

NAM MANUFACTURERS' OUTLOOK SURVEY

THIRD QUARTER 2023

Sept. 13, 2023

By Chad Moutray and Mary Frances Holland¹

<p>Percentage of Respondents Positive About Their Own Company's Outlook</p> <p>65.1% – Lowest Since Q2 2020 (or Q3 2016 Excluding the Pandemic) (June: 67.0%)</p> <p>Small Manufacturers: 63.6% (June: 67.2%)</p> <p>Medium-Sized Manufacturers: 62.9% (June: 68.6%)</p> <p>Large Manufacturers: 68.3% (June: 64.8%)</p>	<p>Overall Facts About the Survey</p> <p>Number of Responses: 323* In the Field: Aug. 17–31, 2023</p> <p>Small Manufacturers: 53 responses (16.4%) Medium-Sized Manufacturers: 143 responses (44.3%) Large Manufacturers: 126 responses (39.0%) * One respondent did not state firm size.</p> <hr/> <p>NAM Manufacturing Outlook Index²</p> <p style="text-align: center;">43.3</p> <p style="text-align: center;">(June: 44.6 – Revised)</p>
<p>Expected Growth Rate for <u>SALES</u> Over the Next 12 Months</p> <p style="text-align: center;">↑ 2.0% (June: ↑ 1.6%)</p>	<p>Expected Growth Rate for <u>PRODUCTION</u> Over the Next 12 Months</p> <p style="text-align: center;">↑ 2.0% (June: ↑ 1.6%)</p>
<p>Expected Growth Rate for <u>FULL-TIME EMPLOYMENT</u> Over the Next 12 Months</p> <p style="text-align: center;">↑ 0.9% – Lowest Since Q3 2020 (or Q4 2019 Excluding the Pandemic) (June: ↑ 1.0%)</p>	<p>Expected Growth Rate for <u>EMPLOYEE WAGES</u> Over the Next 12 Months</p> <p style="text-align: center;">↑ 2.7% – Lowest Since Q1 2021 (June: ↑ 2.9%)</p>
<p>Expected Growth Rate for <u>CAPITAL INVESTMENTS</u> Over the Next 12 Months</p> <p style="text-align: center;">↑ 1.2% – Lowest Since Q3 2020 (or Q4 2019 Excluding the Pandemic) (June: ↑ 1.3%)</p>	<p>Expected Growth Rate for <u>EXPORTS</u> Over the Next 12 Months</p> <p style="text-align: center;">↑ 0.3% (June: ↑ 0.2%)</p>
<p>Expected Growth Rate for <u>PRICES OF COMPANY'S PRODUCTS</u> Over the Next 12 Months</p> <p style="text-align: center;">↑ 1.7% – Lowest Since Q3 2020 (June: ↑ 1.9%)</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;">↑ 2.1% – Remaining the Lowest Since Q3 2020 (June: ↑ 2.1%)</p>
<p>Expected Growth Rate for <u>INVENTORIES</u> Over the Next 12 Months</p> <p style="text-align: center;">↓ 1.8% (June: ↓ 2.0%)</p>	<p>Expected Growth Rate for <u>HEALTH INSURANCE COSTS</u> Over the Next 12 Months</p> <p style="text-align: center;">↑ 7.2% (June: ↑ 7.0%)</p>

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² 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 average for those with positive responses in their outlook is 74.9%, with a standard deviation of 14.6%. An index reading of 40 would be consistent with one standard deviation below the mean (60.3% positive), and an index reading of 60 would be one standard deviation above the mean (89.5% positive). As such, the index helps to normalize the outlook data to put them into a historical context.

Summary of Findings

- **Manufacturing sentiment hit a post-pandemic low, or the lowest in seven years if the pandemic were excluded.**³ The NAM conducted the Manufacturers' Outlook Survey for the third quarter of 2023 from Aug. 17 to 31, and 65.1% of respondents felt either somewhat or very positive in their company's outlook, edging down from 67.0% in the second quarter (Figures 1 and 2). It was the fourth straight reading below the historical average (74.9%). The NAM Manufacturing Outlook Index measured 43.3 in the third quarter, down from 44.6 in the second quarter.
- **Fewer respondents expect a recession in the next year than three months ago, with roughly one-third uncertain.** Roughly 42% of manufacturers believed that the U.S. economy would experience a recession over the next 12 months, or through Q3 2024 (Figure 3). This is down from the nearly 57% of respondents who were expecting a recession last quarter. Now, 27.5% felt that the economy would avoid a recession, with 30.3% uncertain.
- **Workforce challenges continue to dominate.** More than 72% of manufacturers cited the inability to attract and retain employees as their top primary challenge (Figure 4), followed by a weaker domestic economy (60.7%), rising health care costs (60.1%) and an unfavorable business climate (56.7%). It continues to be notable that inflation (45.5%) and supply chain (37.8%) concerns—both of which dominated in 2022—have continued to moderate.
- **Manufacturers continue to experience the cumulative impact of federal regulations on their business.** Indeed, concern about an unfavorable business climate was the highest in six years (Q2 2017) (Figure 5). In this survey, 70.2% of manufacturers would purchase more capital equipment if the regulatory burden on manufacturers decreased, with 48.6% hiring more workers, 48.6% increasing compensation, 42.5% expanding their U.S. facilities and 38.4% investing in research (Figure 6). In addition, 69.1% of small manufacturers would hire more workers or increase compensation if their regulatory burden decreased, or 63.2% of all respondents.
- **Increased tax burdens would hurt manufacturers.** Eighty-nine percent of respondents said that higher tax burdens on manufacturing activities would make it more difficult to expand their workforce, invest in new equipment or expand facilities.
- **Permitting reform will be beneficial.** In the survey, nearly three-quarters of respondents said that permitting reform—which would simplify and speed up the approval process for new projects—would be helpful to their manufacturing company, allowing them to hire more workers, expand their business or increase wages and benefits.
- **Manufacturers are beginning to turn their attention to the 2024 presidential election.** As debates and election preparation begins, nearly forty-two percent of respondents say they are following the 2024 presidential election very closely, and 37.8% are following somewhat closely (Figure 7). Only 3.1% of respondents are not yet following the election, with 2.8% planning to wait until next year.

³ With so many of these readings hitting post-pandemic lows, most of the indicators include references to what these lows would be if the COVID-19 pandemic were excluded. In this case, the 65.1% positive reading in Q3 2023 would be the lowest since Q3 2016 if excluding the declines in activity during the pandemic in 2020.

