NAM MANUFACTURERS' OUTLOOK SURVEY
FOURTH QUARTER 2020
DECEMBER 23, 2020

Percentage of Respondents Positive About Their Own Company's Outlook	Overall Facts About the Survey
74.2% *(Sept.: 66.0%)* Small Manufacturers: **68.1%** *(Sept.: 62.0%)* Medium-Sized Manufacturers: **73.4%** *(Sept.: 65.5%)* Large Manufacturers: **81.0%** *(Sept.: 70.3%)*	Number of Responses: 624 In the Field: Nov. 19–Dec. 3, 2020 Small Manufacturers: 138 responses Medium-Sized Manufacturers: 323 responses Large Manufacturers: 163 responses **NAM Manufacturing Outlook Index[1]** **49.9** *(Sept.: 44.5)*
Expected Growth Rate for SALES Over the Next 12 Months **↑ 3.4%** *(Sept.: ↑ 1.9%)*	**Expected Growth Rate for PRODUCTION Over the Next 12 Months** **↑ 3.4%** *(Sept.: ↑ 2.2%)*
Expected Growth Rate for FULL-TIME EMPLOYMENT Over the Next 12 Months **↑ 1.8%** *(Sept.: ↑ 0.7%)*	**Expected Growth Rate for EMPLOYEE WAGES Over the Next 12 Months** **↑ 1.9%** *(Sept.: ↑ 1.4%)*
Expected Growth Rate for CAPITAL INVESTMENTS Over the Next 12 Months **↑ 1.5%** *(Sept.: ↑ 0.7%)*	**Expected Growth Rate for EXPORTS Over the Next 12 Months** **↑ 0.8%** *(Sept.: ↑ 0.4%)*
Expected Growth Rate for PRICES OF COMPANY'S PRODUCTS Over the Next 12 Months **↑ 2.1%** *(Sept.: ↑ 1.3%)*	**Expected Growth Rate for RAW MATERIAL PRICES AND OTHER INPUT COSTS Over the Next 12 Months** **↑ 3.3%** *(Sept.: ↑ 2.2%)*
Expected Growth Rate for INVENTORIES Over the Next 12 Months **↑ 0.6%** *(Sept.: ↓ 0.4%)*	**Expected Growth Rate for HEALTH INSURANCE COSTS Over the Next 12 Months** **↑ 6.4%** *(Sept.: ↑ 5.8%)*

[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 74.4%, with a standard deviation of 15.0%. 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 (89.4% positive). As such, the index helps to normalize the outlook data to put them into a historical context.

Summary

Manufacturing activity severely plummeted in the second quarter, with sizable demand and business disruptions due to the COVID-19 pandemic. Manufacturers have rebounded strongly since the spring, with various sentiment surveys reporting solid gains in new orders and output and respondents generally upbeat in their outlook for the coming months. Despite that significant progress, however, manufacturing production remains 3.7% below the level seen in February, and employment is down nearly 600,000 workers on net over that same time frame. Indeed, most assessments predict that output will not get back to pre-pandemic levels until the second half of 2021, and firms continue to cite supply chain and hiring challenges amid lingering worries about the negative impacts of COVID-19.

With that as context, the Manufacturers' Outlook Survey for the fourth quarter of 2020 was conducted from Nov. 19 to Dec. 3, and 74.2% of respondents were either somewhat or very positive about the outlook for their company (Figures 1 and 2). This was roughly equivalent to the historical average of 74.4%, and it represented notable improvement after the 33.9% and 66.0% readings in the second and third quarters, respectively. The second quarter survey reported activity that was the worst since the Great Recession. On average in 2020, 62.4% of manufacturers were positive in their outlook, down from the 92.4% and 76.2% averages seen in 2018 and 2019, respectively, and the lowest annual average since 2009.

The NAM Manufacturing Outlook Index measured 49.9 in the fourth quarter, up from 44.5 in the third quarter (Figure 3). This is consistent with the current outlook being just marginally shy of the historical average.

In the latest data, 42.1% of manufacturers report higher production in the fourth quarter than in the third, with 31.3% predicting output will be lower and 25.8% feeling there will be no change (Figure 4). At the same time, 57.1% and 55.4% of those completing the survey anticipate no change in hiring and capital spending in the fourth quarter, respectively, with 26.3% and 22.3% expecting increased employment and investment.[2]

Respondents were asked when they expect revenues to return to pre-pandemic levels. Just over 29% said that their revenues will have recovered either before or during the fourth quarter, with 38.3% expecting their revenues to return to normal at some point in 2021 (Figure 5). As such, 67.7% of manufacturers completing this survey anticipate that their revenues will be back to pre-pandemic levels by the end of 2021, with 86.2% saying the same thing by the end of 2022.

