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MINNESOTA

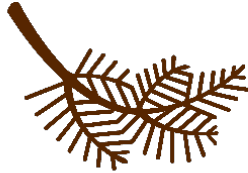
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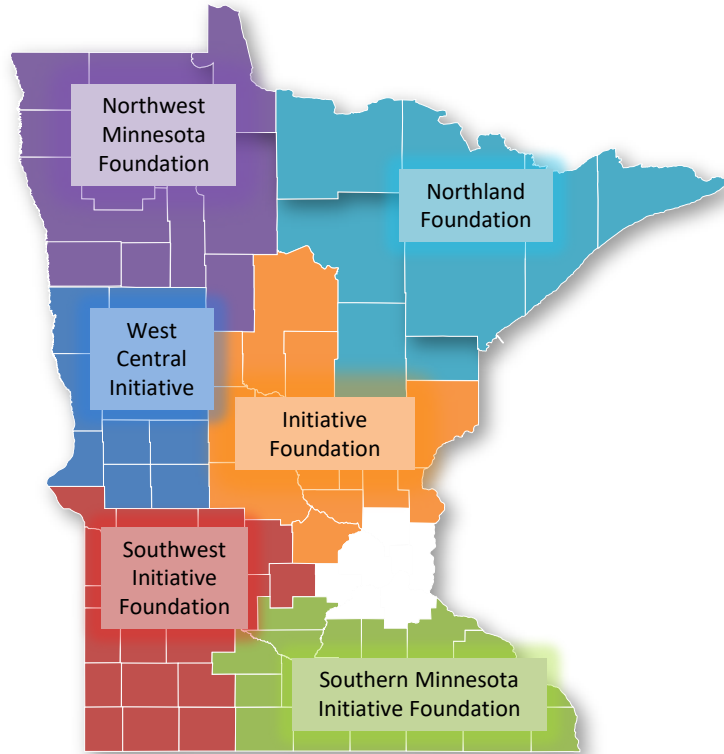
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The State[®] of Manufacturing[®] 10TH ANNIVERSARY

2018 Survey of Minnesota Manufacturing Executives



On behalf of Enterprise Minnesota, Meeting Street Research is pleased to present the key findings from the tenth annual survey of manufacturing executives in Minnesota.



The survey was conducted March 7-28, 2018, among 400 manufacturing executives; it has a margin of error of $\pm 4.9\%$. Respondent titles included owners, CEOs, CFOs, COOs, presidents, vice presidents, and managing officers.



We also completed 123 additional interviews among manufacturing companies outside the Twin Cities area to boost our sample size in the Minnesota Initiative Foundation regions.



Rob Autry is the founder of Meeting Street Research, a public opinion research firm based in Charleston, SC.

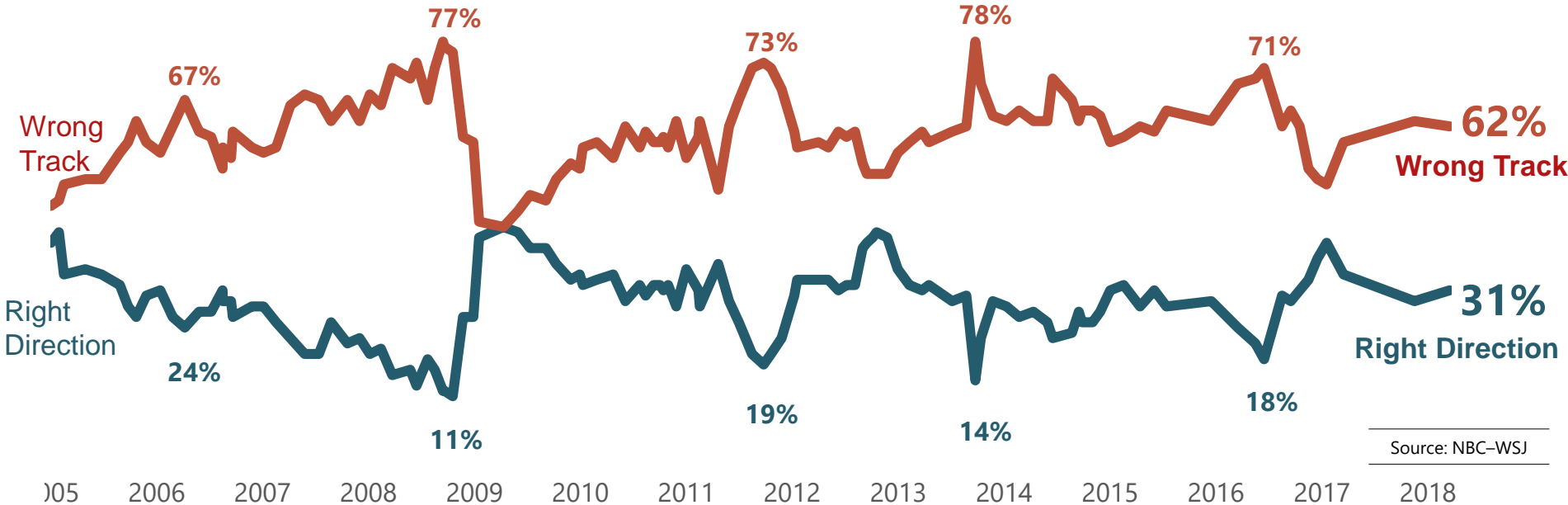


Overall Confidence Continues to Soar

Americans are pretty pessimistic about the direction the country is heading (and have been for a while)



“Now, all in all, do you think things in the nation are generally headed in the right direction, or do you feel things are off on the wrong track?”



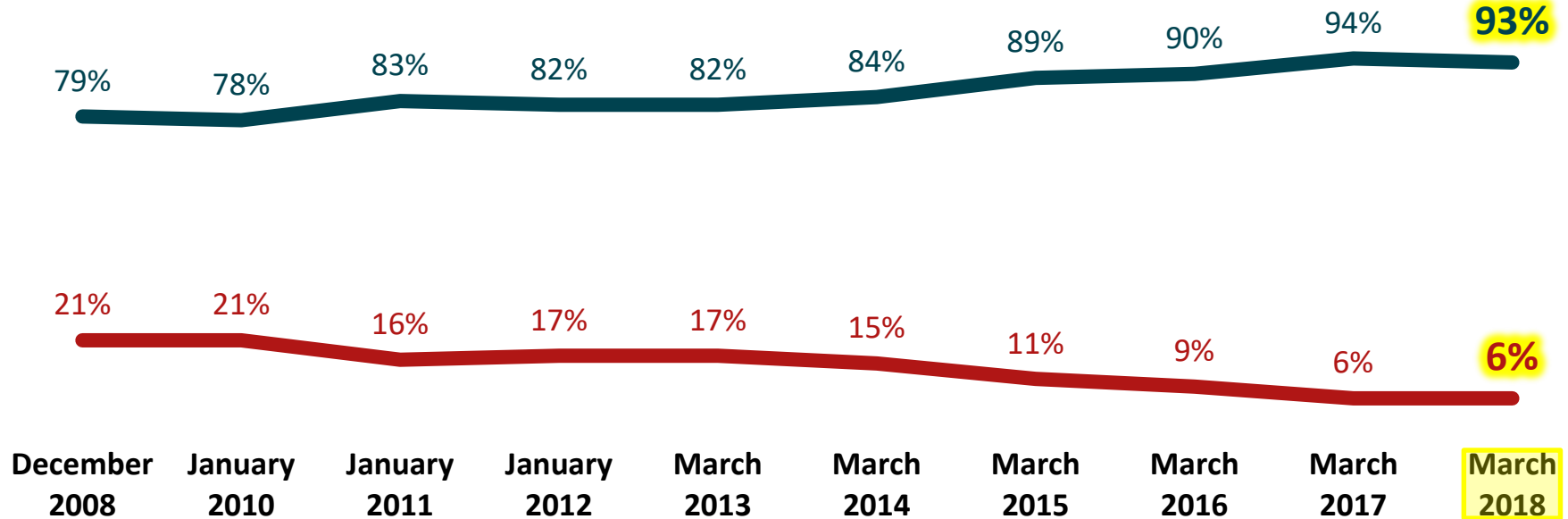
Source: NBC-WSJ

Financial confidence remains near record high levels.



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

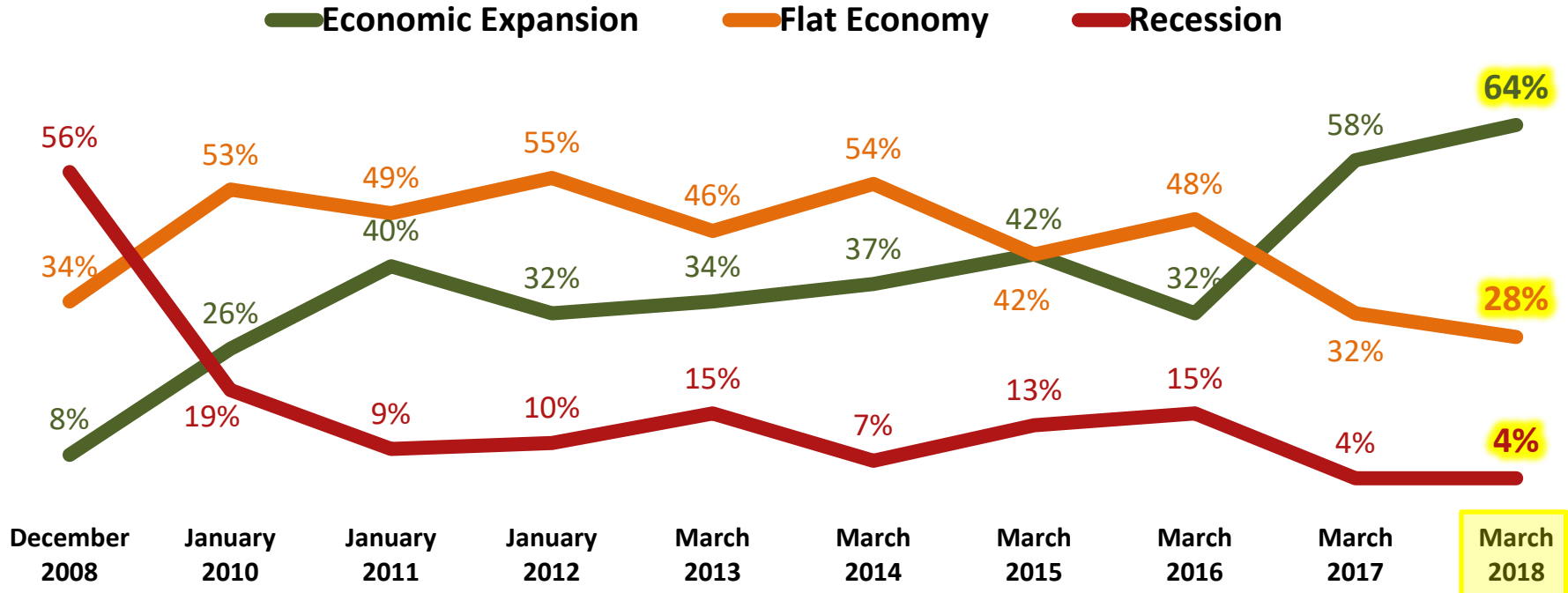
Confident **Not Confident**



Nearly two-thirds say 2018 will be a year of economic expansion.



