

NAM MANUFACTURERS' OUTLOOK SURVEY
SECOND QUARTER 2019
 JUNE 21, 2019

<p>Percentage of Respondents Positive About Their Own Company's Outlook</p> <p style="text-align: center;">79.8% <i>(March: 89.5%)</i></p> <p>Small Manufacturers: 85.2% <i>(Mar.: 87.7%)</i> Medium-Sized Manufacturers: 79.5% <i>(Mar.: 90.0%)</i> Large Manufacturers: 76.1% <i>(Mar.: 90.2%)</i></p>	<p>Overall Facts About the Survey</p> <p>Number of Responses: 689 In the Field: May 22 to June 5, 2019</p> <p>Small Manufacturers: 155 responses Medium-Sized Manufacturers: 337 responses Large Manufacturers: 197 responses</p>
<p>Expected Growth Rate for <u>SALES</u> Over the Next 12 Months</p> <p style="text-align: center;">↑ 3.4% <i>(March: ↑ 4.4%)</i></p>	<p>NAM Manufacturing Outlook Index</p> <p style="text-align: center;">53.2 <i>(March: 59.7)</i></p>
<p>Expected Growth Rate for <u>FULL-TIME EMPLOYMENT</u> Over the Next 12 Months</p> <p style="text-align: center;">↑ 1.6% <i>(March: ↑ 2.1%)</i></p>	<p>Expected Growth Rate for <u>PRODUCTION</u> Over the Next 12 Months</p> <p style="text-align: center;">↑ 3.4% <i>(March: ↑ 4.4%)</i></p>
<p>Expected Growth Rate for <u>CAPITAL INVESTMENTS</u> Over the Next 12 Months</p> <p style="text-align: center;">↑ 2.2% <i>(March: ↑ 2.8%)</i></p>	<p>Expected Growth Rate for <u>EMPLOYEE WAGES</u> Over the Next 12 Months</p> <p style="text-align: center;">↑ 2.3% <i>(March: ↑ 2.3%)</i></p>
<p>Expected Growth Rate for <u>PRICES OF COMPANY'S PRODUCTS</u> Over the Next 12 Months</p> <p style="text-align: center;">↑ 2.0% <i>(March: ↑ 2.4%)</i></p>	<p>Expected Growth Rate for <u>EXPORTS</u> Over the Next 12 Months</p> <p style="text-align: center;">↑ 0.4% <i>(March: ↑ 0.9%)</i></p>
<p>Expected Growth Rate for <u>INVENTORIES</u> Over the Next 12 Months</p> <p style="text-align: center;">↓ 0.1% <i>(March: ↑ 0.4)</i></p>	<p>Expected Growth Rate for <u>RAW MATERIAL PRICES AND OTHER INPUT COSTS</u> Over the Next 12 Months</p> <p style="text-align: center;">↑ 3.1% <i>(March: ↑ 3.3%)</i></p>
	<p>Expected Growth Rate for <u>HEALTH INSURANCE COSTS</u> Over the Next 12 Months</p> <p style="text-align: center;">↑ 6.5% <i>(March: ↑ 6.7%)</i></p>

Summary

2018 was a banner year for many manufacturers, with optimism reaching an all-time high as recorded in the Manufacturers' Outlook Survey from the National Association of Manufacturers. Given the bullish nature of the industry over the past year and a half, and looming questions in Washington and about markets around the world, along with a continuing workforce shortage, a slowdown should come as no surprise. So far, 2019 has shaped up to be a more challenging year than last. Most notably, slowing global growth and trade uncertainties have softened demand, production and employment growth in a number of measures.

Manufacturers need certainty to develop and grow their businesses for the future. With 95 percent of consumers located outside of the United States, sound trade policy is central to manufacturers' future success. To that end, mixed signals out of Washington and escalating tariffs, most recently threats of tariffs one of manufacturers' most important trading partners—Mexico—during the time this survey was in the field, puts at risk the industry's continued success. Despite the immediate challenges and uncertainties businesses face, though, it is important to note that the manufacturing sector continues to expand, albeit more slowly, and business leaders in the sector continue to be mostly upbeat, according to the NAM's latest Manufacturers' Outlook Survey.

