



# ECONOMIC REPORT

ER-694

January 2010



## MAPI Survey on the Business Outlook—December 2009

*Composite Index Increases From 38 Percent to 57 Percent; Individual Indexes Also Rise Significantly From September Levels*

*Senior Financial Executives Surveyed on the Management of Pension Fund Assets*

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## MAPI Survey on the Business Outlook—December 2009

### HIGHLIGHTS

- The Manufacturers Alliance/MAPI composite index of future business activity increased from 38 percent in September to 57 percent in December.
- Almost every individual index showed substantial improvement from its September level:
  - The **orders index**—based on expectations for orders in the fourth quarter—rose from 11 percent to 42 percent.
  - The **U.S. prospective shipments index**—based on expectations for orders in the first quarter of 2010—increased from 30 percent to 59 percent.
  - The **non-U.S. prospective shipments index** increased from 33 percent to 64 percent.
  - The **export orders index** jumped from 19 percent to 47 percent.
  - The **annual orders index**, based on how expected orders in 2010 will compare with those in 2009, was 80 percent, up from 66 percent in September.
  - The **backlog orders index** rose from 16 percent to 36 percent.
  - The **profit margin index** increased from 22 percent to 38 percent.
  - The **U.S. investment index**, based on expectations for capital spending for all of 2010 rose to 66 percent, up from 47 percent in September.
  - The **non-U.S. investment index**, which asks about companies' plans for capital spending outside the United States in 2010, increased from 52 percent to 68 percent.
  - The **R&D index**, which asks how R&D spending in 2010 will compare with spending in 2009, increased from 49 percent to 66 percent.
  - The **inventory index** came in at 8 percent, almost unchanged from its level of 7 percent in September. This index points to increased production for restocking and for new orders.
- The **capacity utilization index**, based on the percentage of companies operating at 85 percent or more of capacity, fell from 8.4 percent in September to 7.0 percent. This was the only index that reflected continuing weakness in the manufacturing sector. However, the percentage of companies operating at less than 75 percent capacity *declined* from 56.7 percent to 53.6 percent.
- The rise in the **composite index** and almost every individual index indicates that manufacturing activity is expected to expand over the next three to six months. Any increase in activity during the fourth quarter of 2009 would lead to improvement in the indexes since some are based on comparisons with activity in the fourth quarter of 2008 when output was falling. Nonetheless, the extent to which the indexes increased, coupled with the improvement of forward looking indexes like annual orders and prospective shipments, indicates that the manufacturing sector is picking up steam.
- This quarter's wildcard questions asked about the management of defined benefit (DB) pension fund assets. The survey findings included the following:
  - About one third of the respondents whose companies have defined benefit pension plans have not made any changes to these plans over the past two years. The remaining companies have made various changes, including freezing their DB plans for certain employees.
  - Most companies (56.1 percent) have not made any significant changes in the way their pension fund assets are managed. Just over one fifth, however, have changed their DB fund manager.
  - Most respondents rate the performance of their pension fund managers as average, although 39 percent rated their manager's performance as good to excellent.
  - With the fall in equity values over the past 18 months, the number of companies with fully or over-funded DB plans and the average percent of funding has declined. There was some improvement, however, in the funding status of pension plans in the third quarter of 2009.

## Part 1: Results of the December 2009 Survey on Business Activity

### Introduction

The Manufacturers Alliance/MAPI *Survey on the Business Outlook—December 2009* reflects the views of 59 senior financial executives in member companies on current and future business conditions. The questionnaire was sent out at the end of November and responses were due by December 31, 2009.

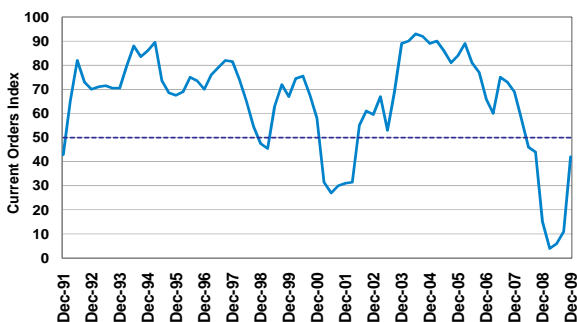
### Fourth-Quarter Orders

In December, 36 percent of the respondents reported that U.S. orders in the fourth quarter will be up on a year-over-year basis, while 52 percent indicated orders will be lower. The orders index for the fourth quarter was 42 percent, up sharply from 11 percent in September, but still below 50 percent, the boundary between expansion and contraction. Thus, U.S. orders in the fourth quarter are expected to be lower on a year-over-year basis. The solid rise in the orders index reflects an improvement from the fourth quarter of 2008 during which orders suffered a large drop. Nonetheless, the jump in the orders index is indicative of a turnaround in manufacturing activity.

The quarterly current orders index from December 1991 through December 2009 is shown in Figure 1. The detailed responses on the outlook for orders in the fourth quarter are presented in the following table along with the responses from the previous four surveys where respondents were asked about current quarter orders.

