NAM MANUFACTURERS' OUTLOOK SURVEY
FIRST QUARTER 2020

MARCH 18, 2020

Percentage of Respondents Positive About Their Own Company's Outlook	Overall Facts About the Survey
75.6% *(December: 67.6%)* Small Manufacturers: **78.3%** *(Dec.: 73.3%)* Medium-Sized Manufacturers: **82.0%** *(Dec.: 72.3%)* Large Manufacturers: **63.6%** *(Dec.: 55.8%)*	Number of Responses: 365 In the Field: Feb. 14 to 28, 2020 Small Manufacturers: 83 responses Medium-Sized Manufacturers: 172 responses Large Manufacturers: 110 responses **NAM Manufacturing Outlook Index[1]** **50.5** *(December: 45.0 – revised)*
Expected Growth Rate for SALES Over the Next 12 Months **↑ 2.9%** *(December: ↑ 2.1%)*	**Expected Growth Rate for PRODUCTION Over the Next 12 Months** **↑ 2.8%** *(December: ↑ 1.9%)*
Expected Growth Rate for FULL-TIME EMPLOYMENT Over the Next 12 Months **↑ 1.1%** *(December: ↑ 0.8%)*	**Expected Growth Rate for EMPLOYEE WAGES Over the Next 12 Months** **↑ 2.1%** *(December: ↑ 2.1%)*
Expected Growth Rate for CAPITAL INVESTMENTS Over the Next 12 Months **↑ 1.9%** *(December: ↑ 0.8%)*	**Expected Growth Rate for EXPORTS Over the Next 12 Months** **↑ 0.5%** *(December: ↑ 0.3%)*
Expected Growth Rate for PRICES OF COMPANY'S PRODUCTS Over the Next 12 Months **↑ 1.5%** *(December: ↑ 1.3%)*	**Expected Growth Rate for RAW MATERIAL PRICES AND OTHER INPUT COSTS Over the Next 12 Months** **↑ 1.8%** *(December: ↑ 1.9%)*
Expected Growth Rate for INVENTORIES Over the Next 12 Months **↓ 0.3%** *(December: ↓ 0.7%)*	**Expected Growth Rate for HEALTH INSURANCE COSTS Over the Next 12 Months** **↑ 6.2%** *(December: ↑ 5.9%)*

[1] The NAM Manufacturing Outlook Index data series is revised each quarter to reflect the mean and standard deviation of the historical data, dating back to the fourth quarter of 1997. Currently, the historical mean for those with positive responses in their outlook is 74.9%, with a standard deviation of 14.7%. An index reading of 40 would be consistent with one standard deviation below the mean (60.3% positive), and an index reading of 60 would be one standard deviation above the mean (89.6% positive). In essence, the index helps to normalize the outlook data to put them into a historical context.

Summary

Manufacturers had a challenging year in 2019, with production essentially stagnant as firms grappled with slowing global growth and trade uncertainties. Yet, by year's end, economic indicators suggested that the manufacturing sector was stabilizing with progress seen in many global markets, albeit at a still-weak pace. Perhaps most importantly, the United States–Mexico–Canada Agreement and a "phase one" trade agreement with China helped provide much-needed certainty and a subsequent boost in confidence for businesses, providing a tailwind coming into 2020.

That is until the COVID-19 virus outbreak. The spread and threat of coronavirus has sent financial markets plummeting on worries about the global economic activity and outlook, injecting uncertainty into the marketplace just as a wave of manufacturing momentum seemed to be building. (Note: Because the survey closed at the end of February, it does not reflect any impact from developments in March.)

Despite those concerns, the latest Manufacturers' Outlook Survey from the National Association of Manufacturers illustrates the growing optimism in the sector in early 2020—and reinforces the stabilization reported at the end of 2019. In the first quarter of 2020, 75.6% of manufacturing respondents reported a positive outlook for their company (Figure 1). This is a fairly sizable improvement from roughly 68% who had a positive outlook in each of the past two quarters, even as it remained lower than the 89.5% reading recorded one year ago.

