August 2009

KPMG Business Outlook Survey

The Business Outlook Survey is produced by Markit Economics and sponsored by KPMG LLP. The report features original survey data which provide internationally comparable information on business expectations for the year ahead in the main European economies. The survey is conducted four times each year, covering manufacturing in January and July and services in April and October.

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The KPMG Business Outlook survey is produced by Markit Economics, an independent research company that produces highly-regarded surveys of business conditions in nations around the world.

EU manufacturing outlook turns positive in July. Recovery to be led by UK and Italy.

Key points from latest manufacturing outlook survey:

- Business volumes and revenues are forecast to rise over next twelve months.
- The net balance for activity improves to +28.0, from January's record* low -10.2.
- Revenues are forecast to grow to lesser extent than output, with the net balance at +18.8.
- Manufacturers expect to engage in price competition as overall demand remains subdued. The output price inflation net balance remains negative, despite rising to -5.2 from -21.0.
- Price competition will boost new order volumes. The net balance of +29.6 is the highest since January 2008.
- The twelve-month outlook for manufacturing jobs is still negative, but the rate of job shedding will ease as the net balance improves to -13.6, from -35.4 six months previously.
- Cost inflationary pressures are expected to strengthen, but will be muted. The net balance rises from -27.5 to +8.1.
- Growth of profits is expected, but will be restrained by discounting.
- Capital expenditure and research & development will be cut as budgets remain tight.
- The UK and Italy post the best outlooks for activity, revenues, new orders and profits.

* Data for the EU Manufacturing Sector Business Outlook Survey were first collected in January 2006.

The Business Outlook Survey uses net balances to indicate the degree of future optimism or pessimism for each of the survey variables. These net balances vary between -100 and +100, with a value of 0.0 signalling a neutral outlook for the coming twelve months. Values above 0.0 indicate optimism amongst companies regarding the outlook for the coming twelve months while values below 0.0 indicate pessimism. The net balance figure is calculated by deducting the percentage number of survey respondents expecting a deterioration/decrease in a variable over the next twelve months from the percentage number of survey respondents expecting an improvement/increase.

1 Executive summary

The latest EU Manufacturing Business Outlook Survey shows returning confidence across the manufacturing sector, but sentiment remains much weaker than pre-crisis levels.

Manufacturing sentiment rebounds

Following on from the record lows registered across all variables six months previously, the latest survey results show that confidence has rebounded somewhat across the EU manufacturing sector in the summer. The net balance for activity rises to +28.0, from -10.2, to indicate expected growth of manufacturing production by mid-2010. Revenues are also expected to rise (+18.8), albeit to a lesser extent than new order volumes as firms expect tough competitive pressures and pricing power is restricted. Though higher than one year ago, the net balances for output, new orders and revenues all remain below levels seen in 2006, 2007 and the first outlook period of 2008.

The national data show divergent trends. Manufacturing sentiment is strongest in the UK and Italy, which post the highest net balances of all eleven countries surveyed for business activity, revenues, new orders and margins. Activity is set to drop in Greece and, to a lesser extent, the Czech Republic. But revenues are expected to fall in five countries in total, highlighting expected tough trading conditions as firms compete to retain market share and attract new customers.

Inflationary pressures remain muted

The input prices net balance returns to positive territory in July, but remains well down on the levels recorded in 2006-08. Input price inflation is forecast to strengthen, albeit only modestly, as the net balance rises to +8.1 from -27.5. By sector, inflationary pressures on costs are expected to be most intense in Timber & Paper, Chemicals & Plastics and Basic Metals. Italy posts the highest net balance of all countries (+33.1), followed by the UK (+19.3).

Reflecting intense competitive pressures, the output prices net balance remains negative in July. At -5.2, it signals that manufacturers expect charge inflation to soften over the next twelve months, albeit to a lesser extent than in the previous outlook period (-21.0).

With revenues forecast to rise more slowly than output volumes, and the divergence between the two inflation indicators, profits in the EU manufacturing sector are expected to improve only marginally over the next twelve months (+7.1, from -26.8). UK manufacturers are particularly bullish regarding profits (+36.0), while the only other countries to forecast higher profits were Italy (+19.1) and Germany (+4.5). Timber & Paper and Chemicals & Plastics expect to see the fastest gains in profits.

Twelve-month outlook for labour market still firmly negative

Although growth of output is set to recover over the next twelve months, EU manufacturers expect to continue cutting staffing levels (-13.6). Negative net balances are posted in all countries covered except for the UK (+7.6). The most severe job shedding is predicted in France (-26.1) and the Netherlands (-23.9).

Manufacturers expect to cut investment further

With margins remaining under pressure, companies across the manufacturing sector expect to make further cuts to capital investment and R&D spending over the next twelve months (-13.6, -3.5). However, both net balances have improved markedly compared to January.

The inventory:output ratio remains close to January's record low in the latest outlook period (-23.4, from -27.2). Negative readings are posted across all eleven countries. Of the big-four EU economies, the UK shows the slowest expected fall in the stocks:output ratio (-20.7).

	Business activity	Business revenues	New orders	Profits	Employ-ment	Capacity utlisation	Capital expenditure	R&D expenditure	Input price inflation	Output price inflation	Inventory: output ratio
Jul '08	+14.1	+10.7	+13.2	-13.2	-6.9	+12.9	+6.8	+6.4	+64.0	+41.8	-11.1
Jan '09	-10.2	-18.2	-8.1	-26.8	-35.4	-10.1	-28.5	-13.8	-27.5	-21.0	-27.2
Jul '09	**+28.0**	**+18.8**	**+29.6**	**+7.1**	**-13.6**	**+19.2**	**-13.6**	**-3.5**	**+8.1**	**-5.2**	**-23.4**

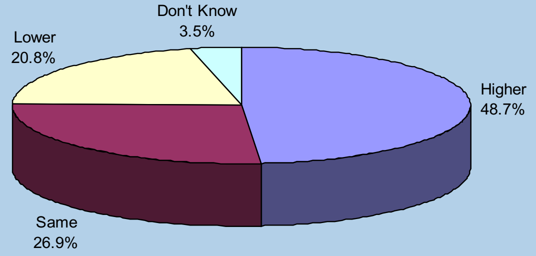
The Business Outlook Survey uses net balances to indicate the degree of future optimism or pessimism for each of the survey variables. These net balances vary between -100 and +100, with a value of 0.0 signalling a neutral outlook for the coming twelve months. Values above 0.0 indicate optimism amongst companies regarding the outlook for the coming twelve months while values below 0.0 indicate pessimism. The net balance figure is calculated by deducting the percentage number of survey respondents expecting a deterioration/decrease in a variable over the next twelve months from the percentage number of survey respondents expecting an improvement/increase.

2 Business activity (volumes of work)

- Confidence at EU manufacturers regarding output volumes rebounds sharply in July.
- The net balance rises above zero, from -10.2 to +28.0. That is the highest figure since January 2008.
- The UK records the most substantial degree of optimism regarding the twelve-month outlook for business activity (+53.8), followed by Italy (+48.9).
- Manufacturing activity is forecast to fall in Greece and the Czech Republic, while confidence is relatively muted in the Netherlands, Spain and Ireland.
- All nine sub-sectors forecast activity to rise over the next twelve months, led by Timber & Paper.

Total EU

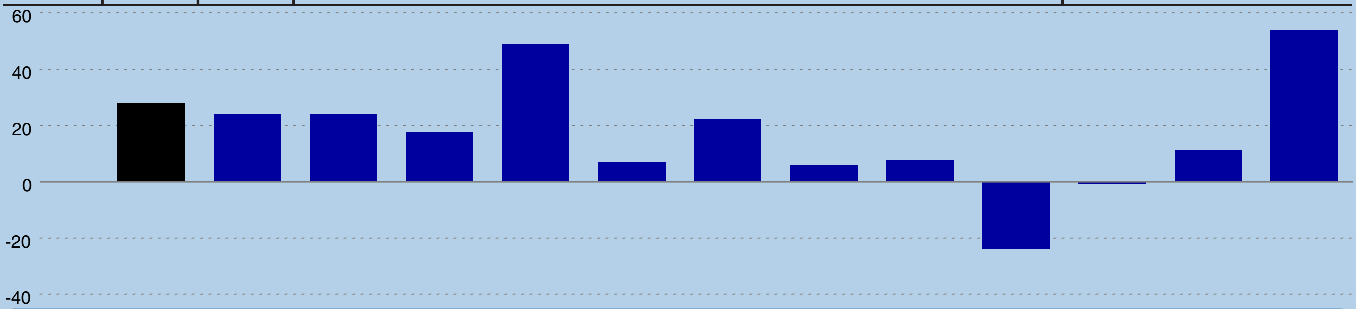
Q. Please state whether you expect your business activity levels (volume of work) to be higher, the same or lower in twelve months' time compared to current levels.



