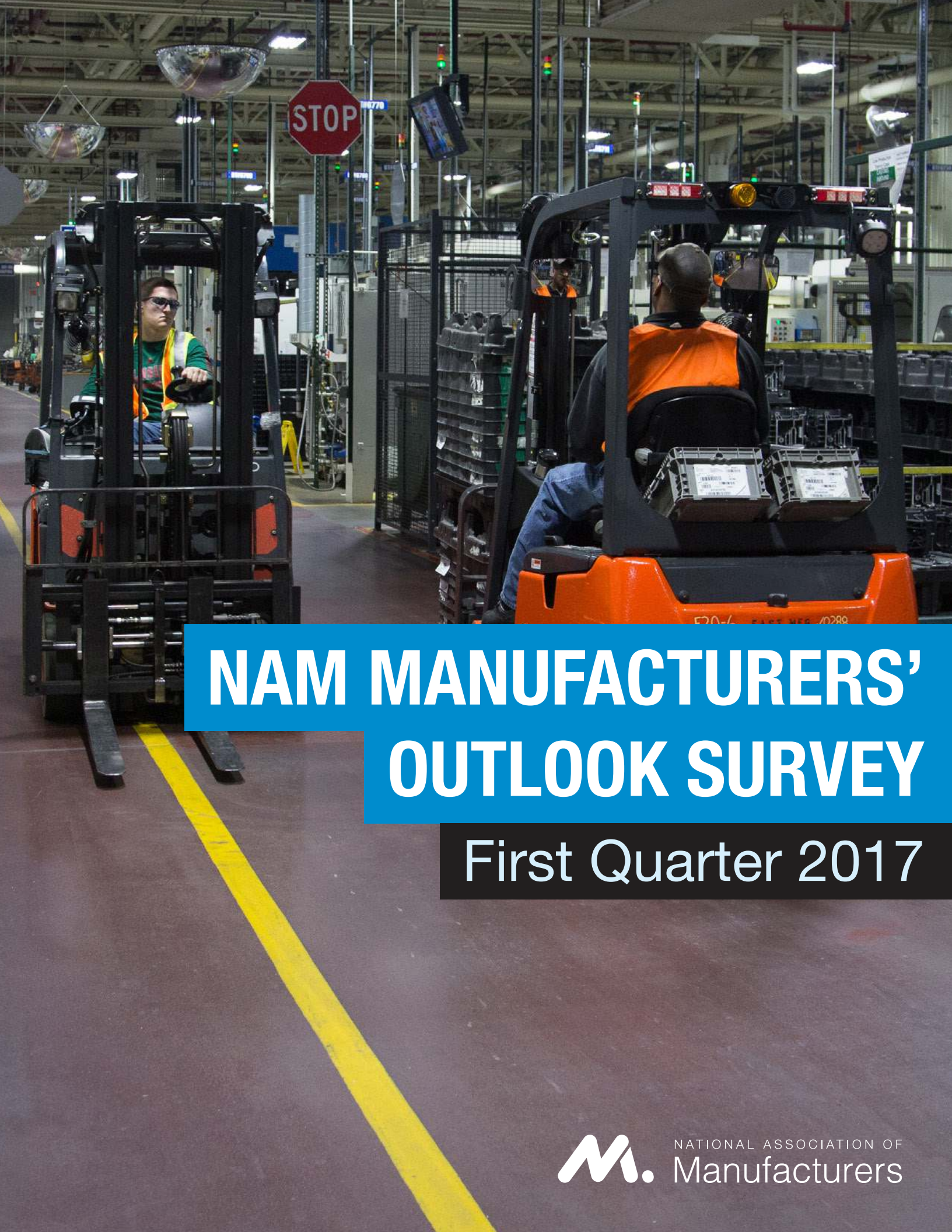


NAM MANUFACTURERS' OUTLOOK SURVEY

First Quarter 2017

NATIONAL ASSOCIATION OF
Manufacturers

NAM MANUFACTURERS' OUTLOOK SURVEY
FIRST QUARTER 2017

March 31, 2017

Percentage of Respondents Positive in Their Own Company's Outlook	NAM Manufacturing Outlook Index
93.3% *(December: 77.8%)* Small Manufacturers: **91.5%** *(December: 69.6%)* Medium-Sized Manufacturers: **93.8%** *(December: 84.1%)* Large Manufacturers: **93.9%** *(December: 73.5%)*	**63.7** *(December: 53.3 - revised)*
	Expected Growth Rate for SALES Over the Next 12 Months **↑ 4.9%** *(December: ↑3.0%)*
Expected Growth Rate for PRODUCTION Over the Next 12 Months **↑ 4.8%** *(December: ↑ 3.0%)*	**Expected Growth Rate for EXPORTS Over the Next 12 Months** **↑ 1.0%** *(December: ↑ 0.6%)*
Expected Growth Rate for CAPITAL INVESTMENTS Over the Next 12 Months **↑ 2.1%** *(December: ↑ 1.3%)*	**Expected Growth Rate for PRICES Over the Next 12 Months** **↑ 1.8%** *(December: ↑ 1.1%)*
Expected Growth Rate for FULL-TIME EMPLOYMENT Over the Next 12 Months **↑ 2.3%** *(December: ↑ 1.0%)*	**Expected Growth Rate for INVENTORIES Over the Next 12 Months** **↑ 0.8%** *(December: ↓ 0.1%)*
Expected Growth Rate for EMPLOYEE WAGES Over the Next 12 Months **↑ 2.0%** *(December: ↑ 1.7%)*	**Expected Growth Rate for HEALTH INSURANCE COSTS Over the Next 12 Months** **↑ 7.2%** *(December: ↑ 8.0%)*
"Do you think the United States is headed in the right direction, or is our country on the wrong track?" **RIGHT TRACK: 59.9% WRONG TRACK: 9.4% UNSURE: 30.8%** *(December: Right Track: 25.7%, Wrong Track: 27.0%, Unsure: 47.3%)*	