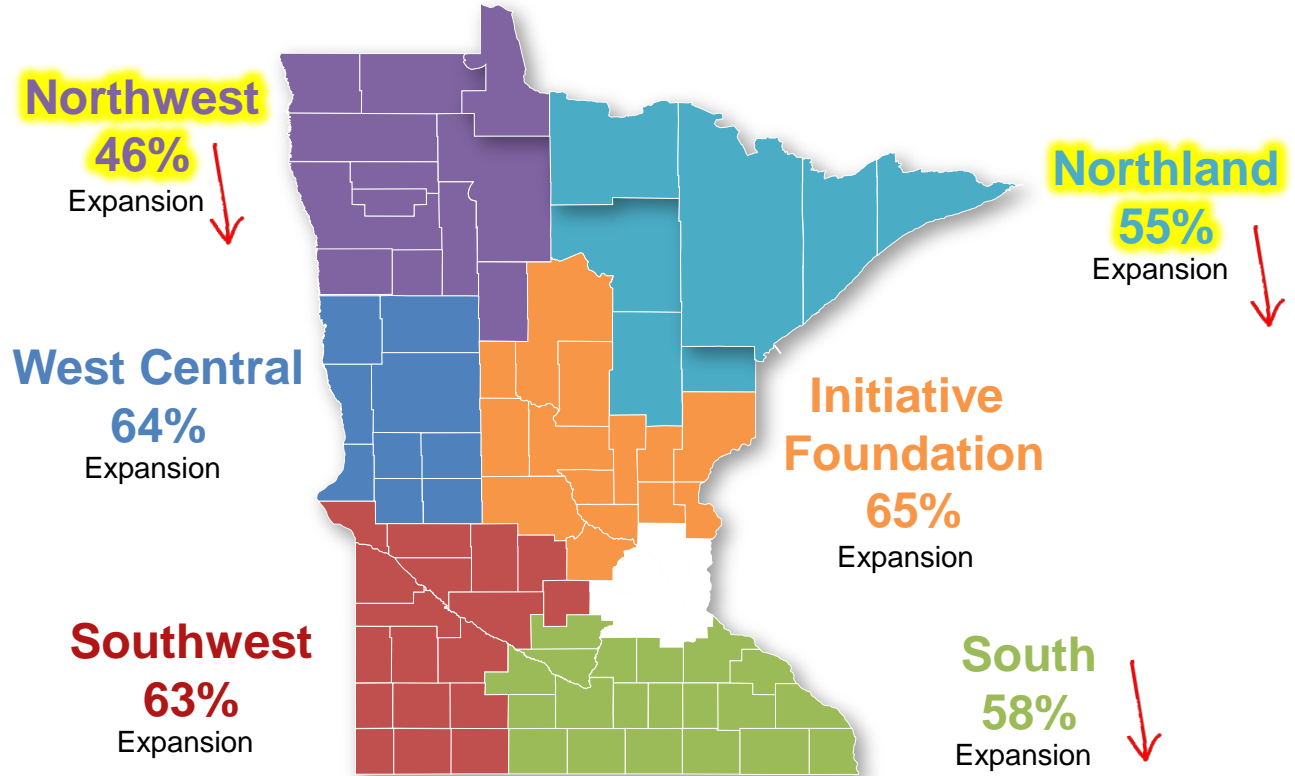
“Thinking about the upcoming year, in 2018, do you anticipate economic expansion, a flat economy, or a recession?”



Those companies in the northern portion of the state are less confident.

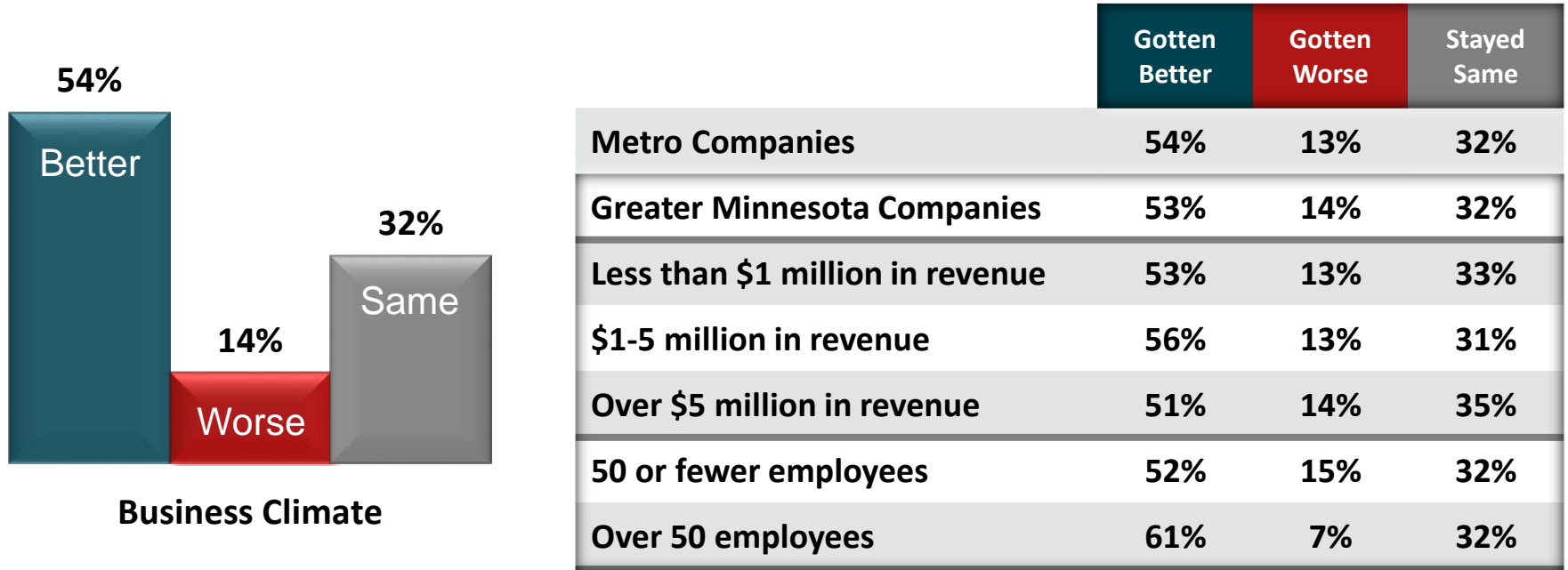


Among all manufacturers statewide, 65% say 2018 will be a year of economic expansion



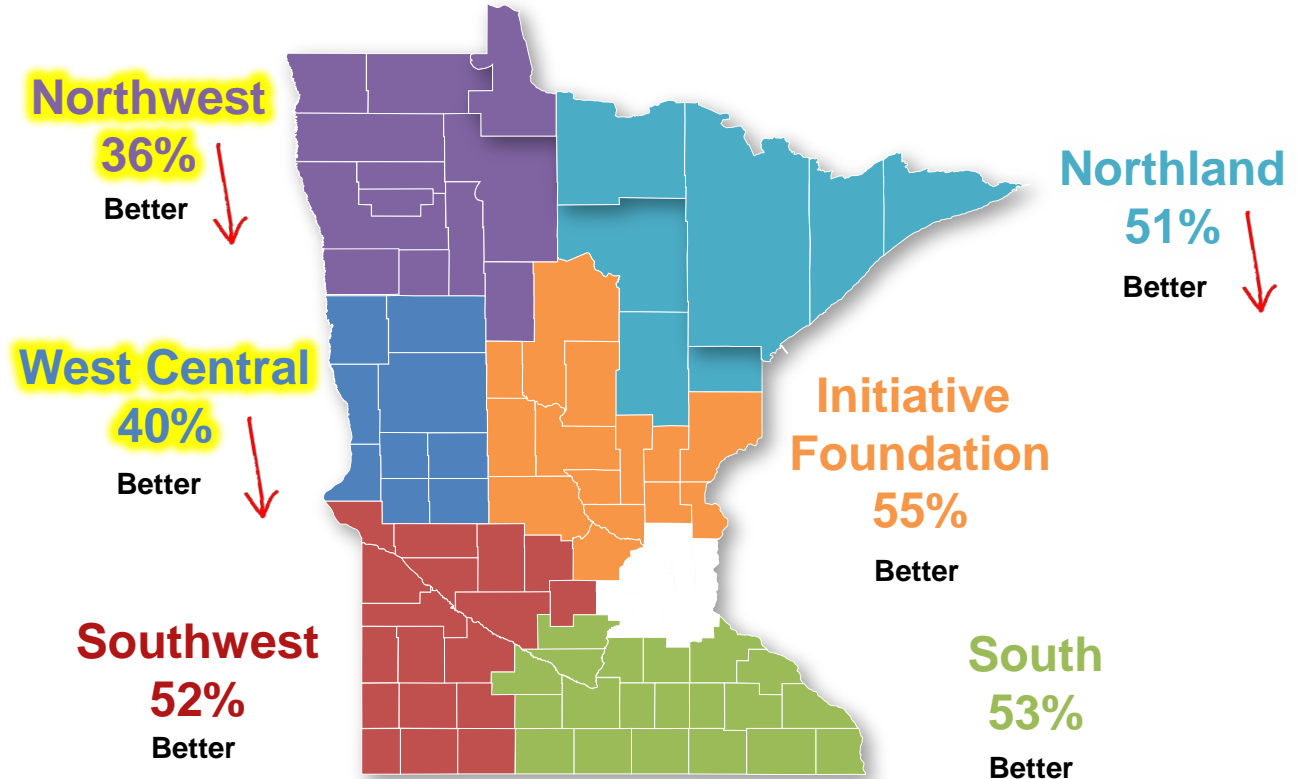


“Thinking about the business climate in Minnesota compared to say five years ago, would you say the business climate has gotten better, gotten worse, or stayed about the same?”





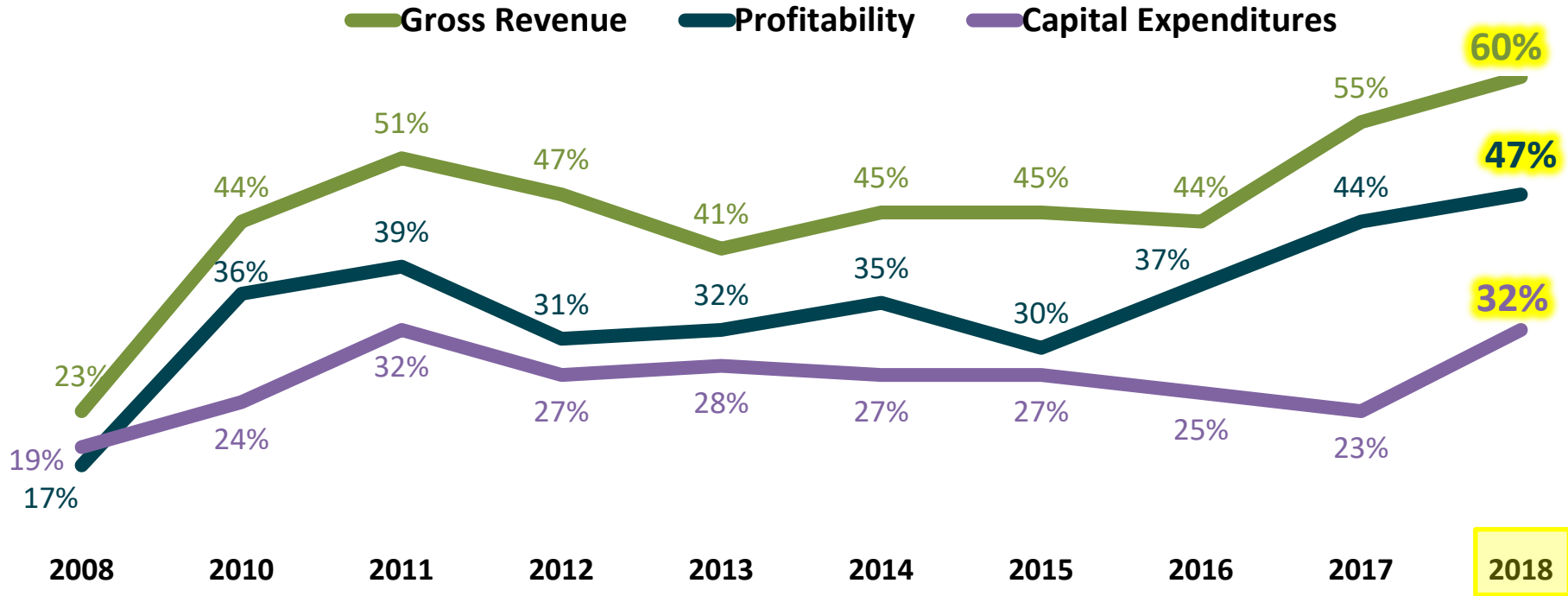
54% of all manufacturers say MN is a better business climate today than five years ago.



Individual company expectations are also in record high territory.



Percent of Manufacturers Expecting Increases in 2018 For...