By country / area

% net balances

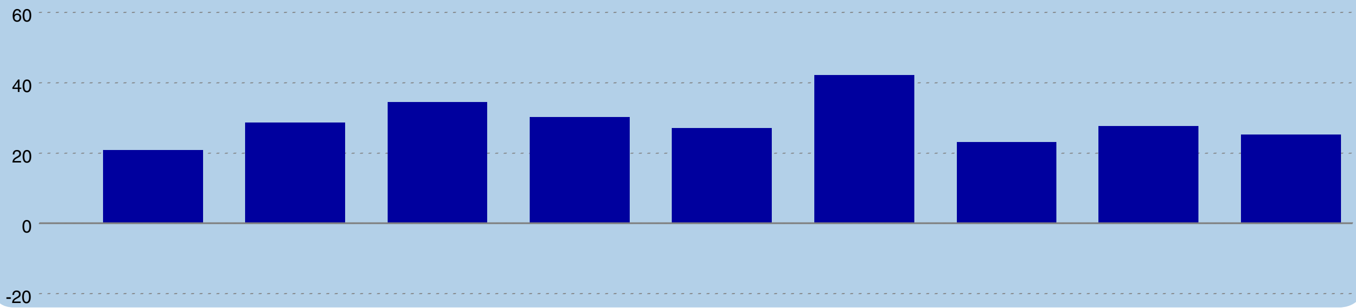
	EU	Euro-zone	Germany	France	Italy	Spain	Austria	Nether-lands	Ireland	Greece	Czech Republic	Poland	UK
Jul '08	+14.1	+13.0	+26.1	+8.4	+10.5	-26.6	+17.0	+37.0	-5.0	+9.8	+10.4	+19.2	+19.3
Jan '09	-10.2	-12.1	-15.8	-10.4	+5.2	-27.0	-13.7	-24.6	-16.7	-30.6	-47.1	+3.3	+1.2
Jul '09	**+28.0**	**+24.0**	**+24.2**	**+17.8**	**+48.9**	**+7.0**	**+22.1**	**+6.1**	**+7.8**	**-23.8**	**-0.7**	**+11.4**	**+53.8**



By sector

% net balances

	Food & Drink	Textiles & Clothing	Electrical & Optical	Chemicals & Plastics	Transport	Timber & Paper	Basic Metals	Mechanical Engineering	Other
Jul '08	+27.3	-19.1	+30.2	+26.1	-0.6	+5.7	+7.9	+15.8	+1.4
Jan '09	-2.6	-3.2	-7.8	-3.0	-19.1	+1.1	-15.3	-12.0	-23.8
Jul '09	**+20.9**	**+28.8**	**+34.6**	**+30.2**	**+27.0**	**+42.4**	**+23.1**	**+27.7**	**+25.3**

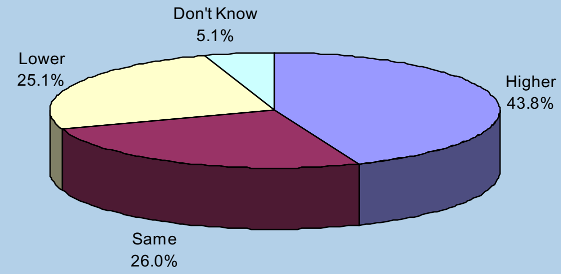


3 Business revenues (value of work)

- A net balance of EU manufacturers expect the value of work undertaken to rise over the next twelve months.
- The net balance improves to +18.8, from -18.2 six months' previously.
- The UK and Italy post the highest net balances, followed by Germany.
- Business revenues are forecast to fall in Greece, the Czech Republic, France and Poland.
- All nine sub-sectors record expectations of higher business revenues over the current outlook period. Optimism is strongest in Timber & Paper and weakest in Food & Drink.

Total EU

Q. Please state whether you expect your business revenues (value of work) to be higher, the same or lower in twelve months' time compared to current levels.



By country / area

% net balances

	EU	Euro-zone	Germany	France	Italy	Spain	Austria	Nether-lands	Ireland	Greece	Czech Republic	Poland	UK
Jul '08	+10.7	+10.2	+26.8	-5.6	+4.3	-21.4	+15.0	+50.9	-3.6	+5.3	-1.2	+17.8	+13.2
Jan '09	-18.2	-20.0	-20.0	-29.7	-5.8	-26.6	-15.0	-23.0	-23.5	-29.8	-59.4	-6.6	-7.4
Jul '09	**+18.8**	**+15.6**	**+24.2**	**-7.2**	**+41.0**	**-0.5**	**+18.3**	**+1.5**	**+2.8**	**-25.4**	**-12.9**	**-1.1**	**+41.1**

By sector

% net balances

	Food & Drink	Textiles & Clothing	Electrical & Optical	Chemicals & Plastics	Transport	Timber & Paper	Basic Metals	Mechanical Engineering	Other
Jul '08	+16.8	-27.7	+22.3	+25.3	-14.2	+2.7	+5.7	+15.3	-0.9
Jan '09	-8.0	+0.9	-12.1	-14.3	-26.6	-18.7	-23.0	-23.2	-29.6
Jul '09	**+6.8**	**+18.3**	**+23.9**	**+22.9**	**+19.9**	**+24.5**	**+15.5**	**+22.0**	**+17.6**

4 Business revenues (value of work)

- According to the latest anecdotal evidence provided by survey respondents, expectations of increased business revenues over the next twelve months hinge on a recovery in demand across the wider domestic and global economies. Key to this is an increased flow of credit from financial institutions.
- Companies are aiming to benefit from improving market conditions by launching newly developed products and engaging in promotional campaigns.
- The most likely factor expected to reduce revenues is a prolonged economic crisis both in domestic and global markets.

Total EU

Q. Please state the main factors likely to generate growth of business revenues for your company over the coming year?

Top 3 factors expected to boost revenues:

	EU %*	EZ %*
Improving market/economic situation	**16.3**	15.9
New orders/clients	**9.8**	9.8
New products/marketing	**8.3**	7.1

Q. Please state the main factors likely to cause a decline in business revenues for your company over the coming year?

Top 3 factors expected to reduce revenues:

	EU %*	EZ %*
Deteriorating market/economic situation	**22.0**	16.0
Less orders/sales	**10.2**	8.0
Increased input prices	**8.5**	6.3

*** Refers to percentage of respondents**

Factors expected to BOOST business revenues by country / area

% of respondents	Improving market/economic situation	New orders/ clients	New products/ marketing	Export growth/new markets	Lower input prices/ productivity	Increased investment	Political factors	Higher output prices	Other
EU	**16.3**	**9.8**	**8.3**	**6.3**	**4.1**	**3.0**	**2.3**	**1.3**	**4.3**
EZ	**15.9**	**9.8**	**7.1**	**5.6**	**3.7**	**2.8**	**1.7**	**1.5**	**4.6**
Germany	13.1	8.6	9.0	6.6	4.1	2.9	0.8	0.8	4.5
France	10.6	11.1	5.6	2.8	3.9	3.9	2.2	3.3	5.0
Italy	26.4	11.2	7.9	9.0	1.7	1.7	1.7	0.6	1.7
Spain	11.2	11.7	2.8	4.7	1.9	2.3	0.9	1.9	5.6
Netherlands	21.3	6.6	9.1	3.6	7.6	4.6	6.1	1.5	11.2
Austria	19.1	4.6	6.1	0.8	6.9	0.8	0.0	0.8	5.3
Ireland	17.7	5.7	7.1	9.9	3.5	1.4	2.1	0.7	5.7
Greece	11.5	14.6	3.1	0.8	5.4	1.5	3.1	0.8	4.6
UK	20.7	9.6	15.0	10.5	6.2	4.5	5.9	0.8	3.1
Poland	1.1	14.8	4.5	4.5	6.8	3.4	2.3	0.0	4.5
Czech Republic	13.7	7.2	10.1	3.6	5.8	0.7	0.7	0.7	1.4

Factors expected to REDUCE business revenues by country / area

% of respondents	Deteriorating market/economic situation	Less orders/ sales	Increased input prices/ falling productivity	Increased competition	Lower output prices	Political factors	Lower investment	Adverse exchange rate fluctuations	Other
EU	**22.0**	**10.2**	**8.5**	**6.2**	**4.2**	**4.2**	**3.5**	**3.2**	**4.5**
EZ	**16.0**	**8.0**	**6.3**	**4.2**	**4.2**	**2.2**	**2.6**	**1.1**	**2.7**
Germany	10.2	8.2	6.1	6.1	4.9	1.2	4.1	0.4	2.9
France	9.4	10.0	7.2	5.0	7.2	2.8	2.2	1.1	3.3
Italy	26.4	6.7	5.1	1.1	0.0	2.8	2.2	1.7	0.6
Spain	18.7	7.5	5.6	3.3	4.2	1.9	0.9	0.9	2.8
Netherlands	30.5	6.1	13.7	3.6	5.1	3.6	1.0	2.5	3.6
Austria	11.5	6.1	2.3	1.5	4.6	0.8	2.3	0.8	5.3
Ireland	24.1	5.7	1.4	7.8	0.7	6.4	0.0	7.1	6.4
Greece	17.7	10.0	5.4	4.6	0.0	2.3	0.0	0.8	3.8
UK	57.6	21.6	20.1	17.3	5.0	14.4	9.4	13.7	14.4
Poland	8.0	17.0	12.5	3.4	3.4	10.2	0.0	6.8	6.8
Czech Republic	9.3	4.0	5.1	3.7	0.6	1.1	1.4	0.3	0.3

