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July 29, 2011

Business Barometer

Quarterly Report

About the Report

The Business Barometer Quarterly Report provides a network-enabled, 12-month outlook on the key drivers of economic performance. The report is based on a quarterly cross-functional survey of the top executives from the largest global companies.

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Executive Summary

Business Executives' Sentiment: Executive confidence continued to fall this quarter mirroring the slow-down in global economic growth. The BESI* declined from for the second consecutive quarter – from 48.5 in Q2-2011 to 46.9 in Q3-2011 – reflecting an unenthusiastic economic outlook for the next twelve months.

Revenue growth and cost pressures: 69% of executives expect their firms' revenues to increase in Q3 2011, down from 75% in Q2-2011, 82% in Q1-2011, and 76% in Q4-2010. Moreover, most executives expect marginal growth of 1-4%. Further, only 57% of executives expect their industries' revenues to grow in the next 12 months, down from 65% in Q2-2011 and 69% in Q1-2011. The number of executives expecting greater cost pressure in the next 12 months went down slightly from 72% in Q2-2011 to 70% in Q3-2011. Most executives who expect higher costs anticipate only a 1 to 4% increase in costs. Executives anticipate higher energy and other commodity prices, as well as higher interest rates and inflation. Although the majority of executives expect higher labor costs and core input prices, the number of respondents supporting this view declined.

Macroeconomic assumptions: Growth prospects in the U.S. and EU deteriorated considerably relative to Q2-2011: 27% of executives see stronger economic growth in these industrialized economies (compared to 45% in Q2-2011, 50% in Q1-2011, and 32% in Q4 2010 and Q3 2010). By contrast, 60% of executives expect higher growth in emerging markets. Yet, the number of emerging market optimists in Q3-2011 is considerably lower compared to the previous quarters' long-term average of 70%. Executives' sentiment about consumer confidence declined considerably relative to Q2-2011: 28% of executives now expect consumer confidence (and potentially spending) to improve over the next twelve months (compared to 44% in Q2-2011, 56% in Q1-2011, 39% in Q4-2010, and 38% in Q3-2010). 76% of the surveyed executives believe unemployment will remain at the current elevated level (56%) or decline (23%), with 24% expecting an increase in this metric.

Growth indicators: Sales executives expect sales to both new and existing customers to grow, though this optimism abated somewhat. Expectations for growth in new orders and capital expenditures (CAPEX) have deteriorated. We saw no change in the number of executives planning to make higher discretionary IT or R&D investments, which remained at the lowest reading since the launch of the survey: 41% of executives expect to increase their spending (no change from Q2-2011, down from 56% in Q1-2011, 43% in Q4-2010, and 52% in Q3-2010).

Cost indicators: Executives' sentiment on cost pressure has improved marginally, mainly due to the lower anxiety over higher energy and non-energy commodities. Moreover, expectations about higher labor costs or core input prices did not change relative to the previous quarter: 65% of executives expect higher labor costs (compared to 78% in Q1-2011, 77% in Q4-2010, and 70% in Q3-2010). 74% percent expect higher core input prices (compared to 84% in Q1-2011). However, most of the labor and input cost increases are anticipated to be between 1% and 4%. At the same time, fewer HR executives expect increases in headcount (38% in Q3-2011 compared to 45% in Q2-2011), fewer executives believe employee engagement will increase (42% in Q3-2011, compared to 45% in Q2-2011, 50% in Q1-2011, and 48% in Q4-2010) and half of HR executives believe their unwanted turnover will rise in the next 12 months.

**The BESI is a CEB forward-looking index incorporating senior executives' sentiment on revenue growth and cost pressure in the next 12 months.*

Executive Summary (continued)

Functional Indicators

Finance indicators: Finance executives' sentiment has diminished again but remained positive in Q3-2011. More CFOs expect to cut back finance budgets and anticipate lower G&A costs. While most executives expect to either protect or fund more organic and inorganic growth bets, their optimism moderated somewhat. 51% expect CAPEX to rise (compared to 53% in Q2-2011, 70% in Q1-2011, 52% in Q4, and 51% in Q3-2010), with investments going into both fixed assets and IT. 47% percent of finance executives expect an increase in the number of M&A deals, compared to 53% in Q2-2011, 57% in Q1-2011, 53% in Q4, and 51% in Q3-2010. The number of executives planning to increase the size of R&D budgets did not change compared to the previous quarter and remained at the all-time low of 41%.

Supply Chain and Operations indicators: The Supply Chain and Operations Barometer remained cautious in Q3-2011 as the result of a mix of a somewhat weaker sentiment on new orders and a marginally better outlook on new products. The outlook on costs of core inputs is essentially the same as in Q2-2011. Fifty-nine percent of supply chain and operations executives expect a higher number of new orders (compared to 64% in Q2-2011, 77% in Q1-2011, and 67% in Q4-2010), and 53% anticipate higher production levels (down from 57% in Q2-2011, 69% in Q1-2011, and 63% in Q4-2010). However, their sentiment about the introduction of new products has improved: 58% expect more new products, compared to 53% in Q2-2011. Further, most of the supply chain executives do not expect changes in the supply chain disruption risk, and fewer executives expect higher labor costs.

