NAM MANUFACTURERS' OUTLOOK SURVEY
FOURTH QUARTER 2023

Jan. 8, 2024

By Chad Moutray and Mary Frances Holland[1]

Percentage of Respondents Positive About Their Own Company's Outlook **66.2%** *(September: 65.1%)* Small Manufacturers: **65.9%** *(September: 63.6%)* Medium-Sized Manufacturers: **63.0%** *(September: 62.9%)* Large Manufacturers: **77.5%** *(September: 68.3%)*	**Overall Facts About the Survey** Number of Responses: 234* In the Field: Nov. 14 – Dec. 1, 2023 Small Manufacturers: 19.3% Medium-Sized Manufacturers: 47.2% Large Manufacturers: 33.5% **NAM Manufacturing Outlook Index**[2] **44.1** *(September: 43.3)*
Expected Growth Rate for SALES Over the Next 12 Months **↑ 1.5% – Lowest Since Q2 2020 (or Q1 2016 Excluding the Pandemic)** *(September: ↑ 2.0%)*	**Expected Growth Rate for PRODUCTION Over the Next 12 Months** **↑ 1.7%** *(September: ↑ 2.0%)*
Expected Growth Rate for FULL-TIME EMPLOYMENT Over the Next 12 Months **↑ 0.6% – Lowest Since Q2 2020 (or Q3 2016 Excluding the Pandemic)** *(September: ↑ 0.9%)*	**Expected Growth Rate for EMPLOYEE WAGES Over the Next 12 Months** **↑ 2.9%** *(September: ↑ 2.7%)*
Expected Growth Rate for CAPITAL INVESTMENTS Over the Next 12 Months **↑ 0.6% – Lowest Since Q2 2020 (or Q2 2016 Excluding the Pandemic)** *(September: ↑ 1.2%)*	**Expected Growth Rate for EXPORTS Over the Next 12 Months** **↑ 0.2%** *(September: ↑ 0.3%)*
Expected Growth Rate for PRICES OF COMPANY'S PRODUCTS Over the Next 12 Months **↑ 1.3% – Lowest Since Q3 2020** *(September: ↑ 1.7%)*	**Expected Growth Rate for RAW MATERIAL PRICES AND OTHER INPUT COSTS Over the Next 12 Months** **↑ 1.8% – Lowest Since Q2 2020** *(September: ↑ 2.1%)*
Expected Growth Rate for INVENTORIES Over the Next 12 Months **↓ 1.7% – Falling for the Sixth Straight Quarter** *(September: ↓ 1.8%)*	**Expected Growth Rate for HEALTH INSURANCE COSTS Over the Next 12 Months** **↑ 7.3%** *(September: ↑ 7.2%)*

[1] Chad Moutray is the chief economist at the National Association of Manufacturers and serves as the director of the Center for Manufacturing Research at the Manufacturing Institute. Mary Frances Holland is policy associate for economic research at the NAM.

[2] 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 average for those with positive responses in their outlook is 74.8%, with a standard deviation of 14.6%. An index reading of 40 would be consistent with one standard deviation below the mean (60.27% positive), and an index reading of 60 would be one standard deviation above the mean (89.41% positive). As such, the index helps to normalize the outlook data to put them into a historical context.

Summary of Findings

- **Manufacturing sentiment inched up in Q4 but remained not far from a post-pandemic low.** The NAM conducted the Manufacturers' Outlook Survey for the fourth quarter of 2023 from Nov. 14 to Dec. 1, and 66.2% of respondents felt either somewhat or very positive about their company's outlook, edging up from 65.1% in the third quarter (Figures 1 and 2). It was the fifth straight reading below the historical average (74.8%), averaging 66.1% over the past three surveys. The NAM Manufacturing Outlook Index measured 44.1 in the fourth quarter, up from 43.3 in the third quarter.

- **Optimism in the outlook rose solidly among large manufacturers but continued to remain challenged for small and medium-sized firms (Figure 3).** In Q4, 77.5% of respondents from manufacturers with more than 500 employees felt positive about their company's outlook, increasing for the second straight survey to the highest reading since Q2 2022. Meanwhile, small companies with fewer than 50 employees and medium-sized firms with between 50 and 499 employees had 65.9% and 63.0% positivity rates in Q4, respectively.

- **Fewer respondents expect a recession in 2024 than they did three months earlier, but nearly 41% felt uncertain.** Just more than 34% of manufacturers believed the U.S. economy would experience a recession in calendar year 2024 (Figure 4). This is down from 56.8% and 42.2% who said they expected a recession over the next 12 months in Q2 and Q3, respectively. With that said, just one-quarter of those completing the survey felt the economy would avoid a recession, with 40.7% uncertain.

- **Workforce challenges continue to dominate.** More than 71% of manufacturers cited the inability to attract and retain employees as their top primary challenge (Figure 5), followed by a weaker domestic economy (63.7%), an unfavorable business climate (61.1%) and rising health care and insurance costs (59.8%). Concern about an unfavorable business climate was the highest in seven years (Q4 2016, Figure 6). In addition, inflation (38.5%) and supply chain (32.1%) concerns—both of which dominated in 2022—have continued to moderate.

- **Increased tax burdens would hurt manufacturers.** Eighty-nine percent of respondents said higher tax burdens on manufacturing activities would make it more difficult to expand their workforce, invest in new equipment or expand facilities.

- **Permitting reform will be beneficial.** In the survey, two-thirds of respondents said the length and complexity of the current permitting reform process affects their investment decisions in various degrees, with 32.3% suggesting they were extremely or moderately impacted. Based on previous surveys, reform to the current system could allow them to hire more workers, expand their business and increase wages and benefits.

