NAM MANUFACTURERS’ OUTLOOK SURVEY
THIRD QUARTER 2019
SEPTEMBER 23, 2019

Percentage of Respondents Positive About Their Own Company’s Outlook

67.9%

(June: 79.8%)

Small Manufacturers: **64.8%** *(June: 85.2%)*
Medium-Sized Manufacturers: **74.1%** *(June: 79.5%)*
Large Manufacturers: **62.5%** *(June: 76.1%)*

Overall Facts About the Survey

Number of Responses: 448
In the Field: August 20 to September 4, 2019

Small Manufacturers: 91 responses
Medium-Sized Manufacturers: 189 responses
Large Manufacturers: 168 responses

NAM Manufacturing Outlook Index[1]

45.2

(June: 53.3, revised)

Expected Growth Rate for SALES Over the Next 12 Months **↑ 2.1%** *(June ↑ 3.4%)*	**Expected Growth Rate for PRODUCTION Over the Next 12 Months** **↑ 1.8%** *(June: ↑ 3.4%)*
Expected Growth Rate for FULL-TIME EMPLOYMENT Over the Next 12 Months **↑ 0.9%** *(June: ↑ 1.6%)*	**Expected Growth Rate for EMPLOYEE WAGES Over the Next 12 Months** **↑ 2.0%** *(June: ↑ 2.3%)*
Expected Growth Rate for CAPITAL INVESTMENTS Over the Next 12 Months **↑ 1.1%** *(June: ↑ 2.2%)*	**Expected Growth Rate for EXPORTS Over the Next 12 Months** **↑ 0.2%** *(June: ↑ 0.4%)*
Expected Growth Rate for PRICES OF COMPANY’S PRODUCTS Over the Next 12 Months **↑ 1.7%** *(June: ↑ 2.0%)*	**Expected Growth Rate for RAW MATERIAL PRICES AND OTHER INPUT COSTS Over the Next 12 Months** **↑ 2.4%** *(June: ↑ 3.1%)*
Expected Growth Rate for INVENTORIES Over the Next 12 Months **↓ 0.8%** *(June: ↓ 0.1)*	**Expected Growth Rate for HEALTH INSURANCE COSTS Over the Next 12 Months** **↑ 6.2%** *(June: ↑ 6.5%)*

[1] The NAM Manufacturing Outlook Index data series is revised each quarter to reflect the mean and standard deviation of the historic data, dating back to the fourth quarter of 1997. Currently, the historic mean for those with positive responses in their outlook is 75.0 percent, with a standard deviation of 14.8 percent. An index reading of 40 would be consistent with one standard deviation below the mean (60.2 percent positive), and a 60 would be one standard deviation above the mean (89.8 percent positive). In essence, the index helps to normalize the outlook data to put them into an historic context.

Summary

In the United States and across the world, the prevailing trend for the manufacturing sector in 2019 has been one of slowed growth amid trade uncertainties, a softening global economy and a worsening domestic workforce shortage. While consumer spending and strong labor market growth continue to buoy activity, business investment and global trade volumes have each served as drags on top-line growth so far this year. Accordingly, there has been a sizable deterioration in business confidence over the past six months, as shown in the latest Manufacturers' Outlook Survey from the National Association of Manufacturers.

In the third quarter of 2019, 67.9 percent of manufacturing respondents said that they were either somewhat or very positive about their own company's outlook (Figure 1). This was down from 89.5 percent and 79.8 percent who said the same thing in the first and second quarters, respectively, and it was the lowest reading in three years (the third quarter of 2016, 61.0 percent). Moreover, the NAM Manufacturing Outlook Index measured 45.2 in the third quarter (Figure 2). Index readings under 50 are consistent with an outlook that is below the historical average of the survey (75.0 percent positive), and this survey ended 11 straight quarters with readings above 50.