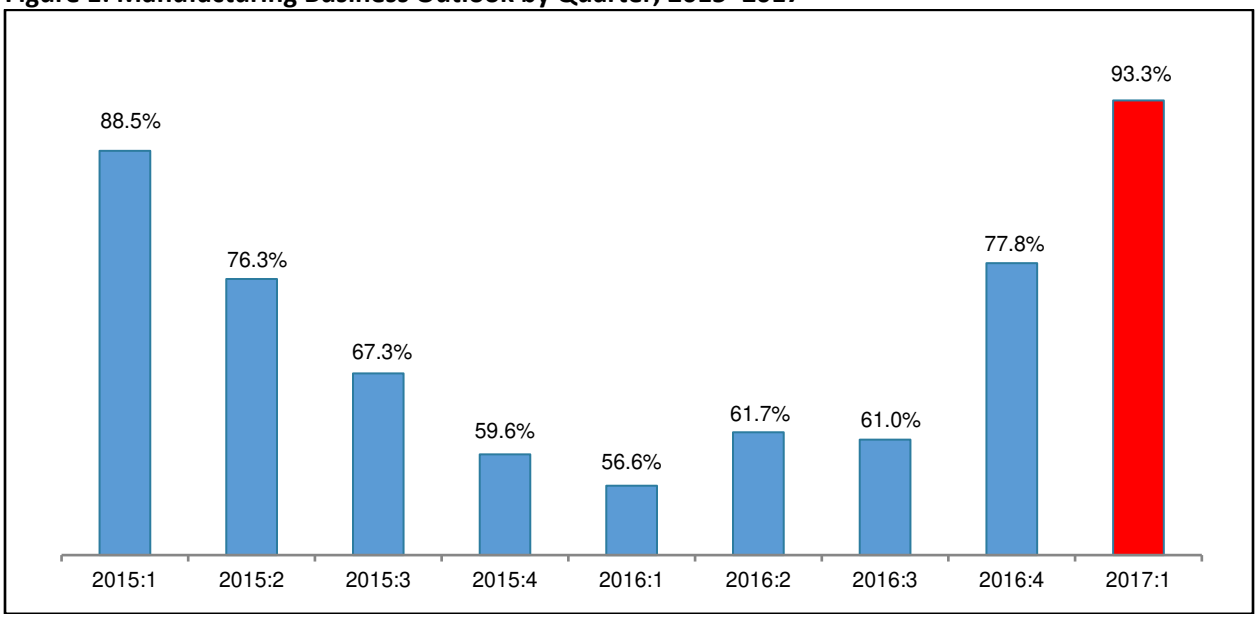
Summary

Americans appear to be more optimistic about growth in recent months, and manufacturers are no exception. New results from the NAM Manufacturers' Outlook survey show manufacturers' optimism rose to a new all-time high in the survey's nearly 20-year history. This corresponds with a pickup in manufacturing activity and is a welcome turn of events given the challenges the sector has endured over the past two years. The rising confidence stems from the belief that the new administration in Washington, D.C. will bring much needed regulatory relief—as well as reforms to the tax code and a significant infrastructure package. Indeed, business leaders are cautiously hopeful that pro-growth policies from Washington will allow the country to emerge from the sluggish expansion seen in the years since the Great Recession.

In this latest NAM Manufacturers' Outlook Survey, 93.3 percent of manufacturers are either somewhat or very positive about their own company's outlook, up from 56.6 percent one year ago and

