# NAM MANUFACTURERS' OUTLOOK SURVEY
# FIRST QUARTER 2019

MARCH 5, 2019

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|---|---|
| **Percentage of Respondents Positive About Their Own Company's Outlook**<br>**89.5%**<br>*(December: 88.7%)*<br><br>Small Manufacturers: **87.7%** *(Dec.: 87.9%)*<br>Medium-Sized Manufacturers: **90.0%** *(Dec.: 88.6%)*<br>Large Manufacturers: **90.2%** *(Dec.: 89.2%)* | **Overall Facts About the Survey**<br>Number of Responses: 466<br>In the Field: February 16 to March 1, 2019<br><br>Small Manufacturers: 104 responses<br>Medium-Sized Manufacturers: 230 responses<br>Large Manufacturers: 132 responses<br><br>**NAM Manufacturing Outlook Index**<br>**59.7**<br>*(December: 59.1, revised)* |
| **Expected Growth Rate for SALES Over the Next 12 Months**<br>**↑ 4.4%**<br>*(December ↑ 4.3%)* | **Expected Growth Rate for PRODUCTION Over the Next 12 Months**<br>**↑ 4.4%**<br>*(December: ↑ 4.3%)* |
| **Expected Growth Rate for FULL-TIME EMPLOYMENT Over the Next 12 Months**<br>**↑ 2.1%**<br>*(December: ↑ 2.2%)* | **Expected Growth Rate for EMPLOYEE WAGES Over the Next 12 Months**<br>**↑ 2.3%**<br>*(December: ↑ 2.3%)* |
| **Expected Growth Rate for CAPITAL INVESTMENTS Over the Next 12 Months**<br>**↑ 2.8%**<br>*(December: ↑ 2.6%)* | **Expected Growth Rate for EXPORTS Over the Next 12 Months**<br>**↑ 0.9%**<br>*(December: ↑ 0.8%)* |
| **Expected Growth Rate for PRICES OF COMPANY'S PRODUCTS Over the Next 12 Months**<br>**↑ 2.4%**<br>*(December: ↑ 2.8%)* | **Expected Growth Rate for RAW MATERIAL PRICES AND OTHER INPUT COSTS Over the Next 12 Months**<br>**↑ 3.3%**<br>*(December: ↑ 4.4%)* |
| **Expected Growth Rate for INVENTORIES Over the Next 12 Months**<br>**↑ 0.4%**<br>*(December: ↑ 0.3% )* | **Expected Growth Rate for HEALTH INSURANCE COSTS Over the Next 12 Months**<br>**↑ 6.7%**<br>*(December: ↑ 6.8%)* |

## Summary

Manufacturers continued to report solid growth in activity this quarter, with the sector remaining one of the brightest spots in the economy and hitting nine consecutive quarters of record optimism. As revealed in this first quarter 2019 Manufacturers' Outlook Survey from the National Association of Manufacturers, 89.5 percent of respondents said they felt either somewhat or very positive about their company's outlook, up from 88.7 percent in the fourth quarter of 2018 (Figure 1). While this represents a slightly lower level of confidence overall as compared to the all-time high reading in the second quarter of 2018 (95.1 percent), it nonetheless continues a streak of highly elevated levels of optimism since the end of 2016. Remarkably, over the past nine quarters, the optimism index has averaged a very robust 91.8 percent. In contrast, it averaged 68.6 percent across 2015 and 2016.

Moreover, the NAM Manufacturing Outlook Index rose from 59.1 (revised) in the prior survey to 59.7 in the latest data (Figure 2). Index readings above 50 indicate the outlook exceeds the historical average of the survey (75.0 percent positive), and values above 60 suggest that the outlook is at least one standard deviation greater than that average. The index has exceeded 50 for 10 straight quarters.

Clearly, manufacturers remain very optimistic about business conditions overall. This is driven in no small part by the boost in confidence experienced since the end of 2016 with the expectation (and later, impact) of pro-growth federal policies 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, two-thirds of respondents said they would consider reducing capital investments in the United States, and 54.4 percent and 61.9 percent said it might force them to have to scale back employment and wages and bonuses, respectively.