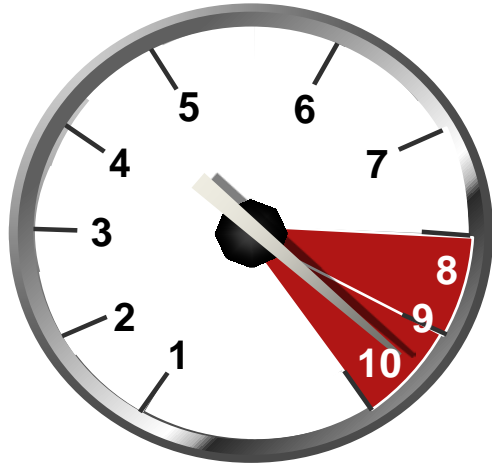




Qualified Worker Shortage Gives Health Care a Run for Its Money



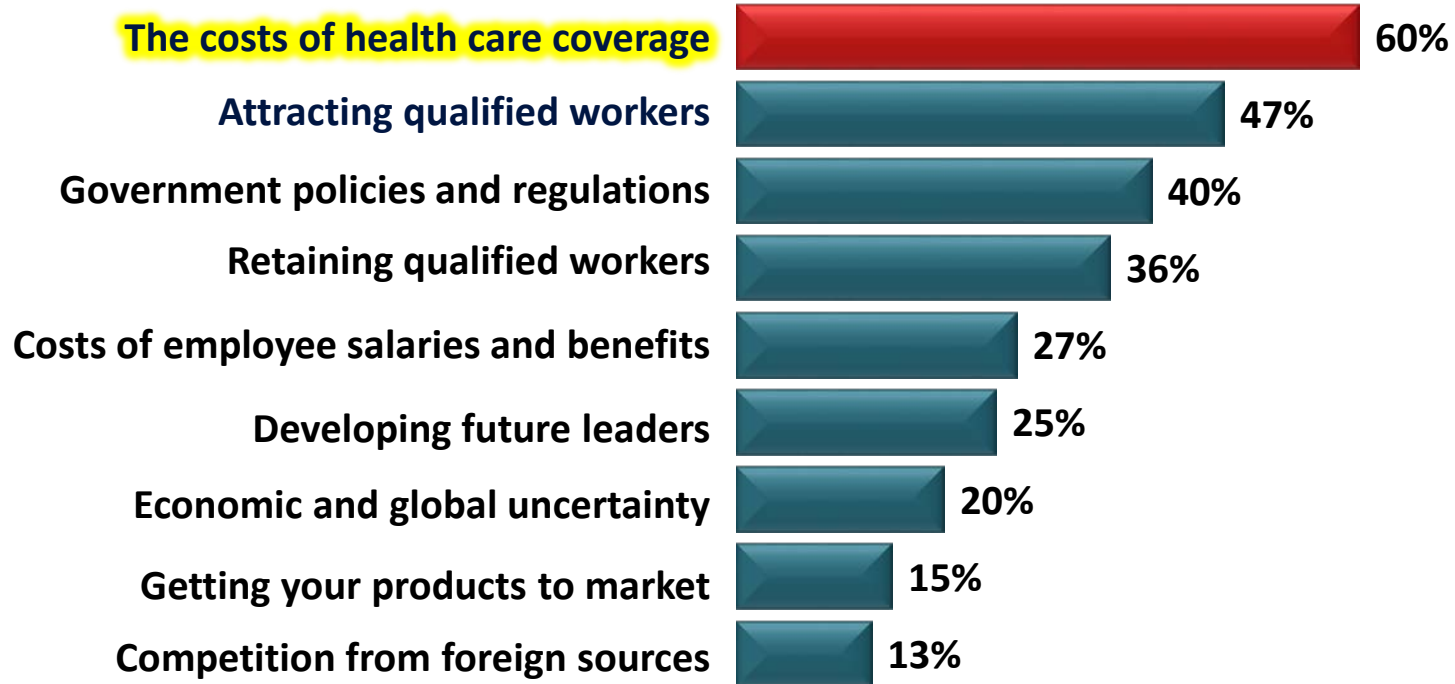
We asked manufacturing executives to rate how concerned they were about a series of factors affecting companies like theirs. In total, we had them rate 9 different factors.



“Now, I would like to read you a list of factors that some companies are concerned about. For each one, please rate how concerned your company is about that particular factor using a scale from 1 to 10, where one means that your company is **NOT AT ALL CONCERNED** about it and where ten means your company is **VERY CONCERNED** about it.”

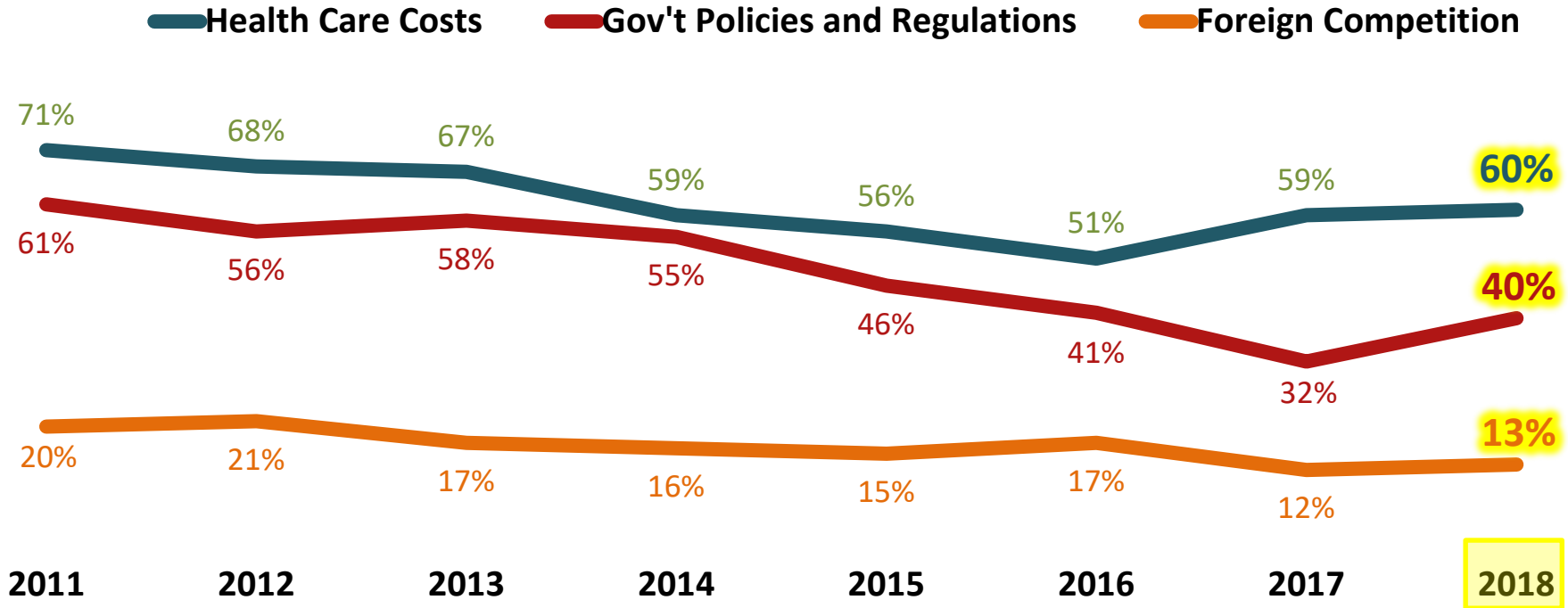


Concerns Ranked by % Concern (8-10)





Key Concerns Among Manufacturers Over Time (8-10 Ratings)





“What would you say are the one or two biggest challenges your company is facing that might negatively impact future growth?”

	2014	2015	2016	2017	2018
Attracting and retaining a qualified workforce	21%	29%	26%	34%	→ 48%
Cost of health care insurance	31%	41%	34%	36%	36%
Increasing costs of energy and materials for your products	29%	20%	15%	18%	→ 34%
Unfavorable business climate	48%	43%	40%	38%	→ 17%
Lower sales for your products	31%	23%	32%	22%	17%



Biggest Challenges By Company Size

	Less Than \$1 Million Revenue	\$1-\$5 Million Revenue	Over \$5 Million Revenue	50 or Fewer Employees	Over 50 Employees
Qualified Workforce	26%	57%	79%	38%	87%
Rising Health Care Costs	30%	46%	39%	36%	39%
Costs of Energy and Materials	42%	39%	19%	40%	11%
Unfavorable Business Climate	18%	16%	17%	16%	21%
Lower Sales	24%	14%	8%	20%	6%



Biggest Challenges By Initiative Regions

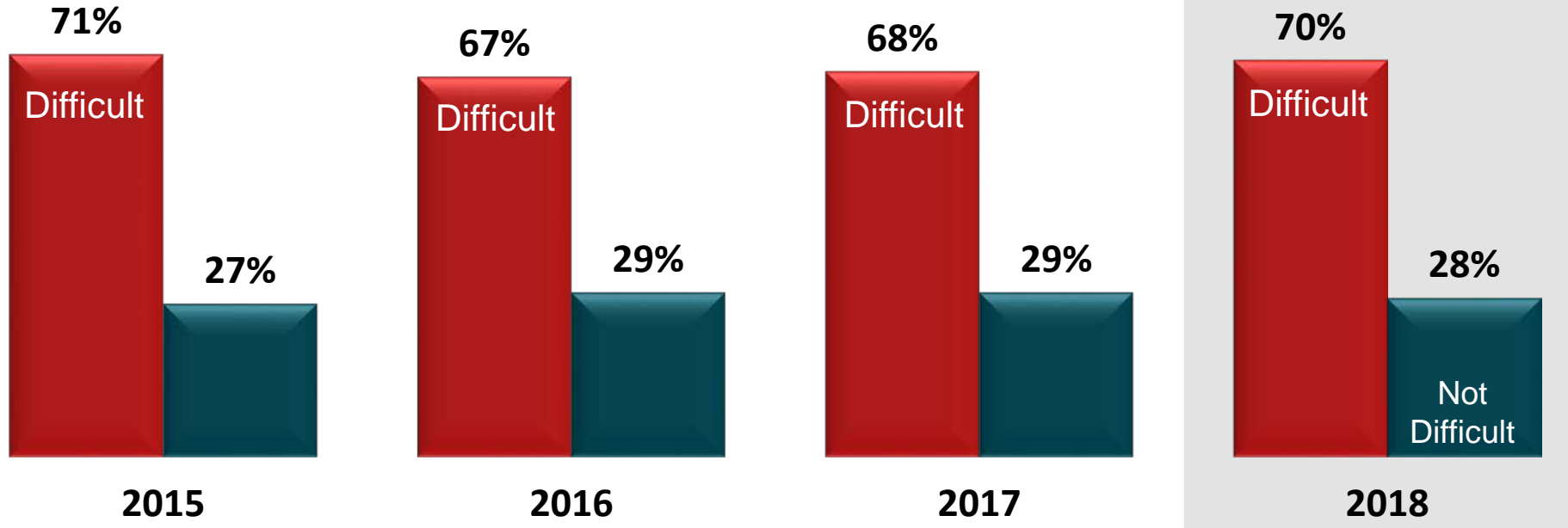
	IF Initiative	Northland	Northwest	South	Southwest	West Central
Qualified Workforce	32%	43%	45%	53%	60%	54%
Rising Health Care Costs	41%	33%	41%	37%	43%	42%
Costs of Energy and Materials	49%	43%	35%	35%	28%	38%
Unfavorable Business Climate	14%	19%	14%	11%	12%	8%
Lower Sales	16%	23%	22%	16%	11%	12%



Finding the Right Workers Is Proving to Be a Hard Job



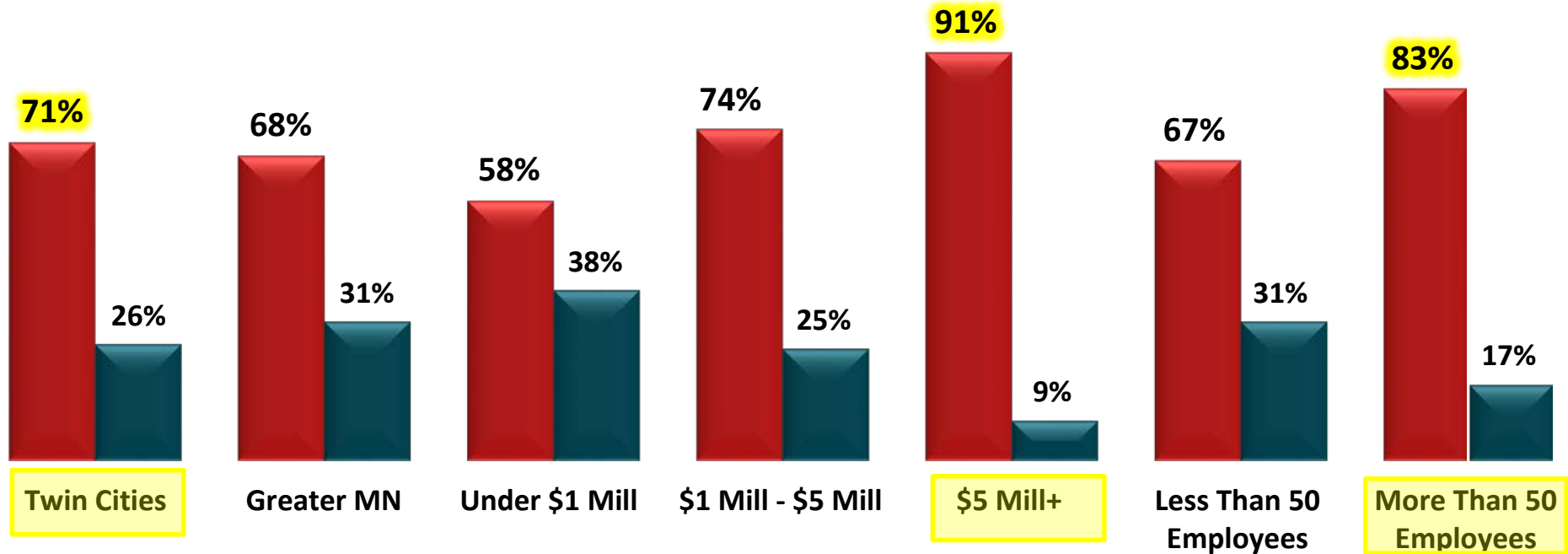
“What is the impact of your inability to attract qualified candidates having on your company growth?
Does it make things...”