- **Political dysfunction is a major concern for manufacturers.** When asked about major trends of concern, nearly 8 out of 10 respondents (77.6%) listed political dysfunction as a major issue. Geopolitical turmoil (67.7%), economic recession (66.8%) and rising interest rates and the U.S. dollar (61.2%) followed closely as top concerns (Figure 7).

- **In response to these trends, manufacturers have been de-risking their supply chains.** Eighty-six percent of respondents confirmed their companies have been working to adjust their supply chains to limit potential risks.

- **International sales and entering new markets are a key part of future growth strategies.** More than 84% of respondents stated that growth in exports to foreign markets was important to their success, with more than 52% suggesting foreign markets were somewhat or very important for their company.

- **Manufacturers rely on access to critical minerals.** About 8 out of 10 respondents stated that their operations would be affected in some capacity if other countries decided to limit or decrease the supply of critical minerals to manufacturers in the U.S. Critical minerals are the foundation on which modern technology is built—from solar panels to advanced batteries, and include aluminum, graphite, nickel, platinum and others. Export restrictions from other countries on critical minerals have increased drastically in recent years.

- **Manufacturing employment and production were both challenged in the latest PMI analysis, while capital spending remained slightly positive on net.** The majority of respondents reported no change in hiring or capital spending between the third and fourth quarters, while these three measures each had increased percentages citing decreased activity in this release (Figure 8 and the table below).

	Previous	Fourth Quarter 2023 Relative to Third Quarter 2023			
	PMI	Higher	No Change	Lower	PMI
Production	52.7	24.0%	38.6%	37.3%	**43.3**
Employment	51.2	16.9%	58.4%	24.7%	**46.1**
Capital Spending	51.6	22.7%	55.6%	21.8%	**50.4**

- Some other trends regarding predicted growth rates over the next 12 months (Figure 9):

  — **Sales:** Respondents expect sales to rise 1.5% over the next 12 months, down from 2.0% in Q3 and the weakest reading since Q2 2020 (or Q1 2016 excluding the pandemic). More than 53% of manufacturers predict sales will increase over the next four quarters, with 28.2% feeling orders will rise 5% or more. However, more than 26% anticipate declining sales. With that said, large manufacturers felt the most upbeat in their outlook, with sales expectations of 2.7%. This contrasts with 1.3% growth predicted over the next 12 months for small and medium-sized respondents.

  — **Production:** Respondents expect production to increase 1.7% over the next 12 months, down from 2.0% in Q3. More than 51% of respondents forecast output to rise over the coming months, with roughly one-quarter seeing declining production. For production, medium-sized and large manufacturers felt more upbeat, predicting 2.2% growth in output over the next 12 months, while small firms forecasted just 1.0% growth.

  — **Full-Time Employment:** Respondents expect full-time employment to rise 0.6% over the next 12 months, down from 0.9% in Q3 and the weakest reading since Q2 2020 (or Q3 2016 excluding the pandemic). More than 36% anticipate an increase in full-time hiring over the next 12 months, with 18.0% predicting reduced employment. Medium-sized enterprises were the most upbeat regarding future hiring, predicting 1.2% growth in 2024. In contrast, small and large manufacturers expect just 0.5% growth.

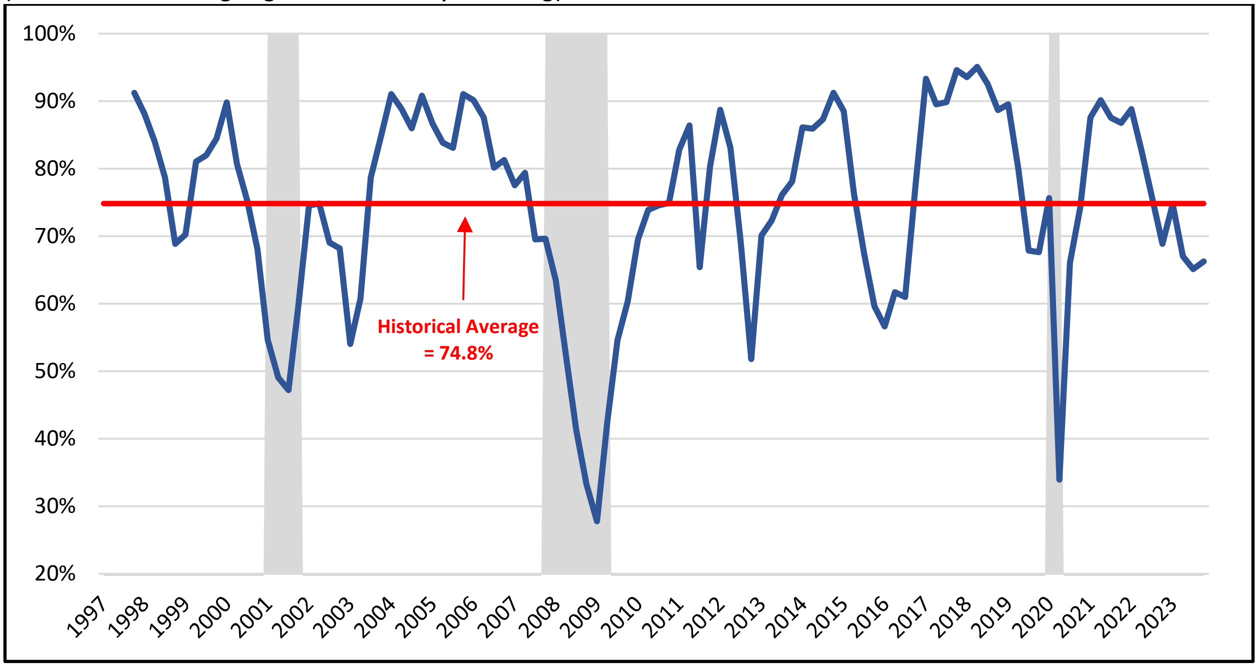
- **Employee Wages:** Respondents anticipate employee wages (excluding nonwage compensation, such as benefits) to rise 2.9% over the next 12 months, up from 2.7% in Q3. More than 59% of manufacturers predict wage growth of 3% or more over the next 12 months, with 6.4% suggesting more than 5%. Medium-sized firms predicted wage growth of 3.1% over the next 12 months, with small and large firm respondents forecasting 2.8% on average.

