



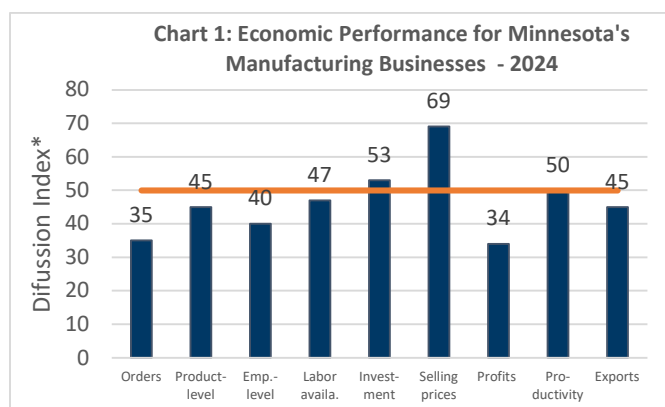
Manufacturers Are Optimistic About 2025 But Labor Concerns Remain

A random sample survey of Minnesota manufacturers conducted in November-December of 2024 by the Minnesota Department of Employment and Economic Development and the Federal Reserve Bank of Minneapolis reports that nearly half of Minnesota's manufacturers expect higher number of orders in 2025. However, close to 80% still anticipate the same tight labor conditions from 2024.

The Manufacturing Industry in 2024

Compared to 2023, respondents experienced declining or unchanged conditions. Most diffusion indexes were below 50, indicating contraction, particularly for profits (34) and number of orders (35) (Chart 1).

Sixty-one percent of respondents indicated they experienced unchanged labor availability while 56% reported the same production level. Close 30% of respondents indicated an increase in investment, resulting in a diffusion index of 53, suggesting modest expansion. Selling prices produced a diffusion index of 69, lower than the index of 74 the previous year, indicating a slightly lower inflation (Chart 1).



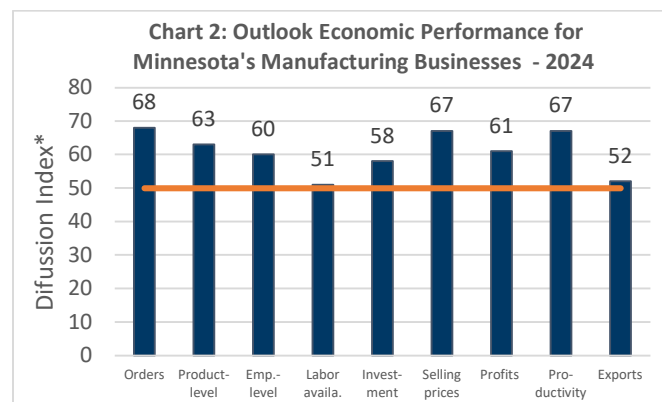
*A diffusion index greater than 50 indicates expansion, lower than 50 indicates contraction.

Outlook for the Manufacturing Industry

Improvement is expected in 2025 although labor market tightening is still expected. The diffusion index for labor availability of 51 (expansion) surpassed the index of 44 (contraction) from the previous year.

Employment level is also expected to improve with a diffusion index of 60, greater than the index of 50 the year before. However, this improvement comes with a price. About 70% of respondents anticipate wages increases of at least 3% to attract and retain workers (Table 1).

Results for other metrics show optimism for the coming year. All diffusion indexes are above 50 indicating expansion. In particular, close to half of the respondents anticipate a rise in number of orders, yielding a diffusion index of 68. Expectations for production levels have an index of 63; investment in plant and equipment, 58; profits, 61; and productivity, 67.



*A diffusion index greater than 50 indicates expansion, lower than 50 indicates contraction.

Outlook on the State Economy

Manufacturers generally foresee stable or improved conditions for the state's economy. Specifically, 43% anticipate no change in economic growth, while 33% expect an increase, yielding a diffusion index of 55 (expansion). This marks a notable improvement over the previous year's index of 33 (contraction). Both business investment and employment have diffusion indexes of 52 (expansion), significantly surpassing last year's indexes of 40 and 42, respectively. Additionally, the diffusion index for corporate profits has risen from 35 (contraction) last year to 50 (the neutral threshold).

However, consumer spending remains a concern, as 44% of respondents expect conditions to remain unchanged and 33% anticipate a decrease, leading to a diffusion index of 45, which suggests ongoing contraction.

