



Minnesota Manufacturers Enthusiastic About Growth in 2006

Manufacturers are enthusiastic about their business outlook for 2006, even as they express caution about the overall state economy. A random sample survey of Minnesota manufacturers conducted in November by the Minnesota Department of Employment and Economic Development (DEED) and the Federal Reserve Bank of Minneapolis reports that manufacturers experienced growth in almost every indicator in 2005, although profits continued to be suppressed during the time period. The outlook for 2006 is even more positive with expectations of substantial growth and stability. Notably, profits are expected to jump in comparison to 2005, and the pattern of growth already seen in employment, orders, productivity, capital investment, and production levels will continue or strengthen.

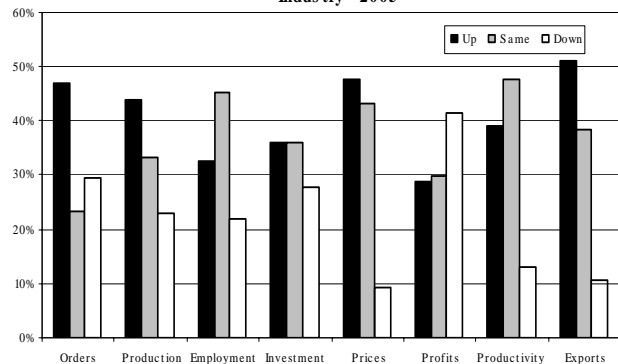
The survey also questioned manufacturers about the topical issues of hurricanes and foreign suppliers. About one fifth indicated Hurricanes Katrina or Rita had slowed profit growth in 2005 and would likely affect profits in 2006, however a small number will see increased business due those events. About a quarter of respondents reported they are increasingly using foreign suppliers, but the vast majority of Minnesota manufacturers have not. Comments from respondents included concerns about energy prices and health care costs.

The Manufacturing Industry in 2005

The year 2005 was generally good to Minnesota manufacturers. Growth was reported in productivity, orders, production levels, employment and capital investments. Each of these indicators had a diffusion index above 50, indicating expansion. The Institute for Supply Management, which surveys manufacturers across the nation, found similar results in

November of this year. However, this growth did not translate into profits as price increases and higher energy costs had to be absorbed or

Economic Performance for Minnesota's Manufacturing Industry - 2005

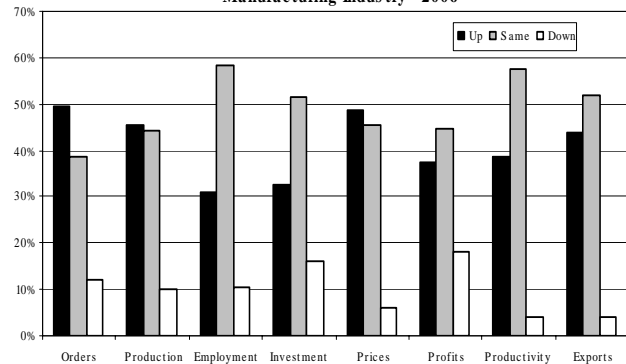


dispersed. This lack of profit growth has not dampened the industry's spirits. Their outlook for 2006 is bright and they expect an overall strong performance.

Outlook on the Manufacturing Industry for 2006

Minnesota manufacturers anticipate expansion in 2006. The diffusion indices for the industry are

Outlook on Economic Indicators for Minnesota's Manufacturing Industry - 2006



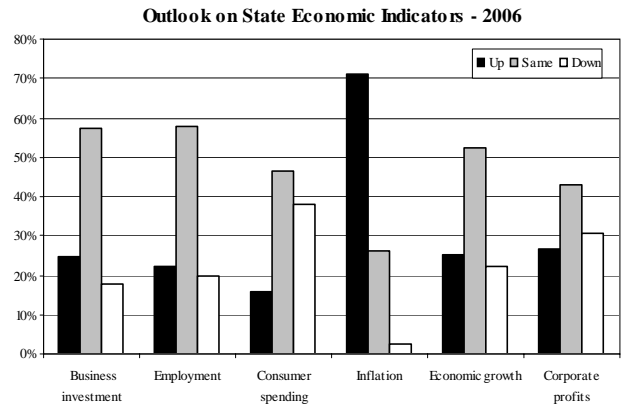
at their highest levels in the past four years. This enthusiasm is noticeable with regard to profits, an indicator that in previous surveys has reflected expectations of contraction. Clearly, that has

changed and manufacturers expect a solid performance in 2006. This is reflected in the large percentage of respondents which expect orders and production levels to increase.

Outlook on the State Economy

Manufacturers in Minnesota are cautious about the state's overall economic performance in 2006. Responses to indicators on employment, investment, and economic growth suggest future expansion, but they do so only slightly. Over half of respondents expect these three indicators to remain the same. Meanwhile consumer spending and corporate profits are expected to be down, and a substantial portion of manufacturers feel inflation will increase in Minnesota. When compared to the diffusion indices compiled in

January and February of 2005, there appears to be mildly less optimism. This slightly more somber view of the state economy compared to expectations for the manufacturing industry itself, suggests that businesses will be sensitive to any fluctuations in the economy and will adapt accordingly.



Minnesota 2005 Manufacturing Business Conditions Survey Results

Compared to 2004, in 2005 your location's:	<u>Up</u>	<u>Same</u>	<u>Down</u>	Diffusion Index*	
	2005	2005	2005	2005	Wtr 2005
Number of orders	47%	23%	30%	59	60
Product/service production level	44%	33%	23%	60	62
Employment level	33%	45%	22%	55	57
Investment in plant/equipment	36%	36%	28%	54	51
Prices	48%	43%	9%	69	63
Profits	29%	30%	41%	44	39
Productivity	39%	48%	13%	63	60
Exports	51%	38%	11%	70	63
Compared to 2005, during 2006 you expect your location's:					
	<u>Up</u>	<u>Same</u>	<u>Down</u>	Diffusion Index*	
	2005	2005	2005	2005	Wtr 2005
Number of orders	49%	39%	12%	69	61
Product/service production level	46%	44%	10%	68	64
Employment level	31%	58%	11%	60	55
Investment in plant/equipment	33%	51%	16%	58	50
Prices	48%	45%	6%	71	64
Profits	38%	45%	18%	60	48
Productivity	38%	58%	4%	67	62
Exports	44%	52%	4%	70	61
What is your outlook on the following state economic indicators during the next year:					
	<u>Up</u>	<u>Same</u>	<u>Down</u>	Diffusion Index*	
	2005	2005	2005	2005	Wtr 2005
Business investment	25%	57%	18%	53	56
Employment	22%	58%	20%	51	57
Consumer spending	16%	47%	38%	39	49
Inflation	71%	26%	3%	84	79
Economic growth	25%	52%	22%	52	55
Corporate profits	26%	43%	30%	48	49
The aftermath of Hurricanes Katrina or Rita will affect your profits in:					
	<u>Up</u>	<u>Same</u>	<u>Down</u>	Diffusion Index*	
	2005	2005	2005	2005	Wtr 2005
2005	4%	76%	21%	41	na
2006	9%	70%	21%	44	na
How has the share of your foreign supplier purchases changed compared to domestic purchases in:					
	<u>Up</u>	<u>Same</u>	<u>Down</u>	Diffusion Index*	
	2005	2005	2005	2005	Wtr 2005
2004	23%	71%	6%	59	na
2005	28%	66%	6%	61	na
2006	29%	66%	5%	62	na

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

Notes: Based on responses from 232 Minnesota businesses with manufacturing on site, for a response rate of 23.2 percent. The sampling error is plus or minus 5.6 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, December 2005.