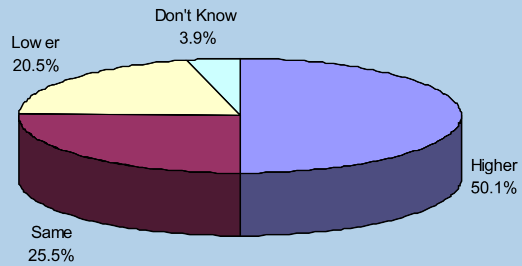
** The factors listed in the tables above represent the summation of information provided to Markit Economics by respondents to an open question. Please note that more than one factor was frequently cited by individual companies. The figures listed in the tables represent the percentage of survey respondents citing each factor.*

5 New Orders

- Manufacturing new orders in the EU are expected to rise over the next twelve months. Half the survey panel expect growth, resulting in an improvement in the net balance to +29.6 from January's record low -8.1.
- The UK and two of the three largest euro economies – Germany and Italy – are driving the upturn in confidence regarding new business.
- Greece is the only country to expect manufacturing new orders to fall. Confidence is muted in Spain, Ireland, the Netherlands and the Czech Republic.
- Timber & Paper is the most optimistic sub-sector, and Food & Drink the least.

Total EU

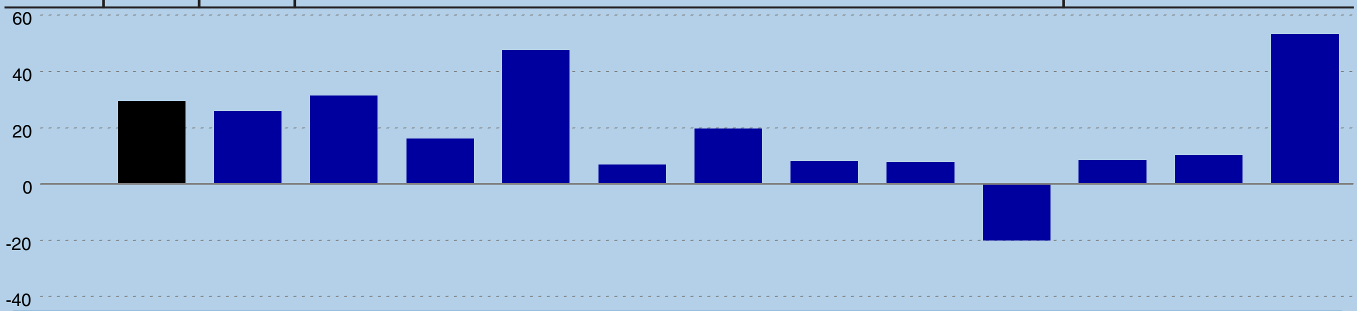
Q. Please state whether you expect your volume of incoming new business (units) to be higher, the same or lower in twelve months' time compared to current levels.



By country / area

% net balances

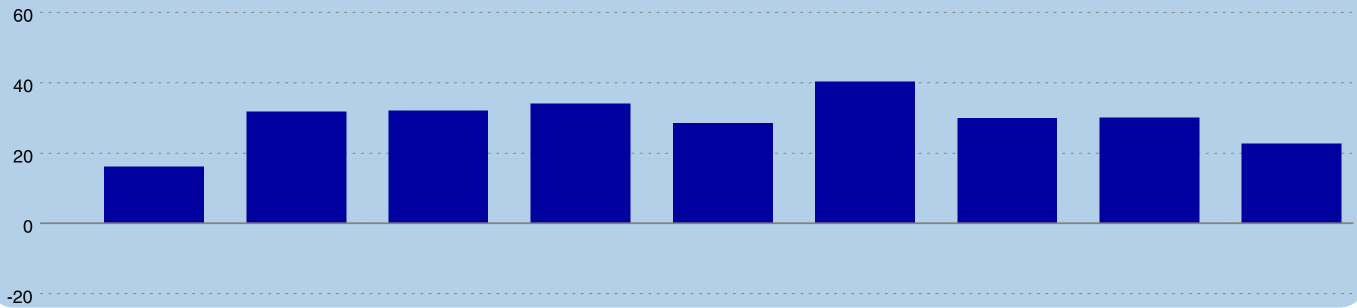
	EU	Euro-zone	Germany	France	Italy	Spain	Austria	Nether -lands	Ireland	Greece	Czech Republic	Poland	UK
Jul '08	+13.2	+12.0	+21.8	+5.6	+14.2	-26.0	+13.6	+40.6	+0.7	+12.8	+20.2	+27.4	+17.0
Jan '09	-8.1	-10.0	-19.6	-5.5	+14.8	-24.8	-12.4	-24.0	-12.9	-33.1	-47.6	-7.7	+4.9
Jul '09	**+29.6**	**+26.0**	**+31.6**	**+16.1**	**+47.8**	**+7.0**	**+19.8**	**+8.1**	**+7.8**	**-20.0**	**+8.6**	**+10.2**	**+53.3**



By sector

% net balances

	Food & Drink	Textiles & Clothing	Electrical & Optical	Chemicals & Plastics	Transport	Timber & Paper	Basic Metals	Mechanical Engineering	Other
Jul '08	+27.5	-23.9	+37.4	+21.8	-7.8	+6.3	+2.0	+19.4	-0.6
Jan '09	+1.7	-5.1	-11.1	+1.8	-18.6	+2.7	-8.2	-15.0	-19.4
Jul '09	**+16.2**	**+32.0**	**+32.1**	**+34.1**	**+28.6**	**+40.4**	**+30.0**	**+30.1**	**+22.7**

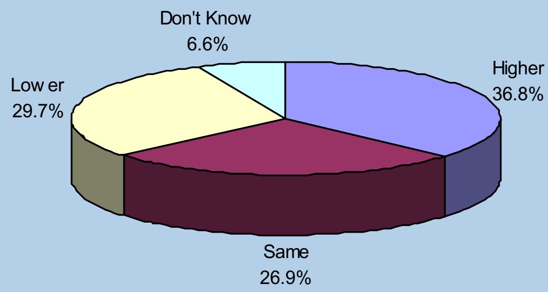


6 Profits

- Manufacturers in the EU anticipate growth of profits over the current outlook period. The net balance improves to +7.1, from -26.8 in January.
- The overall outlook reflects positive net balances in three of the four largest EU economies, most notably in the UK.
- The remaining countries covered all forecast declines except for Poland where expectations are neutral. Greek manufacturers hold the worst expectations for profits.
- All sub-sectors bar Food & Drink register positive profits expectations in July. Timber & Paper posts the highest net balance, followed by Chemicals & Plastics.

Total EU

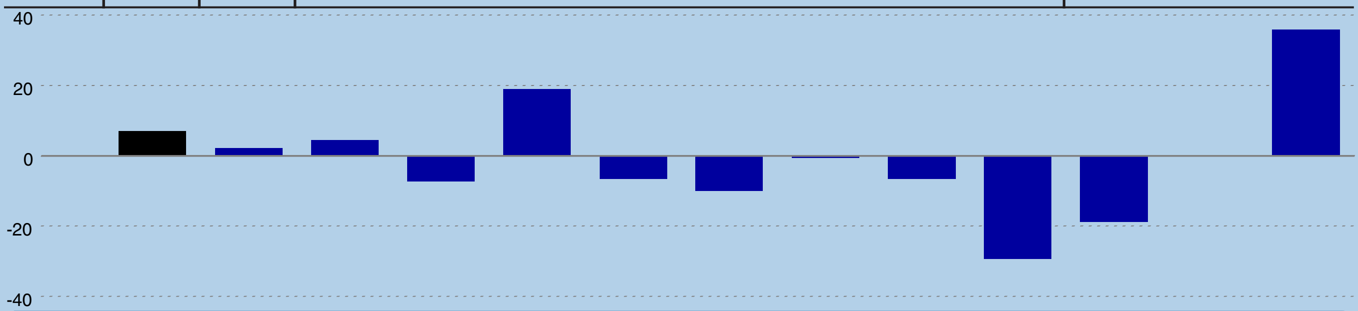
Q. Please state whether you expect profits at your company to be higher, the same or lower in twelve months' time compared to the current level.



