The State of Manufacturing®

EXCLUSIVE POLL

Calm AND Deep

Minnesota's manufacturers say they'll grow, create jobs and increase compensation.

By Rob Autry

Minnesota's manufacturers overwhelmingly expect to parlay previous success and a sturdy economy into solid business growth in 2015, during which they'll expand hiring and increase wages, much as they say they've done over the past two years. At the same time, they remain apprehensive about the looming skills gap being fueled by retirements among Baby Boomers.

These are the results of the seventh annual 2015 State of Manufacturing® survey, which my company, Meeting Street Research, conducted on behalf of Enterprise Minnesota. We interviewed 400 Minnesota-based manufacturing

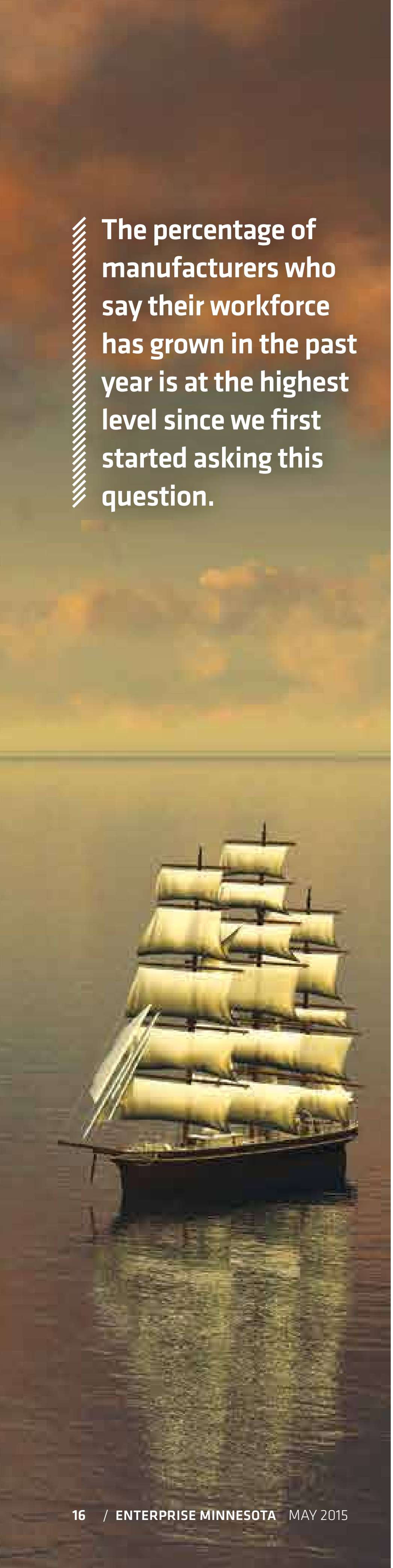
But the skills gap, the costs of health insurance and zealous government oversight remain possible impediments.

executives between February 23 and March 18 of this year.