Given past survey results, it should be no surprise that the greatest challenge facing manufacturers of all sizes continues to be finding a qualified workforce. In fact, the inability to attract and retain workers remained respondents' top concern for the eighth consecutive survey, noted as the top concern by almost 70 percent of respondents. Underscoring the severity of this challenge, 78.7 percent of respondents said that they have open positions that they are struggling to fill, and roughly one-third were forced to turn down business opportunities due to their inability to find sufficient talent—a challenge heightened by the tight labor market and baby boomer retirements. Figure 5 shows some of the tactics employed by manufacturers to bridge the current skills gap, led by creating and expanding internal training programs (69.9 percent) and offering more opportunities for current workers (67.6 percent).

Trade uncertainties were the second most mentioned concern facing manufacturers, with 63.4 percent of those completing the survey reporting it as the top company issue (Figure 3). Trade has played a central role in this quarter's survey, and it is abundantly clear that firms that are more upbeat about export growth are also more positive in their overall outlook. Indeed, among those manufacturers who expect to grow their exports over the next 12 months, 86.0 percent are positive about their company's prospects. That compares to a 33.7 percent positive reading for those manufacturers anticipating declining exports. With 90 percent of global consumption outside of our country, manufacturers in the U.S. rely on trade to grow their businesses.

There are no more important trading partners for manufacturers in America than Canada and Mexico. Despite representing less than 4 percent of the global economy, these two countries purchase more U.S. manufacturing output than our next 11 trading partners combined. With that in mind, more than 80 percent of respondents said passage of the United States–Mexico–Canada Agreement was important for their companies. Along those lines, 62.8 percent of respondents said that the global slowdown and trade uncertainty has negatively impacted their companies' overall economic outlook. Moreover, 34.4 percent and 36.0 percent of those completing the survey felt that the global slowdown and trade uncertainties have negatively impacted their company's hiring and capital spending plans, respectively. Passing the USMCA, reaching a bilateral trade agreement with China and reauthorizing the Export-Import Bank are three immediate prioirites for manufacturers that would increase optimism within the industry.

Other top challenges cited were rising health care and insurance costs (51.8 percent), the weaker domestic economy (45.3 percent), increased raw material costs (41.7 percent) and a weaker global economy (34.2 percent). The business climate, which for years used to be one of the top challenges facing manufacturers, continued to languish toward the bottom of the list of top challenges, largely as a result of pro-growth federal policies over the past few years like tax reform and regulatory certainty.

Tax reform in particular helped many manufacturers invest more in hiring, compensation and their communities. By the same token, as this quarter's survey reveals, going backward on tax reform could have just the opposite effect. When asked about the impact of Congress potentially rolling back tax reform's pro-growth provisions, as some lawmakers and presidential candidates have discussed, 63.8 percent of respondents said it could lead to reduced capital investments in the United States, and half said it might force them to have to scale back employment.

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 percent over the next 12 months, down from 3.4 percent in the previous survey. Much like the headline number, this was the slowest pace of growth in three years. With that said, nearly 31 percent of respondents continue to expect sales growth of 5 percent or more, even as 20.9 percent see sales declines over the next year. Medium-sized firms are the most upbeat in their sales expectations for the next 12 months (2.7 percent), with small and large manufacturers predicting sales growth of 1.1 percent and 1.8 percent, respectively.

- **Production:** Expected production growth dropped from 3.4 percent to 1.8 percent in this survey, the weakest rate of output growth since the second quarter of 2016 (1.5 percent). Still, it is notable that half of all respondents see production growth over the next 12 months, with 20.4 percent predicting declines and 29.5 percent seeing no change. Medium-sized manufacturers were also more positive in their production growth forecasts, anticipating 2.7 percent growth over the next year.

- **Full-Time Employment:** Respondents expect ful-time employment to rise by 0.9 percent over the next 12 months, a three-year low and slowing from 2.1 percent and 1.6 percent growth seen in the March and June surveys, respectively. Nearly 38 percent anticipate employment growth over the next 12 months, with 15.5 percent predicting declines and 46.6 percent seeing no change.

- **Employee Wages:** Respondents anticipate employee wages (excluding nonwage compensation, such as benefits) to rise by 2.0 percent over the next 12 months, down from 2.3 percent in the previous survey. In the latest results, nearly 28 percent expect to hike wages by 3 percent or more.