By country / area

% net balances

	EU	Euro-zone	Germany	France	Italy	Spain	Austria	Nether-lands	Ireland	Greece	Czech Republic	Poland	UK
Jul '08	-13.2	-15.2	-11.1	-18.9	-17.9	-38.0	-16.3	+24.2	-25.7	-4.5	-19.6	+1.4	-4.2
Jan '09	-26.8	-29.6	-35.4	-26.4	-16.1	-40.5	-33.3	-30.1	-26.5	-50.0	-65.3	-13.2	-10.5
Jul '09	**+7.1**	**+2.3**	**+4.5**	**-7.2**	**+19.1**	**-6.5**	**-9.9**	**-0.5**	**-6.4**	**-29.2**	**-18.7**	**+0.0**	**+36.0**



By sector

% net balances

	Food & Drink	Textiles & Clothing	Electrical & Optical	Chemicals & Plastics	Transport	Timber & Paper	Basic Metals	Mechanical Engineering	Other
Jul '08	-10.5	-42.0	-1.4	-10.1	-31.1	-17.2	-18.7	-1.2	-24.8
Jan '09	-17.4	-24.8	-21.5	-22.2	-31.6	-17.3	-35.2	-33.1	-38.3
Jul '09	**-4.2**	**+0.4**	**+4.0**	**+12.8**	**+6.9**	**+15.8**	**+3.3**	**+10.3**	**+10.9**

7 Threats to profits

- The overall strength of the global economy is deemed to be the most important single influence on company profitability over the next twelve months, closely followed by domestic market conditions.
- The threat from low-cost competitors – particularly in Asia – remains a major perceived threat to profits at EU manufacturers.
- Inflationary concerns have risen in importance since the previous survey, but remain relatively less critical than they were one year ago.

Total EU

Q. What do you fear as the biggest single threat to your business profitability in the next year?

Threats:	**EU %***	EZ %*
Weak global economy	66.7	68.5
Weak domestic economy	63.4	62.2
Price rises	50.9	48.8
Low-cost competition	44.4	44.0
Energy price rises	36.4	33.6
Exchange rates	28.3	21.7
Increased regulations	17.2	16.6
Lack of flexibility	15.5	15.9
Lack of R&D/investment in IT	12.4	12.2
Skill shortages	10.8	10.3
Other	4.9	4.7

*** Refers to percentage of respondents**

By country / area

% of respondents*	Weak global economy	Weak domestic economy	Price rises	Low cost competition	Energy price rises	Exchange rates	Increased regulation	Lack of flexibility	Lack of R&D/ investment in IT	Skill shortages	Other
EU	**66.7**	**63.4**	**50.9**	**44.4**	**36.4**	**28.3**	**17.2**	**15.5**	**12.4**	**10.8**	**4.9**
EZ	**68.5**	**62.2**	**48.8**	**44.0**	**33.6**	**21.7**	**16.6**	**15.9**	**12.2**	**10.3**	**4.7**
Germany	77.0	66.8	42.2	30.7	34.4	23.4	9.8	12.7	7.0	9.4	4.5
Italy	69.1	59.0	50.6	45.5	27.5	17.4	16.9	18.0	15.2	8.4	5.6
France	61.1	57.2	63.3	65.0	37.8	27.2	27.8	18.3	15.6	13.3	5.6
Spain	58.4	73.8	42.1	50.5	34.6	15.9	11.7	15.9	12.1	8.9	3.7
Netherlands	73.1	50.8	57.9	26.4	33.5	18.3	19.8	24.9	18.8	15.2	2.5
Austria	63.4	47.3	27.5	35.9	28.2	19.1	9.9	8.4	7.6	9.9	5.3
Ireland	63.8	66.7	37.6	61.7	48.2	38.3	24.8	11.3	16.3	2.8	2.1
Greece	43.8	80.8	46.9	52.3	32.3	11.5	35.4	10.8	20.0	8.5	3.8
United Kingdom	59.2	69.4	62.9	46.2	47.6	59.2	21.5	15.3	11.6	11.6	4.8
Poland	54.5	68.2	50.0	46.6	58.0	48.9	15.9	6.8	26.1	19.3	11.4
Czech Republic	63.3	54.7	38.1	45.3	43.9	51.8	9.4	11.5	16.5	20.1	5.8

By sector

% of respondents*	Weak global economy	Weak domestic economy	Price rises	Low cost competition	Energy price rises	Exchange rates	Increased regulation	Lack of flexibility	Lack of R&D/ investment in IT	Skill shortages	Other
Food & Drink	36.5	67.5	52.1	33.6	44.3	28.9	26.6	12.1	9.0	5.0	7.4
Textiles & Clothing	69.8	58.9	51.4	58.5	42.3	34.4	14.8	16.8	4.0	6.7	4.5
Electrical	78.3	58.9	44.7	50.1	28.4	32.5	17.2	15.5	15.7	12.1	5.1
Chemicals & Plastics	61.6	59.6	57.6	39.0	38.3	27.0	25.6	15.6	11.3	9.1	4.1
Transport	69.5	49.1	54.7	51.2	34.4	33.5	9.3	19.1	18.2	12.6	5.8
Timber & Paper	54.8	77.0	55.8	32.0	38.0	26.6	19.1	13.9	10.7	10.3	6.3
Basic Metals	72.9	66.3	48.0	50.6	39.9	24.0	11.1	16.4	12.7	10.4	4.8
Mechanical Eng.	83.6	58.8	39.3	45.7	26.2	29.7	14.4	15.1	12.7	11.6	2.7
Other	65.6	73.1	52.0	43.3	43.6	22.3	11.7	12.7	12.2	12.1	5.4

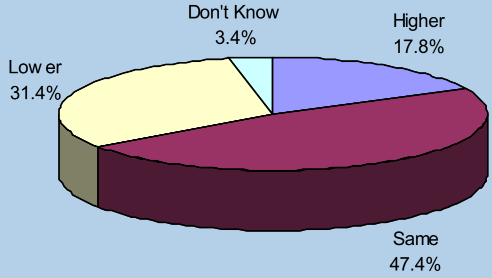
** The threats listed in the tables above represent the summation of information provided to Markit Economics by respondents to a closed question. Please note that more than one threat was frequently cited by individual companies. The figures listed in the tables represent the percentage of survey respondents citing each threat.*

8 Employment

- Employment in the EU manufacturing sector is expected to decline over the course of the next twelve months.
- The net balance rises to -13.6, from January's record low -35.4.
- The UK is the only country surveyed to post positive employment expectations, posting +7.6.
- Jobs in manufacturing are expected to fall sharpest in France, followed by the Netherlands and Spain.
- All nine sub-sectors in manufacturing anticipated smaller workforces in twelve months' time. The steepest drop is forecast in 'Other', followed by Electrical & Optical and Basic Metals.

Total EU

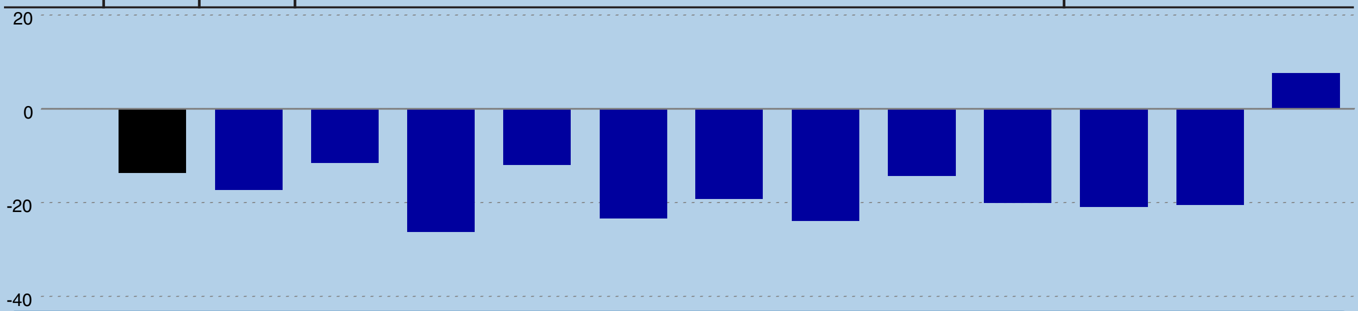
Q. Please state whether you expect the overall level of employment at your company to be higher, the same or lower in twelve months' time compared with the current level.



