

E X C L U S I V E P O L L

BOUNDLESS OPTIMISM

*Minnesota's manufacturers forecast
record growth and profitability*

The ninth edition of the State of Manufacturing® survey reveals that Minnesota's small and medium sized manufacturers are incredibly—and I don't use that word carelessly—optimistic about the prospects of their company over the coming year.

Lifted by their perceptions of positive conditions in the U.S. economy and their own business circumstances, a whopping 94 percent of manufacturers feel confident about the futures of their companies, the highest number we have registered in the history of our survey. In record numbers, manufacturing executives are optimistic about the economy and bullish on their companies' projections of revenue and profitability for 2017. Their concerns about the global economy are at all-time lows, as is their worry about government regulations.

Perhaps even more impressive is the fact that manufacturers' level of


certainty exceeds anything we've ever tested. Fully 57 percent said they are *very* confident, up 14 percent in just one year. That's a staggering 30-point improvement over our first survey in 2008.

Their optimism is no doubt rooted in their sense that America is poised for a period of economic expansion. For the first time in the history of the poll, more manufacturers predict economic expansion in the coming year over a flat economy. "Flat economy" has been their projection every year since 2010. This year, 58 percent of manufacturers forecast expansion, with only 32 percent choosing "flat." In contrast, the 2016 poll revealed that 48 percent of respondents indicated "flat," with just 32 percent indicating "expansion."

That's dramatic. And it's across the board statewide, no matter the size or location of the companies. It's the first time that's ever been above fifty percent, and up sixteen points in the course of a year.

By Rob Autry





‘Attracting and retaining a qualified workforce’ experienced the largest bump up.

That optimism continues with respondents’ projections about revenue and profitability. A record 55 percent of manufacturers expect to see increases in gross revenue this year, 11 points higher than the responses to the same question last year. Forty-four percent expect increases in profitability, seven percent higher than last year and 14 percent higher than two years ago.

And, it gets better. Thirty-five

percent of manufacturers expect revenues to increase by more than 10 percent in 2017 and 27 percent expect a double-digit increase in profitability, also record numbers.

CONCERNS

The cost of health care coverage remains the top concern for manufacturing executives (59 percent), as it has for all nine editions of this survey. The intensity of this concern had diminished in the past few years, falling to 51 percent in 2016, but its resurgence may be attributed

to the fact that the fielding of this year’s survey coincided with the highly visible attempt by the White House and Republican leadership in Congress to repeal and replace the Affordable Care Act. “Government policies and regulations” was a distant second concern (32 percent), along with “attracting and retaining qualified workers (31 percent). It may be interesting to note that concerns about “government regulations” have fallen by nearly 30 points since 2011, while “qualified workers” has more than doubled during that same period. At 17 percent, “economic and global uncertainty” is another concern that saw a dramatic decline. It was 39 percent just last year.

WORKFORCE

“Attracting and retaining a qualified workforce” experienced the largest bump up (from 26 to 34 percent) when manufacturers were asked to name the one or two biggest challenges that might negatively impact future growth. It is especially worrisome for companies over \$5 million in revenue (56 percent), compared to companies with revenues in the \$1 - \$5 million range (38 percent) or those with less than \$1 million (26 percent). Manufacturers placed the difficulty of attracting qualified workers at 68 percent, similar to the past several years. The difficulty is even more pronounced in Greater Minnesota (75 percent) than in metro (62 percent). Perhaps because of this, the concern over qualified workers has grown by 40 percent in Greater Minnesota, while only 23 percent in the metro.

Among companies that have had difficulty attracting qualified candidates, most said applicants lacked needed skills or education (51 percent), or just a lack of applicants or interest (42 percent). Breaking the data out by region provides a more nuanced sense of the data. Twin Cities-based manufacturers say their top concern is that “applicants do not have the needed skills or education” (55 percent), followed by a “lack of interest” on behalf of applicants (39 percent) or that their company is “too small to compete” (32 percent). Manufacturers in Greater Minnesota cite approximately the same intensity for all three factors, followed closely by “company location” (34 percent).

Machine operators are now the most in demand by Minnesota's manufacturers (38 percent), a nine-point increase from 2015. It is followed by assemblers (20 percent) and welders (nine percent). The need for machine operators is most acute in Greater Minnesota (41 percent).

The number of retiring Baby Boomers continues to have an impact on about 30 percent of manufacturing companies in the state, virtually the same percentage as in the last three surveys. What's



interesting is that the impact is greatest among companies with over \$5 million in revenue (49 percent) and those that employ more than 50 employees (41 percent).

Executives feel better equipped to handle departures of key personnel (74 percent to 77 percent). In contrast, 36 percent feel "not well prepared" to handle the departure of CEOs or owners. This issue is most troublesome with companies that have less than \$1 million revenue (51 percent "not well prepared"). In contrast, 71 percent of companies with more than \$5 million in revenue feel "well qualified" to hand the departure of

a CEO or owner.

