

NAM MANUFACTURERS' OUTLOOK SURVEY
SECOND QUARTER 2020
MAY 28, 2020

<p style="text-align: center;">Percentage of Respondents Positive About Their Own Company's Outlook</p> <p style="text-align: center;">33.9%</p> <p style="text-align: center;">Lowest since Q1:2009 <i>(March: 75.6%)</i></p> <p>Small Manufacturers: 42.4% <i>(March: 78.3%)</i> Medium-Sized Manufacturers: 27.4% <i>(March: 82.0%)</i> Large Manufacturers: 22.5% <i>(March: 63.6%)</i></p>	<p style="text-align: center;">Overall Facts About the Survey</p> <p>Number of Responses: 604 In the Field: May 4 to 15, 2020</p> <p>Small Manufacturers: 139 responses Medium-Sized Manufacturers: 278 responses Large Manufacturers: 187 responses</p> <hr/> <p style="text-align: center;">NAM Manufacturing Outlook Index¹</p> <p style="text-align: center;">23.3</p> <p style="text-align: center;">Lowest since Q1:2009 <i>(March: 50.8 – revised)</i></p>
<p style="text-align: center;">Expected Growth Rate for <u>SALES</u> Over the Next 12 Months</p> <p style="text-align: center;">↓ 4.3% — Lowest since Q1:2009 <i>(March: ↑ 2.9%)</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;">↓ 3.8% — Lowest since question was added Q2:2015 <i>(March: ↑ 2.8%)</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;">↓ 2.2% — Lowest since Q1:2009 <i>(March: ↑ 1.1%)</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;">↑ 0.5% — Lowest since Q2:2009 <i>(March: ↑ 2.1%)</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;">↓ 2.5% — Lowest since Q1:2009 <i>(March: ↑ 1.9%)</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;">↓ 1.4% — Lowest since question was added Q2:2011 <i>(March: ↑ 0.5%)</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;">↓ 0.1% — Lowest since Q1:2009 <i>(March: ↑ 1.5%)</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;">↑ 0.9% — Lowest since question was added Q2:2018 <i>(March: ↑ 1.8%)</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;">↓ 2.8% — Lowest since Q2:2009 <i>(March: ↓ 0.3%)</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;">↑ 5.7% — Lowest since question was added Q3:2014 <i>(March: ↑ 6.2%)</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 74.5%, with a standard deviation of 15.2%. 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 (89.7% positive). In essence, the index helps to normalize the outlook data to put them into a historical context.

Summary

Manufacturers have been severely challenged by demand and business disruptions due to the COVID-19 pandemic and the resulting recession. The declines in overall economic activity have been jaw-dropping, and production in the manufacturing sector fell 18.5% between February and April, while employment declined by at least 1.3 million. Against that difficult backdrop, the National Association of Manufacturers conducted the quarterly Manufacturers' Outlook Survey from May 4 to 15. Despite finding levels of sentiment rivaling the Great Recession, the survey also found that operations continue at the vast majority of manufacturing firms.

In the second quarter of 2020, 33.9% of manufacturing respondents reported a positive outlook for their company (Figures 1 and 2), the lowest reading since the first quarter of 2009 and down from 75.6% in the previous survey. Overall, the data reflect a sector that is experiencing its worst contraction since the Great Recession—a finding that mirrors other economic indicators.

Nevertheless, manufacturers have continued to operate through the crisis (Figure 3). The vast majority have continued operations (67.1%) or temporarily halted only part of their operations (31.6%). Among large manufacturers, 50.8% are completely operational, while roughly 73% of small and medium-sized firms state the same.

Manufacturers have also adapted, with almost 22% retooling to produce personal protective equipment, 67% reengineering processes to reflect COVID-19 safety protocols and 12% completely reimagining the mission of the firm.

Weak domestic demand was the top primary business challenge in the second quarter (83.1%), supplanting the inability to attract and retain talent (41%), which had been the top concern for 10 consecutive quarters (Figure 4). Rising health care and insurance costs (49.6%), weaker global growth and slower export sales (41.6%) and access to COVID-19 testing and adequate PPE materials (40%) were also top-of-mind among manufacturing business leaders.

Despite moving workforce concerns out of the top spot, respondents continue to expect struggles in identifying workers over the longer term, especially as more Americans retire. Indeed, 50.5% of manufacturing leaders anticipate that difficulties in attracting and retaining employees will continue to be a challenge over the next 12 to 18 months once the COVID-19 crisis abates (Figure 5).

Respondents were asked about the specific ways that COVID-19 impacted their businesses (Figure 6). More than 86% said that they had limited business travel, and 78.3% have required flexible work arrangements. Other top responses included disrupted supply chains (59.5%), unplanned production stops (49.6%), the furloughing of some workers (39.8%) and pay cuts for some workers (22.2%).

The Coronavirus Aid, Relief and Economic Security (CARES) Act included several provisions to provide liquidity support for businesses and encourage the retention of employees. The most utilized provision was the Paycheck Protection Program loan, which was cited by 61.2% of respondents (Figure 7). For small and medium-sized businesses, the PPP utilization rates were 84.9% and 75.9%, respectively.

Almost 77% of manufacturers said that they were reevaluating what work could be done remotely where possible (Figure 8). This is a notable finding given the difficulties that many manufacturers would

face in moving tasks away from the shop floor. Yet it speaks to the need to rethink operations. In fact, two-thirds of respondents said that the COVID-19 outbreak will likely force them to reengineer the production process or operations with “social distancing” in mind.

The NAM Manufacturing Outlook Index measured 23.3 in the second quarter, off sharply from 50.8 in the first quarter (Figure 9). Index readings less than 50 are consistent with an outlook that is below the survey’s historical average (74.5% positive). The latest data suggest the current outlook is 2.67 standard deviations below the historic average.