Survey Month	Up	Down	About Same	Orders Index
December 2008	8%	77%	15%	15%
March 2009	2%	94%	4%	4%
June 2009	3%	92%	5%	6%
September 2009	6%	84%	10%	11%
<b>December 2009</b>	<b>36%</b>	<b>52%</b>	<b>12%</b>	<b>42%</b>

Figure 1  
Current Orders Index  
(December 1991 – December 2009)



Source: Manufacturers Alliance/MAPI

### Prospective Shipments (U.S.) —First Quarter 2010

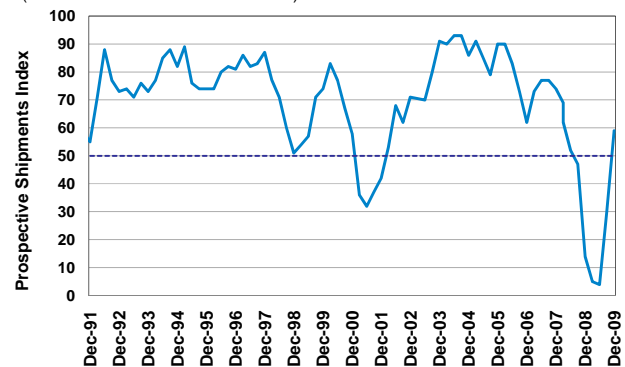
The prospective U.S. shipments index compared expected shipments in the *first* quarter of 2010 with those

in the first quarter of 2009. The prospective shipments index jumped from 30 percent in September to 59 percent. This forward-looking index is above the 50 percent level that separates expansion from contraction for the first time since June 2008. Forty-six percent of the respondents expect first quarter shipments to increase on a year-over-year basis, up from just 23 percent in September. The percentage of respondents expecting prospective shipments to decline fell from 62 percent in September to 27 percent.

The shipments index from December 1991 through December 2009 is shown in Figure 2. The detailed responses on prospective shipments in the December survey are shown with responses from the past four surveys in the table that follows.

Survey Month	Up	Down	About Same	Shipments Index
December 2008	8%	81%	11%	14%
March 2009	2%	92%	6%	5%
June 2009	2%	93%	5%	4%
September 2009	23%	62%	15%	30%
<b>December 2009</b>	<b>46%</b>	<b>27%</b>	<b>27%</b>	<b>59%</b>

Figure 2  
Prospective Shipments Index  
(December 1991 – December 2009)



Source: Manufacturers Alliance/MAPI

### Prospective Shipments (Non-U.S.) —First Quarter 2010

The non-U.S. prospective shipments index also showed improvement, increasing from 33 percent in September to 64 percent. As shown in the following table, 48 percent of the respondents expect non-U.S. prospective shipments in the first quarter will be up on a year-over-year basis, compared to 18 percent in September, while 21 percent expect non-U.S. shipments will be lower, down from 53 percent in September.

The non-U.S. prospective shipments index is now above the 50 percent level, indicating that non-U.S. shipments in the first quarter of 2010 are expected to be higher on a year-over-year basis. The responses for December's survey and for the previous four quarters are shown in the following table.

Survey Month	Up	Down	About Same	Non-U.S. Shipments Index
December 2008	13%	58%	29%	27%
March 2009	3%	86%	11%	8%
June 2009	5%	76%	19%	15%
September 2009	18%	53%	29%	33%
<b>December 2009</b>	<b>48%</b>	<b>21%</b>	<b>31%</b>	<b>64%</b>

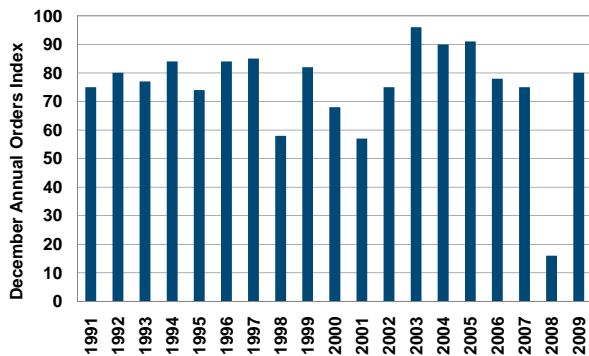
**Annual Orders**

Survey respondents were asked how U.S. orders for all of 2010 are expected to compare with orders in 2009. In December, 80 percent of the respondents expected annual orders will increase, compared to 66 percent in September when executives were first asked about their expectations for all of 2010. Just 7 percent expected orders will be lower, compared to 24 percent in September. Because this index is above the 50 percent threshold that separates expansion from contraction, overall manufacturing activity is expected to rise in 2010. Because manufacturing activity reached a trough in 2009, expectations for even a slight expansion in activity would result in an index above 50 percent. The fact that the annual orders index rose from 66 percent in September to 80 percent, however, points to growing optimism regarding manufacturing sector activity in 2010.