Moreover, the NAM Manufacturing Outlook Index measured 50.5 in the first quarter, improving from 45.0 in the previous survey (Figure 2). Index readings exceeding 50 are consistent with an outlook that is above the survey's historical average (74.9% positive). It was the first positive reading on manufacturing activity since June.

Large manufacturers (i.e., those with 500 or more employees) felt less upbeat in their outlook than their small and medium-sized counterparts. Larger manufacturers are more likely to be engaged globally, and hence, those firms appear to be more sensitive to the slowing growth and trade concerns over the past year. Just 63.6% of respondents from larger companies felt positive in their outlook, compared to 78.3% for small manufacturers (i.e., those with fewer than 50 employees) and 82.0% for medium-sized firms (i.e., those with 50 to 499 employees). Large firms felt more upbeat, however, than in December, likely a reflection of how they feel about the benefits of improved trade certainty.

As was expected, trade continued to play a central role in this quarter's survey, with firms that are more upbeat about export growth being more positive in their overall outlook. Indeed, among those manufacturers who expected to grow their exports over the next 12 months, 90.6% felt positive about their company's prospects. That compares to a 43.1% positive reading for those manufacturers who anticipated declining exports, and a 75.1% positive figure for those expecting exports to stay the same. This underscores the need for a level playing field for manufacturers in America to compete with their global competitors—and highlights the importance of the ratification of the USMCA and agreement to the "phase one" trade deal with China.

It should be no surprise that manufacturers cited the inability to attract and retain a quality workforce as their top business concern—noted by 67.1% of respondents in the first quarter—for the 10th consecutive survey (Figure 3). Nearly three-quarters of manufacturers said they currently have unfilled positions for which they are struggling to find qualified applicants, and more than one-quarter of respondents noted they have had to turn away new business opportunities and have lost revenue as a result of their inability to find sufficient talent. The good news is that many manufacturers are taking it on themselves to expand and improve their workforce. Figure 4 shows some of the tactics manufacturers use to bridge the current skills gap, led by creating or expanding internal training programs (64.4%) and working existing workforce more (63.7%).

The NAM continues to lead the manufacturing community in taking bold steps to develop the next generation of manufacturing workers. With 2020 being the year of the NAM's 125th anniversary and the presidential election, the NAM recently launched the Creators Wanted campaign, a multimillion-dollar initiative to inspire and drive more Americans to pursue careers in modern manufacturing. Through a nationwide mobile tour and the newly established Creators Wanted Fund, which will go toward broadening and deepening the impact of The Manufacturing Institute, the workforce and education partner of the NAM, Creators Wanted aims to inspire and drive more Americans to pursue careers in modern manufacturing.

Other top challenges for manufacturers in the first quarter of 2020 included rising health care and insurance costs (56.2%) and trade uncertainties (47.7%). The latter fell from second place on the concern list, likely due to signing the USMCA and agreeing to a "phase one" deal with China.

With the 2020 election in mind, past outlook surveys have noted that significant pro-growth federal policies enacted in recent years have buoyed the manufacturing industry. Conversely, rolling back the very provisions that have led to record years for the industry would roll back the positive strides as well. Nearly 58% of respondents said they would be forced to consider reducing capital spending if Congress rolled back provisions of the 2017 tax reform legislation, with at least 30% saying they would also likely have to consider scaling back U.S. expansion plans and reducing their workforce.

Likewise, recent regulatory certainty has provided a boost to manufacturing activity over the past three years. The NAM has achieved significant reforms on more than 91.5% of the regulations that manufacturers identified for the administration in 2017 as needing modernization. By reducing the costs and time associated with regulatory compliance, respondents were able to increase wages, salaries and benefits (49.6%), U.S. capital investment (43.1%), total workforce headcount (36.4%) and community involvement and philanthropic efforts (26.9%), according to survey responses.