- **Capital Investments:** Respondents expect capital spending to rise 0.6% over the next 12 months, half of the 1.2% pace in Q3 and the slowest since Q2 2020 (or Q2 2016 excluding the pandemic). In this survey, 35.9% expect additional capital spending in the next year, with 39.3% predicting no change and 24.8% forecasting reduced capital expenditures. Large manufacturers predict 1.1% growth in capital investments over the next year, with small and medium-sized firms planning for 0.5% growth.

- **Exports:** Respondents expect exports to increase just 0.2% over the next 12 months, ticking down from 0.3% in Q3. Overall, 18.8% anticipate higher exports in the next year, with 69.2% seeing no changes and 12.0% forecasting declines.

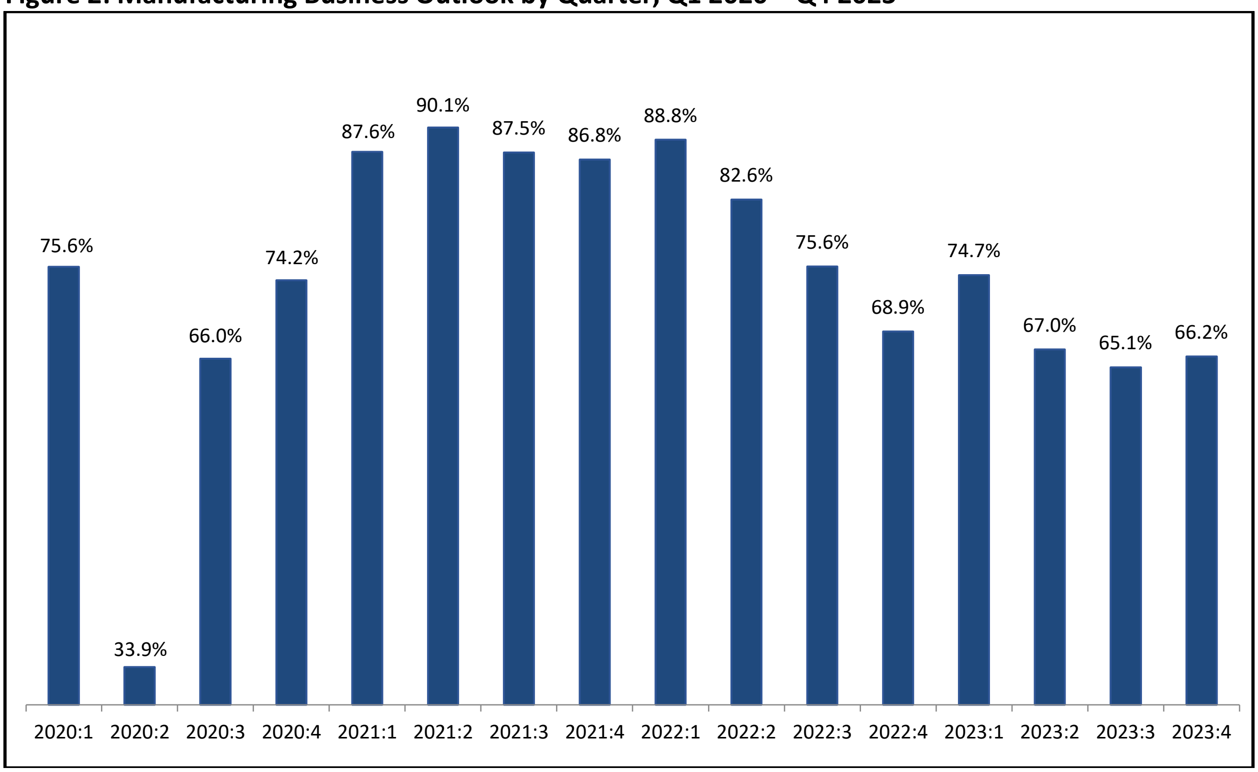
- **Inventories:** Respondents anticipate inventories shrinking 1.7% over the next 12 months, declining for the sixth straight quarter. This suggests that manufacturers are continuing to draw down their stockpiles, which should necessitate additional production once demand strengthens. Nearly 45% of firms expect falling inventories over the next year, with 14.5% predicting increases and 40.6% seeing no changes.

Figure 1: Manufacturing Business Outlook by Quarter, Q4 1997 – Q4 2023
(Recessions Are Highlighted with Gray Shading)



Note: Percentage of respondents who characterized the current business outlook as somewhat or very positive. Recessions are designated by the National Bureau of Economic Research.

