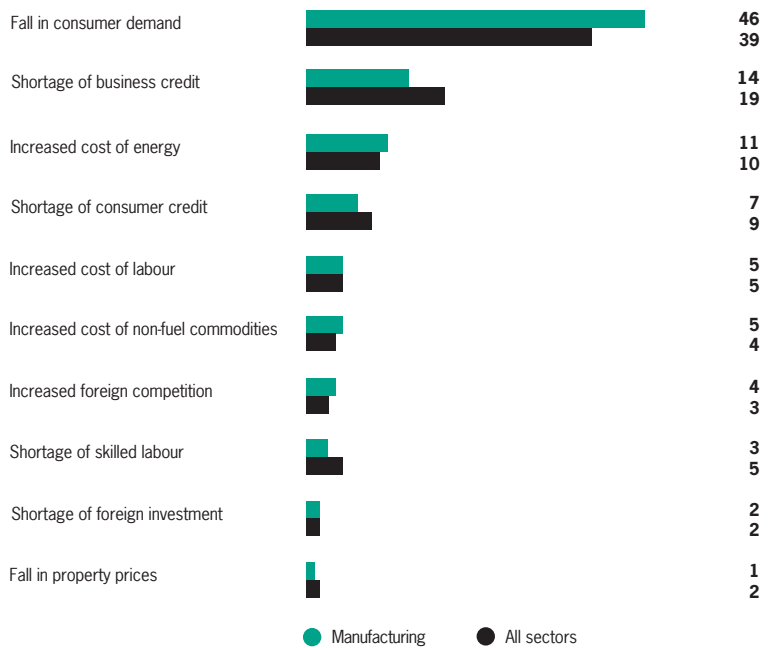


Source: Grant Thornton IBR 2009

Greatest concern

- a fall in consumer demand is viewed as the greatest concern restricting expansion for PHBs both in the manufacturing sector (46 per cent), and across all sectors (39 per cent)
- a shortage of business credit is of more concern to PHBs across all sectors (19 per cent), than it is to those in the manufacturing sector (14 per cent).

Figure 2: Greatest concern in the next 12 months
Average percentage of business



Source: Grant Thornton IBR 2009



Martin McGrath
Grant Thornton, United Kingdom

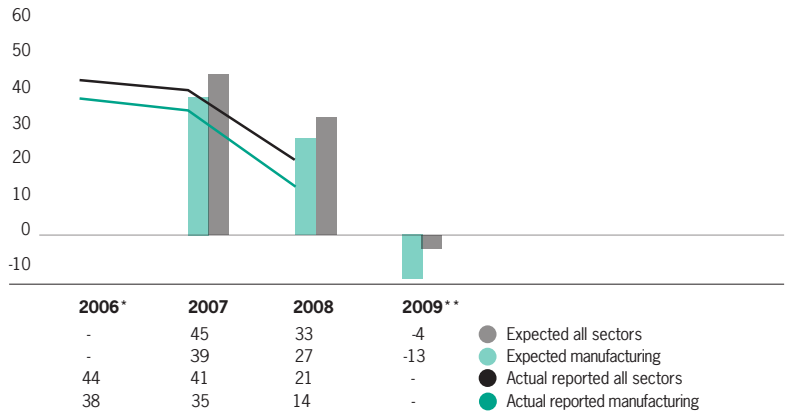
“The manufacturing sector’s reputation with finance providers has suffered more than many other sectors in recent years. This reputation, coupled with the wider credit crunch, has made funding for manufacturers bordering on the impossible leading to major crashes throughout the sector. Improving this reputation and enabling a better understanding of the businesses within the financial providers will create stronger relationships. This will be a key aspect of securing the long term future for many as well as meeting the expectations of the financial providers.”

Employment

- similarly to businesses across all sectors, expected employment growth in the manufacturing sector has fallen sharply; from +27 per cent in 2008 to -13 per cent in 2009
- businesses across all sectors expect employment to contract from +33 per cent in 2008 to -4 per cent in 2009.

