

M E E T N G
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ENTERPRISE MINNESOTA'S 2020 STATE OF MANUFACTURING[®]



KEY FINDINGS FROM A MARCH 2 – 23, 2020
SURVEY OF 400 MINNESOTA MANUFACTURING EXECUTIVES

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METHODOLOGY

On behalf of Enterprise Minnesota, Meeting Street Insights is pleased to present the key findings from the 12th annual survey of manufacturing executives in Minnesota.

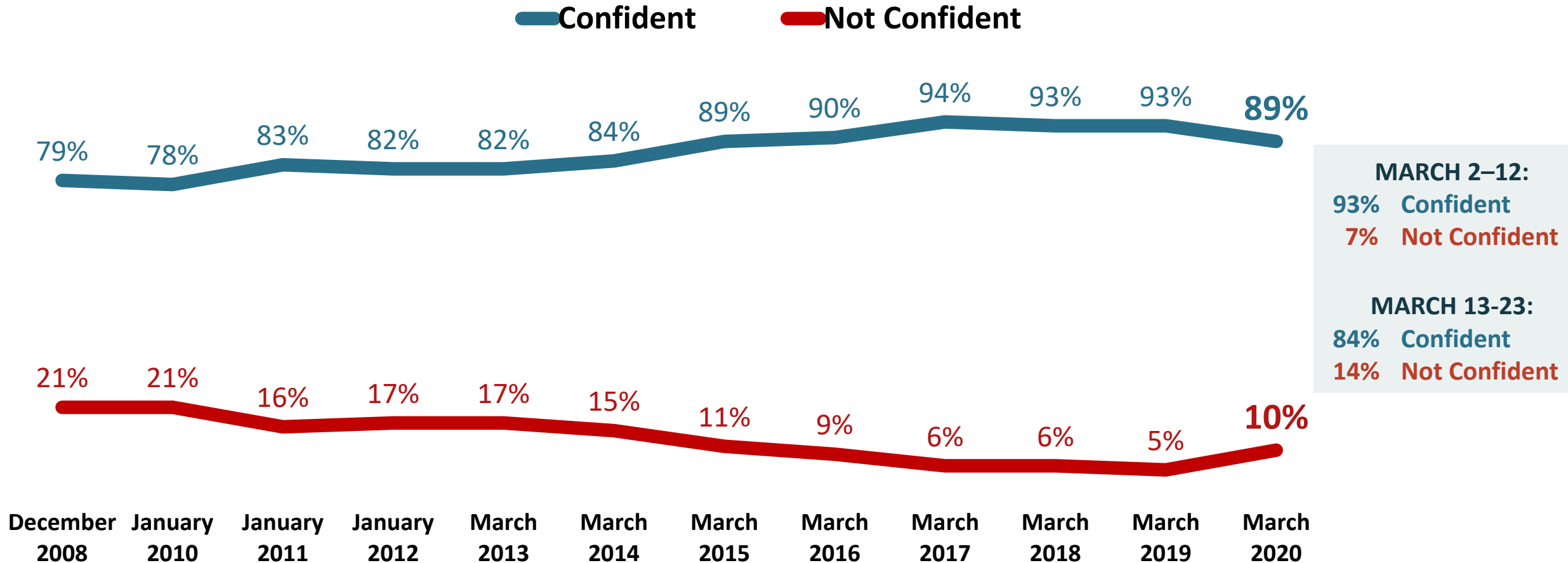
The survey was conducted March 2-23, 2020, among 400 manufacturing executives; it has a margin of error of $\pm 4.9\%$. Respondent titles included owners, CEOs, CFOs, COOs, presidents, vice presidents, and managing officers.

In our analysis of this study, we specifically looked at interviews conducted before and after President Trump's National Emergency Declaration (COVID-19) on March 13th. Fully 58% (N=234) of our interviews were completed between March 2 – 12 and 42% (N=166) were completed March 13-23.

Rob Autry is the founder of Meeting Street Insights, a public opinion research firm based in Charleston, SC.

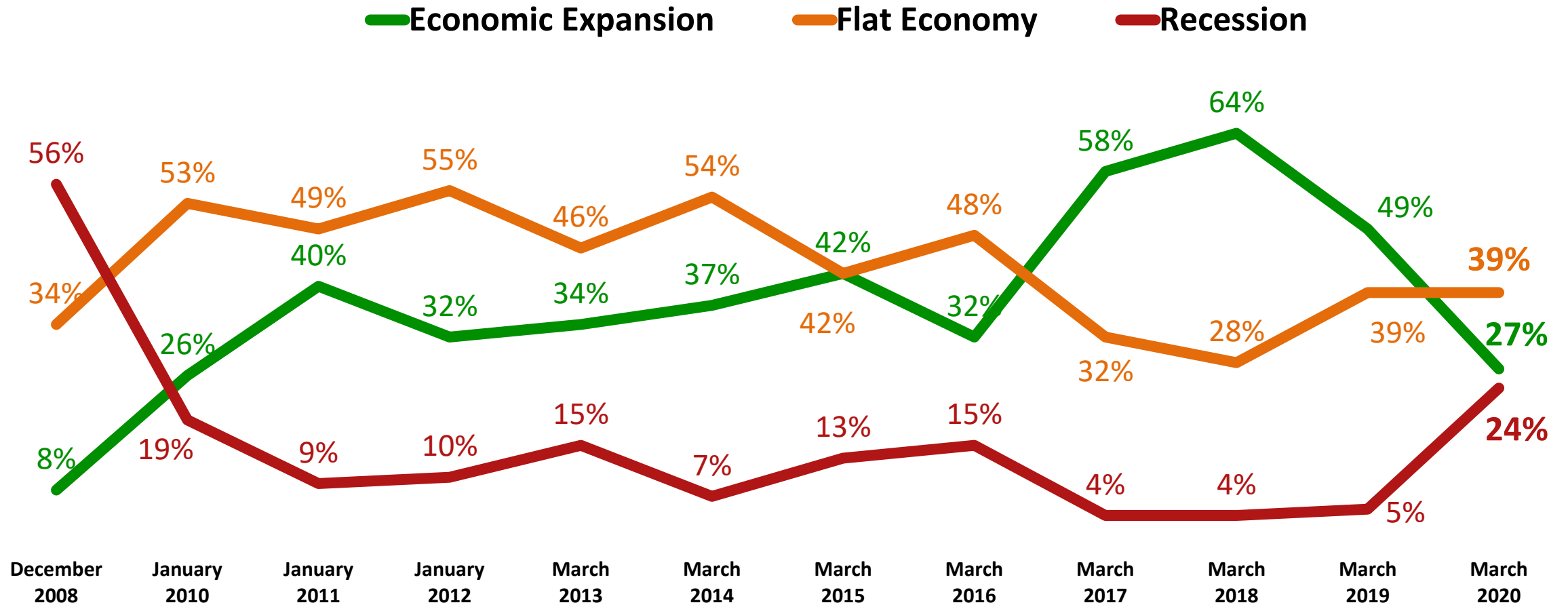
Financial confidence has dipped a little since last year.

“From a financial perspective, how do you feel right now about the future for your company?”



Recessionary fears among manufacturers are clearly up from a year ago.

“Thinking about the upcoming year, in 2020, do you anticipate economic expansion, a flat economy, or a recession?”



And, this is especially the case after the President declared a national emergency due to the coronavirus outbreak on March 13th.