After two quarters with weaker domestic demand topping the list of primary business challenges, the inability to attract and retain talent led the pack once again in the fourth quarter (Figure 6). Prior to the COVID-19 pandemic, workforce challenges had been the primary concern for 10 consecutive quarters, and its reemergence at the top of this list reflects the structural skills mismatches that many manufacturers face regarding employment. The weaker domestic economy fell to second place, with

[2] These data could be expressed as purchasing managers' indices: production (57.7), employment (54.9) and capital spending (50.0). That would suggest modest growth in output and hiring on net in the fourth quarter, but capital investment is neutral. This was only the second quarter with these questions. For comparison, the third quarter PMI data were production (63.0), employment (52.4) and capital spending (49.7). As such, production and hiring growth decelerated, but capital spending stabilized.

50.4%. Other top worries included rising health care and insurance costs (50.2%) and increased raw material costs (43.2%).

Manufacturers were asked about their policy priorities for the incoming Biden administration and the 117th Congress. Their top responses related to their bottom line, with 67.1% citing a desire for reduced regulatory burdens (Figure 7). That was followed by a request for controlling rising health care costs (59.1%) and retaining and strengthening tax reform (57.6%). In addition, 52.9% and 46.4% appealed for slowing the growth of entitlement spending and finding a long-term deal that tackles the deficit and debt, respectively.

For much of the past couple years, large manufacturers (i.e., those with 500 or more employees) have been the least positive in their outlook likely due in part to trade uncertainties. That turned around in the previous survey and continued with the latest one, with larger firms more positive than smaller businesses. Eighty-one percent of larger manufacturers felt positive about their company's outlook in the fourth quarter. In contrast, 68.1% of small manufacturers (i.e., those with fewer than 50 employees) and 73.4% of medium-sized businesses (i.e., those with 50 to 499 employees) felt positive in their outlook. As such, only large manufacturers had optimism levels that exceeded the historical average.

Some other trends regarding predicted growth rates over the next 12 months (Figure 8):

- **Sales:** Respondents expect sales to rise 3.4% over the next 12 months, the best reading since the second quarter of 2019. Nearly 66% of manufacturers predict that sales will increase in 2021, with 43.0% feeling that orders will rise 5.0% or more. Firm size mattered in the data. Large firms anticipate sales rising 4.5%, whereas small and medium-sized manufacturers forecast increases of 2.6% and 3.2%, respectively.

- **Production:** Respondents also expect production to increase 3.4% over the next 12 months, the strongest reading in six quarters. Almost 66% forecast output to rise over the coming months, with 12.2% seeing declining production. Large manufacturers felt the most optimistic, anticipating 4.2% growth in production over the next 12 months. In contrast, small and medium-sized firms expect output to rise 2.7% and 3.3%, respectively.

- **Full-Time Employment:** Respondents expect full-time employment to rise by 1.8% over the next 12 months, up from 0.7% in September and the highest rate since the second quarter of 2019. The percentage anticipating more employment rose from 37.9% in the third quarter to 49.2% in the fourth quarter, with those predicting declined hiring dropping from 15.9% to 12.1%. In terms of hiring, it was small and medium-sized manufacturers that had the strongest anticipated employment growth for 2021, at 1.9%, with larger firms predicting hiring growth of 1.6%.

- **Employee Wages:** Respondents anticipate employee wages (excluding nonwage compensation, such as benefits) to rise 1.9% over the next 12 months, up from 1.4% in the previous survey and the strongest figure since the first quarter, which was 2.1%. Nearly 28% see wages rising 3% or more, with 51.8% predicting an increase of up to 3%.

- **Capital Investments:** Capital spending was also the best since the first quarter (pre-pandemic), with respondents anticipating an average increase of 1.5% over the next 12 months, up from 0.7% in the third quarter. In this survey, 41.6% expect additional capital spending in the next year, with 39.8% expecting no change and 18.6% forecasting reduced capital expenditures. By firm size, small, medium and large manufacturers see capital spending increasing 1.0%, 1.3% and 2.3%, respectively.

- **Exports:** Respondents expect exports to increase 0.8% over the next 12 months, up from 0.4% in the previous survey and the best reading since the first quarter of 2019. Nearly 31% anticipate higher exports in 2021, with 60.6% seeing no changes.