The following are some highlights of the current survey in terms of predicted activity growth over the next year (Figure 5):

- **Sales:** Respondents expect sales growth of 2.9% over the next 12 months, up from 2.1% in the previous survey and the best reading since June. Nearly 37% of respondents expect sales growth of 5% or more, even as 15.7% see sales declines over the next year. Small and medium-sized firms expect sales growth of 3.5%, whereas large manufacturers forecast 1.5% growth over the next year.

- **Production:** Expected production growth rose from 1.9% in the fourth quarter to 2.8% in this survey, bouncing back for the second straight quarter. It is notable that 60.9% of all respondents see production growth over the next 12 months, with 14.7% predicting declines and 24.6% seeing no change. Large firms felt less optimistic about output growth, anticipating just 1.1% more production over the next year, with small and medium-sized manufacturers forecasting a more solid 3.5%.

- **Full-Time Employment:** Respondents expect full-time employment to rise 1.1% over the next 12 months, up from 0.8% in the previous survey, which was the slowest hiring outlook since the third quarter of 2016. More than 41% anticipate employment growth over the next 12 months, with 15.1% predicting declines and 43.8% seeing no change. Small and medium-sized manufacturers predict 1.6% growth in full-time employment over the next 12 months, with a 0.7% increase for large firms.

- **Employee Wages:** Respondents anticipate employee wages (excluding nonwage compensation, such as benefits) to rise 2.1% over the next 12 months, the same pace as before. In the latest results, 31.3% expect to hike wages by 3.0% or more.

- **Capital Investments:** Respondents expect 1.9% growth in capital investments over the next 12 months, up from 0.8% in the previous survey, which was the weakest reading since the third quarter of 2016. Forty-three percent of manufacturers anticipate higher capital spending in the next year, with 28.1% expecting solid investment growth of 5% or more. In contrast, 17.3% predict falling capital spending over that time frame. Large firms felt the least upbeat, predicting 1.3% growth in capital investments versus 2.1% for small and medium-sized manufacturers.

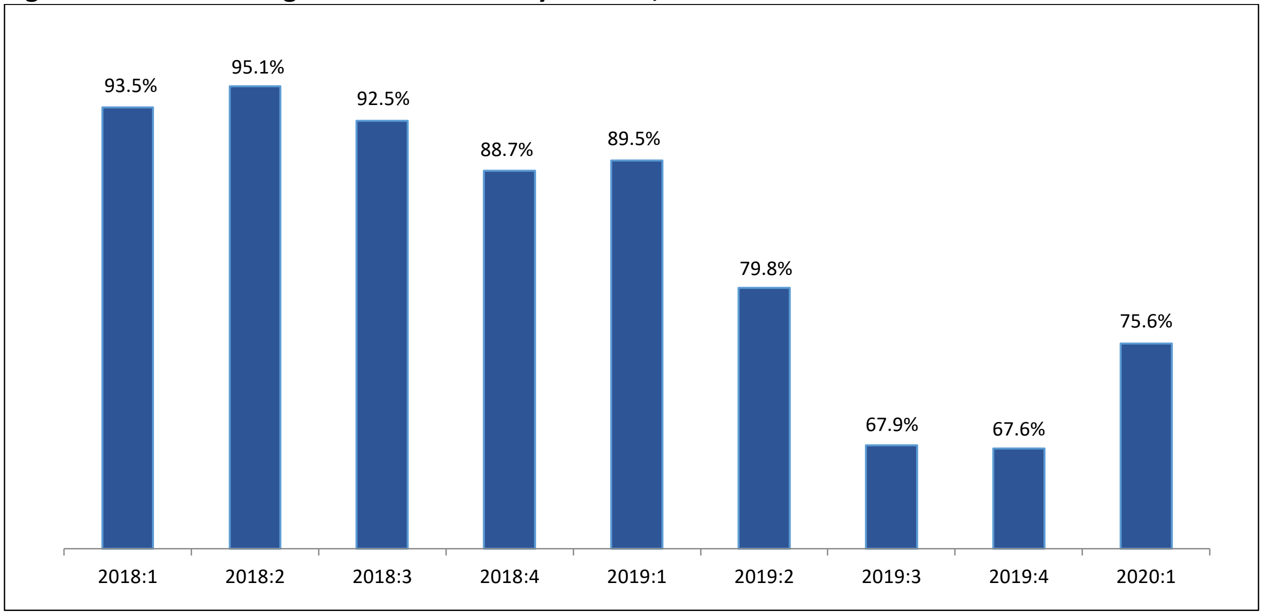
- **Exports:** Respondents expect exports to increase just 0.5% over the next 12 months, up slightly for the second straight quarter from 0.3% in the prior survey. Roughly 27% of respondents predict stronger exports over the next year, with 58.9% predicting them to stay the same and 14.3% expecting declines.