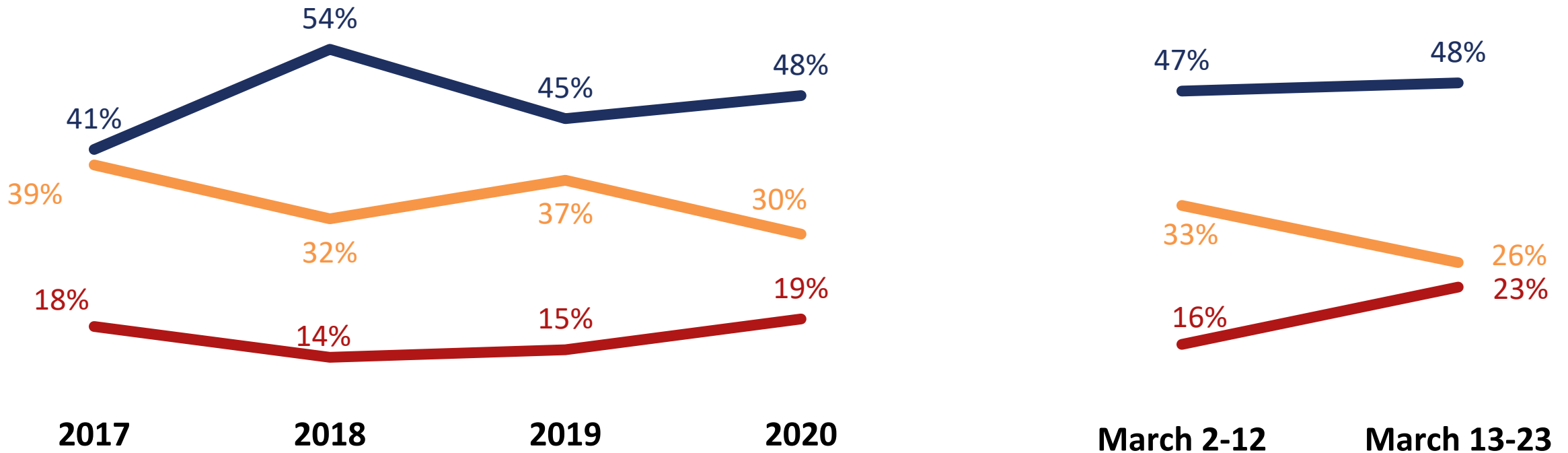
“Thinking about the upcoming year, in 2020, do you anticipate economic expansion, a flat economy, or a recession?”

	March 2 - 12	March 13 - 23	<u>Change</u>
2020 Will Be A Year Of Economic Expansion	39% →	11%	-28 pts
A Flat Economy	43%	34%	
A Recession	9% →	46%	+37 pts

While optimism levels are holding, we do see a rise in pessimism.

“Thinking about the business climate in Minnesota compared to say five years ago, would you say the business climate has gotten better, gotten worse or stayed about the same?”

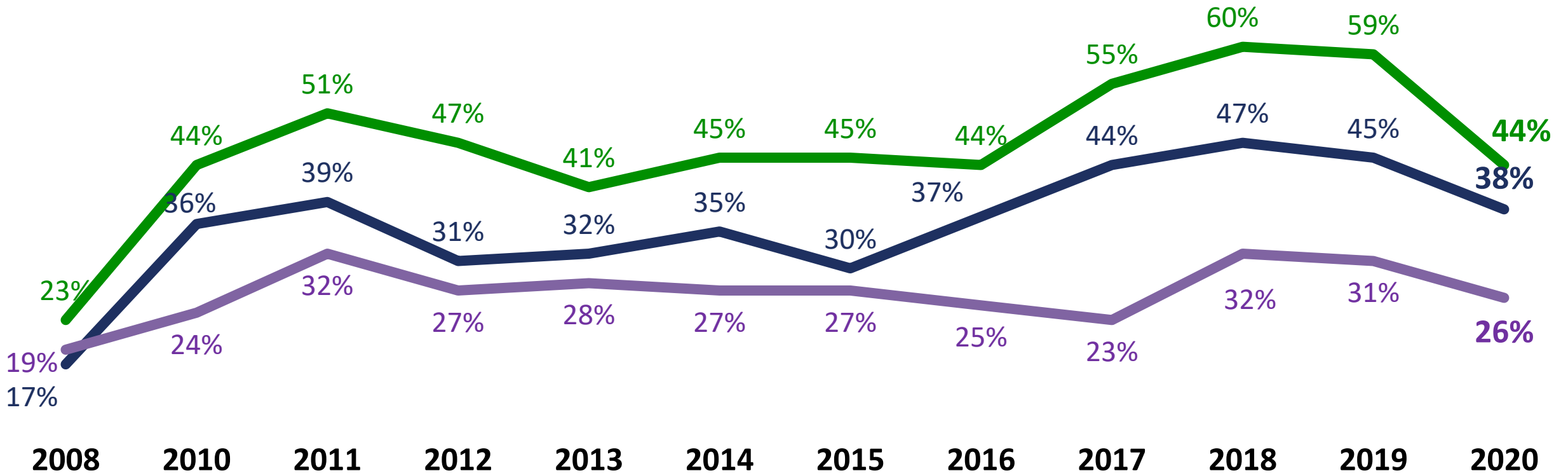
— Gotten Better — Gotten Worse — Stayed About The Same



We also see a significant dip in key 2020 manufacturing business metrics.

Percent of Manufacturers Expecting Increases in 2020 For...

Gross Revenue **Profitability** **Capital Expenditures**



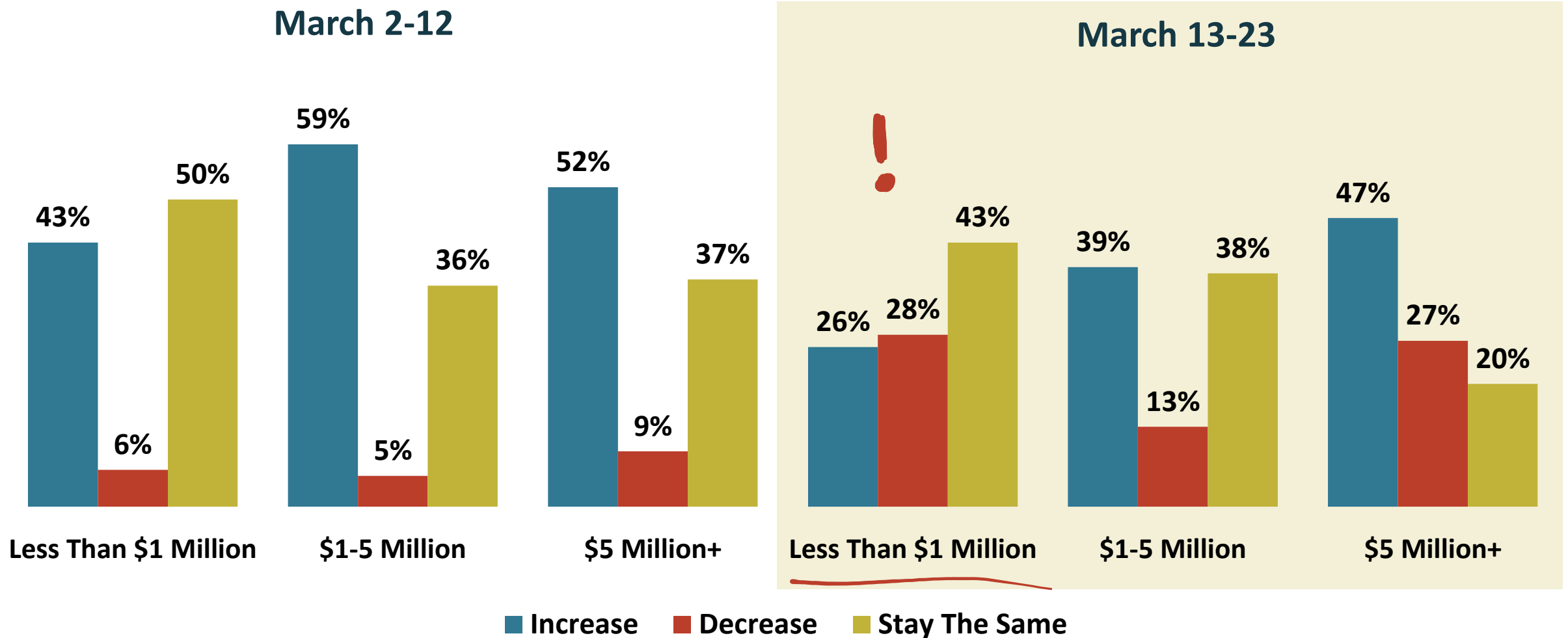
We see dramatic drop-offs in expected increases from March 13th on. The data from the last two weeks of March would rank as the second worst point in our project's history (a tad better than December 2008).

