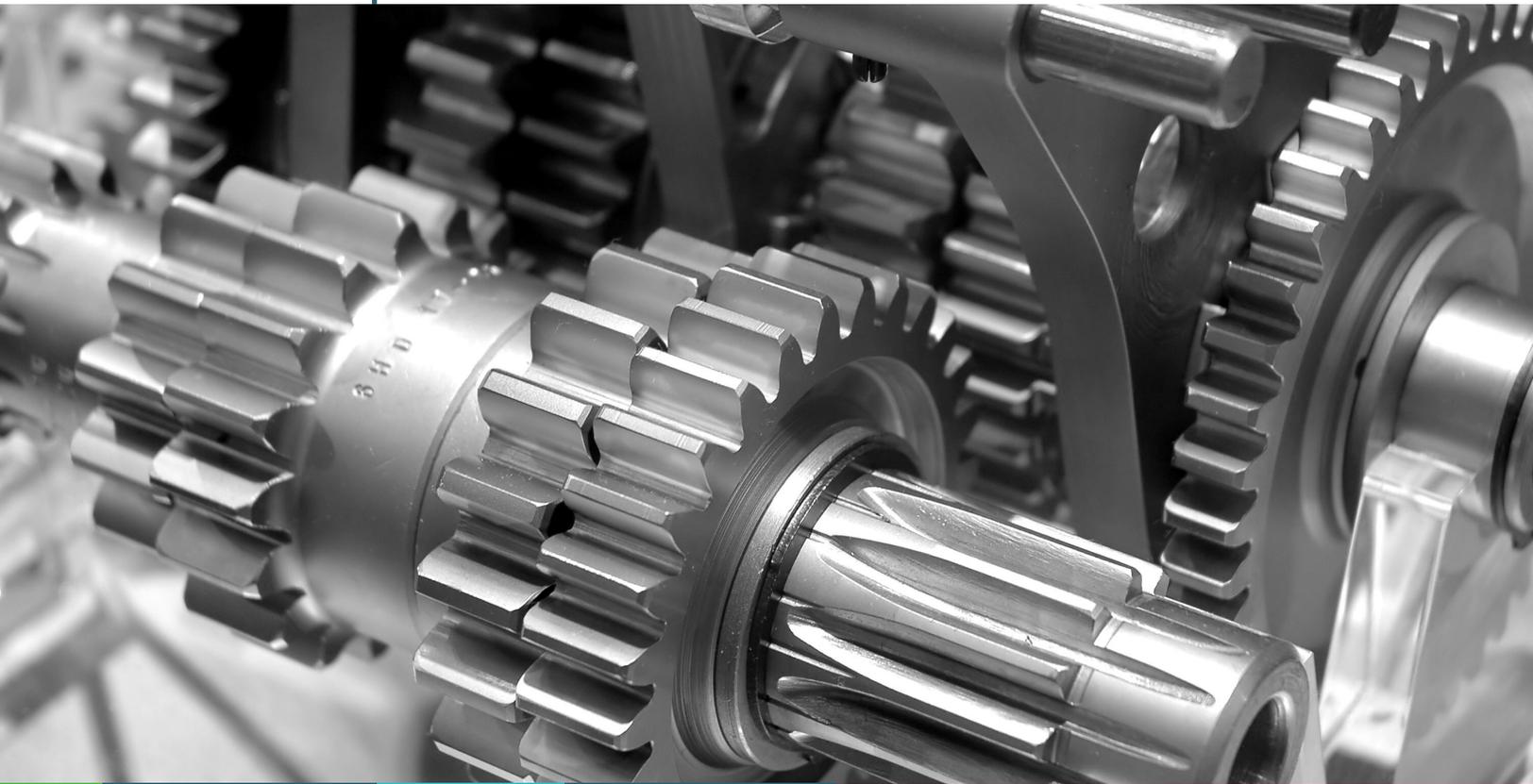


The 2013 Schneider Downs MANUFACTURERS ECONOMIC SURVEY



Analysis of Results

The Schneider Downs manufacturers economic survey and analysis provides professionals in the manufacturing sector an annual overview of the industry.



Big Thinking. Personal Focus.