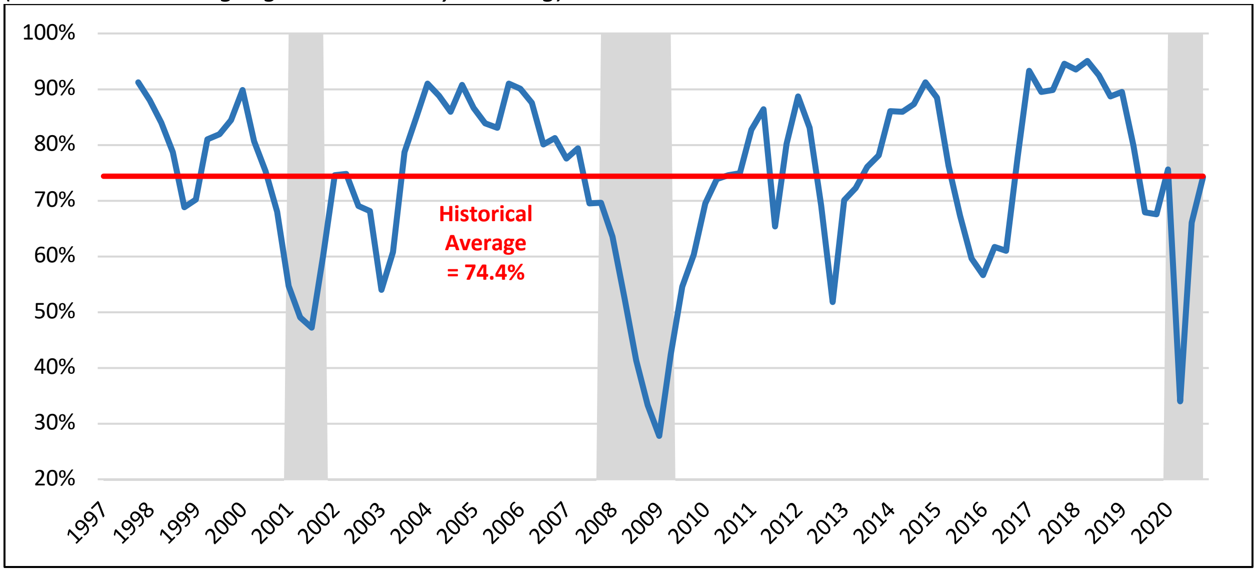
- **Product Prices:** Respondents expect product prices to increase 2.1% over the next 12 months, up from 1.3% in the prior survey. This suggests that pricing power has stabilized since experiencing deflationary pressures in the spring. Overall, 58.5% anticipate increased product prices over the coming year, with 35.4% seeing no changes.

- **Raw Material Prices:** Manufacturers anticipate raw material prices and other input costs rising 3.3% over the next 12 months, up from 2.2% in the previous release and a two-year high. Almost 76% of respondents cited higher raw material costs, including 26.5% feeling that input prices would rise at least 5%.

- **Inventories:** After six consecutive quarters with expected declines, respondents anticipate inventories will rise by 0.6% over the next 12 months. More than 30% of manufacturers anticipate increased inventories in 2021, with 20.2% expecting decreases and 49.7% seeing no changes.

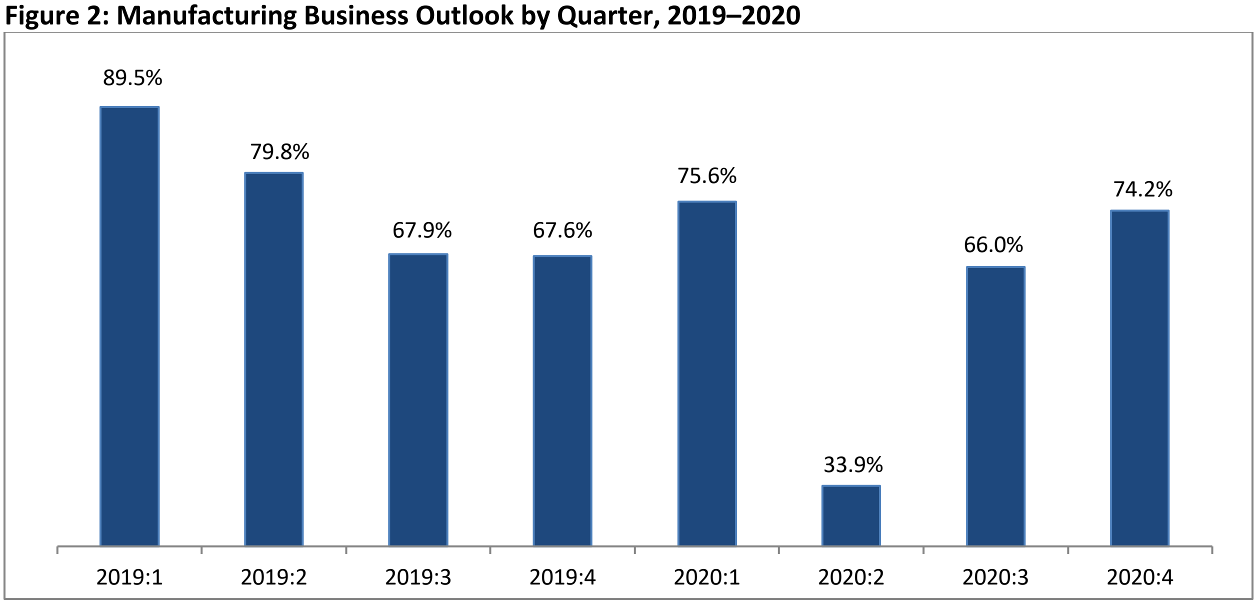
- **Health Insurance Costs:** Manufacturers predict health insurance costs will rise 6.4% over the next 12 months, up from 5.8% in the previous survey and the fastest pace since the second quarter of 2019. In the latest figures, 61.5% expect costs to increase 5% or more, and 21.7% see costs rising 10% 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, 2019–2020