In the second quarter of 2019, about four out of five manufacturing respondents said that they were either somewhat or very positive about their own company's outlook (Figure 1). While that was down from nearly 90 percent who said the same thing in the first quarter, it continues to reflect a mostly positive sentiment in the sector. Moreover, the NAM Manufacturing Outlook Index measured 53.2 in the second quarter (Figure 2). Index readings above 50 indicate the outlook exceeds the historical average of the survey (75.0 percent positive), and the index has exceeded 50 for 11 straight quarters. While the latest reading was down from 59.7 in the first quarter, it continued to indicate favorable business conditions in the sector, albeit with some slowing from three months ago.

Interestingly, small manufacturers (e.g., those with less than 50 employees) were more optimistic about their company's outlook than their larger counterparts (e.g., those with 500 or more employees), with 85.2 percent and 76.1 percent, respectively. This figure also points to the uncertainty facing businesses that rely more on international trade.

Trade uncertainties were the second most-mentioned concern facing manufacturers, cited as a top company issue by 56.0 percent of those completing the survey. It is also abundantly clear that firms that are more upbeat about export growth are also more positive in their overall outlook. Indeed, among those manufacturers who expect to grow their exports over the next 12 months, 92.0 percent are positive about their company's prospects. That compares to a 44.0 percent positive reading for those manufacturers anticipating declining exports. It is no secret that manufacturers rely on trade to grow their businesses—and manufacturers in America sell more to Canada and Mexico, our country's largest two trading partners, than our next 11 trading partners combined. Therefore, it should not be a surprise that more than four-fifths of respondents said passage of the United States–Mexico–Canada Agreement was important for their company.

Given past survey results, it is to be expected that the top hindrance facing manufacturers continues to be the challenges of finding a qualified workforce. In fact, the inability to attract and retain workers remained respondents' top concern for the seventh consecutive survey (Figure 3), noted as the top concern by 68.8 percent of respondents. The manufacturing industry's skills gap challenge is a

longstanding problem, but one that has been exacerbated 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. In the December 2018 iteration of this survey, nearly 30 percent of manufacturers were forced to turn down business opportunities due to their inability to find sufficient talent—a challenge heightened by the tight labor market and baby boomer retirements.

As manufacturers increasingly search for more workers to fuel their growth and production, it makes sense that 78.2 percent of manufacturing respondents said that a reformed immigration system that better suits the needs of employees was an effective way of addressing the ongoing workforce challenge.

Other top challenges in the survey were rising health care and insurance costs (55.6 percent) and increased raw material costs (46.4 percent). The business climate, which for years used to be one of the top challenges facing manufacturers, continued to languish toward the bottom of the list of top challenges, largely as a result of pro-growth federal policies over the past few years 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, as some lawmakers and candidates have discussed, 68.5 percent of respondents said they would consider reducing capital investments in the United States, and 54.1 percent said it might force them to have to scale back employment.

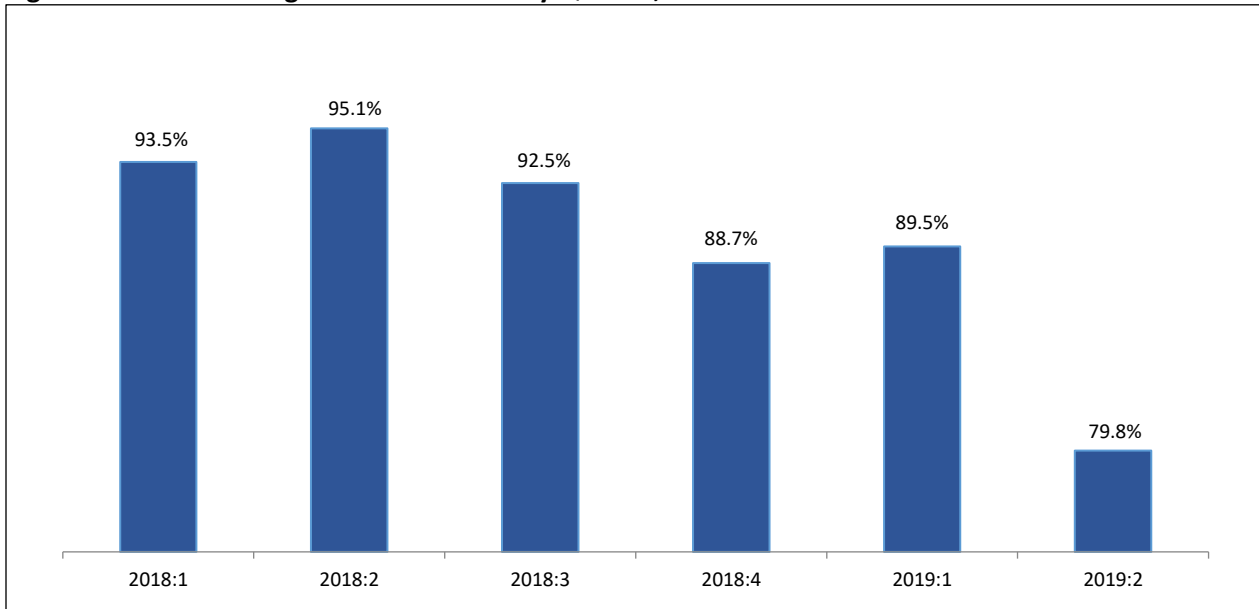
Other headwinds to continued manufacturing optimism include the state of our nation's infrastructure. Three-quarters of respondents in this quarter's survey felt the nation's infrastructure is not sufficient to meet their competitive needs moving forward, with 17.0 percent uncertain and just 8.5 percent satisfied. Moreover, 55.3 percent said passage of a major infrastructure bill would impact their company's business plans and outlook positively.