“And, as you look to 2020, do you project your company's gross revenue/profitability/capital expenditures to increase or decrease compared to 2019, or will it probably stay the same?”

	March 2 - 12	March 13 - 23	Change	Lowest Point Dec 2008
Increase in Gross Revenue	49%	→ 36%	-13	23%
Decrease in Gross Revenue	6%	→ 23%	+17	32%
Increase in Profitability	45%	→ 29%	-16	17%
Decrease in Profitability	8%	→ 19%	+11	34%
Increase in Capital Expenditures	26%	24%	-2	19%
Decrease in Capital Expenditures	14%	→ 26%	+12	37%

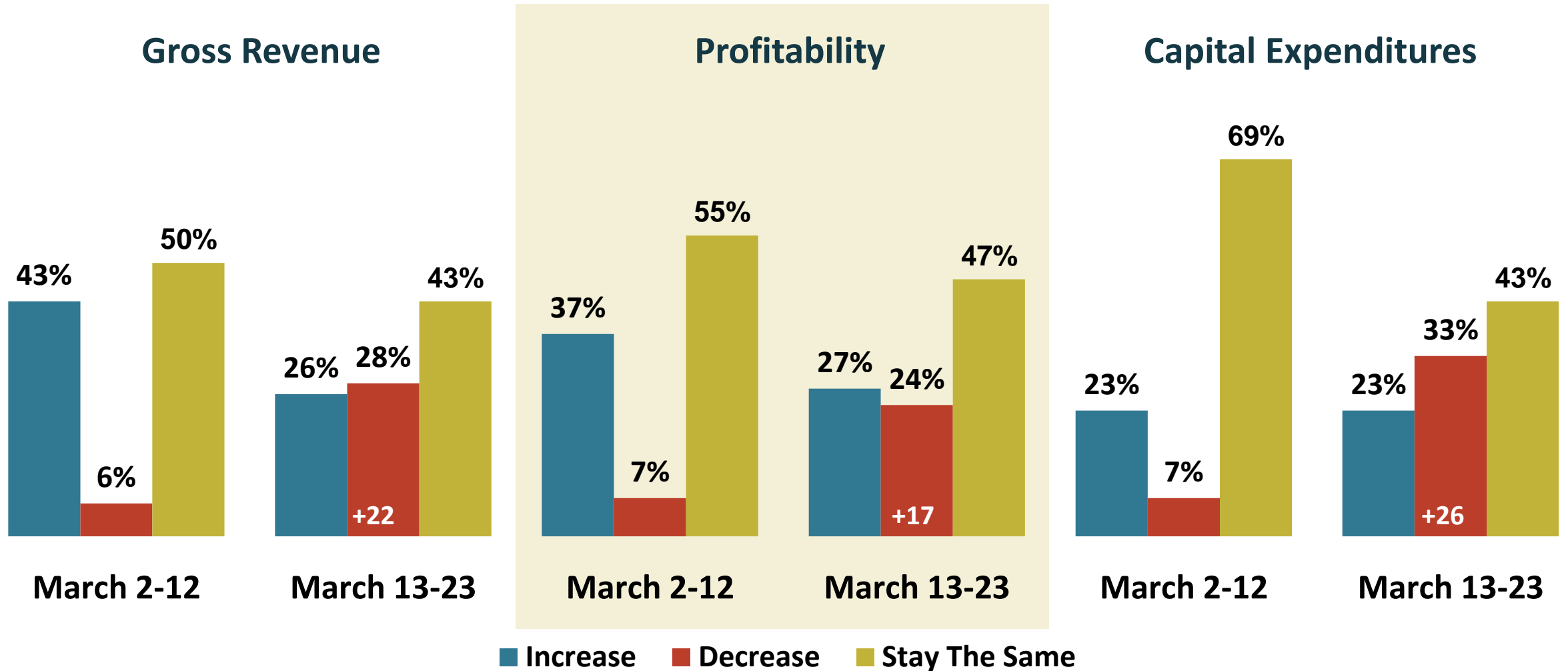
Smaller revenue manufacturers are the ones expecting to take a more drastic hit on their 2020 gross revenue projections.

Gross Revenue Projections by Interview Date



In fact, we see a consistent downward shift in key 2020 business projections for smaller revenue companies in the later half of March.

2020 Projections Among Small Revenue Manufacturers (Before & After March 12/13)



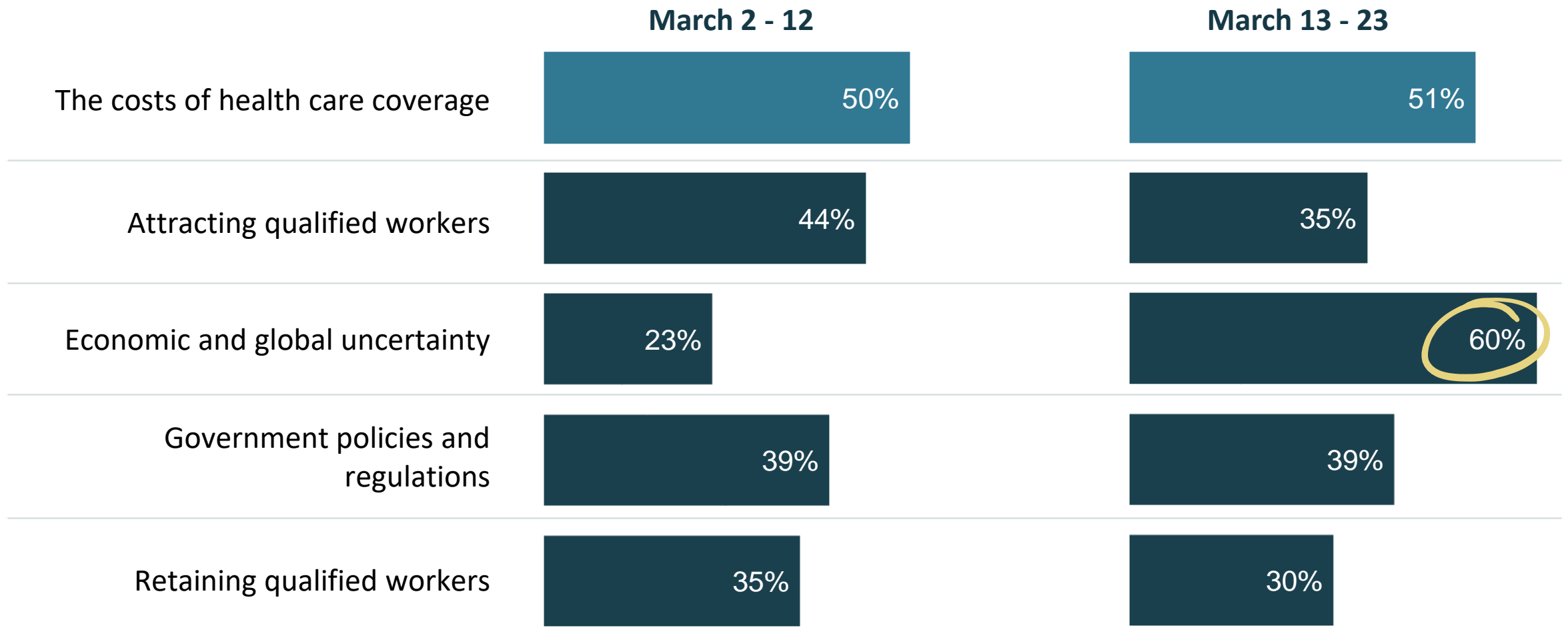
Health care costs continue to be the most pressing concern, but there has been a significant rise in economic and global uncertainty.