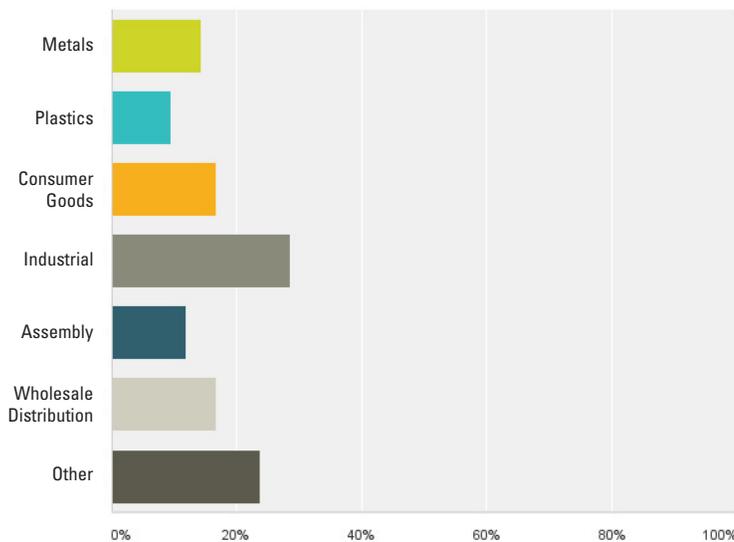
Executive Summary

Employee benefits, raw materials and compliance issues are top concerns for manufacturers, according to the findings from Schneider Downs' 2013 Manufacturers Economic Survey. There is still uncertainty surrounding the U.S. economy and the current administration's fiscal policies, which seem to be driving manufacturers to make plans cautiously for 2014. However, many manufacturers anticipate customer demand and sales to slightly increase in 2014, largely due to the identification of new market opportunities including doing business internationally.

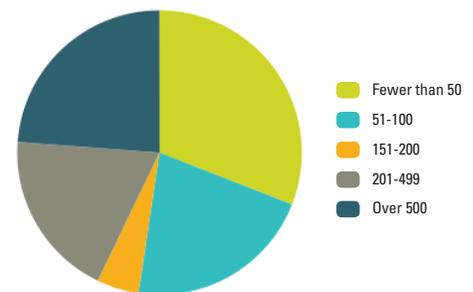
Schneider Downs conducted a Manufacturers Economic Survey in October 2013 to assess the challenges faced by manufacturing organizations and to gain insight into how manufacturers think the industry can grow. The firm sent the survey to manufacturers across the United States, representing a variety of industries, with a distribution of small, medium and large organizations.

Demographic Information

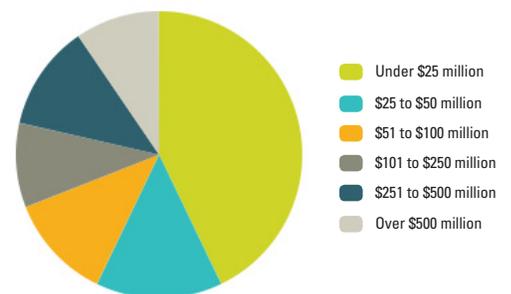
Select which manufacturing sector(s) most closely matches your company.



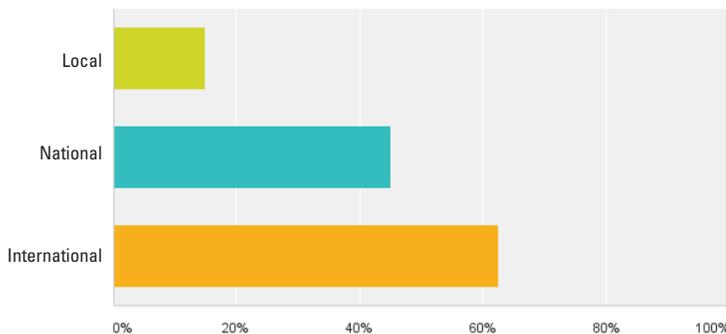
How many employees do you currently have?



What is your annual revenue?



Is your customer base:



Almost 62% of respondents have an international customer base.