By country / area

% net balances

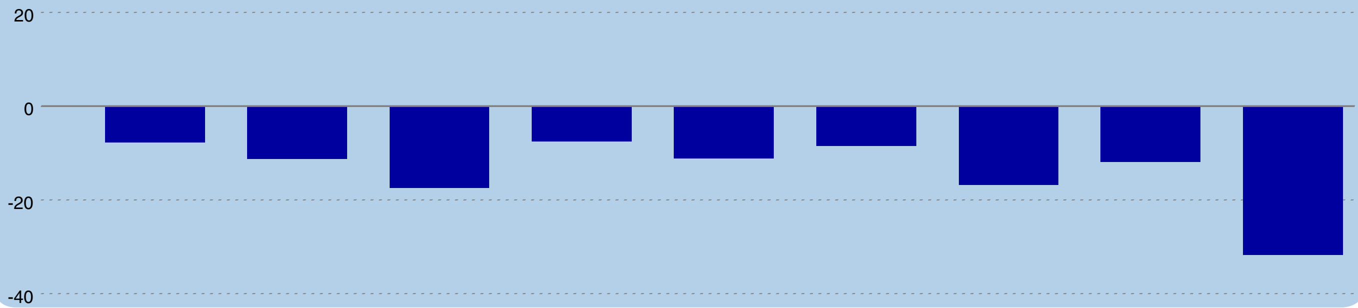
	EU	Euro-zone	Germany	France	Italy	Spain	Austria	Nether-lands	Ireland	Greece	Czech Republic	Poland	UK
Jul '08	-6.9	-4.7	+2.7	-7.7	-8.0	-28.6	-6.8	+24.8	-27.9	-0.8	-12.3	-16.4	-17.4
Jan '09	-35.4	-36.4	-33.8	-37.9	-35.5	-44.6	-33.3	-36.1	-33.3	-38.7	-57.6	-30.8	-29.2
Jul '09	**-13.6**	**-17.2**	**-11.5**	**-26.1**	**-11.8**	**-23.4**	**-19.1**	**-23.9**	**-14.2**	**-20.0**	**-20.9**	**-20.5**	**+7.6**



By sector

% net balances

	Food & Drink	Textiles & Clothing	Electrical & Optical	Chemicals & Plastics	Transport	Timber & Paper	Basic Metals	Mechanical Engineering	Other
Jul '08	-1.7	-29.6	+1.1	-1.8	-13.1	-13.6	-10.6	-0.7	-10.1
Jan '09	-15.1	-21.1	-38.4	-35.7	-36.4	-41.8	-38.7	-33.6	-42.7
Jul '09	**-7.7**	**-11.2**	**-17.3**	**-7.5**	**-11.1**	**-8.4**	**-16.7**	**-11.8**	**-31.7**

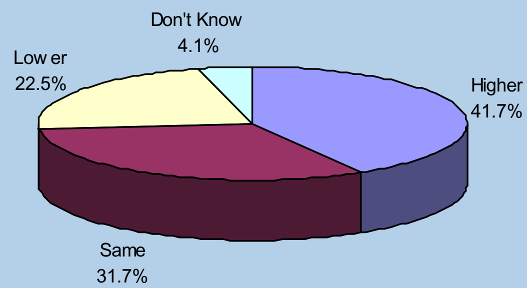


9 Capacity utilisation

- The rate of capacity utilisation in the EU manufacturing sector is forecast to rise over the current outlook period (+19.2), a reversal from the negative expectations held six months previously (-10.1).
- UK manufacturers hold the most positive outlook (+41.9), followed by their Italian counterparts (+37.1).
- Capacity utilisation is expected to fall slightly in both the Netherlands (-6.1) and Spain (-1.9).
- Of the nine sub-sectors covered, the greatest rise in capacity utilisation is expected in Timber & Paper, followed by Transport.

Total EU

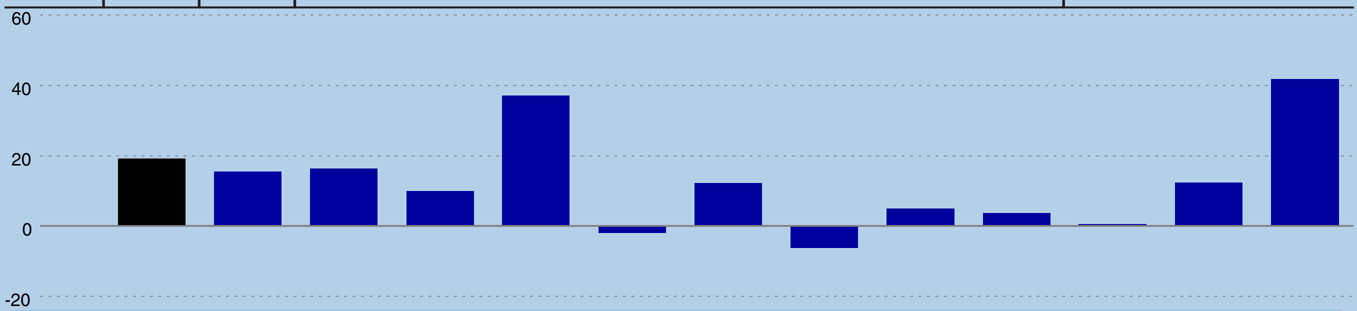
Q. Please state whether you expect the rate of capacity utilisation at your company to be higher, the same or lower in twelve months' time compared to the current rate.



By country / area

% net balances

	EU	Euro-zone	Germany	France	Italy	Spain	Austria	Nether-lands	Ireland	Greece	Czech Republic	Poland	UK
Jul '08	+12.9	+11.0	+16.5	+11.2	+13.0	-22.9	+12.2	+30.3	+1.4	+28.6	+21.5	+16.4	+21.5
Jan '09	-10.1	-12.6	-19.6	-1.6	-4.5	-23.0	-25.5	-16.9	-3.8	-8.9	-38.8	-3.3	+4.9
Jul '09	**+19.2**	**+15.5**	**+16.4**	**+10.0**	**+37.1**	**-1.9**	**+12.2**	**-6.1**	**+5.0**	**+3.8**	**+0.7**	**+12.5**	**+41.9**



By sector

% net balances

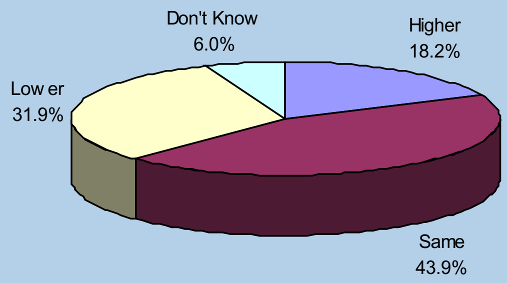
	Food & Drink	Textiles & Clothing	Electrical & Optical	Chemicals & Plastics	Transport	Timber & Paper	Basic Metals	Mechanical Engineering	Other
Jul '08	+23.1	-19.2	+21.1	+15.5	+2.4	+4.6	+15.3	+15.4	+7.1
Jan '09	+0.1	-10.1	-8.3	-9.9	-13.5	+1.3	-14.9	-11.7	-17.1
Jul '09	**+6.2**	**+15.5**	**+23.7**	**+18.5**	**+24.7**	**+32.8**	**+17.5**	**+22.0**	**+11.9**

10 Capital expenditure

- Capital expenditure is set to fall over the next twelve months (-13.6).
- This is the second successive outlook period in which manufacturers in the EU have forecasted declining investment spending, although pessimism has softened in July compared to six months' ago (-28.5).
- Manufacturers in the Czech Republic and the Netherlands hold the most pessimistic outlooks for capital investment, while firms in Spain, Italy and the UK are broadly neutral.
- Capital spending is set to fall across all nine sub-sectors. The steepest decline is expected in Mechanical Engineering, followed by Food & Drink.

Total EU

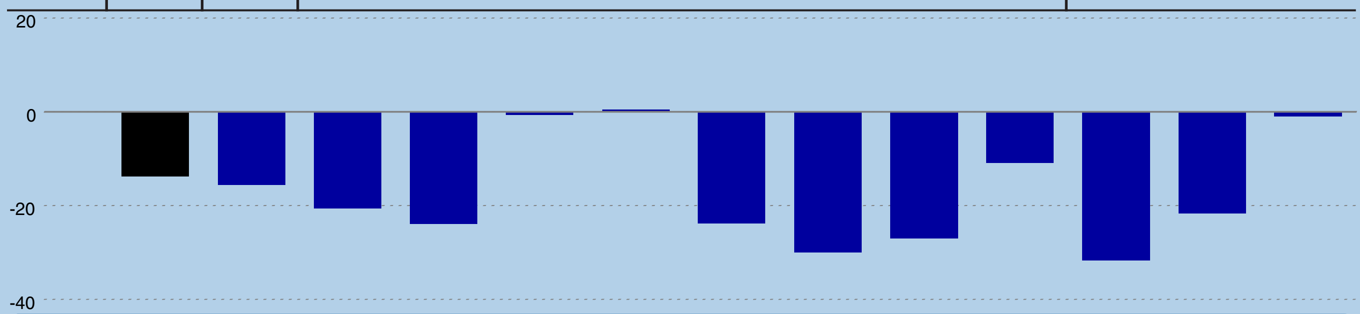
Q. Please state whether you expect the value of capital expenditure by your company (measured in 'real' terms) to be higher, the same or lower in twelve months' time compared with the current level.



