

NAM MANUFACTURERS' OUTLOOK SURVEY
THIRD QUARTER 2020
 SEPTEMBER 10, 2020

<p style="text-align: center;">Percentage of Respondents Positive About Their Own Company's Outlook</p> <p style="text-align: center;">66.0%</p> <p style="text-align: center;"><i>(May: 33.9% — Lowest since Q1:2009)</i></p> <p>Small Manufacturers: 62.0% <i>(May: 42.4%)</i> Medium-Sized Manufacturers: 65.5% <i>(May: 27.4%)</i> Large Manufacturers: 70.3% <i>(May: 22.5%)</i></p>	<p style="text-align: center;">Overall Facts About the Survey</p> <p style="text-align: center;">Number of Responses: 472 In the Field: Aug. 14–28, 2020</p> <p style="text-align: center;">Small Manufacturers: 107 responses Medium-Sized Manufacturers: 235 responses Large Manufacturers: 130 responses</p>
<p style="text-align: center;">Expected Growth Rate for <u>SALES</u> Over the Next 12 Months</p> <p style="text-align: center;">↑ 1.9%</p> <p style="text-align: center;"><i>(May: ↓ 4.3% — Lowest since Q1:2009)</i></p>	<p style="text-align: center;">NAM Manufacturing Outlook Index¹</p> <p style="text-align: center;">44.5</p> <p style="text-align: center;"><i>(May: 23.3 — Lowest since Q1:2009)</i></p> <p style="text-align: center;">Expected Growth Rate for <u>PRODUCTION</u> Over the Next 12 Months</p> <p style="text-align: center;">↑ 2.2%</p> <p style="text-align: center;"><i>(May: ↓ 3.8% — Lowest since question was added in Q2:2015)</i></p>
<p style="text-align: center;">Expected Growth Rate for <u>FULL-TIME EMPLOYMENT</u> Over the Next 12 Months</p> <p style="text-align: center;">↑ 0.7%</p> <p style="text-align: center;"><i>(May: ↓ 2.2% — Lowest since Q1:2009)</i></p>	<p style="text-align: center;">Expected Growth Rate for <u>EMPLOYEE WAGES</u> Over the Next 12 Months</p> <p style="text-align: center;">↑ 1.4%</p> <p style="text-align: center;"><i>(May: ↑ 0.5% — Lowest since Q2:2009)</i></p>
<p style="text-align: center;">Expected Growth Rate for <u>CAPITAL INVESTMENTS</u> Over the Next 12 Months</p> <p style="text-align: center;">↑ 0.7%</p> <p style="text-align: center;"><i>(May: ↓ 2.5% — Lowest since Q1:2009)</i></p>	<p style="text-align: center;">Expected Growth Rate for <u>EXPORTS</u> Over the Next 12 Months</p> <p style="text-align: center;">↑ 0.4%</p> <p style="text-align: center;"><i>(May: ↓ 1.4% — Lowest since question was added in Q2:2011)</i></p>
<p style="text-align: center;">Expected Growth Rate for <u>PRICES OF COMPANY'S PRODUCTS</u> Over the Next 12 Months</p> <p style="text-align: center;">↑ 1.3%</p> <p style="text-align: center;"><i>(May: ↓ 0.1% — Lowest since Q1:2009)</i></p>	<p style="text-align: center;">Expected Growth Rate for <u>RAW MATERIAL PRICES AND OTHER INPUT COSTS</u> Over the Next 12 Months</p> <p style="text-align: center;">↑ 2.2%</p> <p style="text-align: center;"><i>(May: ↑ 0.9% — Lowest since question was added in Q2:2018)</i></p>
<p style="text-align: center;">Expected Growth Rate for <u>INVENTORIES</u> Over the Next 12 Months</p> <p style="text-align: center;">↓ 0.4%</p> <p style="text-align: center;"><i>(May: ↓ 2.8% — Lowest since Q2:2009)</i></p>	<p style="text-align: center;">Expected Growth Rate for <u>HEALTH INSURANCE COSTS</u> Over the Next 12 Months</p> <p style="text-align: center;">↑ 5.8%</p> <p style="text-align: center;"><i>(May: ↑ 5.7% — Lowest since question was added in Q3:2014)</i></p>

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 74.4%, with a standard deviation of 15.1%. An index reading of 40 would be consistent with one standard deviation below the mean (59.3% positive), and an index reading of 60 would be one standard deviation above the mean (89.5% positive). As such, the index helps to normalize the outlook data to put them into a historical context.

Summary

The manufacturing economy has rebounded since the second quarter of 2020. In the latest quarterly Manufacturers' Outlook Survey, conducted Aug. 14–28, 66.0% of respondents reported a positive outlook for their company in the third quarter (Figures 1 and 2), up from 33.9% in the second quarter. As such, positive sentiment in the manufacturing sector has nearly doubled since May, rebounding from the worst reading since the Great Recession, even as challenges persist and the outlook remains below the historical average of 74.4%.