Workforce Demand

Summary

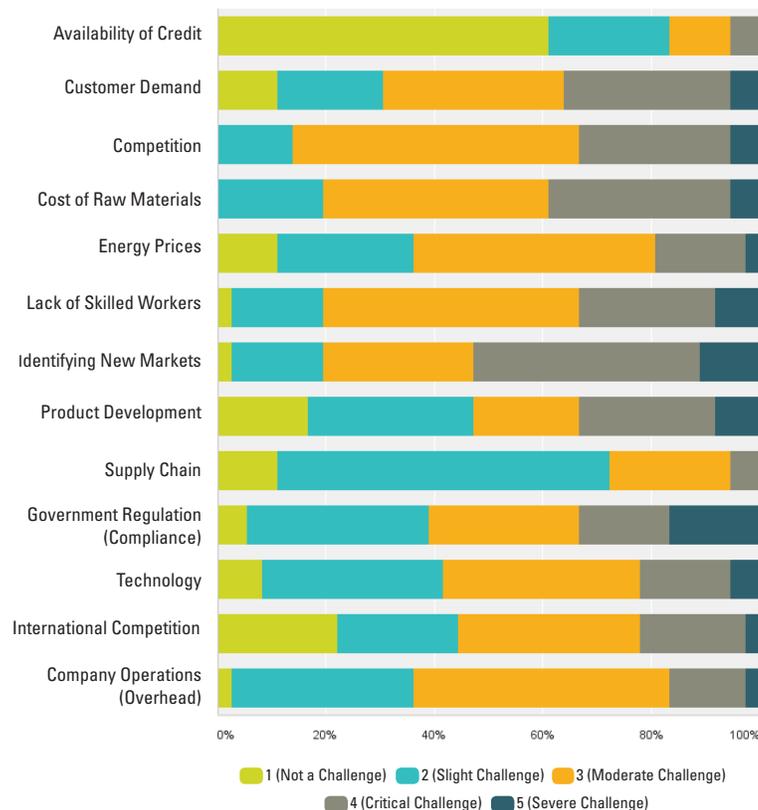
Approximately 39% of respondents expected their workforce to increase in 2014. Of the respondents that expect their workforce to increase, approximately 64% expect their workforce to increase less than 10% and approximately 36% anticipate an increase between 10% and 20%. Nearly 53% of respondents expect no change in their workforce, while 8% expect a decrease.

Schneider Downs Observation

Manufacturing jobs started to increase in the second half of 2013 and there is a sense that it will continue to increase slightly in 2014.

Toughest Challenge

On a scale of 1 to 5, with 5 being the toughest challenge, please assess each of the following items as they apply to your company.



Summary

More than 52% of respondents indicated that identifying new markets is a critical or severe challenge to their company. Additionally, 61% of respondents indicated that availability of credit was not a challenge.

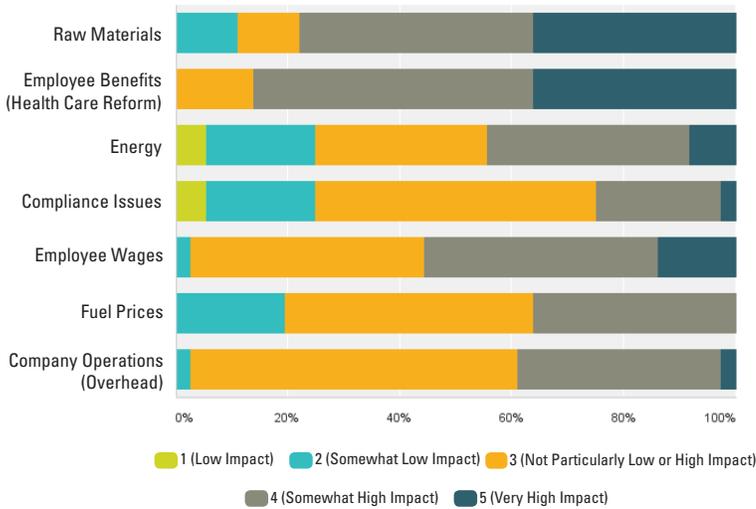
Last year, more than 50% of respondents identified customer demand as a severe challenge. This has dropped to 36% in 2013.

Schneider Downs Observation

As competition remains a challenge, there might be a need for U.S. manufacturers to identify expanding markets. This assumption is supported by the percentage of respondents that have an international customer base. The number of respondents who have international customers continues to grow; increasing from 52% in 2012 to almost 62% in 2013.

Impact on Profits

On a scale of 1 to 5, with 5 being the highest impact, please assess each of the following items as they apply to your company.



