Manufacturers See Modest Growth in 2026, But Confidence Has Softened

A random sample survey of Minnesota manufacturers conducted in November-December of 2025 by the Minnesota Department of Employment and Economic Development and the Federal Reserve Bank of Minneapolis reports that more than 40% of Minnesota's manufacturers expect higher number of orders in 2026. However, close to 70% still anticipate the same tight labor conditions from 2025.

The Manufacturing Industry in 2025 Compared to 2024

Respondents experienced limited gains. The diffusion index (DI) for number of orders remained in contraction, with more firms expecting declines than increases, though sentiment was better than the previous year (43 vs. 35). Production (51) and productivity (52) were slightly in expansion and both improved compared with 2024, suggesting reduced gains. However, nearly half of respondents experienced declining profits, resulting in a very low diffusion index (35), only slightly better than the year before (34). (Chart 1, Table 1).

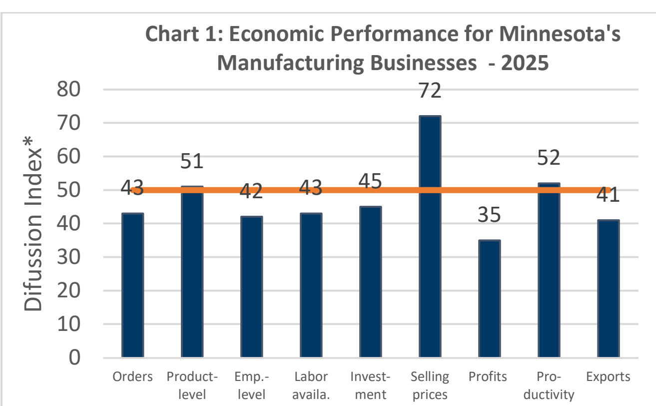

Chart 1: Economic Performance for Minnesota's Manufacturing Businesses - 2025

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

Manufacturing Industry Outlook in 2026 Compared to 2025

While firms still expect moderate expansion in number of orders, production and productivity in 2026, sentiment has weakened across most indicators compared with last year.

Diffusion indexes for orders (60 vs. 68) and production level (58 vs. 63) remain in expansion but are notably lower than last year, indicating slower expected growth in 2026. Labor availability deteriorated further (43 vs. 51), signaling continued hiring challenges. Expectations for investment in plant and equipment declined to neutral (50 vs. 58), reflecting greater uncertainty.

Selling prices have the strongest diffusion index (69) and are slightly higher than last year (67), indicating continued upward price pressure. Profits show one of the largest declines (49 vs. 61), suggesting squeezing margins, despite higher prices. Productivity is expected to expand (DI of 60) but is down from 67, implying slower efficiency gains. (Chart 1, Table 1).

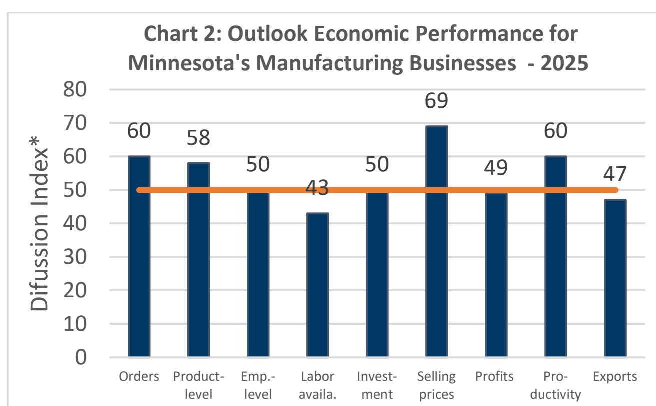

Chart 2: Outlook Economic Performance for Minnesota's Manufacturing Businesses - 2025

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

Outlook on the State Economy in 2026

Respondents anticipate a slower economy over the next year, marked by weak spending, cautious investment and hiring, declining profit expectations, and elevated inflation pressures. Consumer spending shows the lowest diffusion index (34), with nearly half of respondents expecting a decline, raising concerns about demand strength. Business investment (DI 42) remains below neutral, with more respondents expecting declines than increases, reflecting caution among manufacturers. Corporate profits (36) are expected to decline by nearly half of respondents, a significant deterioration from last year (50). Employment is expected to significantly decline (DI 44), signaling a tighter labor market from the previous year (DI 52).

Impact of Tariffs

A new question inquired about the impact of tariffs in 2025. The most notable result is that tariffs have been inflationary: The most widespread effects according to participants are higher imported input costs (82%), production costs (77%) and customer prices (71%).

Respondents indicated they reduced the volume of imported inputs (39% down) rather than making big changes to manufacturing locations or automation.