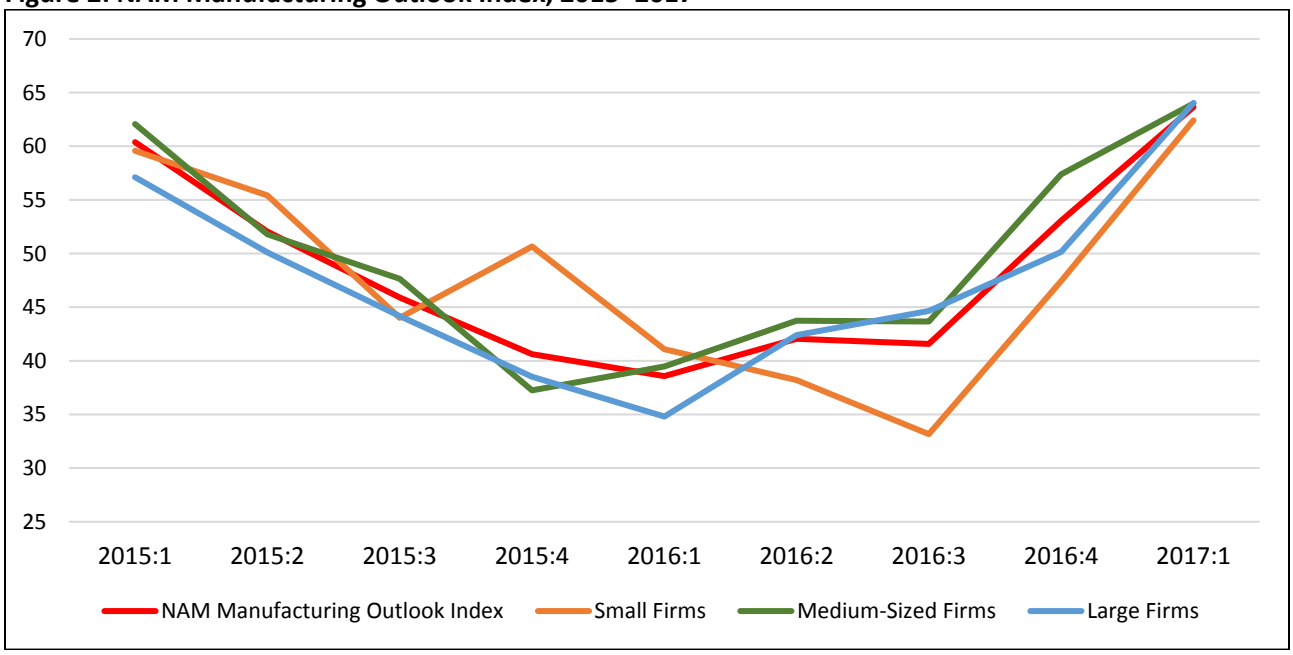
77.8 percent in December (Figure 1). As a result, the NAM Manufacturers' Outlook Index also soared to a new high, up from 53.3 in December to 63.7 in this report (Figure 2). It was the second straight quarter where the outlook exceeded its historic average—which would equate to 50 in the index—and there were strong gains in confidence for all firm sizes.

Figure 1: Manufacturing Business Outlook by Quarter, 2015–2017



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

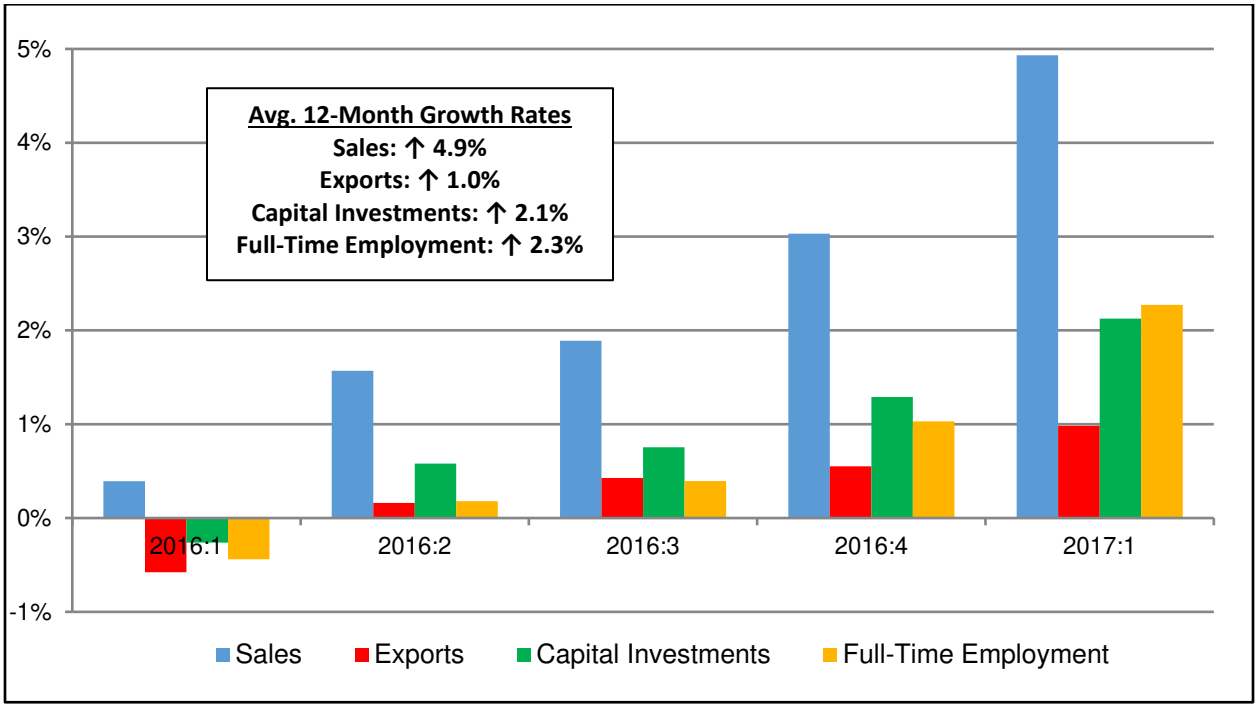
Figure 2: NAM Manufacturing Outlook Index, 2015–2017



Source: National Association of Manufacturers.