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

Figure 3: NAM Manufacturing Outlook Index, 2019–2020

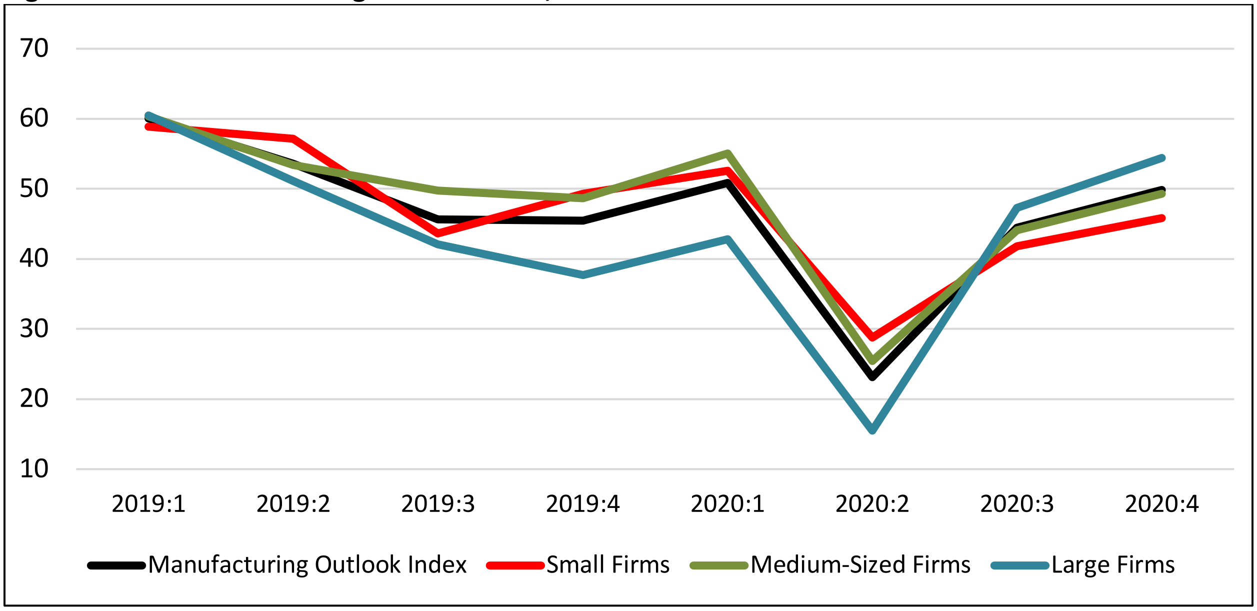


Figure 4: Change in Manufacturing Activity in Fourth Quarter Relative to Third Quarter 2020