Figure 3: Employment history: 2007-2009

Percentage balance of businesses



*expected data for 2006 not available

**actual data for 2009 will be available in IBR 2010

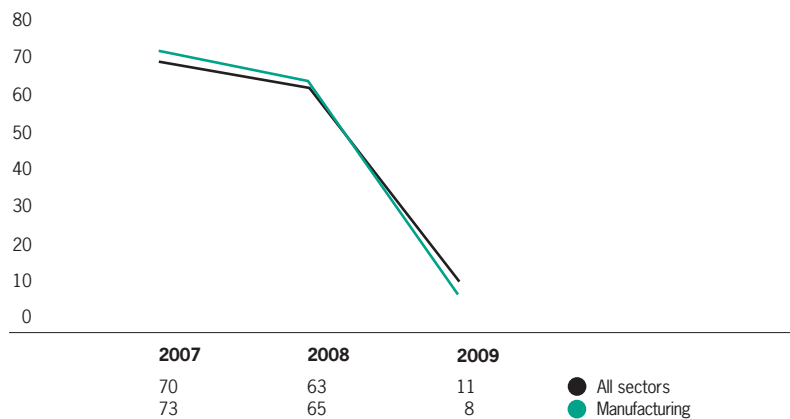
Source: Grant Thornton IBR 2009

Revenue expectations

- PHBs in the manufacturing sector are much less optimistic about their revenue prospects this year (+8 per cent) compared with 2008 (+65 per cent)
- across all sectors, levels of optimism regarding revenue prospects are down 52 percentage points compared with 2008.

Figure 4: Revenue expectations: 2007-2009

Average percentage balance of businesses indicating optimism against those indicating pessimism



Source: Grant Thornton IBR 2009



James Menzies
Grant Thornton, Canada

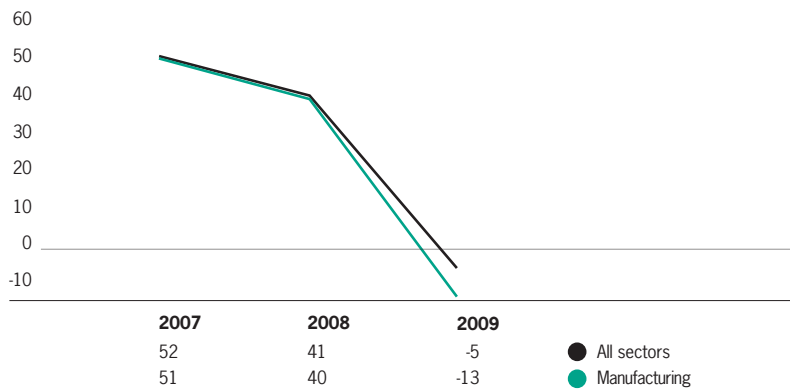
“Manufacturers are trying to take the necessary actions to ride out 2009, while looking forward to the beginnings of an upturn in 2010. There is a general perception that things can’t get much worse, so the only way to go is up. That in itself seems to be creating optimism for the state of the sector which manufacturers need to build on.”

Profitability expectations

- PHBs in the manufacturing sector are less optimistic about their profitability prospects (-13 per cent) compared with 2008 (+40 per cent)
- considering all sectors, levels of optimism regarding profitability performance have seen a 46 percentage point drop compared with 2008.

Figure 5: Profitability expectations: 2007-2009

Average percentage balance of businesses indicating optimism against those indicating pessimism



