NAM MANUFACTURERS' OUTLOOK SURVEY
THIRD QUARTER 2017
September 29, 2017

Percentage of Respondents Positive in Their Own Company's Outlook **89.8%** *(June: 89.5%)* Small Manufacturers: **85.1%** *(June: 84.8%)* Medium-Sized Manufacturers: **89.8%** *(June: 90.6%)* Large Manufacturers: **94.9%** *(June: 92.8%)*	**NAM Manufacturing Outlook Index** **61.0** *(June: 60.8 – revised)* **Expected Growth Rate for SALES Over the Next 12 Months** **↑ 4.5%** *(June: ↑ 4.8%)*
Expected Growth Rate for PRODUCTION Over the Next 12 Months **↑ 4.5%** *(June: ↑ 4.8%)*	**Expected Growth Rate for EXPORTS Over the Next 12 Months** **↑ 1.3%** *(June: ↑ 1.1%)*
Expected Growth Rate for CAPITAL INVESTMENTS Over the Next 12 Months **↑ 2.7%** *(June: ↑ 3.2%)*	**Expected Growth Rate for PRICES Over the Next 12 Months** **↑ 1.8%** *(June: ↑ 1.7%)*
Expected Growth Rate for FULL-TIME EMPLOYMENT Over the Next 12 Months **↑ 2.2%** *(June: ↑ 2.7%)*	**Expected Growth Rate for INVENTORIES Over the Next 12 Months** **↑ 1.0%** *(June: ↑ 1.3%)*
Expected Growth Rate for EMPLOYEE WAGES Over the Next 12 Months **↑ 2.2%** *(June: ↑ 2.1%)*	**Expected Growth Rate for HEALTH INSURANCE COSTS Over the Next 12 Months** **↑ 8.3%** *(June: ↑ 8.4%)*
"Do you think the United States is headed in the right direction, or is our country on the wrong track?" **RIGHT TRACK: 46.4% WRONG TRACK: 21.4% UNSURE: 32.2%** *(June: Right Track: 56.9%, Wrong Track: 14.3%, Unsure: 28.9%)*	

