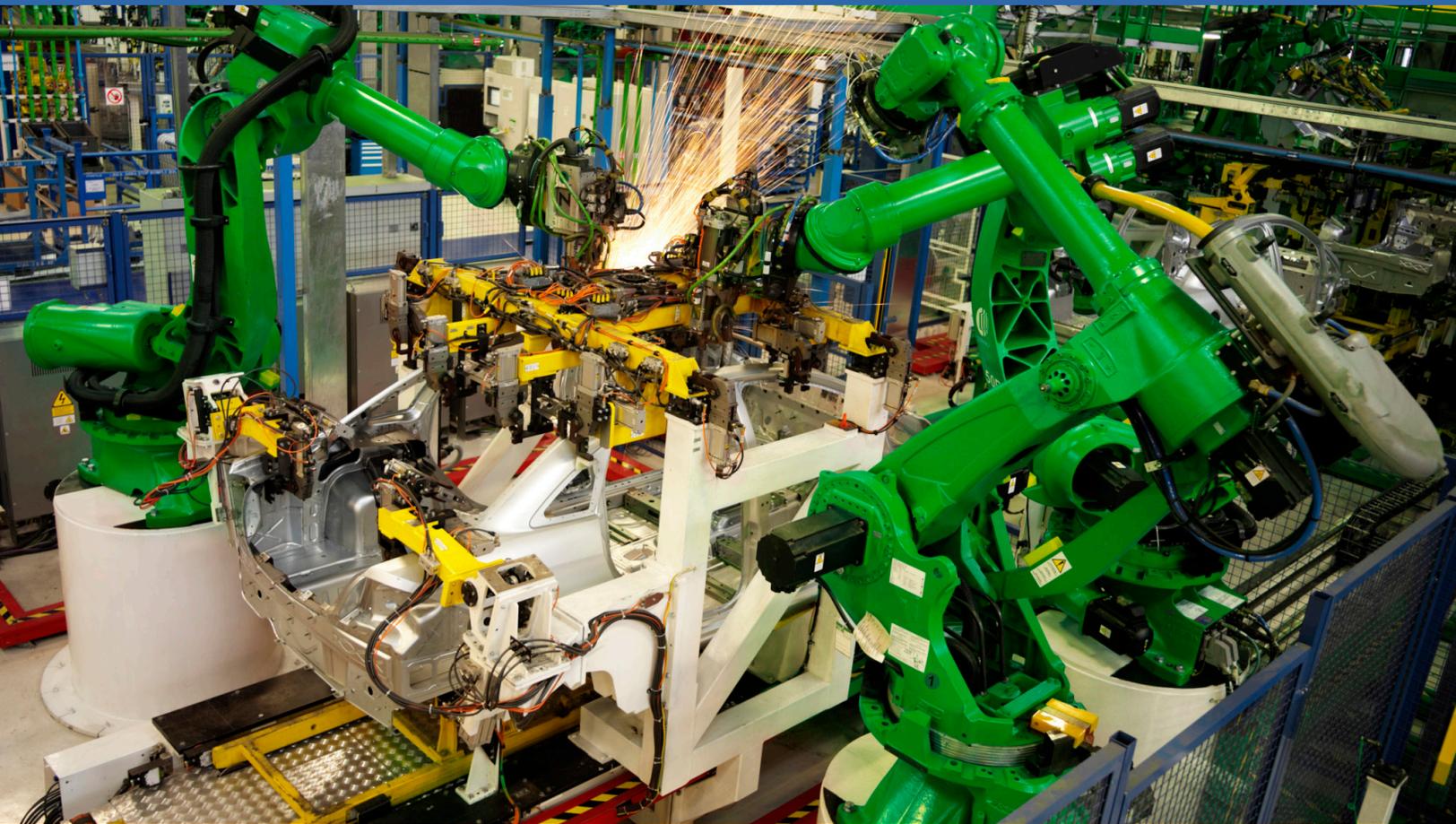


The 2012 Schneider Downs MANUFACTURER'S ECONOMIC SURVEY



Complete Analysis of Results from the
2012 Schneider Downs Manufacturer's Economic Survey