Other headwinds to continued manufacturing optimism include the state of our nation's infrastructure. More than 77 percent of respondents in this quarter's survey felt the nation's infrastructure is not sufficient to meet their competitive needs moving forward, with 14.7 percent uncertain and just 8.0 percent satisfied. Moreover, 56.1 percent said passage of a major infrastructure bill would impact their company's business plans and outlook positively. Similarly, roughly two-thirds of manufacturing respondents said the current immigration system does not meet the needs of employers and businesses in the United States.

Other major concerns in the latest survey included rising health care and insurance costs (56.5 percent), increased raw material costs (55.8 percent), trade uncertainties (52.6 percent) and transportation and logistics costs (34.3 percent). Manufacturers sell more to Canada and Mexico, our country's largest two trading partners, than the United States' next 10 trading partners combined. Therefore, it should not be a surprise that more than three-quarters of respondents said passage of the United States–Mexico–Canada Agreement was important for their company. In addition, 48.2 percent said trade uncertainty had impacted their company's business plans and outlook negatively.

Finally, at 71.3 percent, the inability to attract and retain workers remained respondents' top concern for the sixth consecutive survey (Figure 3). The manufacturing industry's skills gap challenge is a longstanding problem, but one that has been made even worse by recent economic successes, including an unemployment rate near 50-year lows and a labor market with more job openings than people looking for work.

Below 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 4.4 percent over the next 12 months, up slightly from 4.3 percent in the previous survey. **It was the ninth consecutive quarter with expected growth of at least 4 percent on average,** even with some easing from the all-time highs recorded in the first half of 2018. In the latest results, 77.4 percent of manufacturers anticipate higher sales over the next year, with just 5.6 percent predicting declines. Moreover, 46.6 percent see revenue gains of 5 percent or more.

- **Production:** Mirroring the sales data, the percentage of respondents expecting production growth inched up from 4.3 percent in December to 4.4 percent in this release. Anticipated production growth has also exceeded 4 percent for nine consecutive quarters, averaging 4.9 percent over that time frame. In the first quarter responses, 76.5 percent predict production to expand over the next year, with 46.7 percent forecasting output growth of 5 percent or more. Just 5.4 percent of manufacturers anticipate reduced production.

- **Full-Time Employment:** Respondents expect full-time employment to increase 2.1 percent over the next 12 months, inching down from 2.2 percent in the previous release. Despite some slippage, the data continue to suggest a tight labor market. Nearly 54 percent anticipate more hiring over the next year, including 19.0 percent planning employment growth of 5 percent or more. Roughly 6 percent see employment falling for their firms.

- **Employee Wages:** Respondents anticipate employee wages (excluding nonwage compensation, such as benefits) to rise 2.3 percent over the next 12 months, unchanged from the previous survey. In the latest results, more than 34 percent expect to hike wages 3 percent or more.

- **Capital Investments:** Respondents expect capital investments to rise 2.8 percent over the next 12 months, up from 2.6 percent in December. Almost 53 percent anticipate higher capital spending in the next year, with one-third expecting solid investment growth of 5 percent or more.

- **Exports:** Respondents expect exports to increase 0.9 percent over the next 12 months, up slightly from 0.8 percent in the prior survey. Nearly 32 percent of respondents predict export sales increasing over the next year, with 61.1 percent seeing exports staying about the same, and 7.3 percent noting possible declines. As seen in previous surveys, those companies that are more optimistic about exports tend to be the most upbeat in their overall company outlook.

- **Product Prices:** Respondents expect product prices to increase 2.4 percent over the next 12 months, pulling back for the second straight survey from 3.2 percent in the June and September releases, which were seven-year highs. In this survey, 49.7 percent forecast price growth for their products of up to 5 percent, with 16.2 percent predicting price growth of 5 percent or more. Only 4.1 percent see price declines in the next 12 months for their products.

