

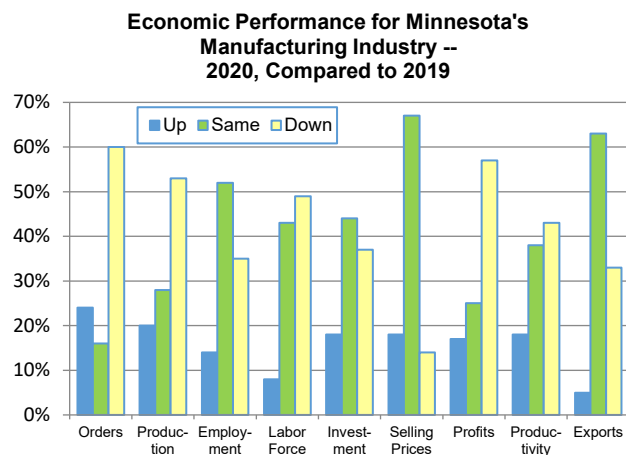


Manufacturers Expect Lingering Pandemic Conditions for 2021

A random sample survey of Minnesota manufacturers conducted from November 2020-January 2021 by the Minnesota Department of Employment and Economic Development and the Federal Reserve Bank of Minneapolis reports that Minnesota manufacturers expect impacts of COVID-19 to linger in 2021. Fifty-seven percent expect unchanged labor availability while 55% anticipate unchanged investment in equipment compared to 2020.

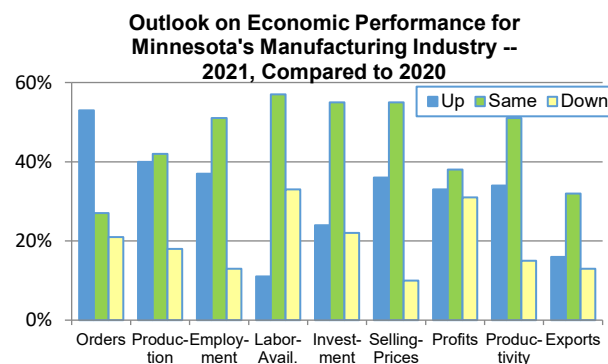
The Manufacturing Industry in 2020

Minnesota manufacturers described contracting conditions in 2020. Sixty percent of respondents indicated a decline in number of orders and 57% experienced a drop in profits. Additionally, 53% reported a reduced production level. However, 52% indicated stable employment level and 67% reported unchanged selling prices. Declining conditions were confirmed by diffusion indices, most of which were below 50, indicating contraction.



Outlook for the Manufacturing Industry

Minnesota manufacturers expect mostly unchanged conditions in 2021. Fifty-seven percent anticipate unchanged labor force availability and 55% expect constant investment in plant/equipment. Fifty-one percent expect no changes in productivity and employment level. Nonetheless, 53% anticipate an increase in number of orders, suggesting cautious optimism. Fifty-two percent expect to return to normal operations in six months or more.



Outlook on the State Economy

Minnesota manufacturers expect pandemic lingering conditions for 2021. Forty-four percent expect unchanged consumer spending, while 42% anticipate constant investment and employment. Thirty-seven percent expect a decline in corporate profits, compared to 31% that anticipate no changes.

The diffusion indexes for corporate profits and consumer spending were below 50 suggesting contraction. Diffusion indexes for business investment and economic growth were 50 and 51, respectively, indicating unchanged conditions from 2020.

Table 1. Minnesota 2021 Manufacturing Business Condition Survey Results¹

Business indicators in the last 4 quarters:	Up	Same	Down	Diffusion Index 2021 ⁽²⁾	Diffusion Index 2020 ⁽²⁾
Number of orders	24%	16%	60%	32	55
Production level	20%	28%	53%	34	56
Employment level	14%	52%	35%	40	51
Labor availability	8%	43%	49%	30	n/a
Investment plant/equipment	18%	44%	37%	40	61
Selling prices	18%	67%	14%	52	64
Profits	17%	25%	57%	30	46
Productivity	18%	38%	43%	37	59
Exports (sales for foreign clients)	5%	63%	33%	37	43

Labor indicators in the last 4 quarters	Decrease	0%	1-2%	3-5%	6-9%	>10%
Wages per worker	2%	61%	11%	18%	2%	6%
Benefits per worker	3%	67%	10%	13%	5%	3%

Compared to 2020, during 2021 you expect your location:	Up	Same	Down	Diffusion Index 2021 ⁽²⁾	Diffusion Index 2020 ⁽²⁾
Number of orders	53%	27%	21%	67	69
Production level	40%	42%	18%	61	69
Employment level	37%	51%	13%	63	61
Labor availability	11%	57%	33%	40	n/a
Investment plant/equipment	24%	55%	22%	52	59
Selling prices	36%	55%	10%	64	68
Profits	32%	38%	31%	51	63
Productivity	34%	51%	15%	60	68
Exports (sales for foreign clients)	16%	72%	13%	52	52