Concerns Ranked by % Concern (8-10)

		<u>Change Since 2019</u>
The costs of health care coverage	50%	-8
Attracting qualified workers	40%	-6
Economic and global uncertainty	40%	+24
Government policies and regulations	39%	-1
Retaining qualified workers	33%	-4
Cyber security	24%	n/a
Costs of employee salaries and benefits	23%	-6
Developing future leaders	23%	0
Competition from foreign sources	14%	+1
Getting your products to market	11%	+1

While health care costs stayed about the same, qualified worker concerns dipped as economic and global uncertainty concerns soared.

Top Five Concerns (% 8-10) by Interview Date



There has been an uptick in worries about the business climate.

“What would you say are the one or two biggest challenges your company is facing that might negatively impact future growth?”

	2014	2015	2016	2017	2018	2019	2020
Attracting and retaining a qualified workforce	21%	29%	26%	34%	49%	48%	40%
Unfavorable business climate	48%	43%	40%	38%	18%	19%	33%
Cost of health care insurance	31%	41%	34%	36%	36%	30%	31%
Increasing costs of energy and materials for your products	29%	20%	15%	18%	34%	28%	24%
Lack of clear direction forward	n/a	n/a	n/a	n/a	n/a	n/a	8%
<i>Coronavirus (Volunteered)</i>	n/a	n/a	n/a	n/a	n/a	n/a	2%
Regulations	n/a	n/a	n/a	n/a	n/a	3%	2%
Foreign competition	n/a	n/a	n/a	n/a	n/a	1%	2%

+14

Here again, we see manufacturers change their focus after March 12th.

“What would you say are the one or two biggest challenges your company is facing that might negatively impact future growth?” (Yellow Highlights Top Two Challenges)

	Overall	March 2-12	March 13-23
Attracting and retaining a qualified workforce	40%	46%	30%
Unfavorable business climate	33%	29%	38%
Cost of health care insurance	31%	31%	31%
Increasing costs of energy and materials for your products	24%	26%	22%
Lack of clear direction forward	8%	8%	8%
<i>Coronavirus (Volunteered)</i>	2%	0%	4%
Regulations	2%	2%	3%
Foreign competition	2%	1%	3%

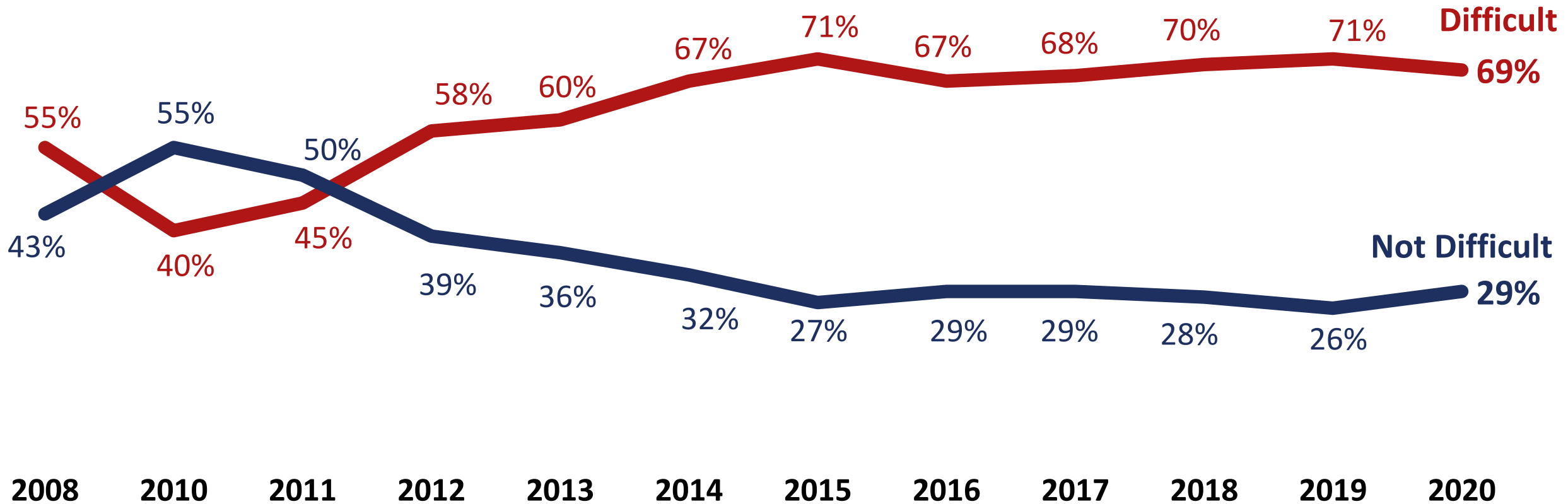
There are noticeably different challenges by company size.

“What would you say are the one or two biggest challenges your company is facing that might negatively impact future growth?” (Yellow Highlights Top Two Challenges)

	Overall	Less Than \$1 Million Revenue	\$1-\$5 Million Revenue	Over \$5 Million Revenue	50 or Fewer Employees	Over 50 Employees
Attracting and retaining a qualified workforce	40%	30%	49%	53%	36%	55%
Unfavorable business climate	33%	29%	25%	44%	29%	47%
Cost of health care insurance	31%	32%	41%	22%	35%	17%
Increasing costs of energy and materials for your products	24%	33%	21%	9%	29%	6%
Lack of clear direction forward	8%	9%	7%	7%	8%	6%
<i>Coronavirus (Volunteered)</i>	2%	1%	2%	0%	1%	5%
Regulations	2%	1%	0%	6%	1%	5%
Foreign competition	2%	3%	1%	1%	2%	0%

