The State of Manufacturing®

EXCLUSIVE POLL

READY FOR Anything

Manufacturers used the lessons of 2009 to retrench their companies against outside pressures

By Rob Autry

Minnesota's manufacturers are feeling remarkable levels of across-the-board confidence in the financial prospects for their companies in 2016, while simultaneously revealing growing concern about the U.S. economy. For the third consecutive year, a whopping majority of manufacturing executives—90 percent—report confidence in the financial futures of their companies in 2016, one point higher than we saw in last year's survey and the highest level we've seen in the eight years we've conducted the State of Manufacturing® survey.

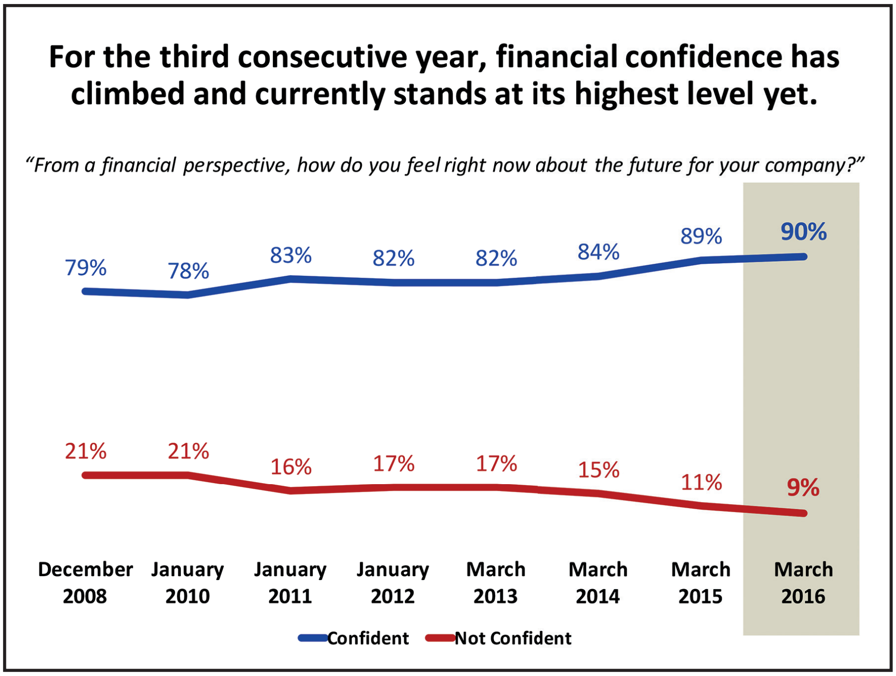
We interviewed 400 executives during the last two weeks of February and first week of March. Enterprise Minnesota supplemented this objective research by conducting 19 focus groups of manufacturers throughout Minnesota during roughly the same period.