At the same time, while manufacturers are more positive in their outlook, it is also clear that there are new political uncertainties to grapple with. A list of sample comments appear at the end of this write-up, with many of them citing policy concerns in the new environment, including trade policy. Perhaps for that reason, a sizable proportion (30.8 percent) of respondents said that they were "unsure" when asked about whether the United States was headed in the right direction. That measure has been highly volatile in the past two surveys, as business leaders have continued to process the results of the U.S. election. That will likely settle out in the coming months, particularly as the new administration's plans take shape.

Figure 3: Expected Growth of Manufacturing Activity, 2016–2017



Note: Expected growth rates are annual averages.

Much of the underlying data, however, emphasize the improvements in business confidence seen in recent months. For instance, respondents are predicting sales growth of 4.9 percent on average over the next 12 months, its fastest pace since the second quarter of 2011 and a healthy rebound from the more-paltry 0.4 percent gain forecasted at this time last year (Figure 3). Manufacturers from medium-sized firms (e.g., those with between 50 and 499 employees) were even more upbeat, suggesting 5.2 percent growth in sales over the next year. For all companies responding to this survey, just 5.4 percent said that they see decreased sales over the next 12 months, with 82.8 percent anticipating increases. The production data were similar, with 4.8 percent growth seen in the coming year, up from 3.0 percent in the prior survey.

It is also clear that firms are less cautious about hiring and capital spending than they have been in prior quarters. Business leaders in the sector are predicting 2.3 percent and 2.1 percent growth in full-time employment and capital investments, respectively, in this survey. Both figures were negative in the first quarter of 2016, so we have seen a nice turnaround since then. The capital spending growth rate represented a two-year high; whereas, hiring was seen increasing at a pace not seen since the second

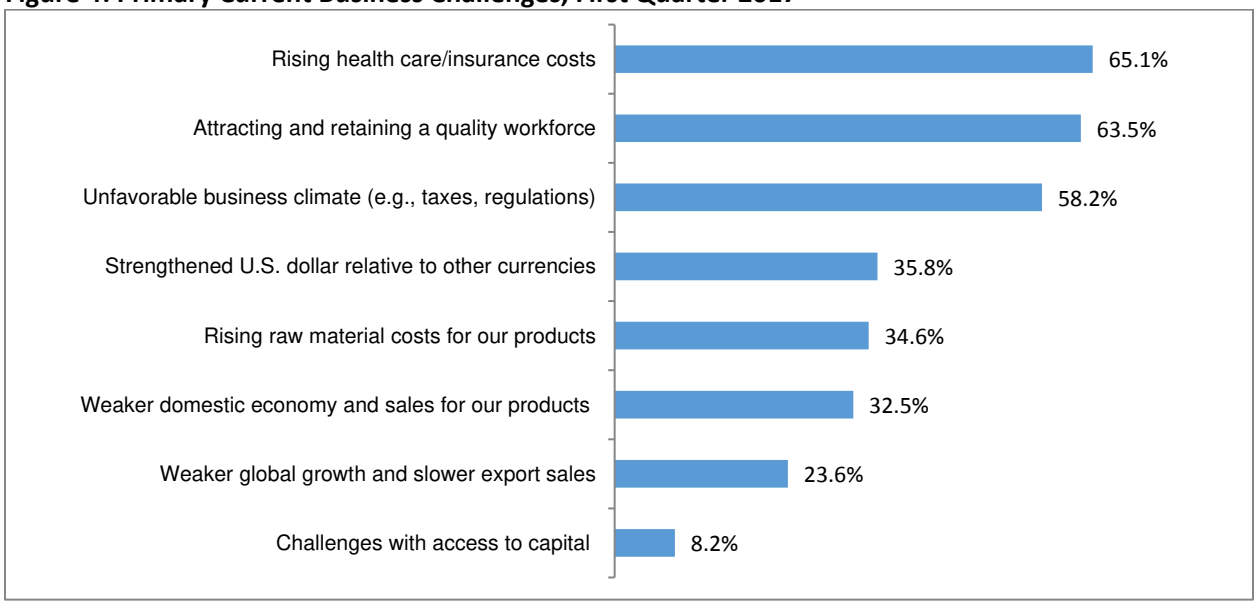
quarter of 2011—much like the sales data. Medium-sized firms were the most likely to increase capital spending over the next year, anticipating 2.5 percent growth. In contrast, it was the smallest manufacturers (e.g., those with less than 50 employees) who said that they would hire more, with 2.6 percent growth estimated on average.