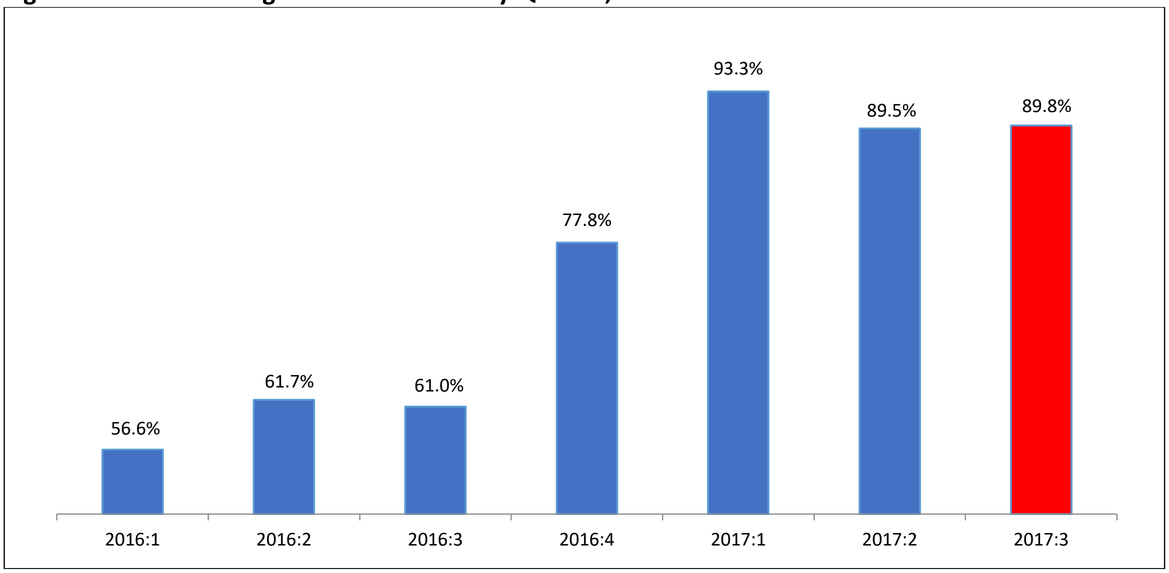
Summary

In the latest Manufacturers' Outlook Survey from the National Association of Manufacturers (NAM), the historically high levels of optimism that U.S. manufacturers expressed during the first two quarters of 2017 continued unabated through the third quarter. In March, 93.3 percent of respondents were positive about their own company's outlook, an all-time high in the survey's 20-year history. That dropped slightly in the second quarter to 89.5 percent, then rose a bit again in the third quarter to 89.8 percent. As a result, this year we have seen the highest consecutive three-quarter average—90.9 percent having a positive outlook for their company—in the survey's history.

After years of economic headwinds, uncertainties and policy setbacks, since the 2016 election the survey has shown positive indicators about the health of the manufacturing sector, both in the U.S. and globally. For example, manufacturing leaders have reported a significant turnaround in activity over the past 12 months, and they are very upbeat in their assessment of demand and output moving

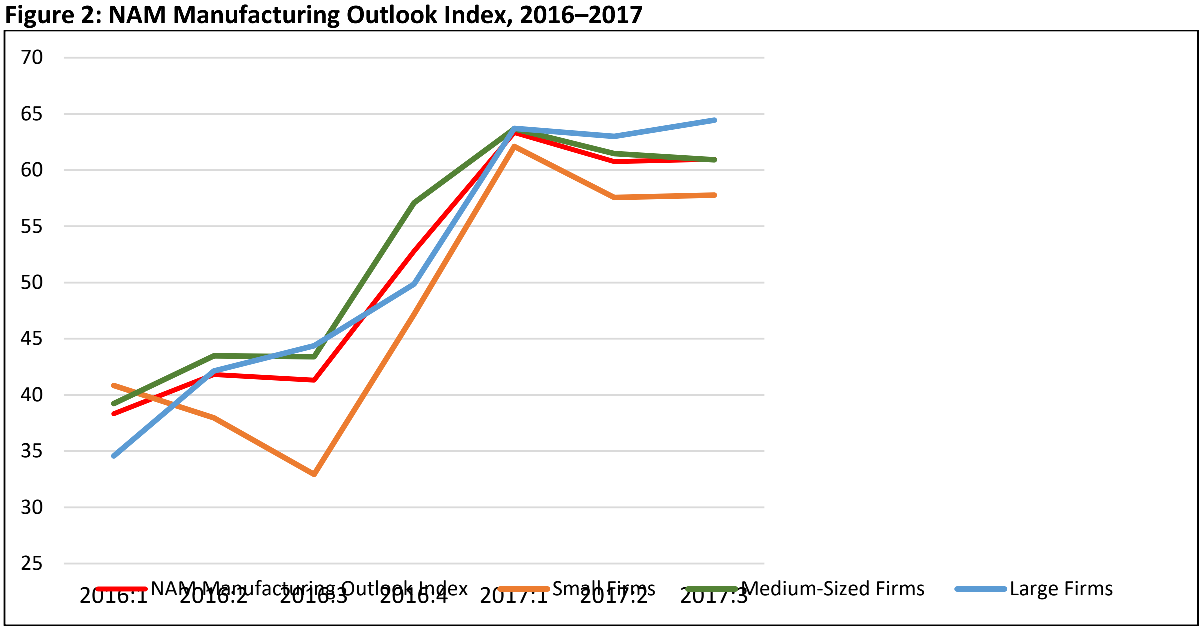
forward. Beyond an improved economic landscape, manufacturers are cautiously optimistic that many of the policies they have long sought, such as pro-growth tax reform, a major infrastructure package and regulatory relief, might finally become a reality, albeit at a slower rate than some might have wanted.