Summary

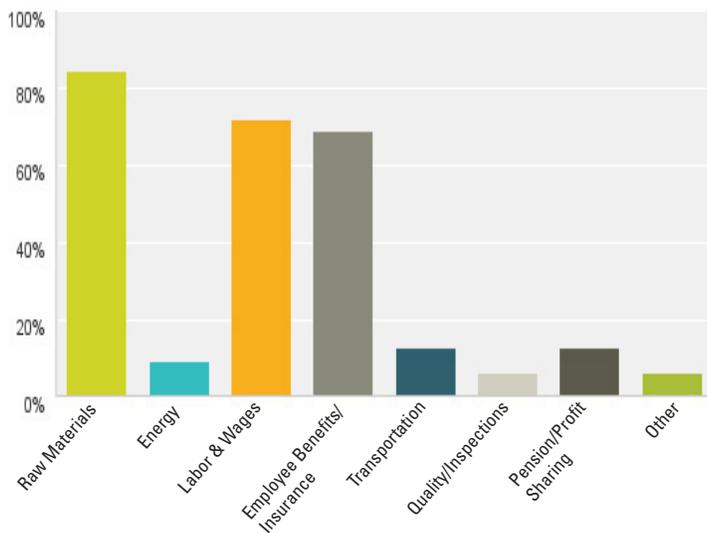
Employee benefit costs and raw material costs were identified as having the most significant impact on profits at 86% and 78% respectively. Those two costs were also selected in 2012 as having the greatest impact on profits.

Schneider Downs Observation

These costs will continue to be a focus for manufacturers in 2014 especially with uncertainties in the implementation of the Affordable Care Act and volatile raw material prices.

Highest Costs

On a scale of 1 to 5, with 5 being the highest impact, please assess each of the following items as they apply to your company.



Summary

Respondents indicated that raw materials, labor/wages, and employee benefits/insurance were the three most significant costs of doing business in 2013.

Schneider Downs Observation

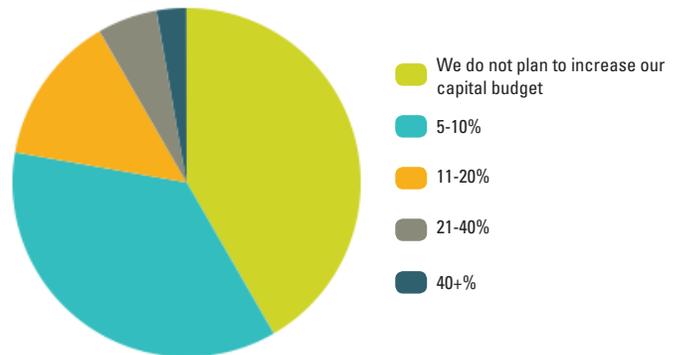
It should come as no surprise that these are costs identified as most significant by manufacturers. Those manufacturers that can best control these costs will have advantages over their competitors.

Capital Budget

Summary

Responses varied greatly when respondents were asked whether they planned to increase their capital expenditures in 2014 as compared to 2013. Approximately 42% of respondents indicated that they did not plan to increase their capital budgets in 2014. Yet, 50% nevertheless are expecting their capital budgets to increase between 5% and 20% in 2014. These results are consistent with the National Association of Manufacturers/Industry Week Survey (NAM Survey), which indicated that approximately 46% did not anticipate changes to their capital expenditures over the next year.

Do you plan on increasing your capital budget in 2014? If so, by how much?



Schneider Downs Observation

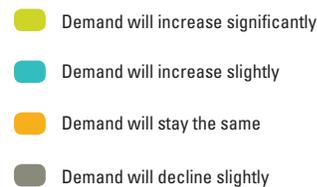
With bonus depreciation set to expire on December 31, 2013 (and no apparent extension in sight), manufacturers have less tax incentives for making significant capital expenditures in 2014. Additionally, many manufacturers are making capital expenditures in 2013 that they may have normally delayed until 2014 in order to take advantage of accelerated tax deductions.

Customer Demand

Summary

Approximately 70% of those surveyed expect customer demand for 2014 to increase compared to 2013. This is a significant change from last year's survey. In 2012, 56% of respondents expected customer demand to remain constant or decrease slightly. Also, those respondents with international sales were more optimistic about 2014 than manufacturers with only domestic sales.