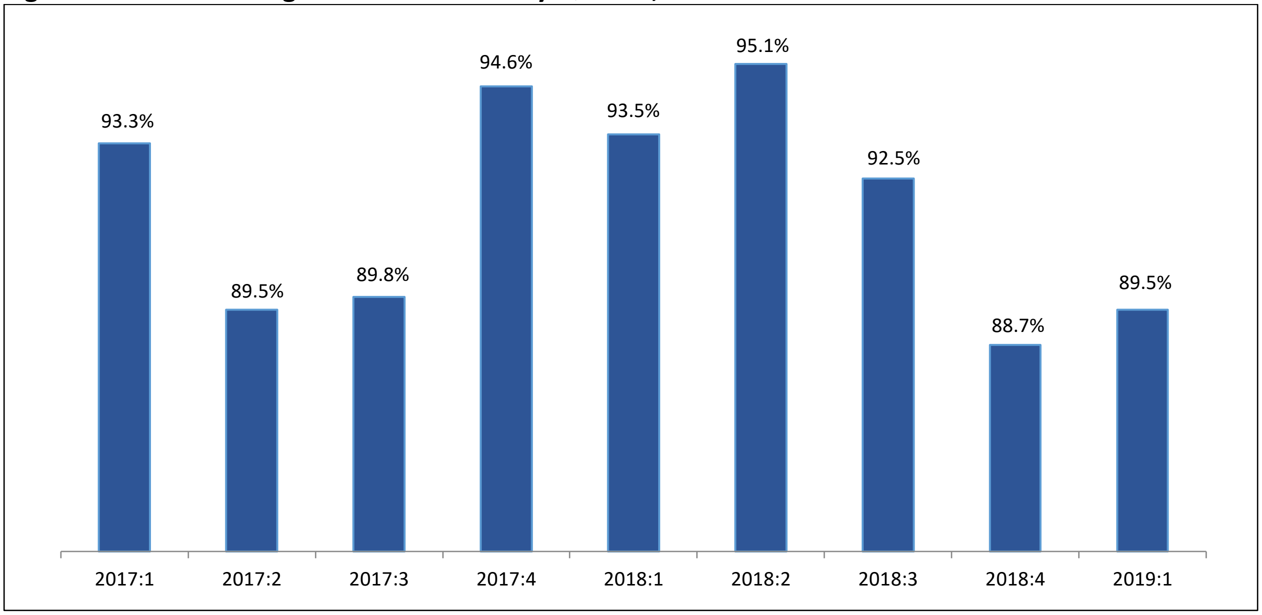
- **Raw Material Prices:** Manufacturers anticipate raw material prices and other input costs rising 3.3 percent over the next 12 months, decelerating from 4.4 percent in the December report. The

NAM added this question over the summer, and while growth has stabilized from earlier readings (5.6 percent and 4.8 percent in the second and third quarters of 2018, respectively), it is clear that raw materials costs are highly elevated.

**Note**

The NAM has conducted this survey quarterly since 1997, with the NAM's membership submitting this quarter's responses from February 16 to March 1. In total, 466 manufacturers from all parts of the country, in a wide variety of manufacturing sectors and in varying size classifications responded this quarter. Aggregated survey responses appear below. The next survey is scheduled for June 2019.