One reason for that confidence is that 70 percent of those companies have a formal succession plan in place for the retirement of senior leadership, compared to 50 percent statewide.

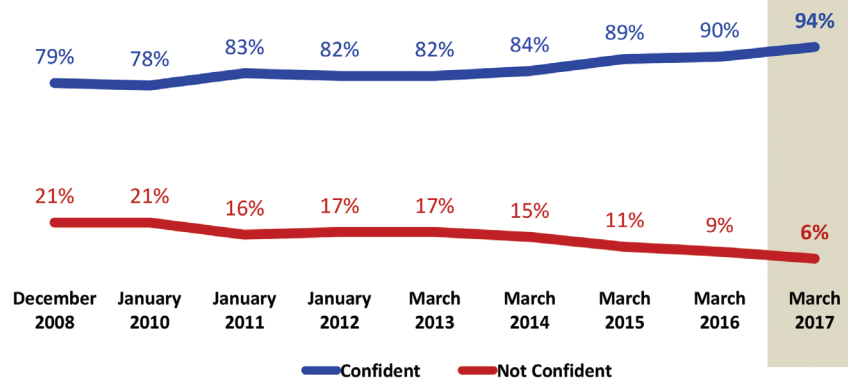
WAGES & DEVELOPMENT

Fully 95 percent of Minnesota's manufacturers expect their employee wages to increase (46 percent) or stay

about the same (49 percent). For those who expect increases, 25 percent expect the increases to be 5 percent or less, 12 percent expect increases between five and ten percent, and seven percent anticipate increases of ten percent or more. The most frequent wage increases will come from companies over \$5 million in revenue (70 percent) and companies with more than 50 employees (69 percent). Less likely to increase are companies

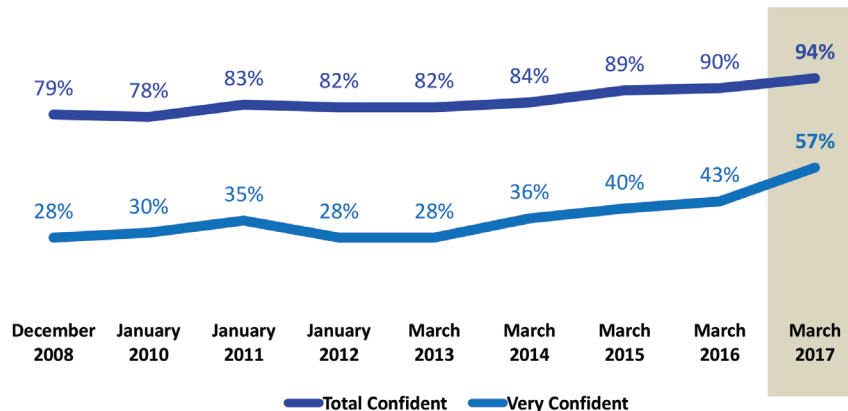
After rising for the fourth straight year, financial confidence is at an all-time high.

"From a financial perspective, how do you feel right now about the future for your company?"



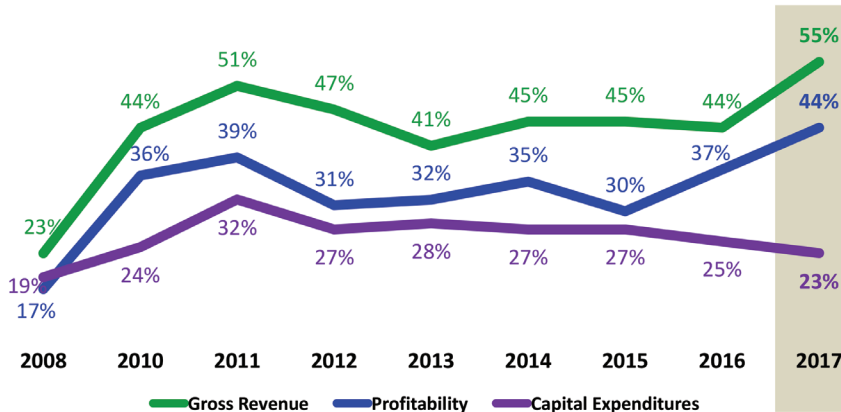
And for the first time, a majority of manufacturing executives say they are "very confident" about their firms' financial perspectives.

"From a financial perspective, how do you feel right now about the future for your company?"