INSIGHT ■ INNOVATION ■ EXPERIENCE

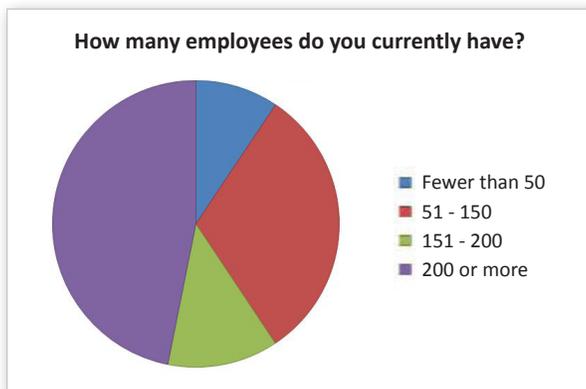
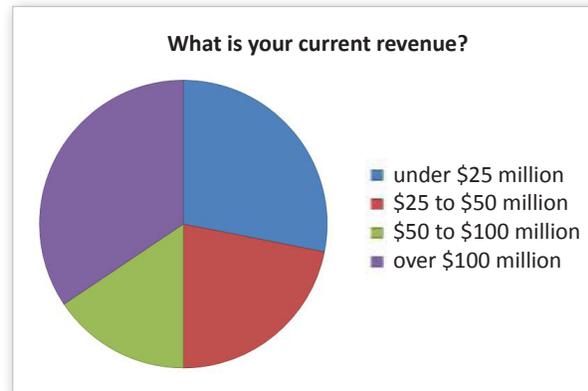
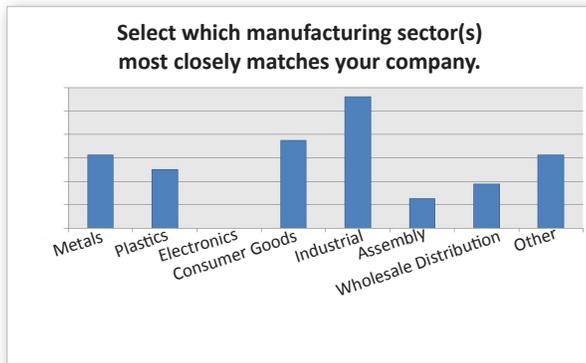
2012 MANUFACTURER'S ECONOMIC SURVEY RESULTS

Executive Summary

Employee benefits, raw materials and compliance issues are top concerns for manufacturers, according to the findings from Schneider Downs' 2012 Manufacturer's Economic Survey. Uncertainty surrounding the U.S. economy and the current administration's fiscal policies seem to be driving manufacturers to cautiously make plans for 2013, as predictions of weak customer demand are holding back investment.

Schneider Downs conducted a Manufacturer's Economic Survey in November 2012 to assess the challenges faced by manufacturing organizations and to gain insight into how they 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



About Schneider Downs Manufacturing Industry Group

Schneider Downs provides business accounting and tax services to the manufacturing industry in Western Pennsylvania, Central Ohio and around the world. Our team of business advisors works with clients who have local, national and international operations.

We help our manufacturing clients streamline operations, improve internal controls, save taxes and grow profitability. Our professionals have the experience and knowledge to create solutions specific to your manufacturing organization, solutions that will help you achieve your business goals.

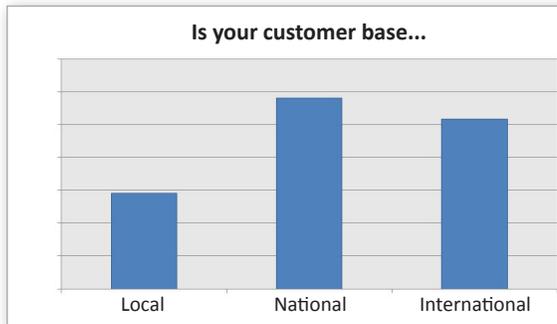
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For more information about our services to the manufacturing industry, please visit our web site at www.schneiderdowns.com.