Demand and business disruptions due to the COVID-19 pandemic severely challenged the manufacturing sector earlier in the year, with the global economy suddenly entering a sharp downturn. Real GDP fell dramatically by an annualized 31.7% in the second quarter, the largest quarterly decline in the history of the series, which dates to 1947. In addition, manufacturing production dropped 20.2% between February and April, with employment in the sector off by a whopping 1,363,000 over that time frame.

The Institute for Supply Management® reported that manufacturing activity expanded in August at the fastest pace since November 2018, buoyed by growth in orders that was the strongest since January 2004. Though it will take a while for output and hiring in the sector to recover to pre-recessionary levels, the survey indicates that production is on the rise.

Indeed, 50.6% of manufacturers report higher production in the third quarter than in the second, with 22.7% predicting output will be lower and 24.8% feeling there will be no change (Figure 3). Similarly, 30.0% and 26.8% of those completing the survey anticipate that hiring and capital spending will increase in the third quarter, respectively, with roughly 45% seeing no change in either measure relative to the second quarter.

Relief funds played a significant role in helping businesses weather these challenges. Of the 82.7% of respondents who say COVID-19 had or will have a negative impact on their cash flow, 72.1% noted they had obtained funds through the Paycheck Protection Program, Main Street Lending Program or other liquidity programs. More importantly, of those firms taking advantage of such programs, 91.6% reported that those funds helped keep their business afloat, retain their workforce or meet other necessary expenses.

Respondents were asked when they expect revenues to return to pre-pandemic levels. Sixty-two percent expect their firm's revenues will not get back to pre-COVID-19 levels until 2021 or later (Figure 4). Just 17.6% note their revenues had already recovered, with 12.5% predicting them to bounce back in either the third or fourth quarter of 2020.

The NAM Manufacturing Outlook Index measured 44.5 in the third quarter, up from 23.3 in the second quarter (Figure 5). The latest data suggest the current outlook is 0.55 standard deviations below the historical average.

Over the previous five quarters, large manufacturers (i.e., those with 500 or more employees) have been the least positive in their outlook likely due in part to trade uncertainties. That turned around in the latest survey. Just more than 70% of larger firms felt positive about their company's outlook. In contrast, 62.0% of small manufacturers (i.e., those with fewer than 50 employees) and 65.5% of medium-sized businesses (i.e., those with 50 to 499 employees) felt positive in their outlook.

Weaker domestic demand remained the primary business challenge, but the percentage citing that as a concern dropped from 83.1% in the second quarter to 66.5% in the third quarter (Figure 6). Other top worries among manufacturers included the inability to attract and retain talent (55.1%), rising health care and insurance costs (51.1%), trade uncertainties (40.0%) and weaker global growth and slowing export sales (36.4%). Prior to COVID-19, workforce challenges had been the main concern for manufacturing respondents for 10 consecutive quarters, and the data suggest that it continues to be a struggle despite the dramatically changed labor market.

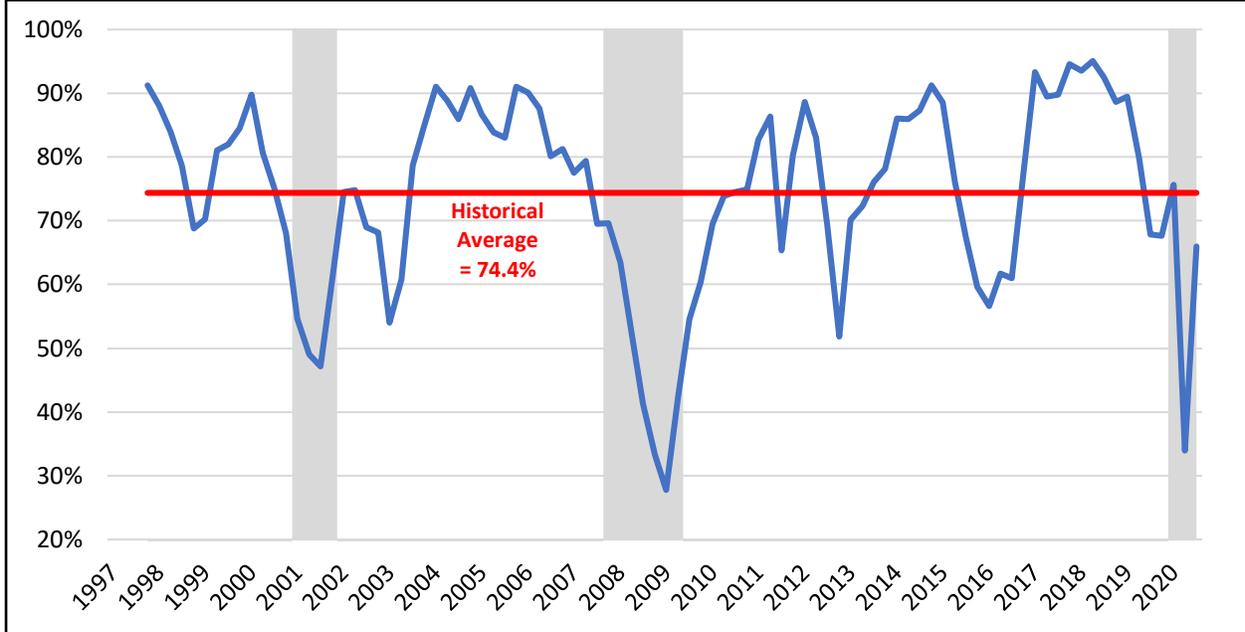
Some other trends regarding predicted growth rates over the next year (Figure 7):