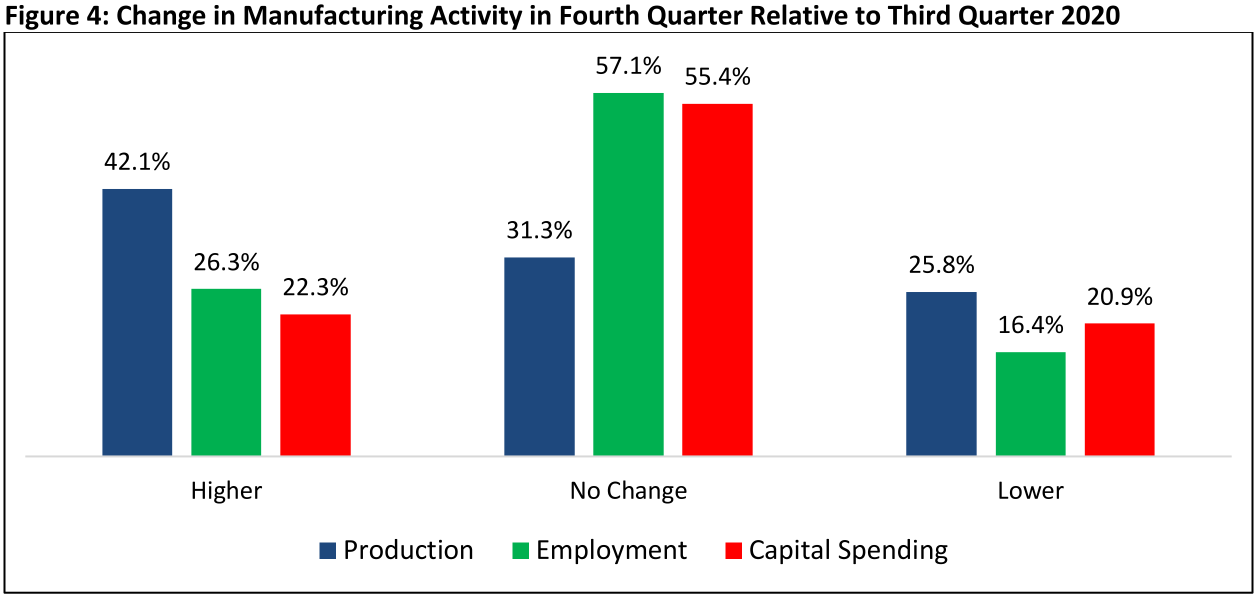


Figure 5: When Firms Expect Revenues to Return to Pre-COVID-19 Levels

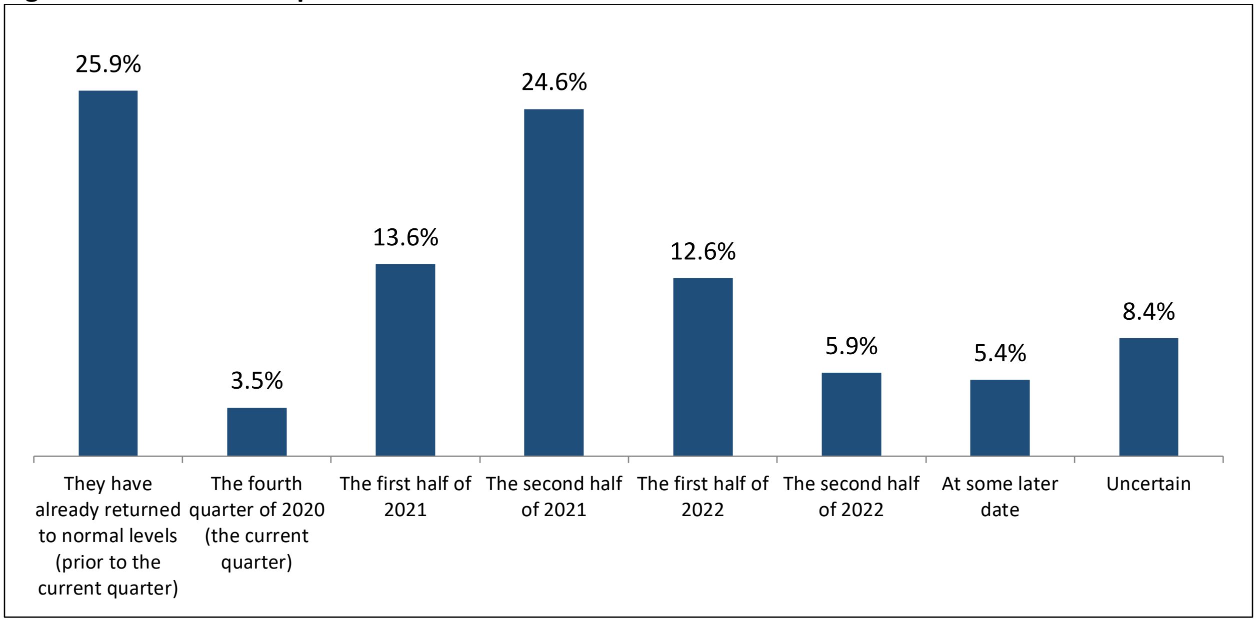
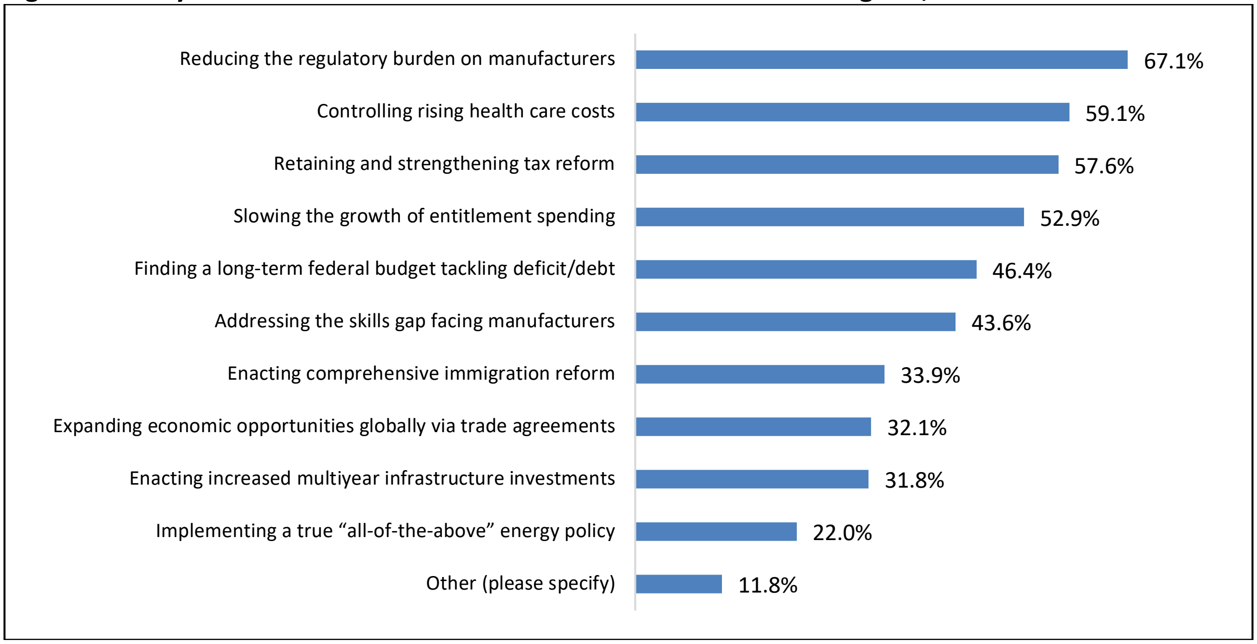