Sales indicators: Sales executives' outlook retreated marginally but remained very positive. Sales organizations still expect to sell more to new and existing customers in the next 12 months, though their optimism abated somewhat. However, more executives anticipate higher reliance on discount incentive policies (40% in Q3 compared to 32% in Q2-2011). Fewer sales executives expect an increase in sales headcounts (46% in Q3, down from 49% in Q2 and 76% in Q1-2011).

Marketing indicators: Marketing executives' sentiment declined but remained positive. The downward change is due to weakening optimism about consumer loyalty, marketing budgets, and dedicated advertising resources.

Human Resources indicators: HR executives' outlook has remained cautious for three consecutive quarters. HR executives remain somewhat concerned about labor costs; although expectations for higher average wages fell, concern about healthcare costs increased. The number of HR executives expecting an increase in average labor costs fell again from 65% in Q2-2011 to 63% in Q3-2011. Most of them expect only a moderate increase in costs (1 to 4%). At the same time, 59% of executives anticipate higher health care costs, though most expect average health care costs to increase by 1 to 9%. Executives expect lower total hiring volume, and lower employee engagement in the next 12 months.

IT indicators: IT executives' sentiment has remained positive. 44% of the IT executives expect higher discretionary CAPEX on IT, down from 46% in Q2-2011. However, 56% of executives expect software spending to increase (up from 51% in Q2-2011, and 43% in Q1-2011). The number of executives who anticipate higher spending on hardware grew from 42% in Q2-2011 to 44% in Q3-2011.

Real Estate indicators: Real estate executives' sentiment retreated considerably. More executives expect the same or higher real estate vacancy rates compared to previous quarters.

Conclusion: Declining executive sentiment reflects lower expectations for growth in both developed and developing markets. While fewer executives expect cost pressure to increase, elevated concerns remain significant drag on business confidence.

Business Executives' 12-Month Outlook

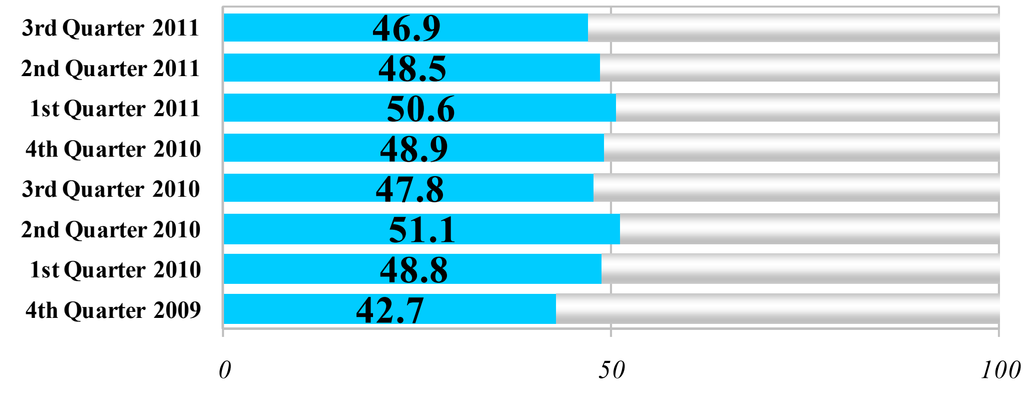
❯ The Q3 business barometer survey shows the BESI deteriorating from its April value of 48.5 to 46.9 in July of 2011, reflecting a lower confidence among executives. While most executives still expect higher revenues for their companies and industries, the number of optimists declined again.

- 69% of executives expect revenue to increase, compared to 75% in April and 82% in January 2011.
- Further, 57% of executives expect their industries' revenues to grow in the next 12 months, compared to 65% in Q2-2011, and 69% in Q1-2011.
- 70% of executives expect the cost pressure to increase, down from 72% in April 2011.

**The BESI is a CEB forward-looking index incorporating senior executives' sentiment on revenue growth and cost pressure in the next 12 months.*

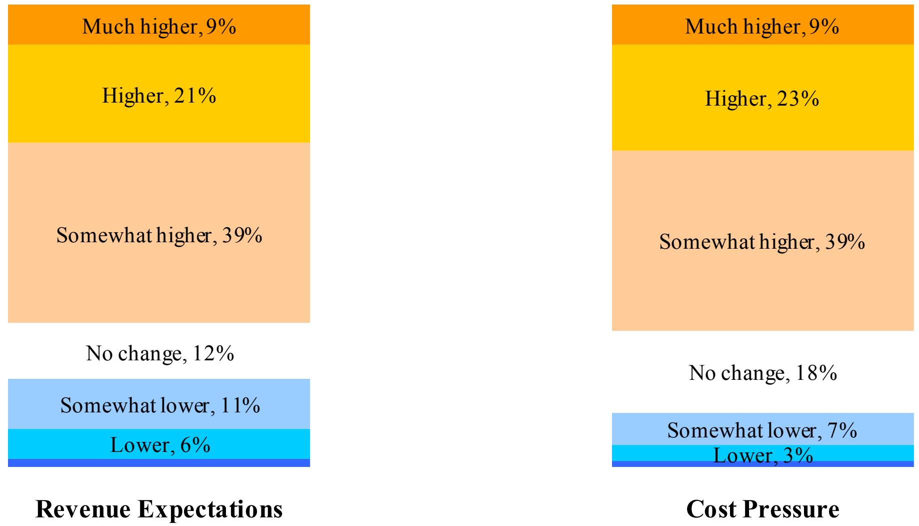
Business Executives' Sentiment Index (BESI)*