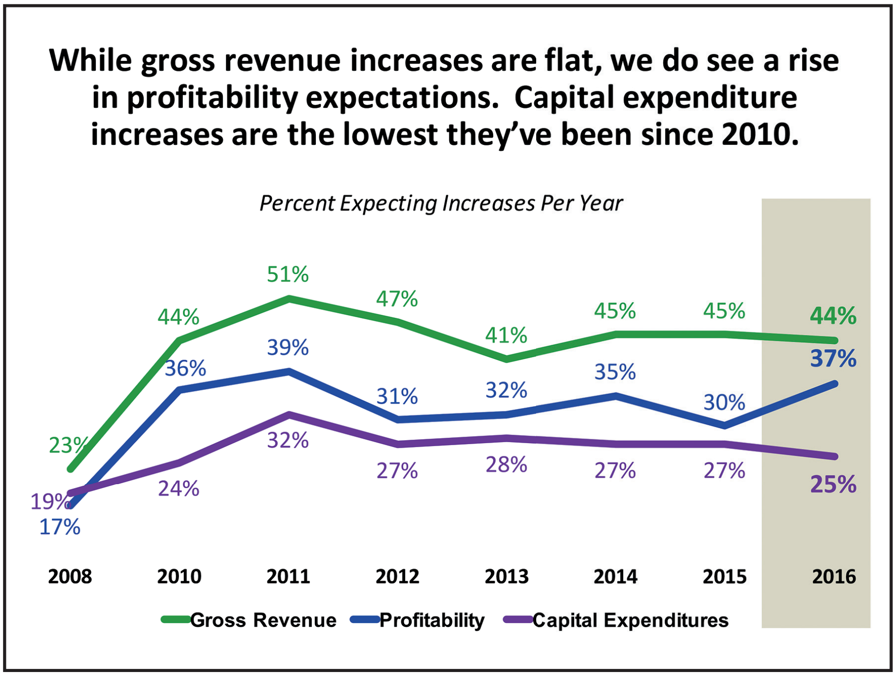
Manufacturers expressed amazing exuberance even as their confidence in the economy sits at its lowest levels since 2012. A near majority of manufacturing executives (48 percent) predicts the economy will remain flat, six percentage points higher that last year. Thirty-two percent believe we're heading into a year of economic expansion, while the number of manufacturers who believe we're heading into recession is at 15 percent, twice where it was two years ago.

Significantly, nearly eight in ten of the respondents who believe the U.S. is recession bound think their companies are well positioned to handle it. Even among those who expect 2016 to be a flat economy, 26 percent expect their profitability to increase and 32 percent expect their gross revenues to increase.

Significantly, nearly eight in ten of the respondents who believe the U.S. is recession bound think their companies are well positioned to handle it.

One might speculate as well that manufacturers are still mindful of the scars and lessons learned in the unforeseen recession of 2008-09.





Notably, very few expect either of these key metrics to decrease. There's a decent level of optimism even among those who think this is going to be a flat economy.

But one might speculate as well that manufacturers are still mindful of the scars and lessons learned in the unforeseen recession of 2008-09. Almost 40 percent of manufacturers say their companies operate from a formal strategic growth plan, almost exactly the same as last year. The highest rate of formal strategic growth plans is among companies with more than 50 employees (69 percent). Smaller companies are getting on board, however. Thirty-five percent of companies with 50 or fewer employees now operate from a plan, up five points from 2015.

As we saw last year, companies that

operate from a strategic plan are more confident about their financial prospects than those that don't. They are more confident in their company's overall financial future (95 percent from 87 percent), more likely to expect increases in gross revenues (53 percent from 38 percent) and more likely to expect increases in profitability (43 percent from 32 percent).

KEY CONCERNS

The cost of health care coverage again tops the list of concerns faced by manufacturers (51 percent), followed by government policies and regulations (41 percent), attracting and retaining qualified workers (32 percent), and economic and global uncertainty (29 percent).

Potential weaknesses in the economy and lower sales jumped nine points (to 32 percent) as a top challenge that might negatively impact future growth. Topping that factor, but diminishing in concern are "unfavorable business climate" (40 percent, down from 43 percent) and "rising health care and insurance costs" (34 percent, down from 41 percent).

THE WORKFORCE

Attracting workers remains a difficulty, although slightly less so than what we saw in last year's survey (66 percent, down from 71 percent). Twenty-nine percent say it is "not difficult" to attract qualified candidates (down 26 percent from the recession-era high of 55 percent). Metro-based companies are less concerned by a shortage of qualified workers (63 percent, down from 70 percent), while Greater Minnesota firms retain last year's urgency (71 percent, compared to 72 percent last year).

Greater Minnesota concerns about the skills gap have declined for the third consecutive year (36 percent, down from a 2014 high of 43 percent). Metro companies remain consistent at 29 percent, up from 28 percent in both 2014 and 2015.

