



Expectations High as Manufacturers Perform Well in Early 2004

Minnesota manufacturers performed well in early 2004 and have high expectations for the rest of the year. A random sample survey of Minnesota manufacturers conducted in July and August by the Minnesota Department of Employment and Economic Development (DEED) and the Federal Reserve Bank of Minneapolis reports that manufacturers anticipate some expansion in their investment and employment levels over the next six months, just as they did in the first half of the year.

The survey found that over three quarters of manufacturers increased or stabilized investment and employment levels in the first half of 2004. This trend should continue into the second half of the year as 83 and 87 percent, respectively, anticipate similar behavior for late 2004.

The Manufacturing Industry in Early 2004

The survey found that orders and production levels increased, and productivity and exports were growing in the first part of the year. Each of these indicators had a diffusion index well above 50, suggesting expansion. Employment and investments were also growing, although somewhat less substantially, each with an index

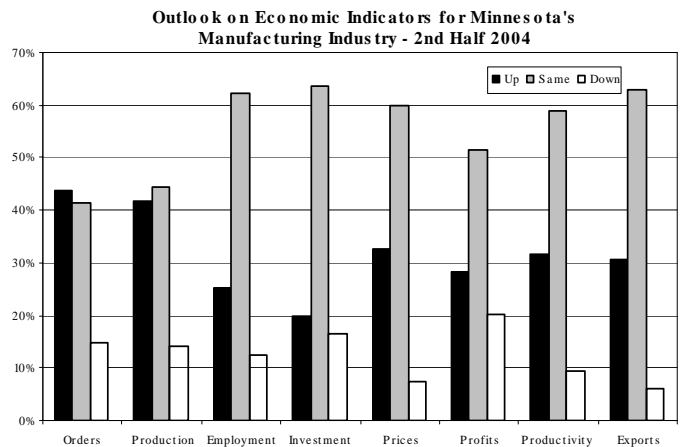
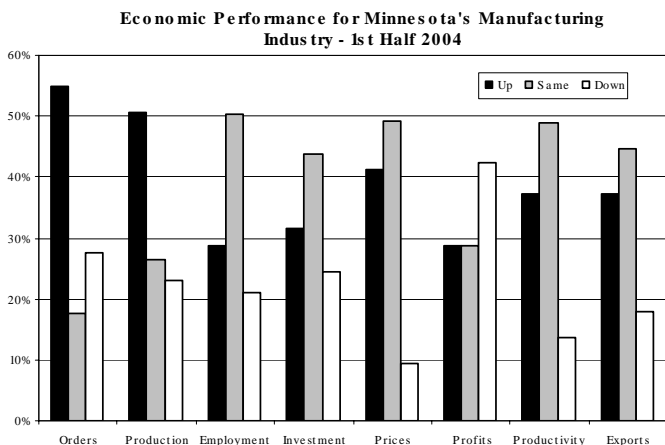
of 54. The performance of the manufacturing industry in early 2004 far exceeded that seen in early 2003.

Profits, however, did not materialize in conjunction with these improvements. Prices were higher than anticipated six months ago, which was reflected in the large percentage of manufacturers who reported declines in profits for the first half of the year. Increased productivity over the next six months may help soften the impacts of higher prices.

These results are similar to the *Manufacturing Report on Business* done nationally by the Institute for Supply Management, which concluded that the industry is growing but there are concerns about price levels.

Outlook on the Manufacturing Industry

The generally robust performance seen in early 2004 is likely to continue into the rest of the year.



Even fewer companies anticipate employment declines for the rest of 2004. And more than five out of every six manufacturers report that orders, production levels, investments and productivity are expected to grow or stabilize.

Manufacturers also do not expect profits to decline over the next six months as they did in the early part of the year. Almost 80 percent report that they do not anticipate lower profits in the second half of 2004.

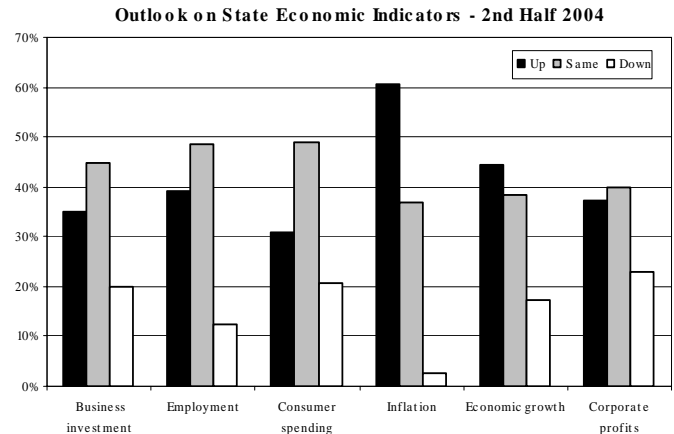
These results are good news given that past manufacturing business conditions surveys have been accurate predictors of economic activity in the industry.

Outlook on the State Economy

Manufacturer's sentiments about the state economy are also generally positive. However, increased prices and lackluster profits are reflected in concerns about future inflationary pressures. Over 60 percent of manufacturers feel inflation is moving upward which is 20

percentage points higher than reported six months ago.

Still, manufacturers see the economy growing and do not expect inflation to dampen that growth. The indices for investment, employment, profits, and consumer spending are all above 50.



Minnesota Summer 2004 Manufacturing Business Conditions Survey Results

Compared to the second half of 2003, in the first half of 2004 your location's:				Diffusion Index*	
	Up	Same	Down	Sum 2004	Sum 2003
Number of orders	55%	18%	27%	64	45
Product/service production level	51%	26%	23%	64	48
Employment level	29%	50%	21%	54	40
Investment in plant/equipment	32%	44%	25%	54	43
Prices	41%	49%	10%	66	46
Profits	29%	29%	43%	43	32
Productivity	37%	49%	14%	62	-
Exports	37%	45%	18%	60	48
Compared to the first half of 2004, during the next six months you expect your location's:				Diffusion Index*	
	Up	Same	Down	Sum 2004	Sum 2003
Number of orders	44%	41%	15%	65	65
Product/service production level	42%	44%	14%	64	64
Employment level	25%	62%	12%	56	52
Investment in plant/equipment	20%	63%	17%	52	48
Prices	33%	60%	7%	63	49
Profits	28%	51%	20%	54	48
Productivity	32%	59%	10%	61	-
Exports	31%	63%	6%	62	56
What is your outlook on the following state economic indicators during the next six months:				Diffusion Index*	
	Up	Same	Down	Sum 2004	Sum 2003
Business investment	35%	45%	20%	58	49
Employment	39%	49%	12%	63	50
Consumer spending	31%	49%	21%	55	52
Inflation	61%	37%	3%	79	62
Economic growth	45%	38%	17%	64	57
Corporate profits	37%	40%	23%	57	47

*A diffusion index greater than 50 indicates expansion, less than 50 indicates contraction. The Summer 2003 survey did not include the productivity indicator and a diffusion index is not available.

Notes: Based on responses from 245 Minnesota businesses with manufacturing on site, for a response rate of 24.5 percent. The sampling error is plus or minus 6.2 percentage points at the 95 percent confidence level. Percentages may not add to 100 percent due to rounding.

Prepared by Analysis and Evaluation, Minnesota Department of Employment and Economic Development, September 2004.