

# Stability Expected for 2020

A random sample survey of Minnesota manufacturers conducted from November 2019- January 2020 by the Minnesota Department of Employment and Economic Development and the Federal Reserve Bank of Minneapolis reports that Minnesota manufacturers expect conditions in 2020 to remain mostly stable. Sixty-four percent anticipate stable employment while 56 percent expect unchanged productivity.

## The Manufacturing Industry in 2019

Minnesota manufacturers reported unchanged or improved conditions but at a lower rate than the previous year. Forty-eight percent reported unchanged productivity while 44 percent experienced stable employment. Forty-one percent indicated increased number of orders. Nonetheless, diffusion indexes for all indicators were lower compared to the previous year, indicating declining conditions. The diffusion index for profits was 46, lower than 50, suggesting contraction. The decline was particularly pronounced for exports with a diffusion index or 43 compared to 58 from the previous year.  
  
   
  
Outlook on the Manufacturing Industry  
  
Manufacturers expect mostly unchanged conditions for the coming year. Sixty-four percent of respondents expect stable employment and 56 percent anticipate unchanged productivity. Fifty-three percent expect stable prices. Manufacturers were moderately optimistic about number of orders with half expecting expansion.   
  
Although diffusion indexes for most indicators were higher than 50 indicating expansion, there were lower than indexes for the previous year, suggesting that manufacturers are less optimistic for 2020 than they were for 2019.

Outlook on the State Economy  
  
Manufacturers expect mostly constant conditions for next year. Sixty-five percent expect stable employment while 61 percent anticipate unchanged consumer spending. Nearly 60 percent expect economic growth, the same percent expecting increased inflation.   
  
  
A special question inquired about the effect of U.S. tariffs and/or foreign countermeasures during the past year. The majority of manufacturers reported no effect from U.S. tariffs for employment (81 percent), investment (79 percent) and capital expenditure (74 percent). However, 44 percent reported negative effect for input cost and 42 percent for revenue.

Minnesota 2019 Manufacturing Business Condition Survey Results1

| **Business indicators in 2019, compared to 2018:** | **Up** | **Same** | **Down** | **Diffusion Index 20192)** | **Diffusion Index 2018(2)** |
| --- | --- | --- | --- | --- | --- |
| Number of orders | 41% | 29% | 31% | 55 | 69 |
| Product/service production level | 37% | 37% | 26% | 56 | 71 |
| Employment level | 29% | 44% | 27% | 51 | 64 |
| Investment in plant/equipment | 43% | 37% | 20% | 61 | 67 |
| Prices | 38% | 52% | 10% | 64 | 75 |
| Profits | 29% | 33% | 38% | 46 | 50 |
| Productivity | 35% | 48% | 17% | 59 | 63 |
| **Exports** | 13% | 59% | 28% | 43 | 58 |

| Labor indicators in 2019, compared to 2018: | Decrease | 0% | 1-2% | 3-5% | 6-9% | >10% |
| --- | --- | --- | --- | --- | --- | --- |
| Wages per worker | 1% | 14% | 27% | 47% | 5% | 6% |
| Benefits per worker | 4% | 33% | 22% | 28% | 8% | 5% |

| Expected business indicators in 2020, compared to 2019: | Up | Same | Down | Diffusion Index 2019(2) | Diffusion Index 2018(2) |
| --- | --- | --- | --- | --- | --- |
| Number of orders | 50% | 37% | 13% | 69 | 69 |
| Product/service production level | 44% | 50% | 5% | 69 | 71 |
| Employment level | 30% | 64% | 7% | 61 | 64 |
| Investment in plant/equipment | 37% | 45% | 19% | 59 | 62 |
| Prices | 42% | 53% | 5% | 68 | 74 |
| Profits | 40% | 46% | 14% | 63 | 63 |
| Productivity | 40% | 56% | 4% | 68 | 72 |
| Exports | 26% | 53% | 21% | 52 | 60 |

| Expected labor indicators in 2020, compared to 2019: | Decrease | 0% | 1-2% | 3-5% | 6-9% | >10% |
| --- | --- | --- | --- | --- | --- | --- |
| Wages per worker | 1% | 13% | 37% | 46% | 1% | 2% |
| Benefits per worker | 1% | 35% | 29% | 26% | 6% | 3% |

| Expected outlook on the following state economic indicators during the next year: | Up | Same | Down | Diffusion Index 2019(2) | Diffusion Index 2018(2) |
| --- | --- | --- | --- | --- | --- |
| Business Inv. | 27% | 56% | 17% | 55 | 60 |
| Employment | 23% | 65% | 12% | 56 | 62 |
| Consumer spending | 24% | 61% | 15% | 55 | 54 |
| Inflation | 39% | 59% | 2% | 68 | 85 |
| Economic growth | 27% | 59% | 14% | 57 | 59 |
| Corp. profits | 26% | 54% | 20% | 53 | 54 |

| Effect of U.S. Tariffs and Foreign Countermeasures | Negative | U.S. Tariffs No Effect | Positive | Negative | Foreign Countermeasures No Effect | Positive |
| --- | --- | --- | --- | --- | --- | --- |
| Employment | 16% | 81% | 3% | 14% | 85% | 1% |
| Capital Expenditure | 22% | 74% | 3% | 17% | 81% | 1% |
| Investment | 18% | 79% | 3% | 14% | 86% | 1% |
| Input Cost | 44% | 54% | 2% | 34% | 65% | 1% |
| Input Availability | 25% | 72% | 2% | 20% | 80% | 0% |
| Revenue | 42% | 54% | 4% | 31% | 68% | 1% |
| Cost to Consumers | 41% | 56% | 3% | 32% | 67% | 1% |

1. Based on responses from 220 Minnesota manufacturing businesses, for a response rate of 22 percent. The sampling error is plus or minus 6.5 percentage points at the 95 percent confidence level. Percentages may not add to 100 percent due to rounding.
2. A diffusion index greater than 50 indicates expansion, less than 50 indicates contraction.  
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