Figure 1: Manufacturing Business Outlook by Quarter, 2016–2017



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

Figure 2: NAM Manufacturing Outlook Index, 2016–2017

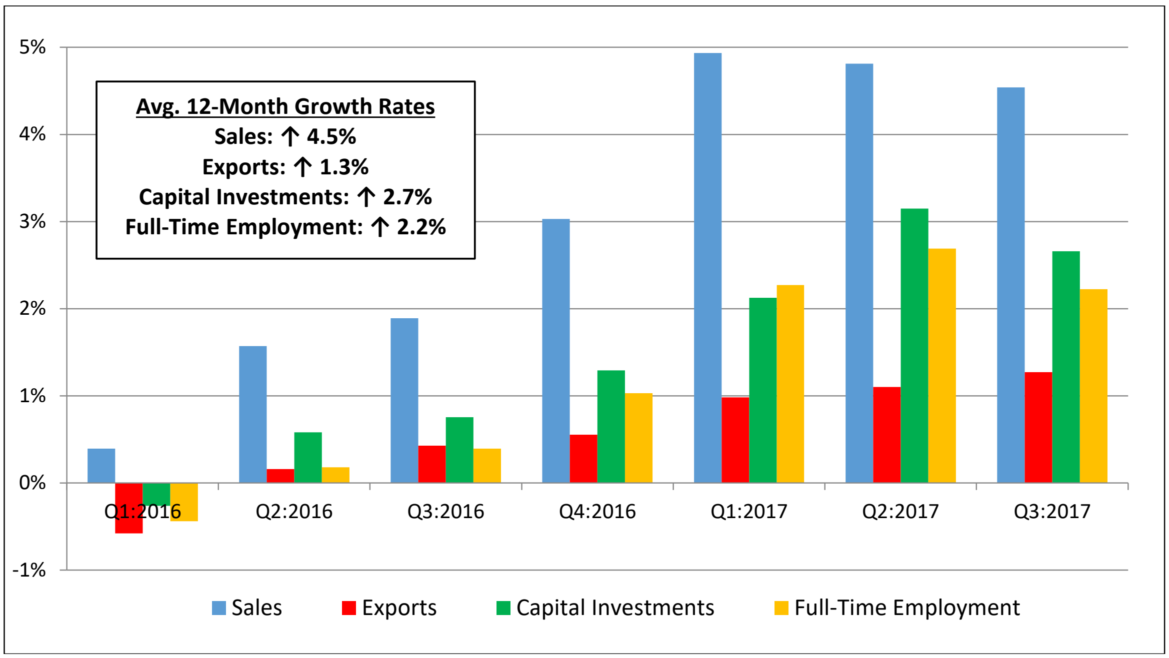


Source: National Association of Manufacturers

Similarly, the NAM Manufacturing Outlook Index also indicates strong levels of confidence in business conditions year-to-date, rising from 60.8 in the second quarter to 61.0 in the third quarter. By comparison, the index stood at 41.3 one year ago. Numbers over 60 indicate strong levels of optimism, with the percentage positive in their outlook more than one standard deviation from the historical average (73.7 percent positive). It was the fourth straight quarter where the outlook exceeded that average.

While manufacturers are more positive in their outlook, they are also grappling with new political uncertainties. A list of sample comments appears at the end of this report, with many respondents citing policy uncertainties as a concern. Beyond anxieties about federal and state policy actions (or inactions), there are also geopolitical worries, such as a potential conflict with North Korea. Perhaps for those reasons, a sizable proportion (32.2 percent) said that they were "unsure" whether the United States was headed in the right direction. That measure has been highly volatile in the past four surveys.

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



Note: Expected growth rates are annual averages.

As a sign that improvements in the global economy have had a positive impact (especially when combined with a weaker U.S. dollar), export expectations rose once again in the latest data (Figure 3). Respondents predict 1.3 percent growth in exports on average over the next 12 months, up from 1.1 percent in the prior survey and the highest rate in three years. Nearly 40 percent anticipate exports to increase over the next year, with 55.5 percent forecasting exports to be flat. Exports are once again a determinant factor for the overall outlook of respondents. For example, for those companies predicting a decline in exports over the next year, 54.2 percent were positive about their company's outlook, well below the 97.0 percent positive reading for those anticipating increased exports.