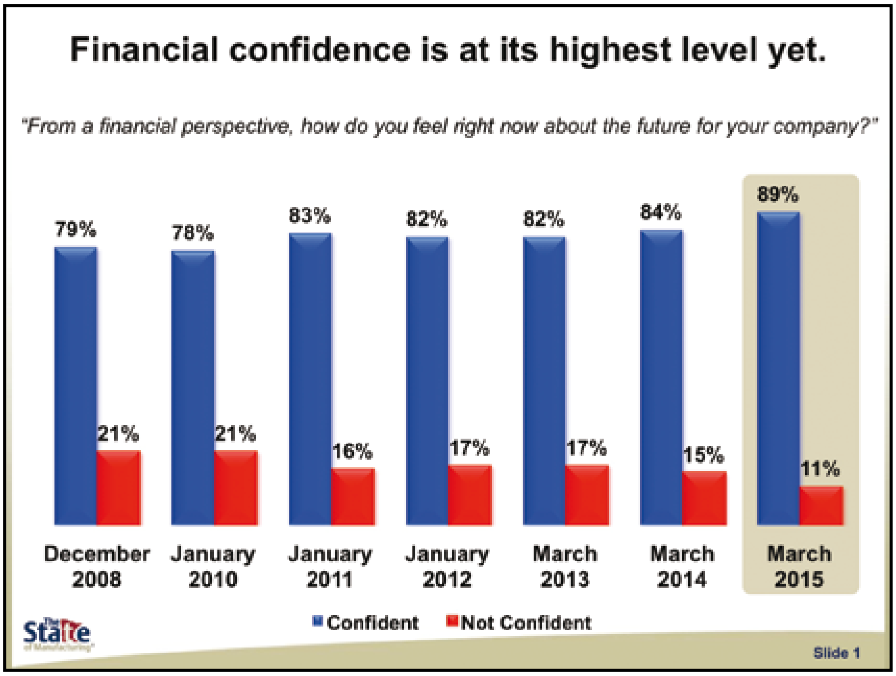
The enthusiasm of this year's respondents continues the trend of previous years. Minnesota's manufacturers have consistently expressed optimism about the long-term prospects of their companies, even during the dark economic days of the 2008-2009 recession. Over the past four years, between 82 percent and 84 percent of the executives said they were confident about the future of their companies. This year's executives revealed their highest level of confidence yet, reaching a whopping 89 percent, up five points from a year ago. At the same time, the percentage who said they are "not confident" is down to its lowest level (11 percent) in the seven years we've been doing this work.

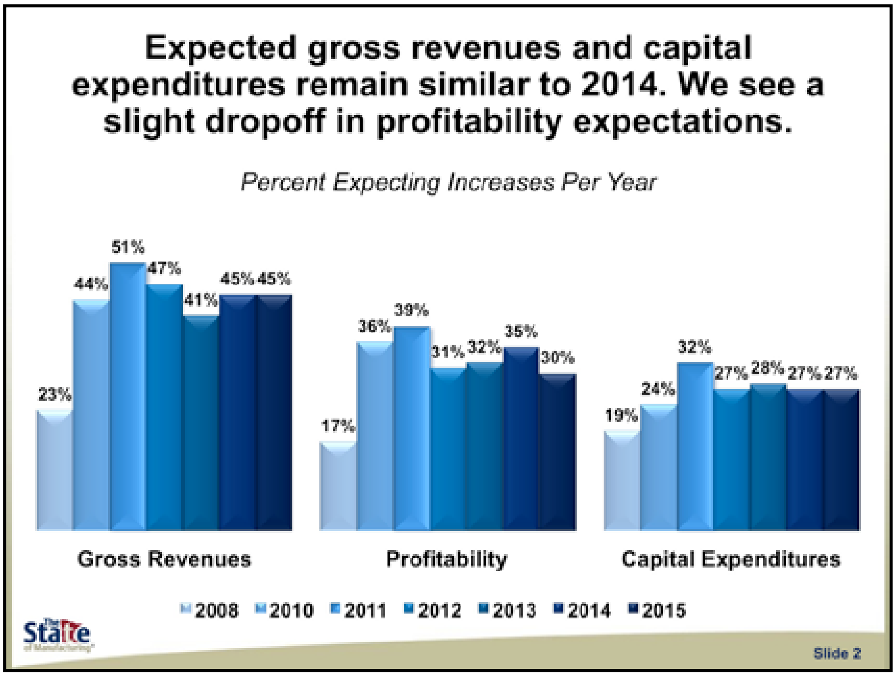
We also heard that 42 percent of manufacturing executives believe the coming year will be one of economic expansion, up from 37 percent a year ago and up from 34 percent two years ago. This year's level surpassed the high in 2011 when 40 percent of executives said we were on the verge of an economic expansion.

Interestingly, this increased optimism is not necessarily being driven by surging bottom line gains—at least not in the short term. Manufacturers' predictions about their companies' gross revenues, profitability and capital expenditures remained relatively unchanged from previous years. Respondents anticipate growth in revenues (45 percent), profitability (30 percent) and capital expenditures (27 percent), all very similar to their attitudes about the past three years.



The percentage of manufacturers who say their workforce has grown in the past year is at the highest level since we first started asking this question.





Prominent challenges

Despite their bullish attitudes, manufacturers still cite several potential areas of concern, many of which will look familiar to those who have seen the survey data from previous years. What's interesting about this year's data set is that opinions are clearly less intense than in previous years.