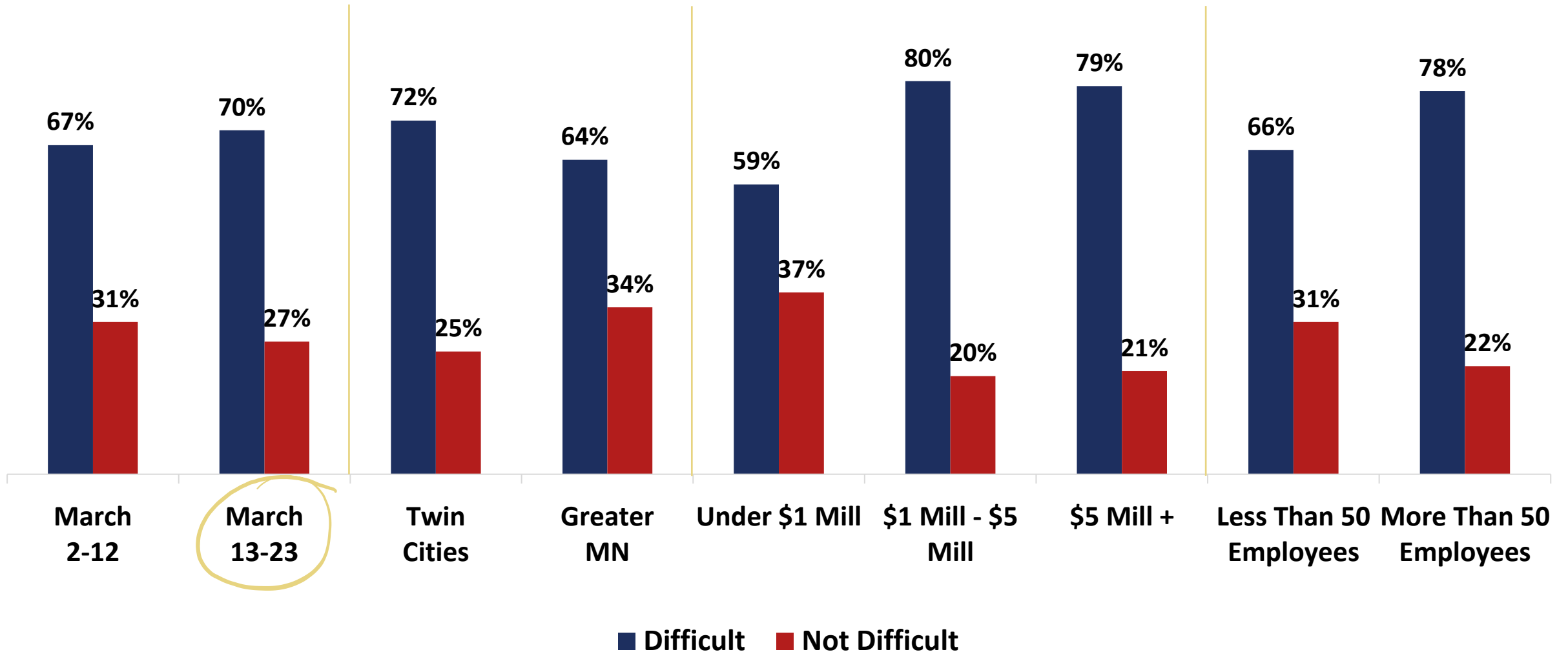
Manufacturers continue to say it's difficult to find qualified workers.

“What is the impact of your inability to attract qualified candidates having on your company growth? Does it make things...”



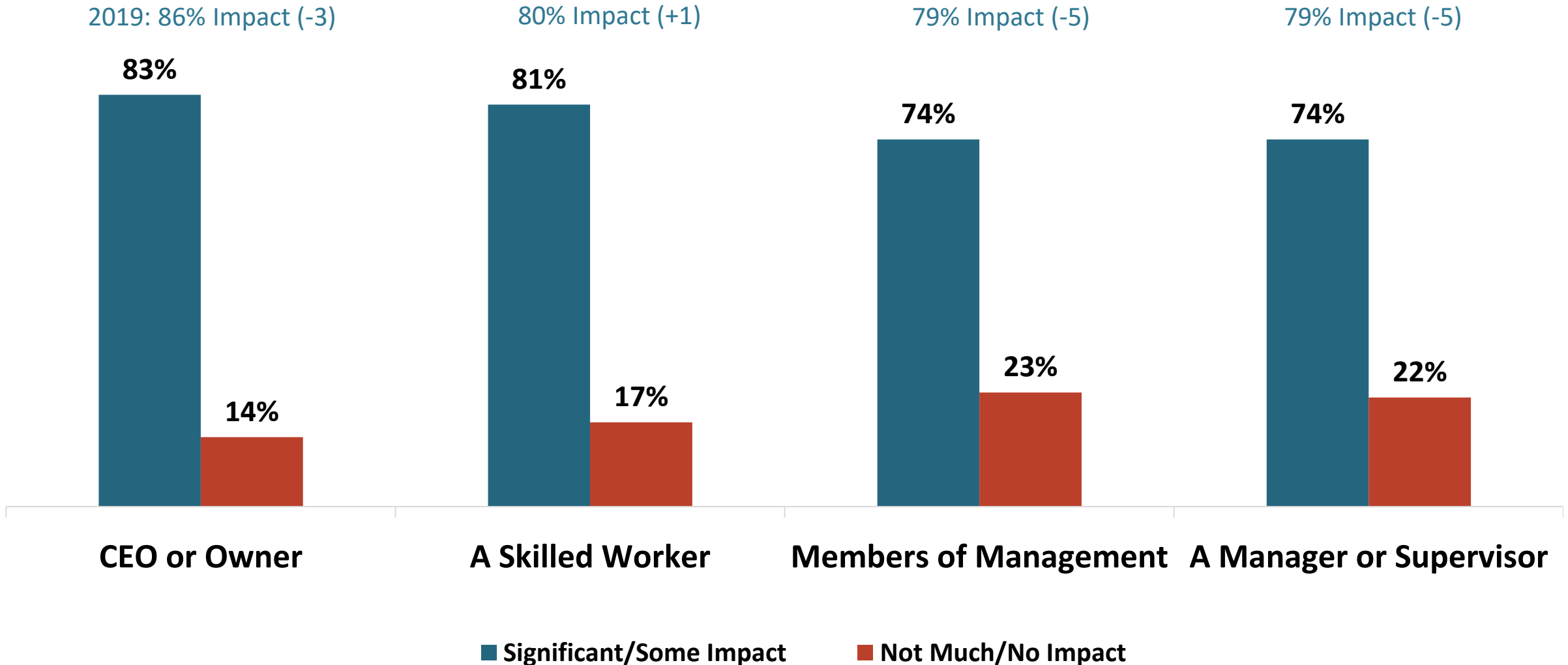
Attracting qualified workers remains a difficult task for manufacturers, even post-March 12th.

Inability to Attract Qualified Candidates Impact on Growth



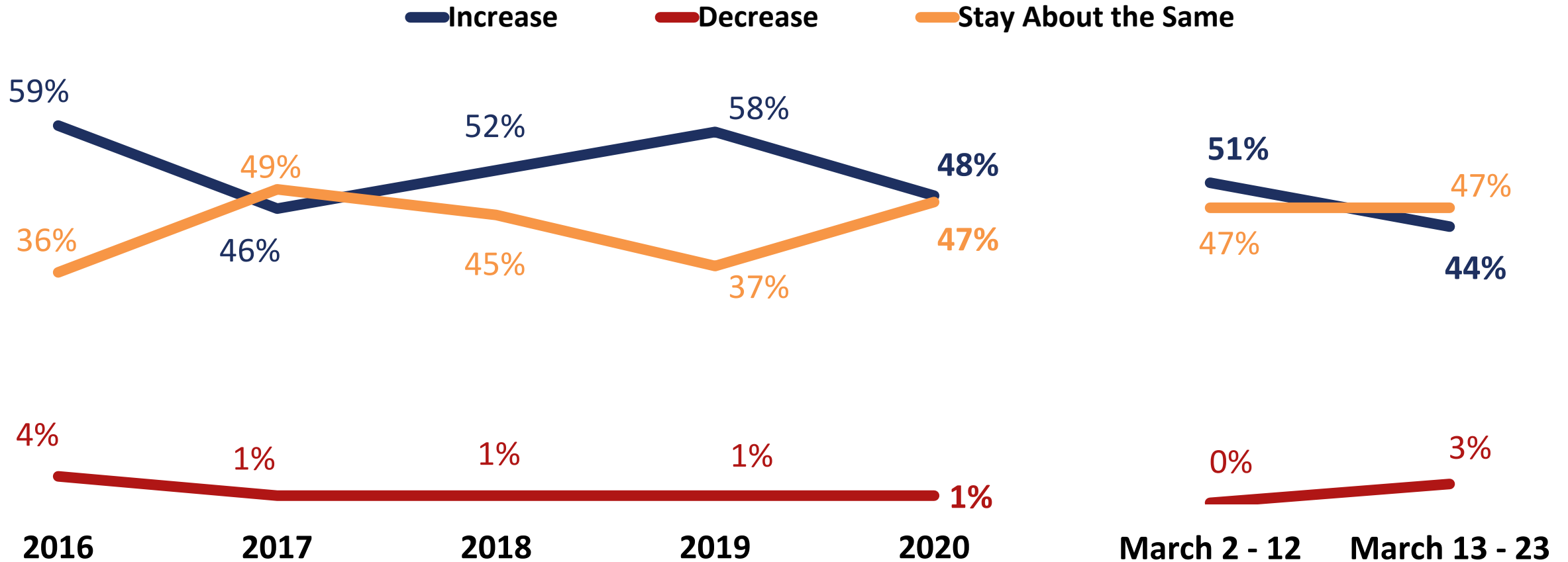
Departures across the spectrum would be impactful to most manufacturers.