Figure 2: Manufacturing Business Outlook by Quarter, Q1 2020 – Q4 2023



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

Figure 3: NAM Manufacturers' Outlook Index, Q1 2021 – Q4 2023

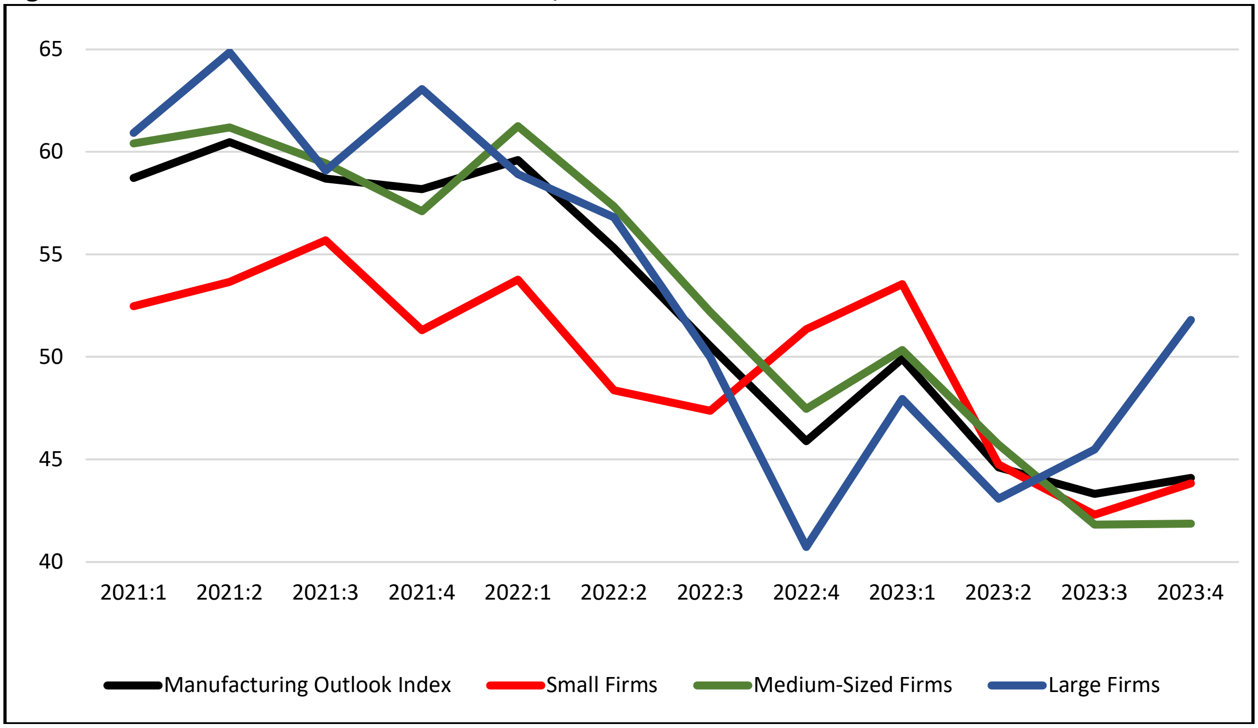


Figure 4: "Do You Think the U.S. Will Experience a Recession in 2024?"