- **Health care costs.** The cost of providing health insurance to employees remains the highest concern of manufacturing executives, but the level of concern overall has dropped for the fourth consecutive year. In our 2011 survey, taken immediately after passage of the Affordable Care Act, 71 percent cited health care costs as a serious concern for their firm. Today, that's down to 56 percent, a drop of three percentage points from a year ago (59 percent). Similarly, health care coverage also remains the top factor for companies when it comes to recruiting and retaining new employees; 46 percent say it is very important. But, that percentage is down five points from last year's survey (51 percent very important).

- **Government oversight.** This year's survey data also indicates a conspicuous drop in concerns about government policies and regulations, although it remains the second most prominent concern, with 46 percent saying it is a serious concern compared to 55 percent in 2014 and 58 percent in 2013.

(Strategic) Planning for Growth

Nearly four out of ten firms (39 percent) have a formal plan for strategic growth. Of those who do have formalized plans, 95 percent are confident in their company's financial future. They also are much more likely to expect greater increases in gross revenues (56 percent to 37 percent over those who don't) and have similar expectations about increased profitability (40 percent to 23 percent).

- **Finding and keeping qualified workers.** The ability to attract and retain qualified workers continues to be a major concern—33 percent identify it as a serious concern to their firm—and ranks third on our list of concerns for the fourth year in a row.

Constraints to growth

When asked to rank the one or two biggest challenges that might negatively impact future growth, some noticeable shifts occurred compared with a year ago. Minnesota's unfavorable business climate (taxes, regulations and business uncertainties) comprises the biggest potential impediment to growth, but its percentage is down five percentage points (43 percent, compared to 48 percent in 2014). A weak economy and the rising costs of energy and materials also both dropped in significance, with the economy falling from 31 percent to 23 percent this year, and energy costs declining from 29 percent to 20 percent. In contrast, concern about health care costs still ranked second and was up 10 percent (41 percent, compared to 31 percent) and the ability to attract and retain a qualified workforce also grew in 2015 to 29 percent, from 20 percent the year before.

Concern remains about finding and keeping qualified workers.

Concerns Among Manufacturing Executives (% Concern 8-10)

	2010	2011	2012	2013	2014	2015
The costs of health care coverage	68%	71%	68%	67%	59%	56%
Government policies and regulations	57%	61%	56%	58%	55%	46%
Attracting and retaining qualified workers	19%	14%	31%	30%	34%	33%
Economic and global uncertainty	n/a	n/a	n/a	n/a	31%	29%
Costs of employee salaries and benefits, not including health insurance	16%	15%	13%	19%	18%	18%
Competition from foreign sources	27%	20%	21%	17%	16%	15%
Managing supply chain relationships	n/a	n/a	15%	10%	11%	9%