- **Sales:** Respondents expect sales to rise 1.9% over the next 12 months, a nice turnaround after anticipating that demand would plummet 4.3% in the previous survey. That reading had been the worst since the first quarter of 2009. More than 59% of manufacturers predict that sales will increase over the next year, with 36.5% feeling that orders will rise 5.0% or more. Firm size mattered in the data. Large firms anticipate sales rising 2.6%, whereas small and medium-sized manufacturers forecast increases of 1.4% and 1.8%, respectively.
- **Production:** Likewise, respondents expect production to increase 2.2% over the next 12 months, up sharply following an anticipated decline of 3.8% in the prior release, which registered the lowest reading since the question was added in the second quarter of 2015. Almost 60% forecast output to rise over the coming months, with 20.4% seeing declining production. Large manufacturers felt the most optimistic, anticipating 2.8% growth in production over the next 12 months. In contrast, small and medium-sized firms expect output to rise 1.7% and 2.2%, respectively.
- **Full-Time Employment:** In the previous survey, respondents expected full-time employment to decrease 2.2% over the next 12 months, the weakest reading since the first quarter of 2009. In this report, respondents see full-time employment growing 0.7% over the coming months—still weak, but an improvement. In terms of trends, the percentage anticipating more employment rose from 14.5% in the second quarter to 37.9% in the third quarter, with those predicting declined hiring dropping from 46.9% to 15.9%. By firm size, small, medium and large manufacturers see full-time employment increasing 0.5%, 0.7% and 0.9%, respectively.
- **Employee Wages:** Respondents anticipate employee wages (excluding nonwage compensation, such as benefits) to rise 1.4% over the next 12 months, up from 0.5% in the previous survey, which was the slowest pace since the second quarter of 2009. Twenty percent see wages rising 3% or more, with 48.6% predicting an increase of up to 3%.
- **Capital Investments:** Respondents expect capital spending to rise 0.7% over the next 12 months, a significant shift from the predicted decline of 2.5% in the previous survey, which was the worst since the Great Recession. Thirty-seven percent of manufacturers anticipate additional capital spending in the next year, with 41.1% expecting no change and 21.9% forecasting reduced capital expenditures. By firm size, small, medium and large manufacturers see capital spending increasing 0.3%, 0.7% and 0.9%, respectively.
- **Exports:** Respondents expect exports to increase 0.4% over the next 12 months, up from a predicted decrease of 1.4% over the next 12 months in the previous survey, which registered

the lowest reading since the question was added in the second quarter of 2011. More than 27% anticipate higher exports over the next year, with 55.3% seeing no changes.