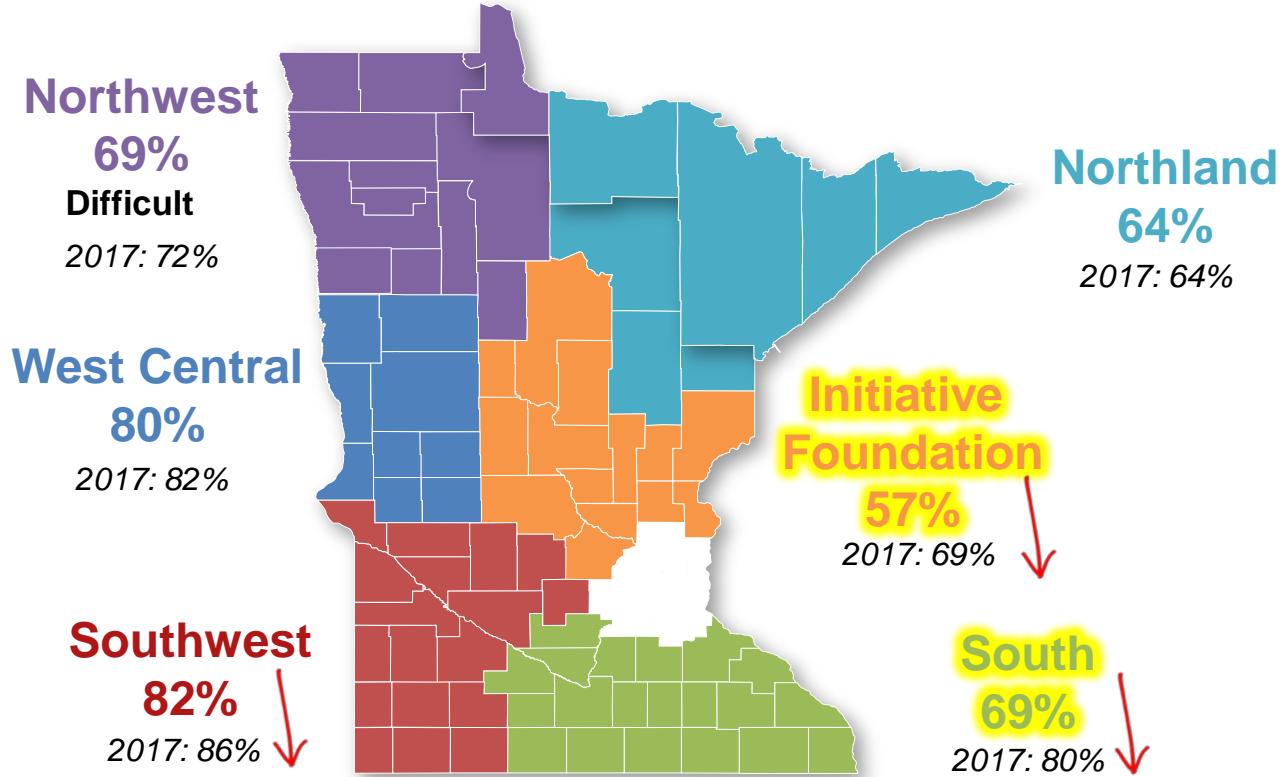


Inability To Attract Qualified Candidates Impact On Growth

■ Difficult ■ Not Difficult



The numbers in the initiative regions are better this year than in 2017.



But, we've seen an uptick in concern about this issue in the metro area.

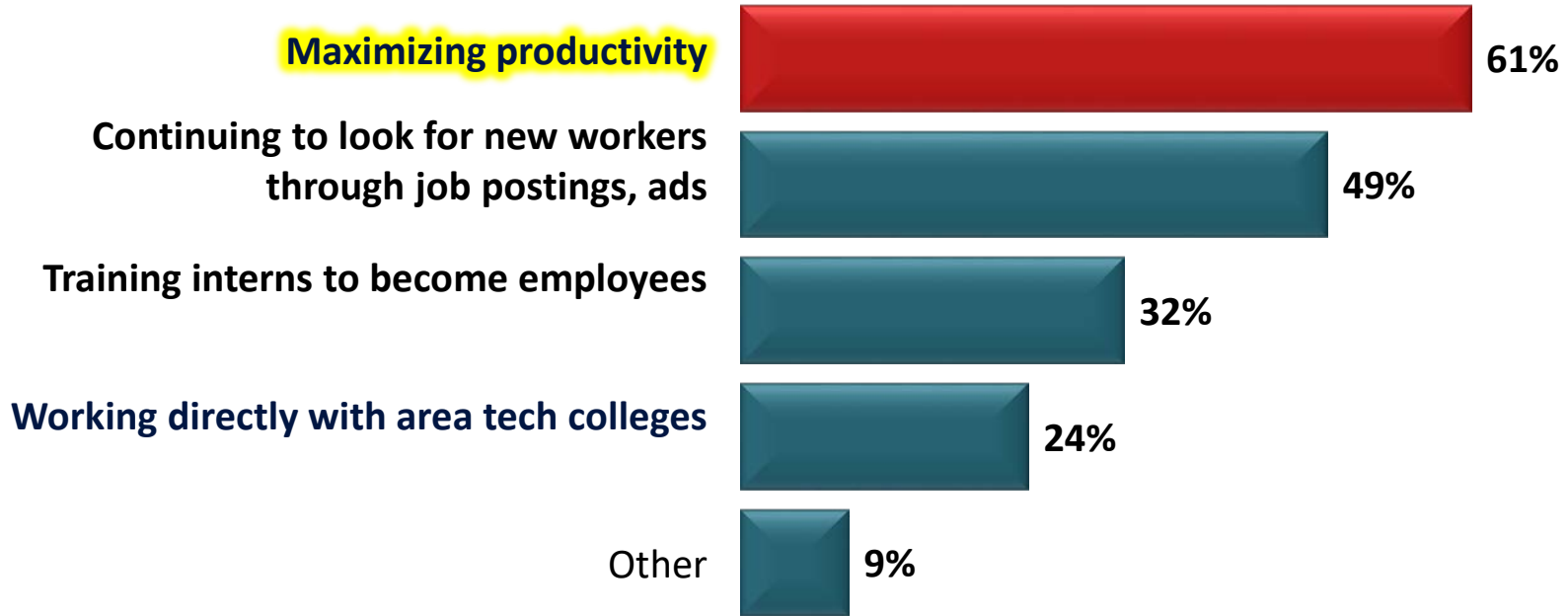


Concern Over the Ability to Attract and Retain Qualified Workers (% Concern 8-10)





“What are some of the things you are doing to navigate around the worker shortage challenges?”



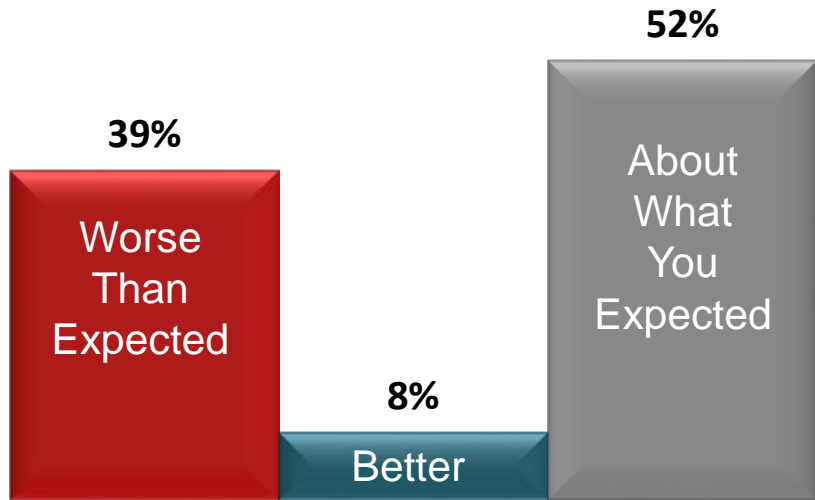


We told executives about a recent study about jobs and asked how that compares to their expectations:

“ A recent study projects that over the next five years, the number of unfilled jobs across Minnesota will increase from 60,000 to 280,000, and that hardest to fill jobs will be skilled technical positions. ”



“After hearing this, which one of the following views is closest to your own?”



MN Manufacturers

	Worse Than Expected
Metro Companies	43%
Greater Minnesota Companies	33%
Less than \$1 million in revenue	36%
\$1-5 million in revenue	37%
Over \$5 million in revenue	48%
50 or fewer employees	37%
Over 50 employees	47%



“Do you think this problem can be fixed, or not?”

	%
Yes, absolutely	23%
Yes, probably	50%
Maybe	3%
No, probably not	18%
Not really sure	6%

**Yes, Can Be
Fixed**

	Yes
Metro Companies	76%
Greater Minnesota Companies	71%
Less than \$1 million in revenue	82%
\$1-5 million in revenue	69%
Over \$5 million in revenue	64%
50 or fewer employees	77%
Over 50 employees	59%

The skills mismatch remains the main reason candidates haven't followed through.



“For what reasons have job candidates not taken a job or followed through with an interview?”

	2015	2016	2017	2018
The skills required for the job didn't match the candidate's	52%	44%	51%	52%
Compensation is not competitive	27%	25%	26%	24%
Long commuting time or distance	18%	13%	19%	19%
Work schedules not flexible enough or don't fit applicant's desires	16%	10%	16%	18%
The perceived lack of upward job mobility	23%	16%	14%	17%
Lack of child care options	N/A	N/A	N/A	8%



“When looking to hire new employees, where is your need greatest?”

	2013	2014	2015	2016	2017	2018
Entry-level employees	20%	22%	25%	30%	28%	33%
Employees with formal technical training	19%	21%	23%	21%	25%	27%
Employees with on the job experience	N/A	N/A	N/A	N/A	N/A	30%
Employees with technical training and experience	49%	47%	39%	38%	36%	N/A
Employees with four-year college degrees	6%	6%	6%	4%	4%	4%



Greatest Needs In Hiring New Employees

	Metro Companies	Greater Minnesota Companies	Less Than 50 Employees	More Than 50 Employees
Entry-level employees	34%	33%	28%	54%
Employees with formal technical training	31%	21%	27%	26%
Employees with on the job experience	25%	37%	34%	17%
Employees with four-year college degrees	5%	2%	4%	3%



