



Minnesota's Manufacturing Industry Shows No Signs of Slowing

Despite challenging operational conditions for many manufacturing industries, most Minnesota manufacturers are confident about 2008. The majority indicate few signs of slowing and expect the growth they've experienced to continue into next year. 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 Minnesota's manufacturers experienced steady economic growth in 2007, similar to that in 2006. They also expect further growth in 2008 despite the struggling housing and credit markets that have hampered the economy. However, this optimism is tempered by significant concern about expected declines in the overall state economy.

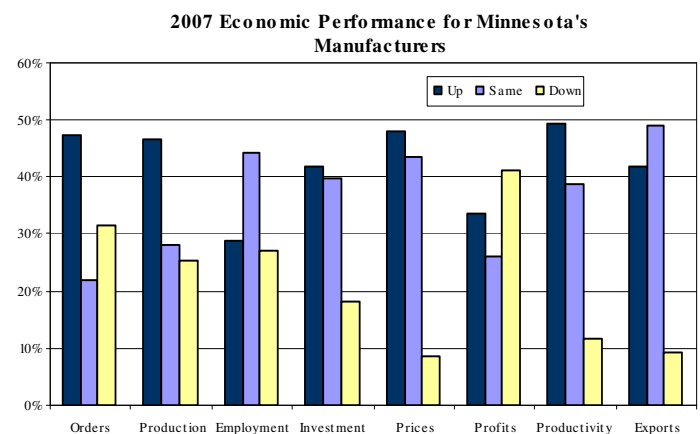
The Manufacturing Industry in 2007

Minnesota manufacturers reported a relatively strong 2007. Significant employment and profit growth elude the industry, but increases in orders, productivity and production levels appear to mitigate some of those effects. Each of those indicators had a diffusion index above 50, indicating expansion. Similarly, over 90 percent of those that export reported that exports have grown or remained steady.

Prices are also an issue for manufacturers. Respondents cite concerns about energy prices, import costs due to changes in the exchange rate, taxes and competition from China – but their overall performance continues to be steady.

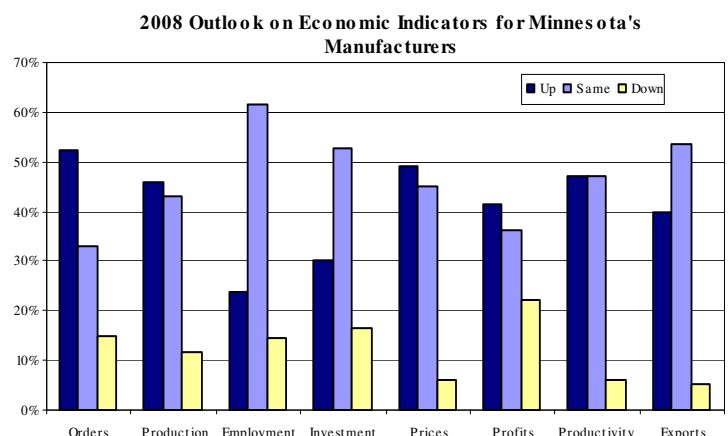
These results are similar to the performance of manufacturers nationally. The Institute for

Supply Management's *Manufacturing Report on Business* also found that economic activity in this sector has expanded, with increases in orders and production levels in particular.



Outlook on the Manufacturing Industry

Further gains are anticipated for 2008 as Minnesota's manufacturers are optimistic that the year will yield solid growth. Each of the survey indicators suggested expansion. Orders, production levels and productivity are expected to expand and produce mild employment growth.

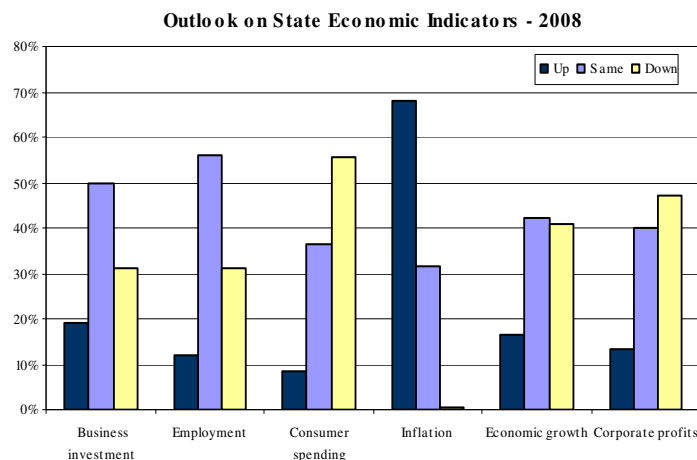


Moreover, 94 percent foresee exports growing or remaining stable, and profits are expected to increase as well.

Outlook on the State Economy

While manufacturers in Minnesota may be experiencing positive economic activity themselves, they indicate significant apprehension about the state economy in 2008. Few manufacturers expect consumer spending, economic growth, and profits to expand. Meanwhile a majority believe inflation will increase, and about half expect stable business investment and overall employment. This compares to the moderate growth that was predicted for 2007 by respondents to last year's

survey. But again, this bleak outlook contrasts with the growth expectation they indicate for themselves and may reflect some of the volatility that has plagued other areas of the economy.



Minnesota 2007 Manufacturing Business Conditions Survey Results

Compared to 2006, in 2007 your location's:	Up	Same	Down	Diffusion Index*	
				2007	2006
Number of orders	47%	22%	31%	58	60
Product/service production level	46%	28%	25%	60	60
Employment level	29%	44%	27%	51	54
Investment in plant/equipment	42%	40%	18%	62	58
Prices	48%	44%	9%	70	68
Profits	34%	26%	41%	46	45
Productivity	49%	39%	12%	69	64
Exports	42%	49%	9%	66	69
Compared to 2007, during 2008 you expect your location's:	Up	Same	Down	Diffusion Index*	
				2007	2006
Number of orders	52%	33%	15%	68	68
Product/service production level	46%	43%	12%	67	69
Employment level	24%	62%	14%	55	58
Investment in plant/equipment	30%	53%	17%	57	58
Prices	49%	45%	6%	72	67
Profits	41%	36%	22%	59	59
Productivity	47%	47%	6%	70	69
Exports	40%	54%	5%	68	68
What is your outlook on the following state economic indicators during the next year:	Up	Same	Down	Diffusion Index*	
				2007	2006
Business investment	19%	50%	31%	44	54
Employment	12%	56%	31%	41	53
Consumer spending	8%	36%	55%	26	42
Inflation	68%	31%	1%	84	74
Economic growth	16%	42%	41%	38	55
Corporate profits	13%	40%	47%	33	48
How will the availability of industrial real estate change in 2008?	Increase	No change	Decrease		
	40%	52%	8%		

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

Notes: A total of 245 surveys were received for a response rate of 24.5 percent. Of those, 57 indicated they did not have manufacturing on site, yielding 188 surveys and a usable response rate of 18.8 percent. The sampling error is plus or minus 7.1 percentage points at the 95 percent confidence level. Percentages may not add to 100 percent due to rounding.

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