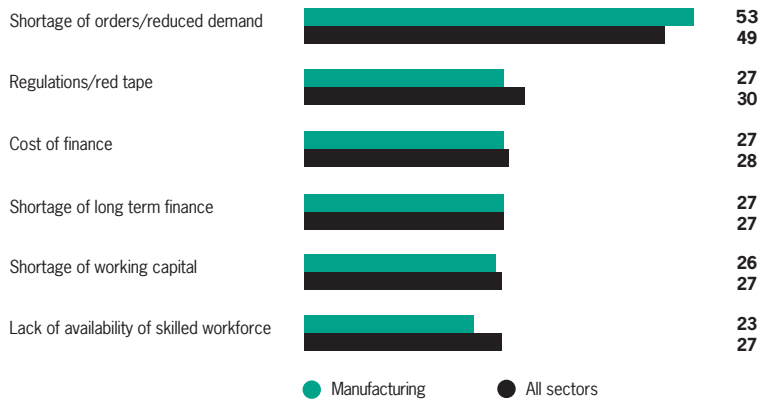
Source: Grant Thornton IBR 2009

Constraints

- a shortage of orders/reduced demand is viewed as the major constraint restricting expansion for PHBs both in the manufacturing sector (53 per cent) and in all sectors (49 per cent). This represents an 18 percentage point rise from 2008 both for PHBs across all sectors and for those in the manufacturing sector
- a lack of availability of a skilled workforce is of slightly more concern to PHBs in all sectors (27 per cent), than it is for those in the manufacturing sector (23 per cent).

Figure 6: Constraints on expansion

Average percentage of business rating constraint 4 or 5 on a scale of 1 to 5 where 1 is not a constraint and 5 is a major constraint



Source: Grant Thornton IBR 2009



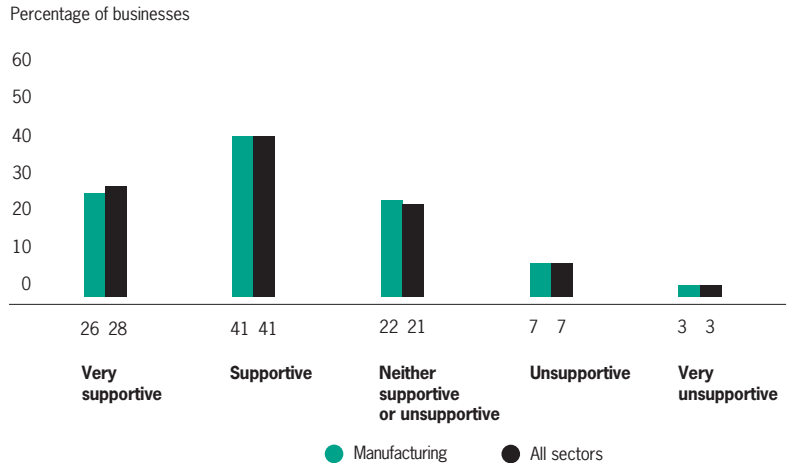
David Reuben
Grant Thornton, South Africa

“The manufacturing sector needs to look for the value add and the uniqueness of South African manufactured products. Differentiating and finding their niche is going to be key for the survival of many manufacturers in this part of the world.”

Support of lender

- 67 per cent of PHBs in the manufacturing sector class lenders as supportive or very supportive towards their business. This is just below the average of all sectors (69 per cent)
- just ten per cent of PHBs, both in all sectors and in the manufacturing sector, believe their lenders are unsupportive or very unsupportive towards their business.

