



Minnesota Manufacturers Anticipate a Robust Early 2004

Reflecting sentiment seen nationally, Minnesota manufacturers anticipate robust growth in early 2004. A random sample survey of Minnesota manufacturers conducted in January and February by the Minnesota Department of Employment and Economic Development (DEED) and the Federal Reserve Bank of Minneapolis reports diffusion indices solidly above 50 for almost every economic indicator for early 2004. A diffusion index greater than 50 suggests expansion.

The survey found that a rebound in manufacturing employment is increasingly likely. The diffusion index for employment over the next six months increased to 57, continuing a trend begun in the Summer 2003 survey. This result closely follows the *Manufacturing Report on Business* done nationally by the Institute for Supply Management, which concluded that growth is expected in manufacturing employment.

The Manufacturing Industry in Late 2003

The industry's expectations for late 2003, as reported in the Summer 2003 survey, were more than met according to the current survey. Minnesota manufacturers reported greater than

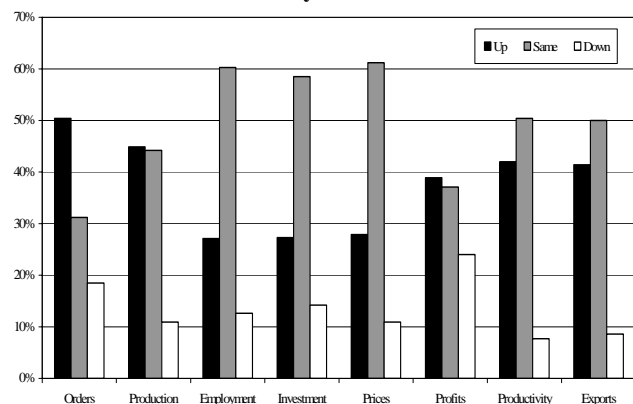
expected increases in employment, investments, and exports, while essentially meeting expectations for orders, production levels and profits. The growth in exports is consistent with increases seen in DEED's Quarterly Export Statistics report of March 2004.

Overall, the diffusion indices are above 50 for most categories, suggesting some growth in late 2003 occurred. The only reported weakness was in the category of profits.

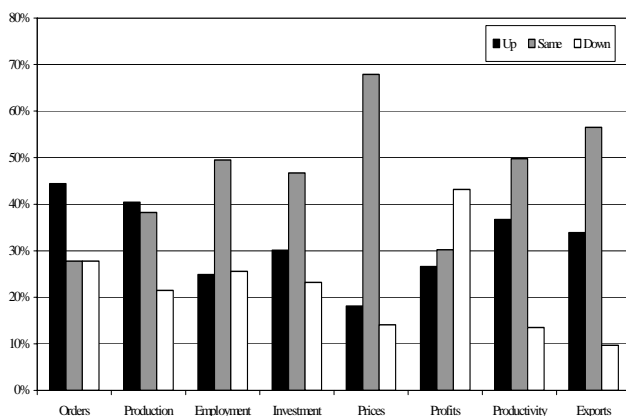
Outlook on the Manufacturing Industry

Two notable harbingers of manufacturing activity, orders and production levels, reflect

Outlook on Economic Indicators for Minnesota's Manufacturing Industry - First Half 2004



Economic Performance of Minnesota's Manufacturing Industry - Second Half 2003



a rosier outlook than in the past. Fifty percent of manufacturers expect orders to increase in early 2004, a response 12 percentage points higher than one year ago. Similarly, four times as many manufacturers believe that production levels will increase compared to those expecting decreases.

Other categories also suggest impressive gains. About twice as many manufacturers expect increased employment levels and investment as expect decreases. And of those manufacturers

who export, 41 percent anticipate increased trade abroad. The employment expectations are consistent with findings from DEED's most recent Minnesota Job Vacancy Survey.

Solid increases in productivity in late 2003, and strong anticipated increases in early 2004, have likely delayed substantial employment gains. Increased productivity suggests manufacturers have been able to increase production without hiring new workers.

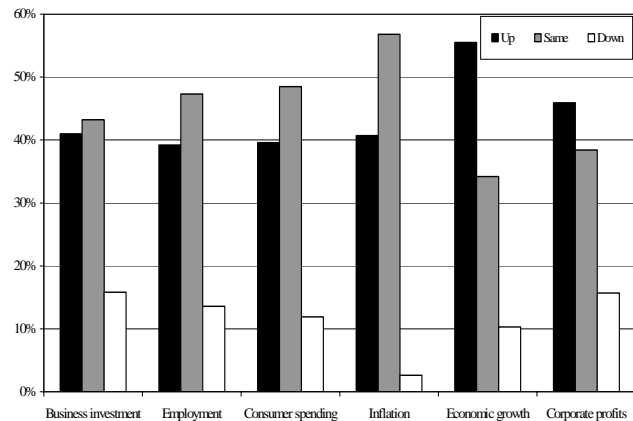
Outlook on the State Economy

Manufacturers in the state are equally optimistic concerning the overall state economy. More than half expect increases in the state's economic growth - a response 22 percentage points higher than six months ago. More than three times as many manufacturers feel consumer spending will increase as opposed to decrease, and those

expecting corporate profits to increase jumped 18 percentage points from expectations last summer.

The diffusion indices for every economic indicator concerning the state suggest a robust optimism and generally positive outlook for 2004.

Outlook on State Economic Indicators - First Half 2004



Minnesota Winter 2004 Manufacturing Business Conditions Survey Results

Compared to the first half of 2003, in the second half of 2003 your location's:				Diffusion Index*	
	<u>Up</u>	<u>Same</u>	<u>Down</u>	Wtr 2004	Wtr 2003
Number of orders	45%	28%	28%	58	42
Product/service production level	41%	38%	21%	60	44
Employment level	25%	49%	26%	50	39
Investment in plant/equipment	30%	47%	23%	53	41
Prices	18%	68%	14%	52	43
Profits	27%	30%	43%	42	32
Productivity	37%	50%	13%	62	n/a
Exports	34%	56%	10%	62	44
Compared to the second half of 2003, during the next six months you expect your location's:				Diffusion Index*	
	<u>Up</u>	<u>Same</u>	<u>Down</u>	Wtr 2004	Wtr 2003
Number of orders	51%	31%	18%	66	57
Product/service production level	45%	44%	11%	67	56
Employment level	27%	60%	13%	57	48
Investment in plant/equipment	28%	58%	14%	57	46
Prices	28%	61%	11%	59	47
Profits	39%	37%	24%	58	45
Productivity	42%	50%	8%	67	n/a
Exports	41%	50%	9%	66	53
What is your outlook on the following state economic indicators during the next six months:				Diffusion Index*	
	<u>Up</u>	<u>Same</u>	<u>Down</u>	Wtr 2004	Wtr 2003
Business investment	41%	43%	16%	63	40
Employment	40%	47%	14%	63	40
Consumer spending	40%	48%	12%	64	33
Inflation	41%	57%	3%	69	61
Economic growth	56%	34%	10%	73	46
Corporate profits	46%	38%	16%	65	36

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

Notes: Based on responses from 279 Minnesota businesses with manufacturing on site, for a response rate of 28 percent. The sampling error is plus or minus 5.8 percentage points at the 95 percent confidence level. Percentages may not add to 100 percent due to rounding.