



## Minnesota Manufacturers Are Optimistic For 2017

A random sample survey of Minnesota manufacturers conducted in November by the Minnesota Department of Employment and Economic Development and the Federal Reserve Bank in Minneapolis reports that most Minnesota manufacturers expect conditions in 2017 to improve or be the same as in 2016. More than 60 percent of manufacturers anticipate unchanged employment while nearly 50 percent expect increased number of orders.

### The Manufacturing Industry in 2016

Minnesota manufacturers reported unchanged or declining conditions in 2016 compared to 2015. Sixty percent of manufacturers reported unchanged exports. Fifty-five percent reported unchanged prices and 50 percent experienced constant productivity. Additionally, 48 percent indicated unchanged employment levels. However, 47 percent experienced decreased profits compared to 33 percent the previous year. The diffusion index for this indicator was 39, lower than 50, indicating contraction.

**Economic Performance for Minnesota's Manufacturing Industry -- 2016, Compared to 2015**



### Outlook on the Manufacturing Industry

Manufacturers expect unchanged or improved conditions for the coming year. Forty-five percent of respondents expect increased productivity while 48 expect unchanged levels. The diffusion index for this indicator is 69, the highest among all economic measures considered for 2017, surpassing the threshold of 50, indicating expansion. Additionally, manufacturers are also optimistic about product/service production levels with 46 percent anticipating growth and 44 percent expecting unchanged conditions. The diffusion index for this measure is 68. Sixty-one percent of respondents expect unchanged employment levels and 56 percent expect unchanged prices.

**Outlook on Economic Performance for Minnesota's Manufacturing Industry -- 2016, Compared to 2015**



### Outlook on the State Economy

Manufacturers expect mostly unchanged conditions for next year. Fifty-five percent expect unchanged employment while 51 percent expect stable investment. Nearly half anticipate constant economic growth, consumer spending and corporate profits. Nonetheless, 60 percent expect increased inflation.

A special question inquired about the impact of the Affordable Care Act during last year. The majority of manufacturers indicated a negative impact on operating cost with 71 percent experiencing an increase. Additionally, 66 percent stated they experienced a

decrease in profits. Nonetheless, most respondents indicated no effect on automation (61 percent), prices charged to consumers (62 percent), hiring (63 percent), wages (67 percent) and outsourcing (72 percent).

### Minnesota 2016 Manufacturing Business Condition Survey Results<sup>1</sup>

Business indicators in 2015, compared to 2016:	Up	Same	Down	Diffusion Index 2016 <sup>(2)</sup>	Diffusion Index 2015 <sup>(2)</sup>
Number of orders	33%	32%	35%	49	57
Product/service production level	32%	37%	31%	51	60
Employment level	28%	48%	24%	52	51
Investment in plant/equipment	35%	37%	28%	54	60
Prices	26%	55%	18%	54	56
Profits	24%	29%	47%	39	51
Productivity	31%	50%	19%	56	66
Exports	21%	60%	19%	51	46

Labor indicators in 2016, compared to 2015:	Decrease	0%	1-2%	3-5%	6-9%	>10%
Wages per worker	2%	22%	29%	39%	4%	4%
Benefits per worker	3%	31%	21%	23%	12%	10%

Expected business indicators in 2017, compared to 2016:	Up	Same	Down	Diffusion Index 2016 <sup>(2)</sup>	Diffusion Index 2015 <sup>(2)</sup>
Number of orders	49%	37%	15%	67	65
Product/service production level	46%	44%	11%	68	64
Employment level	30%	61%	9%	61	59
Investment in plant/equipment	37%	45%	18%	59	55
Prices	36%	56%	8%	64	61
Profits	38%	42%	21%	58	59
Productivity	45%	48%	7%	69	69
Exports	25%	64%	12%	57	60

Expected labor indicators in 2017, compared to 2016:	Decrease	0%	1-2%	3-5%	6-9%	>10%
Wages per worker	0%	19%	37%	41%	0%	2%
Benefits per worker	3%	32%	27%	25%	7%	7%

Expected outlook on the following state economic indicators during the next year:	Up	Same	Down	Diffusion Index 2016 <sup>(2)</sup>	Diffusion Index 2015 <sup>(2)</sup>
Business Inv.	32%	51%	17%	57	52
Employment	32%	55%	13%	59	54
Consumer spending	32%	48%	20%	56	47
Inflation	60%	38%	2%	79	75
Economic growth	37%	49%	14%	62	50
Corp. profits	32%	48%	20%	56	47

What has been the effect of the Affordable Care Act on your business last year?:	Increase	No Effect	Decrease	Don't Known
Operating cost	71%	24%	3%	2%
Prices charged to consumers	30%	62%	3%	4%
Hiring	6%	63%	28%	3%
Wages	14%	67%	15%	3%
Employment health benefits	35%	34%	27%	4%
Outsourcing	15%	72%	3%	9%
Profits	1%	30%	66%	2%
Automation	24%	61%	4%	11%

(1) Based on responses from 262 Minnesota manufacturing businesses, for a response rate of 26.2 percent. The sampling error is plus or minus 6.0 percentage points at the 95 percent confidence level. Percentages may not add to 100 percent due to rounding.

(2) A diffusion index great than 50 indicates expansion, less than 50 indicates contraction.