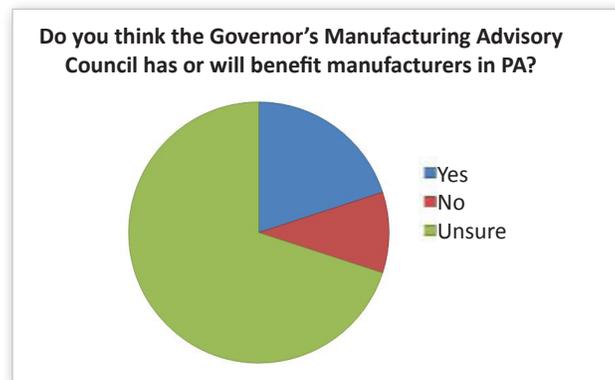
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Customer Base – Almost 52% of respondents have an international customer base.



Reaction to Pennsylvania Governor's Manufacturing Advisory Council



The Governor's Manufacturing Advisory Council (Council) is charged with addressing issues that impact economic growth and the overall success of the manufacturing industry and making recommendations to Pennsylvania Governor Tom Corbett and the Pennsylvania Legislature.

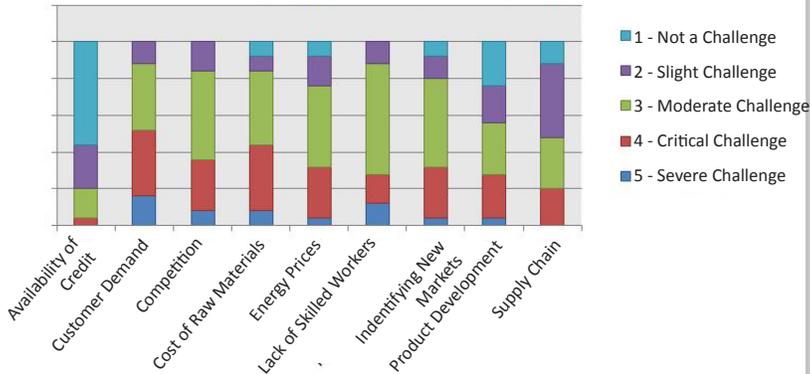
The 24-member Council is composed of executives from manufacturing companies and trade organizations from around the state. The Council met from January through June of 2012. Seventy percent of respondents indicated that they are unsure whether the Council has or will benefit manufacturers in Pennsylvania. Visit the Schneider Downs Manufacturing Industry web page to learn more about the Council's report.



SURVEY DATA



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.



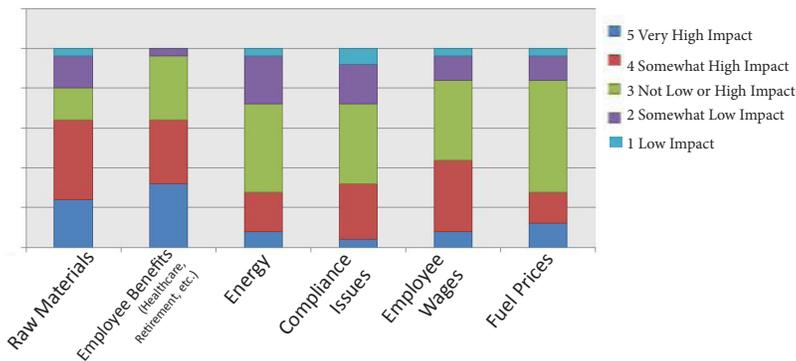
Toughest Challenge

More than 50% of all respondents indicated that customer demand is a critical or severe challenge to their company, yet 56% of respondents indicated that availability of credit was not a challenge. Based on the percentage of respondents that have an international customer base, an outlook of decreased customer demand in 2013 seems likely given Europe's economic recession. While financing is available for capital projects and other expenditures, manufacturers are reluctant to invest such resources with the uncertainty that currently exists.

