NAM MANUFACTURERS' OUTLOOK SURVEY
FOURTH QUARTER 2019
DECEMBER 19, 2019

Percentage of Respondents Positive About Their Own Company's Outlook **67.6%** *(September: 67.9%)* Small Manufacturers: **73.3%** *(Sept.: 64.8%)* Medium-Sized Manufacturers: **72.3%** *(Sept.: 74.1%)* Large Manufacturers: **55.8%** *(Sept.: 62.5%)*	**Overall Facts About the Survey** Number of Responses: 287 In the Field: Nov. 22 to Dec. 6, 2019 Small Manufacturers: 60 responses Medium-Sized Manufacturers: 141 responses Large Manufacturers: 86 responses **NAM Manufacturing Outlook Index**[1] **45.0** *(September: 45.2)*
Expected Growth Rate for SALES Over the Next 12 Months **↑ 2.1%** *(September: ↑ 2.1%)*	**Expected Growth Rate for PRODUCTION Over the Next 12 Months** **↑ 1.9%** *(September: ↑ 1.8%)*
Expected Growth Rate for FULL-TIME EMPLOYMENT Over the Next 12 Months **↑ 0.8%** *(September: ↑ 0.9%)*	**Expected Growth Rate for EMPLOYEE WAGES Over the Next 12 Months** **↑ 2.1%** *(September: ↑ 2.0%)*
Expected Growth Rate for CAPITAL INVESTMENTS Over the Next 12 Months **↑ 0.8%** *(September: ↑ 1.1%)*	**Expected Growth Rate for EXPORTS Over the Next 12 Months** **↑ 0.3%** *(September: ↑ 0.2%)*
Expected Growth Rate for PRICES OF COMPANY'S PRODUCTS Over the Next 12 Months **↑ 1.3%** *(September: ↑ 1.7%)*	**Expected Growth Rate for RAW MATERIAL PRICES AND OTHER INPUT COSTS Over the Next 12 Months** **↑ 1.9%** *(September: ↑ 2.4%)*
Expected Growth Rate for INVENTORIES Over the Next 12 Months **↓ 0.7%** *(September: ↓ 0.8)*	**Expected Growth Rate for HEALTH INSURANCE COSTS Over the Next 12 Months** **↑ 5.9%** *(September: ↑ 6.2%)*

[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 (60.2% 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

Manufacturing in 2019 has been marked by slowing global growth, ongoing trade uncertainties and longstanding workforce shortages. Indeed, while consumer spending, a rebounding housing sector and strong labor market growth continue to buoy economic activity, business investment and global trade volumes have each served as drags on top-line growth so far this year. Manufacturers in the United States and around the world have seen activity weaken dramatically this year, and business confidence measures have also deteriorated, including for the Manufacturers' Outlook Survey from the National Association of Manufacturers.

Today, the tumult of this year has started to show signs of steadying globally. Our most recent survey data show this is true of manufacturing optimism as well. What this all suggests is that policymakers have a chance to seize the momentum and boost manufacturers' optimism by, in particular, providing trade certainty via passage of the United States–Mexico–Canada Agreement, signing the "phase one" trade deal with China and voting to reauthorize the Export-Import Bank. (***NOTE: This quarter's survey was in the field from Nov. 22 to Dec. 6, prior to announced agreements on the USMCA, "phase one" trade deal with China and long-term reauthorization of the Ex-Im Bank—important progress that will boost certainty for manufacturers entering the new year.***)

Here's what the data for this quarter show:

In the fourth quarter of 2019, 67.6% of manufacturing respondents reported a positive outlook for their company (Figure 1). Manufacturing confidence remained largely steady since the third quarter, yet optimism remains well below the 89.5% positive reading in March. Moreover, the NAM Manufacturing Outlook Index measured 45.0 in the fourth quarter, essentially unchanged from the 45.2 reading measured in the third quarter (Figure 2). Index readings under 50 are consistent with an outlook that is below the historical average of the survey (74.9% positive). It was the second straight quarter with below-average activity—a phenomenon that last occurred in the second and third quarters of 2016.

It is clear that large manufacturers (i.e., those with 500 or more employees) felt less upbeat in their outlook than their small and medium-sized counterparts. This is likely due to the fact that larger manufacturers are more likely to be engaged globally, and hence, those firms appear to be more sensitive to slowing growth and trade uncertainties. Just 55.8% of respondents from larger companies felt positive in their outlook, compared to 73.3% for small manufacturers (i.e., those with fewer than 50 employees) and medium-sized firms (i.e., those with 50 to 499 employees). The data also make it clear that larger manufacturers were more affected by trade uncertainties, and as a result, respondents from those firms expect a decline of 0.1% for exports over the next 12 months. In contrast, small and medium-sized businesses predicted 0.4% growth.