- **Capital Investments:** Respondents cut their expected spending on capital investments in half, down from seeing 2.2 percent growth over the next 12 months in June to 1.1 percent in this survey. This was a three-year low. Yet, 34.5 percent of manufacturers anticipate higher capital spending in the next year, with 22.0 percent expecting solid investment growth of 5 percent or more. In contrast, 19.3 percent predict falling capital spending over that time frame. For this question, it was the smallest firms who were the most upbeat at 1.5 percent, versus 1.0 percent for medium-sized and large manufacturers.

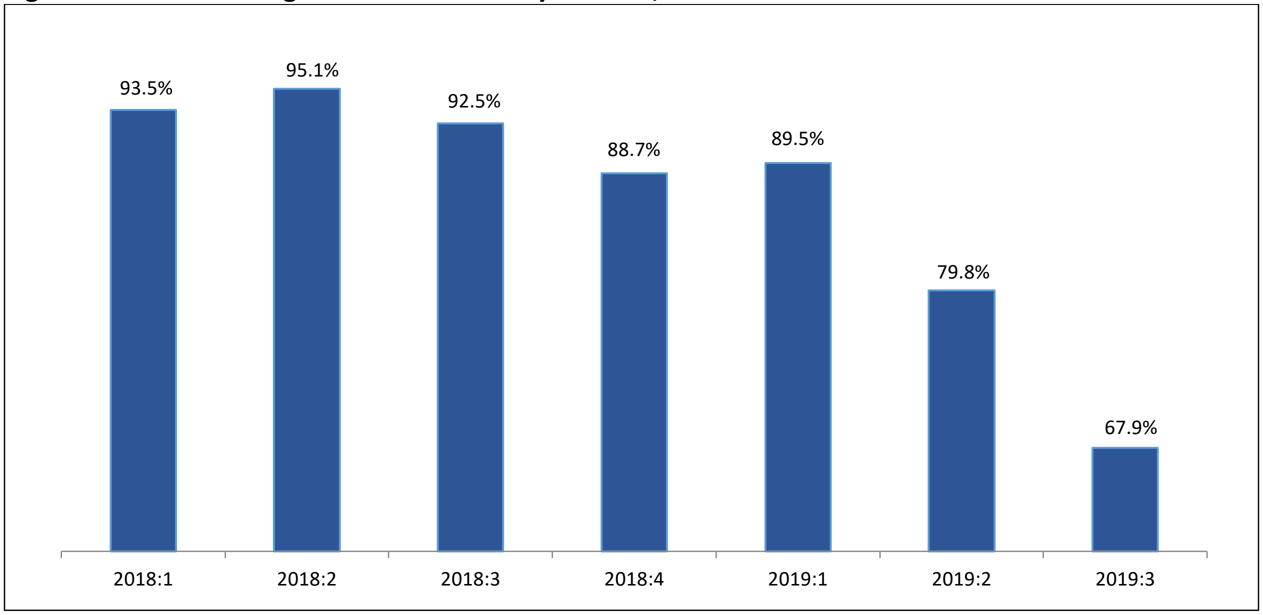
- **Exports:** Respondents expect exports to increase by just 0.2 percent over the next 12 months, slowing from 0.9 percent and 0.4 percent in the prior two surveys, respectively. It was also a three-year low, likely reflecting ongoing trade uncertainties and weaker global growth. Nearly one-quarter of those taking the survey predict stronger exports over the next year, with 54.9 percent predicting them staying the same and 20.5 percent expecting declines.

- **Product Prices:** Respondents expect product prices to increase 1.7 percent over the next 12 months, pulling back for the fourth straight survey from 3.2 percent one year ago, which was a seven-year high. It was the slowest pace of product price growth since the fourth quarter of 2016.

- **Raw Material Prices:** Manufacturers anticipate raw material prices and other input costs rising 2.4 percent over the next 12 months, decelerating from 3.1 percent in the June survey. The NAM added this question in June 2018, and the current reading is the lowest in those six quarters of responses.