Source: Business Barometer Survey, Corporate Executive Board



Business Executives' Expectations of Revenue Growth and Cost Pressure

Source: Business Barometer Survey, Corporate Executive Board



N = 1,517

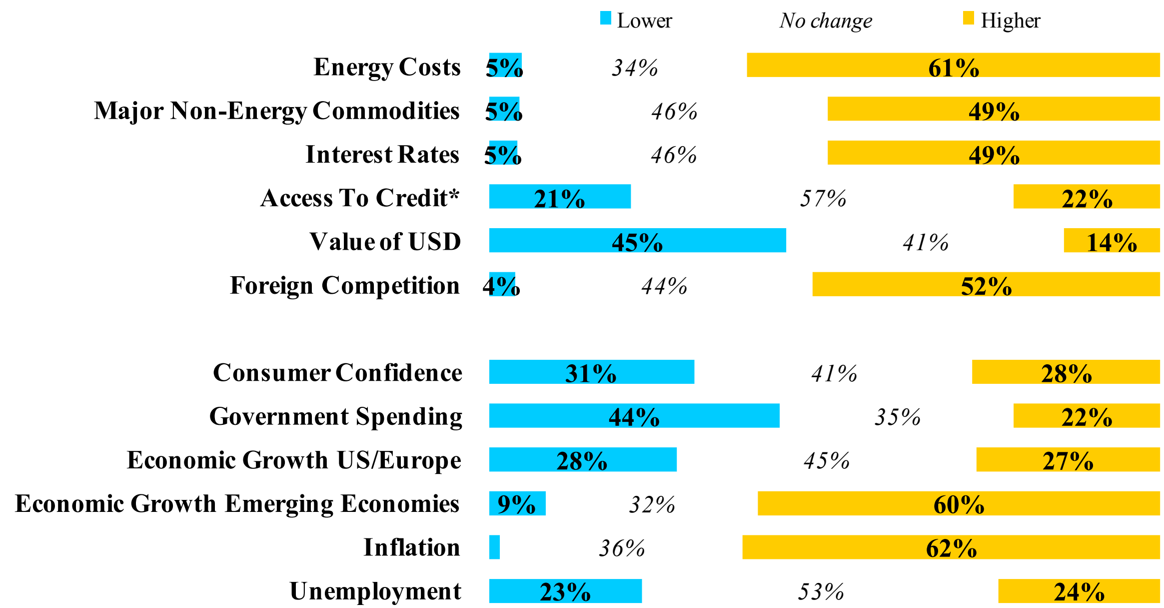
Business Executives’ Assumptions

Business executives’ sentiment for the next 12 months reflects two competing phenomena: 1) Pessimism about aggregate demand in the developed markets of the U.S. and Europe, coupled with anxiety about increasing cost pressure; and 2) continued optimism regarding higher demand in emerging economies.

- Only 28% of business executives expect consumer confidence to improve, down from 44% in Q2-2011 and 56% in Q1-2011.
- Further, 62% of respondents expect inflation will be higher, down from 69% in Q2-2011.
- 53% of executives believe unemployment will remain high, but 23% expect it to decline in the next 12 months (down from 43% in Q2-2011).
- 57% of respondents expect no change in terms of access to credit. While 46% of respondents expect interest rates to remain very low, 49% expect they will increase (down from 56% in Q2-2011).
- 61% of executives expect the price of energy to go up (down from 76% in Q2-2011) while 49% believe non-energy commodities will increase in price in the next 12 months (down from 59% in Q2-2011).

Business Executives’ Assumptions on Key Economic Indicators and Drivers

Source: Business Barometer Survey, Corporate Executive Board



* For Access to Credit, "Higher" means "Better"