Other data were also encouraging, even with slight easing in some of the measures:

- Sales and production are both anticipated to increase 4.5 percent, on average, over the next 12 months; the sales prediction declined from the 4.8 percent anticipated in the last survey.
- Four-fifths (80.7 percent) of respondents felt that sales would rise over the next 12 months, with more than half seeing them jump by at least 5 percent.
- Larger manufacturers (500 or more employees) were more optimistic about orders moving forward, predicting 5.2 percent growth in sales on average over the next 12 months.
- Smaller firms (less than 50 employees) said that sales would rise by 3.8 percent on average – still a decent figure overall.

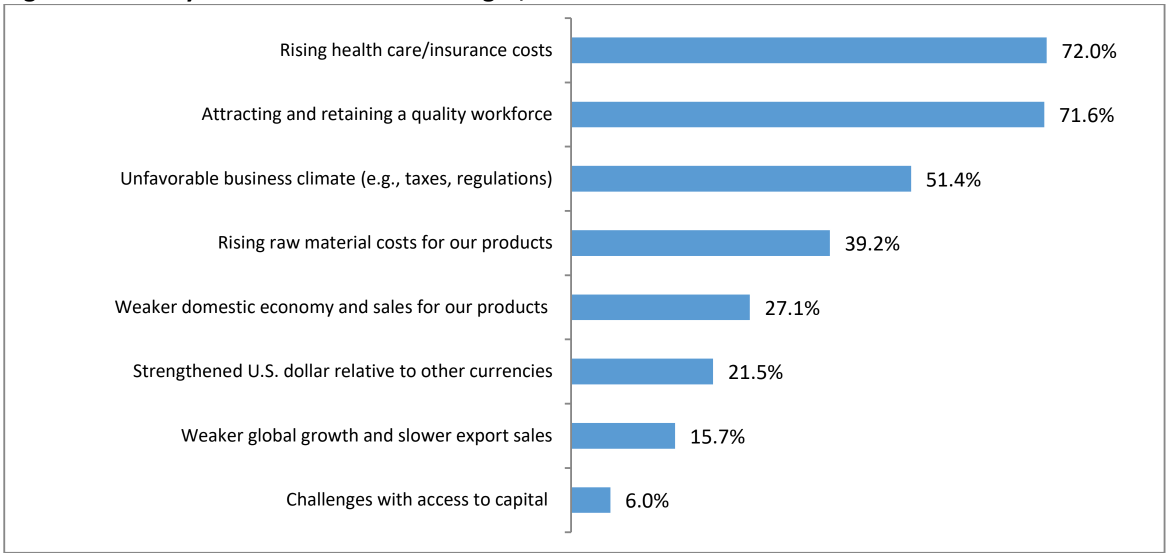
Hiring and capital spending plans were also promising, albeit with each pulling back from multiyear highs in the previous release:

- Full-time employment in manufacturing is predicted to grow by an average of 2.2 percent over the next 12 months, down from 2.7 percent in June, which was the fastest pace in the survey's history.
- Just over 58 percent anticipate an increase in employment over the next year for their company, with 19.9 percent predicting a jump of at least 5 percent.
- Medium-sized businesses (50 to 499 employees) had the highest predictions for hiring growth, at 2.6 percent over the next year.
- Firms forecast 2.7 percent growth, on average, in capital spending over the next 12 months, down from 3.2 percent last time.
- More than 32 percent expect capital expenditures to rise by at least 5 percent, with 51.4 percent predicting an increase overall.
- Once again, it was the medium-sized manufacturers who were the most upbeat, anticipating 3.1 percent growth in capital spending on average.

Meanwhile, manufacturers expect their inventories to grow by 1.0 percent over the next 12 months, which is the third consecutive increase after seven straight quarters of declines, the fastest pace in 19 years. Roughly one-third anticipate higher inventory stocks, with about 48 percent predicting no change. This is a reassuring development, consistent with the pickup in activity seen in other measures.