Firm size was once again a major factor in explaining a manufacturer’s outlook. Just 22.5% of large manufacturers (i.e., those with 500 or more employees) were positive about their company’s outlook, with 26.2% of respondents saying that they were very negative. In contrast, 42.4% of small firms (i.e., those with fewer than 50 employees) had a positive outlook, with 17.3% reporting a very negative outlook. Medium-sized businesses (i.e., those with 50 to 499 employees) had 37.4% who had a positive outlook, with 19.4% being very negative.

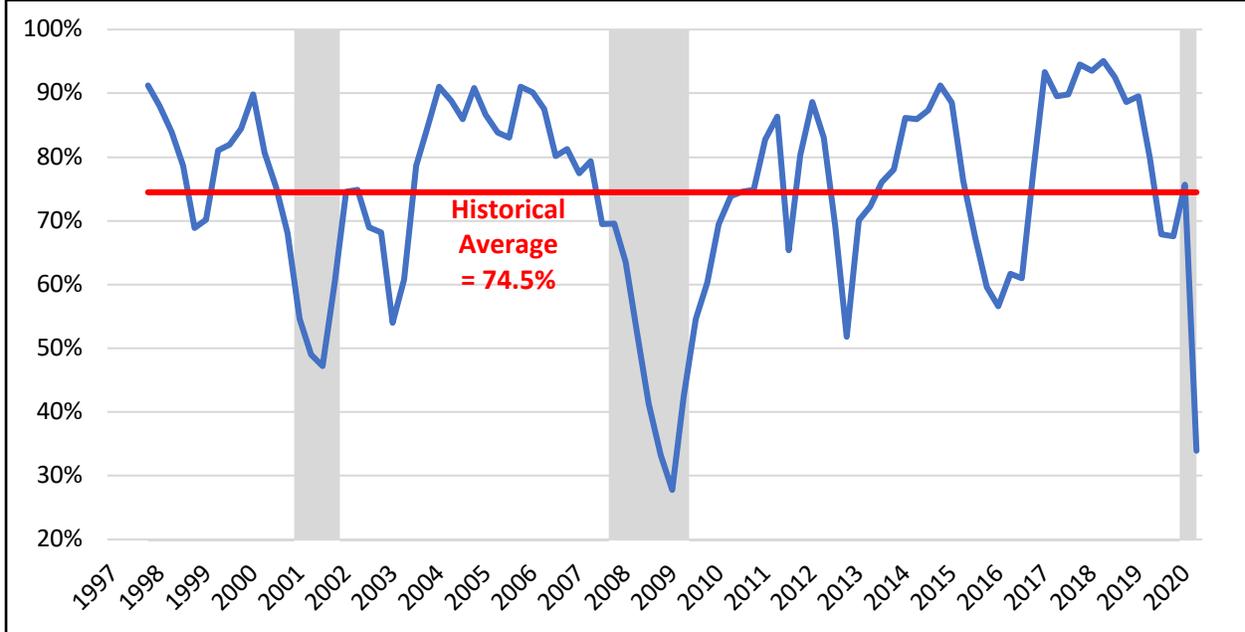
The following are some highlights of the current survey in terms of predicted activity growth over the next year (Figure 10):

- **Sales:** Respondents expect sales to decline 4.3% over the next 12 months, the worst reading since the first quarter of 2009. Two-thirds of manufacturers predict sales declining over the next year, with 39.4% anticipating sales decreases of more than 10%. Large firms anticipate sales falling by 4.9%, whereas small and medium-sized manufacturers forecast a 4% decline.
- **Production:** Likewise, production is expected to fall 3.8% over the next 12 months, the lowest reading since the question was added in the second quarter of 2015. Nearly 64% forecast output declines over the coming months, with 33.8% seeing declines of more than 10%. Large firms were the most pessimistic, anticipating a 4.5% decrease in production. In contrast, small and medium-sized manufacturers expect production to decline 3.4% over the next year.
- **Full-Time Employment:** Respondents expect full-time employment to decrease by 2.2% over the next 12 months, the weakest reading since the first quarter of 2009. In the latest figures, 14.5% of manufacturers anticipate more hiring over the coming months, with 46.9% predicting declines and 38.6% forecasting employment to remain the same. The declines are expected to be bigger for large manufacturers, down 3.2%, versus predicted employment losses of 1.3% and 2% for small and medium-sized firms, respectively.
- **Employee Wages:** Respondents anticipate employee wages (excluding nonwage compensation, such as benefits) to rise 0.5% over the next 12 months, the slowest pace since the second quarter of 2009 and down from 2.1% in the previous survey. Just over 30% see wages rising by up to 3%, with 45.3% expecting no changes.
- **Capital Investments:** Respondents expect a decline of 2.5% in capital investments over the next 12 months, the worst reading since the first quarter of 2009. Roughly 47% of manufacturers anticipate reduced capital spending in the next year, with 33.7% expecting no change and 19.4% forecasting more capital expenditures. The declines are expected to be bigger for large manufacturers, down 3.7%, versus reduced capital investments of 1.6% and 2.2% for small and

medium-sized firms, respectively.

