

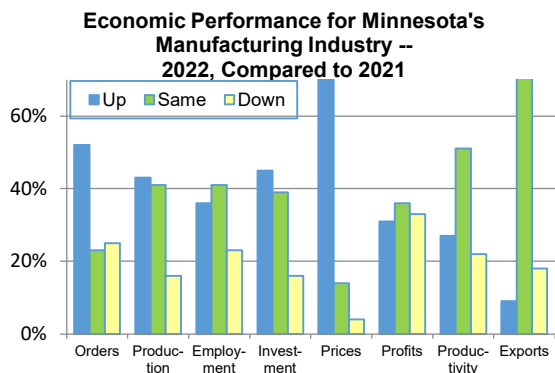


Manufacturers Expect Mostly Unchanged Conditions in 2023

A random sample survey of Minnesota manufacturers conducted from November-December 2022 by the Minnesota Department of Employment and Economic Development and the Federal Reserve Bank of Minneapolis reports that Minnesota manufacturers expect mostly unchanged conditions. Fifty-five percent expect unchanged production level, while 51% the same level of productivity.

The Manufacturing Industry in 2022

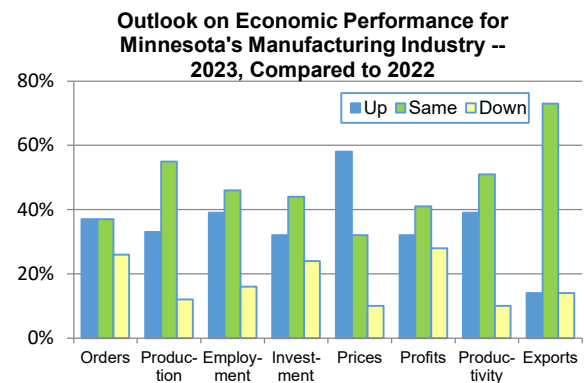
Compared to 2021, most economic indicators showed improved or unchanged conditions. Fifty-two percent of respondents indicated an increase in the number of orders and 51% experienced unchanged productivity. Additionally, 45% reported an increase in investment in plant/equipment. Forty-one percent indicated constant levels of employment and production levels. Nonetheless, 36% of respondents reported unchanged profits, while 33% experienced a decline. Most diffusion indices were above 50, indicating expansion, except for profits (index of 49) and exports (index of 46), both below the threshold of 50, suggesting contraction. Inflation was also a problem with 82% of respondents indicating an increase.



Outlook for the Manufacturing Industry

Minnesota manufacturers expect mostly unchanged conditions for 2023. Seventy-three percent expect unchanged exports, while 55% percent anticipate the same production levels. Fifty-one percent expect constant productivity and 44% predict unchanged employment levels. Forty-one percent expect the same level of profits.

Selling prices are a concern as nearly 60% of respondents expect an increase. Labor availability is another worry. A large percentage of manufacturers expect an increase in wages and benefits, suggesting and attempt to attract and retain talent due to the tight labor market. Sixty percent of respondents expect wages to increase between 3-5%, while close to 40% anticipate a rise in benefits in the same amount.



Outlook on the State Economy

Manufacturers expect mostly contracting conditions for the economy. Fifty-one percent anticipate a decline in consumer spending. The diffusion index for this metric (31) is significantly below 50 suggesting contraction and is the lowest among diffusion indexes for the economy

outlook. Additionally, nearly 50% of respondents anticipate a drop in corporate profits, with a diffusion index of 33, the second lowest. Inflation is again a concern with 73% of respondents anticipating an increase. With regard to changes in credit conditions, 62% of respondents indicated they did not experience

changes. A new question inquired about supply chain bottle neck problems compared to the year before. The majority of respondents indicated that issues have been getting worse with labor (64%) and transportation/logistic issues (60%).