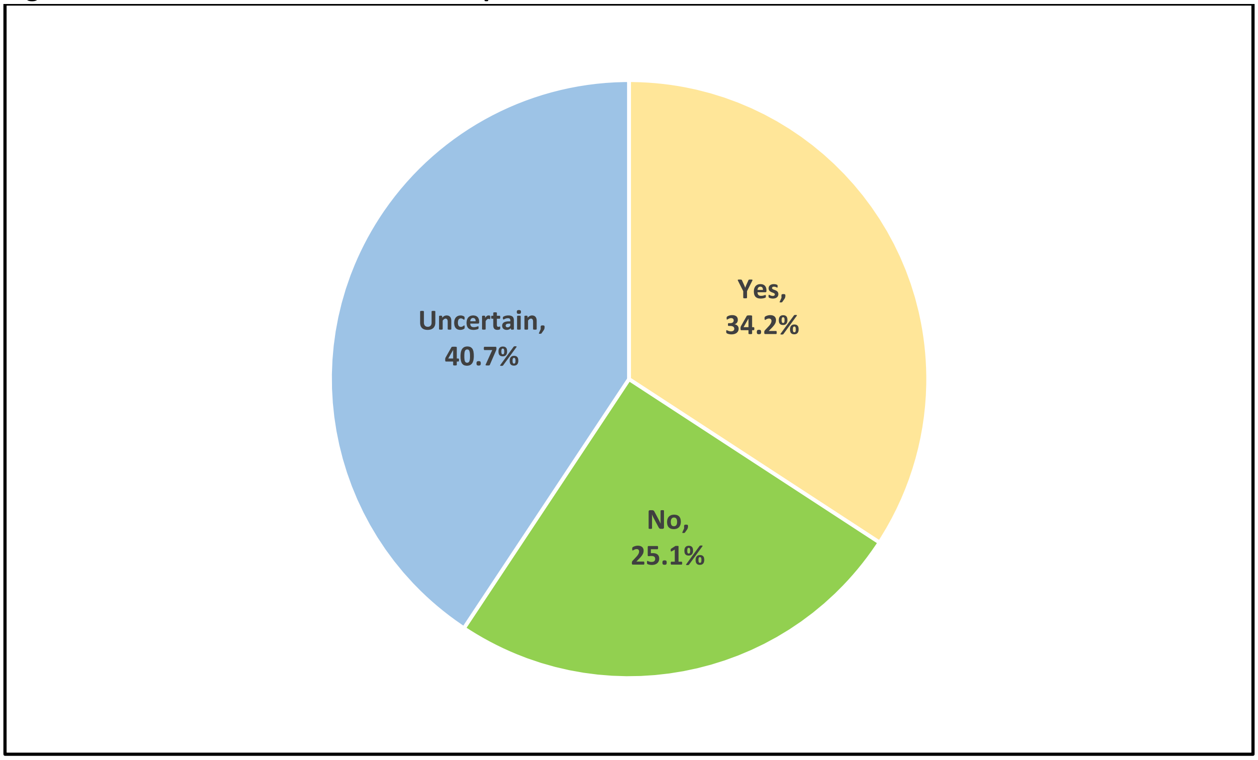
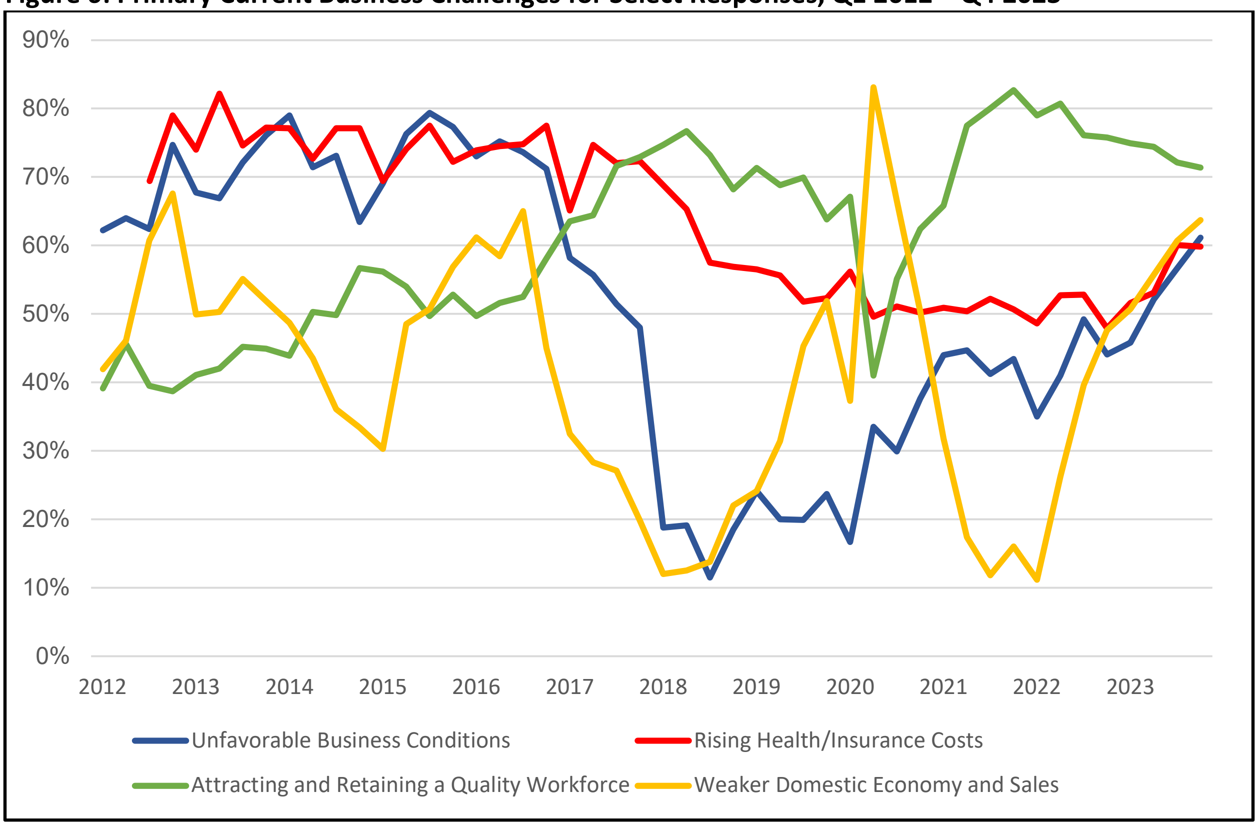


Figure 5: Primary Current Business Challenges, Q4 2023

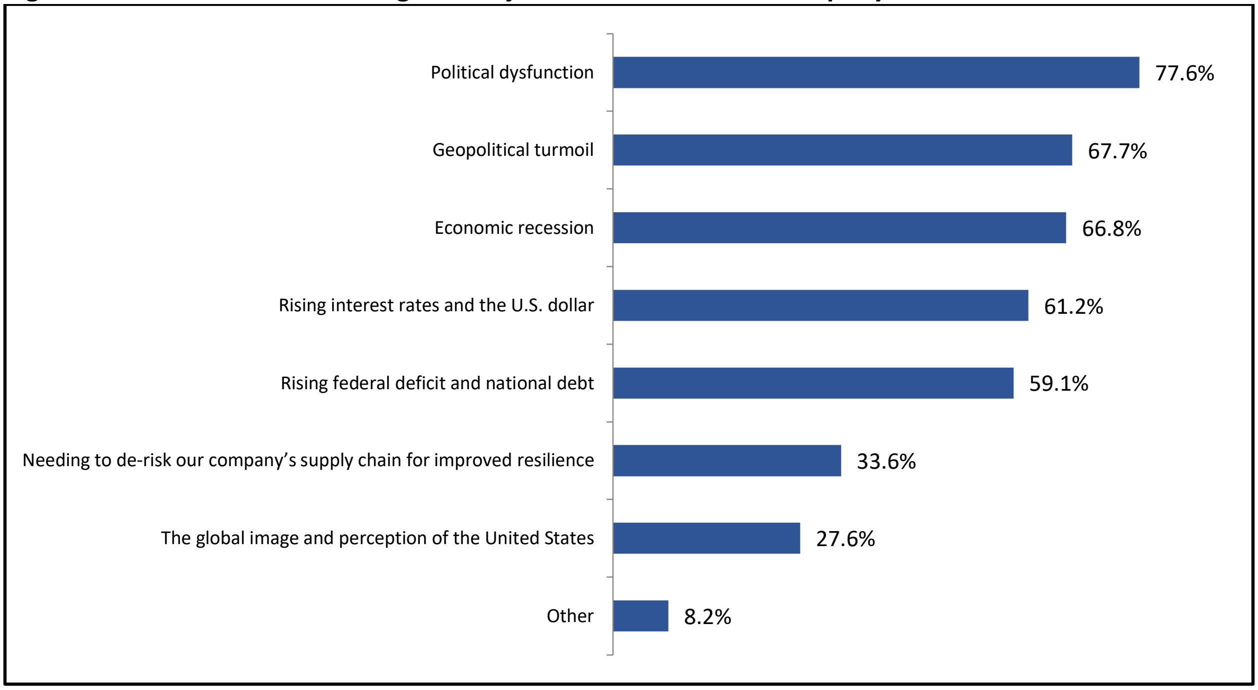
Note: Respondents were able to check more than one response; therefore, responses exceed 100%.

