Minnesota
Manufacturing Business Conditions Survey
Contact Val Vannett (651-259-7186) for more information
positively Minnesota
Department of Employment and Economic Development
Year End 2008

Manufacturing Slowdown to Continue into 2009

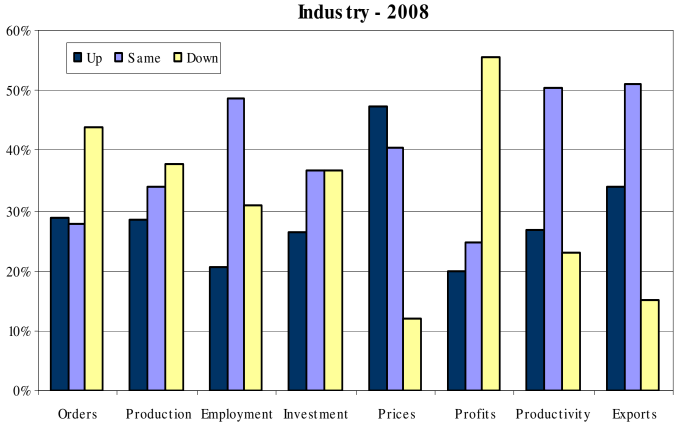
Economic activity in Minnesota's manufacturing industry diminished in 2008, and the decline is expected to continue into 2009.

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 just over half of Minnesota's manufacturers experienced declining profits in 2008. This will likely continue into 2009 as orders and investments continue to slow.

The Manufacturing Industry in 2008

Manufacturing orders, production levels, employment, and investment declined in 2008. Each of these indicators had a diffusion index below 50, denoting contraction. Further, profits were down for 55 percent of manufacturers. This indicator denoted contraction more than any other. Despite these challenges, productivity and exports expanded slightly indicating improved competitiveness.

Economic Performance for Minnesota's Manufacturing Industry - 2008



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 had contracted.

Manufacturers in the state were also questioned about their experiences with the credit market over the past few months. About 18 percent indicated their access to bank credit had been affected by the turmoil, and about a third had tightened credit requirements for their customers. Of those whose access to bank credit has deteriorated, it was most likely that deterioration took the form of lowered credit ceilings.

Minnesota 2008 Manufacturing Business Conditions Survey Results - Credit Conditions

Has your company's access to bank credit deteriorated over the last 3 months?				
Yes, a lot	Yes, some	No	N/A	
7%	11%	65%	18%	
If yes, why? (check all that apply)				
Your firm's financial condition	Your industry's financial condition	Your bank's financial condition	Overall credit market conditions	
59%	32%	29%	76%	
If yes, how has your access to credit changed? (check all that apply)				
Higher cost for credit	Lower credit ceilings	Elimination of previous credit	Other	
35%	59%	21%	21%	
Has tighter credit negatively affected your firm's future plans for: (check for "yes")				
Hiring	Capital expenditures	Expansion	Inventory levels	Other
19%	27%	26%	22%	4%
Has your firm tightened credit requirements for your customers? (check all that apply)				
Yes, tighter requirments	Yes, higher cost for credit	Yes, shorter repayment periods	No	N/A
35%	3%	10%	53%	5%
Have suppliers tightened credit requirements for your company? (check all that apply)				
Yes, tighter requirments	Yes, higher cost for credit	Yes, shorter repayment periods	No	N/A
26%	5%	17%	63%	2%

Notes: A total of 246 surveys were received for a response rate of 24.6 percent. Of those, 53 indicated they did not have manufacturing on site, yielding 193 surveys and a usable response rate of 19.3 percent. The sampling error is plus or minus 6.9 percentage points at the 95 percent confidence level. Percentages may not add to 100 percent due to rounding.