**Figure 1: Manufacturing Business Outlook by Quarter, 2017–2019**




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

**Figure 2: NAM Manufacturing Outlook Index, 2016–2019**

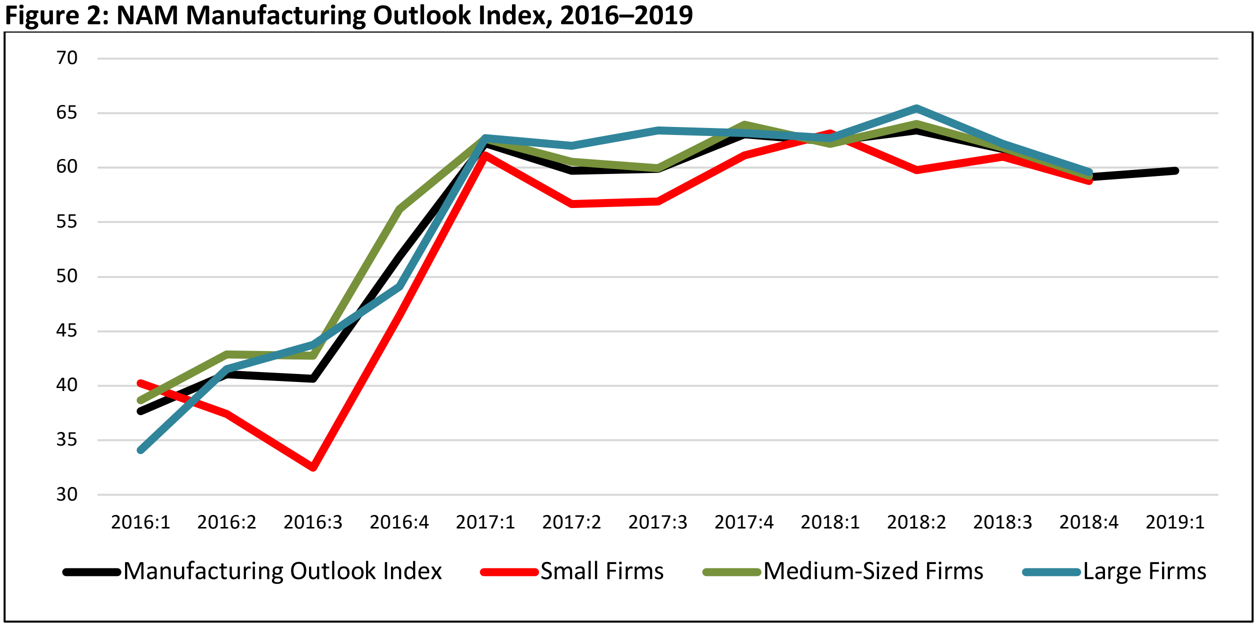
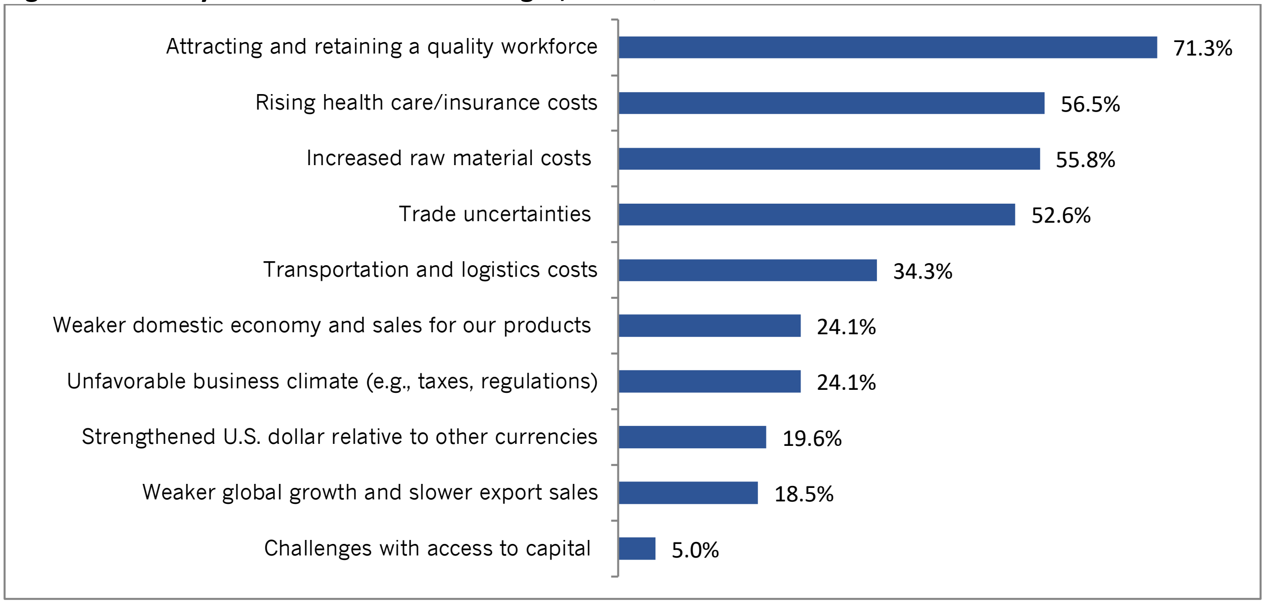
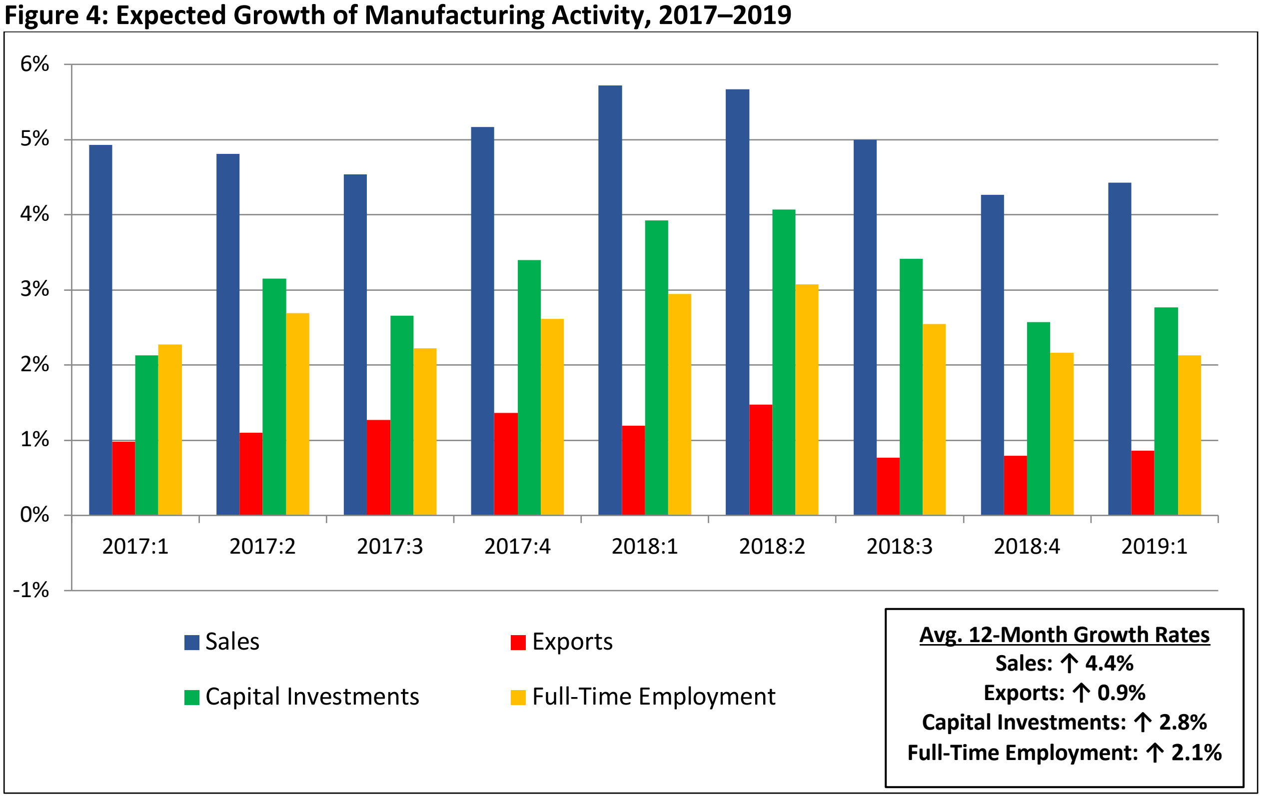