- **Inventories:** Respondents felt that inventories would decline by 0.8 percent over the next 12 months, falling for the second straight quarter and its steepest decrease in three years. In this report, 34.5 percent of manfuacturers anticipate reduced inventories over the next year, with 17.7 percent expecting increases and 47.8 percent seeing no changes.

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

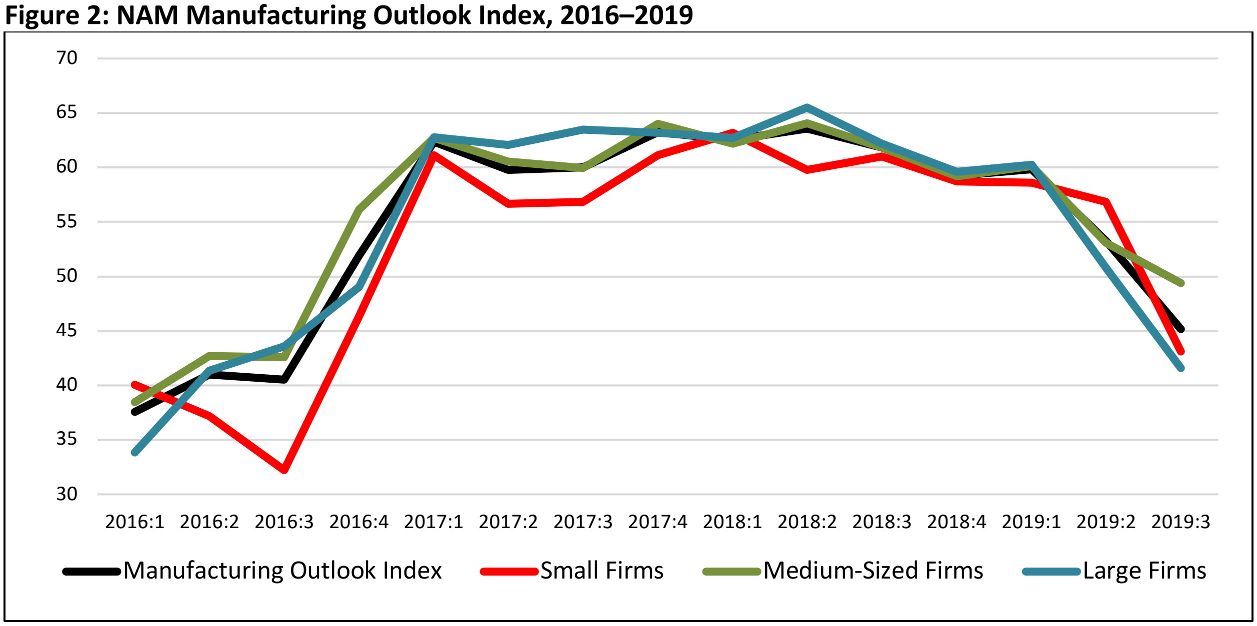
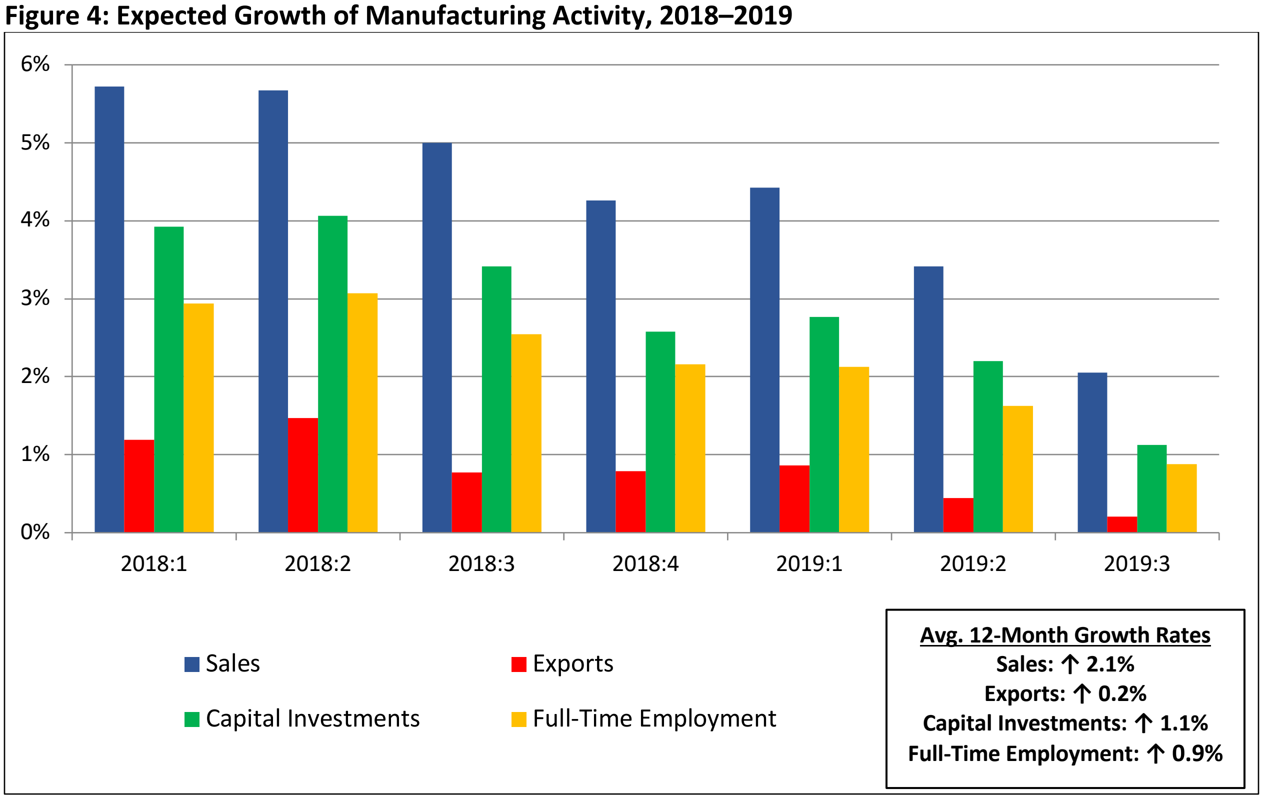