“What impact, if any, would the departure of ___ have on your company?”



Even before March 12, we were seeing a dip in wage increases.

“Have or will wages for your employees increase for 2020, or will they decrease or stay about the same?”



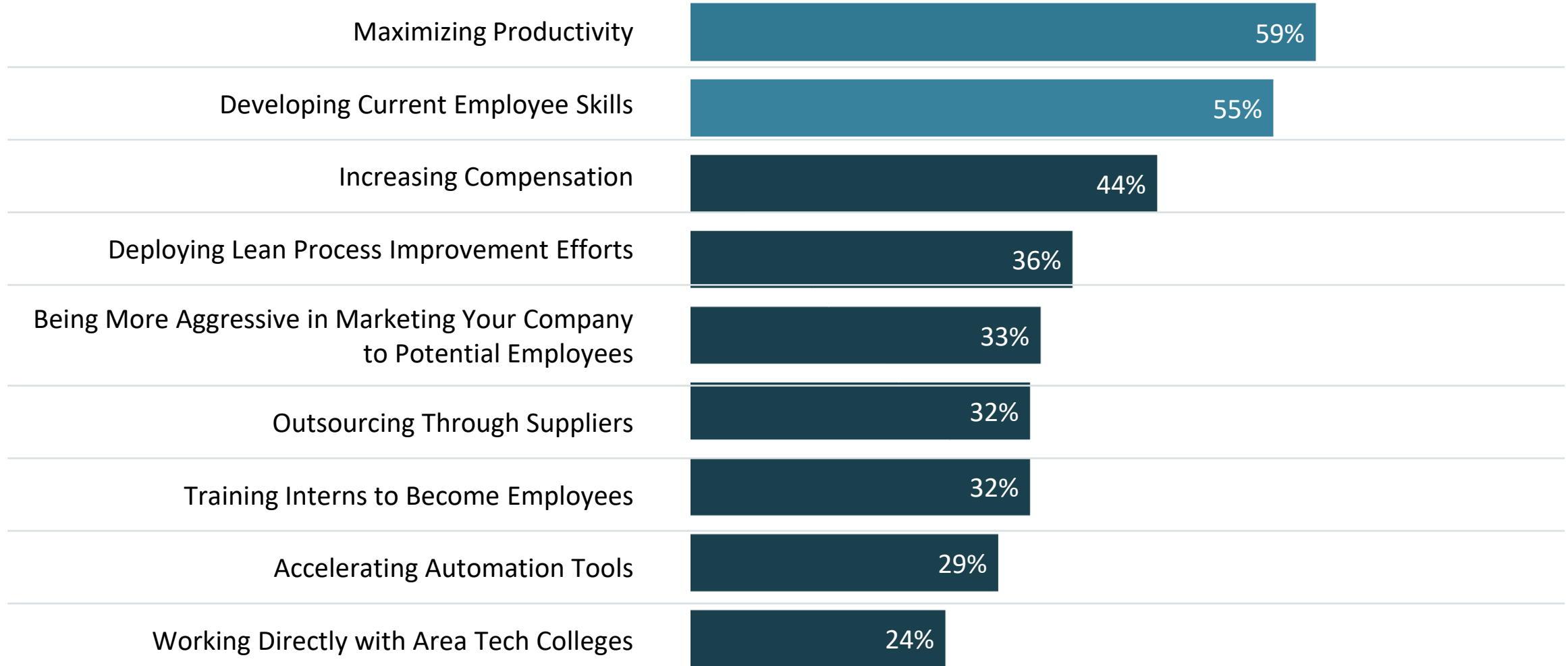
This is especially the case with Twin Cities companies and smaller revenue and employee size companies.

% Wages Increase Over Time by Key Subgroups

	2017	2018	2019	2020	Change Since 2019
Metro Companies	45%	55%	62%	47%	-15%
Greater Minnesota Companies	48%	48%	53%	49%	-4%
Less than \$1 million in revenue	31%	35%	43%	33%	-10%
\$1-5 million in revenue	54%	65%	62%	59%	-3%
Over \$5 million in revenue	70%	68%	78%	70%	-8%
50 or fewer employees	41%	49%	54%	42%	-12%
Over 50 employees	69%	64%	74%	73%	-1%

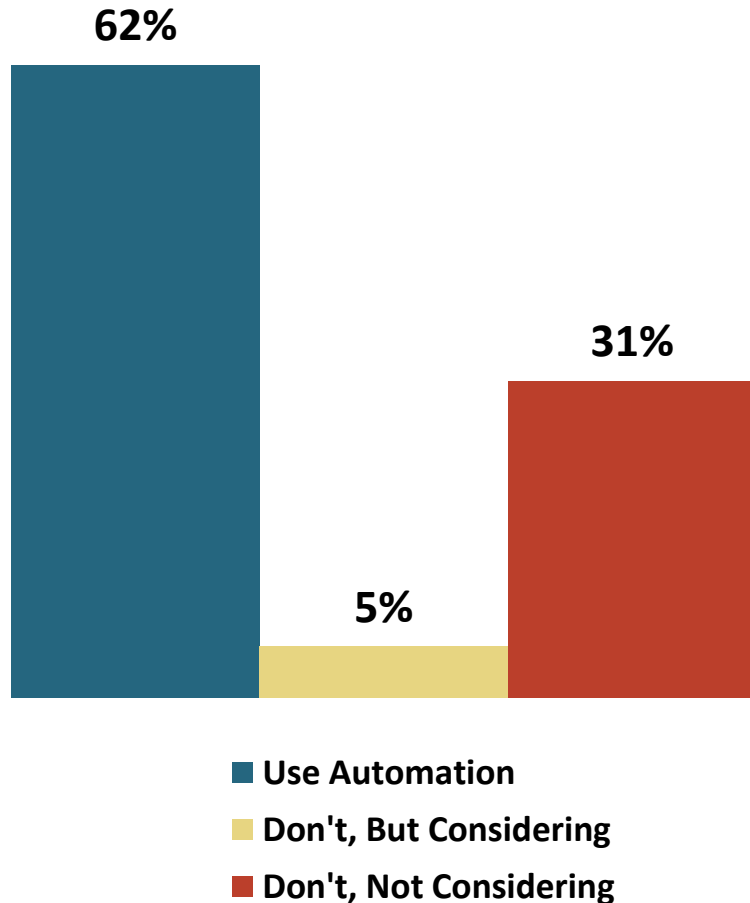
Maximizing productivity and developing employee skills are the main ways manufacturers are navigating around worker shortage challenges.