**Figure 3: Primary Current Business Challenges, First Quarter 2019**




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

**Figure 4: Expected Growth of Manufacturing Activity, 2017–2019**




*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 – 29.3%
    b. Somewhat positive – 60.2%
    c. Somewhat negative – 9.9%
    d. Very negative – 0.6%

    *Percentage that is either somewhat or very positive in their outlook = 89.5%*

2. Over the next year, what do you expect to happen with your company's overall sales?
    a. Increase more than 10 percent – 16.9%
    b. Increase 5 to 10 percent – 29.7%
    c. Increase up to 5 percent – 30.8%
    d. Stay about the same – 17.1%
    e. Decrease up to 5 percent – 3.6%
    f. Decrease 5 to 10 percent – 0.9%
    g. Decrease more than 10 percent – 1.1%

    *Average expected increase in sales consistent with these responses = 4.4%*

3. Over the next year, what do you expect to happen with your company's overall production levels?
    a. Increase more than 10 percent – 16.7%
    b. Increase 5 to 10 percent – 30.0%
    c. Increase up to 5 percent – 29.8%
    d. Stay about the same – 18.2%
    e. Decrease up to 5 percent – 3.0%
    f. Decrease 5 to 10 percent – 1.5%
    g. Decrease more than 10 percent – 0.9%

    *Average expected increase in production consistent with these responses = 4.4%*

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 – 12.7%
    b. Increase 3 to 5 percent – 8.4%
    c. Increase up to 3 percent – 10.4%
    d. Stay about the same – 61.1%
    e. Decrease up to 3 percent – 2.4%
    f. Decrease 3 to 5 percent – 1.7%
    g. Decrease more than 5 percent – 3.2%

    *Average expected increase in exports consistent with these responses = 0.9%*

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 – 2.4%
    b. Increase 5 to 10 percent – 13.8%
    c. Increase up to 5 percent – 49.7%
    d. Stay about the same – 30.1%
    e. Decrease up to 5 percent – 3.7%
    f. Decrease 5 to 10 percent – 0.2%
    g. Decrease more than 10 percent – 0.2%

*Average expected increase in product prices consistent with these responses = 2.4%*

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 – 4.9%
    b. Increase 5 to 10 percent – 21.5%
    c. Increase up to 5 percent – 50.9%
    d. Stay about the same – 18.7%
    e. Decrease up to 5 percent – 3.7%
    f. Decrease 5 to 10 percent – 0.4%
    g. Decrease more than 10 percent – *none*

    *Average expected increase in raw material prices consistent with these responses = 3.3%*

7. Over the next year, what are your company's capital investment plans?
    a. Increase more than 10 percent – 15.4%
    b. Increase 5 to 10 percent – 17.7%
    c. Increase up to 5 percent – 19.4%
    d. Stay about the same – 38.5%
    e. Decrease up to 5 percent – 3.6%
    f. Decrease 5 to 10 percent – 1.5%
    g. Decrease more than 10 percent – 3.9%

    *Average expected increase in capital investments consistent with these responses = 2.8%*

8. Over the next year, what are your inventory plans?
    a. Increase more than 10 percent – 3.6%
    b. Increase 5 to 10 percent – 6.0%
    c. Increase up to 5 percent – 19.9%
    d. Stay about the same – 48.6%
    e. Decrease up to 5 percent – 14.8%
    f. Decrease 5 to 10 percent – 4.7%
    g. Decrease more than 10 percent – 2.4%

    *Average expected increase in inventories consistent with these responses = 0.4%*

9. Over the next year, what do you expect in terms of full-time employment in your company?
    a. Increase more than 10 percent – 4.5%
    b. Increase 5 to 10 percent – 14.5%
    c. Increase up to 5 percent – 34.8%
    d. Stay about the same – 40.0%
    e. Decrease up to 5 percent – 4.1%
    f. Decrease 5 to 10 percent – 1.3%
    g. Decrease more than 10 percent – 0.9%

    *Average expected increase in full-time employment consistent with these responses = 2.1%*