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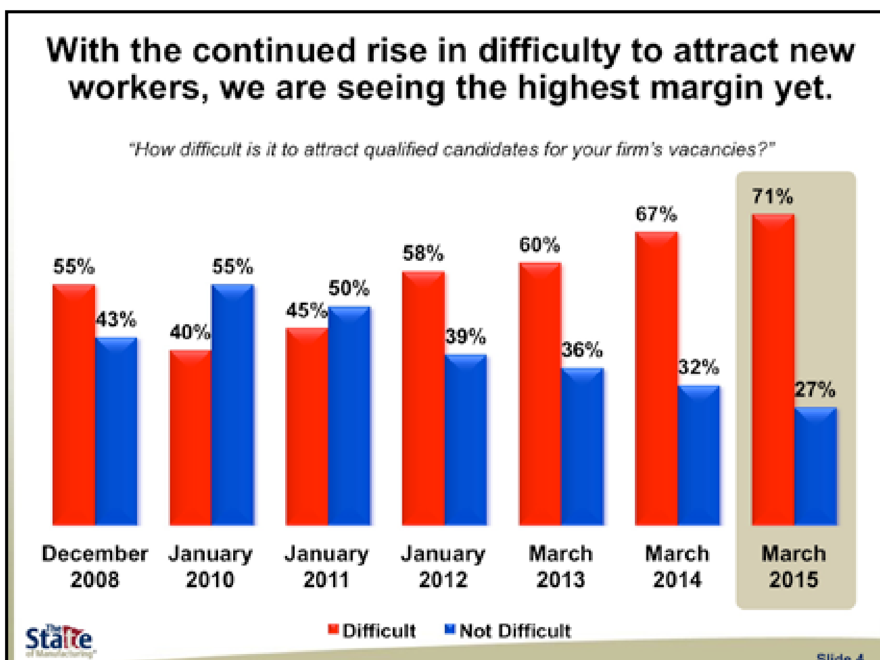
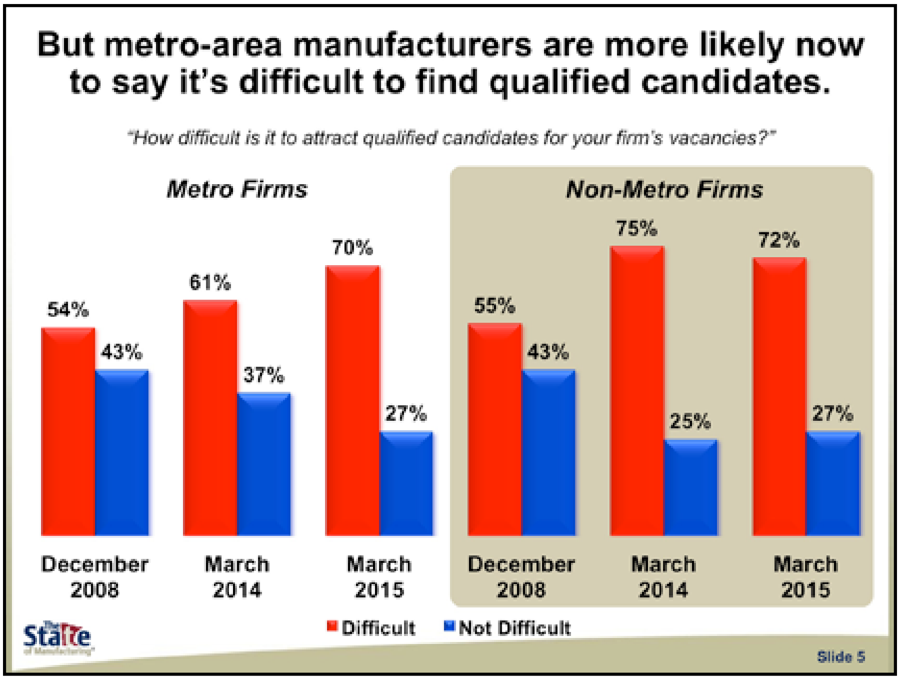