N = 1,517

ROAD MAP FOR THE PRESENTATION

Executive Summary

Growth Indicators

Cost Indicators

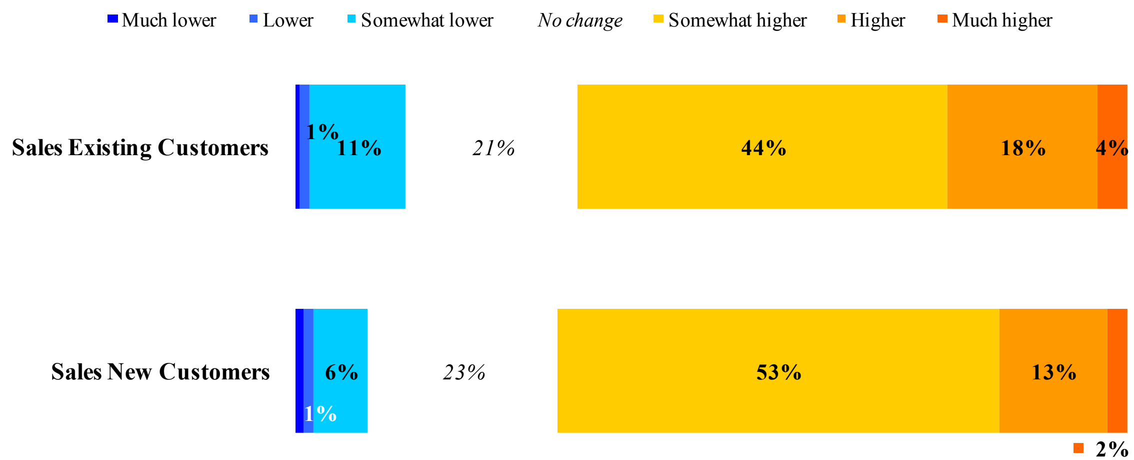
Indicators of Growth: Sales

❯ Most sales executives believe new and existing customers from Asia and North America will be the key sources of growth.

- 68% of sales executives' believe sales to new customers will increase in the next 12 months (down from 74% in Q2-2011 and 70% in Q4-2010).
- Sentiment on sales to existing customers also deteriorated somewhat: 66% believe sales to existing customers will be higher (down from 69% in Q2-2011, 67% in Q1-2011, and Q4-2010).
- Most executives anticipate no change or increase in reliance on pricing discounts and other financial incentives to drive sales.

Business Executives' Expectations on Sources of Sales

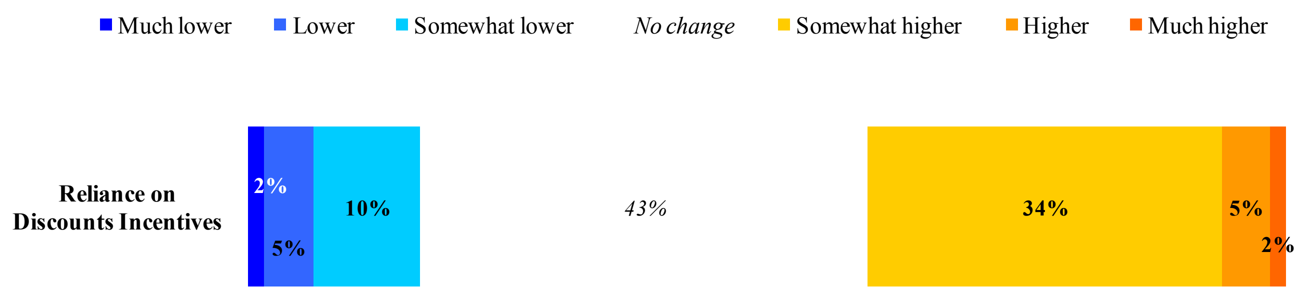
Source: Business Barometer Survey, Corporate Executive Board



N = 247

Business Executives' Expectations about Reliance on Pricing Discounts and Financial incentives to Drive Sales