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 – 4.3%
    b. Increase 3 to 5 percent – 30.1%
    c. Increase up to 3 percent – 58.1%
    d. Stay about the same – 7.3%
    e. Decrease up to 3 percent – *none*

f. Decrease 3 to 5 percent – *none*
g. Decrease more than 5 percent – 0.2%

*Average expected increase in employee wages consistent with these responses = 2.3%*

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 – 6.6%
    b. Increase 10.0 to 14.9 percent – 16.2%
    c. Increase 5.0 to 9.9 percent – 43.2%
    d. Increase less than 5.0 percent – 21.2%
    e. No change – 8.1%
    f. Decrease less than 5.0 percent – 0.9%
    g. Decrease 5.0 percent or more – 0.6%
    h. Uncertain – 3.2%

    *Average expected increase in health insurance costs consistent with these responses = 6.7%*

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 – 24.1%
    b. Weaker global growth and slower export sales – 18.5%
    c. Trade uncertainties (e.g., actual or proposed tariffs, trade negotiation uncertainty) – 52.6%
    d. Strengthened U.S. dollar relative to other currencies – 19.6%
    e. Challenges with access to capital or other forms of financing – 5.0%
    f. Unfavorable business climate (e.g., taxes, regulations) – 24.1%
    g. Increased raw material costs – 55.8%
    h. Rising health care/insurance costs – 56.5%
    i. Transportation and logistics costs – 34.3%
    j. Attracting and retaining a quality workforce – 71.3%

13. What is your company's primary industrial classification?
    a. Chemicals – 5.6%
    b. Computer and electronic products – 2.1%
    c. Electrical equipment and appliances – 6.9%
    d. Fabricated metal products – 32.1%
    e. Food manufacturing – 1.7%
    f. Furniture and related products – 2.1%
    g. Machinery – 12.0%
    h. Nonmetallic mineral products – 3.0%
    i. Paper and paper products – 1.1%
    j. Petroleum and coal products – 0.6%
    k. Plastics and rubber products – 6.9%
    l. Primary metals – 2.4%
    m. Transportation equipment – 3.6%
    n. Wood products – 2.8%
    o. Other – 17.1%

14. What is your firm size (e.g., the parent company, not your establishment)?
    a. Fewer than 50 employees – 22.3%
    b. 50 to 499 employees – 49.4%
    c. 500 or more employees – 28.3%

***SPECIAL QUESTIONS***

15. How important is it for your company to have the new United States–Mexico–Canada (USMCA) Trade Agreement approved?
    a. Very important – 33.8%
    b. Somewhat important – 41.7%
    c. Not important – 20.2%
    d. Uncertain – 4.3%

16. Has trade uncertainty negatively impacted your company's business plans and outlook?
    a. Yes – 48.2%
    b. No – 36.6%
    c. Uncertain – 15.3%

17. Do you believe the current state of our nation's infrastructure is positioned to respond to the competitive demands of a growing economy over the next 10–15 years?
    a. Yes – 8.0%
    b. No – 77.4%
    c. Uncertain – 14.7%

18. Would passage of a major infrastructure bill positively impact your company's business plans and outlook?
    a. Yes – 56.1%
    b. No – 20.7%
    c. Uncertain – 23.2%

19. Is our current immigration system meeting the needs of employers and businesses in the United States?
    a. Yes – 15.7%
    b. No – 66.9%
    c. Uncertain – 17.4%

20. Have executive orders and administration actions on immigration negatively impacted your company's business plans and outlook?
    a. Yes – 17.3%
    b. No – 69.1%
    c. Uncertain – 13.6%

21. Please estimate on a scale of 0 (no change) to 100 (complete certainty) the probability of a recession in the United States in the next 12 months.

*Average of responses of the probability of a recession in the U.S. in the next 12 months = 35 percent*

22. 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 – 66.2%
    b. No – 33.8%

23. 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 – 54.4%
    b. No – 45.6%

24. 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 – 61.9%
    b. No – 38.1%