The following 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 3.4 percent over the next 12 months, down from 4.4 percent in the previous survey. This was the weakest reading in 10 quarters, but on a more positive note, it continued to signal modest demand growth between now and mid-2020. In the latest results, two-thirds of manufacturers anticipate higher sales over the next year, with 11.7 percent predicting declines. Just over 40 percent see revenue gains of 5 percent or more.
- **Production:** Mirroring the sales data, expected production growth dropped from 4.4 percent to 3.4 percent for the next 12 months. It was the 11th straight month with anticipated production growth of 3 percent or more—a decent rate. In the second quarter responses, 66.3 percent predict production to expand over the next year, with 40.0 percent forecasting output growth of 5 percent or more. Small and medium-sized manufacturers (e.g., those with less than 500 employees) were more optimistic about production growth, predicting 3.6 percent increases over the next 12 months, versus 3.0 percent for large firms.

- **Full-Time Employment:** Respondents expect full-time employment to increase 1.6 percent over the next 12 months, down from 2.1 percent in the previous survey. This is also a 10-quarter low. Nonetheless, nearly one-half of manufacturers anticipate more hiring over the next year, including 16.3 percent planning employment growth of 5 percent or more. Small and medium-sized firms were more optimistic in their hiring expectations than their larger brethren, 1.9 percent versus 1.0 percent, respectively.
- **Employee Wages:** Respondents continued to anticipate employee wages (excluding nonwage compensation, such as benefits) to rise by 2.3 percent over the next 12 months. It was the third consecutive survey with that expectation. In the latest results, 37.0 percent expect to hike wages 3 percent or more.
- **Capital Investments:** Respondents expect capital investments to rise 2.2 percent over the next 12 months, down from 2.8 percent in March. It was the slowest pace for capital expenditures activity since the first quarter of 2017. Yet, 44.7 percent of manufacturers anticipate higher capital spending in the next year, with 29.4 percent expecting solid investment growth of 5 percent or more. In contrast, 12.3 percent predict falling capital spending over that time frame. For this question, it was medium-sized firms (e.g., those with 50 to 499 employees) who were the most upbeat, at 2.6 percent, versus 1.8 percent for small and large manufacturers.
- **Exports:** Respondents expect exports to increase by just 0.4 percent over the next 12 months, down from 0.9 percent in the prior survey. It was the slowest pace of export growth since the third quarter of 2016, or 11 quarters, likely reflecting ongoing trade uncertainties. Just over 26 percent of respondents felt that exports would rise over the next year, with 61.5 percent predicting no change and 12.4 percent anticipating declines.
- **Product Prices:** Respondents expect product prices to increase 2.0 percent over the next 12 months, pulling back for the third straight survey from 3.2 percent in the June and September 2018 releases, which were seven-year highs. Indeed, prices were seen growing at their slowest pace since the fourth quarter of 2017. In this survey, 43.2 percent forecast price growth for their products of up to 5 percent, with 15.7 percent predicting price growth of 5 percent or more. Only 7.7 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 3.1 percent over the next 12 months, decelerating from 4.4 percent and 3.3 percent in the December and March reports, respectively. The NAM added this question in June 2018, and while growth has stabilized from earlier readings, it is clear that raw materials costs are highly elevated.