Figure 6: Primary Current Business Challenges for Select Responses, Q1 2012 – Q4 2023



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

Figure 7: "Which of the Following Are Major Concerns for Your Company?"



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

Figure 8: Change in Manufacturing Activity in Fourth Quarter 2023 Relative to Third Quarter 2023

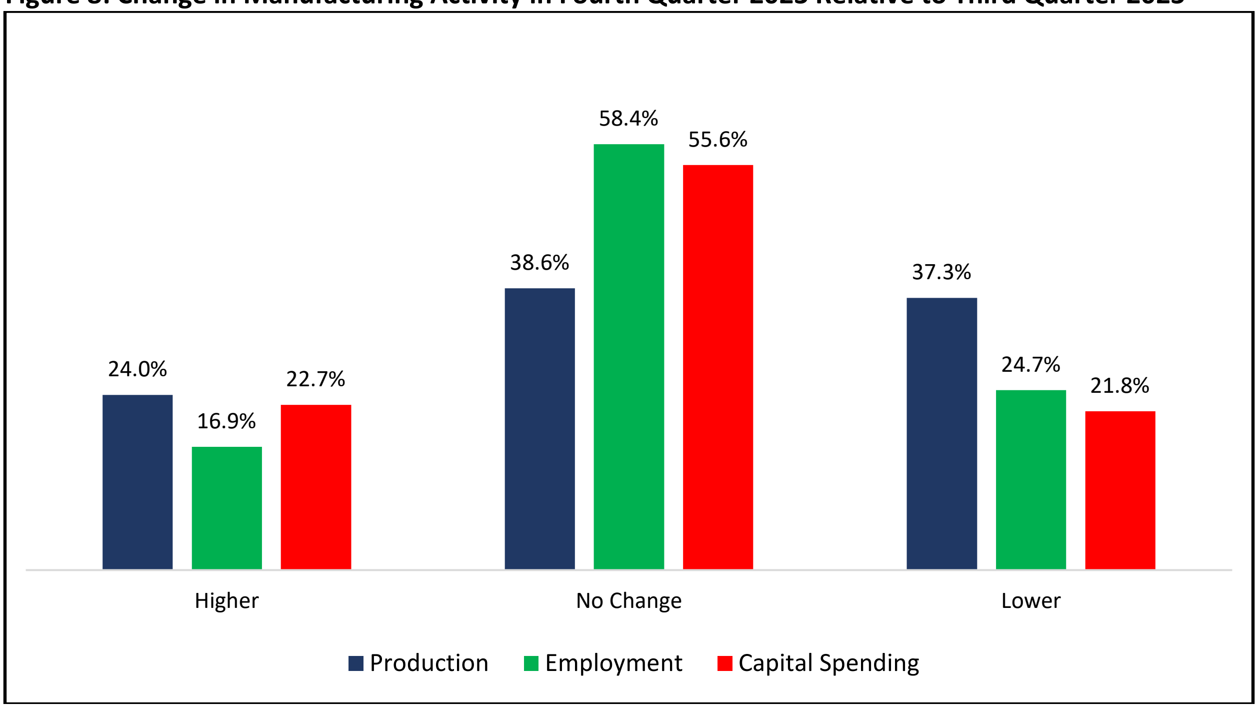
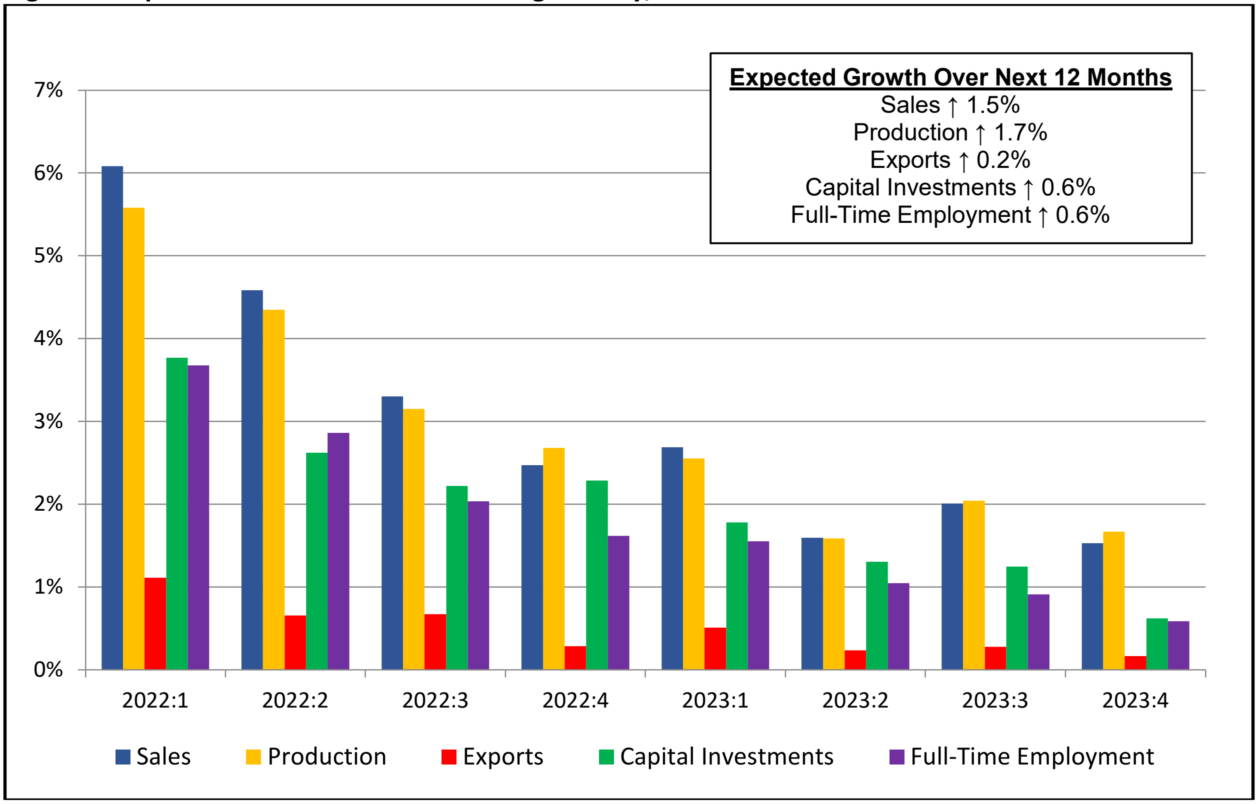