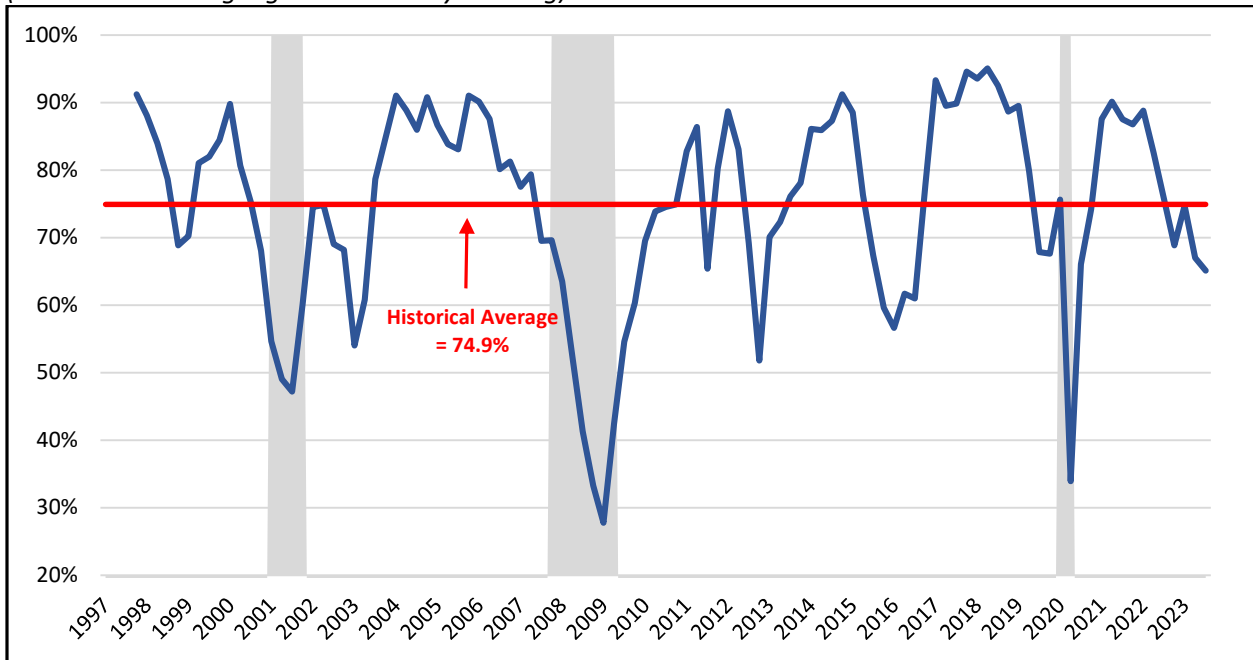
- Organized labor disputes and contract negotiations have the attention of manufacturers.** Eleven percent of respondents said they were extremely concerned about how organized labor negotiations would impact their business or supply chain, with 18.5% moderately concerned and 24.8% somewhat concerned. Only 16.6% were not concerned at all (Figure 8).
- Manufacturers rely on North American trade.** More than 8 out of 10 respondents (82.2%) said that trade between the U.S., Mexico and/or Canada was either somewhat or very important for the growth and competitiveness of their business of suppliers. North American trade was not important to 15.0% and few (2.8%) were uncertain (Figure 9).
- PMI analysis: Manufacturing production, employment and capital spending slowed in Q3, even as more respondents said they were standing pat than were reporting increases.** The percentage reporting higher production eased from 36.7% in Q2 to 30.5% in Q3, with the percentages for employment (down from 23.5% to 23.0%) and capital spending (down from 23.9% to 23.6%) off just slightly for the quarter (Figure 10 and the table below). It remains notable that significant percentages of respondents reported no change in activity, with majorities for hiring and capital expenditures.

	Previous PMI	Third Quarter 2023 Relative to Second Quarter 2023			
		Higher	No Change	Lower	PMI
Production	54.8	30.5%	44.2%	25.2%	52.7
Employment	52.8	23.0%	56.5%	20.5%	51.2
Capital Spending	54.1	23.6%	55.9%	20.5%	51.6

- Some other trends regarding predicted growth rates over the next 12 months (Figure 11):
 - Sales:** Respondents expect sales to rise 2.0% over the next 12 months, up from 1.6% in Q2. More than 56% of manufacturers predict sales will increase over the next four quarters, with 32.1% feeling orders will rise 5% or more. Medium-sized (i.e., those with 50 to 499 employees) and large (i.e., those with 500 or more employees) manufacturers felt the most upbeat in their sales expectations, predicting 2.2% growth over the next year. In contrast, small firms (i.e., those with fewer than 50 employees) expect just 0.6% growth.
 - Production:** Respondents expect production to also increase 2.0% over the next 12 months, up from 1.6% in Q2. More than 53% of respondents forecast output to rise over the coming months, with 20.7% seeing declining production. Like sales, medium and large respondents felt more optimistic in their output outlook, expecting 2.2% growth over the next 12 months versus 0.9% for small manufacturers.
 - Full-Time Employment:** Respondents expect full-time employment to rise 0.9% over the next 12 months, inching down from 1.0% in Q2 and the slowest since Q3 2020 (or Q4 2019 excluding the pandemic). More than 36% anticipate an increase in full-time hiring over the next year, with 16.8% predicting reduced employment. Medium-sized manufacturers felt the most upbeat in their hiring plans, predicting 1.3% growth over the next 12 months. In contrast, small and large firms expect employment to rise just 0.6%.