Export expectations have also moved in the right direction, which are notable given the challenges with increasing international demand due to global headwinds and a strong U.S. dollar. Respondents predict 1.0 percent growth in exports over the next 12 months, up from 0.6 percent in the prior survey and a two-year high. In this release, 35.4 percent expect exports to increase over the next year, with 57.7 percent foreseeing exports for their firm to be unchanged. Moreover, exports are once again an important determinant for the overall outlook of respondents. In particular, for those companies predicting a decline in exports over the next year, 75 percent were positive about their company's outlook, well below the 99.3 percent positive reading for those anticipating increased exports.

Meanwhile, manufacturers expect their inventories to grow by 0.8 percent over the next 12 months. This was the first increase in stockpiles after 7 straight quarters of declines. Just over 30 percent anticipate higher inventory stocks, with roughly half predicting no change. This is a reassuring development, consistent with the pickup in activity seen in other measures.

Rising health insurance cost were once again cited as a major concern, noted by 65.1 percent of the manufacturers completing the survey as their top business challenge (Figure 4). They see these costs increasing 7.2 percent over the next year. More specifically, 69.1 percent expect their premiums to increase by at least 5 percent on average in the next year, with 27.5 percent predicting costs to rise by at least 10 percent. Small and medium-sized firms anticipate premiums to jump faster in the next year than large manufacturers do, at 8.5 percent and 6.0 percent, respectively.

Figure 4: Primary Current Business Challenges, First Quarter 2017

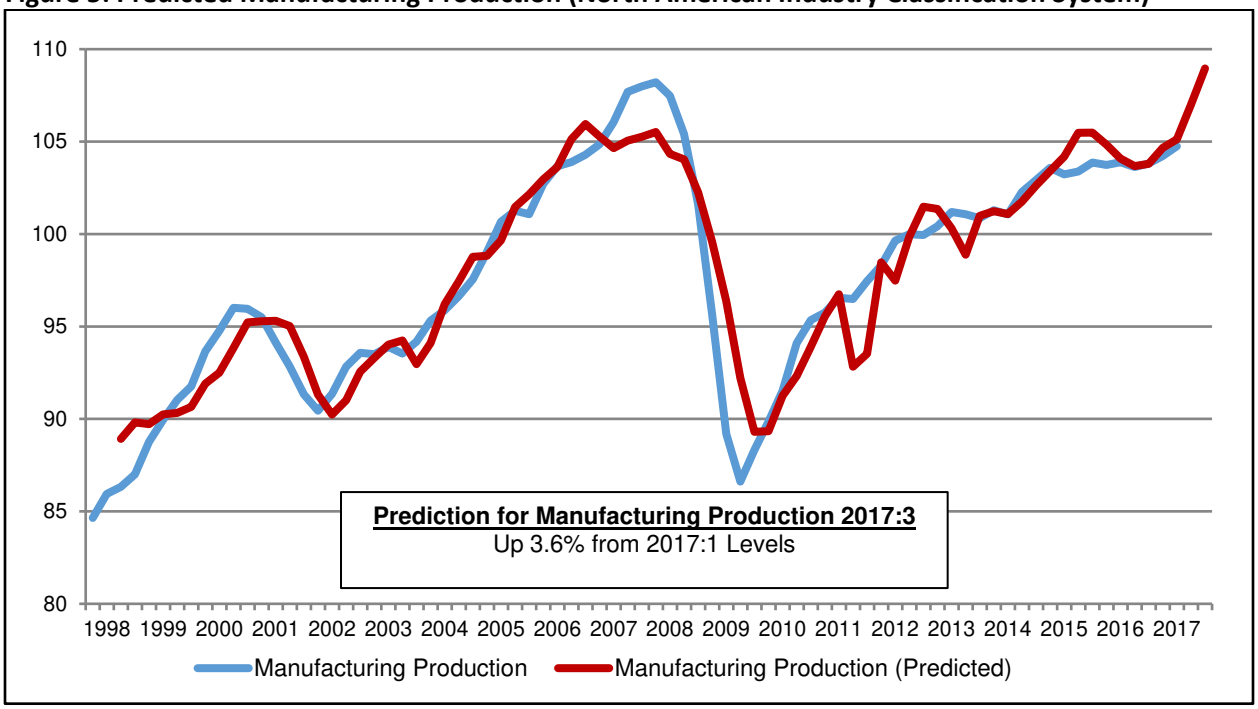


Note: Respondents were able to check more than one response; therefore, responses exceed 100 percent.

Respondents also listed attracting and retaining a quality workforce as a top worry, with 63.5 percent noting it as a primary challenge. The sample comments also noted problems with workforce development, including frustrations with educational preparation and a desire to find more people who "want to work."

Meanwhile, an unfavorable business climate fell to third place on this list but was still cited by 58.2 percent of those completing the survey. In December, 71.2 percent mentioned the business climate as a primary concern, and to the extent that it has dropped on the list, it is likely because manufacturers are hopeful that the new administration will continue to provide regulatory relief and make progress on regulatory and tax reform.