As has been the case throughout the year, 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 33.3% positive reading for those manufacturers who anticipated declining exports, or a 68.0% positive figure for those expecting exports to stay the same. This stark correlation makes it clear that the most significant thing policymakers can do to elevate manufacturing optimism to early-2019 levels is to provide trade certainty for businesses. Passing the USMCA, securing a trade deal with China and reauthorizing the Ex-

Im Bank—as discussed above, and with caveats related to timing noted—could make an immediate difference for manufacturers in the United States to allow them to continue growing their operations and creating well-paying jobs.

Along those lines, in a special question, 58.3% of large manufacturing respondents said that the downturn in the sector had impacted their economic outlook negatively, compared to 37.3% for small firms. Likewise, 47.1% of large companies said that the downturn had impacted hiring negatively versus one-quarter of small businesses. Along those lines, business leaders from large companies expect full-time employment to decrease 0.6% over the next 12 months, with small and medium-sized respondents anticipating 1.3% growth.

Another longstanding concern manufacturers continue to grapple with is finding enough workers. The inability to attract and retain a quality workforce remained respondents' top concern for the ninth consecutive survey, noted as the top concern by 63.8% of respondents (Figure 3). The NAM continues to lead the manufacturing community in taking bold steps to develop the next generation of manufacturing workers. Ahead of its 125th anniversary and the 2020 elections, the NAM recently launched the "Creators Wanted Fund," a multimillion-dollar campaign to inspire and drive more Americans to pursue careers in modern manufacturing.

Other top primary challenges in the fourth quarter included rising health care and insurance costs (52.3%) and a weaker domestic economy (51.9%).

Significant pro-growth federal policies enacted in recent years have buoyed the manufacturing industry, and the threat by some policymakers and candidates to roll back the very provisions that have led to record years for the industry would roll back the positive strides as well. Nearly 56% of respondents said that they would be forced to consider reducing capital spending if Congress rolled back provisions of the 2017 tax reform legislation, with 34.8% saying that they would also likely have to consider scaling back U.S. expansion plans and reducing workforce. Likewise, recent regulatory certainty has provided a boost to manufacturing activity over the past three years, including the ability to hire more workers (40.3%), increase wages, salaries and benefits (49.1%) and increase capital expenditures (41.7%).

The following are some highlights of the current survey in terms of predicted activity growth over the next year (Figure 4):

- **Sales:** Respondents expect sales growth of 2.1% over the next 12 months, the same pace as in the previous survey. Both quarter's responses were the slowest in three years. With that said, more than 31% of respondents continue to expect sales growth of 5% or more, even as 18.5% see sales declines over the next year. Small and medium-sized firms expect sales growth of 2.6%, whereas large manufacturers forecast 1.0% growth over the next year.

- **Production:** Expected production growth edged up from 1.8% to 1.9% in this survey, bouncing back ever so slightly after being the weakest growth rate since the second quarter of 2016 in the previous report. Still, it is notable that 53.8% of all respondents see production growth over the next 12 months, with 18.5% predicting declines and 27.6% seeing no change. Medium-sized manufacturers were also more positive in their production growth forecasts, anticipating 2.6% growth over the next year.

- **Full-Time Employment:** Respondents expect full-time employment to rise 0.8% over the next 12 months, down from 0.9% in the previous survey and the slowest hiring outlook since the third quarter of 2016. Roughly 37% anticipate employment growth over the next 12 months, with 17.8% percent predicting declines and 45.1% seeing no change. As noted earlier, large manufacturers predict a decline of 0.6% in hiring over the next year, with small and medium-sized manufacturers expecting a gain of 1.3%.

- **Employee Wages:** Respondents anticipate employee wages (excluding nonwage compensation, such as benefits) to rise 2.1% over the next 12 months, up from 2.0% in the September release. In the latest results, nearly one-third expect to hike wages by 3.0% or more.

- **Capital Investments:** Respondents expect 0.8% growth in capital investments over the next 12 months, down from 1.1% in the previous survey and the weakest reading since the third quarter of 2016. Despite the easing, 39.4% of manufacturers anticipate higher capital spending in the next year, with 19.9% expecting solid investment growth of 5% or more. In contrast, 20.9% predict falling capital spending over that time frame. For this question, the smallest firms felt the most upbeat at 2.0% versus 1.0% for medium-sized and large manufacturers.