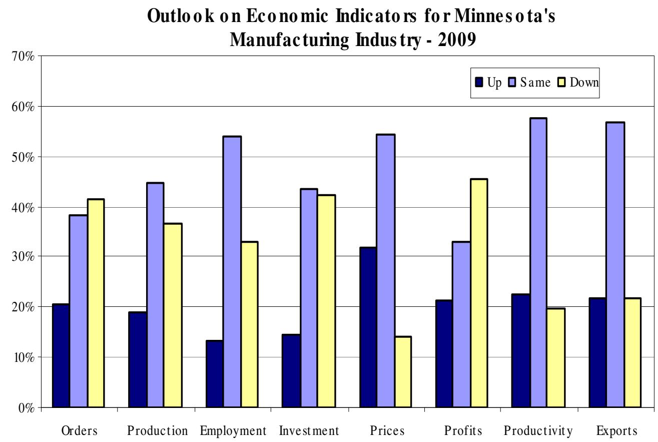
Prepared by Analysis and Evaluation, Minnesota Department of Employment and Economic Development, December 2008.

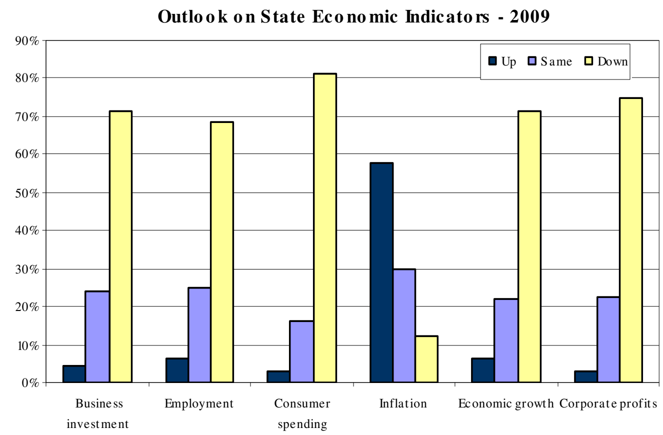
Outlook on the Manufacturing Industry

A further slowdown is anticipated for 2009 as Minnesota's manufacturers expect contractions in orders, production level and employment similar to that seen in 2008. About 42% expect a decline in investment for 2009, reflecting increased uncertainty related to economic conditions. However, profit declines may slow compared to 2008.

Outlook on the State Economy

Manufacturers in Minnesota foresee bleak economic activity for the state as a whole and there is significant apprehension about the state economy in 2009. A large majority expect business investment, employment, consumer spending, economic growth, and profits to decline. Meanwhile a majority believe inflation will increase.





Minnesota 2008 Manufacturing Business Conditions Survey Results

Compared to 2007, in 2008 your location's:	Up	Same	Down	Diffusion Index* 2008	Diffusion Index* 2007
Number of orders	29%	28%	44%	42	58
Product/service production level	29%	34%	38%	46	60
Employment level	21%	49%	31%	45	51
Investment in plant/equipment	26%	37%	37%	45	62
Prices	47%	41%	12%	68	70
Profits	20%	25%	55%	32	46
Productivity	27%	50%	23%	52	69
Exports	34%	51%	15%	59	66

Compared to 2008, during 2009 you expect your location's:	Up	Same	Down	Diffusion Index* 2008	Diffusion Index* 2007
Number of orders	21%	38%	41%	40	68
Product/service production level	19%	45%	37%	41	67
Employment level	13%	54%	33%	40	55
Investment in plant/equipment	14%	43%	42%	36	57
Prices	32%	54%	14%	59	72
Profits	21%	33%	45%	38	59
Productivity	23%	58%	20%	51	70
Exports	22%	57%	22%	50	68

What is your outlook on the following state economic indicators during the next year:	Up	Same	Down	Diffusion Index* 2008	Diffusion Index* 2007
Business investment	4%	24%	72%	16	44
Employment	7%	25%	68%	19	41
Consumer spending	3%	16%	81%	11	26
Inflation	58%	30%	12%	73	84
Economic growth	7%	22%	72%	17	38
Corporate profits	3%	23%	75%	14	33

Thinking about the next FIVE YEARS, how does your organization plan to deal with any vacancies left by employees who retire? (Circle all that apply.)	
Not fill the vacancies	21%
Not fill the vacancies, but add jobs elsewhere in the organization	5%
Partially fill the vacancies with part-time or temporary workers	14%
Partially fill the vacancies and add jobs elsewhere in the organization	11%
Fill the vacancies at an equivalent or higher salary	41%
Outsource work that is currently being done within your organization	7%

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

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