Figure 5: Predicted Manufacturing Production (North American Industry Classification System)



Note: Industrial production is predicted two quarters in advance by regressing NAM Manufacturers' Outlook Survey data as one of the independent variables, with data stretching back to 1997:4. Other explanatory variables include current values for housing permits, the interest rate spread, personal consumption and the S&P 500.

The current data suggest that manufacturing production should grow 3.6 percent between now and the third quarter of 2017 (Figure 5). As such, it would indicate that activity should continue to pick up in the coming months, with output in the sector currently growing at a relatively stagnant pace. This finding comes from a regression model that explains roughly 90 percent of the variation in manufacturing production since the NAM Manufacturers' Outlook Survey began in the fourth quarter of 1997. In addition to the business outlook figure from this survey, the model includes current values for housing permits, the interest rate spread, personal consumption and the S&P 500.

Note that this is a fairly strong increase—and well beyond the approximately 1.5 percent growth rate expected for manufacturing production in 2017, as reported by the Federal Reserve Board. The positive impact of some variables, especially the stock market, likely weighed on the model's prediction. More than anything, it suggests continued movement in the right direction over the next six months.

Special Questions

Election Outcome

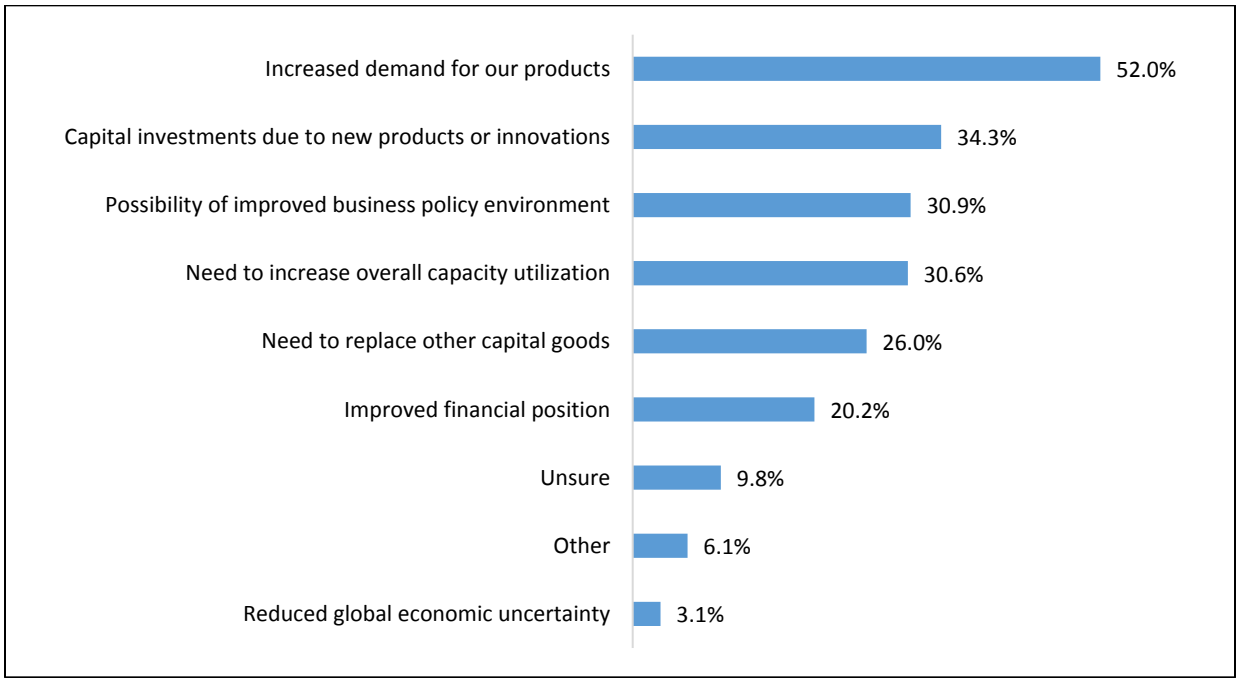
Much of the shift in sentiment in recent months has stemmed from changed perceptions about the policy environment, given the election results. With that in mind, we asked if manufacturers were more or less optimistic in their outlook, given the outcome of the 2016 general election. In all, 79.3 percent of respondents were more optimistic, with 10.8 percent suggesting that their outlook was unchanged and 3.4 percent who were less optimistic.

Hiring and Capital Spending Plans

Given the improved outlook, we wanted to dive a little deeper into the topic of hiring and capital spending. On the topic of employment, 45.5 percent of respondents said that they had increased their hiring this year relative to last year, with 37.8 percent making no changes and 4.6 percent hiring less. Similarly, 41.6 percent were expecting to spend more on capital investments in 2017 relative to 2016, with 39.4 percent anticipating spending to be unchanged and 11.7 percent investing less.