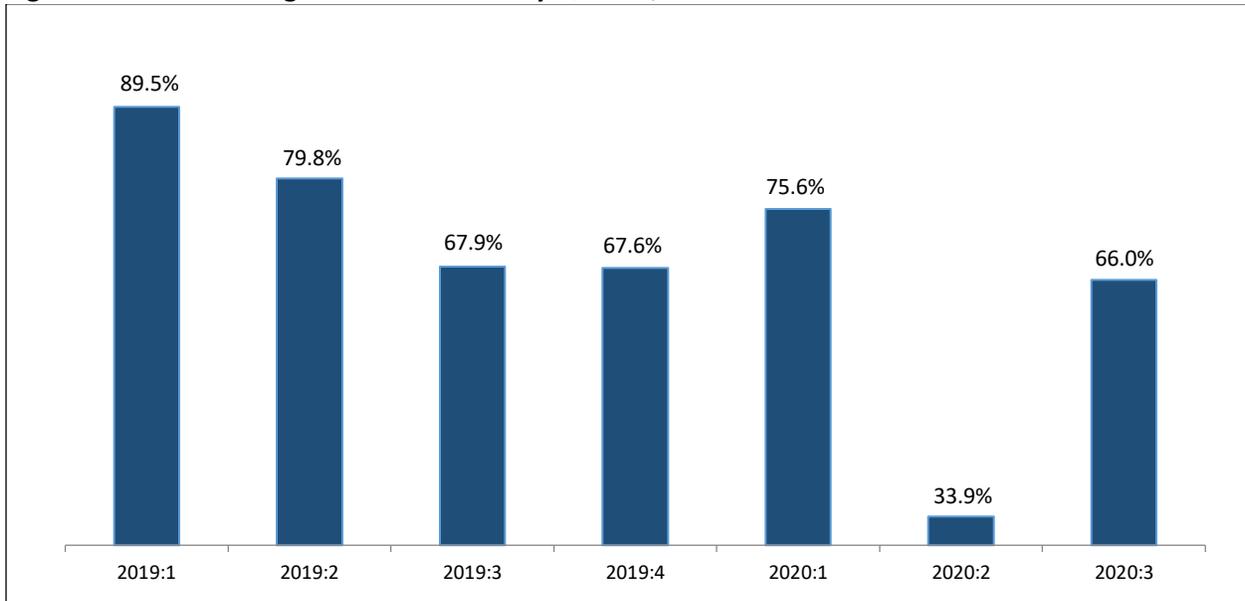
- **Product Prices:** Respondents expect product prices to increase 1.3% over the next 12 months, rebounding after being predicted to edge down 0.1% in the prior survey. This suggests that pricing power has stabilized somewhat after experiencing deflationary pressures in the spring. Just more than 46% anticipate increased product prices over the coming year, with 44.7% seeing no changes.
- **Raw Material Prices:** Manufacturers anticipate raw material prices and other input costs rising 2.2% over the next 12 months, up from 0.9% in the previous release. That had been the lowest rate since the question was added in June 2018. More than 61% of respondents cited higher raw material costs, including 17.2% feeling that input prices would rise at least 5%.
- **Inventories:** Respondents anticipate inventories will decline 0.4% over the next 12 months, solid improvement after being expected to fall 2.8% in the May survey. Nonetheless, it was the sixth consecutive quarter with expected declines in inventories. Roughly 31% of manufacturers anticipate reduced inventories over the next year, with 24.9% expecting increases and 44.0% seeing no changes. The reduction in inventories over the past few quarters means that stockpiles are becoming depleted, and if demand accelerates, that should necessitate additional production.
- **Health Insurance Costs:** Manufacturers predict health insurance costs will rise 5.8% over the next 12 months, edging up from 5.7% in the previous survey, which had been the lowest rate of growth since the question was added in the third quarter of 2014. In the latest figures, 56.5% expect costs to increase 5% or more, and 15.3% see costs rising 10% or more.

Figure 1: Manufacturing Business Outlook by Quarter, 1997–2020
(Recessions Are Highlighted with Gray Shading)



Note: Percentage of respondents who characterized the current business outlook as somewhat or very positive. The National Bureau of Economic Research has not officially dated the latest recession, which likely began in either February or March.

Figure 2: Manufacturing Business Outlook by Quarter, 2019–2020



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

Figure 3: Change in Manufacturing Activity in Third Quarter Relative to Second Quarter 2020