Figure 6: Primary Current Business Challenges, Fourth Quarter 2020

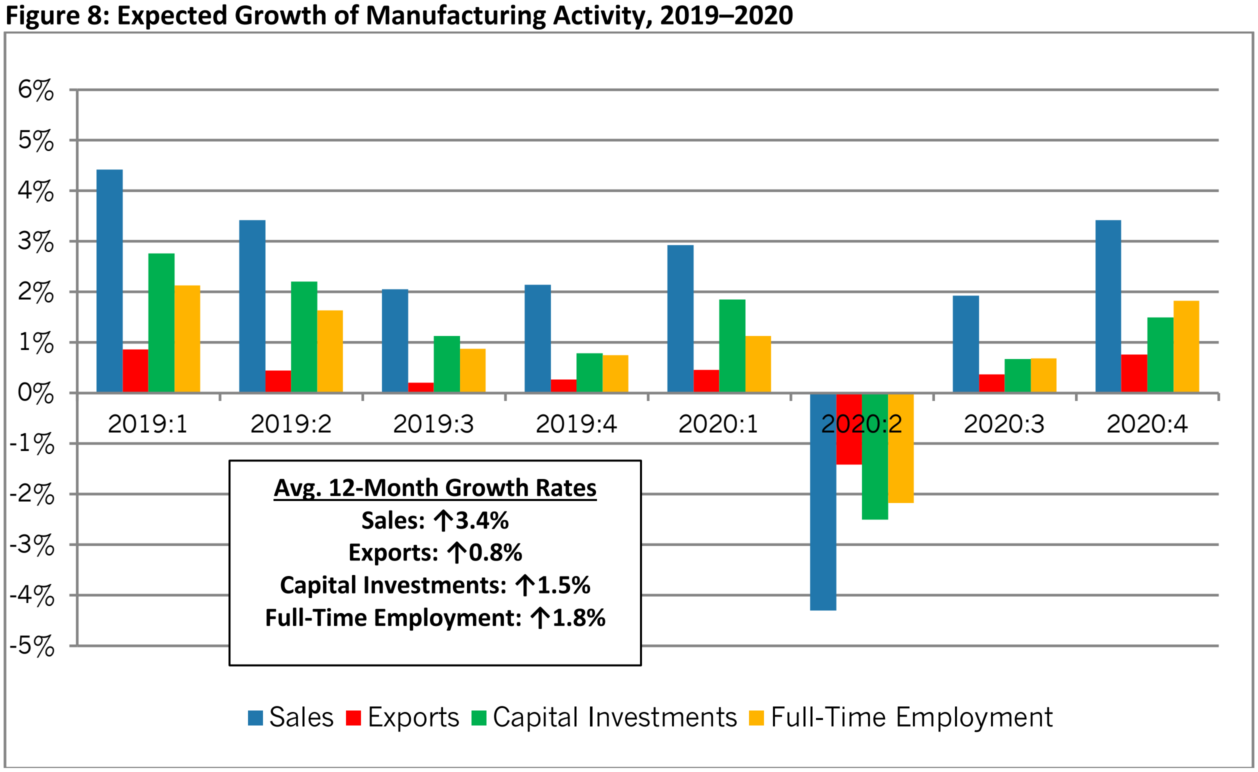
Note: Respondents were able to check more than one response; therefore, responses exceed 100%.