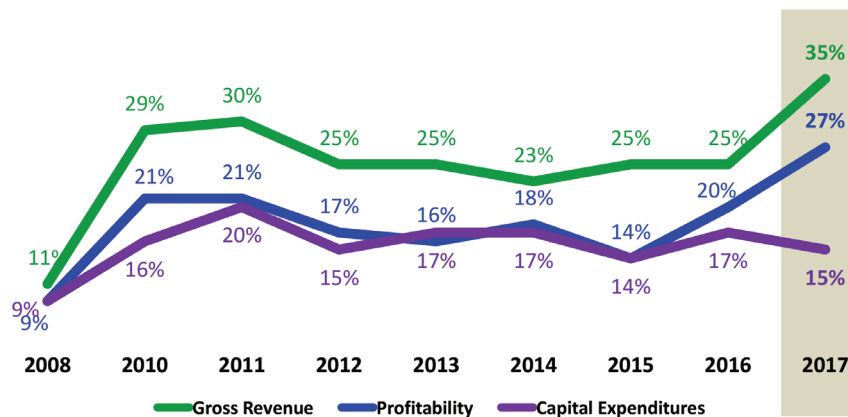
More than ever, these executives expect increases in gross revenue and profitability this year, though few expect increases in their capital expenditure.

Percent Expecting Increases Per Year



The number of executives expecting double-digit growth in revenue and profitability are at an all-time high.

Percent Expecting Increases More than 10% Per Year



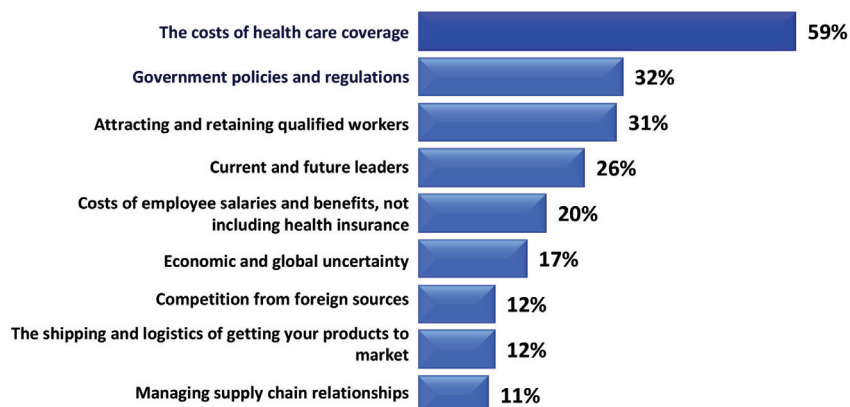
About the pollster

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

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

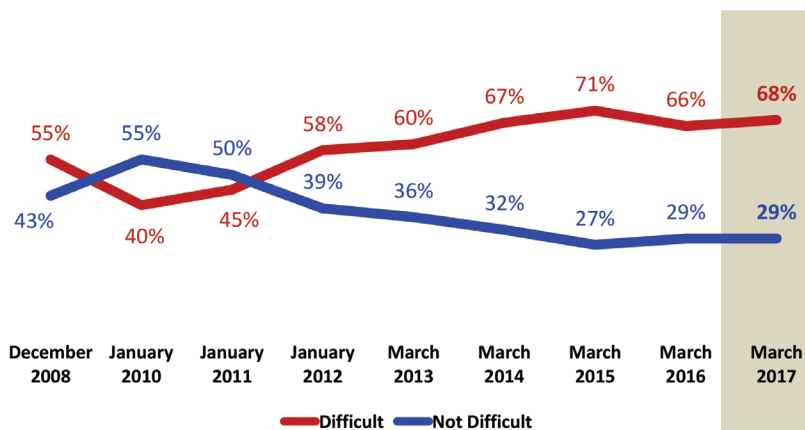
The cost of health care coverage is the top factor executives say their companies are concerned about.

Concerns Ranked By % Concern (8-10)



Two-thirds of executives say it is difficult to attract qualified candidates to their firm's vacancies.

"How difficult is it to attract qualified candidates for your firm's vacancies?"



with less than \$1 million in revenue (31 percent) or companies that have been in business less than 15 years (38 percent).

Only about one-third of Minnesota companies are "investing in employee development or leadership training to attract and retain qualified employees and managers," while about one fifth of those companies (21 percent) project investing more in those programs. Only 17 percent of companies have a

"structured leadership development plan" for employees, down three percent from both 2015 and 2016.

COLLABORATION

In a new question, manufacturers say that local educational institutions would be most helpful by developing internship programs (32 percent), followed by "develop better trained two-year graduates (25 percent) and "provide

in-house/company-specific training (17 percent).

TRADE & SUPPLY CHAIN RELATIONSHIPS

Thirty-four percent of companies say they have gained new business from customers wanting to have suppliers closer to their location, up from 26 percent in 2015 and 32 percent in 2016. The largest increase (49 percent) was realized by companies with more than



50 employees. The main driver for those gains was "shorter lead times" (33 percent), "total costs versus only product costs" (26 percent) and "closer relationships" (20 percent).

GROWTH

Companies are strategically planning for greater growth by a large margin. Fifty-four percent of manufacturers now have created strategic plans, fully 16 percent higher than 2016. The biggest increase (19 percent) comes from Greater Minnesota and smaller companies (17 percent, companies with revenue of less than \$1 million and 16 percent companies with revenue between \$1-5 million). ■