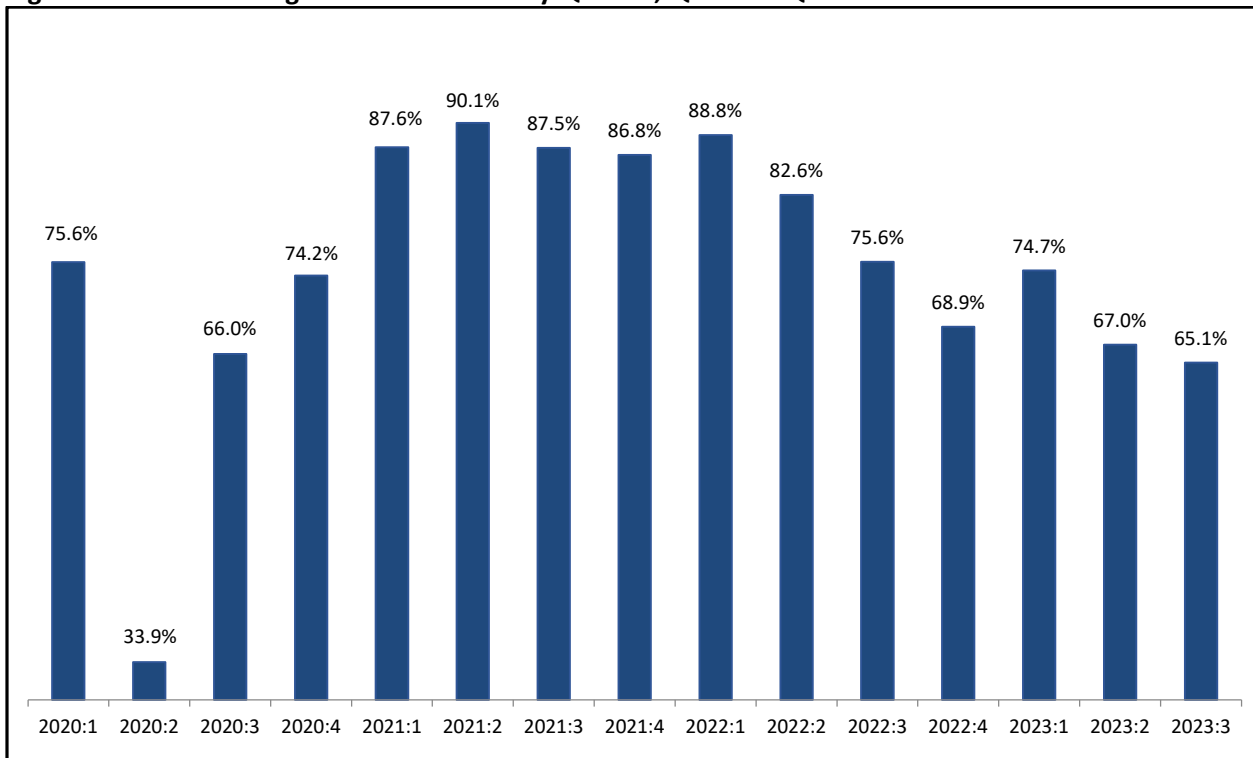
- **Employee Wages:** Respondents anticipate employee wages (excluding nonwage compensation, such as benefits) to rise 2.7% over the next 12 months, down from 2.9% in Q2 and the slowest rate since Q1 2021. Nearly 51% of manufacturers predict wage growth of 3% or more over the next 12 months, with 8.1% suggesting 5% or more. Small and medium-sized firms predicted wage growth of 2.8% over the next 12 months, with large firm respondents forecasting 2.5% on average.
- **Capital Investments:** Respondents expect capital spending to rise 1.2% over the next 12 months, edging down from 1.3% in Q2 and the weakest pace since Q3 2020 (or Q4 2019 excluding the pandemic). In this survey, 36.5% expect additional capital spending in the next year, with 45.8% predicting no change and 17.8% forecasting reduced capital expenditures. Medium-sized and large manufacturers predict 1.3% growth in capital investments over the next year, with small firms planning for 1.0% growth.
- **Exports:** Respondents expect exports to increase just 0.3% over the next 12 months, ticking up from 0.2% in Q2. Overall, 18.4% anticipate higher exports in the next year, with 70.9% seeing no changes and 10.6% forecasting declines.
- **Inventories:** Respondents anticipate inventories shrinking 1.8% over the next 12 months, declining for the fifth straight quarter. This suggests that manufacturers are continuing to draw down their stockpiles, which should necessitate additional production once demand strengthens. Nearly 47% of firms expect falling inventories over the next year, with 12.1% predicting increases and 41.3% seeing no changes.

Figure 1: Manufacturing Business Outlook by Quarter, Q4 1997–Q3 2023
(Recessions Are Highlighted with Gray Shading)



Note: Percentage of respondents who characterized the current business outlook as somewhat or very positive. Recessions are designated by the National Bureau of Economic Research.

Figure 2: Manufacturing Business Outlook by Quarter, Q1 2020–Q3 2023



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

Figure 3: “Do You Think the U.S. Will Experience a Recession in the Next 12 Months (Through Q3 2024)?”