For 2014, what is your expectation in regards to customer demand?



These results are consistent with the NAM Survey, where nearly two-thirds of respondents expect their sales to increase in 2014. It is projected that industry sales will increase 3.3% during 2014 compared to 2013.

Schneider Downs Observation

Manufacturers are more optimistic about their sales, both domestic and international, today than in recent years. This optimism is predicated on strong domestic and global economies and may be wishful thinking given the past several years of restrained growth.

Contributing to Current Economic Environment

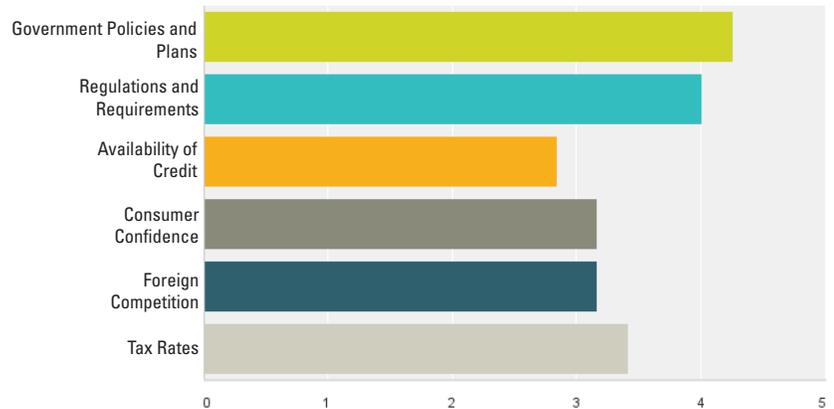
Summary

Government policies and regulatory requirements were rated as the most significant items contributing to the current economic environment. These results have remained consistent over the last two years.

Schneider Downs Observation

Manufacturers are sensitive to the economic impacts expected from the implementation of the Affordable Care Act, as well as probable tapering of the Quantitative Easing program by the Federal Reserve, which would immediately impact market interest rates.

On a scale of 1 to 5, with 5 being the most impact, please indicate to what degree you think each of the following items is contributing to the current economic environment?



2013 Results to Budget

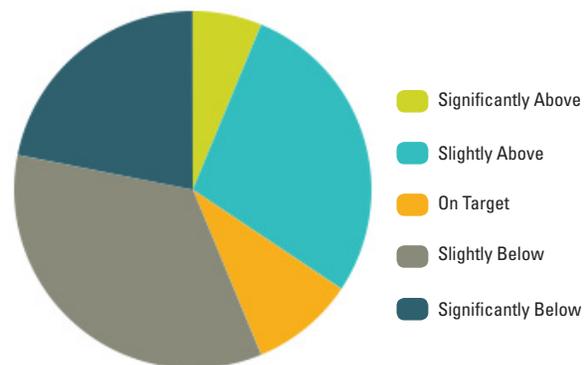
Summary

Responses varied greatly when companies were asked about actual results compared to budget for 2013. 44% indicated that actual results to budget would be on target or above, and 56% indicated that actual results would be below budget.

Schneider Downs Observation

These varied responses can be attributed to the respondents' customer bases. Those with international sales (or that are expanding into new markets and/or products) have seen greater growth than those without international sales.

Where do you expect your 2013 actual revenue results to be compared to your 2013 forecasted revenue?



Impact of Affordable Care Act

The results were mixed when respondents were asked what impact the Affordable Care Act (ACA) and/or postponement of certain provisions of the ACA would have on their company. Responses were split into three groups: yes, there will be impact to our company; no, there will not be any impact to our company; and not sure if there will be any impact to our company.

Those respondents who indicated the ACA would impact their companies cited increased costs in the forms of health care and taxes and increased regulation as the primary consequences of the new law. Additionally, many believe that the postponement of certain provisions of the ACA is simply delaying the inevitable.

The primary reason that respondents do not think that the ACA will significantly impact their businesses is that they are currently providing qualified health insurance to their employees.

Schneider Downs Observation

Many manufacturers find themselves in a similar position as they were in the prior year, anticipating the ACA to have a negative impact on their business. Many believe the postponement of certain provisions will only delay the impact of increased costs, and the resulting uncertainty will further slow growth.