Source: Business Barometer Survey, Corporate Executive Board

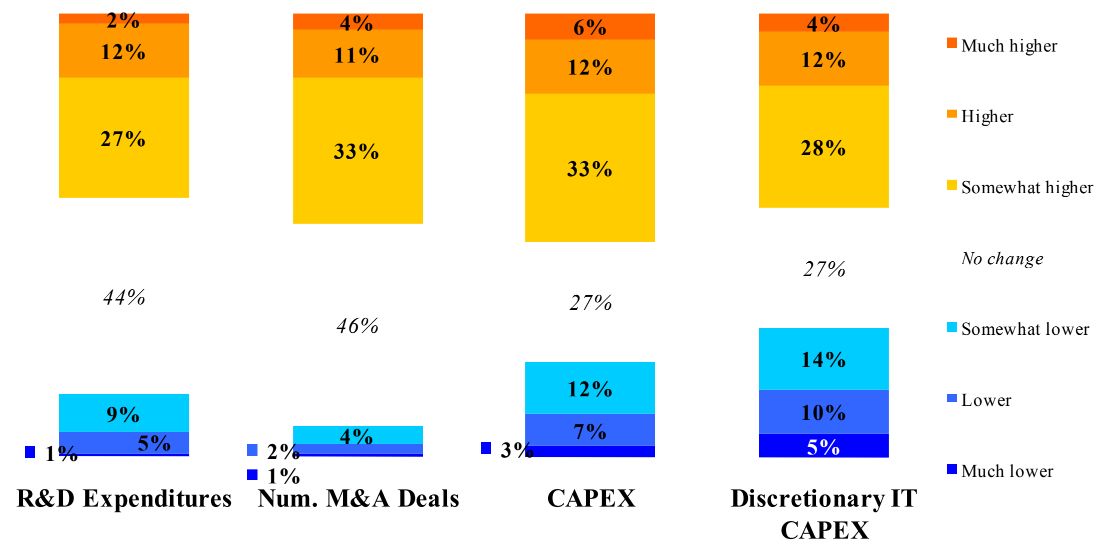


N = 247

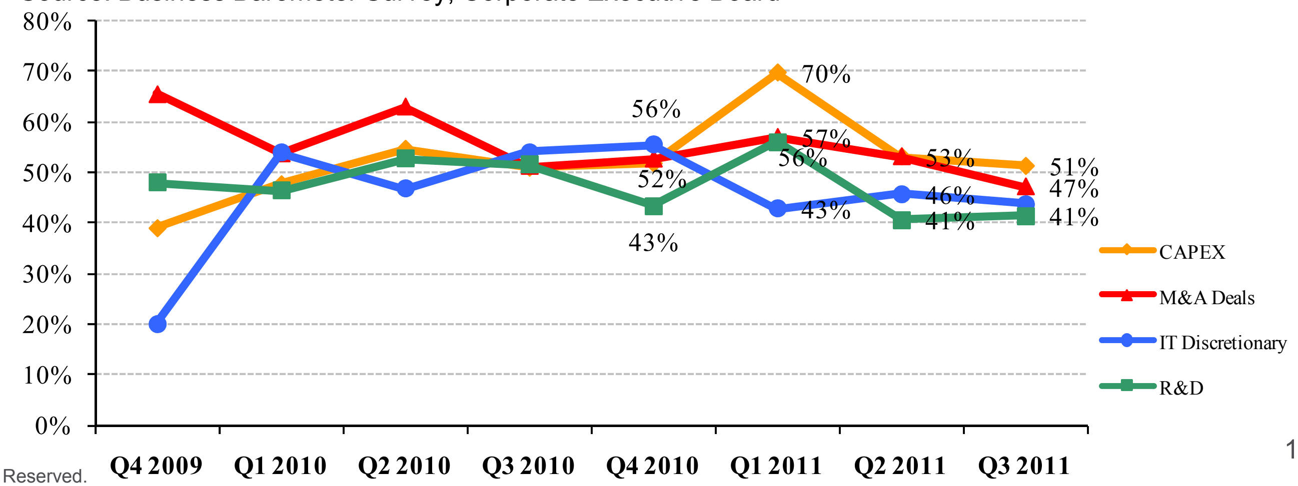
Indicators of Growth: Investments

- The number of executives expecting higher CAPEX and a higher number of M&A deals declined again.
  - 41% of executives expect greater R&D expenditures in the next 12 months (no change from Q2-2011 and down from 56% in Q1-2011), the lowest number since the start of the index.
  - 47% of executives expect more M&A deals (down from 53% in Q2-2011 and 57% in Q1-2011).
  - Further, 51% of executives expect to increase CAPEX (down from 53% in Q2-2011 and 70% in Q1-2011), which is slightly below the average reading since the start of the index.

Business Executives' Expectations of Capacity Building
Source: Business Barometer Survey, Corporate Executive Board



Business Executives' Expectations for Higher Spend on Capacity Building
Source: Business Barometer Survey, Corporate Executive Board