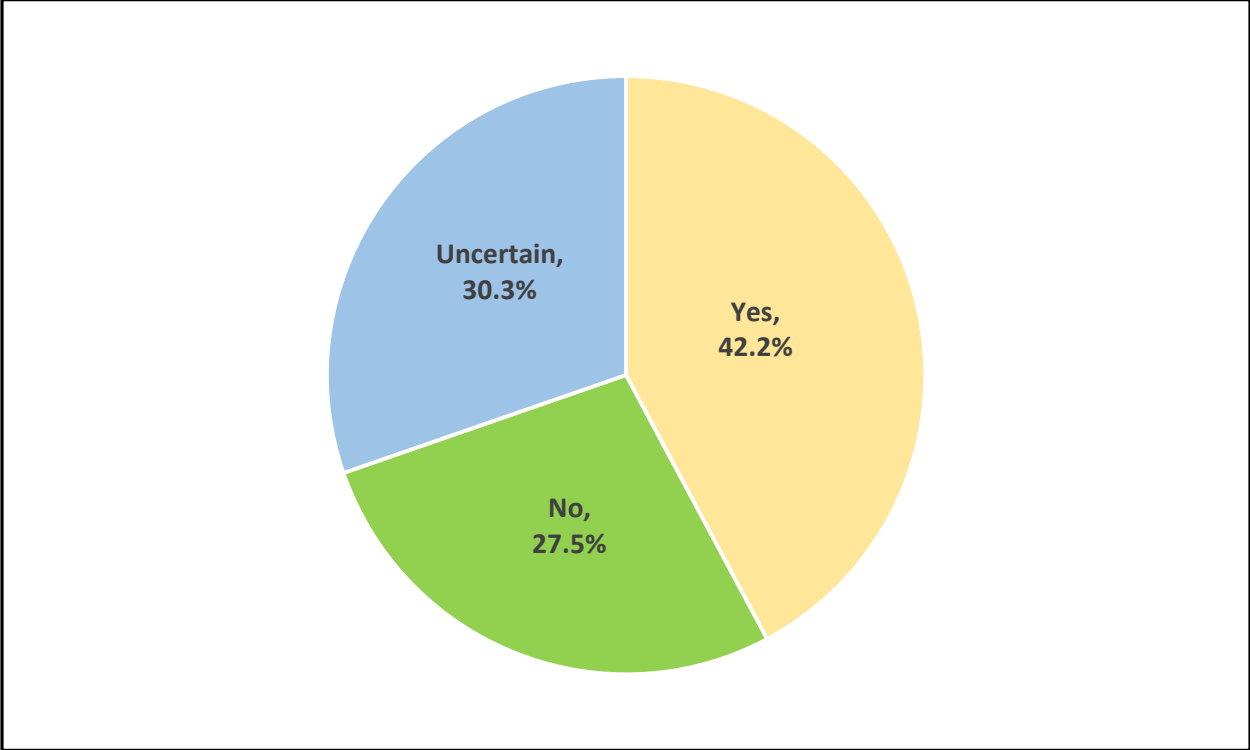
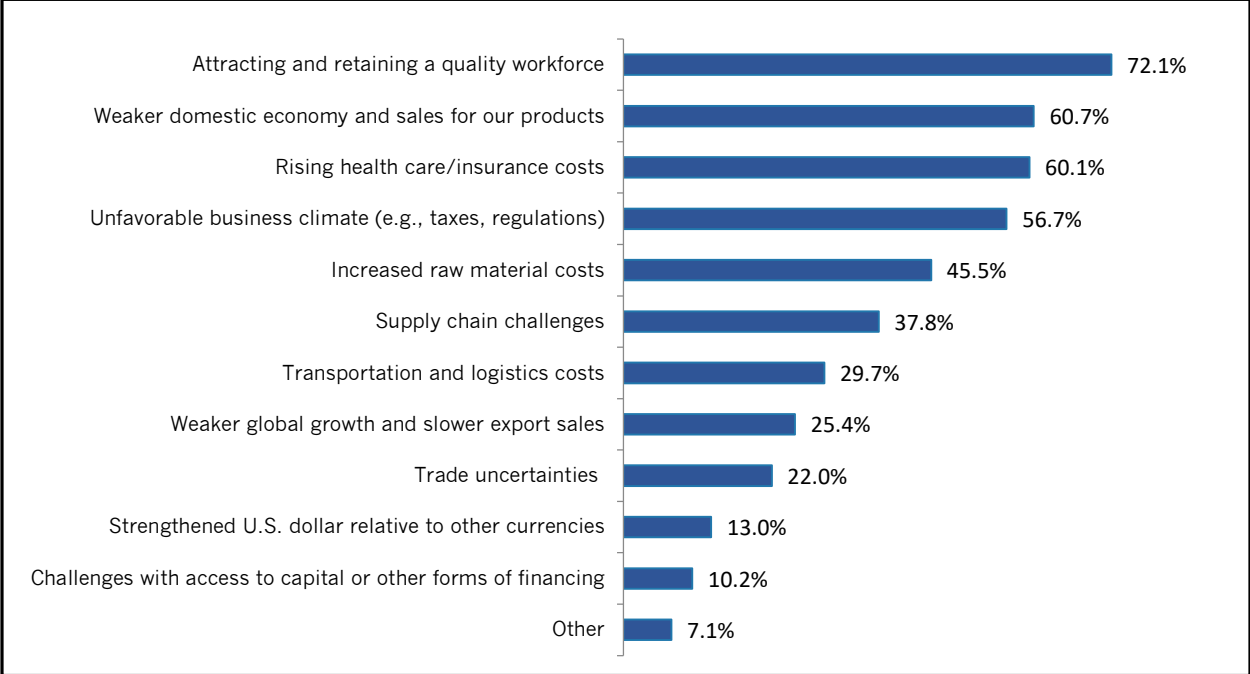
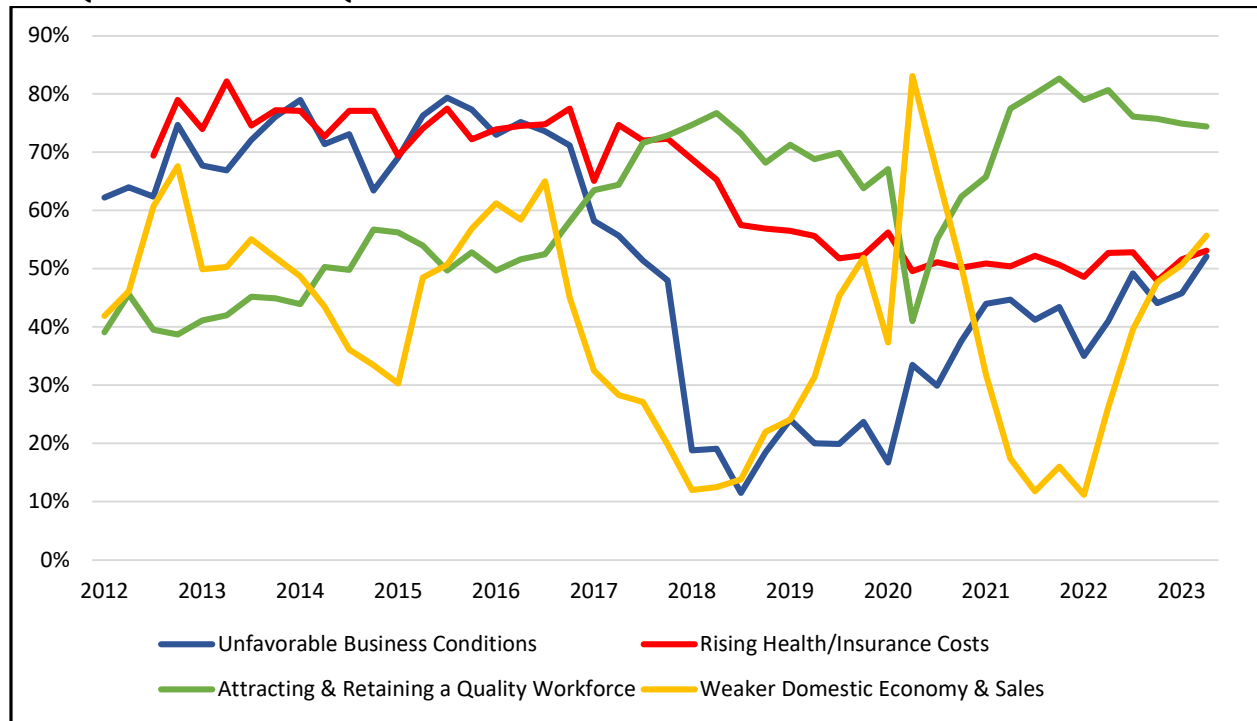


Figure 4: Primary Current Business Challenges, Third Quarter 2023



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

Figure 5: Primary Current Business Challenges for Select Responses, First Quarter 2012 – Third Quarter 2023



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

Figure 6: How Firms Would Invest the Savings Generated by Reduced Compliance Costs if the Regulatory Burden on Manufacturers Were Decreased