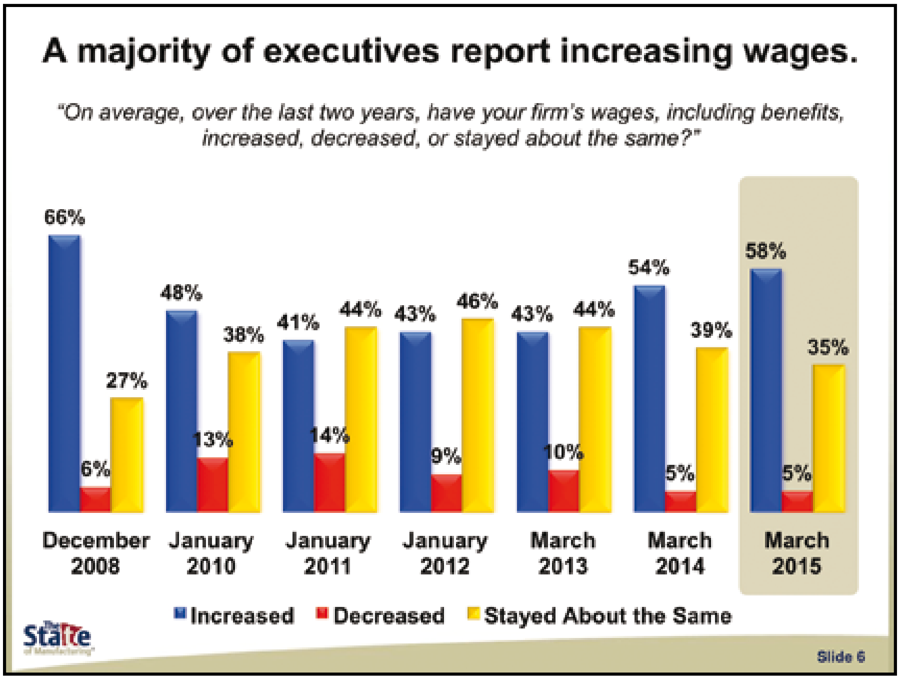
More hiring, better pay

The percentage of manufacturers who say their workforce has grown in the past year is at the highest level since we first started asking this question in 2012. Twenty-eight percent said their workforce grew, while 61 percent said it stayed the same. Only 11 percent said their company's workforce shrank. Last year, just 23 percent of firms said their workforce had grown over the past 12 months (22 percent in 2013).

Interestingly, non-metro firms have a slightly higher growth rate—29 percent compared to 27 percent for metro firms. Thirty-six percent of firms in the West Central Initiative, 32 percent of firms in the IF (Little Falls) Initiative, and 30 percent of firms in the Southwest Initiative say their workforce has grown in the past year.

While 68 percent of manufacturers say they expect their workforce will stay about the same for the next year, there are about a quarter (28 percent) of firms





that report they will be growing their company's employee base. The biggest level of growth is expected in larger companies: 43 percent for companies with revenues of $5 million or more and 42 percent for those with more than 50 employees. The most optimistic companies are in the Southwest Initiative (36 percent) and the Southern Initiative (34 percent).

Nearly six in ten firms (58 percent) say they have increased wages over the past two years and 61 percent expect that trend to continue for the next two years. Our surveys have shown a consistent rise in wages since 2011 when 41 percent said they had increased wages, with only 2 percent expecting a drop. This tracks