By country / area

% net balances

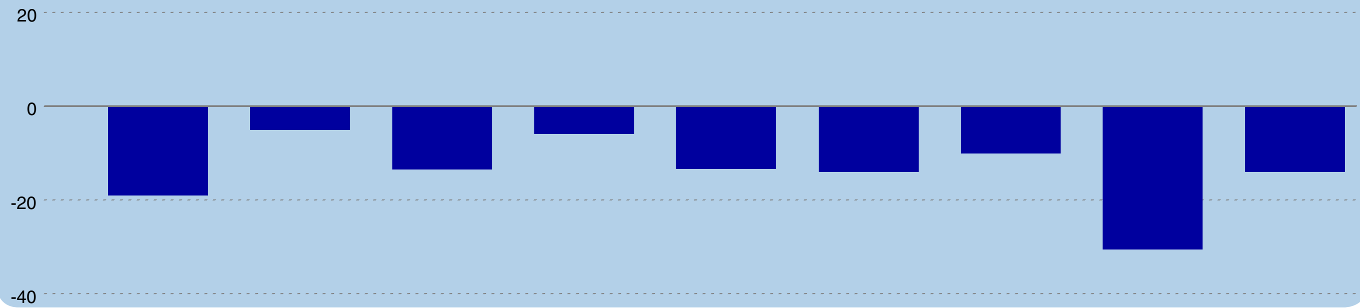
	EU	Euro-zone	Germany	France	Italy	Spain	Austria	Nether-lands	Ireland	Greece	Czech Republic	Poland	UK
Jul '08	+6.8	+10.0	+16.5	+2.1	+2.5	+20.3	-16.3	+38.8	-22.1	-1.5	+16.0	+20.5	-12.9
Jan '09	-28.5	-27.7	-31.9	-34.6	-23.2	-11.7	-32.7	-20.2	-39.4	-9.7	-36.5	-11.0	-35.1
Jul '09	**-13.6**	**-15.5**	**-20.5**	**-23.9**	**-0.6**	**+0.5**	**-23.7**	**-29.9**	**-27.0**	**-10.8**	**-31.7**	**-21.6**	**-0.8**



By sector

% net balances

	Food & Drink	Textiles & Clothing	Electrical & Optical	Chemicals & Plastics	Transport	Timber & Paper	Basic Metals	Mechanical Engineering	Other
Jul '08	+16.1	-13.6	+4.8	+10.8	+1.2	+1.9	+9.6	+10.2	+12.4
Jan '09	-7.9	-35.1	-37.2	-25.6	-39.3	-25.2	-32.1	-27.2	-33.9
Jul '09	**-19.0**	**-5.1**	**-13.4**	**-5.9**	**-13.3**	**-13.9**	**-10.0**	**-30.5**	**-14.0**

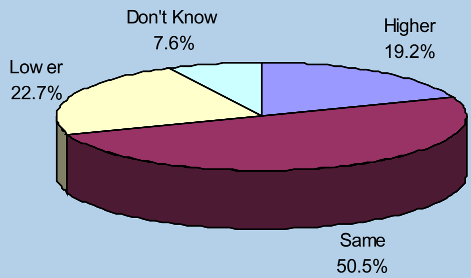


11 R&D expenditure

- Spending on research and development in the EU manufacturing sector is expected to fall slightly over the next twelve months (-3.5).
- Germany posts the worst net balance of the big-four euro economies (-13.1). This is partly offset by Italy, the only country surveyed to record a positive figure (+14.6).
- UK manufacturers are broadly neutral in their expectations for R&D spending.
- R&D spending is set to fall sharpest in Austria.
- Five sub-sectors anticipate lower R&D investment, most notably Transport. Timber & Paper firms are most optimistic of increasing R&D spending.

Total EU

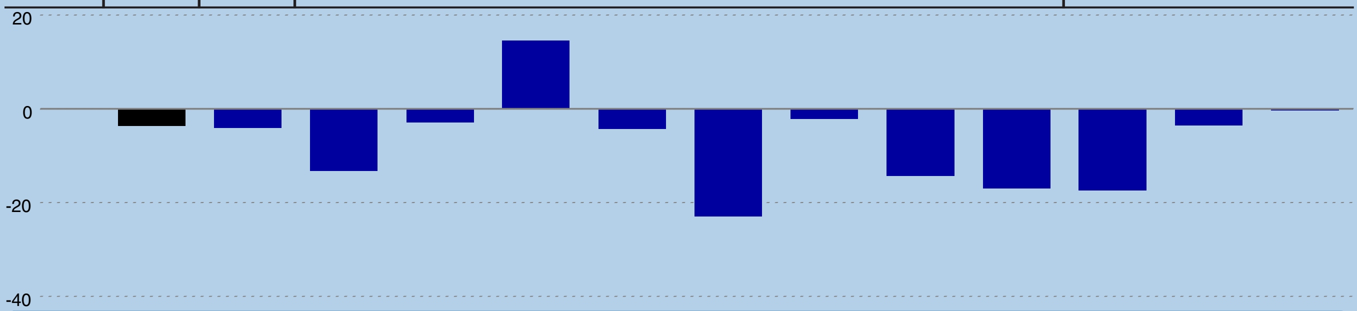
Q. Please state whether you expect expenditure on research and development at your company to be higher, the same or lower in twelve months' time compared with current spend.



By country / area

% net balances

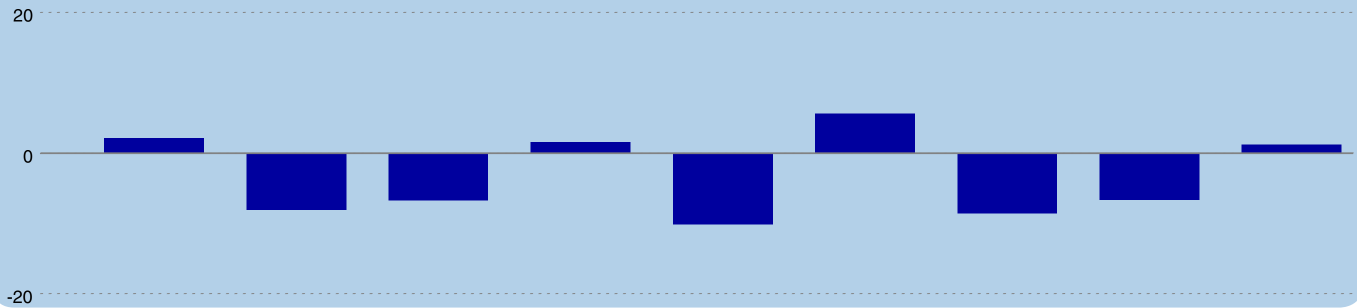
	EU	Euro-zone	Germany	France	Italy	Spain	Austria	Nether-lands	Ireland	Greece	Czech Republic	Poland	UK
Jul '08	+6.4	+7.5	+7.3	-2.8	+18.5	+7.8	-13.6	+23.6	-2.9	+6.8	+7.4	+24.7	-2.3
Jan '09	-13.8	-13.1	-16.9	-22.0	+1.9	-14.9	-14.4	-7.1	-11.4	-21.0	-21.2	+3.3	-19.7
Jul '09	**-3.5**	**-4.0**	**-13.1**	**-2.8**	**+14.6**	**-4.2**	**-22.9**	**-2.0**	**-14.2**	**-16.9**	**-17.3**	**-3.4**	**-0.3**



By sector

% net balances

	Food & Drink	Textiles & Clothing	Electrical & Optical	Chemicals & Plastics	Transport	Timber & Paper	Basic Metals	Mechanical Engineering	Other
Jul '08	+8.7	-12.9	+19.2	+4.6	+12.0	-5.3	+6.6	+10.5	+0.9
Jan '09	-1.7	-23.0	-22.8	-7.7	-10.8	-18.3	-19.7	-7.3	-13.0
Jul '09	**+2.1**	**-8.0**	**-6.7**	**+1.6**	**-10.1**	**+5.7**	**-8.5**	**-6.6**	**+1.3**

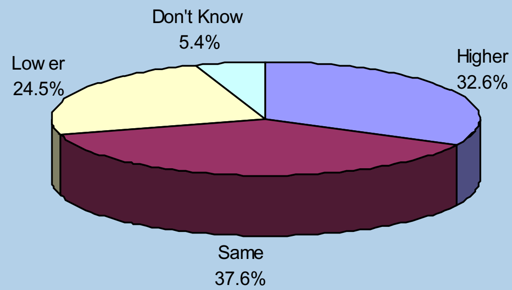


12 Input prices

- Upward pressure on manufacturing input cost inflation is expected to resume over the next twelve months.
- However, inflation expectations are much weaker than over 2006-08.
- Inflation is forecast to rise most sharply in Italy (+33.1), followed by the UK (+19.3).
- Manufacturers in Ireland, Austria, the Czech Republic, Germany and the Netherlands expect input cost inflation to soften over the next twelve months to varying degrees.
- Inflation expectations are highest in Timber & Paper, Chemicals & Plastics and Basic Metals.