The September and December responses on the outlook for annual orders for 2009 are shown in the table below. The trend in the annual orders index reported in each December survey since 1991 is shown in Figure 3.

Survey Month	Up	Down	About Same	Annual Orders Index
September 2009	56%	24%	20%	66%
<b>December 2009</b>	<b>67%</b>	<b>7%</b>	<b>26%</b>	<b>80%</b>

Figure 3  
Annual Orders Index (December)



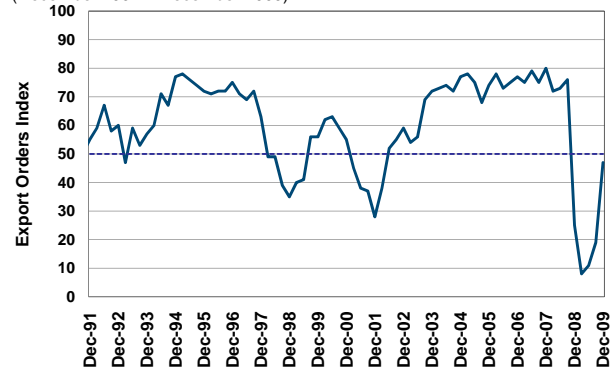
Source: Manufacturers Alliance/MAPI

**Export Orders**

The export orders index increased from 19 percent in September to 47 percent. The percentage of respondents expecting exports to be down decreased from 67 percent to 36 percent. At 47 percent, overall exports in the fourth quarter are expected to be lower than one year ago, but

the extent of the increase in the index clearly points to a rebound in export orders.

Figure 4  
Export Orders Index  
(December 1991 – December 2009)



Source: Manufacturers Alliance/MAPI

The December 2009 survey responses on fourth-quarter export orders are shown with responses from the past four quarters in the table below. The trend in the export orders index since December 1991 is presented in Figure 4.

Survey Month	Up	Down	About Same	Export Orders Index
December 2008	8%	57%	35%	25%
March 2009	3%	86%	11%	8%
June 2009	3%	82%	15%	11%
September 2009	5%	67%	28%	19%
<b>December 2009</b>	<b>30%</b>	<b>36%</b>	<b>34%</b>	<b>47%</b>

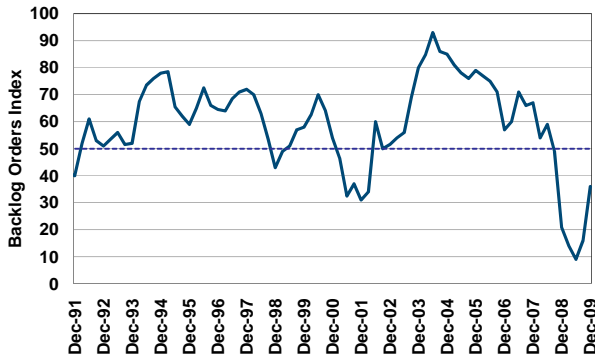
**Backlogs**

An accumulation of backlogs occurs when new orders exceed shipments. An increase in backlogs points to growing strength in manufacturing, while declining backlogs signal slowing activity. The percentage of respondents reporting that backlogs were up on a year-over-year basis increased from 8 percent in September to 24 percent. The percentage of respondents reporting that backlogs were down fell from 76 percent in September to 53 percent. The backlogs index stood at 36 percent in December, still below the 50 percent threshold separating expansion from contraction, but a clear improvement from September when it stood at 16 percent. As is the case with most other indexes, the backlogs index has shown steady improvement over the past two quarters.

The December 2009 survey responses are shown below, along with those from the past four quarterly surveys. The historical trend in the backlogs index since December 1991 appears in Figure 5.

Survey Month	Up	Down	About Same	Backlogs Index
December 2008	11%	69%	20%	21%
March 2009	8%	80%	12%	14%
June 2009	3%	85%	12%	9%
September 2009	8%	76%	16%	16%
<b>December 2009</b>	<b>24%</b>	<b>53%</b>	<b>23%</b>	<b>36%</b>

Figure 5  
Backlog Orders Index  
(December 1991 – December 2009)



Source: Manufacturers Alliance/MAPI

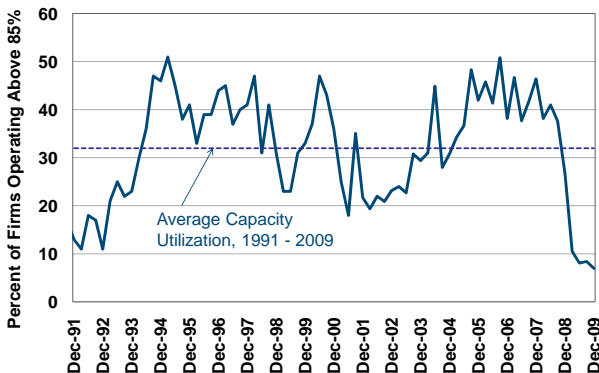
**Capacity Utilization**

The capacity utilization index, as measured by the percentage of firms operating above 85 percent of capacity, fell from 8.4 percent in September to 7.0 percent in December, a new record low. The percentage of firms operating at less than 75 percent of capacity, however, fell from 56.7 percent to 52.6 percent. The capacity utilization index remains well below its long-term average of 32 percent.