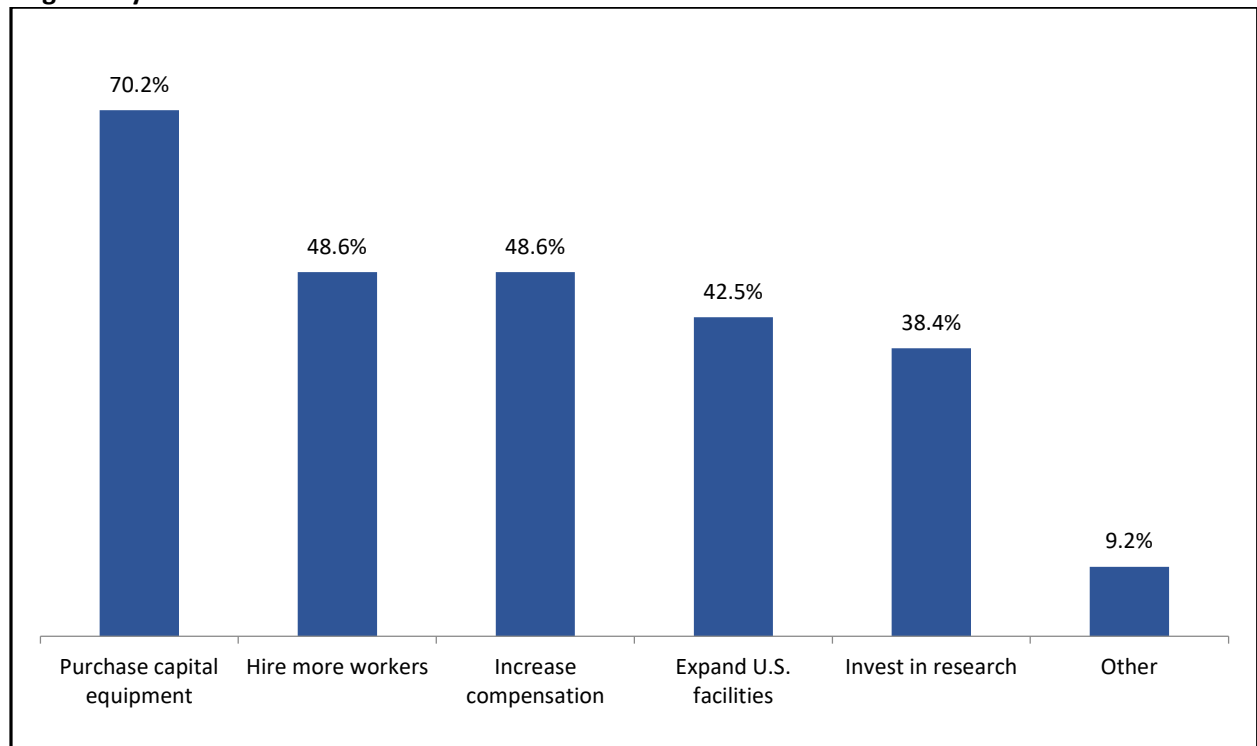


Figure 7: “How Closely Are You Following the 2024 Presidential Election?”

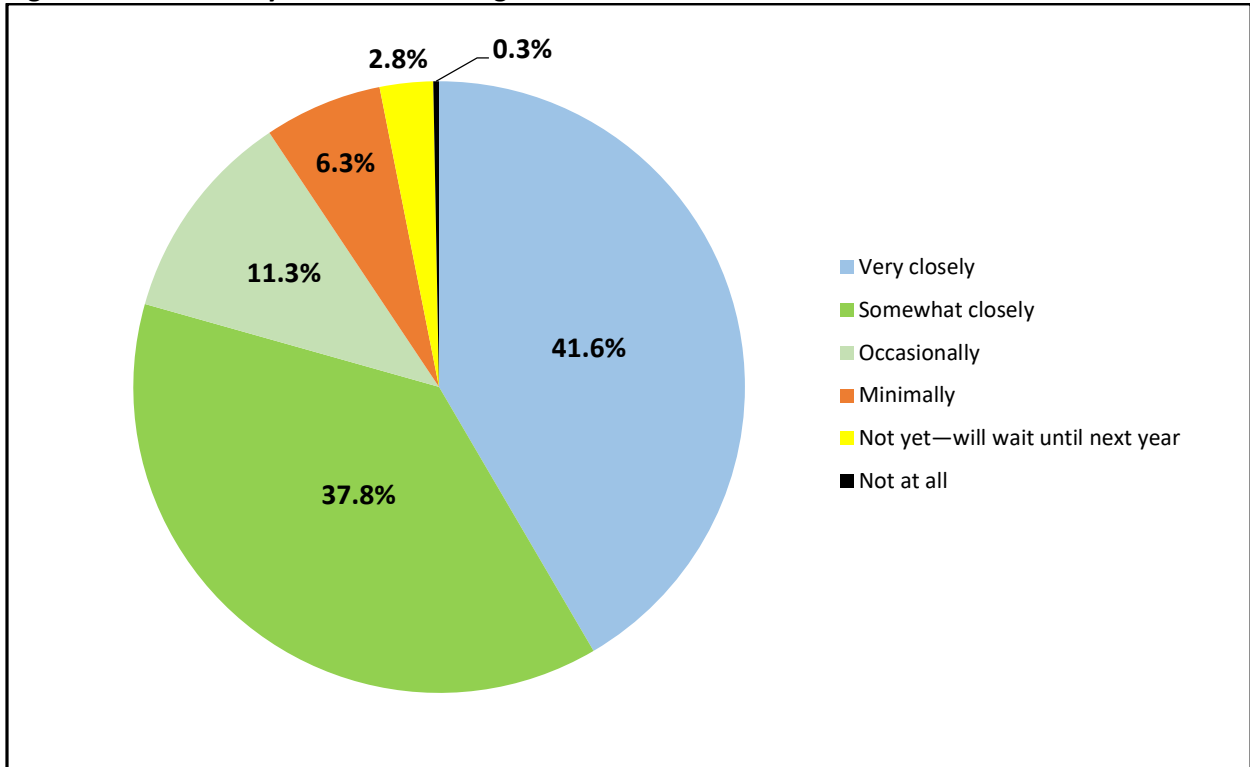


Figure 8: “Are You Concerned About Ongoing or Upcoming Organized Labor Disputes and Contract Negotiations Impacting Your Business or Supply Chain?”