Figure 3: Primary Current Business Challenges, Third Quarter 2019

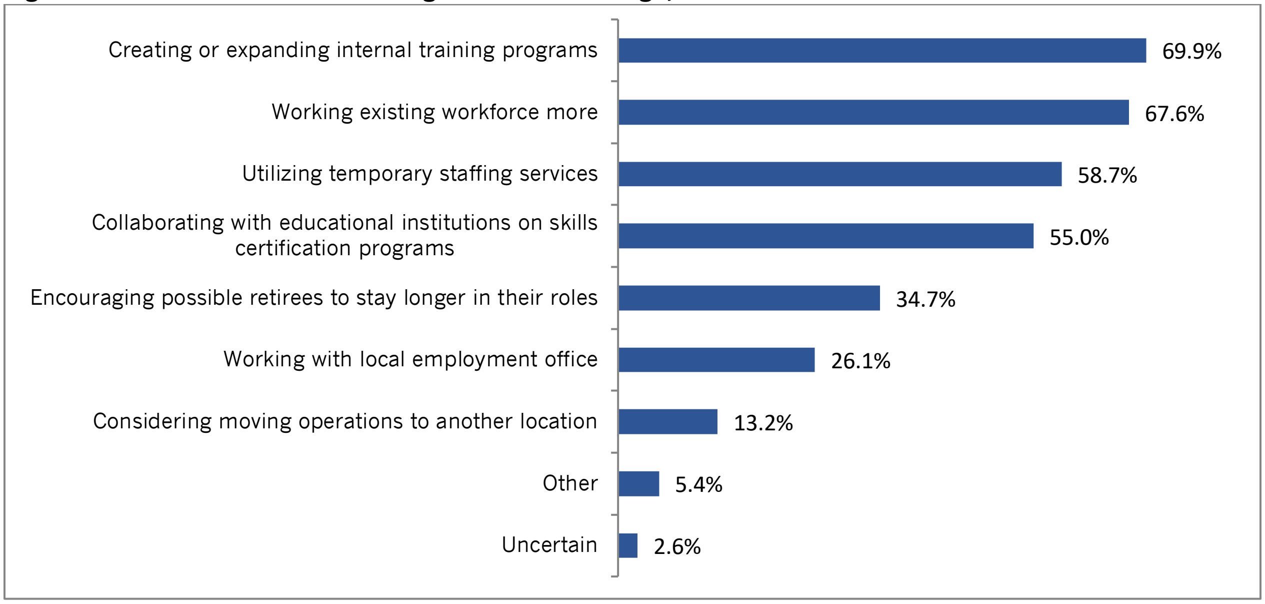
Note: Respondents were able to check more than one response; therefore, responses exceed 100 percent.