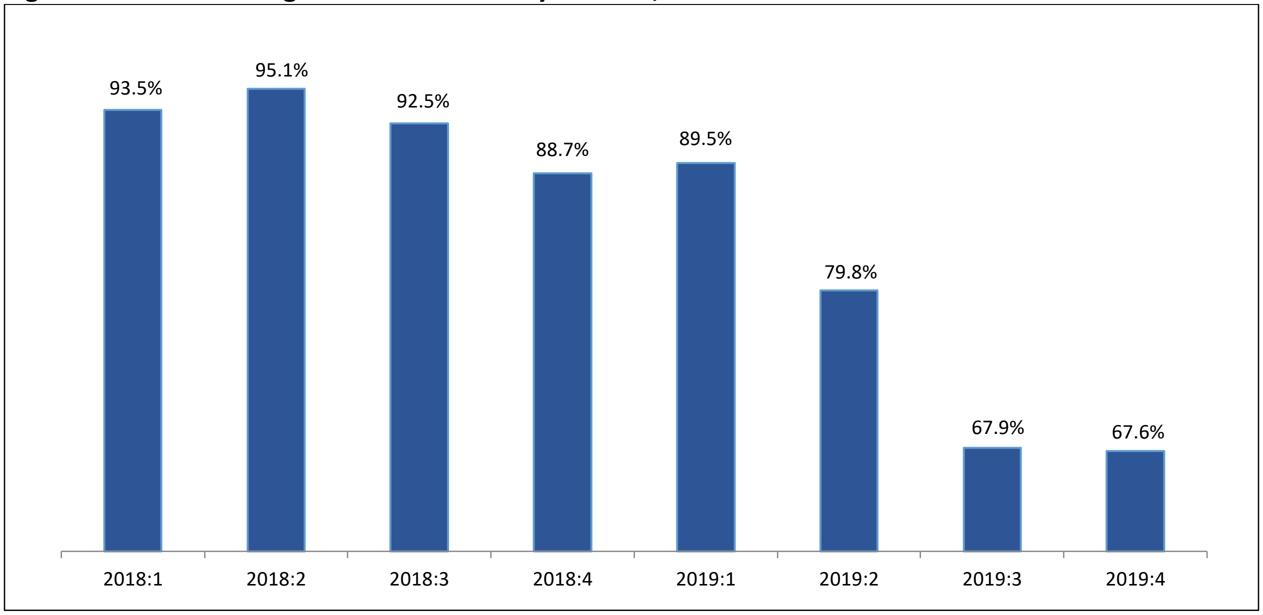
- **Exports:** Respondents expect exports to increase just 0.3% over the next 12 months, up slightly from 0.2% in the prior survey. Roughly 23% of respondents predict stronger exports over the next year, with 60.4% predicting them to stay the same and 16.5% expecting declines.

- **Product Prices:** Respondents expect product prices to increase 1.3% over the next 12 months, continuing to decelerate from the seven-year highs recorded in mid-2018 (3.2%). The current pace is the lowest in three years.

- **Raw Material Prices:** Manufacturers anticipate raw material prices and other input costs rising 1.9% over the next 12 months, slowing from 3.1% and 2.4% in the June and September surveys, respectively. The NAM added this question in June 2018, and the current reading is the lowest in those seven quarters of responses.

Inventories: Respondents felt that inventories would decline 0.7% over the next 12 months, falling for the third straight quarter and extending the 0.8% decrease in September's survey. In this report, 32.5% of manufacturers anticipate reduced inventories over the next year, with 20.3% expecting increases and 47.2% seeing no changes. The reduction in inventories across this year means that stockpiles are becoming depleted, and if demand accelerates, that should necessitate additional production.