Expected labor indicators during next four quarters:	Decrease	0	1-2%	3-5%	6-9%	>10%
Wages per worker	1%	59%	14%	22%	2%	3%
Benefits per worker	1%	66%	14%	13%	3%	3%

Expected outlook on the following state economic indicators during the next year:	Up	Same	Down	Diffusion Index 2021 ⁽²⁾	Diffusion Index 2020 ⁽²⁾
Business Investment	29%	42%	30%	50	55
Employment	37%	42%	21%	58	56
Consumer spending	27%	44%	29%	49	55
Inflation	51%	45%	4%	74	68
Economic Growth	31%	40%	30%	51	57
Corporate profits	32%	31%	37%	48	53

Have changes in credit conditions in the last 4 quarters affected your firm?:	No Changes	Increased Hiring	Increased Capital Expenditures	Decreased Hiring	Decreased Capital Expenditure
	68%	5%	8%	19%	22%

Impact of COVID-19

New questions inquired about the impact of the COVID-19 pandemic on Minnesota manufacturing firms.

The pandemic had a particularly negative effect on the supply chain, revenues and employee productivity. Seventy-seven percent of respondents indicated delays in supply chain. Seventy-two percent experienced a decline in revenue, while close to half indicated a drop in employee productivity.

Fifty-six percent indicated no changes in manufacturing capacity, but 26% experienced a decrease.

The large majority of respondents (59%) indicated they have not missed loan nor rent payments.

Forty-three percent of respondents experienced a decrease in cash availability, while 39% indicated no change.

Ninety percent of respondents indicated an increase in use of COVID-19 protective equipment.

More than half of respondents indicated they expect to go back to normal operations in more than six months, while almost 13% indicated their businesses will not go back to normal.

Table 2. Impact of COVID-19 on Minnesota Manufacturing Firms¹

Impact of COVID-19 on your business:	Increase	No Change	Decrease	Not Applicable
Cash availability	15%	39%	43%	3%
Revenue	11%	17%	72%	0%
Employee productivity	12%	39%	46%	4%
Employee furloughs	38%	39%	3%	21%
Employee layoffs	27%	50%	1%	23%
Missed loan payments	6%	59%	0%	36%
Missed rent payments	9%	59%	0%	32%
Requested financial assistance	47%	31%	1%	21%
Supply chain delays	77%	17%	4%	3%
Manufacturing capacity	15%	56%	26%	4%
Investment in capacity/automation	20%	41%	32%	8%
Use of COVID-19 protective equipment	90%	9%	0%	1%

Expectations to return to normal operations:	1 Month or Less	2-3 Months	4-6 Months	More than 6 Months	Will Not Go Back to Normal	Little or No Effect	Going Out Of Business
	2%	5%	15%	52%	13%	13%	1%

Respondents were asked to provide comments related to the impact of the pandemic on their business. Selected responses are provided *verbatim*, broken down by type of comment.

Impact depending on manufactured goods:

“We were able to pivot to COVID related production which helped immensely. PPP [equipment] was critical to keeping us afloat.”

“We machine aircraft components for commercial travel and our business in this industry is down substantially.”

“As a brewery, our off premise sales have been significantly reduced due to bar and restaurant restrictions. Additionally, we could not generate our taproom profitably and closed our taproom indefinitely.”

Decrease in productivity:

“Due to social distancing we’ve had to spread employees out more thus decreasing productivity.”

“Employees were horrible working from home. I am burnt out from working so many extra hours to keep work floating.”

Supply chain delays:

“Supplies are no longer reliable to service materials. Starting to see significant delays on raw materials and prices up.”

“Supplier delays hurt.”

Workers receiving unemployment benefits:

“I am working 10-15 more hours to keep things going so we don't go out of business, but getting very tired, losing hope. Hard to find work etc. they do better with unemployment for now.”

“Cannot find workers! Too many people on the sidelines collecting a check.”

Decreased revenues:

“Revenue is down and profit is down significantly. Not much cash left to get through slow times. May need to reduce staff to slow cash drain but that may impact our ability to deliver product on time.”

Loan assistance

“It will be difficult to make up the losses in 2020 since we kept employees on staff and took out 350K in loans to help us.”

“Sales down 30%, without PPP money we would not have made it.”

(1) Based on responses from 250 Minnesota manufacturing firms, for a response rate of 25%. The sampling error is plus or minus 5.4 percent at a 95% confidence level. Percentages might not add up to 100% due to rounding.

(2) A diffusion index greater than 50 indicates expansion, lower than 50 indicates contraction.

Prepared by the Economic Analysis Unit, Minnesota Department of Employment and Economic Development, February 2021.