“What are some of the things you are doing to navigate around the worker shortage challenges?”

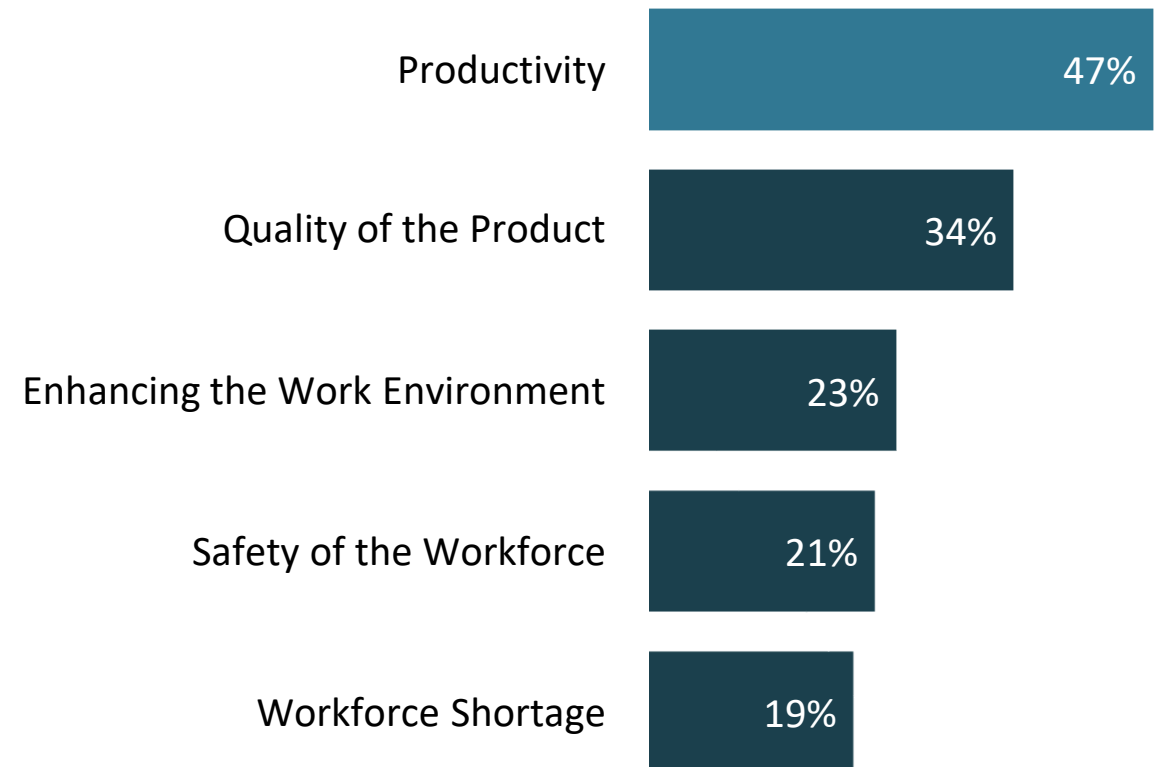


Nearly two-thirds of manufacturers say they currently use automation, mostly for productivity and product quality.

Profiling of Manufacturers Who Use Automation

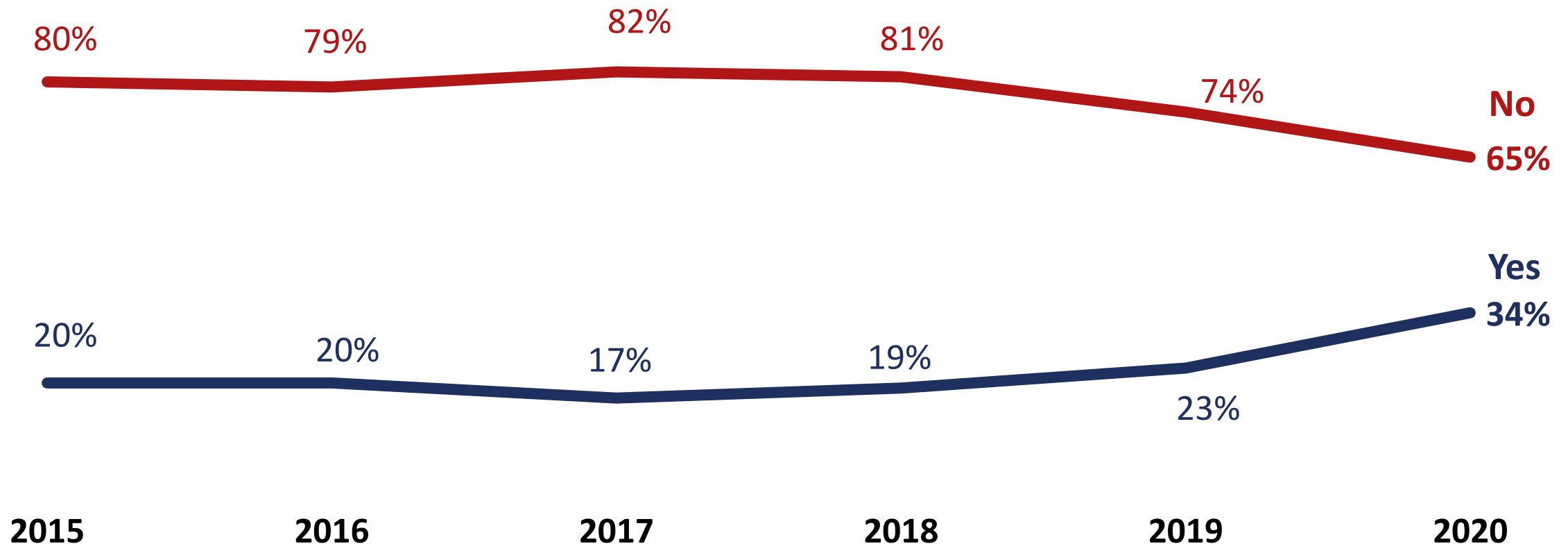


“When your company uses automation do you do so because of...”



There has been a sizeable increase in the number of companies that have a structured leadership development program.

“Does your company have a structured leadership development program for employees at all levels at your company?”



One in three say their company's growth plan is strictly in the hands of the CEO, consistent with last year's data.

“How does your company plan to grow?”

	2018	2019	2020
The strategy is strictly the role of the CEO	28%	32%	33%
We have a 1-3-year written plan and all staff know their roles and actions to achieve the plan	27%	28%	28%
Our company has some ideas, but has not yet worked through what our primary focus is, and is not	20%	16%	19%
We have a plan, but that needs to be further communicated with staff	18%	15%	11%