Figure 1: Manufacturing Business Outlook by Quarter, 2018–2019



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

Figure 2: NAM Manufacturing Outlook Index, 2016–2019

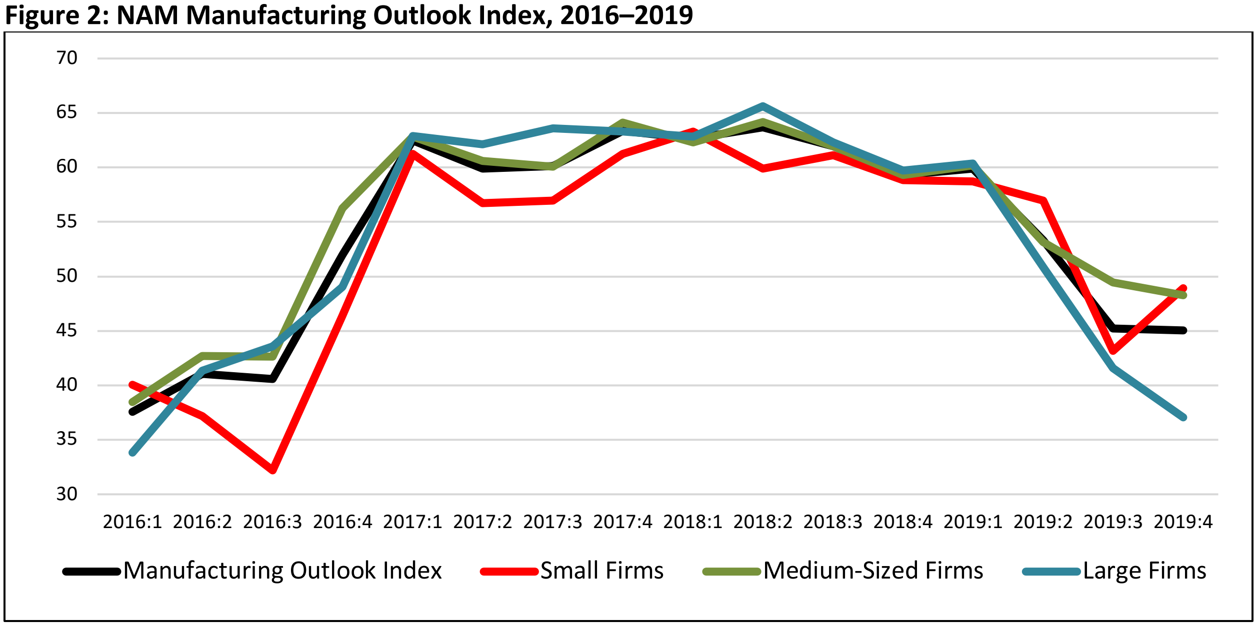
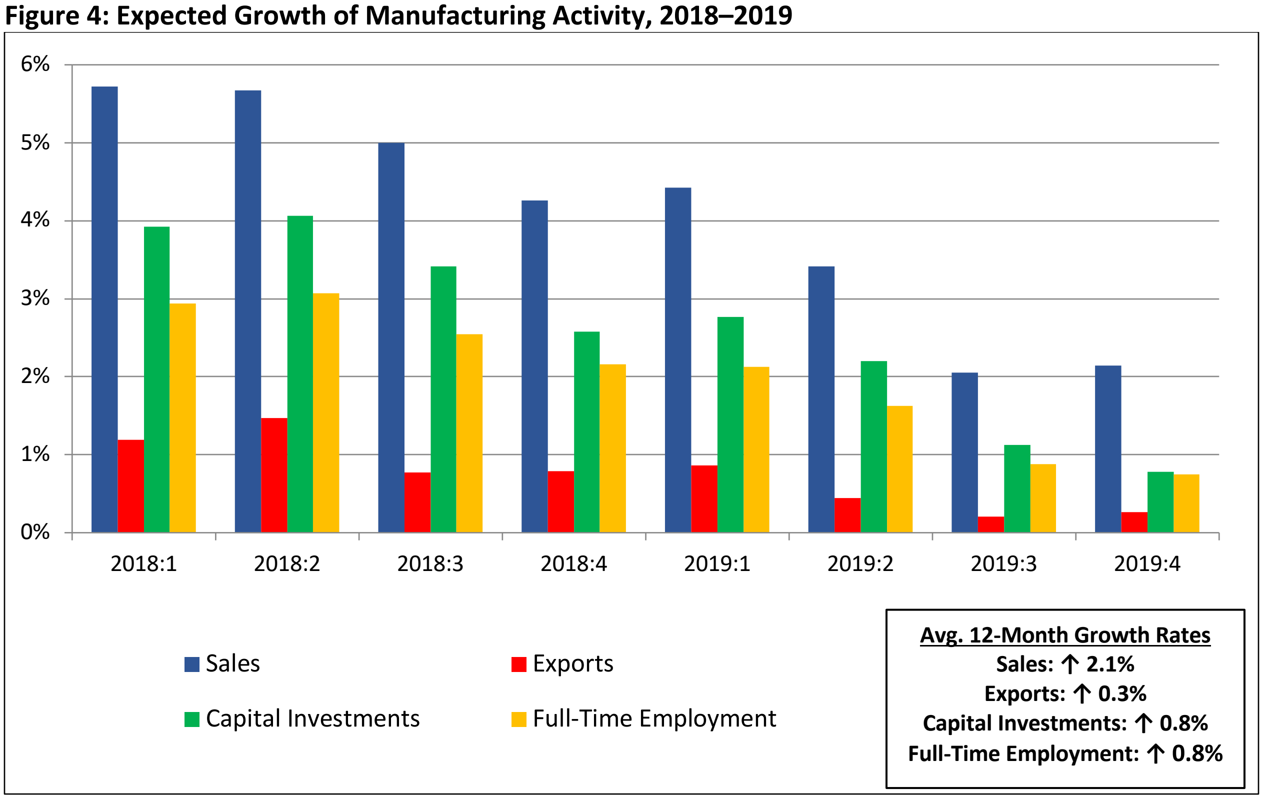