Most In-Demand Jobs

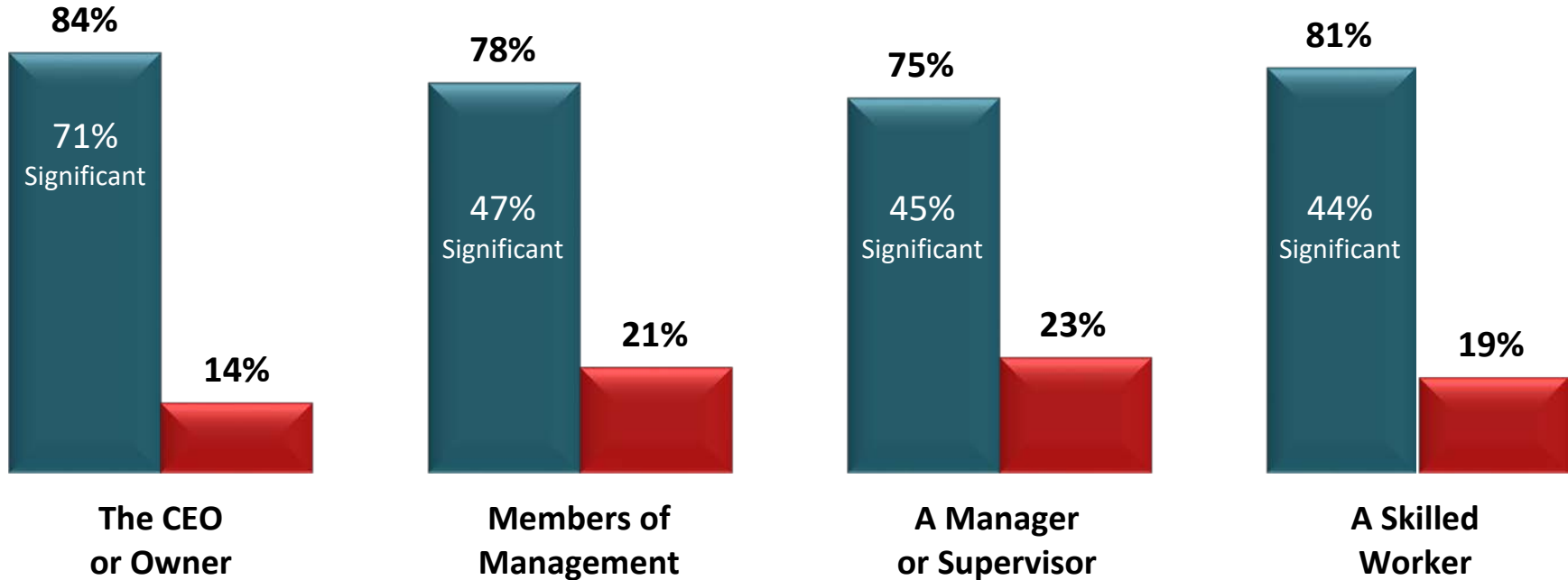
	2015	2016	2017	2018
Machine Operator	29%	32%	38%	41%
Assembler	23%	25%	20%	24%
Welder	9%	9%	9%	8%
Front office or administrative help	<i>N/A</i>	<i>N/A</i>	7%	5%
Engineer	10%	7%	6%	5%
Supervisor	4%	4%	2%	2%
Senior Leadership Position	<i>N/A</i>	<i>N/A</i>	1%	1%
Other	22%	17%	14%	12%

Departures across the spectrum would have an impact on MN companies.



“What impact, if any, would the departure of ___ have on your company?”

■ Significant/Some Impact ■ Not Much/No Impact



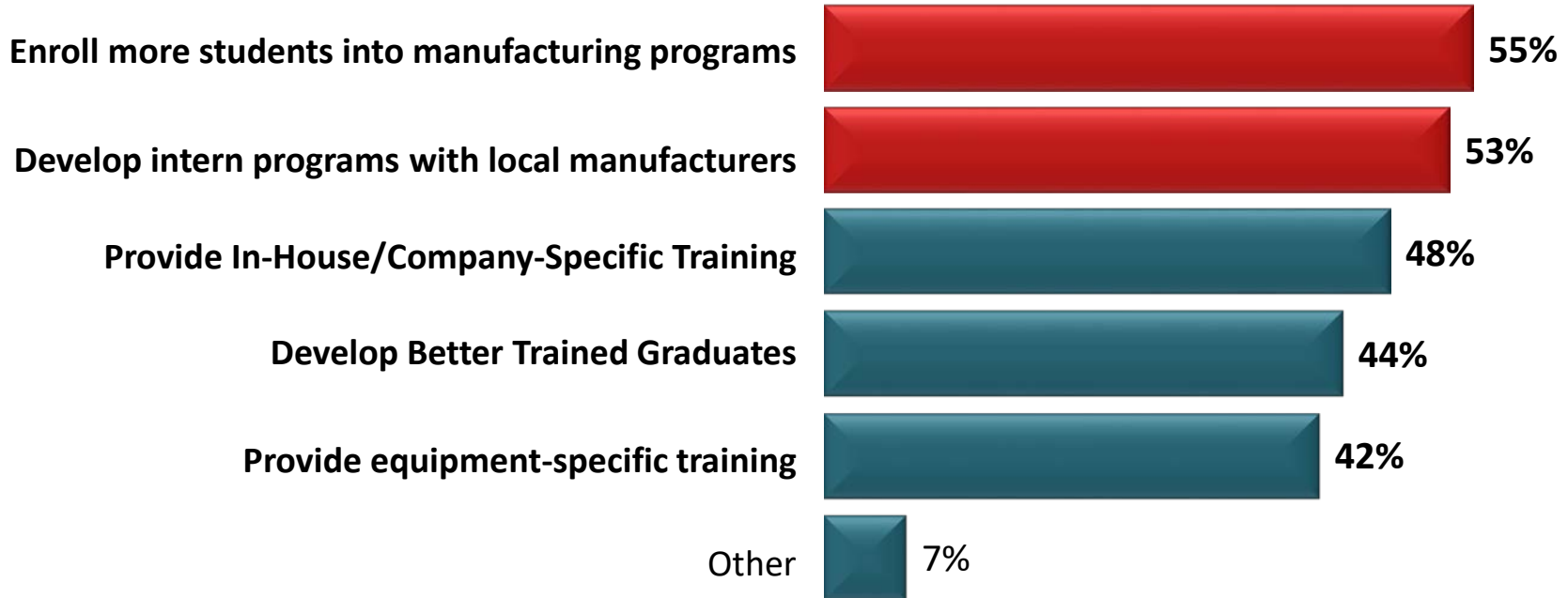


Impact of Departure of Key Employees By Types of Companies

	The CEO or Owner	Members of Management	A Manager or Supervisor	A Skilled Worker
Metro Companies	67%	48%	44%	44%
Greater Minnesota Companies	77%	46%	47%	42%
Less than \$1 million in revenue	81%	50%	45%	49%
\$1-5 million in revenue	64%	49%	51%	46%
Over \$5 million in revenue	67%	43%	39%	35%
50 or fewer employees	74%	49%	46%	47%
Over 50 employees	60%	39%	42%	31%



“What could local educational institutions do to attract more students into programs?”

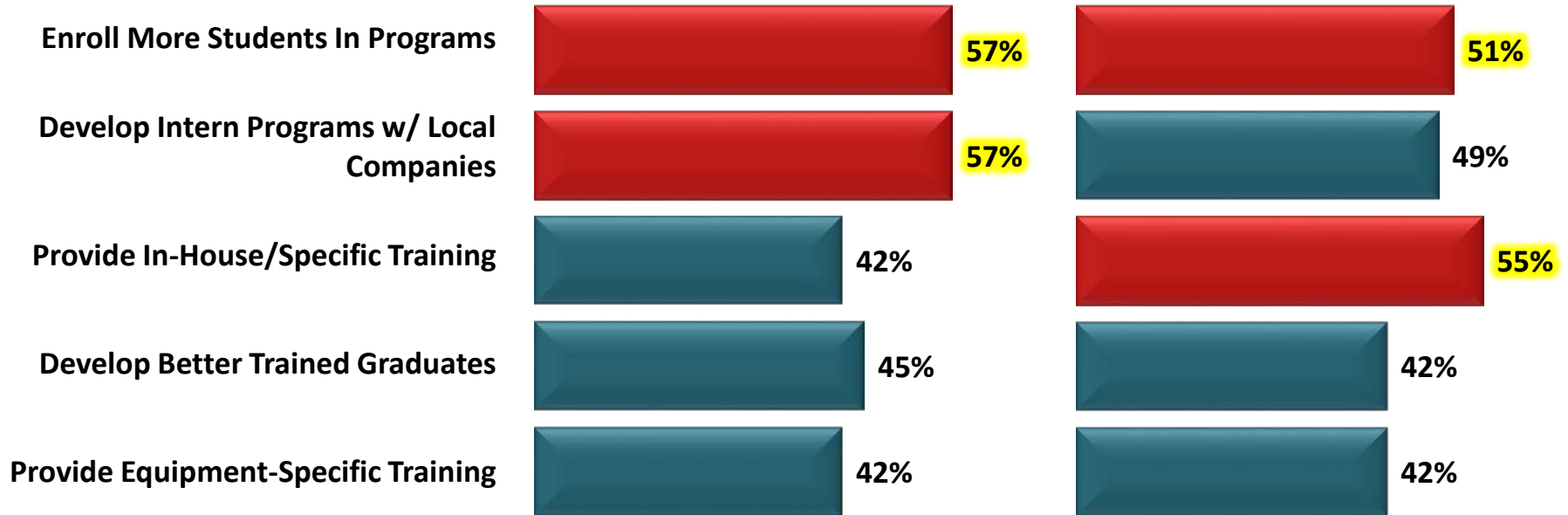


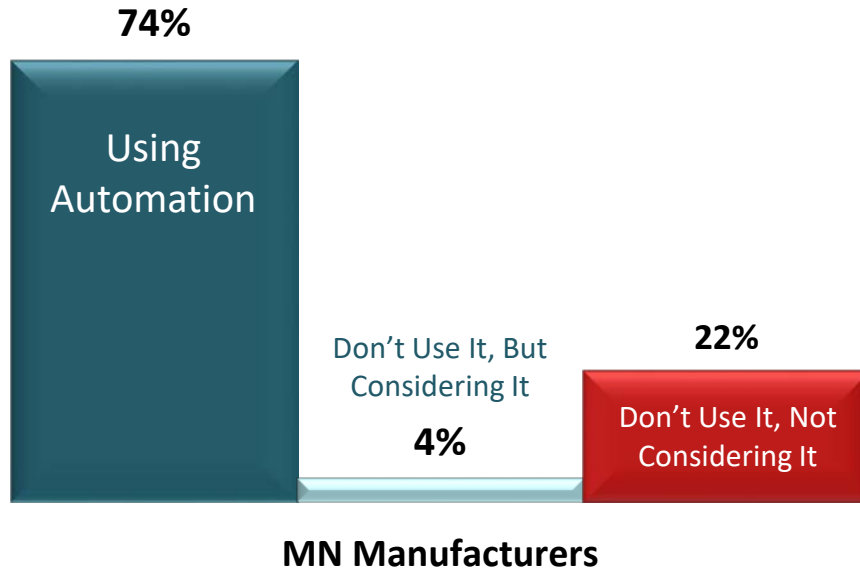


“What could local educational institutions do to attract more students into programs?” By Location

Metro Area

Greater MN





“When your company uses automation do you do so because of...”

	Automation Uses
Productivity	61%
Quality of the product	52%
Safety of the workforce	45%
Enhancing the work environment	39%



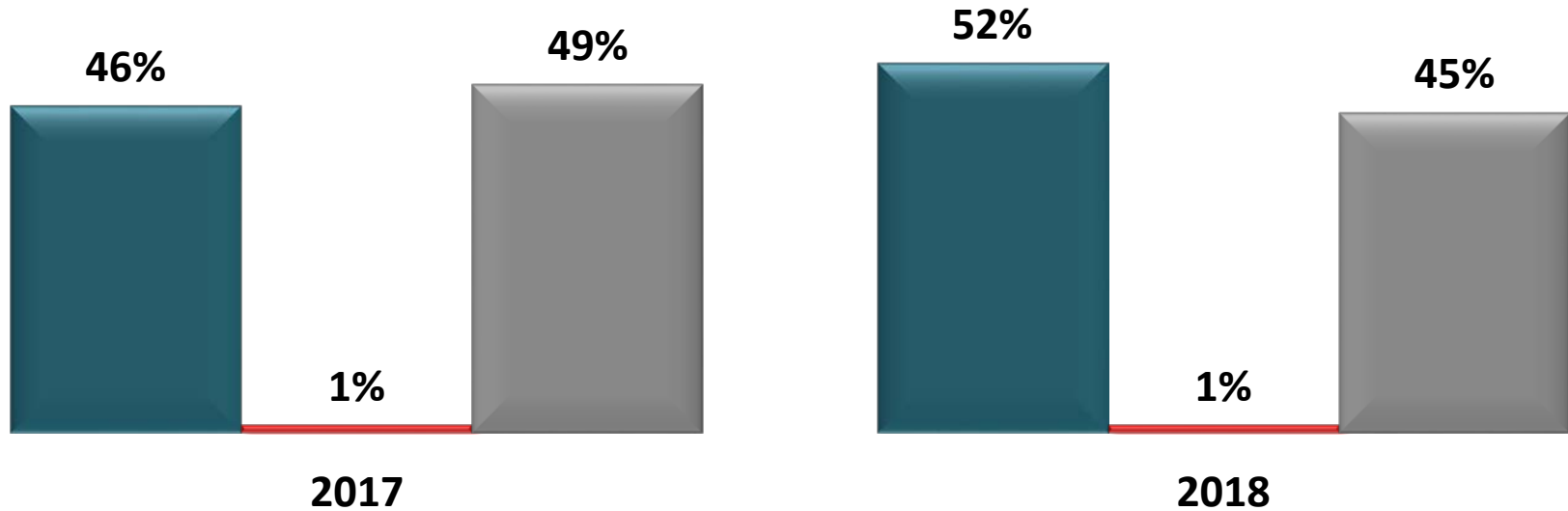
Money, Money, Money *(and Training)*

Over half of all companies say they are increasing worker wages in 2018.