Figure 7: Policy Priorities for New Biden Administration and 117th Congress, Fourth Quarter 2020



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

Figure 8: Expected Growth of Manufacturing Activity, 2019–2020



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 – 19.9%
    b. Somewhat positive – 54.3%
    c. Somewhat negative – 22.3%
    d. Very negative – 3.5%

    Percentage that is either somewhat or very positive in their outlook = 74.2%

2. Over the next year, what do you expect to happen with your company's overall sales?
    a. Increase more than 10 percent – 19.6%
    b. Increase 5 to 10 percent – 23.4%
    c. Increase up to 5 percent – 22.8%
    d. Stay about the same – 20.1%
    e. Decrease up to 5 percent – 5.9%
    f. Decrease 5 to 10 percent – 4.2%
    g. Decrease more than 10 percent – 4.0%

    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 – 18.8%
    b. Increase 5 to 10 percent – 22.1%
    c. Increase up to 5 percent – 24.8%
    d. Stay about the same – 22.1%
    e. Decrease up to 5 percent – 4.8%
    f. Decrease 5 to 10 percent – 4.2%
    g. Decrease more than 10 percent – 3.2%

    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 – 11.6%
    b. Increase 3 to 5 percent – 9.5%
    c. Increase up to 3 percent – 9.8%
    d. Stay about the same – 60.6%
    e. Decrease up to 3 percent – 2.3%
    f. Decrease 3 to 5 percent – 1.3%
    g. Decrease more than 5 percent – 5.1%

    Average expected increase in exports consistent with these responses = 0.8%

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 – 2.1%
    b. Increase 5 to 10 percent – 13.3%
    c. Increase up to 5 percent – 43.1%
    d. Stay about the same – 35.4%
    e. Decrease up to 5 percent – 4.8%
    f. Decrease 5 to 10 percent – 1.1%
    g. Decrease more than 10 percent – 0.2%

Average expected increase in product prices consistent with these responses = 2.1%

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 – 6.3%
    b. Increase 5 to 10 percent – 20.2%
    c. Increase up to 5 percent – 49.4%
    d. Stay about the same – 23.1%
    e. Decrease up to 5 percent – 1.0%
    f. Decrease 5 to 10 percent – 0.2%
    g. Decrease more than 10 percent – none

    Average expected increase in raw material prices consistent with these responses = 3.3%

7. Over the next year, what are your company's capital investment plans?
    a. Increase more than 10 percent – 15.2%
    b. Increase 5 to 10 percent – 11.9%
    c. Increase up to 5 percent – 14.5%
    d. Stay about the same – 39.8%
    e. Decrease up to 5 percent – 6.3%
    f. Decrease 5 to 10 percent – 4.0%
    g. Decrease more than 10 percent – 8.2%

    Average expected increase in capital investments consistent with these responses = 1.5%

8. Over the next year, what are your inventory plans?
    a. Increase more than 10 percent – 5.7%
    b. Increase 5 to 10 percent – 7.7%
    c. Increase up to 5 percent – 16.8%
    d. Stay about the same – 49.7%
    e. Decrease up to 5 percent – 11.9%
    f. Decrease 5 to 10 percent – 4.8%
    g. Decrease more than 10 percent – 3.4%

    Average expected increase in inventories consistent with these responses = 0.6%

9. Over the next year, what do you expect in terms of full-time employment in your company?
    a. Increase more than 10 percent – 6.0%
    b. Increase 5 to 10 percent – 13.3%
    c. Increase up to 5 percent – 29.9%
    d. Stay about the same – 38.7%
    e. Decrease up to 5 percent – 8.6%
    f. Decrease 5 to 10 percent – 2.1%
    g. Decrease more than 10 percent – 1.5%

    Average expected increase in full-time employment consistent with these responses = 1.8%