Minnesota 2022 Manufacturing Business Condition Survey Results¹

Compared to 2021, in 2022, your location's:	Up	Same	Down	Diffusion Index 2022 ⁽²⁾	Diffusion Index 2021 ⁽²⁾	Diffusion Index 2020 ⁽²⁾
Number of orders	52%	23%	25%	64	72	32
Product/service production level	43%	41%	16%	64	64	34
Employment level	36%	41%	23%	57	54	40
Investment in plant/equipment	45%	39%	16%	65	63	40
Selling prices	82%	14%	4%	89	88	52
Profits	31%	36%	33%	49	49	30
Productivity	27%	51%	22%	53	55	37
Exports	9%	73%	18%	46	60	37

Labor indicators in 2022, compared to 2021:	Decrease	0%	1-2%	3-5%	6-9%	>10%
Wages per worker	2%	6%	8%	41%	29%	14%
Benefits per worker	5%	25%	11%	32%	19%	9%

Compared to 2022, in 2023, you expect your location's:	Up	Same	Down	Diffusion Index 2022 ⁽²⁾	Diffusion Index 2021 ⁽²⁾	Diffusion Index 2020 ⁽²⁾
Number of orders	37%	37%	26%	56	73	67
Product/service production level	33%	55%	12%	61	74	61
Employment level	39%	46%	16%	62	71	63
Investment in plant/equipment	32%	44%	24%	54	64	52
Selling prices	58%	32%	10%	74	86	64
Profits	32%	41%	28%	53	60	51
Productivity	39%	51%	10%	65	67	60
Exports	14%	73%	14%	51	60	52

Expected labor indicators in 2023, compared to 2022:	Decrease	0%	1-2%	3-5%	6-9%	>10%
Wages per worker	1%	11%	12%	60%	14%	4%
Benefits per worker	0%	20%	20%	38%	14%	8%

What is your outlook on the following state economic indicators next year:	Up	Same	Down	Diffusion Index 2022 ⁽²⁾	Diffusion Index 2021 ⁽²⁾	Diffusion Index 2020 ⁽²⁾
Business investment	21%	46%	33%	44	61	50
Employment	23%	47%	29%	47	63	58
Consumer spending	12%	37%	51%	31	57	49
Inflation	73%	18%	9%	82	95	74
Corporate profits	14%	38%	49%	33	43	48

Change in credit conditions in the past year	Percent
No changes	62%
Experienced no difficulties accessing credit	20%
Decreased capital expenditure	15%
Decreased hiring	12%
Increased hiring	11%
Increased capital expenditure	9%
Experienced difficulties accessing credit	8%

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(Continuation)

Minnesota 2022 Manufacturing Business Condition Survey Results¹ (Continuation)

Supply chain issues compared to the year before	Better	Unchanged	Worse	Not an issue
Production process issues	16%	53%	24%	7%
Raw materials availability	26%	20%	52%	2%
Domestic supplier issues	22%	24%	52%	2%
Overseas supplier issues	12%	19%	50%	19%
Labor issues at suppliers	8%	21%	64%	7%
Transportation/Logistic issues	10%	25%	60%	5%
COVID-19 issues	37%	37%	10%	17%
Software malfunction	2%	52%	8%	38%
Other*	35%	10%	30%	25%

** Other includes chip shortages, China tariffs and over-regulation.

Business Ownership	Percent*
Minority-owned	2%
Veteran-owned	4%
Women-owned	12%
Prefer not to answer	16%
None of the above	68%

*Total does not add to 100% because of multiple choice responses.

1) Based on responses from 230 Minnesota manufacturing firms, for a response rate of 23%. The sampling error is plus or minus 5.7% 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.

Comments

Respondents were asked to provide additional comments. Key comments are show below *verbatim* by category:

Bottleneck issues and inflation

“Still have supply chain bottlenecks but getting better. Transportation problems have gotten slightly better, but that improvement doesn’t justify the substantial price increase.”

“Inflation will be the biggest issue.”

“Supply chain is only improving slightly. Still major shortages and cost increases.”

Labor force shortages and benefits cost

“Hard to find experienced people...Almost impossible...Hard to increase wages, when materials are so expensive.”

“Our focus in capital expenditure will be centered on improving labor productivity and/or automation. Attracting skilled hourly labor is our biggest near-term challenge.”

“It’s all about health insurance benefit/cost 2023/2024. The MN Region/System is broken. No competitive insurance underwriters 50-100 employee programs; with avg. health conditions pool/census. 3-year trend up.”

Incentives

“Making MN a choice for better employment & productivity by giving tax incentives to businesses would help strengthen our economy. Manufacturing, farming & mining create wealth. All other businesses distribute wealth.”

“Need to provide incentives to promote more spending.”

Issues for minority-owned businesses

“(…) For minority companies is yet a huge challenge to getting credit/bank financing, they find any/all excuses.”