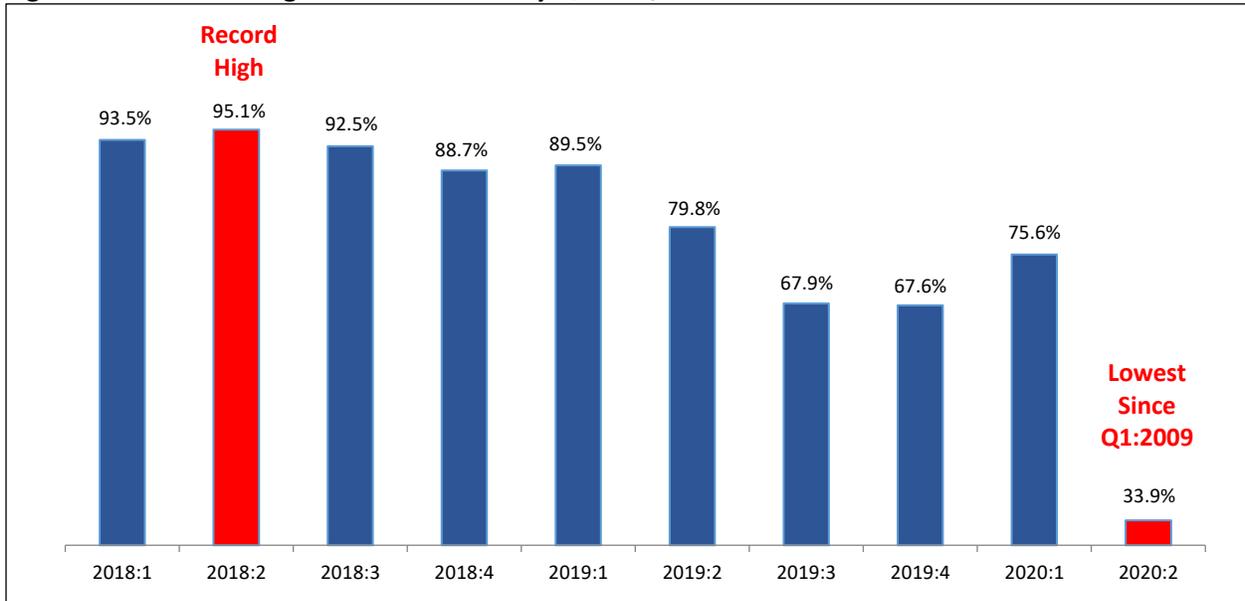
- **Exports:** Respondents expect exports to decrease by 1.4% over the next 12 months, the lowest reading since the question was added in the second quarter of 2011. Almost 40% anticipate falling exports over the next year, with 50.9% seeing no changes.
- **Product Prices:** Respondents expect product prices to edge down by 0.1% over the next 12 months, which would be consistent with weak demand. As with most of the other indicators, it was the lowest since the first quarter of 2009.
- **Raw Material Prices:** Manufacturers anticipate raw material prices and other input costs rising 0.9% over the next 12 months, the lowest rate since the question was added in June 2018.
- **Inventories:** Respondents felt that inventories would decline 2.8% over the next 12 months, falling for the fifth consecutive quarter and the worst reading since the second quarter of 2009. In this report, 53.5% of manufacturers anticipate reduced inventories over the next year, with 14% expecting increases and 32.4% seeing no changes. The reduction in inventories over the past year means that stockpiles are becoming depleted, and if demand accelerates, that should necessitate additional production.
- **Health Insurance Costs:** Manufacturers predict that health insurance costs will rise by 5.7% over the next 12 months, down from 6.2% in the previous survey. It was the lowest rate of growth since the question was added in the third quarter of 2014. However, 53.6% expect costs to rise by 5% or more and 19% see them rising by 10% or more.

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



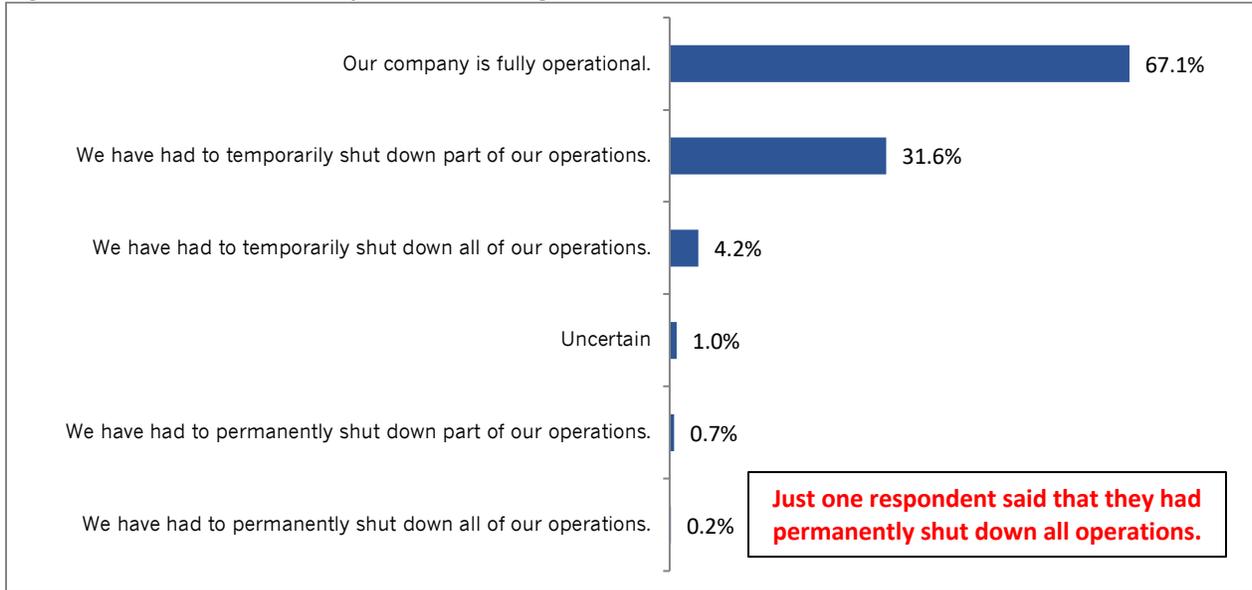
Note: Percentage of respondents who characterized the current business outlook as somewhat or very positive. The National Bureau of Economic Research has not officially dated the latest recession, which likely began in either February or March.