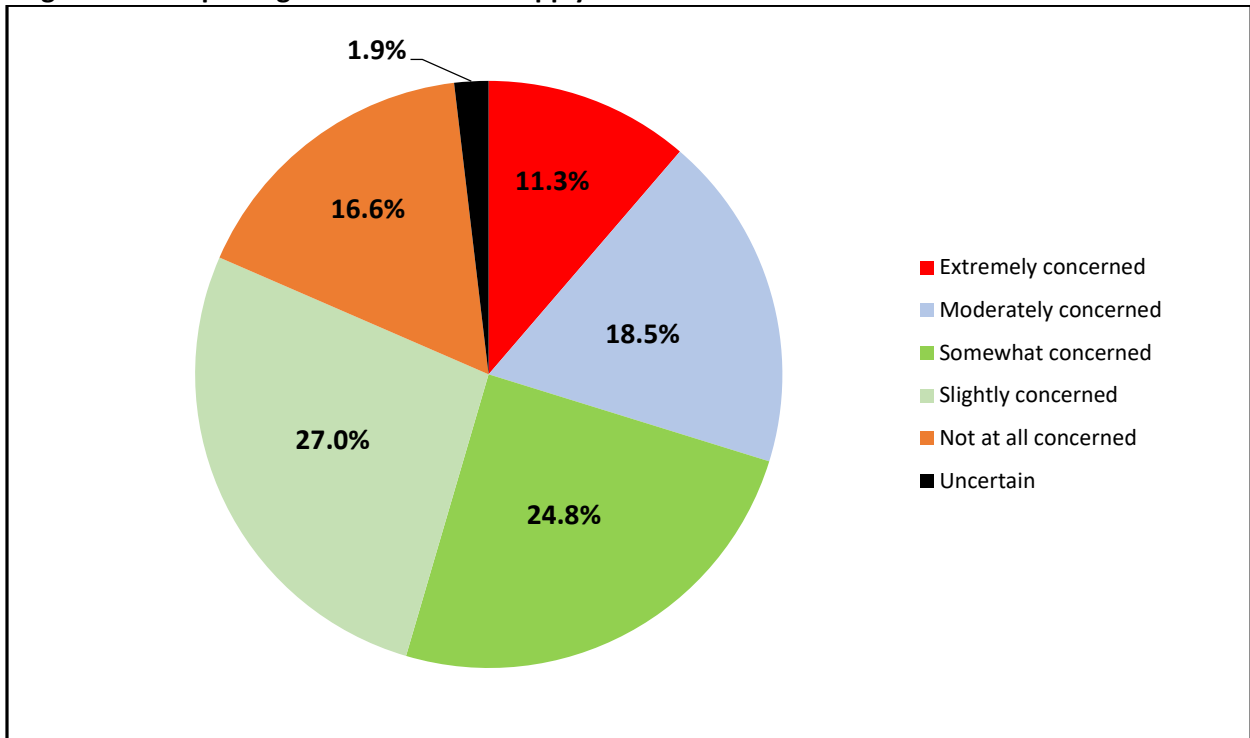


Figure 9: “How Important Is Trade Between the U.S., Mexico and/or Canada for the Growth and Competitiveness of Your Business or Suppliers?”

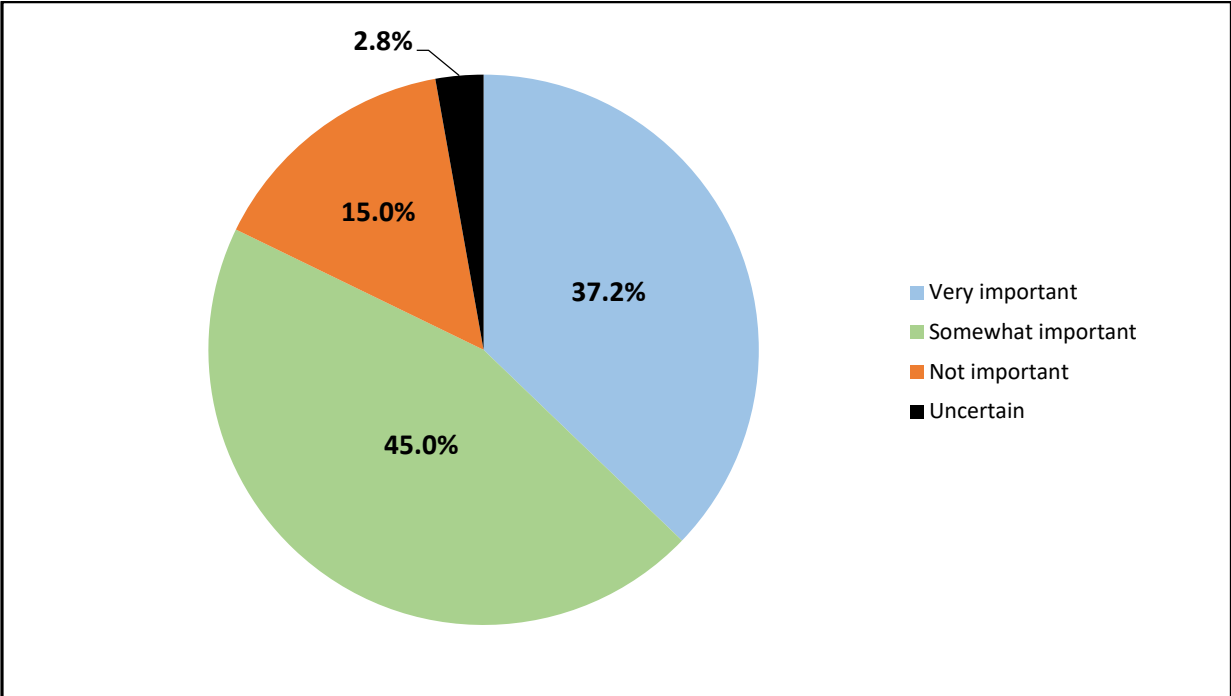


Figure 10: Change in Manufacturing Activity in Third Quarter 2023 Relative to Second Quarter 2023