The distribution of companies by their capacity utilization in the September 2009 and December 2009 surveys is presented in the table below. The trend in capacity utilization from December 1991 through December 2009 is shown in Figure 6.

Capacity Utilization (Percent)	December 2009 Survey	September 2009 Survey
96 or more	0.0%	1.7%
91-95	3.5%	1.7%
86-90	3.5%	5.0%
81-85	14.0%	8.3%
76-80	26.3%	26.7%
75 or less	52.6%	56.7%

Figure 6  
Capacity Utilization  
(December 1991 – December 2009)

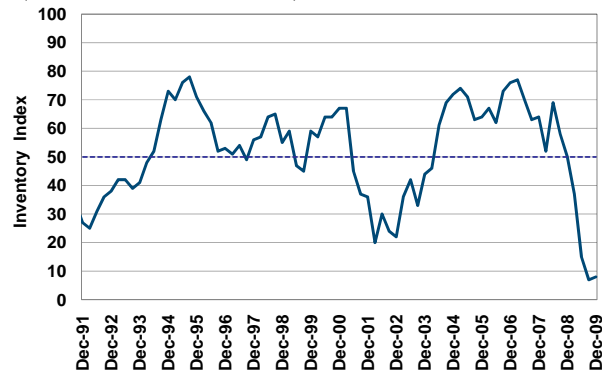


Source: Manufacturers Alliance/MAPI

**Inventories**

The inventory index is based on a comparison of inventory levels in the current quarter with those of one year ago. The inventory index edged up from its record low of 7 percent in September to 8 percent. Just 3 percent of the respondents indicated that inventories were up on a year-over-year basis in December, while 88 percent said that inventories were down. The continued low level of the inventory index points to expanded manufacturing activity for restocking purposes as well as for the expected increase in orders.

Figure 7  
Inventory Index  
(December 1991 – December 2009)



Source: Manufacturers Alliance/MAPI

The trend in the inventory index over the past 19 years is shown in Figure 7. The December 2009 survey responses are presented along with those from the past four quarterly surveys in the table below.

Survey Month	Up	Down	About Same	Inventory Index
December 2008	33%	33%	34%	50%
March 2009	25%	52%	23%	37%
June 2009	14%	84%	2%	15%
September 2009	5%	90%	5%	7%
<b>December 2009</b>	<b>3%</b>	<b>88%</b>	<b>9%</b>	<b>8%</b>

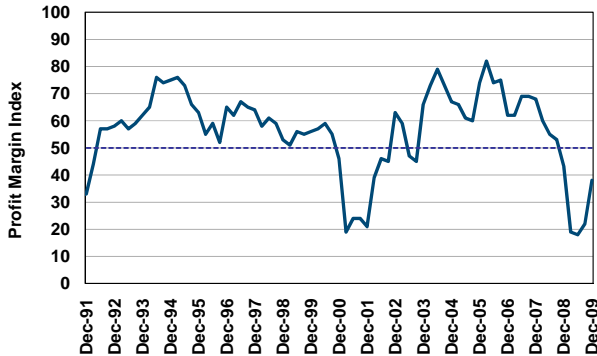
**Profit Margins**

The profit margin index increased from 22 percent in September to 38 percent in December. One-third of the respondents reported that profit margins are up on a year-over-year basis, compared to 20 percent in September while 57 percent indicated that margins are lower, down from 75 percent in September. This is the second straight quarter that the profit margin index has increased.

The trend in the profit margin index over the past 19 years is shown in Figure 8. The December 2009 survey responses are shown in the table below along with the responses from the previous four surveys.

Survey Month	Up	Down	About Same	Profit Margin Index
December 2008	30%	45%	25%	43%
March 2009	13%	75%	12%	19%
June 2009	11%	75%	14%	18%
September 2009	20%	75%	5%	22%
<b>December 2009</b>	<b>33%</b>	<b>57%</b>	<b>10%</b>	<b>38%</b>

Figure 8  
Profit Margin Index  
(December 1991 – December 2009)



Source: Manufacturers Alliance/MAPI

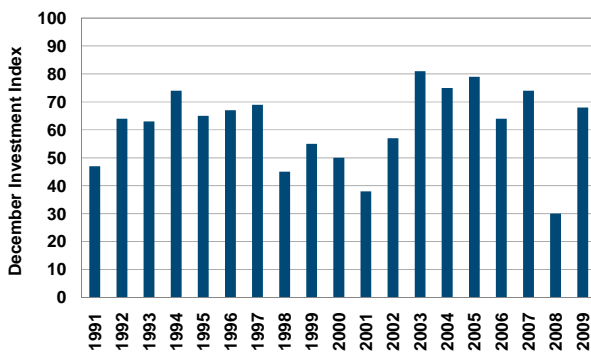
**Investment (U.S.)**

Senior financial executives were asked how capital spending in the United States in 2010 would compare to capital spending in 2009. The percentage of respondents expecting spending will rise in 2010 increased from 25 in September—when the respondents were first asked about their expectations for capital spending in 2010—to 51 percent. The overall investment index increased from 47 percent to 66 percent. Thus, the U.S. investment index has risen above the 50 percent threshold dividing expansion from contraction.