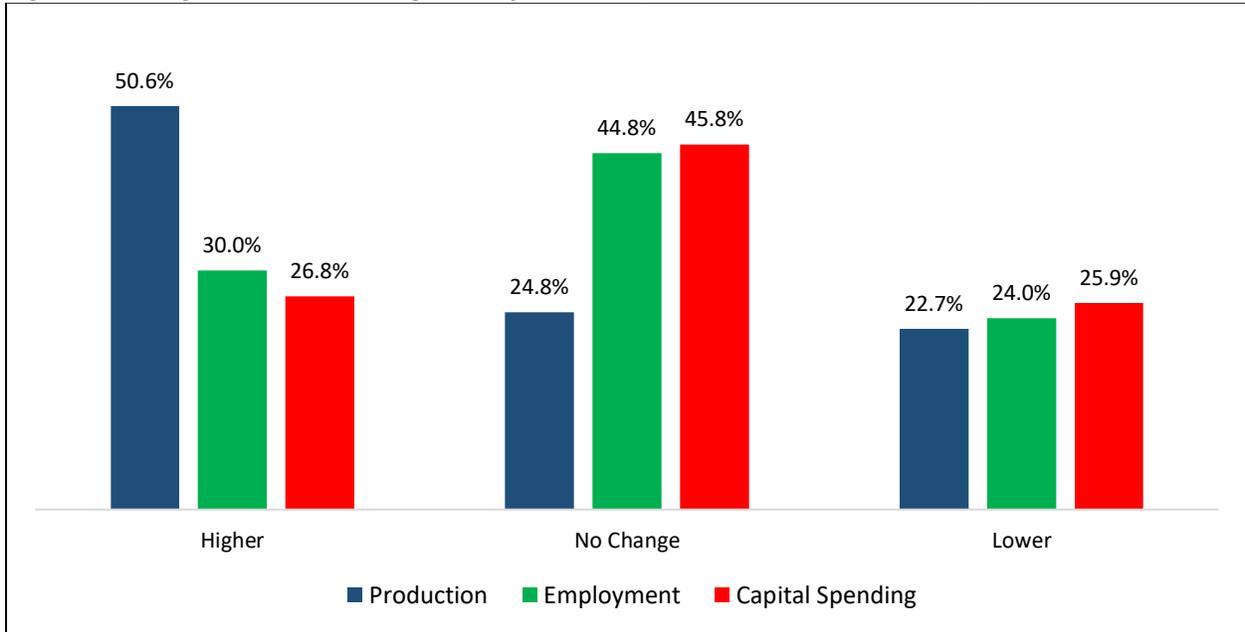


Figure 4: When Firms Expect Revenues to Return to Pre-COVID-19 Levels

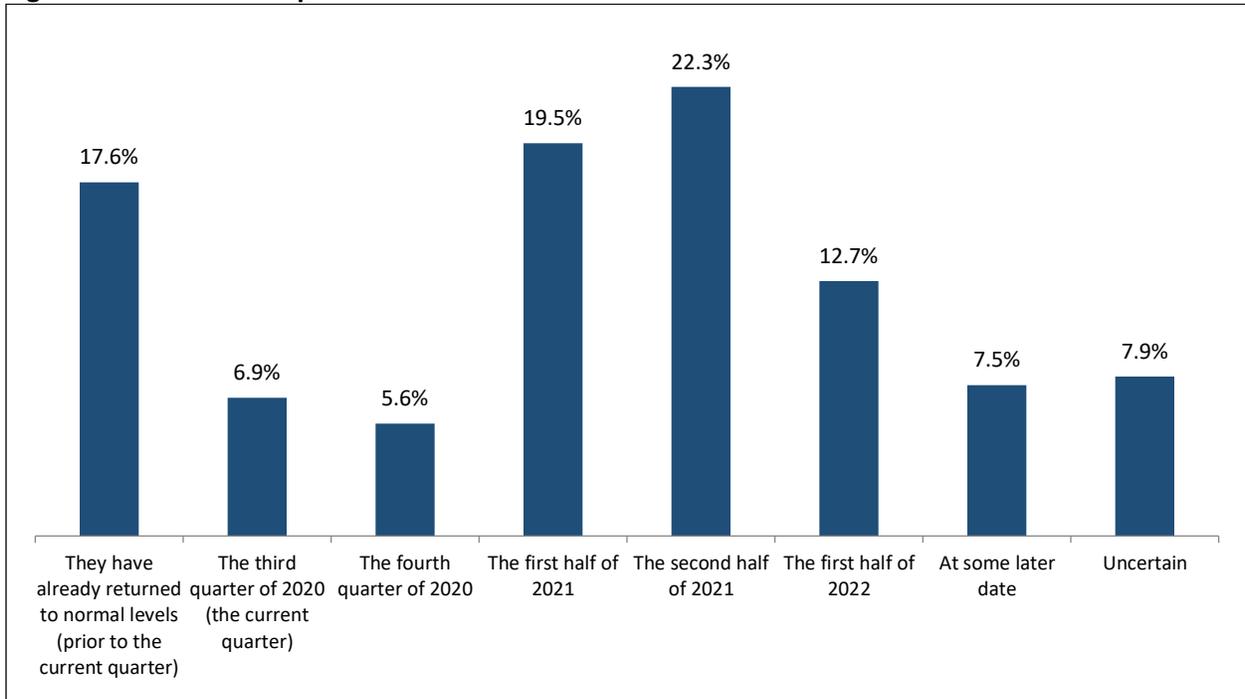