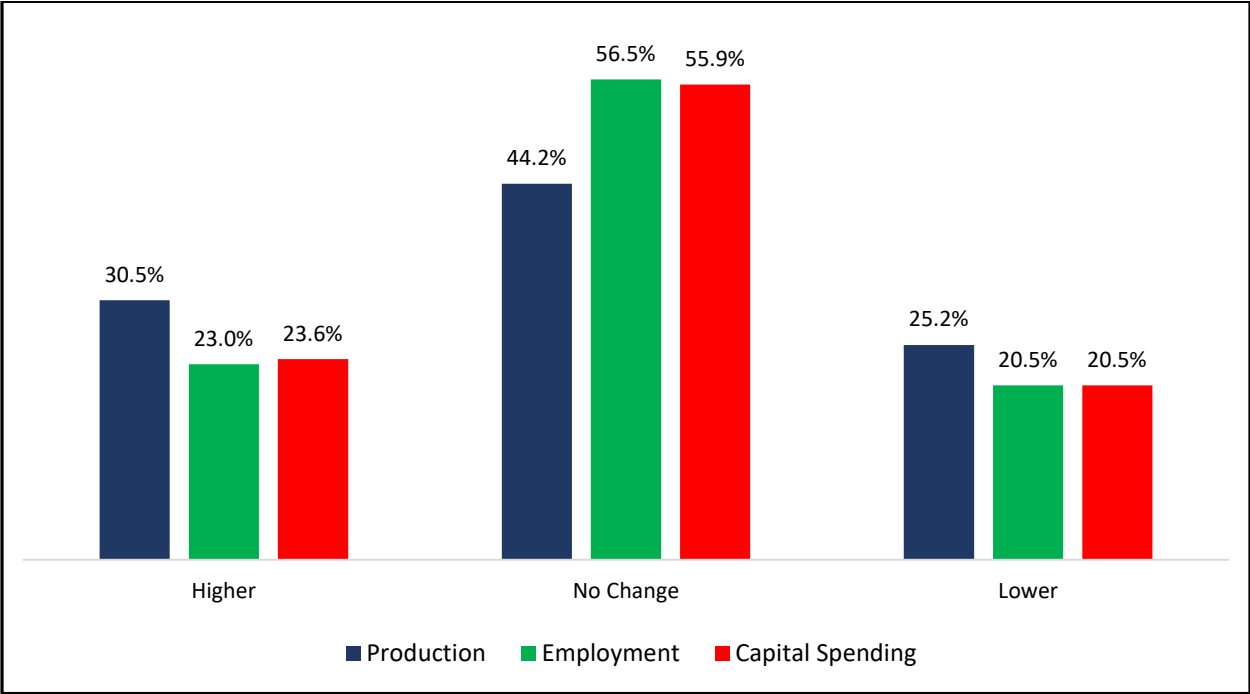
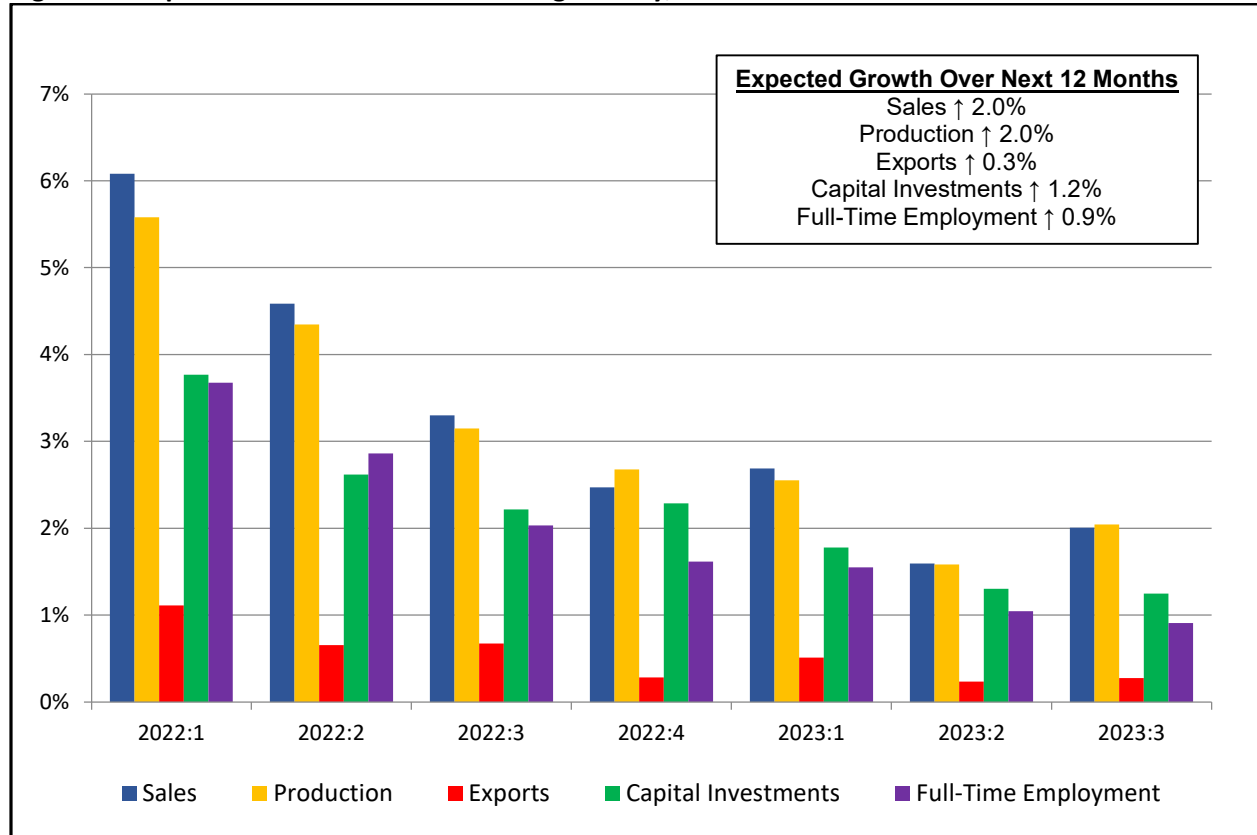


Figure 11: Expected Growth of Manufacturing Activity, Q1 2022–Q3 2023



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 – 13.27%
 - b. Somewhat positive – 51.85%
 - c. Somewhat negative – 32.72%
 - d. Very negative – 2.16%

Percentage that is either somewhat or very positive in their outlook = 65.12%

2. Over the next year, what do you expect to happen with your company's overall sales?
 - a. Increase more than 10 percent – 8.64%
 - b. Increase 5 to 10 percent – 23.46%
 - c. Increase up to 5 percent – 24.38%
 - d. Stay about the same – 21.30%
 - e. Decrease up to 5 percent – 10.49%
 - f. Decrease 5 to 10 percent – 8.33%
 - g. Decrease more than 10 percent – 3.40%

Average expected increase in sales consistent with these responses = 2.00%

3. Over the next year, what do you expect to happen with your company's overall production levels?
 - a. Increase more than 10 percent – 9.29%
 - b. Increase 5 to 10 percent – 20.43%
 - c. Increase up to 5 percent – 23.53%
 - d. Stay about the same – 26.01%
 - e. Decrease up to 5 percent – 12.07%
 - f. Decrease 5 to 10 percent – 6.50%
 - g. Decrease more than 10 percent – 2.17%

Average expected increase in production consistent with these responses = 2.04%

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 – 6.88%
 - b. Increase 3 to 5 percent – 3.75%
 - c. Increase up to 3 percent – 7.81%
 - d. Stay about the same – 70.94%
 - e. Decrease up to 3 percent – 5.00%
 - f. Decrease 3 to 5 percent – 2.19%
 - g. Decrease more than 5 percent – 3.44%

Average expected increase in exports consistent with these responses = 0.28%

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 – 3.11%
 - b. Increase 5 to 10 percent – 10.25%
 - c. Increase up to 5 percent – 42.86%
 - d. Stay about the same – 31.06%
 - e. Decrease up to 5 percent – 10.87%
 - f. Decrease 5 to 10 percent – 1.24%
 - g. Decrease more than 10 percent – 0.62%

Average expected increase in product prices consistent with these responses = 1.73%

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 – 4.33%
 - b. Increase 5 to 10 percent – 16.10%
 - c. Increase up to 5 percent – 37.77%
 - d. Stay about the same – 27.86%
 - e. Decrease up to 5 percent – 11.46%
 - f. Decrease 5 to 10 percent – 2.48%
 - g. Decrease more than 10 percent – 0.00%