Figure 2: Manufacturing Business Outlook by Quarter, 2018–2020



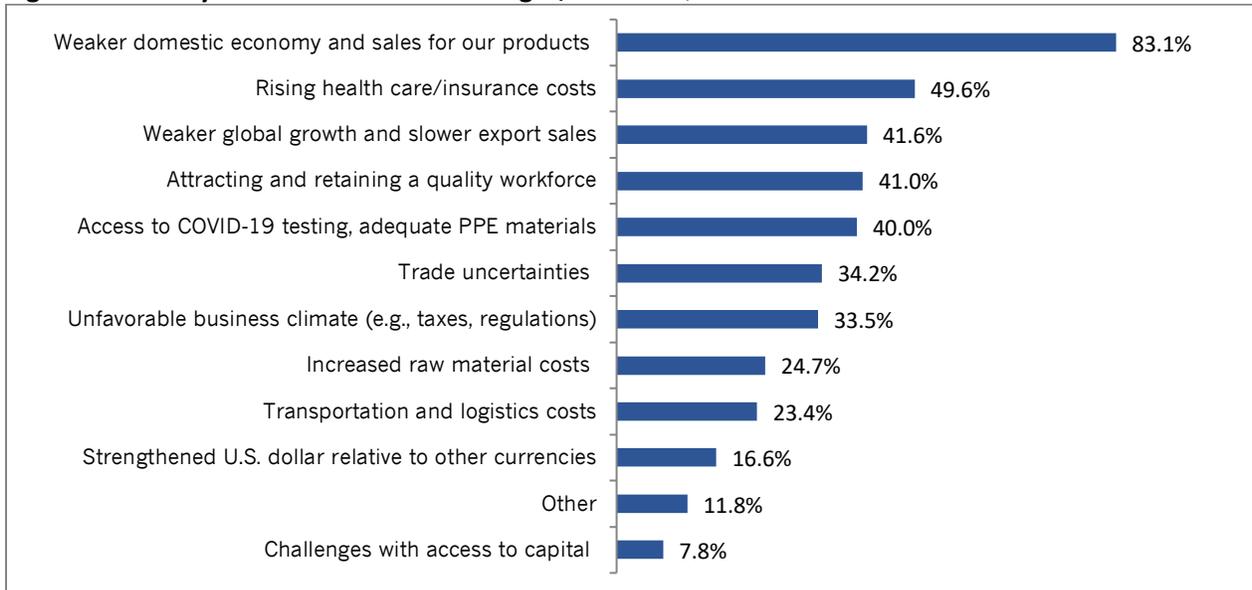
Note: Percentage of respondents who characterized the current business outlook as somewhat or very positive.

Figure 3: Current Status of Operations during COVID-19 Outbreak, Second Quarter



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

Figure 4: Primary Current Business Challenges, Second Quarter 2020



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

Figure 5: Will Difficulties in Attracting and Retaining Workers Continue to Be a Challenge over the Next 12 to 18 Months? (Second Quarter)