Total EU

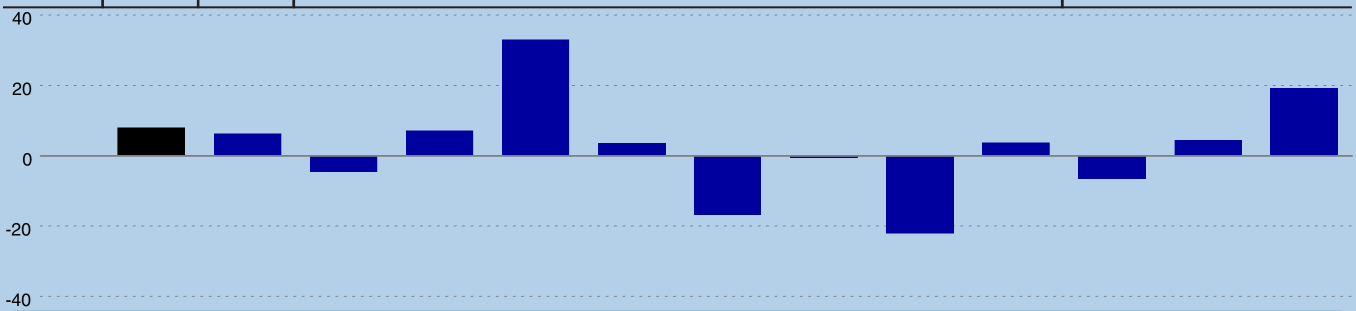
Q. Please state whether you expect the annual rate of growth of average purchase prices at your company to be higher, the same or lower in twelve months' time compared with the current rate.



By country / area

% net balances

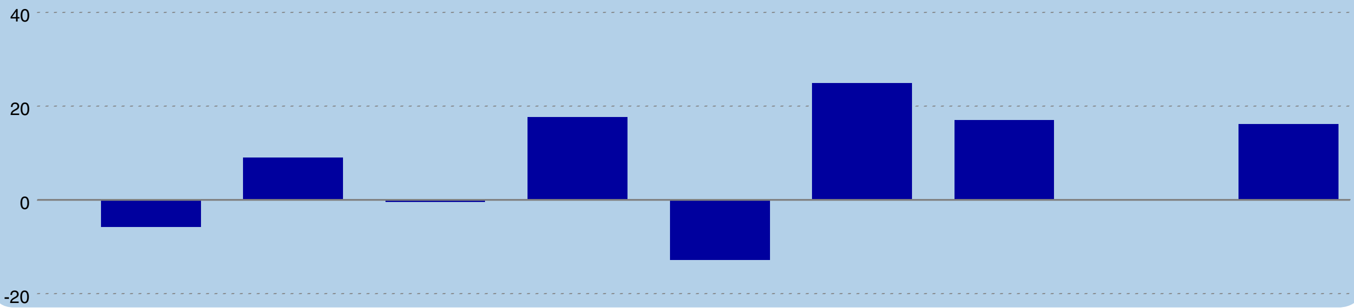
	EU	Euro-zone	Germany	France	Italy	Spain	Austria	Nether-lands	Ireland	Greece	Czech Republic	Poland	UK
Jul '08	+64.0	+65.7	+76.6	+73.4	+48.1	+62.5	+66.7	+77.0	+40.0	-51.1	+64.4	+43.8	+57.2
Jan '09	-27.5	-31.2	-36.9	-33.0	-16.8	-30.2	-36.6	-44.3	-40.2	-2.4	-18.8	+8.8	-13.5
Jul '09	**+8.1**	**+6.3**	**-4.5**	**+7.2**	**+33.1**	**+3.7**	**-16.8**	**-0.5**	**-22.0**	**+3.8**	**-6.5**	**+4.5**	**+19.3**



By sector

% net balances

	Food & Drink	Textiles & Clothing	Electrical & Optical	Chemicals & Plastics	Transport	Timber & Paper	Basic Metals	Mechanical Engineering	Other
Jul '08	+64.8	+35.4	+59.5	+69.8	+74.4	+48.6	+64.0	+65.9	+76.9
Jan '09	-23.0	+15.5	-22.0	-29.9	-29.8	-32.4	-35.2	-35.8	-15.2
Jul '09	**-5.7**	**+9.0**	**-0.3**	**+17.7**	**-12.7**	**+25.0**	**+17.0**	**+0.0**	**+16.2**

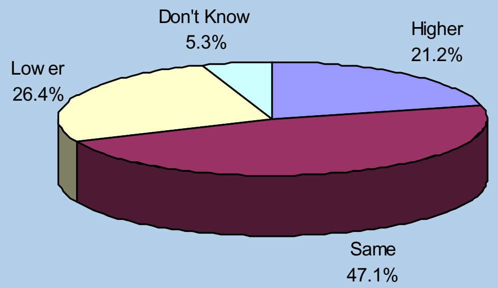


13 Output prices

- EU manufacturers hold negative expectations regarding output price inflation over the next twelve months.
- The net balance rises to -5.2, indicating a weaker expected softening of inflation than six months' previously.
- Irish manufacturers are especially pessimistic (-38.3). The next-worst balances are displayed for Germany (-21.7) and Austria (-21.4).
- Italian and UK manufacturers anticipate faster increases in output prices one year from now.
- Downward pressure on charge inflation is expected to be concentrated in Transport, Mechanical Engineering and Food & Drink.

Total EU

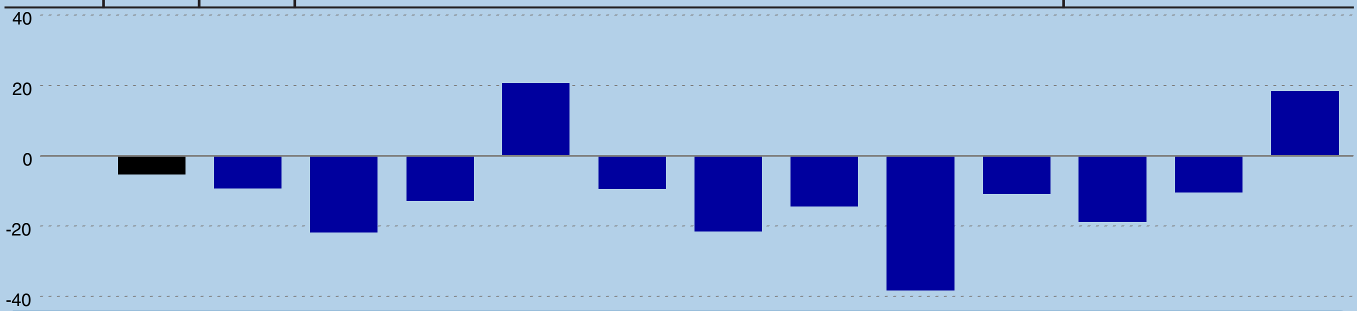
Q. Please state whether you expect the annual rate of growth of prices charged by your company to be higher, the same or lower in twelve months' time compared with the current rate.



By country / area

% net balances

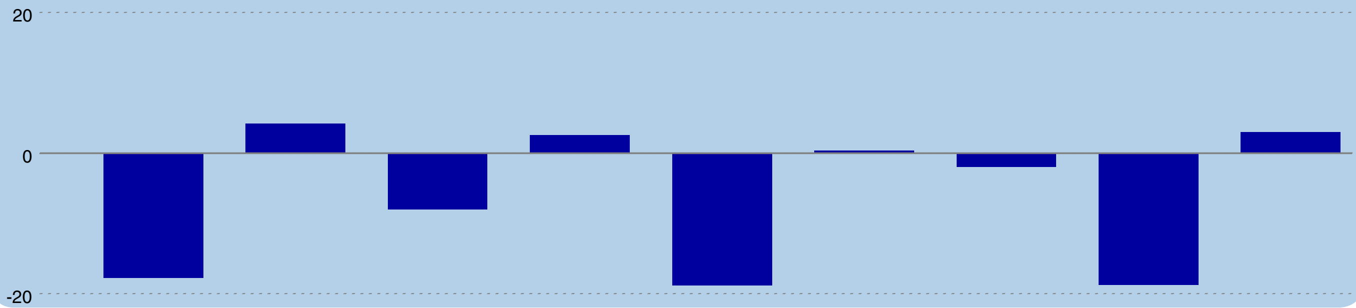
	EU	Euro-zone	Germany	France	Italy	Spain	Austria	Nether-lands	Ireland	Greece	Czech Republic	Poland	UK
Jul '08	+41.8	+41.6	+41.0	+48.3	+45.7	+31.8	+27.9	+58.2	+14.3	-34.6	+27.6	+17.8	+47.3
Jan '09	-21.0	-23.7	-29.6	-25.8	-9.0	-28.8	-19.0	-26.2	-43.2	-6.5	-22.9	-6.6	-8.6
Jul '09	**-5.2**	**-9.3**	**-21.7**	**-12.8**	**+20.8**	**-9.3**	**-21.4**	**-14.2**	**-38.3**	**-10.8**	**-18.7**	**-10.2**	**+18.4**