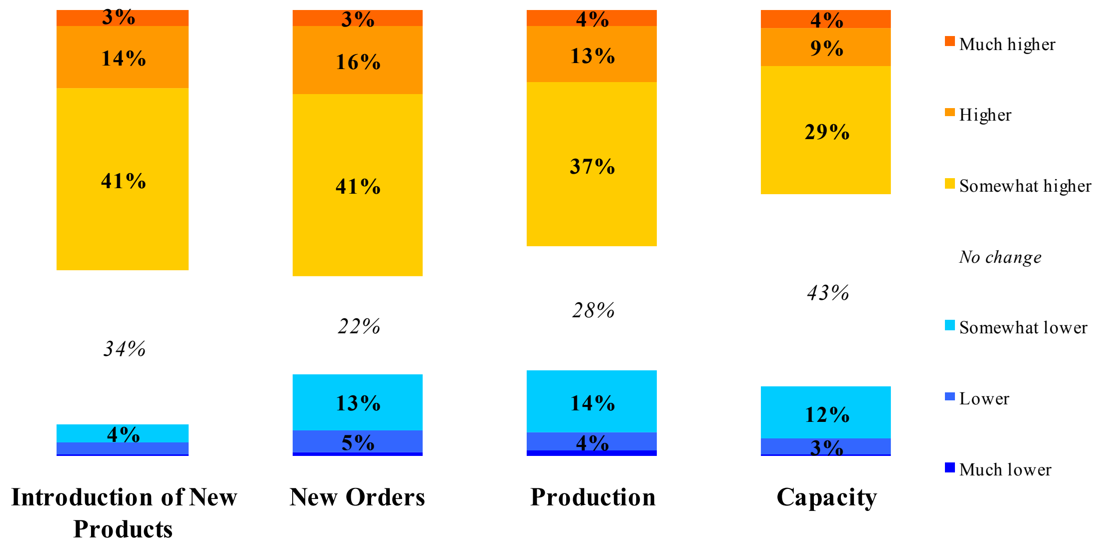


Indicators of Growth: Production

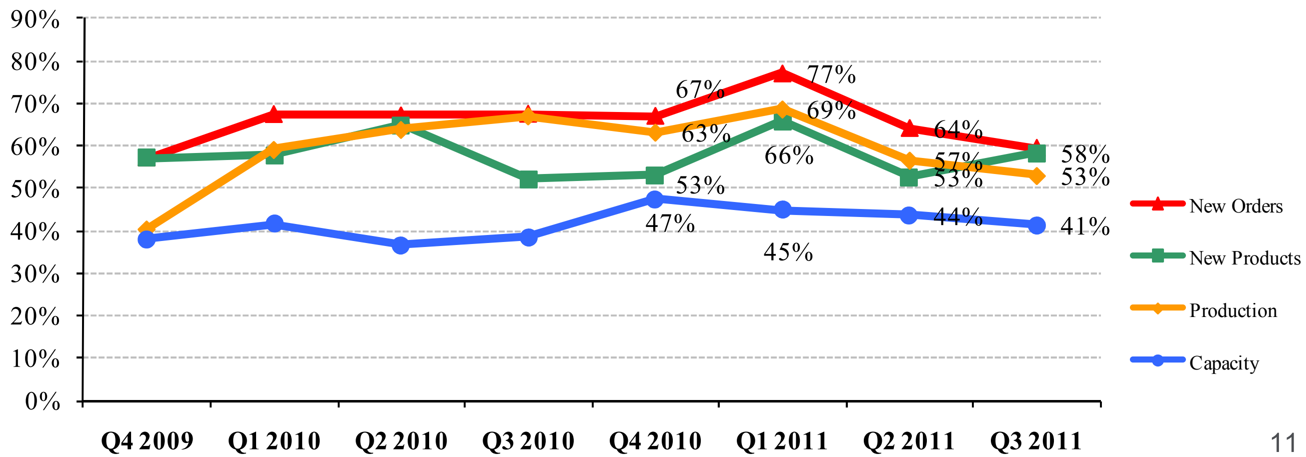
› The outlook for production indicators remains positive in Q3-2011. However, fewer executives expect to receive more new orders, or anticipate higher levels of production in the next 12 months.

- 58% of surveyed executives expect to introduce a higher number of new products in the next 12 months (up from 53% in Q2-2011, but still lower than 66% in Q1-2011).
- 59% of surveyed executives expect to receive more new orders in the next 12 months (down from 64% in Q2-2011, 77% in Q1-2011, 67% in Q4-2010, and 68% in Q3-2010).
- The executives' outlook on production levels has deteriorated again: while 53% expect expanded production levels (compared to 57% in Q2-2011 and 69% in Q1-2011), 19% expect a decline in the next 12 months (up from 14% in Q2-2011 and 11% in Q1-2011).
- 41% of executives we surveyed expect to maintain or somewhat increase existing capacity levels (43% and 41% respectively).

Business Executives' Expectations on Production Indicators
Source: Business Barometer Survey, Corporate Executive Board



Business Executives' Expectations for Higher Production Indicators
Source: Business Barometer Survey, Corporate Executive Board