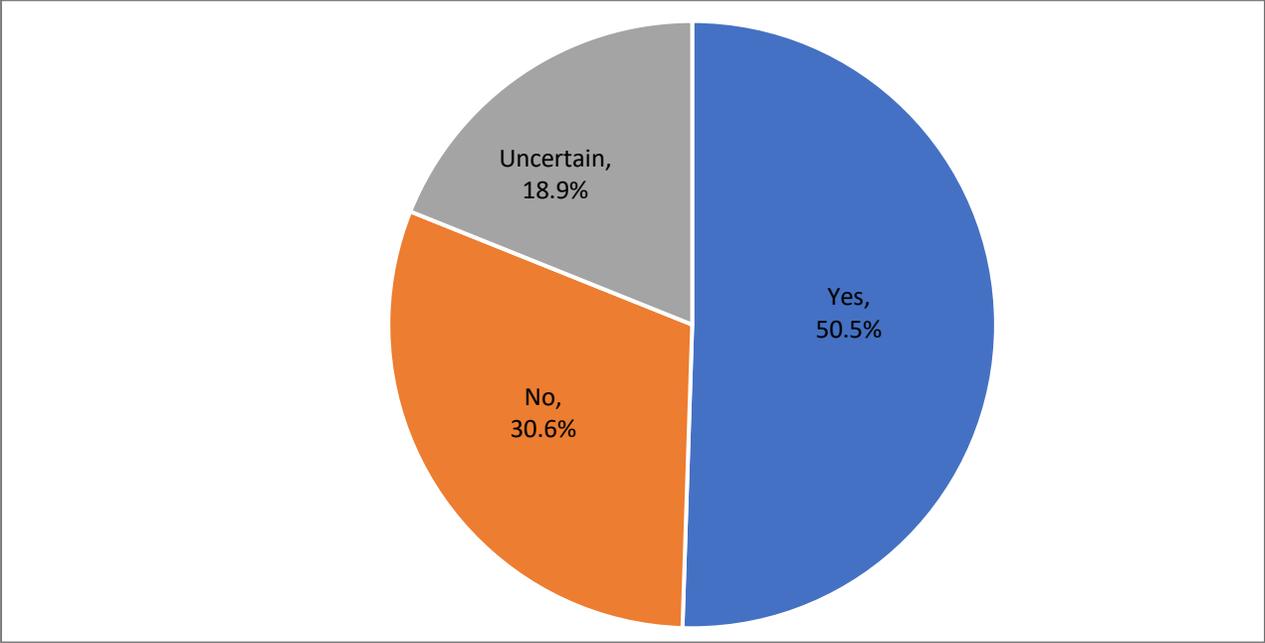
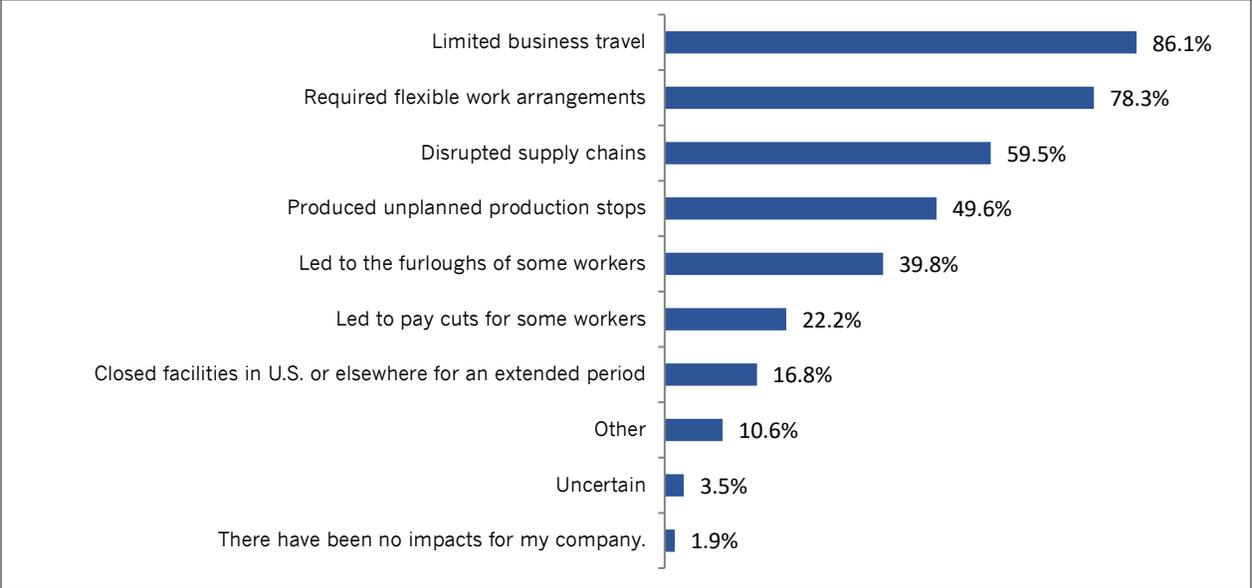
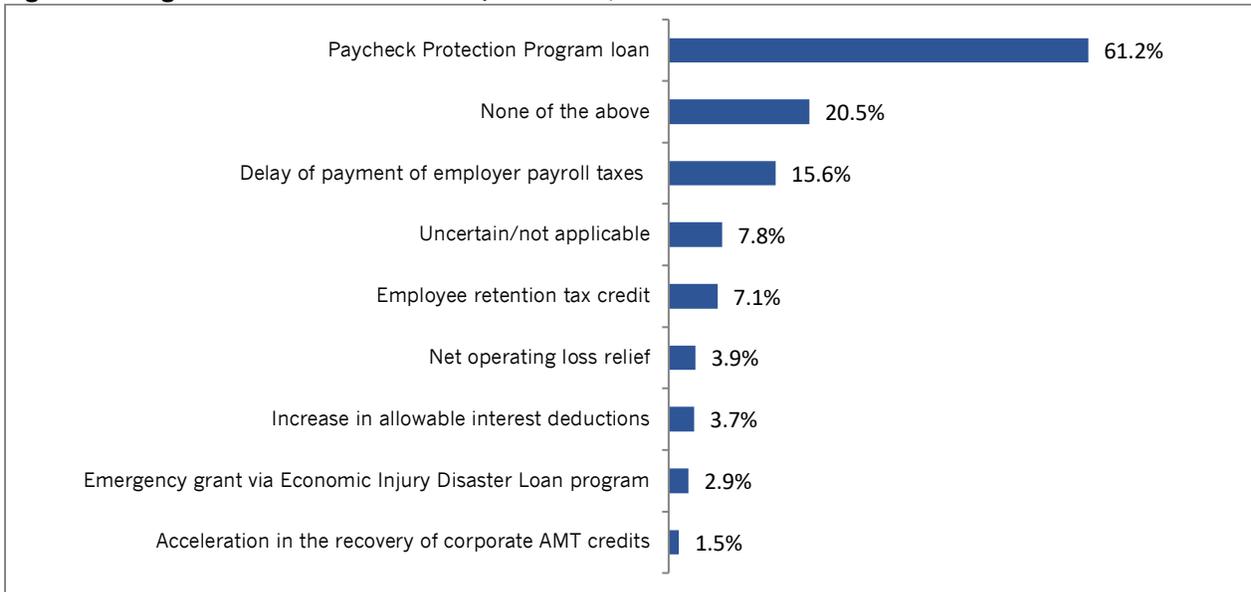