“Have or will wages for your employees increase for 2018, or will they decrease or stay about the same?”

■ Increase ■ Decrease ■ Stay About the Same





“And, what percentage do you expect wages at your company to increase in 2018?”

	2017 Wage Increase	2018 Wage Increase
Wage Increase Less Than 5%	25%	27%
Between 5% – 10%	12%	14%
Increase 10% Or More	7%	10%

Asked only among those who expect wages to increase, Bases shown calculated among overall



2018 Wages Increase By Company Breakdown

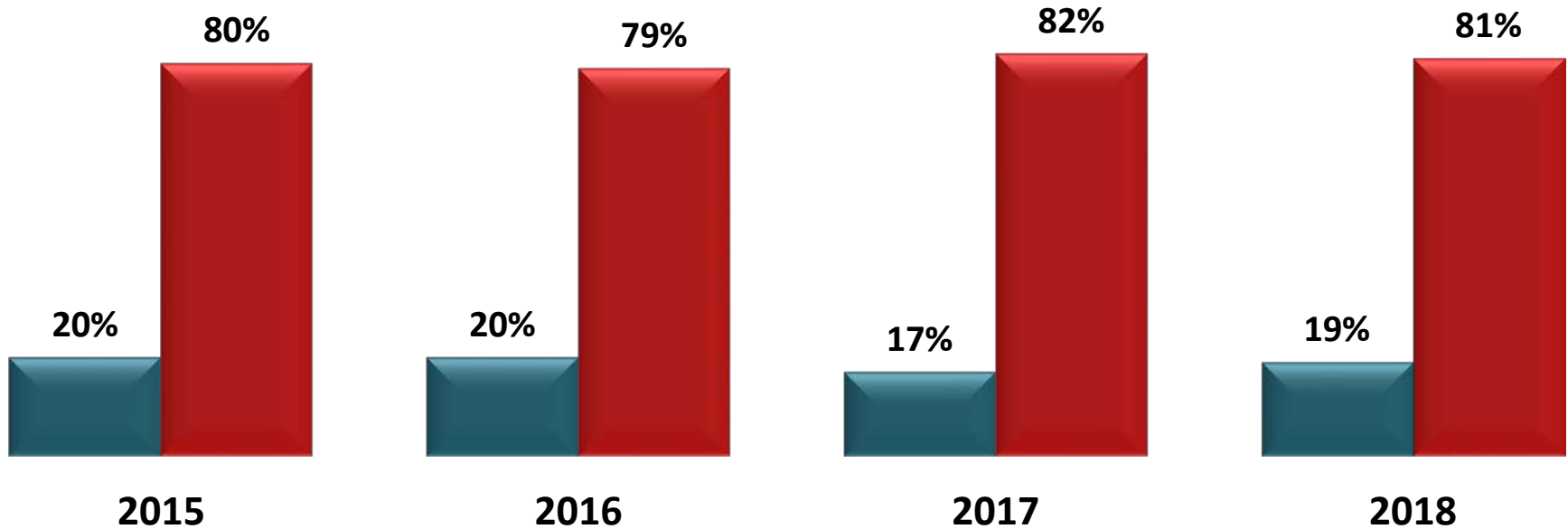
	Increase 2017	Increase 2018
Metro Companies	45%	55%
Greater Minnesota Companies	48%	48%
Less than \$1 million in revenue	31%	35%
\$1-5 million in revenue	54%	65%
Over \$5 million in revenue	70%	68%
50 or fewer employees	41%	49%
Over 50 employees	69%	64%

The percentage of companies with leadership development programs hasn't changed.



“Does your company have a structured leadership development program for employees at all levels at your company?”

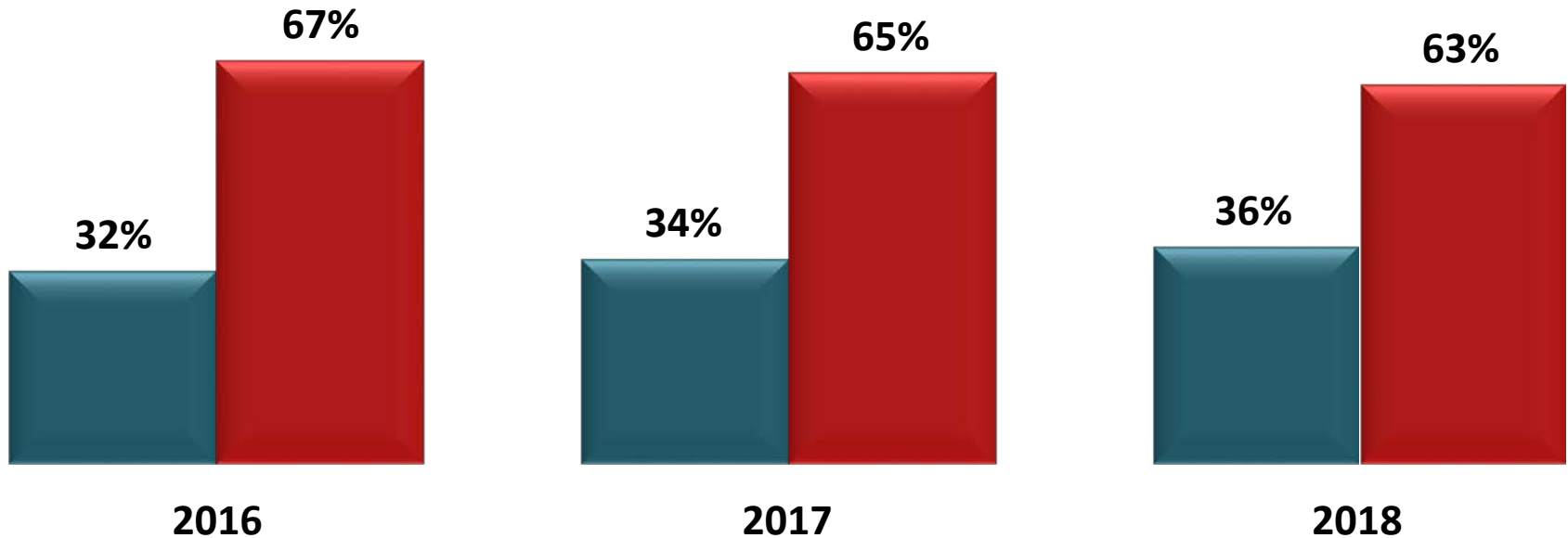
■ Yes ■ No





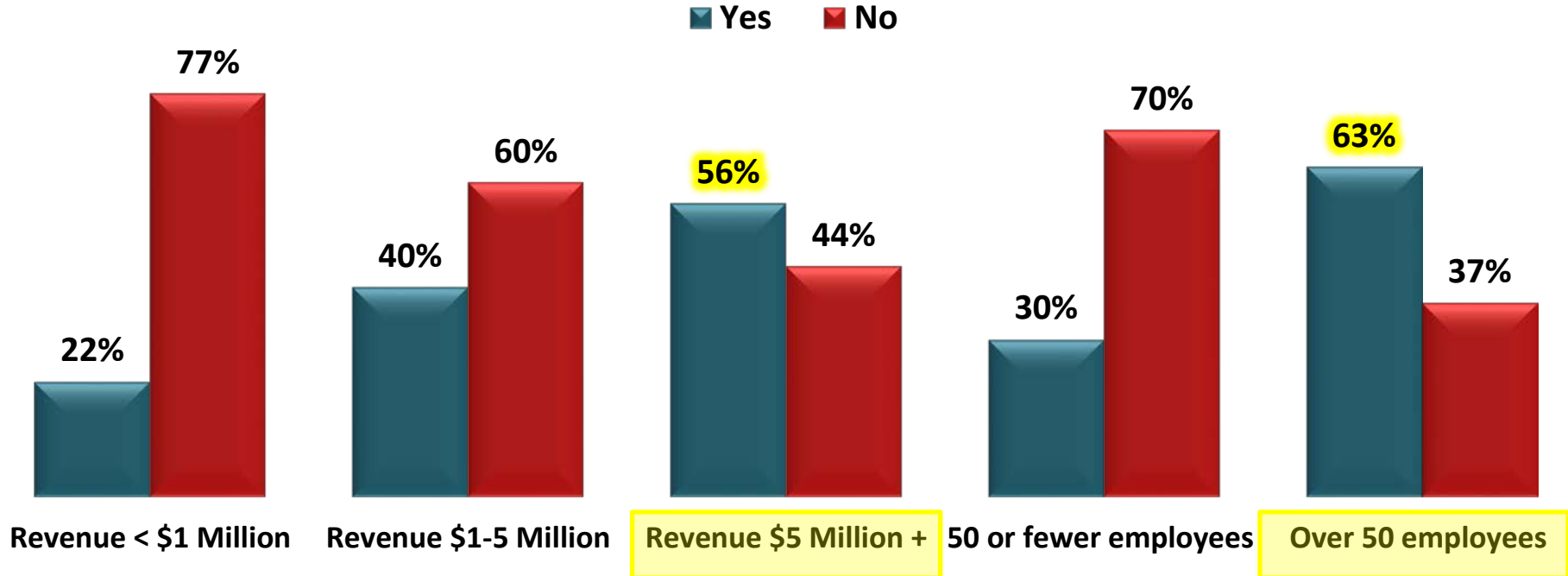
“Are you currently investing in employee development or leadership training in order to retain qualified employees?”

■ Yes ■ No





Investing In Employee Development/Leadership Training By Company Size



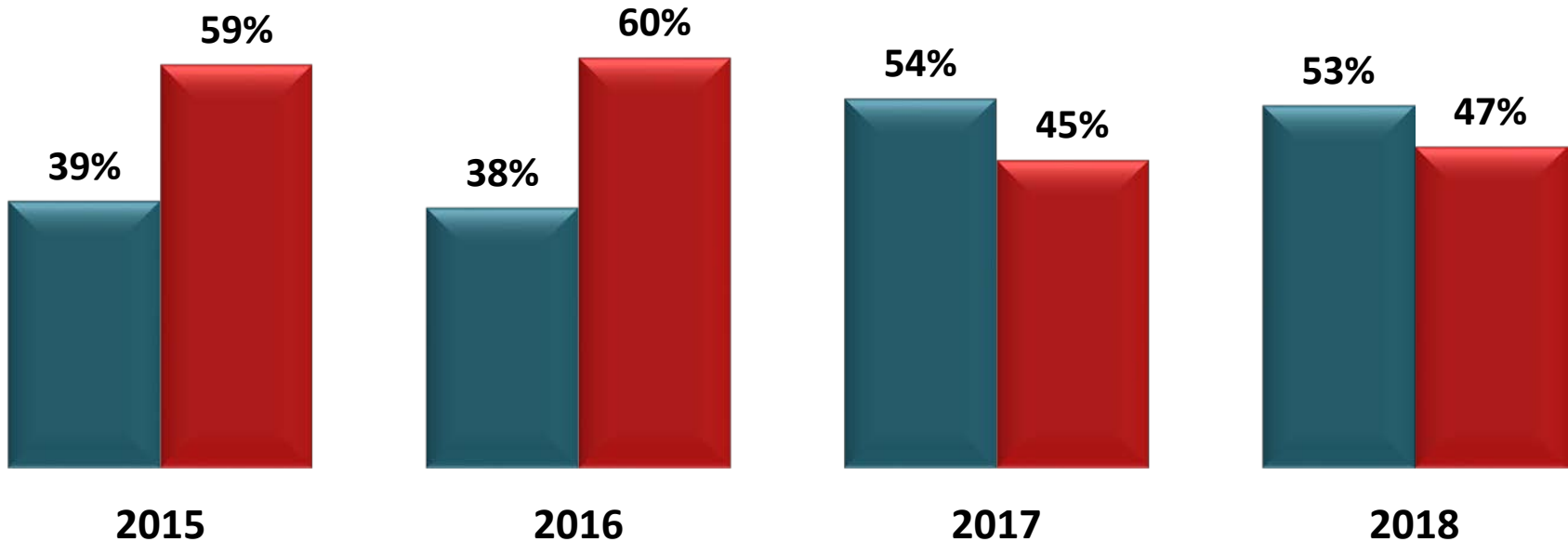


Manufacturers Are Charting a Course for the Future



“Does your company have a formal strategic plan for profitable growth?”