ROAD MAP FOR THE PRESENTATION

Executive Summary

Growth Indicators

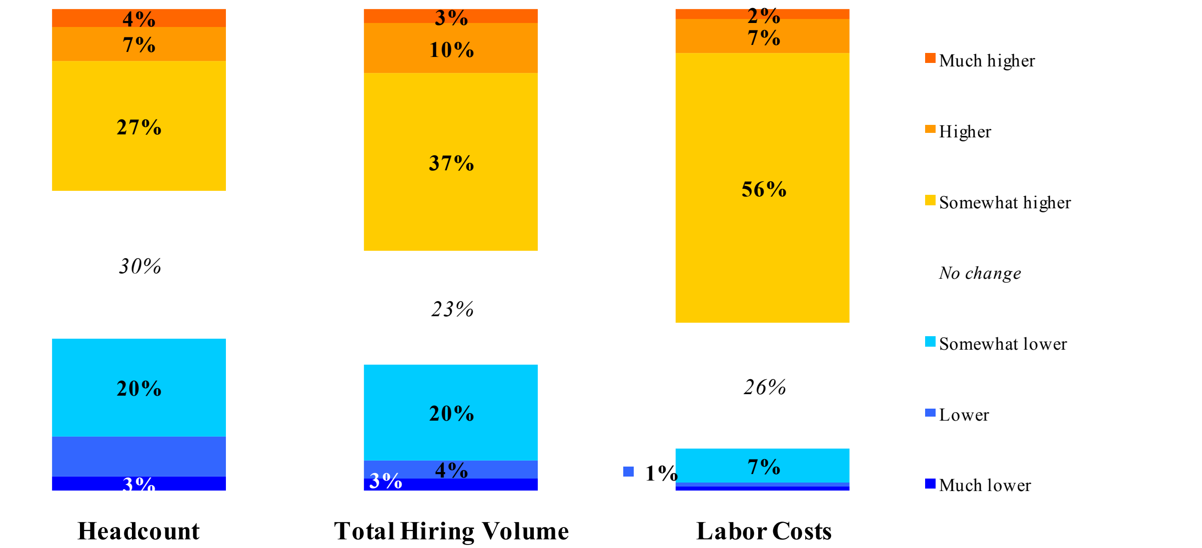
Cost Indicators

Indicators of Cost Pressure: Labor

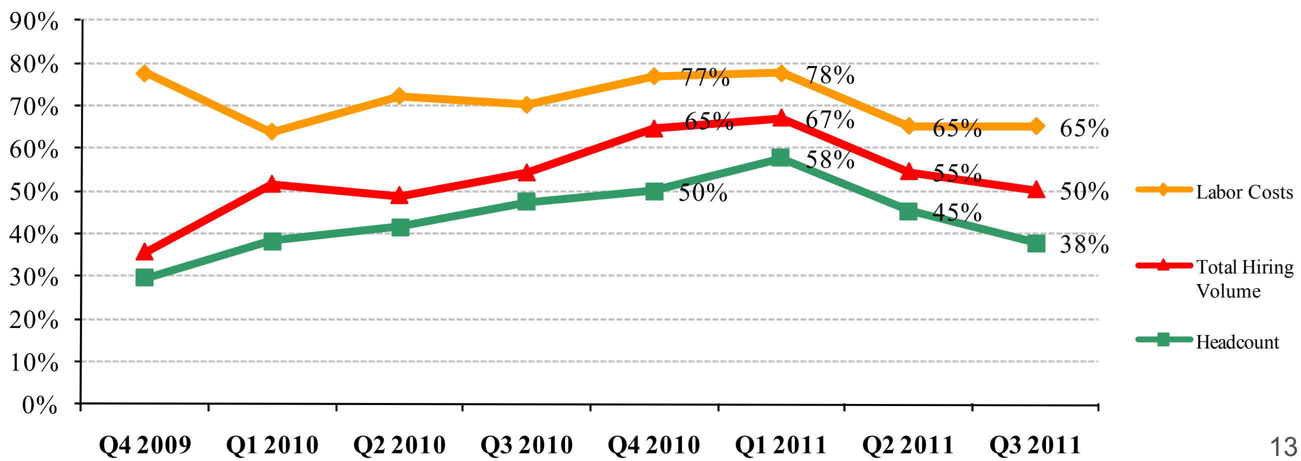
❯ The number of executives expecting their companies' FTE levels to grow declined for the second quarter in a row. Fewer executives anticipate an increase in hiring volumes in the next 12 months.

- The outlook for staff headcount continued deteriorating since Q1-2011. 38% expect to hire more (down from 45% in Q2-2011, 58% in Q1-2011, and 50% in Q4-2010): while 27% of those surveyed expect to increase FTEs by 1-4%, 11% expect to increase FTEs by 5% or more in the next 12 months.
- 37% of executives surveyed expect hiring volumes to be higher by 1-9% (down from 42% in Q2-2011, 55% in Q1-2011, and 53% in Q4-2010), while 13% expect hiring volumes to grow by 10% or more in in the next 12 months.
- However, there was no change in the number of executives expecting higher labor costs compared to the previous quarter. 56% of respondents expect labor costs to increase by only 1-4% in the next 12 months (down from 58% in Q2-2011) while 9% expect an increase of more than 5% (9% in Q2-2011).

Business Executives' Expectations on Labor
Source: Business Barometer Survey, Corporate Executive Board



Business Executives Expecting Higher Labor Costs, Headcount or Hiring Volume
Source: Business Barometer Survey, Corporate Executive Board



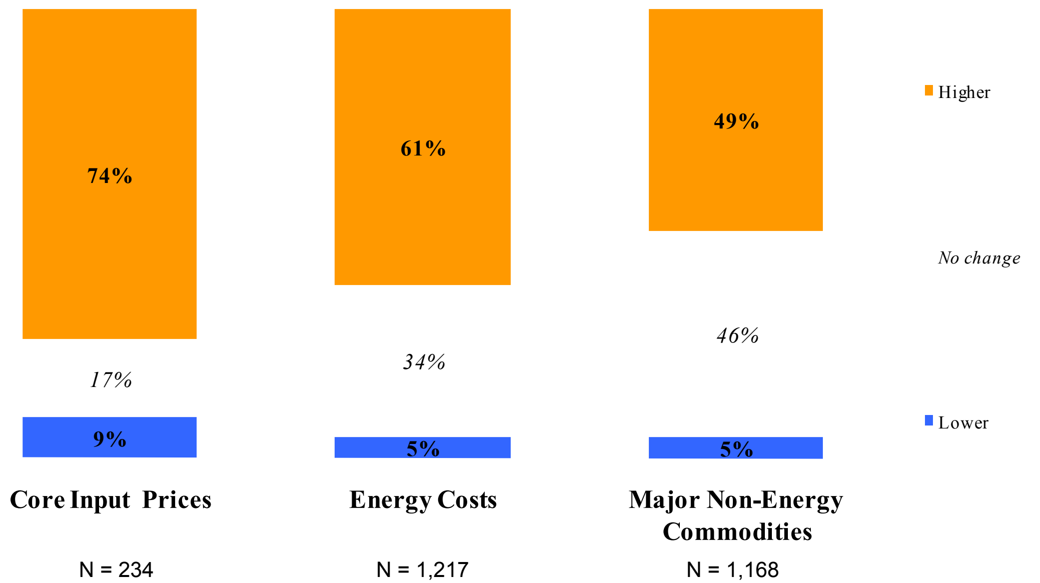
Indicators of Cost Pressure: Inputs

❯ Executives' expectations about price increases on core inputs and major commodities in the next 12 months have improved.

