



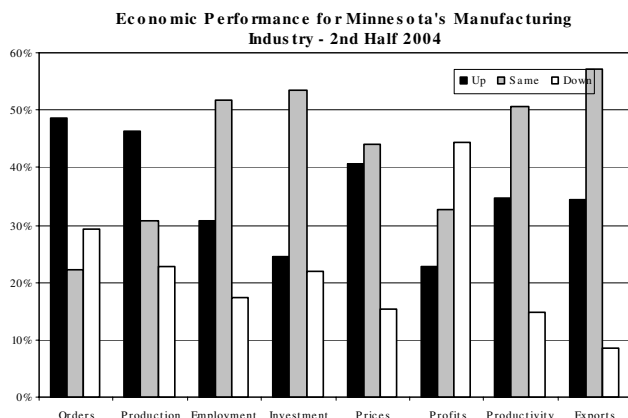
Manufacturers Expect Continued Growth in Early 2005

Economic activity in Minnesota's manufacturing industry grew in late 2004, a trend begun over a year ago and expected to continue into 2005. 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 that the percentage of manufacturers that experienced growth in orders, production levels, employment, productivity and exports increased in late 2004, and similar activity is expected into 2005. Profit levels are a concern as manufacturers report that profits didn't reach levels anticipated six months ago.

For the first time, the survey also questioned manufacturers about trade issues. Respondents reported that recent changes in the value of the dollar caused 15 percent of them to increase exports while only 7 percent indicated decreased imports. The vast majority of respondents reported that the change in the dollar did not fuel changes in their imports or exports.

The Manufacturing Industry in Late 2004

The economic performance of Minnesota's manufacturers was generally strong in the second half of 2004. In particular, employment

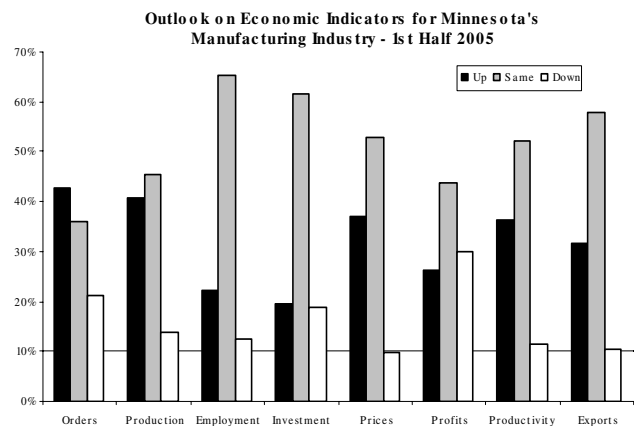


continues to grow. There was also growth in activities such as production levels, number of orders and productivity. Each of these indicators had a diffusion index above 50, suggesting expansion. However the percentage of manufacturers with increases in investments remained low, and profits were considerably less than had been expected six months ago as they faced price increases.

The Institute for Supply Management, which surveys manufacturers across the nation, found similar results in February of this year. Manufacturing continues to expand but growth has slowed as prices were found to be a challenge to the industry.

Outlook on the Manufacturing Industry

Manufacturers believe bullish conditions will continue through the first half of the year. Three



times as many manufacturers anticipate increases rather than decreases in production levels, productivity and exports. And twice as many expect orders to increase rather than decrease. Fewer manufacturers expect profit declines as 2005 moves forward, but they also do not foresee increases. Employment is expected to remain at

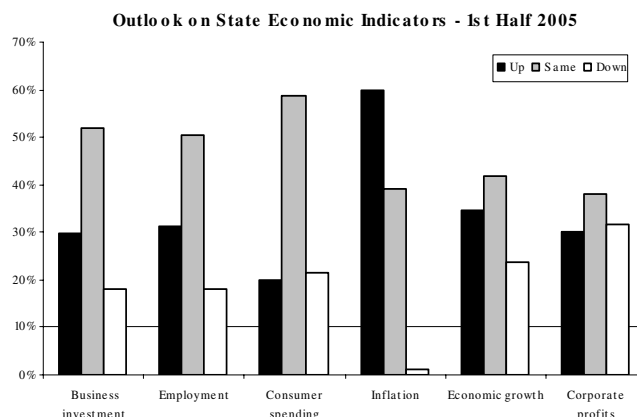
current levels, although 22 percent of manufacturers expect increases versus 13 percent who expect decreases, yielding overall expansion in employment. All other indicators are expected to expand as they did in late 2004, although investment activity will continue to be surprisingly low.

Outlook on the State Economy

Minnesota manufacturers are cautiously optimistic concerning the state's economic performance over the next six months.

About a third of respondents feel Minnesota's business investment, employment, economic growth levels will increase over the next six months, yielding an overall expectation of growth for these indicators. Yet, a majority of

manufacturers feel inflation is likely to increase – a concern that has been pervasive for the past year. The majority of manufacturers also report they expect consumer spending to remain constant, and they were divided on whether corporate profits would increase, remain the same, or decrease.



Minnesota Winter 2005 Manufacturing Business Conditions Survey Results

Compared to the first half of 2004, in the second half of 2004 your location's:				Diffusion Index*	
	Up	Same	Down	Wtr 2005	Wtr 2004
Number of orders	49%	22%	29%	60	58
Product/service production level	46%	31%	23%	62	59
Employment level	31%	52%	17%	57	50
Investment in plant/equipment	25%	54%	22%	51	53
Prices	41%	44%	15%	63	52
Profits	23%	33%	44%	39	42
Productivity	35%	51%	15%	60	62
Exports	34%	57%	9%	63	62
Compared to the second half of 2004, during the next six months you expect your location's:				Diffusion Index*	
	Up	Same	Down	Wtr 2005	Wtr 2004
Number of orders	43%	36%	21%	61	66
Product/service production level	41%	45%	14%	64	67
Employment level	22%	65%	13%	55	57
Investment in plant/equipment	20%	62%	19%	50	57
Prices	37%	53%	10%	64	59
Profits	26%	44%	30%	48	57
Productivity	36%	52%	12%	62	67
Exports	32%	58%	11%	61	66
What is your outlook on the following state economic indicators during the next six months:				Diffusion Index*	
	Up	Same	Down	Wtr 2005	Wtr 2004
Business investment	30%	52%	18%	56	63
Employment	31%	51%	18%	57	63
Consumer spending	20%	59%	21%	49	64
Inflation	60%	39%	1%	79	69
Economic growth	35%	42%	24%	55	73
Corporate profits	30%	38%	32%	49	65
Has the recent change in the value of the dollar affected your quantity of:				Diffusion Index*	
	Up	Same	Down	Wtr 2005	Wtr 2004
Exports	15%	78%	7%	54	-
Imports	10%	69%	21%	45	-

*A diffusion index greater than 50 indicates expansion, less than 50 indicates contraction.

Notes: Based on responses from 202 Minnesota businesses with manufacturing on site, for a response rate of 20.2 percent. The sampling error is plus or minus 6.8 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, March 2005.