

# **Manufacturers See Recovery Despite Challenges in 2022**

A random sample survey of Minnesota manufacturers conducted from November 2021-January 2022 by the Minnesota Department of Employment and Economic Development and the Federal Reserve Bank of Minneapolis reports that Minnesota manufacturers expect recovery in 2022. Fifty-six percent expect an increase in the number of orders and production level, while 50% anticipate employment growth.

**The Manufacturing Industry in 2021**
Compared to 2020, most economic indicators showed recovery except for profits. Sixty-three percent of respondents indicated an increase in the number of orders and 53% experienced production level growth. Additionally, 38% reported increased productivity. Thirty-six percent indicated increased levels of employment, the same percentage that experienced no change. Nonetheless, 37% of respondents reported a decline in profits. Most diffusion indices were above 50, indicating expansion, except for profits that reported an index of 49, below the threshold of 50, suggesting contraction.

**Outlook for the Manufacturing Industry**Minnesota manufacturers expect mostly growth for 2022. Fifty-six percent anticipate increase in the number of orders, the same percentage that expect expansion in production levels. Fifty percent predict an increase in employment levels while 40% expect an increase in profits. Half of respondents predict no changes in investment, while nearly 40% anticipate growth. More than 50% expect wages to increase between 3-5%. Rises in wages and benefits might suggest and attempt to attract and retain talent by manufacturers.

**Outlook on the State Economy**Manufacturers expect mostly unchanged conditions for the economy with few exceptions. Forty-seven percent anticipate unchanged business investment, while 45% anticipate constant consumer spending. Thirty-nine percent expect no change in economic growth. Manufacturers are optimistic about employment with 45% anticipating growth. However, 91% expect an increase in inflation and 40% a decline in profits. The diffusion index for profits (43) is below 50 suggesting contraction. It is the lowest among diffusion indexes for the economy outlook.
A new question this year inquired about sources of supply chain disruptions for manufacturers.

Most manufacturers expressed they were affected by supply chain problems in different ways, ranging from raw materials availability (88%) to software malfunctions (7%). Only 2% indicated they did not experience any supply chain issues.

**Minnesota 2021 Manufacturing Business Condition Survey Results1**

| **Compared to 2020, in 2021, your location’s:** | **Up** | **Same** | **Down** | **Diffusion Index 2021(2** | **Diffusion Index 2020(2)** | **Diffusion Index 2019(2)** |
| --- | --- | --- | --- | --- | --- | --- |
| Number of orders | 63% | 17% | 19% | 72 | 32 | 55 |
| Product/service production level | 53% | 21% | 26% | 64 | 34 | 56 |
| Employment level | 36% | 36% | 28% | 54 | 40 | 51 |
| Investment in plant/equipment | 40% | 46% | 15% | 63 | 40 | 61 |
| Prices | 77% | 21% | 2% | 88 | 52 | 64 |
| Profits | 34% | 29% | 37% | 49 | 30 | 46 |
| Productivity | 38% | 34% | 29% | 55 | 37 | 59 |
| Exports | 35% | 49% | 15% | 60 | 37 | 43 |

| Labor indicators in 2021, compared to 2020: | Decrease | 0% | 1-2% | 3-5% | 6-9% | >10% |
| --- | --- | --- | --- | --- | --- | --- |
| Wages per worker | 2% | 12% | 11% | 41% | 17% | 17% |
| Benefits per worker | 3% | 34% | 12% | 29% | 13% | 10% |

| **Compared to 2021, in 2022, you expect your location’s:** | **Up** | **Same** | **Down** | **Diffusion Index 2021(2** | **Diffusion Index 2020(2)** | **Diffusion Index 2019(2)** |
| --- | --- | --- | --- | --- | --- | --- |
| Number of orders | 56% | 34% | 10% | 73 | 67 | 69 |
| Product/service production level | 56% | 35% | 9% | 74 | 61 | 69 |
| Employment level | 50% | 42% | 8% | 71 | 63 | 61 |
| Investment in plant/equipment | 39% | 50% | 11% | 64 | 52 | 59 |
| Prices | 78% | 16% | 6% | 86 | 64 | 68 |
| Profits | 40% | 40% | 21% | 60 | 51 | 63 |
| Productivity | 46% | 42% | 12% | 67 | 60 | 68 |
| Exports | 34% | 51% | 16% | 60 | 52 | 52 |

| Expected labor indicators in 2022, compared to 2021: | Decrease | 0% | 1-2% | 3-5% | 6-9% | >10% |
| --- | --- | --- | --- | --- | --- | --- |
| Wages per worker | 2% | 11% | 15% | 51% | 16% | 5% |
| Benefits per worker | 4% | 27% | 18% | 34% | 11% | 6% |

| **What is your outlook on the following state economic indicators next year:** | **Up** | **Same** | **Down** | **Diffusion Index 2021(2** | **Diffusion Index 2020(2)** | **Diffusion Index 2019(2)** |
| --- | --- | --- | --- | --- | --- | --- |
| Business investment | 37% | 47% | 16% | 61 | 50 | 55 |
| Employment | 45% | 36% | 19% | 63 | 58 | 56 |
| Consumer spending | 34% | 45% | 20% | 57 | 49 | 55 |
| Inflation | 91% | 7% | 2% | 95 | 74 | 68 |
| Economic growth | 34% | 39% | 27% | 54 | 51 | 57 |
| Corporate profits | 25% | 36% | 40% | 43 | 48 | 53 |

*\*Respondents were asked to provide comments related to supply chain issues. The most common issues were inflation, labor shortages and the political climate.*

| **Supply chain issues\*** | **Percent** |
| --- | --- |
| Raw materials availability | 88% |
| Domestic supplier issues | 82% |
| Labor issues | 80% |
| Transportation/logistics Issues | 78% |
| Overseas supplier issues | 68% |
| COVID-19 issues | 56% |
| Production process issues | 43% |
| Software malfunction | 7% |
| No supply chain issues | 2% |

1) Based on responses from 261 Minnesota manufacturing firms, for a response rate of 26.1%. The sampling error is plus or minus 5.2 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, January 2022.