The September and December responses on the outlook for capital spending in 2010 are shown in the table below. The trend in the investment index reported in each December survey since 1991 is shown in Figure 9.

Survey Month	Up	Down	About Same	U.S. Investment Index
September 2009	25%	31%	44%	47%
<b>December 2009</b>	<b>51%</b>	<b>19%</b>	<b>30%</b>	<b>66%</b>

Figure 9  
Investment Index (December)



Source: Manufacturers Alliance/MAPI

**Investment (Non-U.S.)**

Respondents also were asked how non-U.S. capital spending in 2010 would compare to non-U.S. capital spending in 2009. The non-U.S. investment index was 68

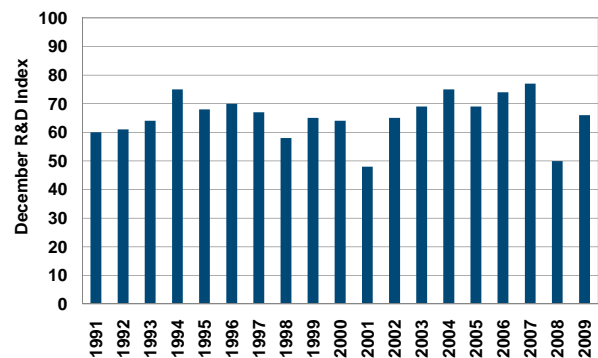
percent in December, up from 52 percent in September. This index also is above the 50 percent threshold dividing expansion from contraction. Almost half of the respondents (49 percent) expect non-U.S. investment will rise above 2009 levels, while just 13 percent expect it will be down. The responses on the outlook for non-U.S. investment in the September and December surveys are shown in the table below.

Survey Month	Up	Down	About Same	Non-U.S. Investment Index
September 2009	25%	22%	53%	52%
<b>December 2009</b>	<b>49%</b>	<b>13%</b>	<b>38%</b>	<b>68%</b>

**Research and Development**

Executives were asked how research and development (R&D) expenditures in 2010 are expected to compare with those in 2009. The R&D spending index was 66 percent in December, up from 49 percent in September. The R&D index is now above the 50 percent threshold dividing expansion from contraction and hence overall R&D expenditures in 2010 are expected to increase from their 2009 level.

Figure 10  
R&D Index (December)



Source: Manufacturers Alliance/MAPI

The September and December responses on the outlook for R&D spending in 2010 are shown in the table below. The trend in the investment index reported in each December survey since 1991 is shown in Figure 10.

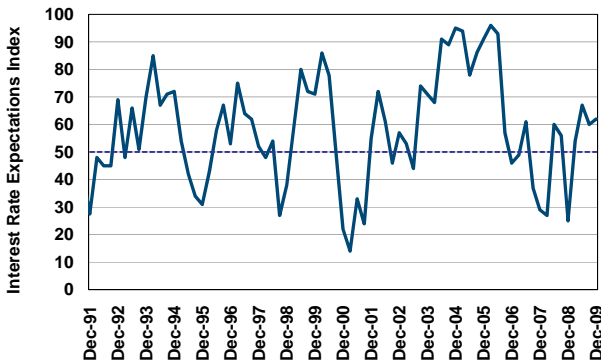
Survey Month	Up	Down	About Same	R&D Index
September 2009	18%	20%	62%	49%
<b>December 2009</b>	<b>43%</b>	<b>11%</b>	<b>46%</b>	<b>66%</b>

**Interest Rates**

Senior financial executives were asked about their expectations regarding the direction of change in longer-term interest rates during the first quarter of 2010. The interest rate index was 62 percent in December, almost unchanged from its September level of 60 percent. The pattern of responses in the December survey was similar to the pattern in the September survey. A clear majority in

both surveys expected that interest rates would remain about the same over the next quarter while none of the respondents expected longer-term interest rates to fall.

Figure 11  
Interest Rate Expectations Index  
(December 1991 – December 2009)



Source: Manufacturers Alliance/MAPI

The December responses on interest rate expectations are presented in the table below along with responses from the four previous surveys. The trend in the interest rate index from December 1991 to December 2009 is shown in Figure 11.