- **Product Prices:** Respondents expect product prices to increase 1.5% over the next 12 months, up from 1.3% in December but well below the seven-year high recorded in June 2018 (3.2%).

- **Raw Material Prices:** Manufacturers anticipate raw material prices and other input costs rising 1.8% over the next 12 months, down from 1.9% in the prior survey and the lowest rate since the question was added in June 2018.

- **Inventories:** Respondents felt that inventories would decline 0.3% over the next 12 months, falling for the fourth consecutive quarter. In this report, 29.2% of manufacturers anticipate reduced inventories over the next year, with 23.2% expecting increases and 47.5% seeing no changes. The reduction in inventories over the past year means that stockpiles are becoming depleted, and if demand accelerates, that should necessitate additional production.

Figure 1: Manufacturing Business Outlook by Quarter, 2018–2020



Note: Percentage of respondents who characterized the current business outlook as somewhat or very positive.

Figure 2: NAM Manufacturing Outlook Index, 2016–2020

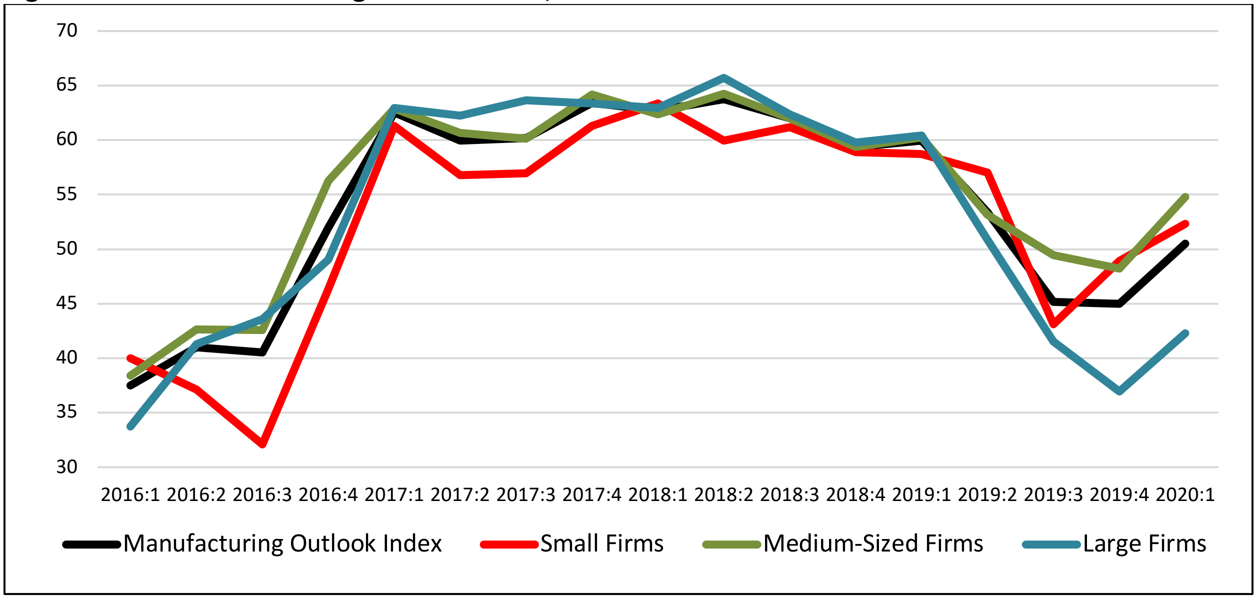
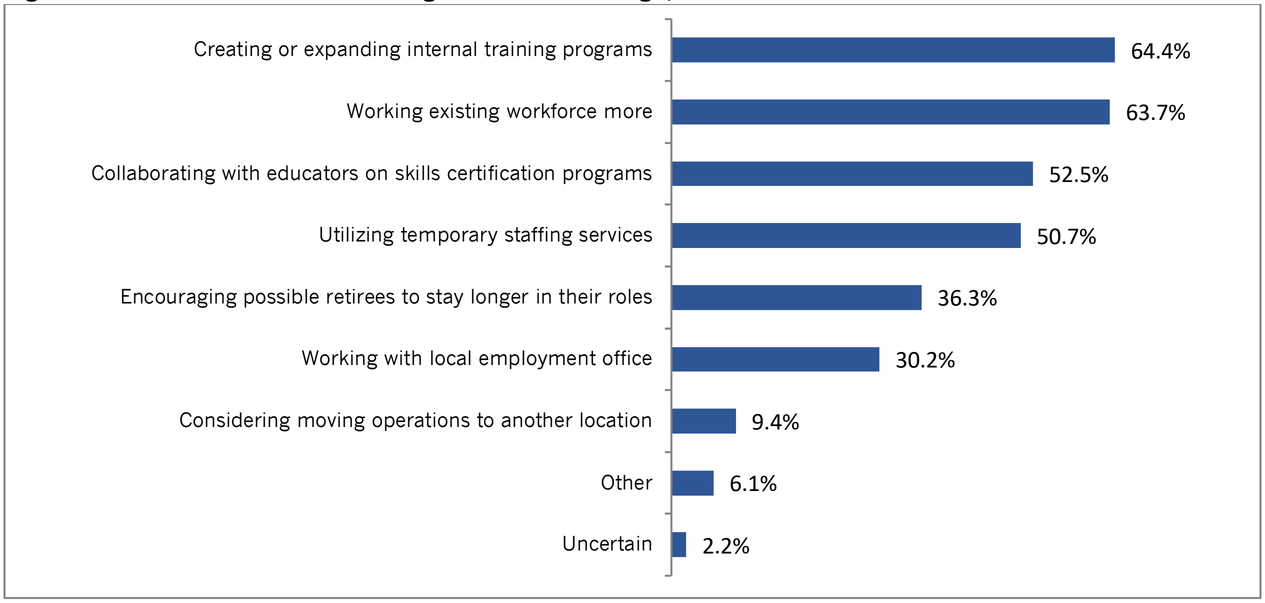