Figure 1: Manufacturing Business Outlook by Quarter, 2018–2019



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

Figure 2: NAM Manufacturing Outlook Index, 2016–2019

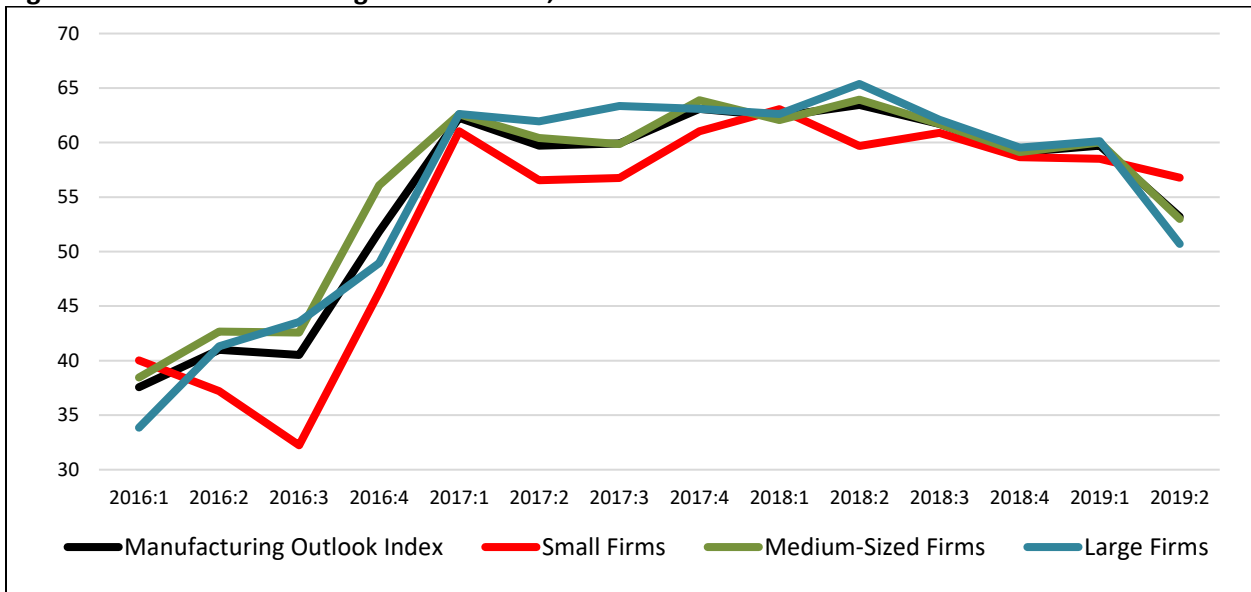
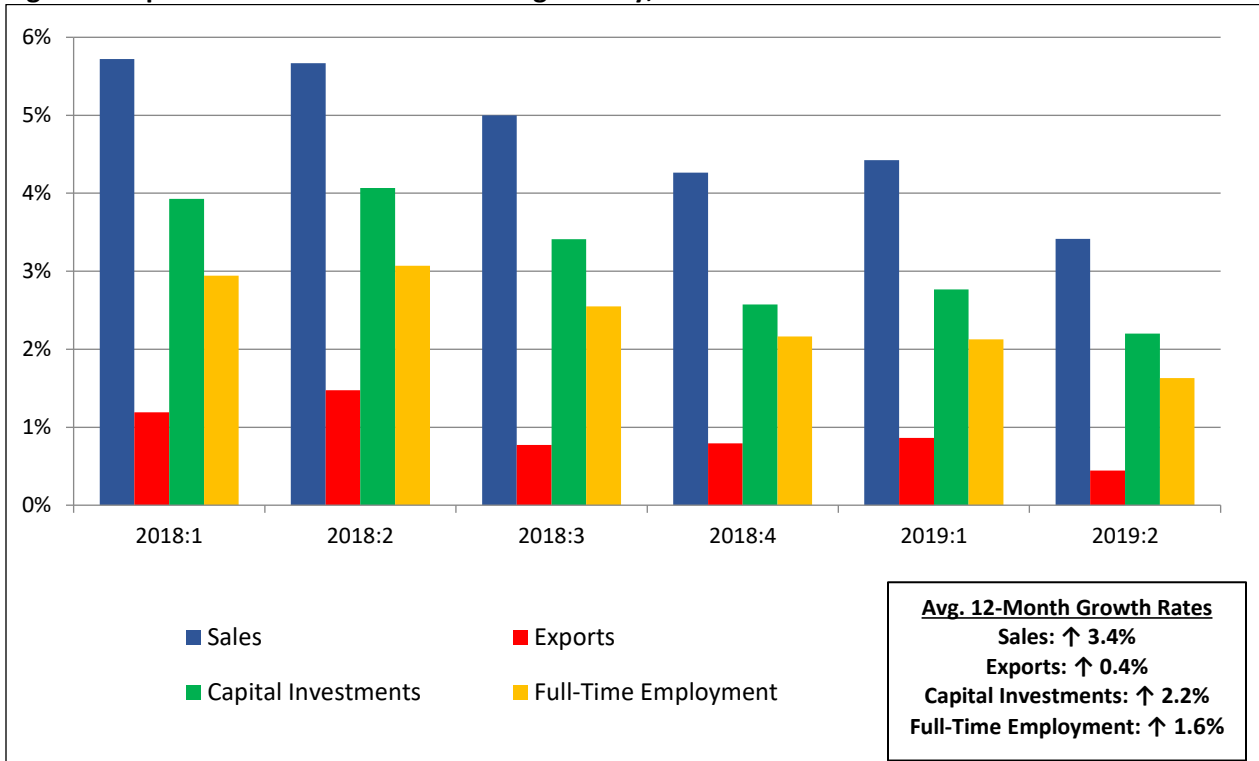