Figure 6: COVID-19 Outbreak Business Impacts, Second Quarter



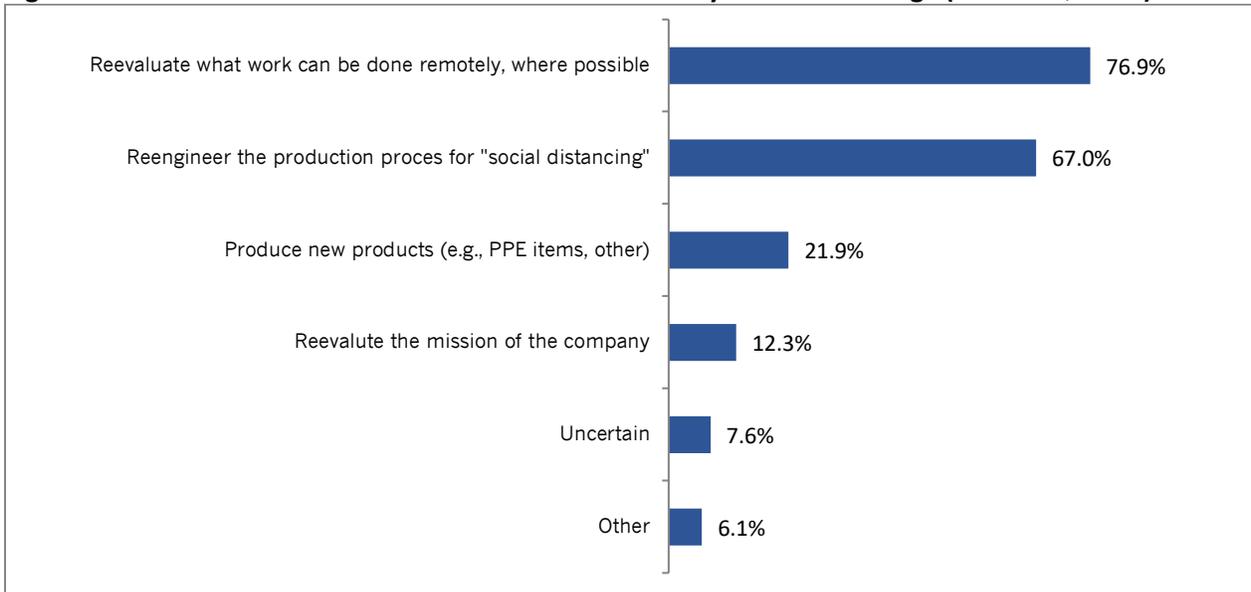
Note: Respondents were able to check more than one response; therefore, responses exceed 100%.

Figure 7: Usage of CARES Act Provisions, Second Quarter



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

Figure 8: Has the COVID-19 Outbreak Forced You to Do Any of the Following? (Second Quarter)



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

Figure 9: NAM Manufacturing Outlook Index, 2016–2020

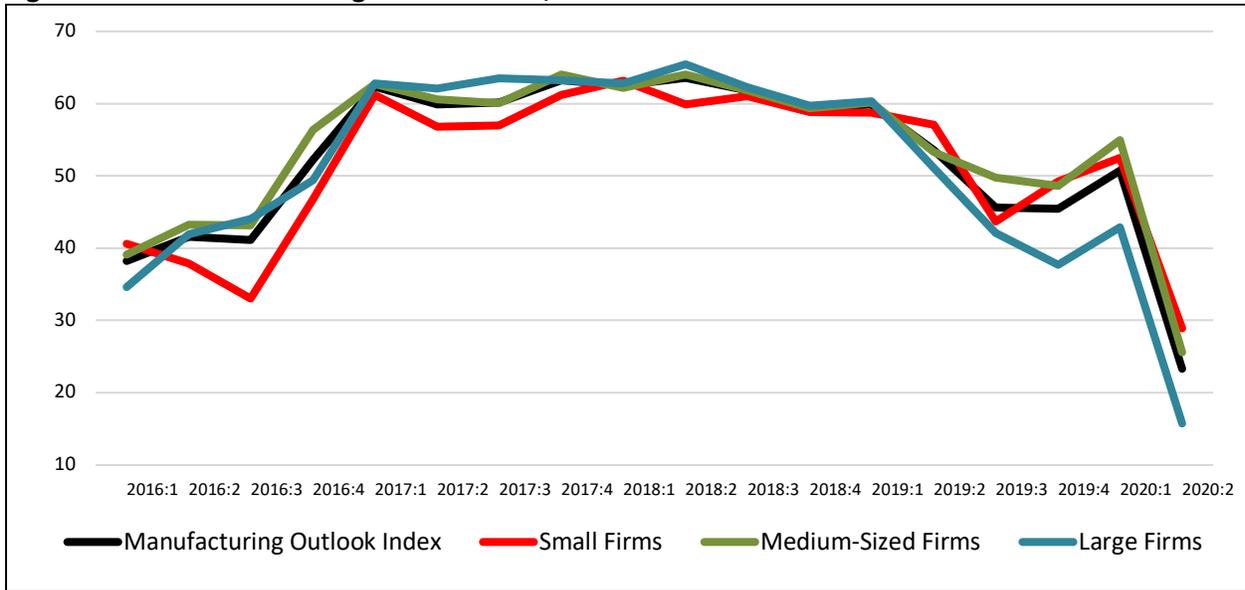
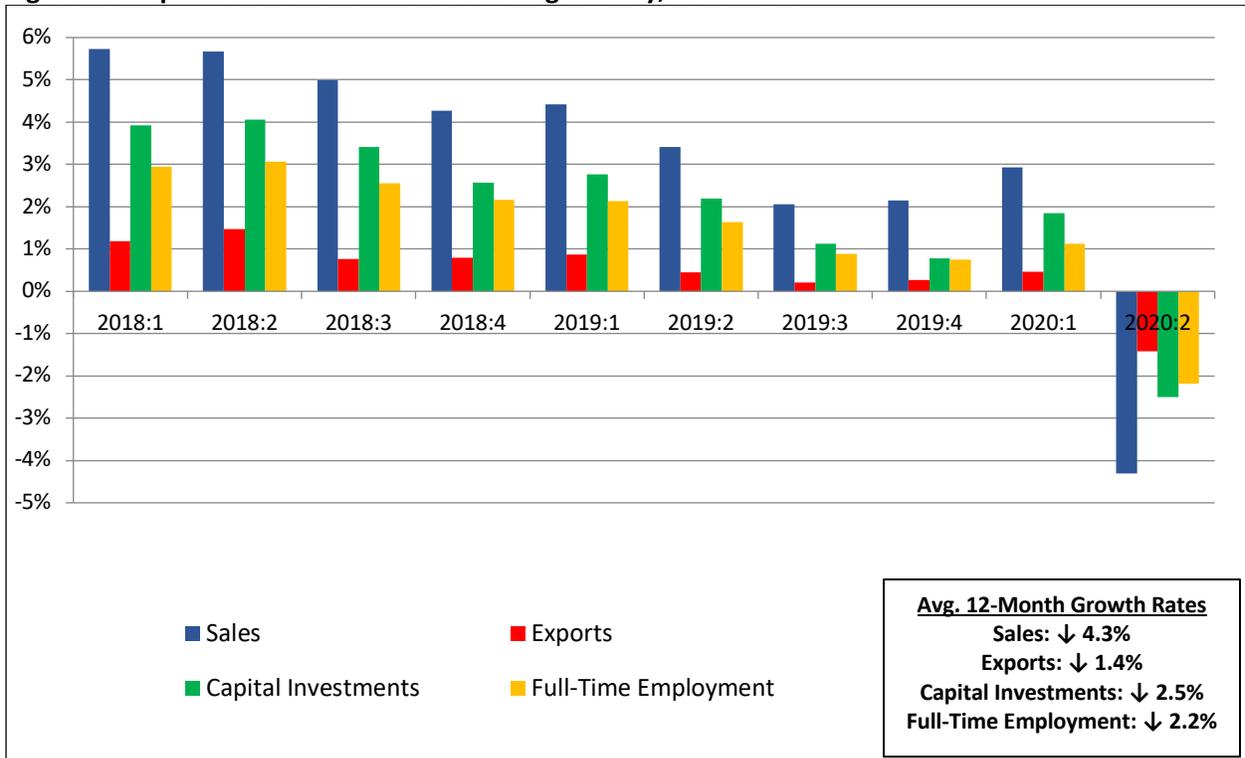