Global Competition

The majority of respondents indicated that in order for U.S. manufacturers to remain competitive in the global marketplace, there is a need for higher-skilled workers, less government involvement (in the form of regulations and taxes) as well as a reduction in energy prices. These results are nearly identical to those from last year's survey. These responses were consistent with the NAM Survey; when respondents were asked about their current primary business challenges, three of the top answers were: unfavorable business climate (i.e., taxes, regulations, government uncertainties); attracting and retaining a high-quality workforce; and rising energy and raw material costs.

Schneider Downs Observation

As the marketplace becomes increasingly global, U.S. manufacturers may find themselves falling behind their international competitors unless solutions can be found for the key challenges.



Pending Legislation

Respondents indicated that the ACA will have the most significant impact on their company in 2014. Increased regulation was a distant second. These results are consistent with those from the NAM survey, in which two of the most common responses were reducing the regulatory burden on manufacturers as well as controlling health care costs.

Overall Observations

Manufacturers are slightly more optimistic heading into 2014 than they were a year ago. Although uncertainty still exists with respect to government regulation and increasing health care costs and energy prices, manufacturers remain cautiously optimistic that 2014 will be a better year than 2013. One reason for this optimism may be that increased activity has been recorded in the fourth quarter of 2013 compared to earlier in the year. While overall results for 2013 may be down from budget, the expectation is that the momentum generated late in 2013 will carry over into 2014.

Respondents are expecting a modest increase in customer demand, much of which is expected to come from overseas. Manufacturers that can tap into a new market or develop a new product will be in a better position to succeed than those manufacturers that simply maintain status quo.

Many believe that the lack of skilled workers, additional government regulations and rising energy prices are obstacles that must be addressed in the coming year in order to remain competitive in the global marketplace.

In the early hours of 2013, Congress provided certainty with respect to anticipated income tax increases for individual taxpayers by enacting the American Taxpayer Relief Act of 2012 (ATRA). The top marginal tax bracket was increased to 39.6% for the tax years beginning in 2013 (up from 35% in 2012; a 13% increase). Congress reinstated the Pease limitations on itemized deductions, which effectively results in a 1.2% tax rate increase for many taxpayers. Additionally, the top tax rate for qualified dividends and capital gains was increased to 20% for taxpayers in the top marginal bracket (up from 15% in 2012, a 33% increase).

As noted in last year's survey, many taxpayers will see two new taxes in 2013. First, higher-income earners (\$200,000 single/\$250,000 joint) will see

an additional 0.9% Medicare Hospital Insurance Tax on wages and self-employment income. This tax is in addition to the current 1.45% Medicare tax withheld on wages. There is also a 3.8% surtax on net investment income, which includes portfolio income, i.e., interest, dividends and capital gains, as well as passive income including rents, royalties and income from investments in S Corporations and partnerships. This tax will be calculated and reported on the individual tax return.

Manufacturers organized as pass-through entities can expect additional cash requirements to fund the tax obligations of their owners.

Congress also extended several provisions beneficial to manufacturers, including bonus depreciation, Internal Revenue Code Section 179 expensing, and the research and development tax credit. However, each of those, and most of the other business provisions extended by ATRA, are set to expire December 31, 2013 without further legislation.

There is still uncertainty as to what the tax landscape will be in the future. There have been several proposals among lawmakers in Congress to overhaul the Internal Revenue Code, with some discussion around reducing the corporate income tax rate in an effort to keep domestic entities on U.S. soil. One recent proposal of particular interest to many U.S. manufacturers is the repeal of the Last-In First-Out (LIFO) method of accounting for inventory.

Stay current with changes as they happen and subscribe to our weekly Insights and Manufacturing Matters newsletters. Sign up on our website: <http://www.schneiderdowns.com/subscribe>.

About the Schneider Downs Manufacturing Industry Group

Schneider Downs provides accounting, tax and business advisory services to the manufacturing industry in Western Pennsylvania, Central Ohio and around the world. Our team of business advisors works with a range of manufacturers from high-tech start-ups to publicly traded industrial manufacturers.

Our Manufacturing Industry Group helps our clients streamline operations, improve internal controls, save taxes and grow profitability. Our dedicated team of professionals has the experience and knowledge to create solutions specific to your manufacturing organization, solutions that will help you achieve your business goals.

For more information about our services to the manufacturing industry, visit our website or contact one of our Manufacturing Industry Group Team Members:

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