Average expected increase in raw material prices consistent with these responses = 2.11%

7. Over the next year, what are your company's capital investment plans?
 - a. Increase more than 10 percent – 13.71%
 - b. Increase 5 to 10 percent – 9.66%
 - c. Increase up to 5 percent – 13.08%
 - d. Stay about the same – 45.79%
 - e. Decrease up to 5 percent – 7.17%
 - f. Decrease 5 to 10 percent – 2.49%
 - g. Decrease more than 10 percent – 8.10%

Average expected increase in capital investments consistent with these responses = 1.25%

8. Over the next year, what are your inventory plans?
 - a. Increase more than 10 percent – 2.80%
 - b. Increase 5 to 10 percent – 2.48%
 - c. Increase up to 5 percent – 6.83%
 - d. Stay about the same – 41.30%
 - e. Decrease up to 5 percent – 24.53%
 - f. Decrease 5 to 10 percent – 13.35%
 - g. Decrease more than 10 percent – 8.70%

Average expected increase in inventories consistent with these responses = -1.85%

9. Over the next year, what do you expect in terms of full-time employment in your company?
 - a. Increase more than 10 percent – 1.86%
 - b. Increase 5 to 10 percent – 10.56%
 - c. Increase up to 5 percent – 23.91%
 - d. Stay about the same – 46.89%
 - e. Decrease up to 5 percent – 12.42%
 - f. Decrease 5 to 10 percent – 3.11%
 - g. Decrease more than 10 percent – 1.24%

Average expected increase in full-time employment consistent with these responses = 0.91%

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 – 8.10%
 - b. Increase 3 to 5 percent – 42.68%
 - c. Increase up to 3 percent – 38.94%
 - d. Stay about the same – 9.66%
 - e. Decrease up to 3 percent – 0.62%
 - f. Decrease 3 to 5 percent – 0.00%
 - g. Decrease more than 5 percent – 0.00%

Average expected increase in employee wages consistent with these responses = 2.69%

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 – 6.81%
 - b. Increase 10.0 to 14.9 percent – 17.03%
 - c. Increase 5.0 to 9.9 percent – 48.30%
 - d. Increase less than 5.0 percent – 19.20%
 - e. No change – 4.33%
 - f. Decrease less than 5.0 percent – 0.93%
 - g. Decrease 5.0 percent or more – 0.00%
 - h. Uncertain – 3.41%

Average expected increase in health insurance costs consistent with these responses = 7.23%

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 – 60.68%
 - b. Weaker global growth and slower export sales – 25.39%
 - c. Trade uncertainties (e.g., actual or proposed tariffs, trade negotiation uncertainty) – 21.98%
 - d. Strengthened U.S. dollar relative to other currencies – 13.00%
 - e. Challenges with access to capital or other forms of financing – 10.22%
 - f. Unfavorable business climate (e.g., taxes, regulations) – 56.66%
 - g. Increased raw material costs – 45.51%
 - h. Rising health care/insurance costs – 60.06%
 - i. Transportation and logistics costs – 29.72%
 - j. Supply chain challenges – 37.77%
 - k. Attracting and retaining a quality workforce – 72.14%
 - l. Other – 7.12%

13. What is your company's primary industrial classification?

- a. Chemicals – 5.59%
- b. Computer and electronic products – 2.17%
- c. Electrical equipment and appliances – 4.35%
- d. Fabricated metal products – 27.95%
- e. Food manufacturing – 3.73%
- f. Furniture and related products – 1.86%
- g. Machinery – 12.73%
- h. Nonmetallic mineral products – 1.24%
- i. Paper and paper products – 2.48%
- j. Petroleum and coal products – 0.62%
- k. Plastics and rubber products – 7.14%
- l. Primary metals – 3.11%
- m. Transportation equipment – 4.04%
- n. Wood products – 2.17%
- o. Other – 20.81%

14. What is your firm size (e.g., the parent company, not your establishment)?

- a. Fewer than 50 employees – 16.41%
- b. 50 to 499 employees – 44.27%
- c. 500 or more employees – 39.01%
- d. Uncertain – 0.31%

15. How would you characterize **production** in the third quarter relative to the second quarter?

- a. Higher – 30.53%
- b. No change – 44.24%
- c. Lower – 25.23%

Production Purchasing Managers' Index = 52.65

16. How would you characterize **employment** in the third quarter relative to the second quarter?
- a. Higher – 22.98%
 - b. No change – 56.52%
 - c. Lower – 20.50%

Employment Purchasing Managers' Index = 51.24

17. How would you characterize **capital spending** in the third quarter relative to the second quarter?
- a. Higher – 23.60%
 - b. No change – 55.90%
 - c. Lower – 20.50%

Capital Spending Purchasing Managers' Index = 51.55

SPECIAL QUESTIONS

18. Do you think the U.S. will experience a recession in the next 12 months (through Q3 2024)?
- a. Yes – 42.19%
 - b. No – 27.50%
 - c. Uncertain – 30.31%
19. How closely are you following the 2024 presidential election?
- a. Very closely – 41.56%
 - b. Somewhat closely – 37.81%
 - c. Occasionally – 11.25%
 - d. Minimally – 6.25%
 - e. Not yet—will wait until next year – 2.81%
 - f. Not at all – 0.31%
20. If the tax burden on income from manufacturing activities increased, would your company find it more difficult to expand its workforce, invest in new equipment or expand facilities?
- a. Yes – 89.34%
 - b. No – 10.66%
21. If Congress were to enact permitting reform, simplifying and speeding up the approval process for new projects, would this be helpful for your company, allowing you to hire more workers, expand your business and/or increase wages and benefits?
- a. Yes – 72.64%
 - b. No – 27.36%
22. If the regulatory burden on manufacturers decreased, how would your firm invest the savings generated by reduced compliance costs? (Select all that apply.)
- a. Hire more workers – 48.57%
 - b. Increase compensation – 48.57%
 - c. Purchase capital equipment – 70.16%
 - d. Expand U.S. facilities – 42.54%
 - e. Invest in research – 38.41%

- f. Other – 9.21%
23. Are you concerned about ongoing or upcoming organized labor disputes and contract negotiations impacting your business or supply chain?
- a. Extremely concerned – 11.29%
 - b. Moderately concerned – 18.50%
 - c. Somewhat concerned – 24.76%
 - d. Slightly concerned – 26.96%
 - e. Not at all concerned – 16.61%
 - f. Uncertain – 1.88%
24. How important is trade between the U.S., Mexico and/or Canada for the growth and competitiveness of your business or suppliers?
- a. Very important – 37.19%
 - b. Somewhat important – 45.00%
 - c. Not important – 15.00%
 - d. Uncertain – 2.81%