Survey Month	Up	Down	About Same	Interest Rate Index
December 2008	5%	55%	40%	25%
March 2009	19%	12%	69%	54%
June 2009	35%	2%	63%	67%
September 2009	20%	0%	80%	60%
<b>December 2009</b>	<b>24%</b>	<b>0%</b>	<b>76%</b>	<b>62%</b>

**Industrial Production Index and Capacity Utilization Rates—Recent Federal Reserve Data**

The Federal Reserve Board’s (Fed) index of production for the manufacturing sector was 98.6 in November, down 4.8 percent from its level of 103.6 in November 2008.<sup>1</sup> The Fed’s index is based on a scale in which 100 is the production level achieved in 2002. Still, the index has been rising since June when it was just 94.4. The November 2009 production index for **durable goods** manufacturing was down 8.7 percent from November 2008.<sup>2</sup>

The manufacturing sector’s capacity utilization rate was 68.4 percent in November, well below its long-term average utilization rate of 79.6. The capacity utilization rate also has edged up since reaching bottom in June 2008, when it stood at 65.1 percent. In the last recession, capacity utilization fell to 71.4 percent at its lowest point.

As reported above, the *Business Outlook Survey’s* measure of capacity utilization fell slightly in December, reaching a new record low. The capacity utilization indexes reported by the Fed and the *Business Outlook*

*Survey* are based on different definitions of capacity utilization. The Fed’s index is based on the average utilization rate for the manufacturing sector, whereas the *Business Outlook Survey* index is based on the percentage of companies operating at a utilization rate at 85 percent and above.<sup>3</sup>

**Composite Business Outlook Index**

The Manufacturers Alliance/MAPI’s composite business outlook index summarizes the overall findings of the survey and provides a leading indicator of manufacturing sector activity over the next three months. It is based on a weighted sum of prospective shipments, backlogs, inventories, and profit margin indexes.<sup>4</sup> The composite business outlook index increased from 38 percent in September to 57 percent. Because the composite index is above the 50 percent threshold, overall manufacturing output is expected to increase over the next three to six months.

Figure 12 shows the trend in the composite business outlook index from December 1991 through December 2009. The Fed’s industrial production index for the manufacturing sector (based on annualized quarterly growth rates) also is shown in Figure 12. This index generally tracks the composite business outlook index closely. A rise or fall in the composite business outlook index generally is followed by an even sharper rise or fall in the overall industrial production index for manufacturing.<sup>5</sup>

The jump in the December survey’s composite index, along with the significant improvement in the individual indexes, provides evidence that manufacturing sector activity is picking up steam. The September survey results had indicated that the manufacturing sector had reversed course and was recovering, but the expansion at that point appeared tentative. In assessing the trends in some of the individual indexes, it is important to keep in mind that many of them are based on year-over-year comparisons. Manufacturing activity in the fourth quarter of 2008 was falling rapidly and it was not until June 2009 that the Fed’s industrial production index reached its low point. Thus, any increase in activity in the current quarter is likely to be reflected in a rise in these indexes.

What is important, however, is the extent to which the individual indexes improved. More, the forward-looking indexes (prospective shipments, annual orders,

<sup>3</sup> Because the measure of capacity utilization in the *Business Outlook Survey* is not an average of utilization rates, it is more volatile than the Fed’s measure of capacity utilization.

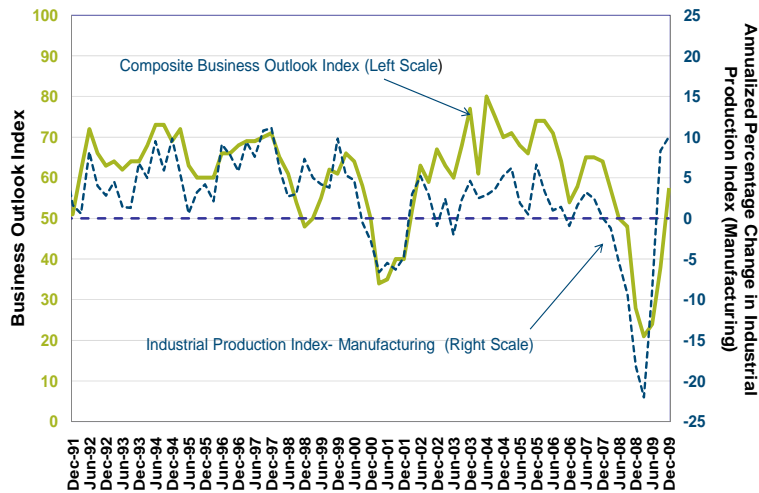
<sup>4</sup> In developing the index, a number of different weightings were explored. A 40 percent weight for prospective shipments index and a 20 percent share each for backlogs, profit margins, and inventory indexes were chosen based on their ability to provide a “best fit” for the model. The 20 percent weight for the inventory index is applied to 100 percent minus the inventory index because an increase in the inventory index tends to be associated with slowing activity, while a decrease raises the likelihood of increased production for an inventory build.

<sup>5</sup> Exceptions occurred in 1998 when the Asian crisis led to a drop in U.S. exports of durable manufactured goods and in the latter part of 2002 and early 2003, when manufacturing sector activity fell following a period in which a recovery appeared to be under way.