Schneider Downs Observation

Although it has been reported that consumer optimism/sentiment appeared strong before the holidays, U.S. manufacturers seem to have the opposing view and predict a decline in customer demand due to significant challenges that lie ahead.

On a scale of 1 to 5, with 5 being the highest impact, please indicate to what degree each of these items is having on your profits.



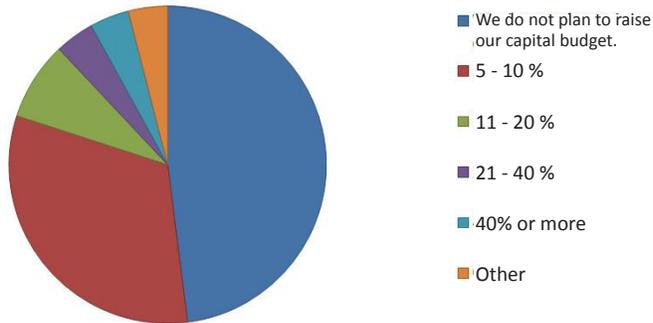
Impact on Profits

Not surprisingly, respondents rated excessive employee benefit costs (i.e., healthcare, retirement, etc.) and high raw material costs as having the most significant impact on profits. In both instances, 64% of respondents indicated that these factors have somewhat high or very high impact on profits.

Schneider Downs Observation

Raw materials and commodities are expected to rise in 2013 to potential new post-recession highs. Additionally, supply constraints could further drive up prices. Manufacturers may need to pass along these costs to customers in order to remain profitable. Also, pension and healthcare costs may hinder manufacturers' profits.

**Do you plan to increase your capital budget in 2013?
If so, by how much?**



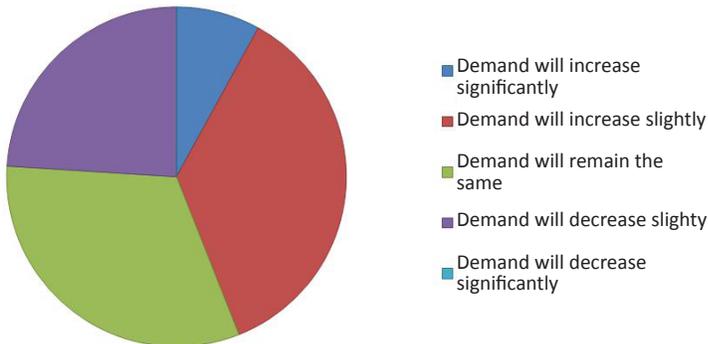
Capital Budget

Eighty percent of respondents do not expect their budgeted capital expenditures to increase more than 10% from the prior year, with 48% expecting no increase at all. These results are consistent with the National Association of Manufacturers/Industry Week Survey (NAM Survey), which indicated an expected capital spending increase of 1.2% for the coming year.

Schneider Downs Observation

With bonus depreciation set to expire on December 31, 2012, manufacturers have less incentive for significant capital expenditures. Manufacturers will experience reduced tax deductions in year one of a capital outlay, which will ultimately decrease a company's appetite to invest in property, plant and equipment.

**For 2013, what is your expectation in regards
to customer demand?**



Customer Demand

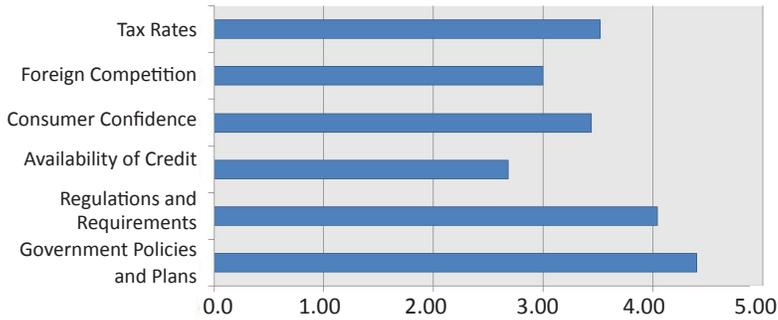
Approximately 68% of respondents expect customer demand for 2013 to remain consistent or decrease slightly compared to 2012. This is consistent with the NAM Survey, which indicated a drop from 83.1% to 69.2% in manufacturers having a positive or somewhat positive outlook for customer demand. It is projected that industry production will produce approximately 1.2% less at the beginning of the year compared to 2012.