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 – 2.3%
    b. Increase 3 to 5 percent – 25.6%
    c. Increase up to 3 percent – 51.8%
    d. Stay about the same – 20.4%
    e. Decrease up to 3 percent – none

    f. Decrease 3 to 5 percent – none
    g. Decrease more than 5 percent – none

    Average expected increase in employee wages consistent with these responses = 1.9%

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 – 17.0%
    c. Increase 5.0 to 9.9 percent – 39.8%
    d. Increase less than 5.0 percent – 25.7%
    e. No change – 9.5%
    f. Decrease less than 5.0 percent – 1.1%
    g. Decrease 5.0 percent or more – 1.0%
    h. Uncertain – 1.2%

    Average expected increase in health insurance costs consistent with these responses = 6.4%

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 – 50.4%
    b. Weaker global growth and slower export sales – 26.0%
    c. Trade uncertainties (e.g., actual or proposed tariffs, trade negotiation uncertainty) – 33.7%
    d. Strengthened U.S. dollar relative to other currencies – 10.6%
    e. Challenges with access to capital or other forms of financing – 5.0%
    f. Unfavorable business climate (e.g., taxes, regulations) – 37.6%
    g. Increased raw material costs – 43.2%
    h. Rising health care/insurance costs – 50.2%
    i. Transportation and logistics costs – 31.5%
    j. Attracting and retaining a quality workforce – 62.4%
    k. Other – 18.8%

13. What is your company's primary industrial classification?
    a. Chemicals – 6.4%
    b. Computer and electronic products – 3.1%
    c. Electrical equipment and appliances – 7.4%
    d. Fabricated metal products – 27.0%
    e. Food manufacturing – 2.7%
    f. Furniture and related products – 1.0%
    g. Machinery – 11.7%
    h. Nonmetallic mineral products – 2.4%
    i. Paper and paper products – 1.9%
    j. Petroleum and coal products – 0.5%
    k. Plastics and rubber products – 6.3%
    l. Primary metals – 3.5%
    m. Transportation equipment – 4.8%
    n. Wood products – 1.6%
    o. Other – 19.6%

<u>SPECIAL QUESTIONS</u>

14. How would you characterize **<u>production</u>** in the fourth quarter relative to the third quarter?
    a. Higher – 42.1%
    b. No change – 31.3%
    c. Lower – 25.8%
    d. Uncertain – 0.8%

15. How would you characterize **<u>employment</u>** in the fourth quarter relative to the third quarter?
    a. Higher – 26.3%
    b. No change – 57.1%
    c. Lower – 16.4%
    d. Uncertain – 0.2%

16. How would you characterize **<u>capital spending</u>** in the fourth quarter relative to the third quarter?
    a. Higher – 22.3%
    b. No change – 55.4%
    c. Lower – 20.9%
    d. Uncertain – 1.4%

17. When do you expect your firm's revenues to return to normal (pre-COVID-19) levels?
    a. They have already returned to normal levels (prior to the current quarter) – 25.9%
    b. The fourth quarter of 2020 (the current quarter) – 3.5%
    c. The first half of 2021 – 13.6%
    d. The second half of 2021 – 24.6%
    e. The first half of 2022 – 12.6%
    f. The second half of 2022 – 5.9%
    g. At some later date – 5.4%
    h. Uncertain – 8.4%

18. What do you see as the most pressing priorities for the new Biden Administration and the 117th Congress? (Check all that apply.)
    a. Retaining and strengthening tax reform – 57.6%
    b. Reducing the regulatory burden on manufacturers and other businesses – 67.1%
    c. Expanding economic opportunities globally through the negotiation of more market-opening trade agreements – 32.1%
    d. Implementing a true "all-of-the-above" energy policy – 22.0%
    e. Controlling rising health care costs – 59.1%
    f. Enacting a long-term solution for increased multiyear infrastructure investments – 31.8%
    g. Enacting comprehensive immigration reform – 33.9%
    h. Addressing the skills gap facing manufacturers – 43.6%
    i. Slowing the growth of entitlement spending – 52.9%
    j. Finding a long-term federal budget deal that tackles the deficit/debt – 46.4%
    k. Other – 11.8%

19. Please estimate the total number of "full-time equivalent" employees (including contract workers) your organization currently employs in the U.S.
    a. 50 or less – 23.0%
    b. 51–100 – 18.0%
    c. 101–250 – 18.4%
    d. 251–500 – 13.7%

e. 501–750 – 4.5%
f. 751–1,000 – 2.5%
g. 1,001–5,000 – 11.4%
h. 5,001–10,000 – 2.3%
i. 10,001–50,000 – 5.3%
j. 50,001–100,000 – 0.5%
k. More than 100,000 – 0.5%