<sup>1</sup> Federal Reserve Board, “Industrial Production and Capacity Utilization,” Federal Reserve Statistical Release, December 15, 2009.

<sup>2</sup> *Ibid*, Table 1, p. 8.

Figure 12  
**Composite Business Outlook**  
 (December 1991 – December 2009)



Source: Manufacturers Alliance/MAPI

investment, and R&D) all registered large increases over their September levels when executives were first asked to compare expected activity in 2010 with activity in 2009. For example, the fact that annual orders jumped from 66 percent in September to 80 percent in December is indicative of broad-based confidence that manufacturing output will expand in 2010.

**Forecast of Economic Activity**

The composite business outlook index provides a leading indicator of the trend in overall manufacturing sector activity over the next three to six months, but it does not forecast the rate at which manufacturing activity will increase or decline. For this purpose, the Manufacturers Alliance/MAPI produces a quarterly forecast for the overall economy, the manufacturing sector, and selected industries.<sup>6</sup> The most recent forecast (released in November 2009) projects that GDP will increase by 2.4 percent in 2010. This represents an upward revision from the August forecast which showed GDP increasing by 2.1 percent. Manufacturing production is expected to increase by 4.6 percent in 2010, up from the 3.2 percent increase that was forecasted in August. When computers, communications, and semiconductor chips

<sup>6</sup> The **forecast** results are available to executives in member companies of the Manufacturers Alliance/MAPI. The forecast utilizes the IHS Global Insight, Inc. econometric model of the U.S. economy. The forecast is based on assumptions made by MAPI economists regarding key drivers of the model.

sectors are omitted from the manufacturing sector, manufacturing activity is expected to increase by 2.3 percent in 2010, up from 1.9 percent in the August forecast. In short, like the *Business Outlook Survey's* forward looking indexes, the most recent forecasts of GDP and manufacturing activity have become more optimistic regarding the strength of the recovery. Despite the brighter outlook for GDP growth and manufacturing sector activity, the recovery in 2010 should still be characterized as moderate rather than robust.

**Survey Coverage**

To determine what industries are represented in the survey, respondents were asked what broadly defined industry group best describes their company's largest sales unit. The distribution of industries represented in the December survey is presented in Table 1 along with their distribution in the three previous surveys.

The percentage of companies in the December survey that are in the machinery industry fell from 26.7 percent in September to 16.7 percent while the percentage of companies classified as being in "other" rose from 10 percent in September to 24.1 percent. Industries in the "other" category included diversified industrial manufacturing, heavy equipment manufacturing, filtration products, communications equipment and information technology, hydraulic components, consumer products, and building products.

Table 1  
**Distribution of Responses by Industry**  
 (Percent)

	December 2009	September 2009	June 2009	March 2009
Aerospace and Misc. Transportation Equipment	9.3	8.3	11.7	12.7
Chemical	9.3	5.0	6.7	6.3
Computers, Electronics	0.0	0.0	0.0	1.6
Electrical Equipment, Appliances, Components	24.1	23.3	18.3	19.0
Fabricated Metals	3.7	3.3	5.0	7.9
Heavy Construction/Building Materials	1.9	5.0	6.7	7.9
Machinery	16.7	26.7	16.7	12.7
Motor Vehicles and Parts	1.9	5.0	3.3	3.2
Paper	0.0	1.7	3.3	3.2
Petroleum, Coal	1.9	1.7	1.7	1.6
Plastics, Rubber	1.9	6.7	5.0	4.8
Primary Metals Manufacturing	5.6	3.3	3.3	3.2
Other	24.1	10.0	18.3	15.9
<b>Number of Companies</b>	<b>54</b>	<b>60</b>	<b>60</b>	<b>63</b>

Not all respondents provide information on their company's industry. Thus, the number of companies participating in the survey typically exceeds the number of companies in this table. Percentages may not total to 100 percent due to rounding.

Source: Manufacturers Alliance/MAPI

The size distribution of the respondents' companies, based on total worldwide revenues, is shown in Table 2. The size distribution of companies represented in the December survey is very similar to the size distributions in previous surveys.

Table 2  
**Size Distribution of Companies**

Total Revenues	Number	Percent
Less than \$1 billion	17	31.5
\$1 billion to \$3 billion	24	44.4
\$3.1 billion to \$5 billion	2	3.7
\$5.1 billion to \$10 billion	3	5.6
Greater than \$10 billion	8	14.8

Source: Manufacturers Alliance/MAPI

## Part 2: Management of Pension Fund Assets

This quarter's set of "wildcard" questions focused on the management of pension fund assets. The fall in equity values since mid-2008 presents a challenge for companies with defined benefit (DB) pension plans in that most now find themselves with underfunded plans that require the company to make contributions to their plans.