More than half of manufacturers completing this survey said that the motivation for better hiring or capital spending was due to increased demand for their products (Figure 6). Other top reasons for improved employment or business investments included having new products or innovations in their processes (34.3 percent), the possibility of an improved business policy environment (30.9 percent), a need for higher capacity utilization (30.6 percent), the need to replace other capital goods (26.0 percent) and an improved financial position that allows them to invest more in their business (20.2 percent).

Figure 6: If You Plan to Do More Hiring or Capital Spending This Year, What Are the Major Contributing Factors?



Note

This survey has been conducted quarterly since 1997, with the NAM's membership submitting this quarter's responses from February 14 to February 28. In total, 420 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. We expect the next survey to be released on Wednesday, June 7, 2017.

Comments on Primary Challenges Facing Manufacturers

Respondents were given the opportunity to submit other challenges affecting their business aside from the choices given in the survey question. Here is a sample of the comments that were offered:

- "Attracting reliable workforce. One would think that with the so called high unemployment we should find people that want to work." *(Plastics and rubber products)*
- "Being able to keep pace with the (potential) rising demand." *(Chemicals)*
- "Confusion and lack of predictability regarding trade policy, immigration policy, and tax policy." *(Electrical equipment and appliances)*
- "Excessive taxation of S Corporations." *(Machinery)*
- "Fear of free trade restrictions and potential tariffs, etc." *(Transportation equipment)*
- "Finding qualified tool room machinists is very difficult at any price." *(Fabricated metal products)*
- "High taxes that don't leave much to reinvest for growth." *(Fabricated metal products)*
- "Hiring is difficult as the young people know nothing, cannot write or read, much less show up on time and do work." *(Other/Mining equipment)*
- "I'm all for free trade, but many of our free trade partners still erect constructive barriers to make it difficult to ship into their countries, with Mexico and China being high on that list." *(Fabricated metal products)*
- "Necessary capital investment to compensate for the unavailability of skilled labor & product engineering to meet increasing customer needs." *(Transportation equipment)*
- "Our health care costs are up over 600% since 2000, something needs to be done." *(Fabricated metal products)*
- "Policy uncertainty in the U.S. and around the world." *(Transportation equipment)*
- "Regulation has to be reined in." *(Fabricated metal products)*
- "The federal deficit needs addressing. Creating more jobs and capital investment will not reduce the deficit significantly." *(Fabricated metal products)*
- "Trade policy risks." *(Chemicals)*
- "Uncertainty in our regulatory and government policies." *(Other/Building products)*
- "We are an agricultural equipment manufacturer. The strong dollar is hurting our exports and our U.S. growers' exports." *(Fabricated metal products)*
- "Winning new business at acceptable pricing and lead times on new equipment." *(Fabricated metal products)*

Survey Responses

1. How would you characterize the business outlook for your firm right now?
    a. Very positive – 22.3%
    b. Somewhat positive – 71.0%
    c. Somewhat negative – 5.8%
    d. Very negative – 1.0%

    Percentage that is either somewhat or very positive in their outlook = 93.3%

2. Over the next year, what do you expect to happen with your company's overall sales?
    a. Increase more than 10 percent – 16.3%
    b. Increase 5 to 10 percent – 39.2%
    c. Increase up to 5 percent – 27.3%
    d. Stay about the same – 12.0%
    e. Decrease up to 5 percent – 2.2%
    f. Decrease 5 to 10 percent – 2.2%
    g. Decrease more than 10 percent – 1.0%

    Average expected increase in sales consistent with these responses = 4.9%

3. Over the next year, what do you expect to happen with your company's overall production levels?
    a. Increase more than 10 percent – 17.0%
    b. Increase 5 to 10 percent – 35.0%
    c. Increase up to 5 percent – 30.9%
    d. Stay about the same – 11.5%
    e. Decrease up to 5 percent – 2.4%
    f. Decrease 5 to 10 percent – 2.9%
    g. Decrease more than 10 percent – 0.2%

    Average expected increase in production consistent with these responses = 4.8%

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 – 12.5%
    b. Increase 3 to 5 percent – 9.5%
    c. Increase up to 3 percent – 13.4%
    d. Stay about the same – 57.7%
    e. Decrease up to 3 percent – 2.9%
    f. Decrease 3 to 5 percent – 2.0%
    g. Decrease more than 5 percent – 2.0%

    Average expected increase in exports consistent with these responses = 1.0%

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 – 2.7%
    b. Increase 5 to 10 percent – 10.6%
    c. Increase up to 5 percent – 37.3%
    d. Stay about the same – 44.6%
    e. Decrease up to 5 percent – 3.6%
    f. Decrease 5 to 10 percent – 0.5%
    g. Decrease more than 10 percent – 0.7%

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

6. Over the next year, what are your company's capital investment plans?
    a. Increase more than 10 percent – 14.7%
    b. Increase 5 to 10 percent – 10.8%
    c. Increase up to 5 percent – 20.5%
    d. Stay about the same – 43.9%
    e. Decrease up to 5 percent – 3.6%
    f. Decrease 5 to 10 percent – 2.9%
    g. Decrease more than 10 percent – 3.6%