Figure 3: Primary Current Business Challenges, First Quarter 2020

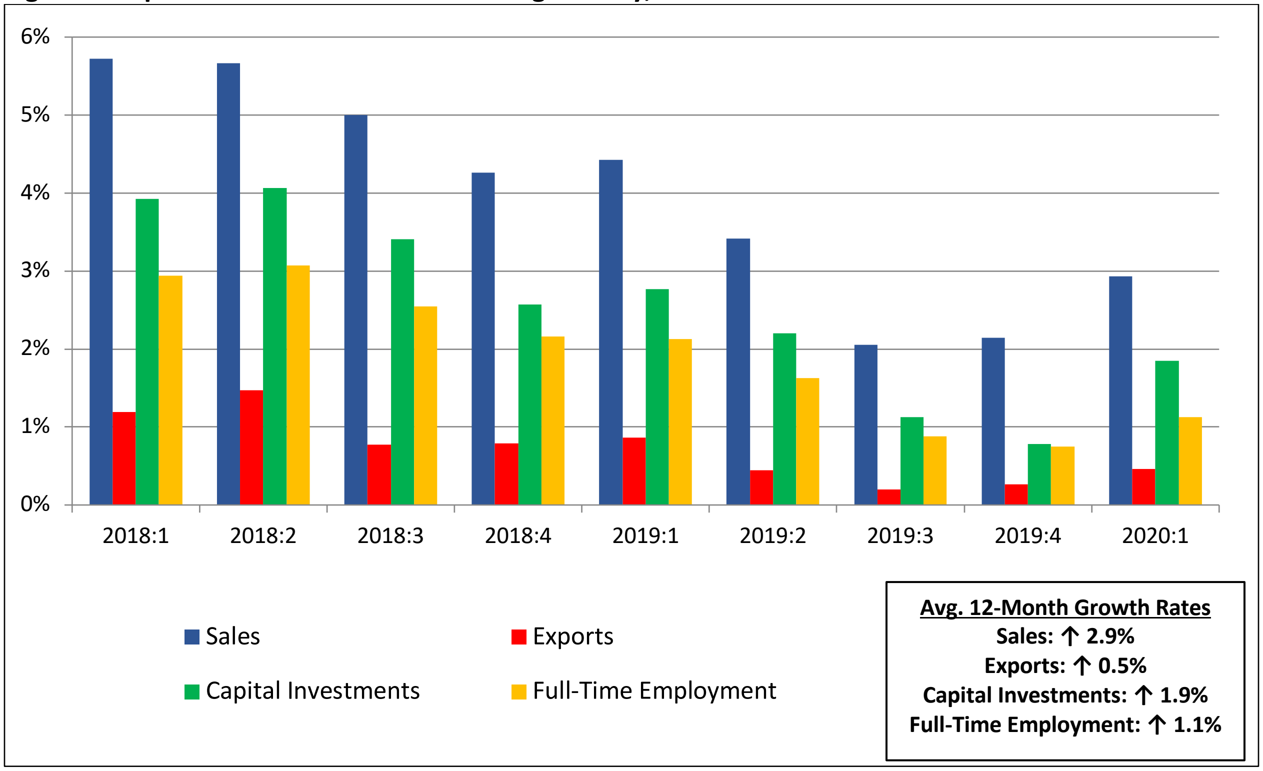
Note: Respondents were able to check more than one response; therefore, responses exceed 100%.

Figure 4: How Firms Are Addressing the Skills Shortage, First Quarter 2020



Note: Respondents were able to check more than one response; therefore, responses exceed 100%.

Figure 5: Expected Growth of Manufacturing Activity, 2018–2020



Note: Expected growth rates are annual averages.

Survey Responses

1. How would you characterize the business outlook for your firm right now?
    a. Very positive – 23.3%
    b. Somewhat positive – 52.3%
    c. Somewhat negative – 22.7%
    d. Very negative – 1.6%

    Percentage that is either somewhat or very positive in their outlook = 75.6%

2. Over the next year, what do you expect to happen with your company's overall sales?
    a. Increase more than 10 percent – 13.2%
    b. Increase 5 to 10 percent – 23.6%
    c. Increase up to 5 percent – 27.7%
    d. Stay about the same – 20.0%
    e. Decrease up to 5 percent – 8.8%
    f. Decrease 5 to 10 percent – 2.5%
    g. Decrease more than 10 percent – 4.4%

    Average expected increase in sales consistent with these responses = 2.9%

3. Over the next year, what do you expect to happen with your company's overall production levels?
    a. Increase more than 10 percent – 13.3%
    b. Increase 5 to 10 percent – 22.7%
    c. Increase up to 5 percent – 24.9%
    d. Stay about the same – 24.6%
    e. Decrease up to 5 percent – 7.5%
    f. Decrease 5 to 10 percent – 2.8%
    g. Decrease more than 10 percent – 4.4%