Figure 3: Primary Current Business Challenges, Third Quarter 2019

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

Figure 4: Expected Growth of Manufacturing Activity, 2018–2019



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 – 18.8%
    b. Somewhat positive – 48.8%
    c. Somewhat negative – 28.9%
    d. Very negative – 3.5%

    Percentage that is either somewhat or very positive in their outlook = 67.6%

2. Over the next year, what do you expect to happen with your company's overall sales?
    a. Increase more than 10 percent – 11.5%
    b. Increase 5 to 10 percent – 19.9%
    c. Increase up to 5 percent – 23.0%
    d. Stay about the same – 27.2%
    e. Decrease up to 5 percent – 8.7%
    f. Decrease 5 to 10 percent – 4.9%
    g. Decrease more than 10 percent – 4.9%

    Average expected increase in sales consistent with these responses = 2.1%

3. Over the next year, what do you expect to happen with your company's overall production levels?
    a. Increase more than 10 percent – 11.2%
    b. Increase 5 to 10 percent – 16.4%
    c. Increase up to 5 percent – 26.2%
    d. Stay about the same – 27.6%
    e. Decrease up to 5 percent – 8.0%
    f. Decrease 5 to 10 percent – 5.2%
    g. Decrease more than 10 percent – 5.2%

    Average expected increase in production consistent with these responses = 1.9%

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 – 10.1%
    b. Increase 3 to 5 percent – 4.7%
    c. Increase up to 3 percent – 8.3%
    d. Stay about the same – 60.4%
    e. Decrease up to 3 percent – 7.2%
    f. Decrease 3 to 5 percent – 2.5%
    g. Decrease more than 5 percent – 6.8%

    Average expected increase in exports consistent with these responses = 0.3%

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 – 8.7%
    c. Increase up to 5 percent – 38.1%
    d. Stay about the same – 41.3%
    e. Decrease up to 5 percent – 8.7%
    f. Decrease 5 to 10 percent – 1.1%
    g. Decrease more than 10 percent – 1.1%

Average expected increase in product prices consistent with these responses = 1.3%

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 – 1.1%
    b. Increase 5 to 10 percent – 11.2%
    c. Increase up to 5 percent – 45.8%
    d. Stay about the same – 34.6%
    e. Decrease up to 5 percent – 6.6%
    f. Decrease 5 to 10 percent – 0.7%
    g. Decrease more than 10 percent – none

    Average expected increase in raw material prices consistent with these responses = 1.9%

7. Over the next year, what are your company's capital investment plans?
    a. Increase more than 10 percent – 9.8%
    b. Increase 5 to 10 percent – 10.1%
    c. Increase up to 5 percent – 19.5%
    d. Stay about the same – 39.7%
    e. Decrease up to 5 percent – 7.7%
    f. Decrease 5 to 10 percent – 3.1%
    g. Decrease more than 10 percent – 10.1%

    Average expected increase in capital investments consistent with these responses = 0.8%

8. Over the next year, what are your inventory plans?
    a. Increase more than 10 percent – 2.5%
    b. Increase 5 to 10 percent – 3.9%
    c. Increase up to 5 percent – 14.0%
    d. Stay about the same – 47.2%
    e. Decrease up to 5 percent – 19.9%
    f. Decrease 5 to 10 percent – 6.3%
    g. Decrease more than 10 percent – 6.3%