Figure 3: Primary Current Business Challenges, Second Quarter 2019



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

Figure 4: Expected Growth of Manufacturing Activity, 2018–2019



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 – 24.8%
 - b. Somewhat positive – 55.0%
 - c. Somewhat negative – 18.6%
 - d. Very negative – 1.6%

Percentage that is either somewhat or very positive in their outlook = 79.8%

2. Over the next year, what do you expect to happen with your company's overall sales?
 - a. Increase more than 10 percent – 14.6%
 - b. Increase 5 to 10 percent – 25.8%
 - c. Increase up to 5 percent – 26.4%
 - d. Stay about the same – 21.5%
 - e. Decrease up to 5 percent – 5.9%
 - f. Decrease 5 to 10 percent – 3.5%
 - g. Decrease more than 10 percent – 2.3%

Average expected increase in sales consistent with these responses = 3.4%

3. Over the next year, what do you expect to happen with your company's overall production levels?
 - a. Increase more than 10 percent – 13.0%
 - b. Increase 5 to 10 percent – 27.0%
 - c. Increase up to 5 percent – 26.3%
 - d. Stay about the same – 22.9%
 - e. Decrease up to 5 percent – 5.7%
 - f. Decrease 5 to 10 percent – 2.9%
 - g. Decrease more than 10 percent – 2.2%

Average expected increase in production consistent with these responses = 3.4%

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 – 9.1%
 - b. Increase 3 to 5 percent – 7.7%
 - c. Increase up to 3 percent – 9.3%
 - d. Stay about the same – 61.5%
 - e. Decrease up to 3 percent – 3.5%
 - f. Decrease 3 to 5 percent – 3.5%
 - g. Decrease more than 5 percent – 5.3%

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 – 2.6%
 - b. Increase 5 to 10 percent – 13.1%
 - c. Increase up to 5 percent – 43.2%
 - d. Stay about the same – 33.4%
 - e. Decrease up to 5 percent – 5.5%
 - f. Decrease 5 to 10 percent – 1.6%
 - g. Decrease more than 10 percent – 0.6%

Average expected increase in product prices consistent with these responses = 2.0%

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 – 6.7%
 - b. Increase 5 to 10 percent – 20.6%
 - c. Increase up to 5 percent – 45.0%
 - d. Stay about the same – 20.9%
 - e. Decrease up to 5 percent – 6.3%
 - f. Decrease 5 to 10 percent – 0.4%
 - g. Decrease more than 10 percent – 0.2%

Average expected increase in raw material prices consistent with these responses = 3.1%

7. Over the next year, what are your company's capital investment plans?
 - a. Increase more than 10 percent – 14.1%
 - b. Increase 5 to 10 percent – 15.3%
 - c. Increase up to 5 percent – 15.3%
 - d. Stay about the same – 43.1%
 - e. Decrease up to 5 percent – 5.6%
 - f. Decrease 5 to 10 percent – 3.2%
 - g. Decrease more than 10 percent – 3.5%

Average expected increase in capital investments consistent with these responses = 2.2%