Figure 9: Expected Growth of Manufacturing Activity, Q1 2022 – Q4 2023



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 – 8.55%
    b. Somewhat positive – 57.69%
    c. Somewhat negative – 31.62%
    d. Very negative – 2.14%

    Percentage that is either somewhat or very positive in their outlook = 66.24%

2. Over the next year, what do you expect to happen with your company's overall sales?
    a. Increase more than 10 percent – 7.69%
    b. Increase 5 to 10 percent – 20.51%
    c. Increase up to 5 percent – 25.21%
    d. Stay about the same – 20.51%
    e. Decrease up to 5 percent – 14.10%
    f. Decrease 5 to 10 percent – 5.56%
    g. Decrease more than 10 percent – 6.41%

    Average expected increase in sales consistent with these responses = 1.53%

3. Over the next year, what do you expect to happen with your company's overall production levels?
    a. Increase more than 10 percent – 10.68%
    b. Increase 5 to 10 percent – 17.95%
    c. Increase up to 5 percent – 22.65%
    d. Stay about the same – 23.50%
    e. Decrease up to 5 percent – 14.10%
    f. Decrease 5 to 10 percent – 5.98%
    g. Decrease more than 10 percent – 5.13%

    Average expected increase in production consistent with these responses = 1.67%

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 – 5.56%
    b. Increase 3 to 5 percent – 6.41%
    c. Increase up to 3 percent – 6.84%
    d. Stay about the same – 69.23%
    e. Decrease up to 3 percent – 2.14%
    f. Decrease 3 to 5 percent – 5.13%
    g. Decrease more than 5 percent – 4.71%

    Average expected increase in exports consistent with these responses = 0.16%

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 – 2.14%
    b. Increase 5 to 10 percent – 9.40%
    c. Increase up to 5 percent – 37.18%
    d. Stay about the same – 36.75%
    e. Decrease up to 5 percent – 11.11%
    f. Decrease 5 to 10 percent – 2.14%
    g. Decrease more than 10 percent – 1.28%

    Average expected increase in product prices consistent with these responses = 1.28%

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 – 2.99%
    b. Increase 5 to 10 percent – 12.39%
    c. Increase up to 5 percent – 40.17%
    d. Stay about the same – 28.21%
    e. Decrease up to 5 percent – 14.96%
    f. Decrease 5 to 10 percent – 1.28%
    g. Decrease more than 10 percent – 0.00%

    Average expected increase in raw material prices consistent with these responses = 1.76%

7. Over the next year, what are your company's capital investment plans?
    a. Increase more than 10 percent – 10.26%
    b. Increase 5 to 10 percent – 14.53%
    c. Increase up to 5 percent – 11.11%
    d. Stay about the same – 39.32%
    e. Decrease up to 5 percent – 7.69%
    f. Decrease 5 to 10 percent – 5.13%
    g. Decrease more than 10 percent – 11.97%

    Average expected increase in capital investments consistent with these responses = 0.62%

8. Over the next year, what are your inventory plans?
    a. Increase more than 10 percent – 0.85%
    b. Increase 5 to 10 percent – 5.56%
    c. Increase up to 5 percent – 8.12%
    d. Stay about the same – 40.60%
    e. Decrease up to 5 percent – 24.36%
    f. Decrease 5 to 10 percent – 11.54%
    g. Decrease more than 10 percent – 8.97%

    Average expected increase in inventories consistent with these responses = -1.67%

9. Over the next year, what do you expect in terms of full-time employment in your company?
    a. Increase more than 10 percent – 2.99%
    b. Increase 5 to 10 percent – 7.26%
    c. Increase up to 5 percent – 26.07%
    d. Stay about the same – 45.73%
    e. Decrease up to 5 percent – 10.68%
    f. Decrease 5 to 10 percent – 3.42%
    g. Decrease more than 10 percent – 3.85%