Rising health insurance costs were once again noted as a top business challenge by 72.0 percent of manufacturers (Figure 4), with costs anticipated to increase by 8.3 percent over the next year. More specifically, 76.2 percent expect their premiums to increase by at least five percent on average next year, with 38.2 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 9.1 percent and 6.9 percent, respectively.

Figure 4: Primary Current Business Challenges, Third Quarter 2017



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

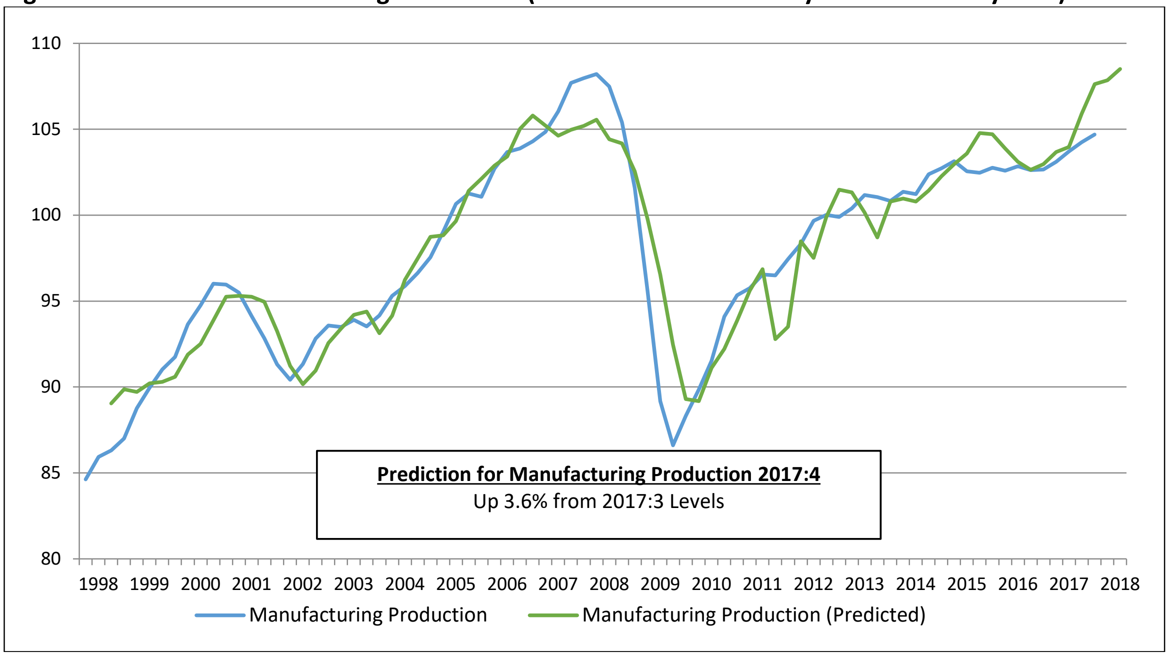
Respondents also listed attracting and retaining a quality workforce as a top worry, with 71.6 percent noting it as a primary challenge. The vast majority of those offering a comment about primary challenges for their business noted workforce development struggles, including frustrations with educational preparation, the work ethic of some candidates, and the overall pool of qualified applicants.

At the same time, the business environment remained in third place, where it has been in every survey so far in 2017. An unfavorable business climate was cited by 51.4 percent of respondents; prior to this year that issue regularly vied for first place on the list with health care costs, never falling below 70 percent. The likely reason for this drop is manufacturers' optimism that the new administration will continue to provide regulatory relief and make progress on tax reform. With that said, several of the comments expressed frustration with the pace of tax reform and other pro-growth initiatives.

The current data suggest that manufacturing production should grow 3.6 percent between now and the first quarter of 2018 (Figure 5). This indicates that activity should continue to pick up in the coming months, with output in the sector currently growing 1.2 percent year-over-year. This finding comes from a regression model that explains nearly 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, 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, well beyond the approximately 1.7 percent growth rate expected for manufacturing production in 2017. 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.