Manufacturers list customer demand as a top concern because of the economy. With a recession in Europe and slow economic growth around the world, manufacturing activity in the U.S. has slowed. Coupled with concerns surrounding fiscal policy in the U.S., manufacturers are facing uncertainty in the short term, which is exacerbated by weak customer demand.

Schneider Downs Observation

Significant challenges in the U.S. and around the world may give manufacturers pause while they assess broader macro economic challenges and decide on strategies to operate in a lower-growth, higher-cost environment.

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.



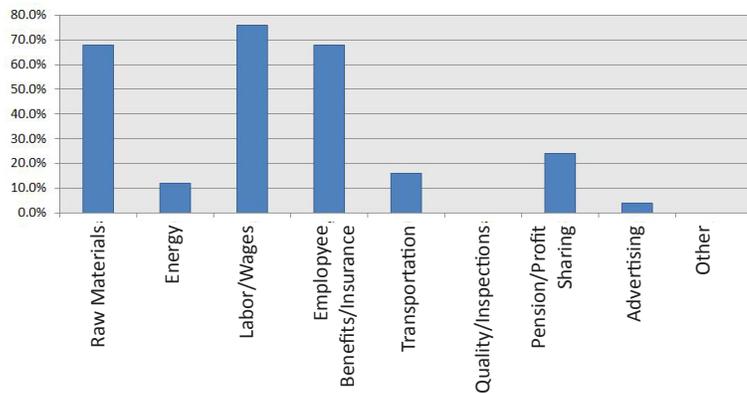
Contributing to Current Economic Environment

Not surprising, government policies and regulatory requirements were rated as the most significant items contributing to the current economic environment, with 88% and 72% of respondents, respectively, indicating these as having a somewhat high or very high impact.

Schneider Downs Observation

Manufacturers often cite President Obama's intention to raise taxes, the Affordable Care Act, increased regulations by the U.S. Environmental Protection Agency, the Dodd-Frank Act and government spending as threats that contribute to the negative current economic environment.

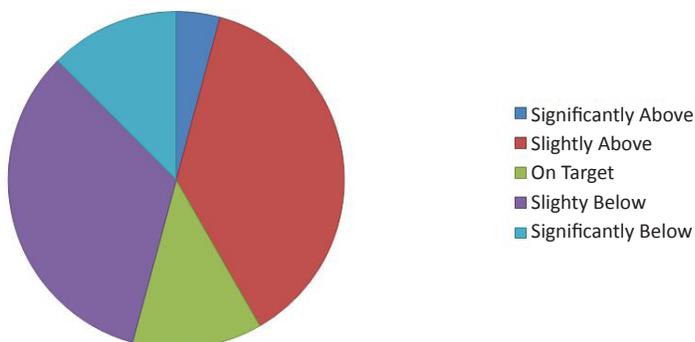
Looking at the cost structure of your business, indicate the highest costs of doing business in 2012.



Highest Costs

Respondents indicated that labor/wages, employee benefits/insurance and raw materials were the three most significant costs of doing business in 2012.

Where do you expect your 2012 results to be in relation to your 2012 budget?



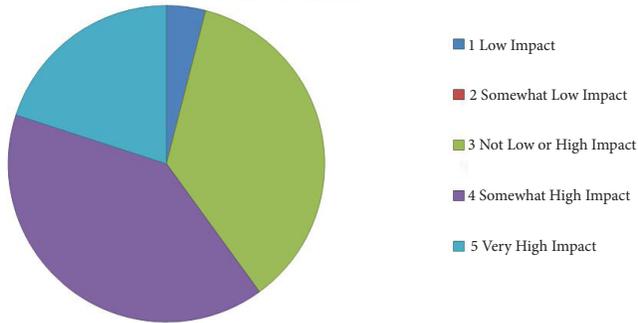
2012 Results to Budget

Responses varied greatly when companies were asked about actual results compared to budget for 2012. Eighty-three percent of responses fell into one of three categories: slightly below, on target or slightly above.