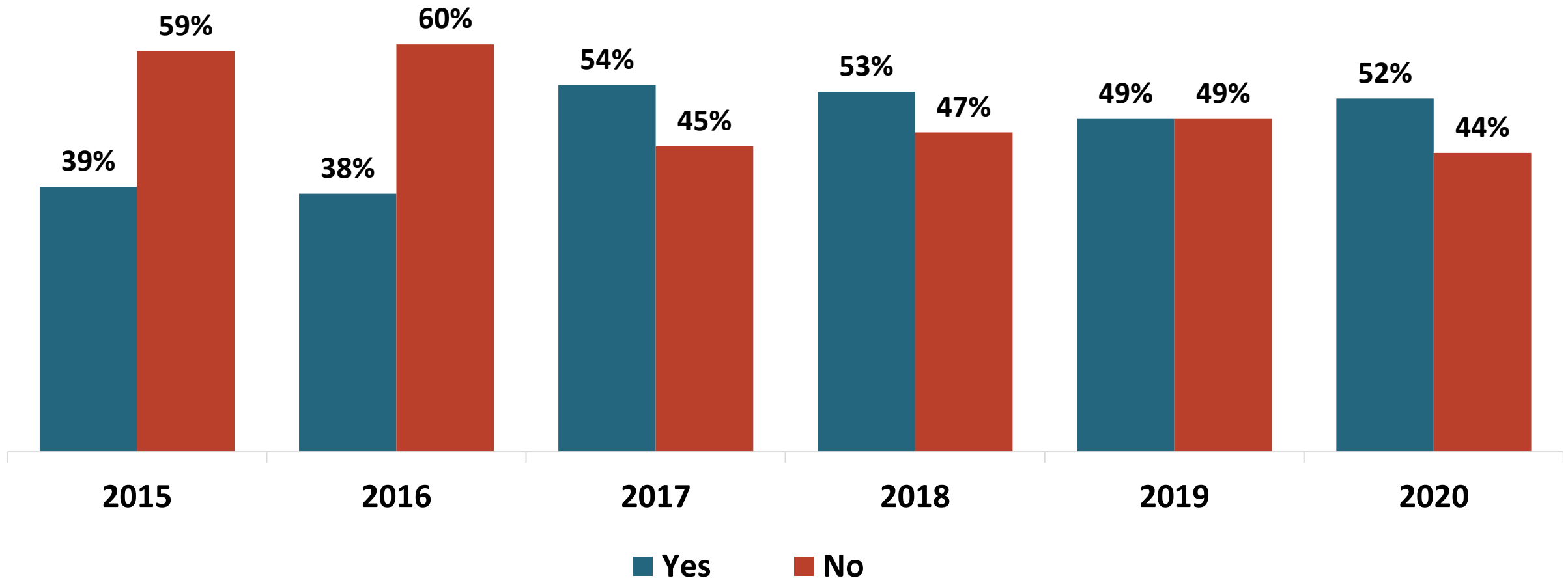
Most continue to say new customers will drive their company's growth.

“What would you say are the two or three most important drivers of your company's future growth?”

	2018	2019	2020
New Customers	61%	53%	57%
Maximizing Productivity	38%	36%	30%
New Products	35%	27%	26%
Better Strategic Planning and Implementation	27%	20%	22%
Eliminating Time and Energy Waste Inside Your Company	n/a	23%	21%
Developing Company Managers & Leaders	22%	18%	14%

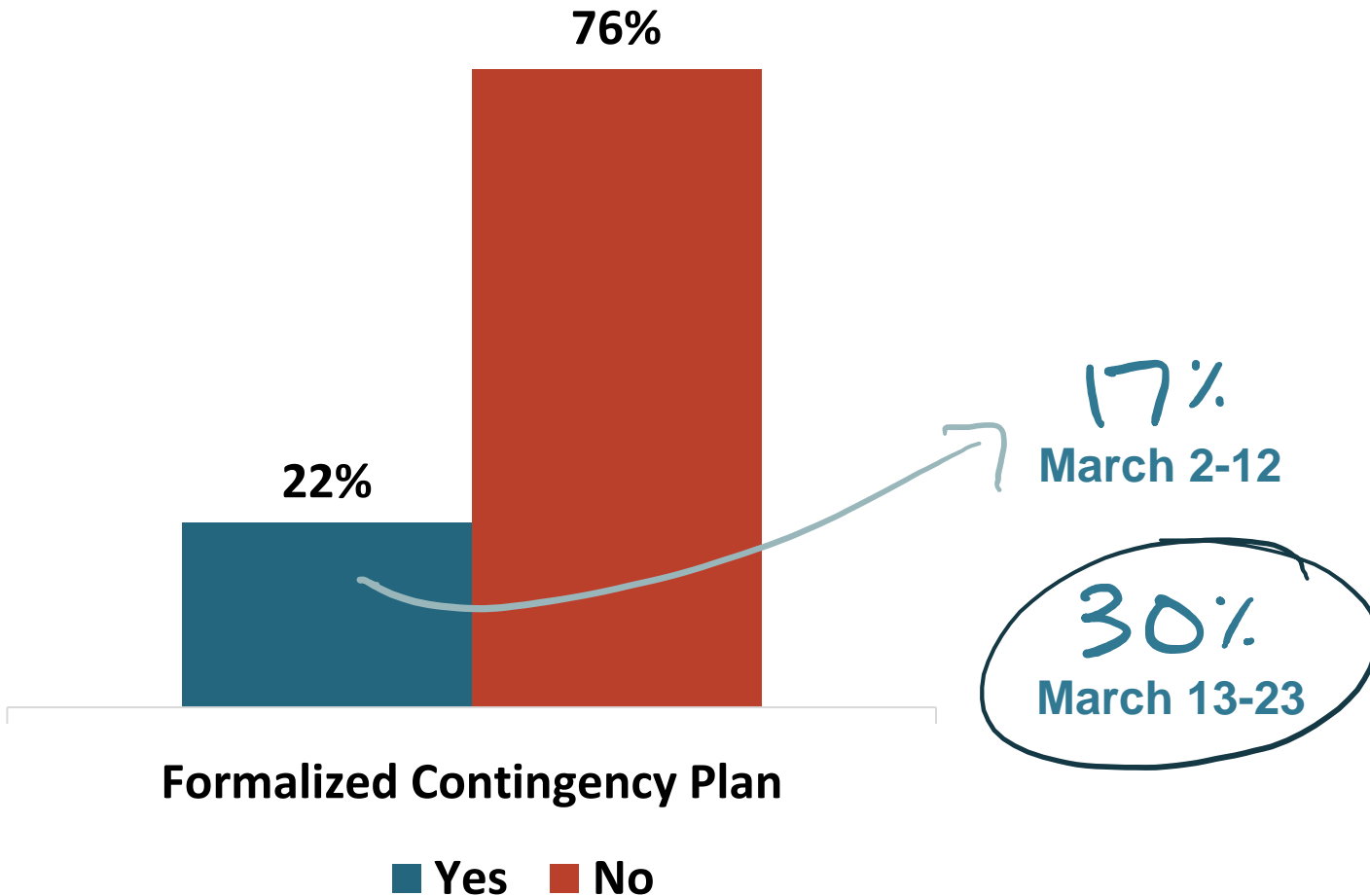
Most companies say they have a strategic growth plan, up from 2019.

“Does your company have a formal strategic plan for profitable growth?”



A little more than one in five manufacturers have a formalized contingency plan for pandemic outbreaks.

“Does your company have a formalized contingency plan in the event of a pandemic outbreak?”



	Yes	No
Twin Cities Companies	28%	72%
Greater Minnesota Companies	16%	81%
Less than \$1 million in revenue	14%	85%
\$1-5 million in revenue	19%	80%
Over \$5 million in revenue	43%	54%
50 or fewer employees	16%	83%
Over 50 employees	50%	47%

THE BOTTOM LINE

While Minnesota's manufacturers share broad long-term confidence about the future prospects of their companies, a unique version of the State of Manufacturing® (SOM) survey reveals that they are strapping in for a tumultuous COVID-19-related economic ride. Key takeaways include:

1

Nearly half (46%) of post-COVID interviewees now expect the country to slip into a recession, while only nine percent thought so before President Trump's national emergency declaration.

2

Those manufacturers we spoke with post-COVID are noticeably more likely to say that they see decreases in gross revenue and profitability projections than those we spoke with pre-COVID. And, one in four manufacturers say they will invest less in capital expenditures this year – up 12 points from what we saw in the pre-COVID data.

3

Smaller manufacturers tell us they expect to take a big hit because of the outbreak, much more so than other manufacturers.

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