By sector

% net balances

	Food & Drink	Textiles & Clothing	Electrical & Optical	Chemicals & Plastics	Transport	Timber & Paper	Basic Metals	Mechanical Engineering	Other
Jul '08	+40.6	+14.3	+35.8	+51.8	+37.7	+17.2	+46.4	+46.4	+57.8
Jan '09	-30.0	-8.8	-8.2	-25.3	-15.8	-25.3	-37.2	-20.9	-3.9
Jul '09	**-17.7**	**+4.2**	**-8.0**	**+2.6**	**-18.8**	**+0.4**	**-1.9**	**-18.7**	**+3.0**

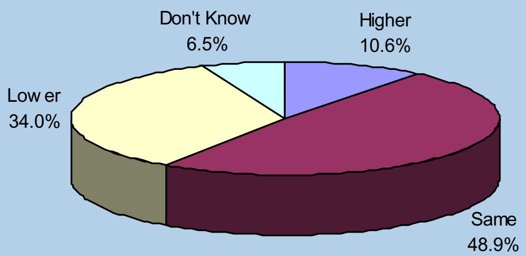


14 Inventories: output ratio

- The ratio of finished goods stocks to output in the EU manufacturing sector is expected to drop over the outlook period.
- The net balance rises to -23.4, from -27.2 six months earlier.
- The UK expects a less substantial drop than each of the big-four euro economies, while the two Eastern European countries included post the most neutral expectations.
- The greatest decline in the stocks:output ratio is expected in the French manufacturing sector.
- Lower ratios are forecast over the next twelve months in all nine sub-sectors. The sharpest drop is expected in Transport.

Total EU

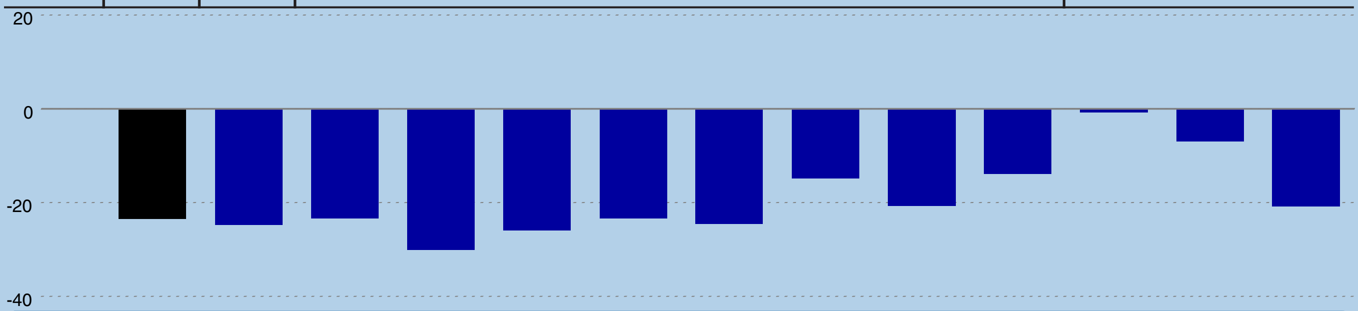
Q. Please state whether you expect the ratio of stocks of finished goods to output at your company to be higher, the same or lower in twelve months' time compared with the current ratio.



By country / area

% net balances

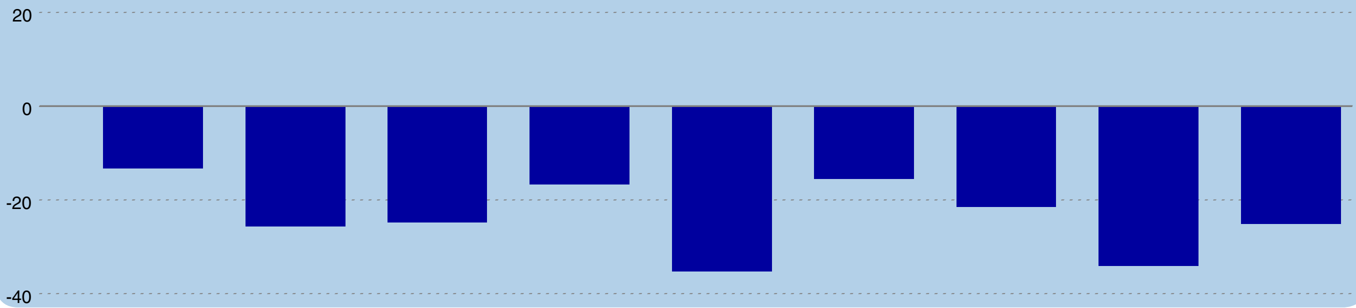
	EU	Euro-zone	Germany	France	Italy	Spain	Austria	Nether-lands	Ireland	Greece	Czech Republic	Poland	UK
Jul '08	-11.1	-9.9	-12.6	-7.7	-10.5	-5.2	-8.8	-9.7	-22.9	+6.8	+4.3	+0.0	-20.6
Jan '09	-27.2	-26.4	-25.8	-30.2	-26.5	-23.0	-24.8	-26.8	-28.8	-6.5	-8.8	-13.2	-34.8
Jul '09	**-23.4**	**-24.6**	**-23.4**	**-30.0**	**-25.8**	**-23.4**	**-24.4**	**-14.7**	**-20.6**	**-13.8**	**-0.7**	**-6.8**	**-20.7**



By sector

% net balances

	Food & Drink	Textiles & Clothing	Electrical & Optical	Chemicals & Plastics	Transport	Timber & Paper	Basic Metals	Mechanical Engineering	Other
Jul '08	-4.7	-4.0	-7.7	-12.2	-7.7	-1.7	-12.1	-24.3	-7.3
Jan '09	-14.3	-23.4	-24.4	-23.4	-30.9	-24.0	-30.0	-35.2	-28.5
Jul '09	**-13.2**	**-25.6**	**-24.7**	**-16.6**	**-35.2**	**-15.4**	**-21.5**	**-34.0**	**-25.0**



About the survey

Background

The **Business Outlook Survey** for European manufacturing is produced by Markit Economics on behalf of KPMG and is based on a survey of around 3,700 manufacturers that are asked to give their thoughts on future business conditions. The reports are produced on a biannual basis, with data collected and published each summer and winter.

The countries covered by the survey are the UK, France, Germany, Italy, Ireland, Spain, Austria, the Netherlands, Greece, Poland, and the Czech Republic.

Interest in the use of economic surveys for predicting turning points in economic cycles is ever increasing and the KPMG Business Outlook Survey for Europe is the first independent report for Europe that uses an identical methodology across all nations covered and it gives a unique perspective not only on future business conditions but also on key issues and concerns that European manufacturers have regarding future business prospects.

Methodology

The methodology of **KPMG Business Outlook Survey** is identical in all countries that Markit Economics operates. The use of a widely recognised and well-regarded methodology ensures harmonisation of data, and allows direct comparisons of business expectations across different countries. This provides a significant advantage for economic surveillance in the EU and for monitoring the evolution of the Eurozone manufacturing economy by governments and the wider business community.

Data collection is undertaken via the completion of questionnaires twice a year at six-month intervals. A combination of phone, fax, website and email are used, with respondents allowed to select which mechanism they prefer to use.

The KPMG Business Outlook Survey uses net balances to indicate the degree of future optimism or pessimism for each of the survey variables. These net balances vary between -100 and 100, with a value of 0.0 signalling a neutral outlook for the coming twelve months. Values above 0.0 indicate optimism amongst companies regarding the outlook for the coming twelve months while values below 0.0 indicate pessimism. The net balance figure is calculated by deducting the percentage number of survey respondents expecting a deterioration/decrease in a variable over the next twelve months from the percentage number of survey respondents expecting an improvement/increase.

Coverage

Questionnaires are sent to a representative panel of around 3,700 manufacturing companies spread across the European economy in the countries mentioned above. Companies are carefully selected to ensure that the survey panel accurately reflects the true structure of each economy in terms of sectoral contribution to GDP, regional distribution and company size. This panel forms the basis for the Business Outlook Survey. The current report is based on responses from around 2,000 manufacturing firms.

Further Information

Contact Details

KPMG is the global network of professional services firms who provide audit, tax and advisory services. KPMG Europe LLP subsidiaries and associated entities operate in five countries across Europe with over 23,000 partners and staff. The KPMG Europe LLP group recorded consolidated revenues of €3.4 billion and pro-forma revenues for the five countries for 2008 totalled €4.0 billion. KPMG Europe LLP, a UK limited liability partnership, is a holding company of a number of members of the KPMG network of independent member firms affiliated with KPMG International, a Swiss cooperative. KPMG Europe LLP and KPMG International provide no client services. The “KPMG Europe LLP group” means KPMG Europe LLP, its subsidiaries and affiliates.

Markit Economics is a specialist compiler of business surveys and economic indices, including the Purchasing Managers' Index (PMI) series, which is now available for 26 countries and key regions including the Eurozone and BRIC. The PMIs have become the most closely watched business surveys in the world, favoured by central banks, financial markets and business decision makers for their ability to provide up-to-date, accurate and often unique monthly indicators of economic trends.