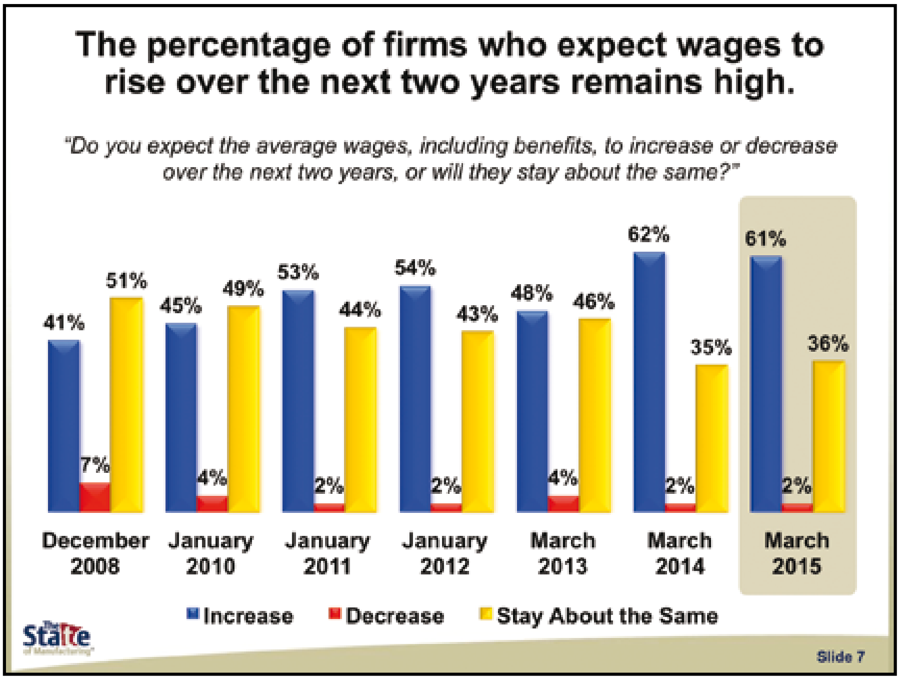
Regional Results

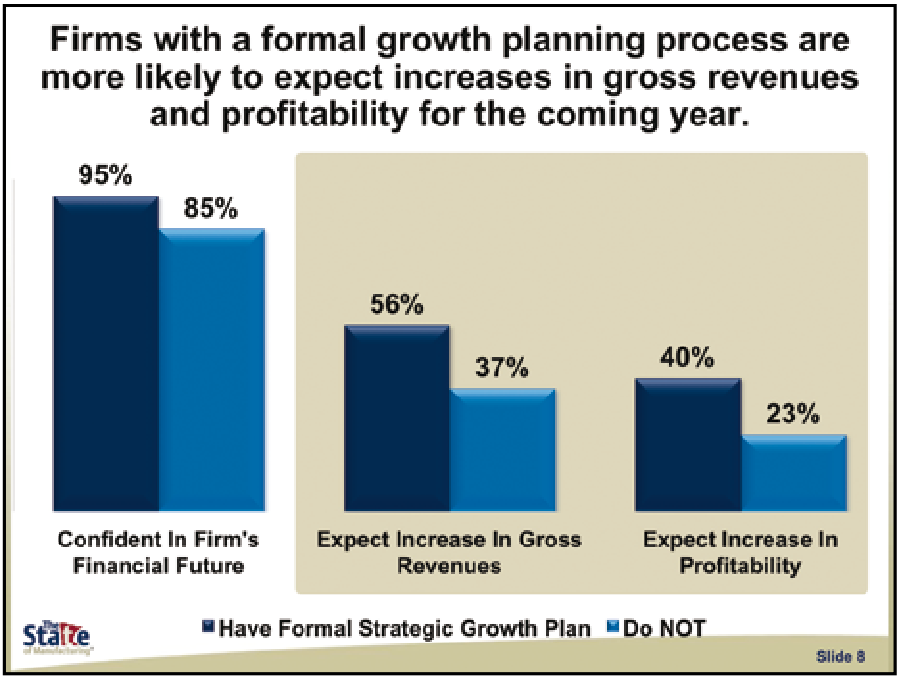
This year's poll featured additional interviews to allow greater regionalization of the results. It divided the state into areas that follow the borders of Minnesota's Initiative Foundations. They are: Northwest Minnesota Foundation (Bemidji), Northland Foundation (Duluth), Southwest Initiative Foundation (Hutchinson), The Initiative Foundation (IF) (Little Falls), Southern Minnesota Initiative Foundation (Owatonna), and West Central Initiative (Fergus Falls).

About the pollster

Rob Autry, founder of Meeting Street Research, is one of the nation's leading pollsters and research strategists. The Meeting Street Research team has 25 years of combined public opinion research experience and 2,000 research projects under its belt. He has conducted all seven State of Manufacturing surveys.

Before founding Meeting Street, Autry was a partner at Public Opinion Strategies.





closely with the performance of the past two years, in which 58 percent of manufacturers increased wages and only 5 percent decreased them.

There was a slight drop (from 25 percent to 22 percent) in companies that expect to invest in employee development in 2015, while 71 percent said their spending will stay the same. It is interesting to note that these numbers have remained virtually unchanged through all seven years of the poll. Similarly, metro firms and large companies are more likely to have formal, structured leadership development programs for supervisors and managers.

Despite growing workforces and growing wages, we also continue to see a growing skills gap with manufacturers. The number of executives who said it is difficult to attract qualified candidates to their company's vacancies grew again in 2015 to 71 percent, up from 67 percent the year before. To illustrate how significant the change has been, in 2010, just 40 percent of executives said attracting qualified candidates to their firms' vacancies was difficult. The number who say finding candidates is not difficult is at 27 percent, the lowest point in the history of the poll.

Metro-based companies reported a notable increase in concern about the skills gap. Last year, we saw a sizeable urgency gap where 75 percent of non-metro companies said it was difficult, far outpacing metro companies (61 percent). This year, the gap has narrowed considerably with 72 percent of non-metro firms and 70 percent of metro firms saying it's difficult to find the workers they need. The skills gap is most acute in the Southwest Initiative (86 percent), Southern Minnesota Initiative (78 percent) and West Central Initiative (76 percent).