Supplier diversification is present, but not dominant: Around one-quarter of respondents reported shifting to local (26%) or alternative international suppliers (24%), suggesting selective, but not sweeping re-sourcing.

Inventory signals are cautious: Input inventories show a net decrease (25% down vs 14% up), possibly reflecting tighter procurement; output inventories are largely stable (77% no impact). (Table 1).

Table 1- Minnesota 2025 Manufacturing Business Condition Survey Results

Compared to 2024, in 2025, your location's:	**Up**	**Same**	**Down**	Diffusion Index 2025*	Diffusion Index 2024*
Number of orders	28%	30%	42%	43	35
Product/service production level	21%	59%	21%	51	45
Employment level	16%	51%	33%	42	40
Labor availability	13%	59%	28%	43	47
Investment in plant/equipment	22%	45%	33%	45	53
Selling prices	51%	42%	7%	72	69
Profits	19%	31%	49%	35	34
Productivity	23%	57%	21%	52	50
Exports	5%	72%	23%	41	45

Labor indicators in 2024, compared to 2025:	**Decrease**	**0%**	**1-2%**	**3-5%**	**6-9%**	**>10%**
Wages per worker	2%	11%	20%	57%	7%	4%
Benefits per worker	5%	29%	15%	21%	10%	20%

Compared to 2024, in 2025 you expect your location's:	**Up**	**Same**	**Down**	**Diffusion Index 2025***	**Diffusion Index 2024***
Number of orders	41%	38%	21%	60	68
Product/service production level	30%	56%	14%	58	63
Employment level	22%	56%	22%	50	60
Labor Availability	9%	67%	24%	43	51
Investment in plant/equipment	26%	48%	27%	50	58
Selling prices	45%	47%	8%	69	67
Profits	29%	40%	31%	49	61
Productivity	32%	56%	12%	60	67
Exports	8%	78%	14%	47	52

Expected labor indicators in 2025, compared to 2024:	**Decrease**	**0%**	**1-2%**	**3-5%**	**6-9%**	**>10%**
Wages per worker	1%	15%	23%	56%	4%	1%
Benefits per worker	4%	30%	17%	24%	10%	16%

(Continuation)

What is your outlook on the following state economic indicators next year:	Up	Same	Down	Diffusion Index 2025*	Diffusion Index 2024*
Business investment	21%	41%	39%	42	52
Employment	16%	55%	29%	44	52
Consumer spending	12%	43%	46%	34	45
Inflation	56%	35%	10%	74	59
Economic Growth	15%	49%	37%	40	55
Corporate profits	18%	35%	47%	36	50

Expected impact of current interest rates on your businesses in 2025	Up	Same	Down	Diffusion Index 2025*	Diffusion Index 2024*
Access to Credit	5%	77%	18%	44	n/a
Capital investment	9%	67%	25%	43	44
Hiring	9%	71%	20%	45	46
Savings	4%	62%	33%	35	42
Inventory	8%	66%	26%	41	42
Pricing to consumers	44%	54%	2%	71	66

Indicate the impact of tariffs, if any, Since the beginning of 2025	Up	No Impact	Down
Prices for customers	71%	29%	0%
Production cost	77%	23%	1%
Change(s) in manufacturing location(s)	14%	84%	2%
Cost of imported inputs	82%	17%	1%
Volume of imported inputs	6%	55%	39%
Automation investment	15%	71%	13%
Shift to local suppliers	26%	72%	3%
Shift to different international suppliers	24%	69%	8%
Inventory of inputs	14%	62%	25%
Inventory of outputs	6%	77%	17%
Product re-design	19%	79%	3%
Foreign retaliatory tariffs	34%	62%	4%
Other**	15%	74%	11%

Note: Totals might not add to 100% because of multiple choice responses.
** Other includes: "Canada", "CBAM, REACH, PFAS" and "property taxes, water, electricity."

Business Ownership	Percent
Minority-owned	1%
Veteran-owned	5%
Women-owned	13%
Prefer not to answer	17%
None of the above	66%

Selected Comments

Respondents were asked to provide additional comments. Selected observations are shown below *verbatim*:

"Recent changes in small businesses are very difficult to maneuver. We are in a rural area – tariff increased prices, large corporation getting breaks and taking business from us."

"The labor shortage being created by the current administration and federal government policies of immigration will significantly affect my small manufacturing business in profound and negative ways.

Notes: Based on responses from 221 Minnesota businesses. Of those, 48 indicated they did not have manufacturing operations for an adjusted response rate of 17.3%.
Percentages may not add to 100 percent due to rounding.
The margin of error is plus or minus 6.8% at a 95% confidence level.