Figure 5: NAM Manufacturing Outlook Index, 2019–2020

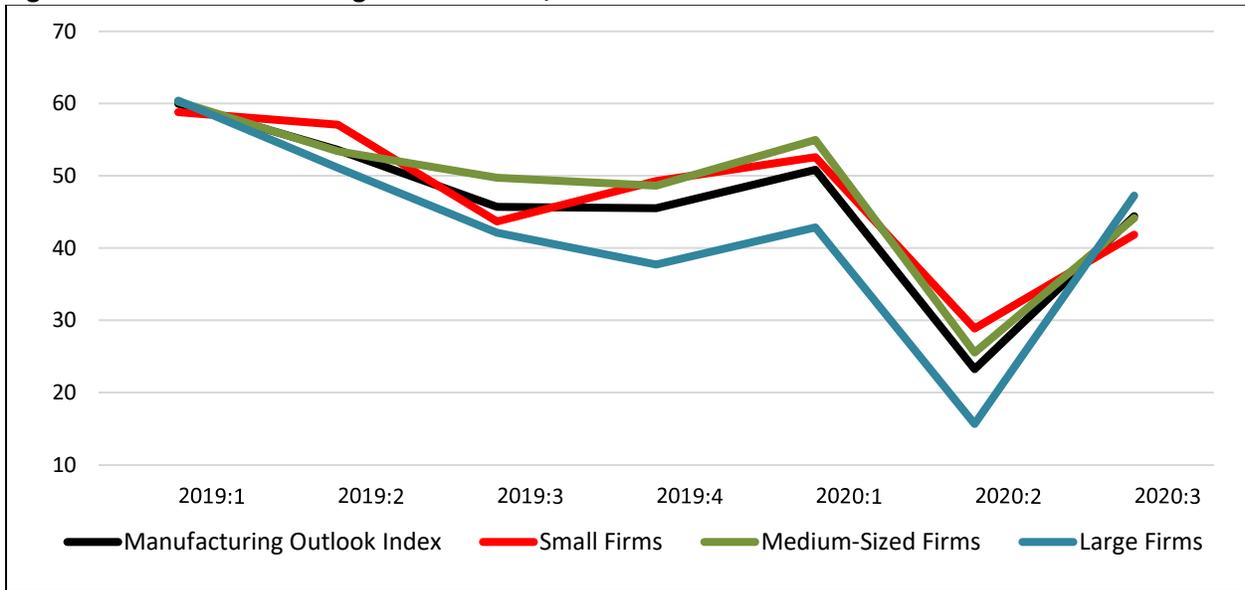
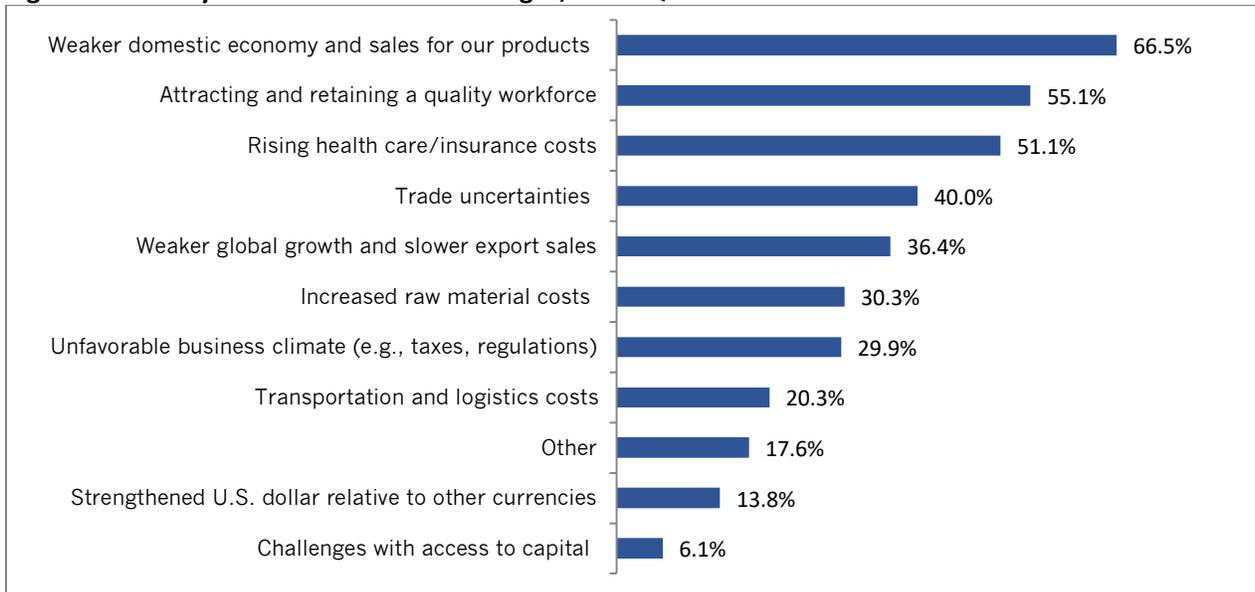
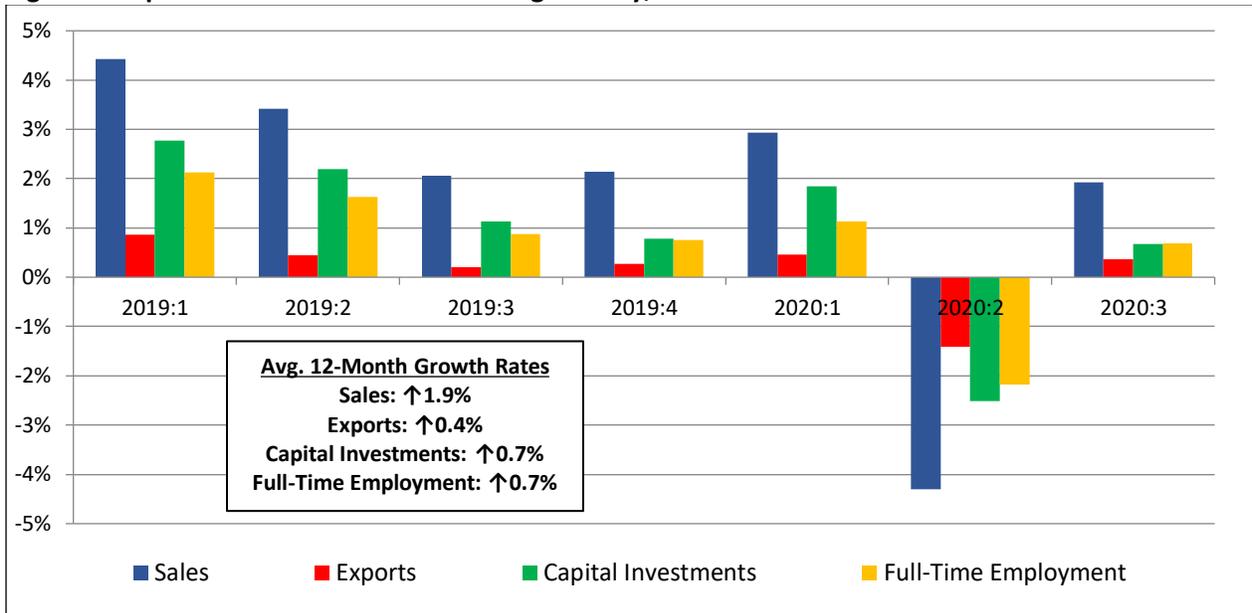