Figure 7: Level of support provided by lenders

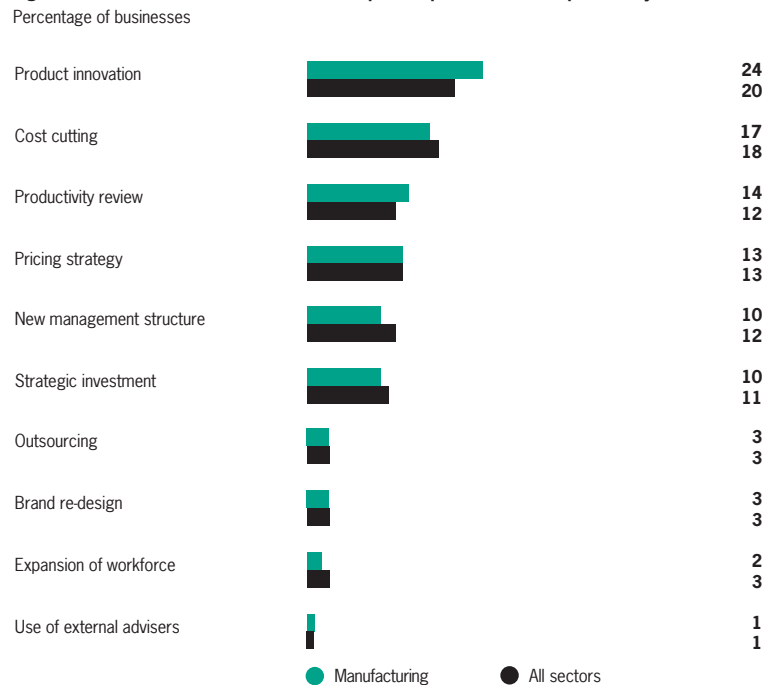


Source: Grant Thornton IBR 2009

Business planning

- product innovation is the most successful initiative PHBs have put in place to increase profitability, both across all sectors (20 per cent) and in the manufacturing sector (24 per cent)
- cost cutting has been the second most successful initiative introduced both in the manufacturing sector (17 per cent) and in all sectors (18 per cent).

Figure 8: Successful initiatives that have been put into place to increase profitability



Source: Grant Thornton IBR 2009



Wally Gruenes
Grant Thornton, United States

“Driving costs down is something that manufacturers are very familiar with as they have been doing it for longer than most. If there’s a sector which is able to deal with it, or at least has a history in how to deal with it, that would be the manufacturing sector. Businesses finding this optimum level first will be the ones to lead the sector out of the recession.”

Outlook

The manufacturing sector faces an extremely tough year in 2009. Domestic demand in most countries will remain severely constrained by slack consumer demand and falling fixed investment. Export prospects will provide no relief as international trade is expected to contract by at least six per cent. On top of this, the paralysis in the financial markets shows few signs of unravelling and working capital finance will be in short supply. Against this grim background, further short time working, production line cuts, business failures and widespread employment losses are inevitable.

The recent barrage of fiscal and monetary measures to boost demand should begin to stem the downward spiral later in the year, providing a platform for a resumption of growth in 2010. But any recovery is likely to be very weak as the debt overhang will constrain consumer demand in many economies and confidence after the sharp fall in house prices will take time to rebuild in economies such as the United Kingdom and the United States. Investment in machinery is also likely to pick up only gradually in 2010 in the face of anaemic growth prospects and ongoing banking sector problems. Investment for many companies may have to be deferred until the availability of capital makes projects viable.

Tips for survival

- keep good liquidity levels
- understand the credit condition of your customers and suppliers in advance
- stay in close contact with your lender
- seek attractively valued acquisition targets
- minimise stock levels
- sell off surplus assets
- be open and positive with the workforce
- fine tune your products to add more value
- have a downturn plan including a 'worst case' scenario.



Reasons to be cheerful

- in recent times stock markets have been heading in the right direction
- food processing, construction equipment, aerospace and even retail sectors seem to be holding up well
- low value of some currencies presents some good opportunities for international trade
- positive signs for growth resuming in 2010.



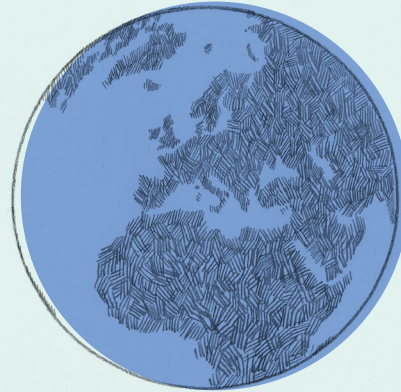
The Grant Thornton International Business Report (IBR) is an annual survey of the views of senior executives in privately held businesses (PHBs) all over the world. Launched in 1992 in nine European countries the report now surveys over 7,200 PHBs in 36 economies providing insights on the economic and commercial issues affecting a segment often described as the 'engine' of the world's economy.

To find out more about IBR and to obtain copies of reports and summaries visit: www.internationalbusinessreport.com

The site also allows users to complete the survey and benchmark their results against all other respondents by territory, industry type and size of business.

Participating economies

Argentina	Japan
Armenia	Malaysia
Australia	Mexico
Belgium	Netherlands
Botswana	New Zealand
Brazil	Philippines
Canada	Poland
Chile	Russia
Mainland China	Singapore
Denmark	South Africa
Finland	Spain
France	Sweden
Germany	Taiwan
Greece	Thailand
Hong Kong	Turkey
India	United Kingdom
Ireland	United States
Italy	Vietnam



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