Figure 10: Expected Growth of Manufacturing Activity, 2018–2020



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 – 6.9%
 - b. Somewhat positive – 27.0%
 - c. Somewhat negative – 45.0%
 - d. Very negative – 21.0%

Percentage that is either somewhat or very positive in their outlook = 33.9%

2. Over the next year, what do you expect to happen with your company's overall sales?
 - a. Increase more than 10 percent – 5.2%
 - b. Increase 5 to 10 percent – 6.2%
 - c. Increase up to 5 percent – 9.4%
 - d. Stay about the same – 11.5%
 - e. Decrease up to 5 percent – 11.0%
 - f. Decrease 5 to 10 percent – 17.4%
 - g. Decrease more than 10 percent – 39.4%

Average expected increase in sales consistent with these responses = -4.3%

3. Over the next year, what do you expect to happen with your company's overall production levels?
 - a. Increase more than 10 percent – 5.5%
 - b. Increase 5 to 10 percent – 6.5%
 - c. Increase up to 5 percent – 10.6%
 - d. Stay about the same – 13.7%
 - e. Decrease up to 5 percent – 11.1%
 - f. Decrease 5 to 10 percent – 18.8%
 - g. Decrease more than 10 percent – 33.8%

Average expected increase in production consistent with these responses = -3.8%

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 – 2.2%
 - b. Increase 3 to 5 percent – 3.9%
 - c. Increase up to 3 percent – 3.6%
 - d. Stay about the same – 50.9%
 - e. Decrease up to 3 percent – 4.4%
 - f. Decrease 3 to 5 percent – 8.6%
 - g. Decrease more than 5 percent – 26.4%

Average expected increase in exports consistent with these responses = -1.4%

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 – 1.0%
 - b. Increase 5 to 10 percent – 4.3%
 - c. Increase up to 5 percent – 23.2%
 - d. Stay about the same – 48.6%
 - e. Decrease up to 5 percent – 14.0%
 - f. Decrease 5 to 10 percent – 6.8%
 - g. Decrease more than 10 percent – 2.0%

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

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 – 2.0%
 - b. Increase 5 to 10 percent – 12.2%
 - c. Increase up to 5 percent – 29.2%
 - d. Stay about the same – 33.3%
 - e. Decrease up to 5 percent – 16.6%
 - f. Decrease 5 to 10 percent – 5.5%
 - g. Decrease more than 10 percent – 1.2%

Average expected increase in raw material prices consistent with these responses = 0.9%

7. Over the next year, what are your company's capital investment plans?
 - a. Increase more than 10 percent – 5.0%
 - b. Increase 5 to 10 percent – 5.9%
 - c. Increase up to 5 percent – 8.5%
 - d. Stay about the same – 33.7%
 - e. Decrease up to 5 percent – 9.9%
 - f. Decrease 5 to 10 percent – 11.4%
 - g. Decrease more than 10 percent – 25.6%

Average expected increase in capital investments consistent with these responses = -2.5%

8. Over the next year, what are your inventory plans?
 - a. Increase more than 10 percent – 2.0%
 - b. Increase 5 to 10 percent – 3.3%
 - c. Increase up to 5 percent – 8.7%
 - d. Stay about the same – 32.4%
 - e. Decrease up to 5 percent – 19.6%
 - f. Decrease 5 to 10 percent – 15.7%
 - g. Decrease more than 10 percent – 18.2%