    Average expected increase in production consistent with these responses = 2.8%

4. Over the next year, what do you expect to happen with the level of exports from your company?
    a. Increase more than 5 percent – 11.2%
    b. Increase 3 to 5 percent – 5.0%
    c. Increase up to 3 percent – 10.6%
    d. Stay about the same – 58.9%
    e. Decrease up to 3 percent – 6.2%
    f. Decrease 3 to 5 percent – 3.9%
    g. Decrease more than 5 percent – 4.2%

    Average expected increase in exports consistent with these responses = 0.5%

5. Over the next year, what do you expect to happen with prices on your company's overall product line?
    a. Increase more than 10 percent – 1.1%
    b. Increase 5 to 10 percent – 7.4%
    c. Increase up to 5 percent – 41.2%
    d. Stay about the same – 42.9%
    e. Decrease up to 5 percent – 6.6%
    f. Decrease 5 to 10 percent – 0.8%
    g. Decrease more than 10 percent – none

Average expected increase in product prices consistent with these responses = 1.5%

6. Over the next year, what do you expect to happen with raw material prices and other input costs?
    a. Increase more than 10 percent – 1.9%
    b. Increase 5 to 10 percent – 9.1%
    c. Increase up to 5 percent – 45.2%
    d. Stay about the same – 36.6%
    e. Decrease up to 5 percent – 6.6%
    f. Decrease 5 to 10 percent – 0.6%
    g. Decrease more than 10 percent – none

    Average expected increase in raw material prices consistent with these responses = 1.8%

7. Over the next year, what are your company's capital investment plans?
    a. Increase more than 10 percent – 14.9%
    b. Increase 5 to 10 percent – 13.2%
    c. Increase up to 5 percent – 14.9%
    d. Stay about the same – 39.7%
    e. Decrease up to 5 percent – 8.8%
    f. Decrease 5 to 10 percent – 3.0%
    g. Decrease more than 10 percent – 5.5%

    Average expected increase in capital investments consistent with these responses = 1.9%

8. Over the next year, what are your inventory plans?
    a. Increase more than 10 percent – 4.7%
    b. Increase 5 to 10 percent – 4.4%
    c. Increase up to 5 percent – 14.1%
    d. Stay about the same – 47.5%
    e. Decrease up to 5 percent – 17.1%
    f. Decrease 5 to 10 percent – 8.0%
    g. Decrease more than 10 percent – 4.1%

    Average expected increase in inventories consistent with these responses = -0.3%

9. Over the next year, what do you expect in terms of full-time employment in your company?
    a. Increase more than 10 percent – 4.1%
    b. Increase 5 to 10 percent – 11.0%
    c. Increase up to 5 percent – 26.0%
    d. Stay about the same – 43.8%
    e. Decrease up to 5 percent – 8.5%
    f. Decrease 5 to 10 percent – 4.7%
    g. Decrease more than 10 percent – 1.9%

    Average expected increase in full-time employment consistent with these responses = 1.1%

10. Over the next year, what do you expect to happen to employee wages (excluding nonwage compensation, such as benefits) in your company?
    a. Increase more than 5 percent – 3.3%
    b. Increase 3 to 5 percent – 28.0%
    c. Increase up to 3 percent – 56.6%
    d. Stay about the same – 11.3%
    e. Decrease up to 3 percent – 0.3%

f. Decrease 3 to 5 percent – none
g. Decrease more than 5 percent – 0.6%

Average expected increase in employee wages consistent with these responses = 2.1%