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



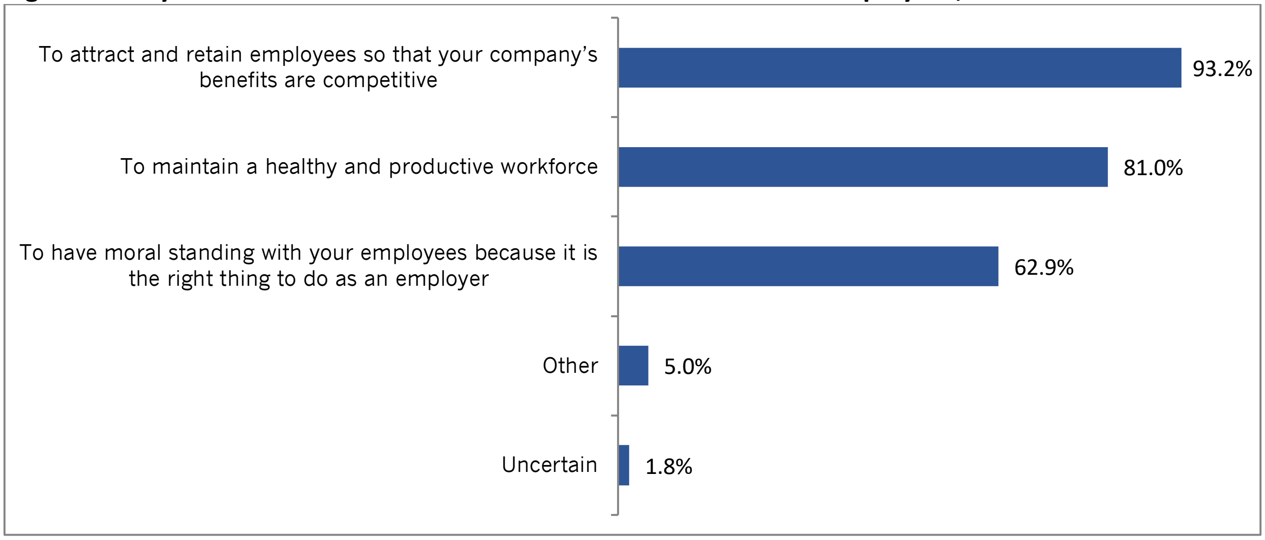
Note: Expected growth rates are annual averages.

Figure 5: How Firms Are Addressing the Skills Shortage, Third Quarter 2019



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

Figure 6: Why Manufacturers Provide Health Care Benefits to Their Employees, Third Quarter 2019



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

Survey Responses

1. How would you characterize the business outlook for your firm right now?
    a. Very positive – 19.0%
    b. Somewhat positive – 48.9%
    c. Somewhat negative – 30.1%
    d. Very negative – 2.0%

