



## Minnesota Manufacturers Continue To Expand Despite Signs of National Slowdown

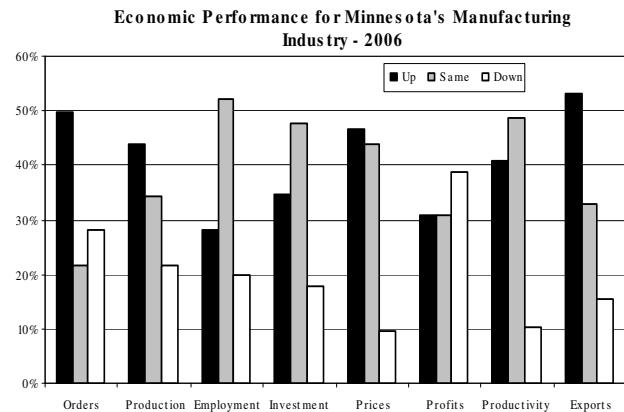
Minnesota manufacturers are enthusiastic about their business outlook for 2007, in spite of the tightening labor market and a slowing housing market. A random sample survey of Minnesota manufacturers conducted in November by the Minnesota Department of Employment and Economic Development (DEED) and the Federal Reserve Bank of Minneapolis reports that manufacturers experienced growth in 2006 similar to that seen in 2005, although profits continued to be a concern. But the profit picture is expected to brighten in 2007 with increased orders and productivity.

Since manufacturing employment grew in 2006, the survey also questioned manufacturers about the skill levels and availability of job applicants in their area. Over two thirds indicated the skill set of their applicants was appropriate for the job while a quarter felt they were under-skilled. The quantity of available workers is more of a concern. About half feel stretched with regard to finding workers, and about 40 percent indicate availability is quite low. Meanwhile, the housing market has impacted the profit levels of a quarter of respondents.

### The Manufacturing Industry in 2006

The growth in Minnesota's manufacturing activity reported in 2005 continued in 2006. Orders and exports were up, and investments in plant and equipment expanded slightly more than that seen in 2005. Likewise, productivity grew somewhat more than last year, and employment levels remained stable or slightly higher. Each of these indicators had a diffusion index above 50, indicating expansion. But profits continued to be sluggish in 2006 with an almost equal portion of

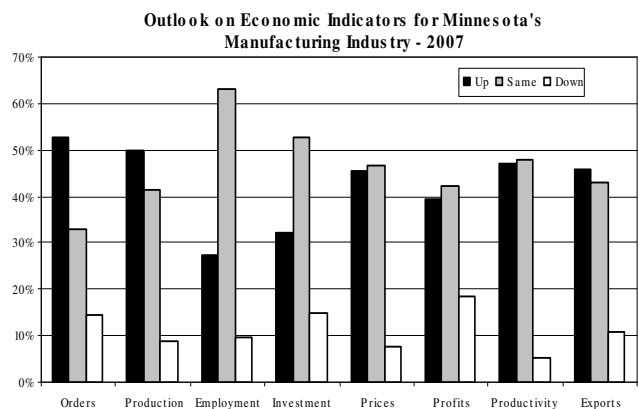
manufacturers either contracting or expanding in this category. However, Minnesota manufacturers may be better off than the average U.S. manufacturer. The Institute for Supply Management (ISM) surveys member purchasing and supply executives each month and in



November found the industry had contracted for the first time since early 2003. It appears this mild downturn is something Minnesota manufacturers are not expecting.

### Outlook on the Manufacturing Industry

Expectations for 2007 are upbeat with economic indicators registering growth across the board.

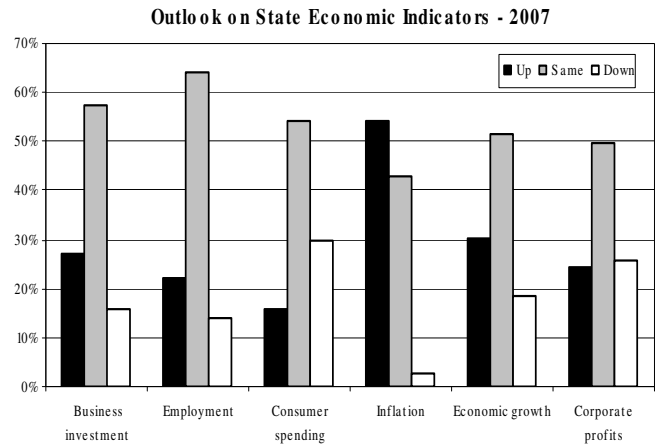


Orders are expected to increase, translating into increased production levels, prices and productivity. Employment levels and capital investments will increase slightly, resulting in profit growth for the year.

### Outlook on the State Economy

Manufacturers in Minnesota are cautious about the state economy in 2007. Inflation is expected to expand, but the concern it raises is slightly less than that reported by respondents last year. Similarly, corporate profits for all Minnesota businesses are expected to contract mildly, and consumer spending is expected to be slow. However, employment, investment, and economic growth will likely expand.

There appears to be more optimism overall than that seen in the survey done at the end of 2005 as manufacturers took a wait-and-see stance a year ago.



### Minnesota 2006 Manufacturing Business Conditions Survey Results

Compared to 2005, in 2006 your location's:				Diffusion Index*	
	Up	Same	Down	2006	2005
Number of orders	50%	22%	29%	61	59
Product/service production level	44%	34%	22%	60	60
Employment level	28%	52%	20%	54	55
Investment in plant/equipment	34%	48%	18%	58	54
Prices	47%	44%	10%	68	69
Profits	30%	31%	39%	46	44
Productivity	41%	49%	10%	65	63
Exports	54%	31%	15%	69	70
Compared to 2006, during 2007 you expect your location's:				Diffusion Index*	
Number of orders	53%	33%	14%	69	69
Product/service production level	50%	42%	9%	71	68
Employment level	27%	63%	10%	59	60
Investment in plant/equipment	32%	53%	15%	59	58
Prices	46%	47%	8%	69	71
Profits	39%	42%	18%	60	60
Productivity	47%	48%	5%	71	67
Exports	46%	43%	11%	68	70
What is your outlook on the following state economic indicators during the next year:				Diffusion Index*	
Business investment	27%	57%	16%	56	53
Employment	22%	64%	14%	54	51
Consumer spending	16%	54%	30%	43	39
Inflation	54%	43%	3%	76	84
Economic growth	30%	51%	18%	56	52
Corporate profits	25%	50%	26%	49	48
How do you expect the housing market will affect: Your profits in 2007	Up	Same	Down		
	5%	70%	25%		
How would you characterize the availability of workers you seek to hire in your area?	High	Adequate	Modest	Low	
	4%	42%	12%	42%	
Which of the following best describes the skill level of the applicants you seek to hire?	Over-skilled	Appropriate Skills	Under-skilled		
	3%	72%	25%		

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

Notes: Based on responses from 176 Minnesota businesses with manufacturing on site, for a response rate of 17.6 percent. The sampling error is plus or minus 7.3 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 2006.