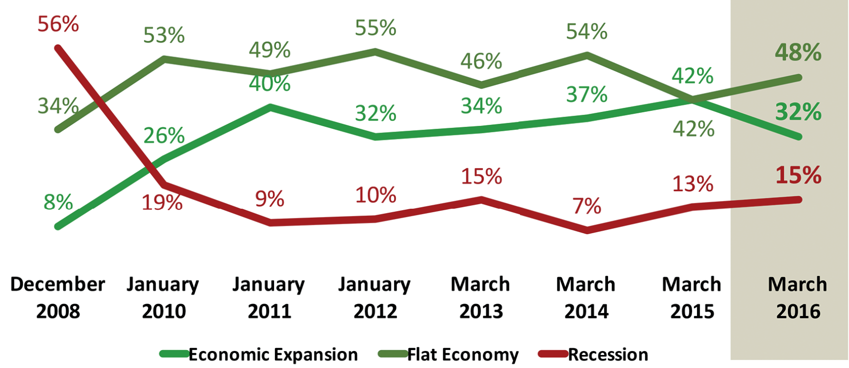
Among companies that have difficulty attracting qualified candidates, most still say "applicants do not have the needed skills or education," (52 percent, down from 62 percent), followed by "lack of applicants or interest" (42 percent, down from 48 percent). The lack-of-applicants challenge was markedly higher among Greater Minnesota companies (52 percent, 18 points higher than metro), while "needed skills" ranked equally between metro and Greater Minnesota companies (53 percent, 52 percent).

Other workforce-based concerns include:

- Manufacturers' greatest need continues to be employees with technical training and experience (38 percent, down from 39 percent) while the need for entry-level employees has jumped five points to 30 percent.
- The impact of retiring Baby Boomers is only a modest concern for manufacturers (28 percent expressing "significant" or "modest" impact, down from 29 percent), with larger firms expressing greater concern (44 percent).
- Machine operators (32 percent) and assemblers (25 percent) top the demand of employee types in 2016, as in 2015.

Manufacturing executives are less economically hopeful than they were this time last year.

"Thinking about the upcoming year, in 2016, do you anticipate economic expansion, a flat economy, or a recession?"



Among firms that have had difficulty attracting qualified candidates, most still say it's the applicant pool.

AMONG THOSE WHO HAVE DIFFICULTY: "What would you say is the biggest challenge your firm faces in attracting qualified candidates?"

	2015	2016
Applicants do not have the needed skills or education	62%	52%
Lack of applicants or interest	48%	42%
Firm too small to competitively recruit	34%	35%
Inability to offer competitive wages	19%	22%
Firm location or geography	18%	17%
Something else	*7%*	*4%*

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 eight State of Manufacturing surveys.

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

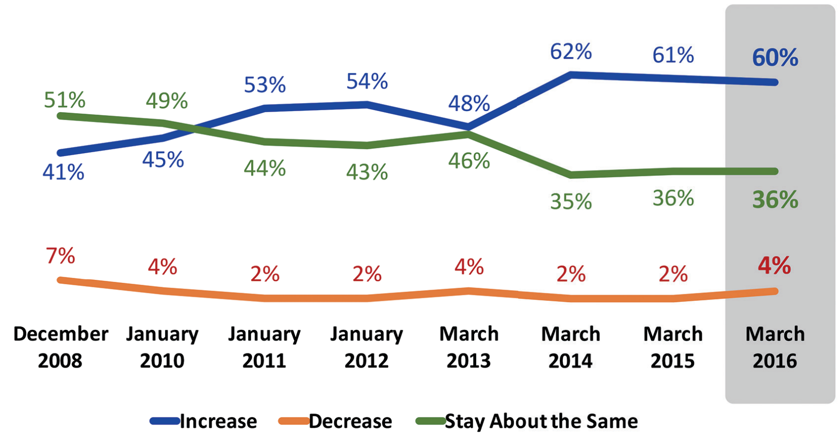
The top reason firms say their workforce will stay the same is because they have more efficiency and automation.

AMONG EXPECT TO STAY THE SAME: "Which one of the following reasons comes closest to describing why you believe your firm's workforce size will stay about the same in the next 12 months?"