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.

Special Questions

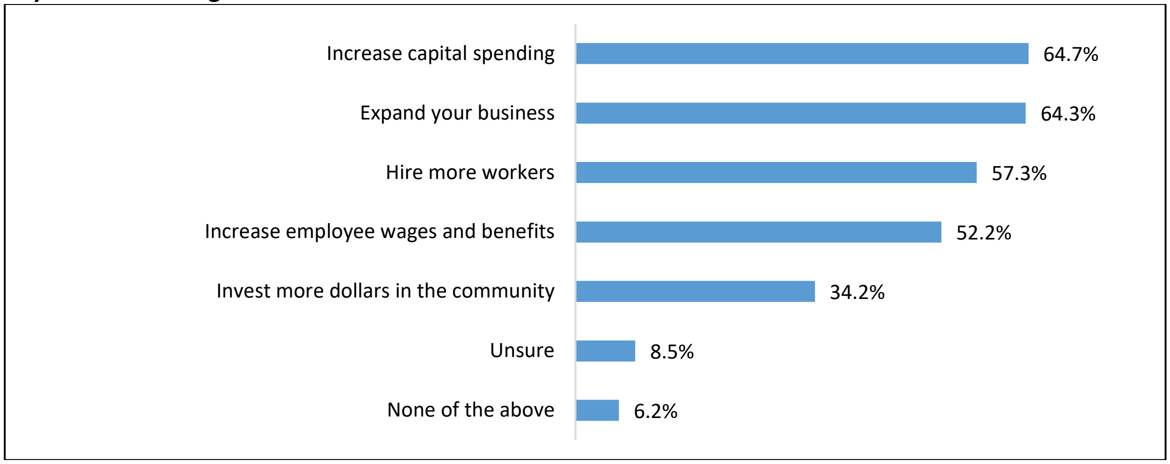
Enacting Comprehensive Business Tax Reform

Manufacturers are optimistic about the chance that long-sought-after comprehensive business tax reform will be enacted into law. The NAM's top priorities in tax reform include a corporate tax rate of 15 percent; comparable lower rates for pass-through businesses; a strong, permanent R&D incentive; robust capital cost-recovery rules; and a modern international tax system.

In this survey, more than 87 percent of respondents said that a comprehensive plan that included these tax policy changes would address their concerns with the current tax system. Some respondents also included comments about state income taxes, individual tax rates, overall competitiveness relative to our trading partners, calls for fair treatment for small businesses and employee stock ownership plans (ESOPs), and a desire for revenue neutrality in any budget proposal, among others.

In general, the survey results and comments indicate support for a simpler and modern tax code that would allow manufacturers to be more competitive in the global marketplace. Along those lines, nearly 65 percent of respondents said that comprehensive business tax reform would encourage their company to increase capital spending (Figure 6). This was closely followed by significant proportions suggesting that they would expand their businesses (64.3 percent), hire more workers (57.3 percent), increase employee wages and benefits (52.2 percent), and invest more dollars in the community (34.2 percent).

Figure 6: If comprehensive business tax reform is enacted, would it make your company more likely to do any of the following?



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

Note

This survey has been conducted quarterly since 1997, with the NAM's membership submitting this quarter's responses from Aug. 15 to Aug. 30. In total, 524 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 in December.

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:

- "Difficulty with mindset of new workers not wanting to work." *(Other/Recreational boat manufacturing)*
- "Finding qualified industrial manufacturing personnel is the biggest issue and will be for the next few years." *(Machinery)*
- "Finding skilled workers who can pass our drug screening test is a major problem. If Trump & Congress can get their act together and pass tax reform, and more regulatory reform/reductions, that would certainly improve outlook." *(Machinery)*
- "Global political tensions, such as the North Korean threat." *(Other/Manufacturing services)*
- "Huge possible implications for global trade if administration backs out of trade deals or starts trade wars." *(Machinery)*
- "I would have checked increased raw material cost, but we are unsure if the current actions in commodities will continue." (Computer and electronic products)
- "Increasing foreign competition with lower pricing, raw materials sources are changing or being eliminated due to how our supplier is changing their manufacturing processes." *(Chemicals)*