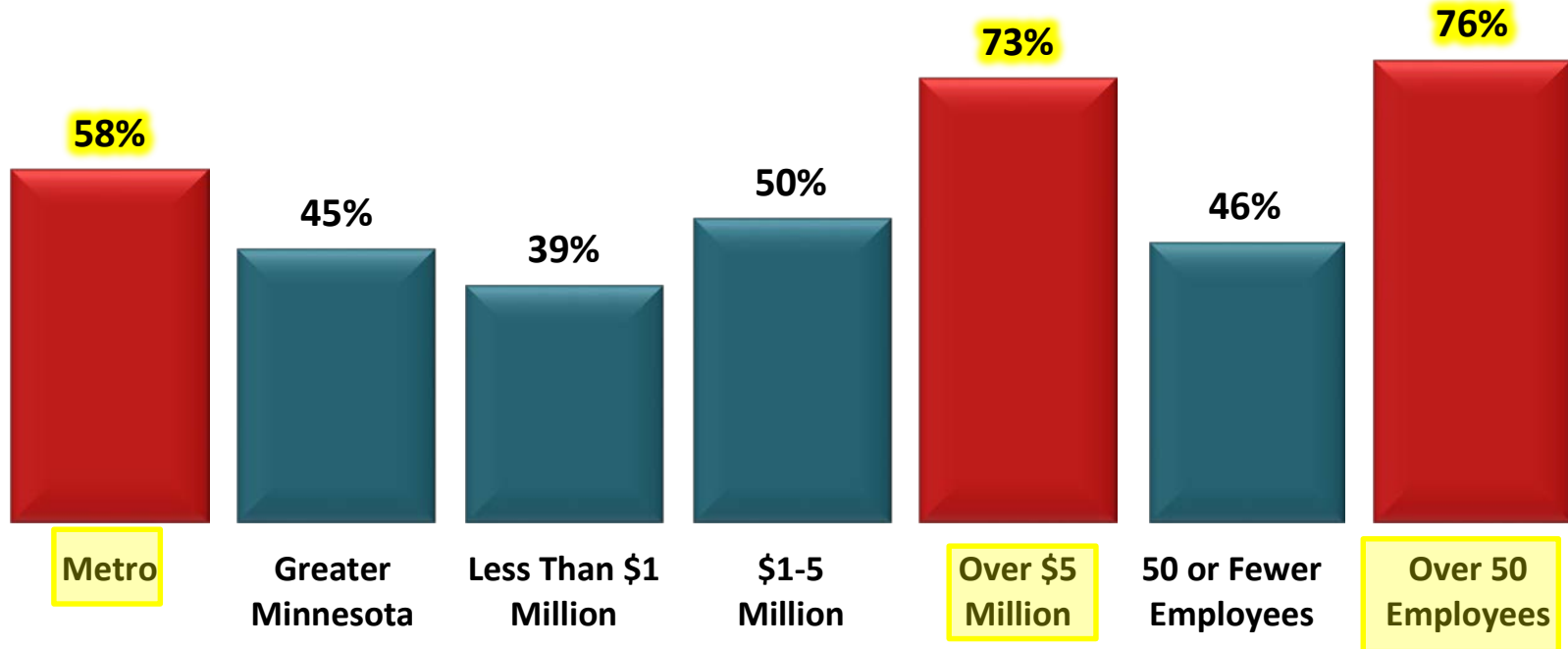
■ Yes ■ No



But, there are significant differences by location, revenue, and employee size.



% Who Have A Formal Strategic Growth Plan By Company Breakdown





“How does your company plan to grow?”



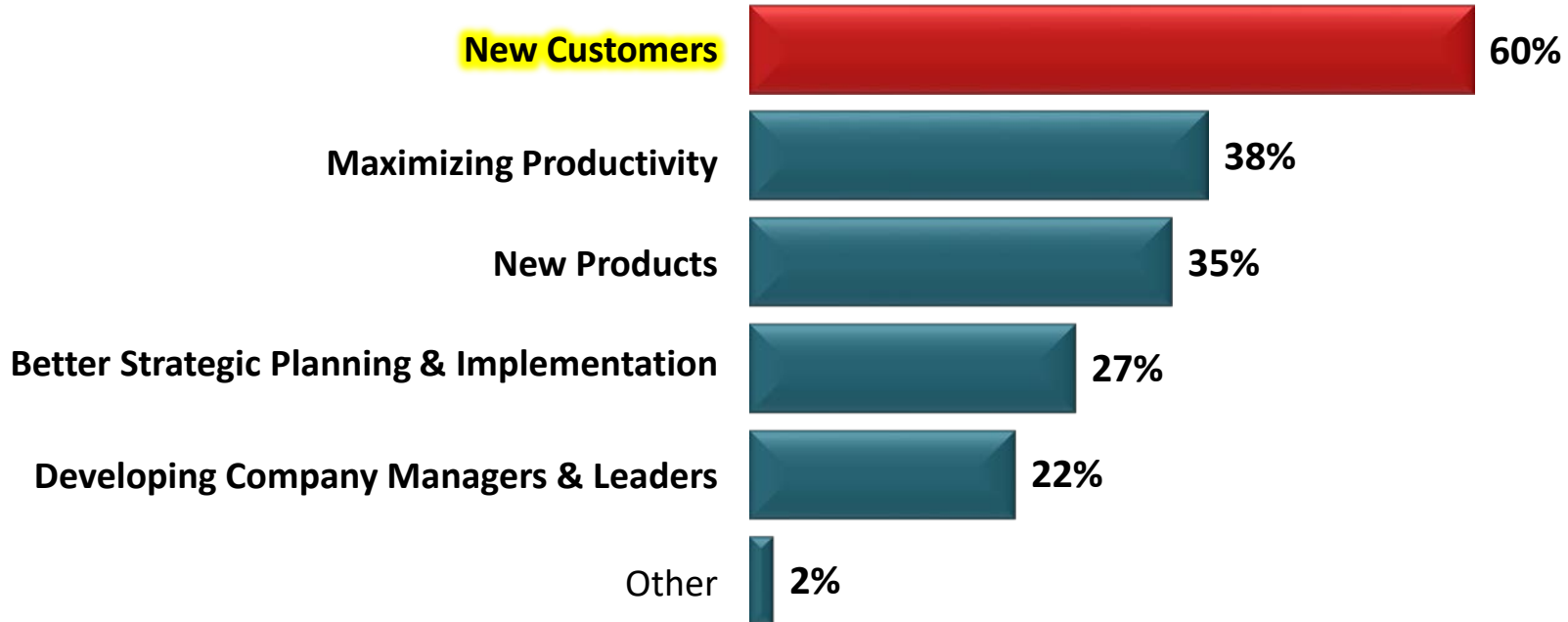


Plan For Growth By Company Revenue

	Under \$1 Million Revenue	\$1 - \$5 Million Revenue	\$5 Million Revenue
The strategy is strictly the role of the CEO	38%	28%	13%
We have a 1-3 year written plan and all staff know their roles and actions to achieve the plan	22%	27%	34%
Our company has some ideas, but has not yet worked through what our primary focus is, and is not	20%	19%	20%
We have a plan, but that needs to be further communicated with staff	10%	21%	30%



“What would you say are the two or three most important drivers of your company’s future growth?”



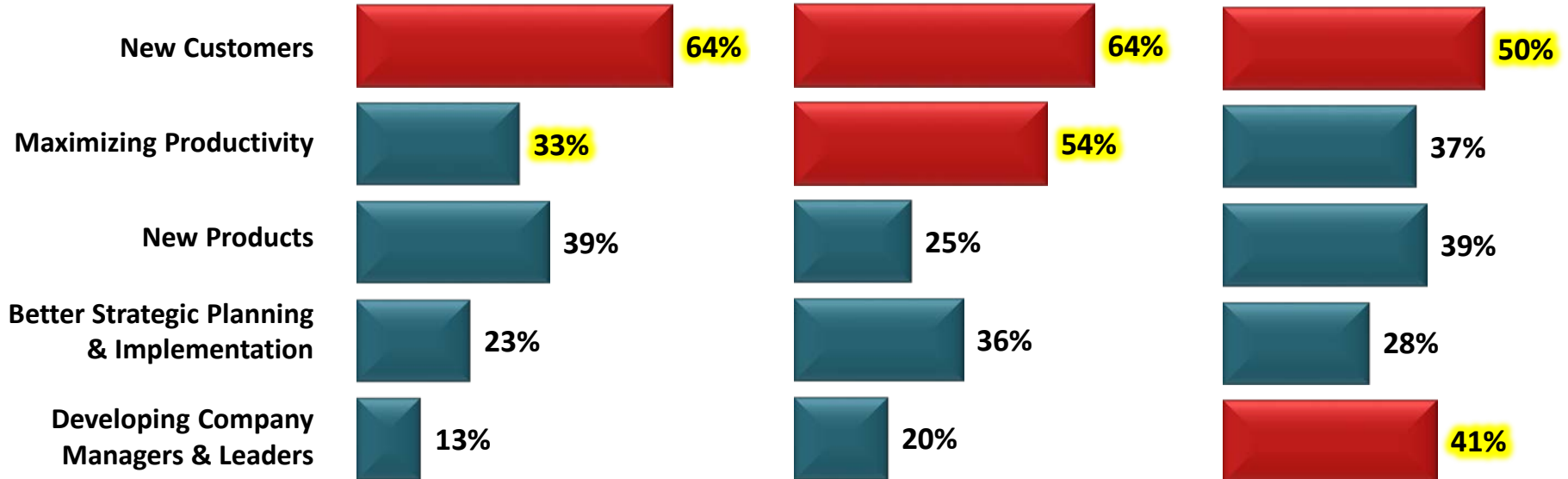


Most Important Drivers of Future Growth By Revenue Size

Revenue Under \$1 Million

Revenue \$1-\$5 Million

Revenue Over \$5 Million





Plans To Increase Investment In Area In 2018 By Company Size

	Under \$1 Million Revenue	\$1 - \$5 Million Revenue	\$5 Million Revenue	50 or Fewer Employees	Over 50 Employees
Growing Revenue and Profitability	66%	69%	73%	67%	71%
Maximize Productivity	61%	71%	69%	64%	73%
Systems and Technology	30%	34%	48%	33%	46%
Expanding Within The US	34%	35%	39%	35%	39%
Staff Development and Culture	20%	38%	46%	27%	55%
Expanding Globally	9%	9%	21%	10%	21%
ISO Business Management Systems	6%	13%	17%	10%	15%
Minimizing Business Risk	7%	7%	9%	8%	6%
Mergers and Acquisitions	1%	2%	5%	1%	6%

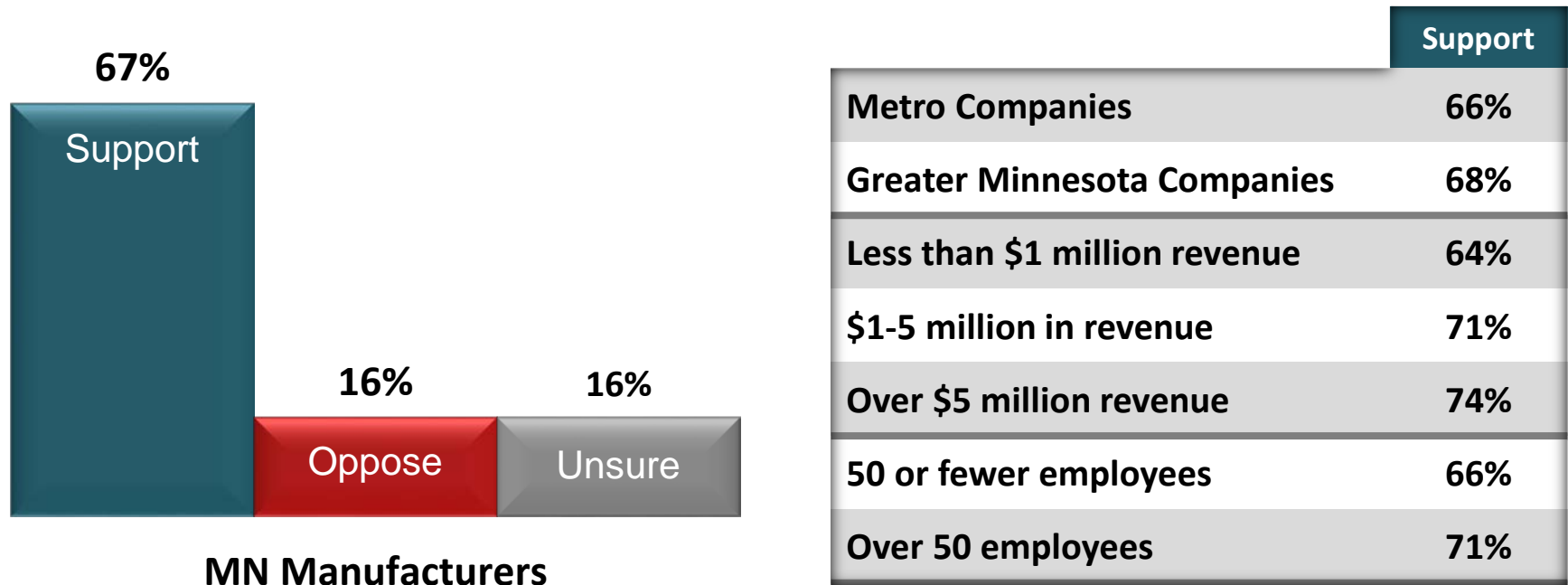


Tax Reform Gets A Thumbs Up, *But...*

Two out of three MN manufacturers support the recent federal tax reform.