Figure 6: Primary Current Business Challenges, Third Quarter 2020



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

Figure 7: Expected Growth of Manufacturing Activity, 2019–2020



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 – 12.5%
 - b. Somewhat positive – 53.5%
 - c. Somewhat negative – 26.5%
 - d. Very negative – 7.4%

Percentage that is either somewhat or very positive in their outlook = 66.0%

2. Over the next year, what do you expect to happen with your company's overall sales?
 - a. Increase more than 10 percent – 15.5%
 - b. Increase 5 to 10 percent – 21.0%
 - c. Increase up to 5 percent – 22.7%
 - d. Stay about the same – 17.4%
 - e. Decrease up to 5 percent – 6.1%
 - f. Decrease 5 to 10 percent – 5.3%
 - g. Decrease more than 10 percent – 12.1%

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

3. Over the next year, what do you expect to happen with your company's overall production levels?
 - a. Increase more than 10 percent – 16.5%
 - b. Increase 5 to 10 percent – 21.0%
 - c. Increase up to 5 percent – 22.3%
 - d. Stay about the same – 19.9%
 - e. Decrease up to 5 percent – 4.5%
 - f. Decrease 5 to 10 percent – 5.7%
 - g. Decrease more than 10 percent – 10.2%

Average expected increase in production consistent with these responses = 2.2%

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 – 10.2%
 - b. Increase 3 to 5 percent – 10.4%
 - c. Increase up to 3 percent – 6.9%
 - d. Stay about the same – 55.3%
 - e. Decrease up to 3 percent – 5.0%
 - f. Decrease 3 to 5 percent – 3.5%
 - g. Decrease more than 5 percent – 8.9%

Average expected increase in exports consistent with these responses = 0.4%

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 – 7.5%
 - c. Increase up to 5 percent – 36.3%
 - d. Stay about the same – 44.7%
 - e. Decrease up to 5 percent – 6.8%
 - f. Decrease 5 to 10 percent – 1.5%
 - g. Decrease more than 10 percent – 0.9%

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 – 2.1%
 - b. Increase 5 to 10 percent – 15.1%
 - c. Increase up to 5 percent – 44.3%
 - d. Stay about the same – 32.1%
 - e. Decrease up to 5 percent – 4.7%
 - f. Decrease 5 to 10 percent – 1.5%
 - g. Decrease more than 10 percent – 0.2%

Average expected increase in raw material prices consistent with these responses = 2.2%

7. Over the next year, what are your company's capital investment plans?
 - a. Increase more than 10 percent – 12.8%
 - b. Increase 5 to 10 percent – 8.7%
 - c. Increase up to 5 percent – 15.5%
 - d. Stay about the same – 41.1%
 - e. Decrease up to 5 percent – 5.3%
 - f. Decrease 5 to 10 percent – 5.7%
 - g. Decrease more than 10 percent – 10.9%

Average expected increase in capital investments consistent with these responses = 0.7%