    Average expected increase in full-time employment consistent with these responses = 0.58%

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 – 6.41%
    b. Increase 3 to 5 percent – 52.99%
    c. Increase up to 3 percent – 32.48%
    d. Stay about the same – 8.12%
    e. Decrease up to 3 percent – 0.00%
    f. Decrease 3 to 5 percent – 0.00%
    g. Decrease more than 5 percent – 0.00%

Average expected increase in employee wages consistent with these responses = 2.93%

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 – 6.87%
    b. Increase 10.0 to 14.9 percent – 19.31%
    c. Increase 5.0 to 9.9 percent – 45.06%
    d. Increase less than 5.0 percent – 20.17%
    e. No change – 7.30%
    f. Decrease less than 5.0 percent – 0.00%
    g. Decrease 5.0 percent or more – 0.00%
    h. Uncertain – 1.29%

    Average expected increase in health insurance costs consistent with these responses = 7.33%

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 – 63.68%
    b. Weaker global growth and slower export sales – 25.64%
    c. Trade uncertainties (e.g., actual or proposed tariffs, trade negotiation uncertainty) – 18.80%
    d. Strengthened U.S. dollar relative to other currencies – 15.38%
    e. Challenges with access to capital or other forms of financing – 7.26%
    f. Unfavorable business climate (e.g., taxes, regulations) – 61.11%
    g. Increased raw material costs – 38.46%
    h. Rising health care/insurance costs – 59.83%
    i. Transportation and logistics costs – 25.64%
    j. Supply chain challenges – 32.05%
    k. Attracting and retaining a quality workforce – 71.37%
    l. Other – 8.55%

13. What is your company's primary industrial classification?
    a. Chemicals – 5.98%
    b. Computer and electronic products – 1.28%
    c. Electrical equipment and appliances – 5.13%
    d. Fabricated metal products – 28.63%
    e. Food manufacturing – 3.85%
    f. Furniture and related products – 2.14%
    g. Machinery – 12.82%
    h. Nonmetallic mineral products – 1.28%
    i. Paper and paper products – 2.56%
    j. Petroleum and coal products – 0.85%
    k. Plastics and rubber products – 7.26%
    l. Primary metals – 3.85%
    m. Transportation equipment – 5.13%
    n. Wood products – 2.56%
    o. Other – 16.67%

14. What is your firm size (i.e., the parent company, not your establishment)?
    a. Fewer than 50 employees – 17.67%
    b. 50 to 499 employees – 43.10%
    c. 500 or more employees – 30.60%
    d. Uncertain – 8.62%

15. How would you characterize **production** in the fourth quarter relative to the third quarter?

a. Higher – 24.03%
b. No change – 38.63%
c. Lower – 37.34%

Production Purchasing Managers' Index = 43.35

16. How would you characterize **employment** in the fourth quarter relative to the third quarter?
    a. Higher – 16.88%
    b. No change – 58.44%
    c. Lower – 24.68%

Employment Purchasing Managers' Index = 46.10

17. How would you characterize **capital spending** in the fourth quarter relative to the third quarter?
    a. Higher – 22.65%
    b. No change – 55.56%
    c. Lower –21.79%

Capital Spending Purchasing Managers' Index = 50.43

SPECIAL QUESTIONS

18. Do you think the U.S. will experience a recession in 2024?
    a. Yes – 34.20%
    b. No – 25.11%
    c. Uncertain – 40.69%

19. Which of the following are major concerns for your company? (Select all that apply.)
    a. The global image and perception of the United States – 27.59%
    b. Needing to de-risk our company's supply chain for improved resilience – 33.62%
    c. Rising federal deficit and national debt – 59.05%
    d. Rising interest rates and the U.S. dollar – 61.21%
    e. Economic recession – 66.81%
    f. Geopolitical turmoil – 67.67%
    g. Political dysfunction – 77.59%
    h. Other – 8.19%

20. If the tax burden on income from manufacturing activities increased, would your company find it more difficult to expand its workforce, invest in new equipment or expand facilities?
    a. Yes – 89.18%
    b. No – 10.82%

21. Thinking about future growth strategies for your company, how important are international sales and new markets?
    a. Very important – 24.68%
    b. Somewhat important – 27.71%
    c. Slightly important – 32.03%
    d. Not important – 14.29%
    e. Uncertain – 1.30%

22. Has your company worked to de-risk your supply chain over the past two years?

    a. Yes – 86.21%
    b. No – 11.64%
    c. Uncertain – 2.16%

23. How significantly does the length and complexity of the current permitting process affect your investment decisions?
    a. Extremely affected – 11.21%
    b. Moderately affected – 21.12%
    c. Somewhat affected – 17.67%
    d. Slightly affected – 17.67%
    e. Not at all affected – 24.14%
    f. Uncertain – 8.19%

24. Critical minerals are the foundation on which modern technology is built—from solar panels to semiconductors, to wind turbines, to advanced batteries. Examples of what the United States Geological Survey has identified as critical minerals include aluminum, graphite, nickel, platinum and others. Export restrictions from other countries on critical minerals have increased drastically in recent years, with more likely to come in the future. How would your business be affected if other countries decided to limit or decrease the supply of critical minerals to manufacturers in the U.S.?
    a. Extremely affected – 22.41%
    b. Moderately affected – 24.57%
    c. Somewhat affected – 18.97%
    d. Slightly affected – 15.95%
    e. Not at all affected – 11.21%
    f. Uncertain – 6.90%