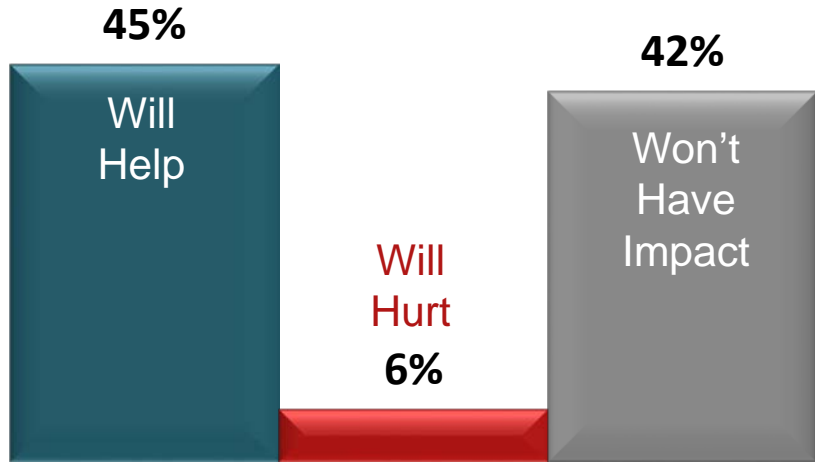
“As you may know, the Congress recently passed and the president signed into law comprehensive federal tax reform called the Tax Cuts and Jobs Act. Do you support or oppose the federal tax reform recently passed?”



But, a sizeable percentage of them aren't sure it's going to help their company.



“Based on the things that you have seen, read, or heard, do you think that this tax reform plan... help your company or hurt your company or do you think it won't have any impact on your company at all?”



MN Manufacturers

	Help
Metro Companies	46%
Greater Minnesota Companies	44%
Less than \$1 million revenue	40%
\$1-5 million in revenue	48%
Over \$5 million revenue	55%
50 or fewer employees	44%
Over 50 employees	50%



Final Thoughts



ENTERPRISE[®]
MINNESOTA



2017

Boundless Optimism:
Minnesota's manufacturers
forecast record growth and
profitability

2018

(More of the same)

2018

The sobering counterweight to this enthusiasm is the overwhelming anticipated workforce shortage. The challenges of attracting and retaining both skilled and unskilled workers loom large and will impede the growth of the industry.

While health care remains a top concern, the qualified worker shortage is seen as now the biggest impediment to future growth. And, it's not just companies outside the Twin Cities area, either.



*Having a strategic plan

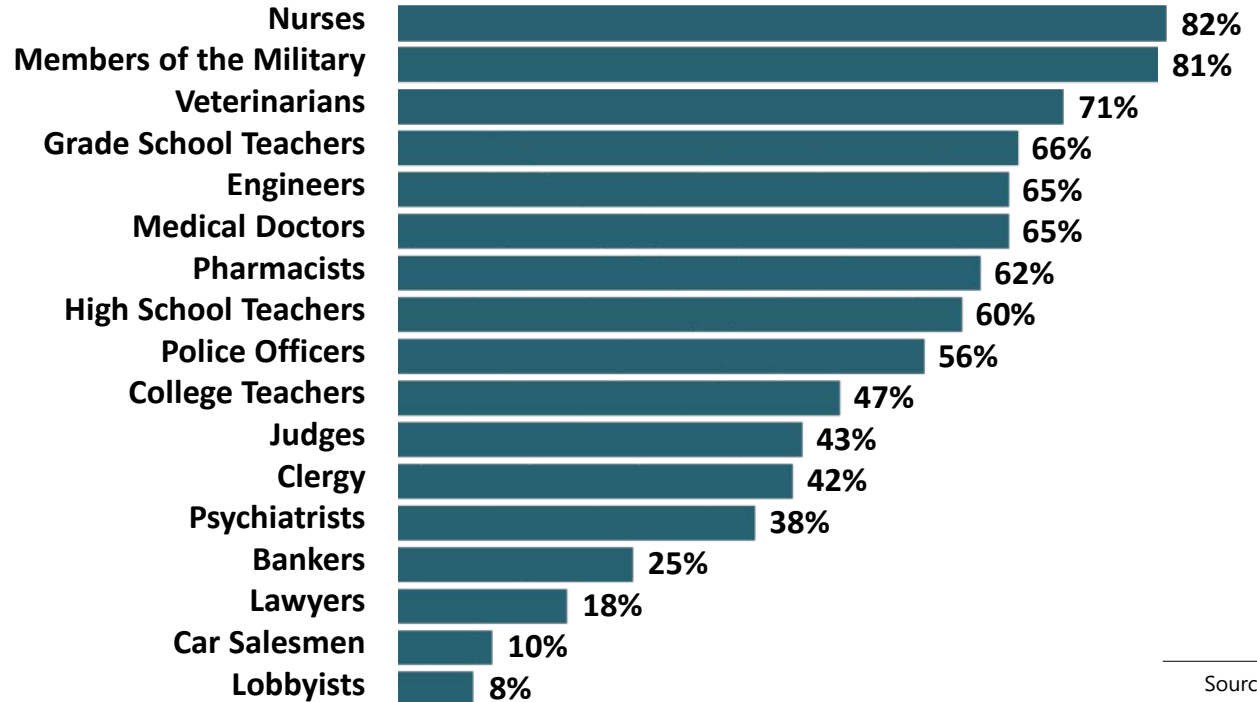
*Investing in leadership/employment development

*Working with tech colleges

Nurses and those in the our armed forces are seen as the most honest and ethical occupations.



% Of U.S. Adults Saying The Following Have High/Very High Honesty And Ethical Standards

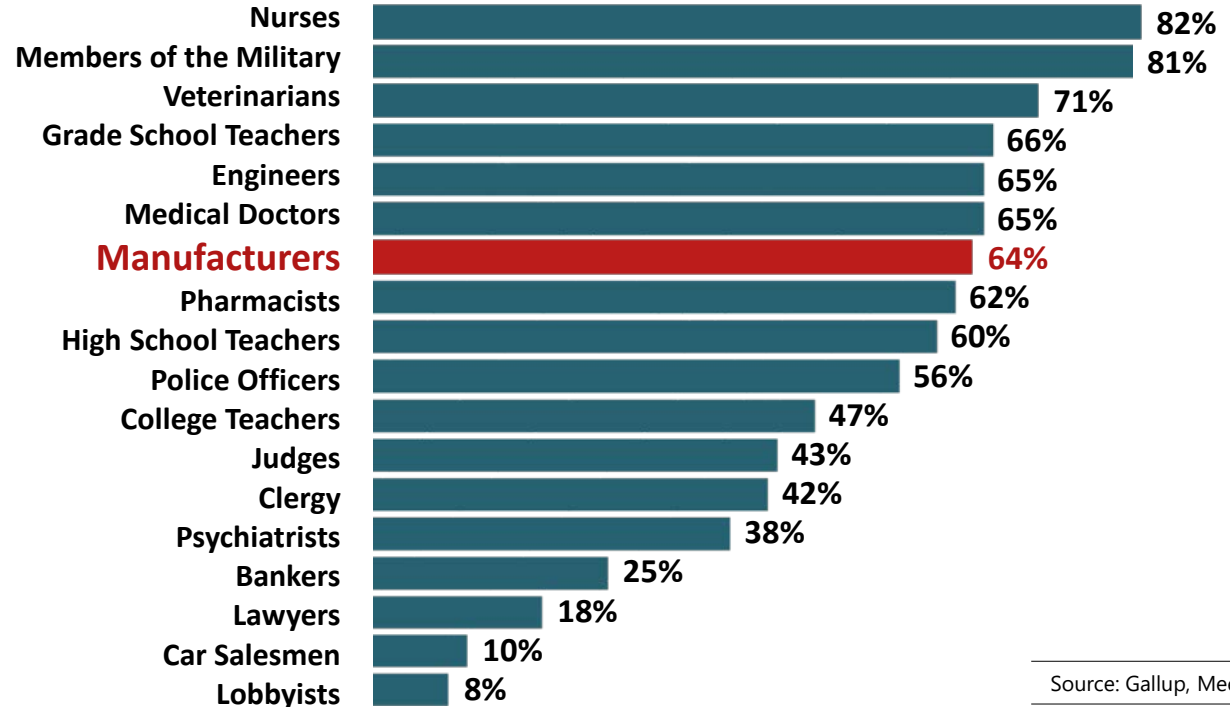


Source: Gallup

So, we asked about manufacturers and they rank in the top half of all occupations tested!



% Of U.S. Adults Saying The Following Have High/Very High Honesty And Ethical Standards

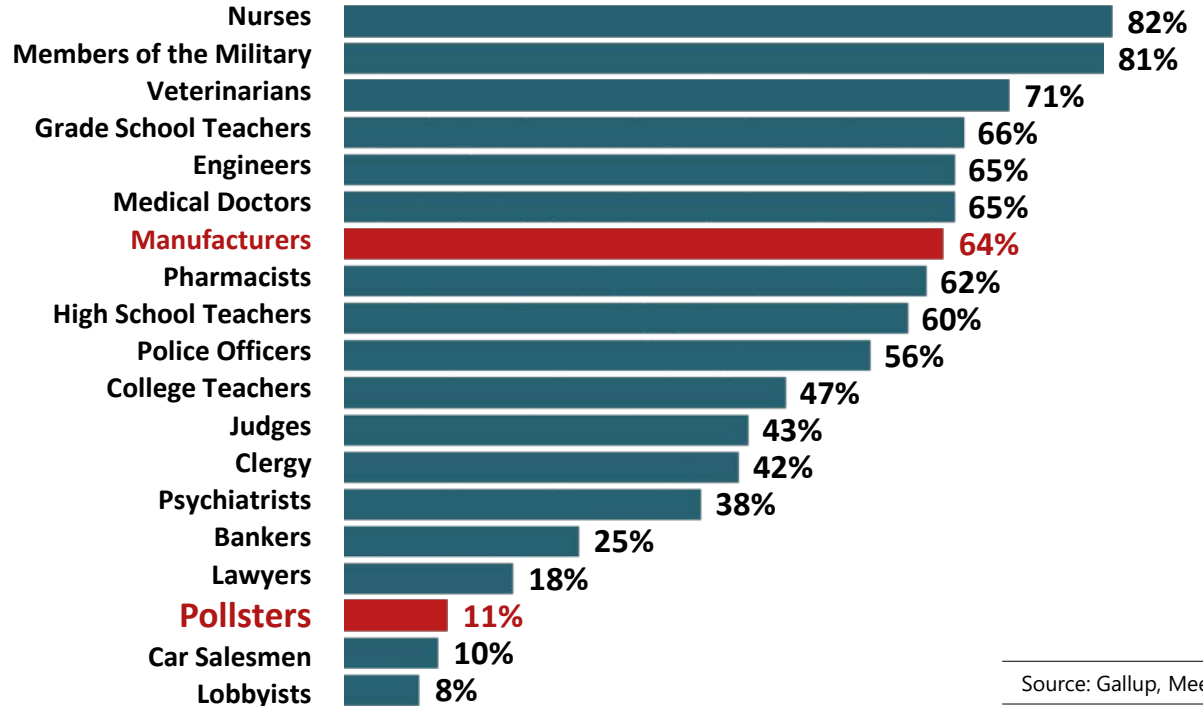


Source: Gallup, Meeting Street

But, before you get too cocky, you might want to think about the source of this data...



% Of U.S. Adults Saying The Following Have High/Very High Honesty And Ethical Standards



Source: Gallup, Meeting Street



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Full results can be viewed at www.enterpriseminnesota.org

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