    Average expected increase in inventories consistent with these responses = -0.7%

9. Over the next year, what do you expect in terms of full-time employment in your company?
    a. Increase more than 10 percent – 2.5%
    b. Increase 5 to 10 percent – 8.7%
    c. Increase up to 5 percent – 25.9%
    d. Stay about the same – 45.1%
    e. Decrease up to 5 percent – 12.2%
    f. Decrease 5 to 10 percent – 2.8%
    g. Decrease more than 10 percent – 2.8%

    Average expected increase in full-time employment consistent with these responses = 0.8%

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 – 3.9%
    b. Increase 3 to 5 percent – 28.8%
    c. Increase up to 3 percent – 56.5%
    d. Stay about the same – 9.5%
    e. Decrease up to 3 percent – 0.7%

f. Decrease 3 to 5 percent – 0.4%
g. Decrease more than 5 percent – 0.4%

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 – 4.2%
    b. Increase 10.0 to 14.9 percent – 14.1%
    c. Increase 5.0 to 9.9 percent – 38.2%
    d. Increase less than 5.0 percent – 30.7%
    e. No change – 8.5%
    f. Decrease less than 5.0 percent – 1.8%
    g. Decrease 5.0 percent or more – 1.1%
    h. Uncertain – 1.4%

    Average expected increase in health insurance costs consistent with these responses = 5.9%

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 – 51.9%
    b. Weaker global growth and slower export sales – 31.7%
    c. Trade uncertainties (e.g., actual or proposed tariffs, trade negotiation uncertainty) – 55.4%
    d. Strengthened U.S. dollar relative to other currencies – 22.0%
    e. Challenges with access to capital or other forms of financing – 4.9%
    f. Unfavorable business climate (e.g., taxes, regulations) – 23.7%
    g. Increased raw material costs – 27.2%
    h. Rising health care/insurance costs – 52.3%
    i. Transportation and logistics costs – 20.9%
    j. Attracting and retaining a quality workforce – 63.8%
    k. Other – 9.1%

13. What is your company's primary industrial classification?
    a. Chemicals – 5.3%
    b. Computer and electronic products – 2.5%
    c. Electrical equipment and appliances – 6.7%
    d. Fabricated metal products – 32.3%
    e. Food manufacturing – 2.5%
    f. Furniture and related products – 2.1%
    g. Machinery – 9.8%
    h. Nonmetallic mineral products – 2.8%
    i. Paper and paper products – 2.1%
    j. Petroleum and coal products – 1.1%
    k. Plastics and rubber products – 8.1%
    l. Primary metals – 3.5%
    m. Transportation equipment – 3.9%
    n. Wood products – 2.8%
    o. Other – 14.7%

14. What is your firm size (i.e., the parent company, not your establishment)?
    a. Fewer than 50 employees – 20.3%
    b. 50 to 499 employees – 49.7%
    c. 500 or more employees – 30.1%

SPECIAL QUESTIONS

15. Has the manufacturing downturn negatively impacted your company's overall economic outlook?
    a. Yes – 50.5%
    b. No – 40.6%
    c. Uncertain – 8.9%

16. Has the manufacturing downturn negatively impacted your company's hiring plans?
    a. Yes – 38.5%
    b. No – 56.5%
    c. Uncertain – 5.0%

17. Has the manufacturing downturn negatively impacted your company's capital spending plans?
    a. Yes – 34.6%
    b. No – 59.0%
    c. Uncertain – 6.4%

18. 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 – 34.8%
    b. Scale back U.S. expansion plans – 34.8%
    c. Decrease capital spending – 55.7%
    d. None of the above – 22.0%
    e. Uncertain – 20.2%

19. Because of reduced or smarter regulations over the past three years, my company has been able to do the following: (Check all that apply.)
    a. Hire more workers – 40.3%
    b. Increase wages, salaries and benefits – 49.1%
    c. Expand my U.S. operations – 28.6%
    d. Increase U.S. capital expenditures – 41.7%
    e. None of the above – 27.2%
    f. Uncertain – 10.3%

20. If health care costs were to continue to rise substantially, my company would be forced to consider the following: (Check all that apply.)
    a. Reduce my workforce – 25.4%
    b. Decrease or scale back benefits – 78.1%
    c. Scale back U.S. expansion plans – 18.7%
    d. Decrease capital spending – 23.7%
    e. None of the above – 8.8%
    f. Uncertain – 9.2%