### Changes to Defined Benefit Plans

Respondents were first asked to characterize what changes have been made to their defined benefit plans over the past two years. Just over a fifth of the 51 respondents (21.6 percent) reported that their company does not have a DB plan. Of those that do have a DB

Table 3  
**Changes to Defined Benefit Pension Plans**

	Number	Percent
We have not modified our DB plans and we have no plans to do so	13	32.5
We have not modified our DB plans, but we expect to do so in the future	4	10.0
DB plan accruals have been frozen for <i>all</i> employees and replaced by a defined contribution (DC) plan	8	20.0
DB plan accruals have been frozen for <i>some</i> employees (e.g., those below a certain age) and replaced by a DC plan	4	10.0
DB plans have been closed to <i>new</i> employees only and they are eligible for a DC plan	8	20.0
Other	3	7.5

Source: Manufacturers Alliance/MAPI

Table 4  
Changes to Defined Benefit Pension Plans

	Number	Percent of 41 Respondents
There has been no significant way in the way our DB pension fund assets are managed	23	56.1
We have changed our DB fund manager(s)	9	22.0
We have increased the ratio of equities to bonds	1	2.4
We have decreased the ratio of equities to bonds	8	19.5
Our pension funds are now more actively managed	2	4.9
Our pension funds are now passively managed with a greater emphasis on indexing	2	4.9
The proportion of short-term assets (e.g., cash, short-term government bonds and CDs) relative to longer-term bonds and to equities has increased	1	2.4
Other	4	9.8

Source: Manufacturers Alliance/MAPI

plan, about one-third (32.5 percent) have not modified their plan and have no plans to do so. The remaining two-thirds have frozen their plans in some way or expect to modify their DB plans in the future (Table 3). “Other” changes included putting all new employees on a cash balance formula and freezing DB plans for U.S. employees without replacing it with a defined contribution plan.

**Management of Defined Benefit Plans**

Respondents were asked to characterize the changes (if any) over the past 18 months in the way their DB plans are managed. They were given a list of possible changes and asked to check all that apply. The results are summarized in Table 4. A majority of respondents (56.1 percent) indicated that there has been no significant change in the way their plans are managed. Just over a fifth (22 percent) have changed their DB fund managers while 19.5 percent report that they have reduced the ratio of equities to bonds in their pension fund asset portfolios. “Other” changes included putting company stock in the pension plan and increasing long versus short bond allocations.

**Rating the Performance of Pension Fund Managers**

Executives were asked to rate on a scale of 1 to 5 (with 1 = poor and 5 = excellent), the performance of their pension fund managers over the past 18 months, a period of turbulence in stock and bond markets. Most executives (53.7 percent) rated the performance as average, though the results were skewed toward good to excellent performance as indicated by the fact that the average rating for the 41 responses to this question was 3.4.

Respondents also were asked about the annual cost incurred for having their DB pension funds managed. There was considerable variation in costs among the 19 companies represented in this sample as the reported costs ranged from \$25,000 to \$2,000,000. The average cost for all 19 companies was \$497,000. For the four

companies with revenues of \$1 billion or less, the average cost was \$179,000 while for the 12 companies with revenues ranging from \$1 billion to \$3 billion, the average cost of \$591,000.

Table 5  
Rating the Performance of Pension Fund Managers

	Number	Percent
1. Poor	0	0.0
2. Mediocre	3	7.3
3. Average	22	53.7
4. Good	14	34.1
5. Excellent	2	4.9

Source: Manufacturers Alliance/MAPI

**Underfunded Pension Plan Funds**

The decline in equity values over the past 18 months has contributed to a rise in underfunded pension plan funds. Respondents were asked about the value of their pension fund assets and the extent to which their plans were funded in three periods: 1) the first quarter of 2008 which predated the sharp decline in equity values; 2) the second quarter of 2009 during which equity indexes reached a low point; and 3) the third quarter of 2009, a period in which equity indexes had rebounded somewhat from their low point. The results are summarized in Table 6.

The trend in the status of pension plans is consistent with what would be expected given the decline in equity values. The number of fully or overfunded pension funds fell as did the extent of funding for plans that were underfunded. The aggregate value of pension fund assets for 20 companies fell by 15.4 percent between the first quarter of 2008 and the second quarter of 2009. Then, in the third quarter of 2009, the value of the pension funds for these companies increased by 5.4 percent.

Table 6  
**Status of Pension Plan Funds**

	<b>Number of Companies with Fully or Over-Funded Plans</b>	<b>Average Percent of Funding of Underfunded Plans (21 Companies)</b>	<b>Total Value of Pension Fund Assets, Billion Dollars (20 Companies)</b>
1 <sup>st</sup> Quarter 2008	14	80.6	\$17.06
2 <sup>nd</sup> Quarter 2009	5	76.6	\$14.43
3 <sup>rd</sup> Quarter 2009	5	80.3	\$15.21

Source: Manufacturers Alliance/MAPI

Finally, respondents whose companies have an underfunded DB plan were asked if the company had made any contributions to it in 2009 to reduce the degree of underfunding. Seventy-three percent reported that they

had made a contribution, and in almost every case the contribution took the form of cash (as opposed to company stock).