- “Lack of action by our federally elected officials in Washington, D.C. on increased investment in our nation's roads and bridges, tax reduction/reform and Obamacare.” *(Machinery)*
- “Lack of government action on health care control, business taxes, government spending.” *(Fabricated metal products)*
- “More public support/promotion of the independent and small manufacturing community as the primary source of job creation, innovation, and career fulfillment.” *(Paper and paper products)*
- “Need to jumpstart some infrastructure projects!” *(Other/Manufacturing safety products)*
- “Need to roll back the tax burden on small mfg. companies.” *(Computer and electronic products)*
- “Political risk is very high. It makes people concerned about what might happen next.” *(Machinery)*
- “Political uncertainty over tax reductions and healthcare regulations.” (*Plastics and rubber products)*
- “Skilled tool and die, mechanics, electricians. Young people that will enter and finish apprenticeships.” *(Fabricated metal products)*
- “Slowing activity in the automotive industry.” *(Fabricated metal products)*
- “Uncertain trade policies (NAFTA, etc.).” *(Transportation equipment)*
- “We have internal market-driven turmoil that is related to our business model and not of general relevance. However, it is causing us to pause in growth from our traditional 15% rate, hence cautious numbers above.” *(Plastics and rubber products)*

Survey Responses

1. How would you characterize the business outlook for your firm right now?
    a. Very positive – 28.5%
    b. Somewhat positive – 61.3%
    c. Somewhat negative – 8.2%
    d. Very negative – 1.9%

    Percentage that is either somewhat or very positive in their outlook = 89.8%

2. Over the next year, what do you expect to happen with your company's overall sales?
    a. Increase more than 10 percent – 16.7%
    b. Increase 5 to 10 percent – 33.7%
    c. Increase up to 5 percent – 30.3%
    d. Stay about the same – 12.3%
    e. Decrease up to 5 percent – 3.3%
    f. Decrease 5 to 10 percent – 2.1%
    g. Decrease more than 10 percent – 1.7%

    Average expected increase in sales consistent with these responses = 4.5%

3. Over the next year, what do you expect to happen with your company's overall production levels?
    a. Increase more than 10 percent – 17.2%
    b. Increase 5 to 10 percent – 33.7%
    c. Increase up to 5 percent – 28.2%
    d. Stay about the same – 13.4%
    e. Decrease up to 5 percent – 3.3%
    f. Decrease 5 to 10 percent – 2.7%
    g. Decrease more than 10 percent – 1.5%

    Average expected increase in production consistent with these responses = 4.5%

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 – 14.8%
    b. Increase 3 to 5 percent – 11.5%
    c. Increase up to 3 percent – 13.5%
    d. Stay about the same – 55.5%
    e. Decrease up to 3 percent – 2.7%
    f. Decrease 3 to 5 percent – 0.6%
    g. Decrease more than 5 percent – 1.4%

    Average expected increase in exports consistent with these responses = 1.3%

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 – 1.7%
    b. Increase 5 to 10 percent – 9.2%
    c. Increase up to 5 percent – 44.9%
    d. Stay about the same – 38.0%
    e. Decrease up to 5 percent – 5.4%
    f. Decrease 5 to 10 percent – 0.4%
    g. Decrease more than 10 percent – 0.4%

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 – 15.7%
    b. Increase 5 to 10 percent – 16.3%
    c. Increase up to 5 percent – 19.2%
    d. Stay about the same – 38.8%
    e. Decrease up to 5 percent – 4.2%
    f. Decrease 5 to 10 percent – 2.5%
    g. Decrease more than 10 percent – 3.3%

    Average expected increase in capital investments consistent with these responses = 2.7%

7. Over the next year, what are your inventory plans?
    a. Increase more than 10 percent – 4.4%
    b. Increase 5 to 10 percent – 11.0%
    c. Increase up to 5 percent – 18.1%
    d. Stay about the same – 48.0%
    e. Decrease up to 5 percent – 15.0%
    f. Decrease 5 to 10 percent – 1.4%
    g. Decrease more than 10 percent – 2.1%