8. Over the next year, what are your inventory plans?
 - a. Increase more than 10 percent – 5.5%
 - b. Increase 5 to 10 percent – 5.1%
 - c. Increase up to 5 percent – 14.3%
 - d. Stay about the same – 44.0%
 - e. Decrease up to 5 percent – 15.3%
 - f. Decrease 5 to 10 percent – 9.2%
 - g. Decrease more than 10 percent – 6.6%

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 – 5.3%
 - b. Increase 5 to 10 percent – 7.2%
 - c. Increase up to 5 percent – 25.4%
 - d. Stay about the same – 46.2%
 - e. Decrease up to 5 percent – 5.9%
 - f. Decrease 5 to 10 percent – 4.9%
 - g. Decrease more than 10 percent – 5.1%

Average expected increase in full-time employment consistent with these responses = 0.7%

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 – 3.0%
 - b. Increase 3 to 5 percent – 17.0%
 - c. Increase up to 3 percent – 48.6%
 - d. Stay about the same – 28.0%
 - e. Decrease up to 3 percent – 1.3%

- f. Decrease 3 to 5 percent – 0.4%
- g. Decrease more than 5 percent – 1.7%

Average expected increase in employee wages consistent with these responses = 1.4%

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 – 10.8%
 - c. Increase 5.0 to 9.9 percent – 41.2%
 - d. Increase less than 5.0 percent – 27.4%
 - e. No change – 10.6%
 - f. Decrease less than 5.0 percent – 1.1%
 - g. Decrease 5.0 percent or more – 0.2%
 - h. Uncertain – 4.3%

Average expected increase in health insurance costs consistent with these responses = 5.8%

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 – 66.5%
 - b. Weaker global growth and slower export sales – 36.4%
 - c. Trade uncertainties (e.g., actual or proposed tariffs, trade negotiation uncertainty) – 40.0%
 - d. Strengthened U.S. dollar relative to other currencies – 13.8%
 - e. Challenges with access to capital or other forms of financing – 6.1%
 - f. Unfavorable business climate (e.g., taxes, regulations) – 29.9%
 - g. Increased raw material costs – 30.3%
 - h. Rising health care/insurance costs – 51.1%
 - i. Transportation and logistics costs – 20.3%
 - j. Attracting and retaining a quality workforce – 55.1%
 - k. Other – 17.6%

13. What is your company's primary industrial classification?
- a. Chemicals – 6.6%
 - b. Computer and electronic products – 2.6%
 - c. Electrical equipment and appliances – 7.5%
 - d. Fabricated metal products – 27.5%
 - e. Food manufacturing – 3.2%
 - f. Furniture and related products – 1.1%
 - g. Machinery – 12.8%
 - h. Nonmetallic mineral products – 2.8%
 - i. Paper and paper products – 2.6%
 - j. Petroleum and coal products – 0.2%
 - k. Plastics and rubber products – 7.9%
 - l. Primary metals – 3.2%
 - m. Transportation equipment – 4.9%
 - n. Wood products – 2.1%
 - o. Other – 15.3%

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 – 49.8%
 - c. 500 or more employees – 27.5%

SPECIAL QUESTIONS

15. How would you characterize **production** in the third quarter relative to the second quarter?
- Higher – 50.6%
 - No change – 24.8%
 - Lower – 22.7%
 - Uncertain – 1.9%
16. How would you characterize **employment** in the third quarter relative to the second quarter?
- Higher – 30.0%
 - No change – 44.8%
 - Lower – 24.0%
 - Uncertain – 1.3%
17. How would you characterize **capital spending** in the third quarter relative to the second quarter?
- Higher – 26.8%
 - No change – 45.8%
 - Lower – 25.9%
 - Uncertain – 1.5%
18. When do you expect your firm’s revenues to return to normal (pre-COVID-19) levels?
- They have already returned to normal levels (prior to the current quarter) – 17.6%
 - The third quarter of 2020 (the current quarter) – 6.9%
 - The fourth quarter of 2020 – 5.6%
 - The first half of 2021 – 19.5%
 - The second half of 2021 – 22.3%
 - The first half of 2022 – 12.7%
 - At some later date – 7.5%
 - Uncertain – 7.9%
19. At any point during the COVID-19 crisis, did your firm experience, plan for or anticipate a negative impact on cash flow?
- Yes – 82.7%
 - No – 16.1%
 - Uncertain – 1.3%
20. If the answer to #19 was “yes,” did your firm obtain funds through the Paycheck Protection Program, Main Street Lending Program or other liquidity programs established or enhanced in response to the COVID-19 pandemic?
- Yes – 72.1%
 - No – 26.7%
 - Uncertain – 1.2%
21. If the answer to #20 was “yes,” were the funds helpful in keeping your business afloat, retaining your workforce or meeting other necessary expenses?
- Yes – 91.6%
 - No – 3.2%
 - Uncertain – 5.2%