Average expected increase in inventories consistent with these responses = -2.8%

9. Over the next year, what do you expect in terms of full-time employment in your company?
 - a. Increase more than 10 percent – 1.8%
 - b. Increase 5 to 10 percent – 3.7%
 - c. Increase up to 5 percent – 9.0%
 - d. Stay about the same – 38.6%
 - e. Decrease up to 5 percent – 20.4%
 - f. Decrease 5 to 10 percent – 12.0%
 - g. Decrease more than 10 percent – 14.5%

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

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 – 2.0%
 - b. Increase 3 to 5 percent – 9.8%
 - c. Increase up to 3 percent – 30.3%
 - d. Stay about the same – 45.3%
 - e. Decrease up to 3 percent – 4.3%

- f. Decrease 3 to 5 percent – 3.8%
- g. Decrease more than 5 percent – 4.3%

Average expected increase in employee wages consistent with these responses = 0.5%

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 – 5.8%
 - b. Increase 10.0 to 14.9 percent – 13.2%
 - c. Increase 5.0 to 9.9 percent – 34.6%
 - d. Increase less than 5.0 percent – 24.7%
 - e. No change – 14.5%
 - f. Decrease less than 5.0 percent – 1.8%
 - g. Decrease 5.0 percent or more – none
 - h. Uncertain – 5.3%

Average expected increase in health insurance costs consistent with these responses = 5.7%

12. What are the biggest challenges you are facing right now? (Check all that apply.)
- a. Weaker domestic economy and sales for our products to U.S. customers – 83.1%
 - b. Weaker global growth and slower export sales – 41.6%
 - c. Trade uncertainties (e.g., actual or proposed tariffs, trade negotiation uncertainty) – 34.2%
 - d. Strengthened U.S. dollar relative to other currencies – 16.6%
 - e. Challenges with access to capital or other forms of financing – 7.8%
 - f. Unfavorable business climate (e.g., taxes, regulations) – 33.5%
 - g. Increased raw material costs – 24.7%
 - h. Rising health care/insurance costs – 49.6%
 - i. Transportation and logistics costs – 23.4%
 - j. Attracting and retaining a quality workforce – 41.0%
 - k. Challenges with access to COVID-19 testing and adequate personal protection equipment (PPE) materials – 40.0%
 - l. Other – 11.8%

13. What is your company's primary industrial classification?
- a. Chemicals – 4.3%
 - b. Computer and electronic products – 2.5%
 - c. Electrical equipment and appliances – 6.3%
 - d. Fabricated metal products – 29.2%
 - e. Food manufacturing – 2.2%
 - f. Furniture and related products – 1.5%
 - g. Machinery – 11.3%
 - h. Nonmetallic mineral products – 1.8%
 - i. Paper and paper products – 3.0%
 - j. Petroleum and coal products – 1.3%
 - k. Plastics and rubber products – 6.5%
 - l. Primary metals – 2.0%
 - m. Transportation equipment – 5.0%
 - n. Wood products – 2.3%
 - o. Other – 20.9%

14. What is your firm size (i.e., the parent company, not your establishment)?
- a. Fewer than 50 employees – 22.9%
 - b. 50 to 499 employees – 46.1%
 - c. 500 or more employees – 31.0%

SPECIAL QUESTIONS

15. Given the COVID-19 outbreak, which of the following best describes your current operations in the United States? (Select all that apply.)
- a. Our company is fully operational – 67.1%
 - b. We have had to temporarily shut down **part** of our operations – 31.6%
 - c. We have had to temporarily shut down **all** of our operations – 4.2%
 - d. We have had to permanently shut down **part** of our operations – 0.7%
 - e. We have had to permanently shut down **all** of our operations – 0.2%
 - f. Uncertain – 1.0%
16. Has the COVID-19 outbreak had any of the following impacts on your business? (Select all that apply.)
- a. Disrupted supply chains – 59.5%
 - b. Produced unplanned production stops – 49.6%
 - c. Closed facilities in the United States or elsewhere for an extended period – 16.8%
 - d. Led to the furloughs of some workers – 39.8%
 - e. Required flexible work arrangements – 78.3%
 - f. Led to pay cuts for some workers – 22.2%
 - g. Limited business travel – 86.1%
 - h. Other – 10.6%
 - i. There have been no impacts for my company – 1.9%
 - j. Uncertain – 3.5%
17. The Coronavirus Aid, Relief and Economic Security (CARES) Act included several provisions to provide liquidity support for businesses and encourage the retention of employees. Have you used one or more of these provisions? (Select all that apply.)
- a. Paycheck Protection Program loan – 61.2%
 - b. Emergency grant via the Economic Injury Disaster Loan program – 2.9%
 - c. Employee retention tax credit – 7.1%
 - d. Delay of payment of employer payroll taxes – 15.6%
 - e. Net operating loss relief – 3.9%
 - f. Increase in allowable interest deductions – 3.7%
 - g. Acceleration in the recovery of corporate AMT credits – 1.5%
 - h. None of the above – 20.5%
 - i. Uncertain/not applicable – 7.8%
18. Has the COVID-19 outbreak forced you to do any of the following? (Select all that apply.)
- a. Reevaluate the mission of the company – 12.3%
 - b. Produce new products or services (e.g., PPE items) – 21.9%
 - c. Reengineer the production process or operations with “social distancing” in mind – 67.0%
 - d. Reevaluate what work can be done remotely, where possible – 76.9%
 - e. Other – 6.1%
 - f. Uncertain – 7.6%
19. Manufacturers have cited the inability to find talent as their top concern for the past two years. Obviously, the labor market landscape has changed dramatically in the past few weeks, but do you anticipate difficulties in attracting and retaining workers to once again resurface over the next 12 to 18 months once the COVID-19 crisis abates?
- a. Yes – 50.5%
 - b. No – 30.6%
 - c. Uncertain – 18.9%