11. Over the next year, what do you expect to happen to health insurance costs for your company?
    a. Increase 15.0 percent or more – 5.5%
    b. Increase 10.0 to 14.9 percent – 14.9%
    c. Increase 5.0 to 9.9 percent – 37.6%
    d. Increase less than 5.0 percent – 29.4%
    e. No change – 8.8%
    f. Decrease less than 5.0 percent – 0.8%
    g. Decrease 5.0 percent or more – 0.6%
    h. Uncertain – 2.5%

    Average expected increase in health insurance costs consistent with these responses = 6.2%

12. What are the biggest challenges you are facing right now? (Check all that apply.)
    a. Weaker domestic economy and sales for our products to U.S. customers – 37.3%
    b. Weaker global growth and slower export sales – 34.0%
    c. Trade uncertainties (e.g., actual or proposed tariffs, trade negotiation uncertainty) – 47.7%
    d. Strengthened U.S. dollar relative to other currencies – 19.5%
    e. Challenges with access to capital or other forms of financing – 5.5%
    f. Unfavorable business climate (e.g., taxes, regulations) – 16.7%
    g. Increased raw material costs – 26.9%
    h. Rising health care/insurance costs – 56.2%
    i. Transportation and logistics costs – 21.1%
    j. Attracting and retaining a quality workforce – 67.1%
    k. Other – 15.3%

13. What is your company's primary industrial classification?
    a. Chemicals – 8.0%
    b. Computer and electronic products – 2.5%
    c. Electrical equipment and appliances – 7.4%
    d. Fabricated metal products – 30.9%
    e. Food manufacturing – 1.1%
    f. Furniture and related products – 1.1%
    g. Machinery – 10.5%
    h. Nonmetallic mineral products – 3.3%
    i. Paper and paper products – 0.8%
    j. Petroleum and coal products – 0.8%
    k. Plastics and rubber products – 6.9%
    l. Primary metals – 4.1%
    m. Transportation equipment – 4.1%
    n. Wood products – 1.7%
    o. Other – 16.8%

14. What is your firm size (i.e., the parent company, not your establishment)?
    a. Fewer than 50 employees – 22.7%
    b. 50 to 499 employees – 47.1%
    c. 500 or more employees – 30.1%

SPECIAL QUESTIONS

15. Based on third-party estimates, the NAM has achieved significant reforms on more than 91.5% of the association's 2017 "wish list" for reduced and smarter regulations. As a result of the achievement of reduced and smarter regulations over the past three years, has your company increased any of the following? (Check all that apply.)
    a. Total workforce headcount/number – 36.4%
    b. U.S. capital investment – 43.1%
    c. Wages, salaries and benefits – 49.6%
    d. Community involvement and philanthropic efforts – 26.9%
    e. Other – 3.1%
    f. There have been no changes for my company – 23.3%
    g. Uncertain – 16.0%

16. If Congress rolled back business provisions of tax reform, my business would be forced to consider the following: (Check all that apply.)
    a. Reduce my workforce – 30.6%
    b. Scale back U.S. expansion plans – 33.1%
    c. Decrease capital spending – 57.5%
    d. None of the above – 20.6%
    e. Uncertain – 17.2%

17. Do you have unfilled positions within your company for which you are struggling to find qualified applicants?
    a. Yes – 74.2%
    b. No – 23.3%
    c. Uncertain – 2.5%

18. If you answered "yes" to the previous question, how are you addressing the skills shortage? (Check all that apply.)
    a. Working existing workforce more – 63.7%
    b. Creating or expanding internal training programs – 64.4%
    c. Encouraging possible retirees to stay longer in their roles – 36.3%
    d. Collaborating with educational institutions on skills certification programs – 52.5%
    e. Utilizing temporary staffing services – 50.7%
    f. Working with local employment office – 30.2%
    g. Considering moving operations to another location – 9.4%
    h. Other – 6.1%
    i. Uncertain – 2.2%

19. Because of my company's inability to attract and retain workers, we have been unable to take on new business and have lost revenue opportunities.
    a. True – 25.8%
    b. False – 74.2%