    Average expected increase in capital investments consistent with these responses = 2.1%

7. Over the next year, what are your inventory plans?
    a. Increase more than 10 percent – 4.6%
    b. Increase 5 to 10 percent – 9.9%
    c. Increase up to 5 percent – 15.9%
    d. Stay about the same – 50.1%
    e. Decrease up to 5 percent – 14.9%
    f. Decrease 5 to 10 percent – 2.9%
    g. Decrease more than 10 percent – 1.7%

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

8. Over the next year, what do you expect in terms of full-time employment in your company?
    a. Increase more than 10 percent – 5.8%
    b. Increase 5 to 10 percent – 11.5%
    c. Increase up to 5 percent – 41.7%
    d. Stay about the same – 36.5%
    e. Decrease up to 5 percent – 2.6%
    f. Decrease 5 to 10 percent – 1.7%
    g. Decrease more than 10 percent – 0.2%

    Average expected increase in full-time employment consistent with these responses = 2.3%

9. 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 – 2.6%
    b. Increase 3 to 5 percent – 24.0%
    c. Increase up to 3 percent – 62.4%
    d. Stay about the same – 10.1%
    e. Decrease up to 3 percent – 0.2%
    f. Decrease 3 to 5 percent – *none*
    g. Decrease more than 5 percent – 0.7%

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

10. Over the next year, what do you expect to happen to health insurance costs for your company?
    a. Increase 15.0 percent or more – 8.4%
    b. Increase 10.0 to 14.9 percent – 19.1%
    c. Increase 5.0 to 9.9 percent – 41.6%
    d. Increase less than 5.0 percent – 18.4%

e. No change – 6.9%
f. Decrease less than 5.0 percent – 0.5%
g. Decrease 5.0 percent or more – 0.7%
h. Uncertain – 4.3%

Average expected increase in health insurance costs consistent with these responses = 7.2%

11. Do you think the United States is headed in the right direction, or is our country on the wrong track?
    a. Right direction – 59.9%
    b. Wrong track – 9.4%
    c. Unsure – 30.8%

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 – 32.5%
    b. Weaker global growth and slower export sales – 23.6%
    c. Strengthened U.S. dollar relative to other currencies – 35.8%
    d. Challenges with access to capital or other forms of financing – 8.2%
    e. Unfavorable business climate (e.g., taxes, regulations) – 58.2%
    f. Increased raw material costs – 34.6%
    g. Rising health care/insurance costs – 65.1%
    h. Attracting and retaining a quality workforce – 63.5%

13. What is your company's primary industrial classification?
    a. Chemicals – 6.0%
    b. Computer and electronic products – 2.9%
    c. Electrical equipment and appliances – 7.7%
    d. Fabricated metal products – 30.5%
    e. Food manufacturing – 2.6%
    f. Furniture and related products – 1.0%
    g. Machinery – 11.3%
    h. Nonmetallic mineral products – 1.9%
    i. Paper and paper products – 2.4%
    j. Petroleum and coal products – 1.0%
    k. Plastics and rubber products – 8.6%
    l. Primary metals – 5.3%
    m. Transportation equipment – 3.6%
    n. Wood products – 2.2%
    o. Other – 13.2%

14. What is your firm size (e.g., the parent company, not your establishment)?
    a. Fewer than 50 employees – 22.4%
    b. 50 to 499 employees – 50.4%
    c. 500 or more employees – 27.2%

SPECIAL QUESTIONS

Election Outcome

15. Given the outcome of the 2016 general election, are you more or less optimistic about the economy and your company's outlook?
    a. More optimistic – 79.3%

b. About the same – 10.8%
c. Less optimistic – 3.4%
d. Uncertain – 6.5%

Hiring and Capital Spending Plans

16. Do you expect to increase your hiring more this year than last year?
    a. Yes, we will increase our hiring more this year than last year – 45.5%
    b. No, our hiring pace will not change from last year – 37.8%
    c. No, we expect to decrease our hiring this year relative to last year – 4.6%
    d. No, we have no hiring plans – 6.3%
    e. Unsure – 5.8%

17. Do you expect to increase your capital spending levels more this year than last year?
    a. Yes, we will increase our capital spending levels more this year than last year – 41.6%
    b. No, our capital spending pace will not change from last year – 39.4%
    c. No, we expect to decrease our capital spending levels this year relative to last year – 11.7%
    d. No, we have no capital spending plans – 3.6%
    e. Unsure – 3.6%

18. If you plan to do more hiring or capital spending this year, what are the major contributing factors? (Check all that apply.)
    a. Increased demand for our products – 52.0%
    b. Need to replace other capital goods – 26.0%
    c. Need to increase overall capacity utilization – 30.6%
    d. Improved financial position allowing us to invest more in our business – 20.2%
    e. Capital investments due to new products or innovations in our processes – 34.3%
    f. Possibility of improved business policy environment – 30.9%
    g. Reduced global economic uncertainty – 3.1%
    h. Other – 6.1%
    i. Unsure – 9.8%