    Percentage that is either somewhat or very positive in their outlook = 67.9%

2. Over the next year, what do you expect to happen with your company's overall sales?
    a. Increase more than 10 percent – 10.2%
    b. Increase 5 to 10 percent – 20.7%
    c. Increase up to 5 percent – 23.4%
    d. Stay about the same – 24.7%
    e. Decrease up to 5 percent – 10.5%
    f. Decrease 5 to 10 percent – 8.0%
    g. Decrease more than 10 percent – 2.5%

    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 – 8.3%
    b. Increase 5 to 10 percent – 19.5%
    c. Increase up to 5 percent – 22.4%
    d. Stay about the same – 29.5%
    e. Decrease up to 5 percent – 11.6%
    f. Decrease 5 to 10 percent – 6.0%
    g. Decrease more than 10 percent – 2.7%

    Average expected increase in production consistent with these responses = 1.8%

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 – 8.5%
    b. Increase 3 to 5 percent – 8.3%
    c. Increase up to 3 percent – 7.8%
    d. Stay about the same – 54.9%
    e. Decrease up to 3 percent – 9.2%
    f. Decrease 3 to 5 percent – 3.0%
    g. Decrease more than 5 percent – 8.3%

    Average expected increase in exports consistent with these responses = 0.2%

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 – 12.1%
    c. Increase up to 5 percent – 40.1%
    d. Stay about the same – 37.9%
    e. Decrease up to 5 percent – 6.7%
    f. Decrease 5 to 10 percent – 1.6%
    g. Decrease more than 10 percent – 0.5%

Average expected increase in product prices consistent with these responses = 1.7%

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 – 4.2%
    b. Increase 5 to 10 percent – 16.1%
    c. Increase up to 5 percent – 42.2%
    d. Stay about the same – 29.7%
    e. Decrease up to 5 percent – 6.0%
    f. Decrease 5 to 10 percent – 1.3%
    g. Decrease more than 10 percent – 0.5%

    Average expected increase in raw material prices consistent with these responses = 2.4%

7. Over the next year, what are your company's capital investment plans?
    a. Increase more than 10 percent – 10.8%
    b. Increase 5 to 10 percent – 11.2%
    c. Increase up to 5 percent – 12.6%
    d. Stay about the same – 46.2%
    e. Decrease up to 5 percent – 9.6%
    f. Decrease 5 to 10 percent – 4.0%
    g. Decrease more than 10 percent – 5.6%

    Average expected increase in capital investments consistent with these responses = 1.1%

8. Over the next year, what are your inventory plans?
    a. Increase more than 10 percent – 1.8%
    b. Increase 5 to 10 percent – 4.7%
    c. Increase up to 5 percent – 11.2%
    d. Stay about the same – 47.8%
    e. Decrease up to 5 percent – 22.9%
    f. Decrease 5 to 10 percent – 7.0%
    g. Decrease more than 10 percent – 4.7%

    Average expected increase in inventories consistent with these responses = -0.8%

9. Over the next year, what do you expect in terms of full-time employment in your company?
    a. Increase more than 10 percent – 2.0%
    b. Increase 5 to 10 percent – 8.1%
    c. Increase up to 5 percent – 27.8%
    d. Stay about the same – 46.6%
    e. Decrease up to 5 percent – 11.4%
    f. Decrease 5 to 10 percent – 2.7%
    g. Decrease more than 10 percent – 1.4%

    Average expected increase in full-time employment consistent with these responses = 0.9%

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 – 3.2%
    b. Increase 3 to 5 percent – 24.7%
    c. Increase up to 3 percent – 57.5%
    d. Stay about the same – 14.2%
    e. Decrease up to 3 percent – 0.5%

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

Average expected increase in employee wages consistent with these responses = 2.0%

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 – 4.5%
    b. Increase 10.0 to 14.9 percent – 14.6%
    c. Increase 5.0 to 9.9 percent – 40.1%
    d. Increase less than 5.0 percent – 30.2%
    e. No change – 5.9%
    f. Decrease less than 5.0 percent – 1.8%
    g. Decrease 5.0 percent or more – none
    h. Uncertain – 2.9%