Even though more metro firms find it difficult to hire qualified candidates, they're not necessarily more concerned about it. Only 28 percent of metro firms say they are very concerned about the impact not finding qualified workers will have on their firm, compared to 41 percent of non-metro firms.

The reason might lie in what these firms say are the biggest challenges they face in attracting qualified candidates. Fully 46 percent of metro firms and 42 percent of non-metro firms say it's difficult to attract new workers because applicants don't have the needed skills or education to do the job. While they largely agree on that point, non-metro firms are much more likely to report a lack of applicants or interest (41 percent of all non-metro firms compared to just 28 percent of metro firms) and firm location or geography (20 percent of non-metro firms and 8 percent of metro firms) as significant obstacles to finding qualified workers. On a different question, we also find that 25 percent of non-metro firms say a job candidate has not taken a job with them because of long commuting times or distances. That's twice as high as metro firms (12 percent).

The need for employees with training

2015 THE STATE OF MANUFACTURING®

FOCUS GROUPS

		SPONSOR
Feb 27	Custom Products, Litchfield	Litchfield Chamber of Commerce SealTech Industries, Meeker Co. Economic Development, Custom Products of Litchfield
March 9	Riverland Community College, Albert Lea	Albert Lea-Freeborn Co. Chamber, Interstate Packaging Corp., Lou-Rich, Inc., Riverland Community College
March 11	Saint Paul College	Saint Paul College, St. Paul
March 11	Minnesota Precision Manufacturers Association headquarters, Minneapolis	St. Paul Port Authority, Minnesota Precision Manufacturers Association
March 13	MRA headquarters, Plymouth	MRA
March 13	Elk River City Hall	City of Elk River Economic Development Authority
March 17	South Central College, Mankato	South Central College
March 17	Duffy's Restaurant, Redwood Falls	Redwood Area Development Corp, Southwest Initiative Foundation
March 18	Surly Brewing Company, St. Paul	Baker Tilly
March 19	Gray Plant Mooty, St. Cloud	Gray Plant Mooty
March 19	Ridgewater College, Willmar	Ridgewater College
March 20	Alexandria Technical & Community College, Alexandria	Alexandria Technical & Community College, Alexandria Area Economic Development Association

and experience is down over last year, 47 percent to 39 percent. The demand for entry-level employees is up slightly (25 percent from 22 percent), while the need for employees with technical training has increased a tad, 23 percent from 21 percent.

Machinists (29 percent) and assemblers (23 percent) are the most coveted employees, according to manufacturers. Metro firms were looking for more machinists (32 percent to 25 percent). Engineers were also in greater demand in the metro (13 percent to 6 percent), while the non-metro had a more significant need for welders (14 percent to 4 percent).

The expected uptick in Baby Boomer retirements is having a significant or modest impact on 29 percent of Minnesota manufacturers. Non-metro firms expect it to have a slightly higher impact (31 percent), led by southern Minnesota firms (44 percent). Just 16 percent of northwest Minnesota companies reported an impact.

Higher revenue and larger companies expect to experience the greatest retirement challenge: 41 percent of companies larger than $5 million and 40 percent of companies with 50 or more employees say it will have either a significant or modest impact on them.

Metro-based companies are notably more concerned about the skills gap.

Non-metro firms appear more inclined to solve their workforce issues by collaborating with local educational institutions by a wide margin: 43 percent to 30 percent of metro firms. Companies in the Southern Minnesota Initiative Foundation reported the highest interest in collaborations at 58 percent. At the same time, larger companies are also inclined to relationships with educational institutions: 65 percent with revenues over $5 million and 72 percent with more than 50 employees.

Trade

Fewer than one in ten manufacturers (9 percent) say they shipped more than 25 percent of their product overseas last year—the same figure we saw a year ago. Canada (19 percent) and China (13 percent) continue to be seen as the countries with the greatest potential for international business.

Minnesota companies appear to be benefiting from the fact that original equipment manufacturers continue to bring their supplier relationships back home after experimenting with relationships in India, China and elsewhere. More than a quarter of them (26 percent) say they have found increased business in the last year from "home-shoring." They say this is due to shorter lead times (30 percent), closer relationships with regional suppliers (25 percent) and total costs versus only product costs (23 percent).