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) have seen greater growth than those without international sales.

On a scale of 1 to 5, with 5 being the highest impact, do you anticipate that the Affordable Care Act will impact your company?



Impact of Affordable Care Act

Sixty percent of respondents anticipate that the Affordable Care Act will have a somewhat high or very high impact on their company. This is comparable to 69% of respondents in the NAM survey. It is likely that the Supreme Court's decision on the Affordable Care Act reinforced the perceived impact that this Act will have on companies. Not surprising, only 4% (compared to 7% per the NAM survey) indicated that they were anticipating a low impact on their company with respect to the Affordable Care Act.

Schneider Downs Observation

Very few companies believe that the Affordable Care Act will have a positive impact on manufacturing. The increased cost of healthcare may ultimately impede job growth.

Remain Competitive

The majority of respondents indicated that in order for U.S. manufacturers to remain competitive in the global market place, there is a need for higher-skilled workers, lower taxes and fewer government regulations (both environmental and healthcare). Fewer respondents indicated that innovation and more quality products were needed to remain competitive.

Pending Legislation

Respondents, by an overwhelming majority (77%), said that taxes and healthcare reform will have the most significant impact on their company in 2013. These results are consistent with those from the NAM survey, in which 78% and 69%, respectively, indicated uncertainties in political climate ("fiscal abyss," pending budget cuts, etc.) and rising healthcare/insurance costs. Clearly, there was uncertainty and concern regarding the outcome of the recent election.

Overall Observations

Given the great unknown we are currently facing, it comes as no surprise that manufacturers' overall outlook for 2013 is somewhat negative and very cautious. There are a few themes that continue to recur throughout the survey results.

Respondents are anticipating little or no growth in customer demand in the coming year. The uncertainty facing the United States regarding the "fiscal cliff" coupled with potential tax increases and budget spending cuts has the economy potentially poised for a downward turn. Factor in the slowdown in the overall global economy and, specifically, the economic recession in Europe, and it is little surprise that the outlook for 2013 tends to be particularly negative. Companies that emphasize innovation with respect to new products and processes, as well as penetrate new markets (foreign and domestic) may gain an edge over their competitors that are simply reacting to customer demands. Unfortunately, many manufacturers do not currently have the infrastructure or expertise to compete globally.

At the date of this writing, there is still uncertainty in Washington as to what income tax legislative changes may be enacted for 2013 (and retroactive for 2012). It is probable that tax rates will increase for high-income taxpayers (still yet to be defined). One certainty that may impact taxpayers, beginning in 2013, are the two income tax provisions of the Affordable Care Act, enacted March 23, 2010.

The first is a 0.9% Medicare Hospital Insurance tax on wages and self-employment income (above \$200,000 for single filers and \$250,000 for joint filers). This 0.9% Medicare surtax is in addition to the 1.45% Medicare tax currently paid by employees.

The second is a 3.8% Medicare tax on net investment income, which includes interest, dividends, capital gains, rents, royalties and passive activity income. This 3.8% tax is applied to the lower of a taxpayer's net investment income or adjusted gross income in excess of the \$200,000 and \$250,000 thresholds previously noted.

Neither of these provisions change the employer's share of FICA and Medicare contributions; these rates will remain at 6.2% and 1.45%, respectively.

Manufacturers are not only facing competition for market share, but also for highly skilled labor. Locally and nationally, the low number of skilled laborers entering the workforce will continue to be of utmost concern to manufacturers in both the near and long-term. The lack of new workers along with an aging workforce (according to the U.S. Department of Labor, 25% of the manufacturing workers are age 55+) is causing a skill gap that may ultimately impact a company's ability to thrive or even compete.

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>.