8. Over the next year, what are your inventory plans?
 - a. Increase more than 10 percent – 3.8%
 - b. Increase 5 to 10 percent – 6.9%
 - c. Increase up to 5 percent – 12.7%
 - d. Stay about the same – 51.0%
 - e. Decrease up to 5 percent – 14.7%
 - f. Decrease 5 to 10 percent – 7.6%
 - g. Decrease more than 10 percent – 3.4%

Average expected increase in inventories consistent with these responses = -0.1%

9. Over the next year, what do you expect in terms of full-time employment in your company?
 - a. Increase more than 10 percent – 3.9%
 - b. Increase 5 to 10 percent – 12.4%
 - c. Increase up to 5 percent – 32.8%
 - d. Stay about the same – 40.3%
 - e. Decrease up to 5 percent – 6.7%
 - f. Decrease 5 to 10 percent – 2.0%
 - g. Decrease more than 10 percent – 1.9%

Average expected increase in full-time employment consistent with these responses = 1.6%

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 – 5.5%
 - b. Increase 3 to 5 percent – 31.5%
 - c. Increase up to 3 percent – 50.4%
 - d. Stay about the same – 12.1%
 - e. Decrease up to 3 percent – 0.3%

- 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 = 2.3%

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 – 4.7%
 - b. Increase 10.0 to 14.9 percent – 15.8%
 - c. Increase 5.0 to 9.9 percent – 44.2%
 - d. Increase less than 5.0 percent – 22.5%
 - e. No change – 7.7%
 - f. Decrease less than 5.0 percent – 1.2%
 - g. Decrease 5.0 percent or more – 0.3%
 - h. Uncertain – 3.6%

Average expected increase in health insurance costs consistent with these responses = 6.5%

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 – 31.4%
 - b. Weaker global growth and slower export sales – 21.5%
 - c. Trade uncertainties (e.g., actual or proposed tariffs, trade negotiation uncertainty) – 56.0%
 - d. Strengthened U.S. dollar relative to other currencies – 16.8%
 - e. Challenges with access to capital or other forms of financing – 3.9%
 - f. Unfavorable business climate (e.g., taxes, regulations) – 20.0%
 - g. Increased raw material costs – 46.4%
 - h. Rising health care/insurance costs – 55.6%
 - i. Transportation and logistics costs – 26.1%
 - j. Attracting and retaining a quality workforce – 68.8%

13. What is your company's primary industrial classification?
- a. Chemicals – 5.3%
 - b. Computer and electronic products – 1.8%
 - c. Electrical equipment and appliances – 5.1%
 - d. Fabricated metal products – 29.6%
 - e. Food manufacturing – 2.3%
 - f. Furniture and related products – 1.6%
 - g. Machinery – 12.7%
 - h. Nonmetallic mineral products – 2.0%
 - i. Paper and paper products – 2.5%
 - j. Petroleum and coal products – 1.2%
 - k. Plastics and rubber products – 6.1%
 - l. Primary metals – 3.2%
 - m. Transportation equipment – 4.4%
 - n. Wood products – 2.2%
 - o. Other – 20.1%

14. What is your firm size (i.e., the parent company, not your establishment)?
- a. Fewer than 50 employees – 22.0%
 - b. 50 to 499 employees – 49.3%
 - c. 500 or more employees – 28.7%

SPECIAL QUESTIONS

15. How important is it for your company to have the new United States–Mexico–Canada (USMCA) Trade Agreement approved?
- Very important – 34.0%
 - Somewhat important – 46.0%
 - Not important – 15.5%
 - Uncertain – 4.4%
16. 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?
- Yes – 8.5%
 - No – 74.5%
 - Uncertain – 17.0%
17. Would passage of a major infrastructure bill positively impact your company’s business plans and outlook?
- Yes – 55.3%
 - No – 19.8%
 - Uncertain – 24.9%
18. Is a reformed immigration system that better meets the needs of employers in the United States one way to address ongoing workforce challenges?
- Yes – 78.2%
 - No – 7.5%
 - Uncertain – 14.4%
19. 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 = 35.4%*
20. 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?
- Yes – 68.5%
 - No – 31.5%
21. If Congress rolled back business provisions of the Tax Cuts and Jobs Act, would your business consider scaling back employment in the United States?
- Yes – 54.1%
 - No – 45.9%
22. 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?
- Yes – 60.6%
 - No – 39.4%