

## **Survey: Industrial Sector Plans to Add Jobs As Optimism Grows**

McGladrey

CHICAGO — Nine out of 10 executives at small and mid-size manufacturing and distribution companies expect solid growth over the next 12 months and two-thirds plan to add jobs during that period, according to the [2014 McGladrey Manufacturing and Distribution Monitor](#) [1]. The survey, which was conducted by [McGladrey LLP](#) [2], the leading provider of assurance, tax and consulting services focused on the middle market, includes responses from more than 900 executives at small and mid-size U.S. manufacturers and distributors, and provides an annual update on the state of middle-market companies in the industrial sector.

In 2014, industrial sector executives report that they are already coming off a strong year but expect even better results over the next 12 months. While an already-healthy majority of executives (69 percent) reported increases in domestic sales over the past year, 88 percent expect the next 12 months to bring further growth, with an average projected increase of eight percent. In addition, two-thirds (67 percent) reported that they expect their profit (before taxes and interest) to rise over the next year, with nearly a quarter (24 percent) expecting increases of more than 10 percent.

The survey indicates that these expected bottom line improvements will also mean good things for the job market. Two-thirds of respondents (67 percent) indicated that they expect to hire more employees in the U.S. over the next year, up from 62 percent in 2013. The average expected increase in U.S. employees was six percent, up from four percent in 2013. Importantly, the number of executives expecting to cut back in U.S. employment dropped to five percent after hovering between 9 percent and 11 percent for the past three years.

“This year’s survey suggests that we will be celebrating more than just improved balance sheets over the next twelve months,” said Karen Kurek, national industrial products practice leader for McGladrey. “Not only are we seeing a healthy majority of executives planning to turn improved financial results into more jobs, we are seeing a significant drop in the number of companies expecting to cut employees for the first time in several years, suggesting that the influence of the economic downturn may truly be waning.”

Despite this positive outlook, executives indicated that they continue to face headwinds that could be holding them back from even further growth. As was the case with last year’s survey findings, regulatory issues topped the list of concerns this year, with two-thirds (66 percent) of respondents expecting their growth to be limited by regulation over the next year – a concern that is more challenging, according to survey participants, than competition from other companies (63 percent). Implementation of the Affordable Care Act (ACA) topped the list of specific

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regulatory roadblocks, with 69 percent of executives reporting that they expect it to limit growth over the next year. Other frequently cited regulatory impediments included Environmental Protection Agency rules (50 percent), state regulation (52 percent), and the tapering of the federal stimulus program (39 percent).

Taxation was the third-most frequently cited roadblock to growth in the 2014 Monitor, with more than 60 percent of executives expecting that it will limit their growth over the next year. As many mid-size firms are organized as pass-through entities and thus have their earnings taxed as individual income, the survey found that executives see federal business taxes (61 percent), state business taxes (60 percent) and federal income taxes (50 percent) as major impediments to growth. The survey also found that executives predict negative impacts from the uncertainty around several currently expired tax-breaks, including bonus depreciation (47 percent) and the research and development tax credit (39 percent).

“There is no question that the industrial sector is growing, but industry executives clearly believe it could be growing more quickly,” said Kurek. “Manufacturing and distribution executives have made it clear that they are being held back by a regulatory and tax landscape that seems to grow both more complicated and less certain each year. With the recession now comfortably in our rear-view mirror, regulations and taxes have become the top challenges for manufacturers and distributors, and it will continue to influence the growth and competitiveness of the industry until it is addressed.”

In addition to these key business climate trends, the 2014 Monitor provides insights on a wide range of critical issues in the industrial sector. Other important findings in this year’s report include:

- On-shoring is gaining parity with off-shoring as domestic business conditions become more attractive. The survey shows that off-shoring and on-shoring among industrial companies are nearing parity, suggesting that the “on-shoring” trend is a modest but very real phenomenon – and one that supports the 75 percent of industry leaders who indicated that it is important for them and their brand to make their products in America. While 12 percent of companies reported having moved operations offshore over the past two years, more than eight percent reported having moved operations back home. This trend was also true for companies’ future projections, with 14 percent and 11 percent reporting that they planned to move operations offshore and on-shore, respectively.
- Executives continue to report low levels of concern over data security. After a year that brought several high-profile data breaches, manufacturing and distribution executives continued to report low levels of concern about the security of their data. Just over 80 percent of respondents indicated a risk of level of “2” or “3” on 5-point scale, while 11 percent reported no risk at all (“1” rating). When asked how they know their data is secure, 43 percent of executives said they believe their companies were not high priorities for

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data thieves.

- Most manufacturers and distributors plan on offering ACA-compliant coverage. Three-quarters (74 percent) of manufacturers and distributors indicated that they would offer ACA-compliant health coverage to their fulltime employees. Less than one percent indicated that they would forego offering coverage and instead pay penalties, while 11 percent said they had yet to make up their minds.

Details about the [2014 McGladrey Manufacturing and Distribution Monitor Survey](#) [3] can be found on the McGladrey website, where you can also [watch the video](#) [4].

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