- 74% of the executives we surveyed expect higher costs of core inputs (compared to 74% in Q2-2011, 84% in Q1-2011, 74% in Q4-2010, and 70% in Q3-2010).
- Considerably fewer respondents expect the cost of energy to grow higher and less than half of them expect an increase in the costs of non-energy commodities.

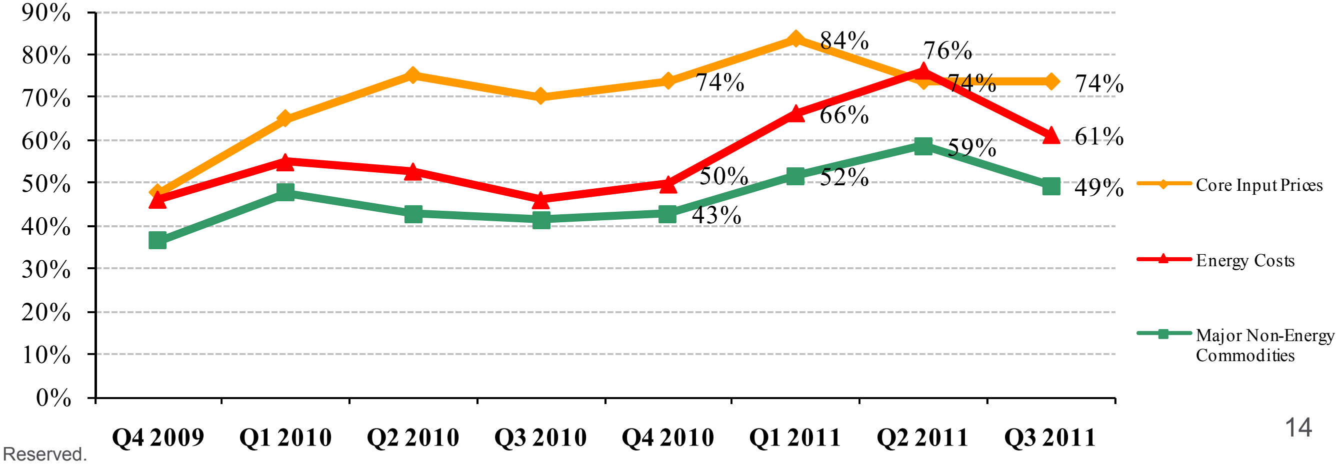
Business Executives' Expectations on Inputs

Source: Business Barometer Survey, Corporate Executive Board



Business Executives Expecting Higher Input Costs

Source: Business Barometer Survey, Corporate Executive Board



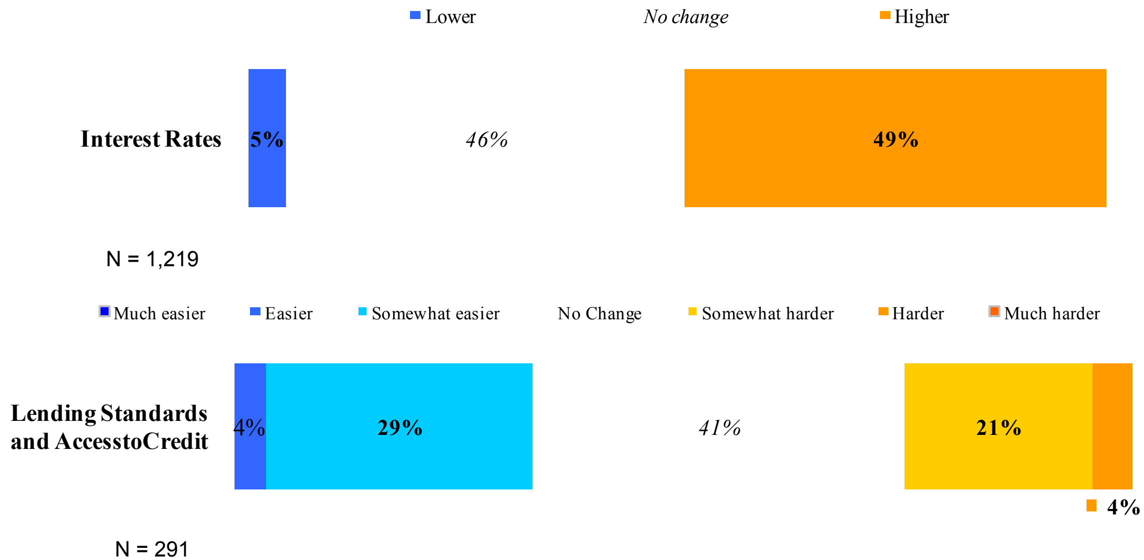
Indicators of Cost Pressure: Credit

Most finance executives expect to enjoy the same or easier access to credit while fewer executives anticipate higher interest rates in the next 12 months.

- 70% expect the same or easier access to credit in the next 12 months.
- 49% of executives expect to operate in a higher interest rate environment in the next 12 months (down from 56% in Q2-2011).

Business Executives' Expectations on Credit

Source: Business Barometer Survey, Corporate Executive Board



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Professional Services Note