	2016
Your firm has become more efficient and automated, so additional workers aren't necessary	29%
You are not expecting additional business in the coming year	24%
You are concerned about economic conditions and how they might impact your firm	19%
Profit margins are down and you are trying to do more without hiring additional workers	15%
Your firm is having trouble recruiting and attracting workers	4%
Other	*6%*

The percentage of firms that expect wages to rise over the next two years remains high.

"Do you expect the average wages, including benefits, to increase or decrease over the next two years, or will they stay about the same?"



Demand for both is higher among non-metro manufacturers than metro manufacturers (34 percent to 30 percent for machine operators and 28 percent to 23 percent for assemblers).

An overwhelming number (95 percent) of manufacturers expect the size of their workforce to stay the same (66 percent) or grow (29 percent) in the coming year, with the greatest growth potential at companies with over 50 employees (50 percent). There continued to be overall growth in hiring over 2015, with 28 percent showing growth and 61 percent staying about the same, both exactly the same numbers as last year.

Executives who predict static growth attribute it to automation and efficiency (29 percent) or "not expecting additional business” (24 percent).

Succession. Companies statewide feel fairly well prepared to handle the departure of managers or supervisors (73 percent) and skilled workers (75 percent), but show much greater concern about managing the departure of a CEO or owner (53 percent are well prepared).

Institutional Collaboration. About one-third of companies (34%)—and 75% of companies with more than 50 employees—collaborate with local education institutions for workforce training or other programs.

Wages. Sixty percent of companies statewide expect the average wages and benefits to increase over the next two years, while 36 percent expect the amount to stay about the same.

Employee Development. About a third of manufacturers (32 percent) say they are currently involved in employee development or leadership training, including an overwhelming majority (75 percent) of companies with more than 50 employees. Most companies expect their investment in employee development to stay the same (72 percent). Just 20 percent say their companies maintain a formal structured leadership development program for supervisors and managers, the same percentage as 2015. This again is paced by companies with more than 50 employees (50 percent).

Trade. The percentage of firms shipping more than ten percent of their product abroad is down for the second consecutive year at 15 percent, down eight percent from 2014. Metro firms lead the state in shipping more abroad with one out of five firms (19 percent) saying they ship more than ten percent of their product internationally, compared to 11 percent of non-metro firms. Moreover, those firms that do ship a significant portion of their product overseas are also more likely to say they expect to see increases in revenues (ship more than ten percent: 53% increase; ship 10 percent or less or none at all: 43%).

Supply Chain Relationships. Fully 32 percent of manufacturers say they have gained new business from “home sourcing,” up from 26 percent in 2015. Companies with more than 50 percent lead the way at 46 percent. And, firms that have experienced “home sourcing” also tend to be more confident about the financial future of their firms (also more likely to expect increases in revenue, profitability, and capital expenditures in the coming year).

ISO. The survey data also suggests that companies are becoming aware of the significant changes emerging from the new ISO 9001:2015 standard. Twenty-three percent of manufacturers overall were “aware” of the changes, including half of companies with more than 50 employees. Only 20 percent of executives whose companies employ 50 or fewer were aware. Similarly, 94 percent of the large companies aware of the changes said they were “prepared to meet the changes to the new standard.” Forty-two percent of smaller companies aware of the changes said they would “use outside help” to address the ISO changes.

Firms with a formal strategic growth process are more likely to expect increases in gross revenues and profitability for the coming year.

Key Firm Data Among Those With/Without Strategic Growth Plan

	Have Formal Strategic Growth Plan	Do NOT Have Formal Strategic Growth Plan
Confident in Firm’s Financial Future	95%	87%
Expect Increase in Gross Revenues	53%	38%
Expect Increase in Profitability	43%	32%

Two-thirds of manufacturers say they expect their workforces to stay about the same for the next year.

“In the next 12 months, does your company expect to grow or shrink the size of its workforce, or will it stay about the same?”