    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 – 45.3%
    b. Weaker global growth and slower export sales – 34.2%
    c. Trade uncertainties (e.g., actual or proposed tariffs, trade negotiation uncertainty) – 63.4%
    d. Strengthened U.S. dollar relative to other currencies – 25.9%
    e. Challenges with access to capital or other forms of financing – 4.5%
    f. Unfavorable business climate (e.g., taxes, regulations) – 19.9%
    g. Increased raw material costs – 41.7%
    h. Rising health care/insurance costs – 51.8%
    i. Transportation and logistics costs – 27.0%
    j. Attracting and retaining a quality workforce – 69.9%
    k. Understanding the impact of new technologies on the future of the business – 15.4%

13. What is your company's primary industrial classification?
    a. Chemicals – 4.5%
    b. Computer and electronic products – 1.3%
    c. Electrical equipment and appliances – 6.7%
    d. Fabricated metal products – 28.9%
    e. Food manufacturing – 3.1%
    f. Furniture and related products – 0.7%
    g. Machinery – 12.3%
    h. Nonmetallic mineral products – 2.7%
    i. Paper and paper products – 2.5%
    j. Petroleum and coal products – 1.3%
    k. Plastics and rubber products – 5.8%
    l. Primary metals – 4.0%
    m. Transportation equipment – 4.5%
    n. Wood products – 2.5%
    o. Other – 19.2%

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 – 42.2%
    c. 500 or more employees – 37.5%

SPECIAL QUESTIONS

15. Has the global slowdown and trade policy uncertainty negatively impacted your company's overall economic outlook?
    a. Yes – 62.8%
    b. No – 26.1%
    c. Uncertain – 11.1%

16. Has the global slowdown and trade policy uncertainty negatively impacted your company's hiring plans?
    a. Yes – 34.4%
    b. No – 57.7%
    c. Uncertain – 7.9%

17. Has the global slowdown and trade policy uncertainty negatively impacted your company's capital spending plans?
    a. Yes – 36.0%
    b. No – 58.1%
    c. Uncertain – 5.9%

18. How important is it for your company to have the new United States–Mexico–Canada Agreement approved?
    a. Very important – 41.6%
    b. Somewhat important – 39.6%
    c. Not important – 12.4%
    d. Uncertain – 6.3%

19. If Congress rolled back business provisions of the Tax Cuts and Jobs Act (e.g., by increasing the corporate tax rate, limiting the new deduction for pass-through business income or reducing incentives for capital equipment purchases), would your business consider reducing capital investments in the United States?
    a. Yes – 63.8%
    b. No – 36.2%

20. If Congress rolled back business provisions of the Tax Cuts and Jobs Act, would your business consider scaling back employment in the United States?
    a. Yes – 50.1%
    b. No – 49.9%

21. If Congress rolled back business provisions of the Tax Cuts and Jobs Act, would your business consider scaling back wage and bonus increases in the United States?
    a. Yes – 55.8%
    b. No – 44.2%

22. Do you have unfilled positions within your company for which you are struggling to find qualified applicants?
    a. Yes – 78.7%
    b. No – 17.9%
    c. Uncertain – 3.4%

23. If you answered "yes" to the previous question, how are you addressing the skills shortage? (Check all that apply.)
    a. Working existing workforce more – 67.6%
    b. Creating or expanding internal training programs – 69.9%
    c. Encouraging possible retirees to stay longer in their roles – 34.7%

    d. Collaborating with educational institutions on skills certification programs – 55.0%
    e. Utilizing temporary staffing services – 58.7%
    f. Working with local employment office – 26.1%
    g. Considering moving operations to another location – 13.2%
    h. Other – 5.4%
    i. Uncertain – 2.6%

24. 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 – 33.9%
    b. False – 66.1%

25. Is your company digitally enabling its manufacturing process?
    a. Yes – 64.4%
    b. No - 19.7%
    c. Uncertain - 15.9%

26. Over the next year, is your company planning to accelerate its manufacturing digital transformation?
    a. Yes – 54.4%
    b. No – 22.7%
    c. Uncertain – 22.9%