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

8. Over the next year, what do you expect in terms of full-time employment in your company?
    a. Increase more than 10 percent – 5.9%
    b. Increase 5 to 10 percent – 14.0%
    c. Increase up to 5 percent – 38.5%
    d. Stay about the same – 34.7%
    e. Decrease up to 5 percent – 3.5%
    f. Decrease 5 to 10 percent – 1.9%
    g. Decrease more than 10 percent – 1.5%

    Average expected increase in full-time employment consistent with these responses = 2.2%

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 – 3.3%
    b. Increase 3 to 5 percent – 29.1%
    c. Increase up to 3 percent – 56.2%
    d. Stay about the same – 11.3%
    e. Decrease up to 3 percent – *none*
    f. Decrease 3 to 5 percent – 0.2%
    g. Decrease more than 5 percent – *none*

    Average expected increase in employee wages consistent with these responses = 2.2%

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 – 13.4%
    b. Increase 10.0 to 14.9 percent – 24.8%
    c. Increase 5.0 to 9.9 percent – 38.0%
    d. Increase less than 5.0 percent – 15.6%

e. No change – 3.3%
f. Decrease less than 5.0 percent – 1.3%
g. Decrease 5.0 percent or more – 0.2%
h. Uncertain – 3.5%

Average expected increase in health insurance costs consistent with these responses = 8.3%

11. Do you think the United States is headed in the right direction, or is our country on the wrong track?
    a. Right direction – 46.4%
    b. Wrong track – 21.4%
    c. Unsure – 32.2%

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 – 27.1%
    b. Weaker global growth and slower export sales – 15.7%
    c. Strengthened U.S. dollar relative to other currencies – 21.5%
    d. Challenges with access to capital or other forms of financing – 6.0%
    e. Unfavorable business climate (e.g., taxes, regulations) – 51.4%
    f. Increased raw material costs – 39.2%
    g. Rising health care/insurance costs – 72.0%
    h. Attracting and retaining a quality workforce – 71.6%

13. What is your company's primary industrial classification?
    a. Chemicals – 6.3%
    b. Computer and electronic products – 3.1%
    c. Electrical equipment and appliances – 4.4%
    d. Fabricated metal products – 31.0%
    e. Food manufacturing – 1.7%
    f. Furniture and related products – 1.5%
    g. Machinery – 11.1%
    h. Nonmetallic mineral products – 2.9%
    i. Paper and paper products – 2.5%
    j. Petroleum and coal products – 0.6%
    k. Plastics and rubber products – 8.2%
    l. Primary metals – 3.5%
    m. Transportation equipment – 2.3%
    n. Wood products – 3.3%
    o. Other – 17.6%

14. What is your firm size (e.g., the parent company, not your establishment)?
    a. Fewer than 50 employees – 23.1%
    b. 50 to 499 employees – 54.3%
    c. 500 or more employees – 22.6%

SPECIAL QUESTIONS

Enacting Comprehensive Business Tax Reform

15. The NAM's top priorities in comprehensive business tax reform include a corporate tax rate of 15 percent, comparable lower rates for "pass-through" businesses, a strong, permanent research and development incentive, robust capital cost-recovery rules, and a modern international tax system. Do these priorities for comprehensive business tax reform address your concerns with the current tax system?

a. Yes – 87.2%
b. No – 5.2%
c. Unsure – 7.6%

If no, what are your priorities and why? ____________

16. If comprehensive business tax reform is enacted along the lines described in question 15, potentially making your company more competitive globally, would it make your company more likely to do any of the following? (Check all that apply.)
    a. Expand your business – 64.3%
    b. Hire more workers – 57.3%
    c. Increase employee wages and benefits – 52.2%
    d. Increase capital spending – 64.7%
    e. Invest more dollars in the community – 34.2%
    f. None of the above – 6.2%
    g. Unsure – 8.5%