

# **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 |
| ProductivityExports (sales for foreign clients) | 18%5% | 38%63% | 43%33% | 3737 | 5943 |

| 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 pricesProfits | 36%32% | 55%38% | 10%31% | 6451 | 6863 |
| 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 last4 quarters affected your firm?: |  No Changes |  Increased Hiring | IncreasedCapital Expenditures | DecreasedHiring | 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 layoffsMissed loan paymentsMissed rent paymentsRequested financial assistanceSupply chain delays | 27%6%9%47%77% | 50%59%59%31%17% | 1%0%0%1%4% | 23%36%32%21%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 toreturn to normaloperations: | 1 Month orLess | 2-3Months | 4-6Months | More than 6Months | Will Not GoBack to Normal | Little or NoEffect | Going OutOf 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.
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