A new question regarding automation revealed that over 50% of respondents did not experience an increase in automation over the past year. Nonetheless, 30% indicated that they had adopted more automation to address labor shortages, while 27% did so to reduce labor cost.

Table 1- Minnesota 2024 Manufacturing Business Condition Survey Results

Compared to 2023, in 2024, your location's:	Up	Same	Down	Diffusion Index 2024*	Diffusion Index 2023*
Number of orders	23%	24%	53%	35	37
Product/service production level	17%	56%	27%	45	44
Employment level	16%	48%	36%	40	45
Labor availability	16%	61%	23%	47	36
Investment in plant/equipment	29%	48%	24%	53	53
Selling prices	47%	43%	10%	69	74
Profits	18%	31%	51%	34	33
Productivity	22%	55%	24%	50	48
Exports	8%	74%	18%	45	44

Labor indicators in 2023, compared to 2022:	Decrease	0%	1-2%	3-5%	6-9%	>10%
Wages per worker	3%	7%	13%	61%	11%	5%
Benefits per worker	1%	26%	19%	24%	17%	13%

Compared to 2024, in 2025 you expect your location's:	Up	Same	Down	Diffusion Index 2024*	Diffusion Index 2023*
Number of orders	49%	37%	14%	68	51
Product/service production level	37%	52%	11%	63	53
Employment level	29%	61%	10%	60	50
Labor Availability	12%	77%	11%	51	44
Investment in plant/equipment	30%	56%	14%	58	46
Selling prices	42%	50%	9%	67	60
Profits	38%	45%	17%	61	56
Productivity	37%	59%	4%	67	57
Exports	10%	83%	7%	52	47

Expected labor indicators in 2025, compared to 2024:	Decrease	0%	1-2%	3-5%	6-9%	>10%
Wages per worker	1%	11%	20%	60%	5%	3%
Benefits per worker	1%	25%	19%	32%	14%	9%

What is your outlook on the following state economic indicators next year:	Up	Same	Down	Diffusion Index 2024*	Diffusion Index 2023*
Business investment	24%	56%	20%	52	40
Employment	20%	63%	17%	52	42
Consumer spending	23%	44%	33%	45	29
Inflation	39%	40%	22%	59	68
Economic Growth	33%	43%	24%	55	33
Corporate profits	27%	45%	29%	50	35

*A diffusion index greater than 50 indicates expansion, lower than 50 indicates contraction.

(Continuation)

Expected impact of current interest rates on your businesses in 2025	Up	Same	Down	Diffusion Index 2024*	Diffusion Index 2023*
Capital investment	13%	61%	26%	44	28
Hiring	9%	74%	17%	46	35
Savings	10%	64%	26%	42	29
Inventory	7%	70%	24%	42	31
Pricing to consumers	37%	57%	6%	66	72

*A diffusion index greater than 50 indicates expansion, lower than 50 indicates contraction.

Indicate if automation has increased over the past year due to the following:	Percent
Yes. We experienced increased productivity	24%
Yes, to reduce labor cost	27%
Yes, to mitigate labor shortages	29%
Yes, to improve product quality	22%
Yes, to improve worker safety	20%
Yes, due to AI implementation	2%
No increase in automation	52%
Other**	3%

Note: Totals might not add to 100% because of multiple choice responses.

** Other includes: "Due to process standardization improvements, to bring services in house, work instructions added to computers."

Business Ownership	Percent
Minority-owned	4%
Veteran-owned	6%
Women-owned	12%
Prefer not to answer	12%
None of the above	67%

Note: Totals might not add to 100% because of multiple choice responses.

Selected Comments

Respondents were asked to provide additional comments. Several were made in reference to labor force shortages, benefits cost and higher incentives elsewhere. They are shown below *verbatim*:

"Biggest challenge is skilled labor-pool (lack of skilled labor)."

health insurance as a benefit to our FT employees it is a huge cost."

"Horrible shortage of workforce availability."

"Need tax breaks and rebates to continue Mfg. in MN. Other states offer much larger incentives than MN."

"Still can't find enough labor."

"Health insurance was up for us 50% over 2023. We expect 10% this year. As a small business that provides

Notes:

Based on responses from 299 Minnesota businesses. Of those, 67 indicated they did not have manufacturing operations for an adjusted response rate of 23.2%. Percentages may not add to 100 percent due to rounding.

The margin of error is plus or minus 5.6% at a 95% confidence level.

Prepared by the Economic Analysis Unit, Minnesota Department of Employment and Economic Development, January 2025.