

NAM MANUFACTURERS' OUTLOOK SURVEY

FIRST QUARTER 2024

March 5, 2024

<p>Percentage of Respondents Positive About Their Own Company's Outlook</p> <p>68.7% (December: 66.2%)</p>	<p>Overall Facts About the Survey Number of Responses: 300 In the Field: Feb. 9–23, 2024</p> <hr/> <p>NAM Manufacturing Outlook Index¹ 45.8 (December: 44.1)</p>
<p>Expected Growth Rate for SALES Over the Next 12 Months ↑ 2.2% (December: ↑ 1.5%)</p>	<p>Expected Growth Rate for PRODUCTION Over the Next 12 Months ↑ 2.3% (December: ↑ 1.7%)</p>
<p>Expected Growth Rate for FULL-TIME EMPLOYMENT Over the Next 12 Months ↑ 1.0% (December: ↑ 0.6%)</p>	<p>Expected Growth Rate for EMPLOYEE WAGES Over the Next 12 Months ↑ 2.8% (December: ↑ 2.9%)</p>
<p>Expected Growth Rate for CAPITAL INVESTMENTS Over the Next 12 Months ↑ 1.4% (December: ↑ 0.6%)</p>	<p>Expected Growth Rate for EXPORTS Over the Next 12 Months ↑ 0.2% (December: ↑ 0.2%)</p>
<p>Expected Growth Rate for PRICES OF COMPANY'S PRODUCTS Over the Next 12 Months ↑ 1.8% (December: ↑ 1.3%)</p>	<p>Expected Growth Rate for RAW MATERIAL PRICES AND OTHER INPUT COSTS Over the Next 12 Months ↑ 2.4% (December: ↑ 1.8%)</p>
<p>Expected Growth Rate for INVENTORIES Over the Next 12 Months ↓ 1.6% – Falling for the Seventh Straight Quarter (December: ↓ 1.7%)</p>	<p>Expected Growth Rate for HEALTH INSURANCE COSTS Over the Next 12 Months ↑ 7.1% (December: ↑ 7.3%)</p>

Summary of Findings

- Manufacturing sentiment inched up in Q1 2024 but remained below the historical average.** The NAM conducted the Manufacturers' Outlook Survey for the first quarter of 2024 from Feb. 9 to 23, and 68.7% of respondents felt either somewhat or very positive about their company's outlook, edging up from 66.2% in the fourth quarter (Figures 1 and 2). It was the sixth straight reading below the historical average (74.8%), averaging 66.8% over the past four surveys. The NAM Manufacturing Outlook Index measured 45.8 in the first quarter, up from 44.1 in the fourth quarter.

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 average for those with positive responses in their outlook is 74.78%, with a standard deviation of 14.51%. An index reading of 40 would be consistent with one standard deviation below the mean (60.27% positive), and an index reading of 60 would be one standard deviation above the mean (89.29% positive). As such, the index helps to normalize the outlook data to put them into a historical context.

- **Workforce challenges continue to dominate.** More than 65% of manufacturers cited the inability to attract and retain employees as their top primary challenge (Figure 3), followed by an unfavorable business climate (58.9%), rising health care and insurance costs (58.2%) and a weaker domestic economy (53.2%). While workforce challenges continue to top the list, it was perhaps notable that the percentage citing this as their top concern dropped to the lowest reading since Q4 2020 (Figure 4). This could be a sign of possible cooling in the still-tight labor market. At the same time, the percentage noting a weaker domestic economy was the lowest since this time last year. Similarly, inflation (38.1%) and supply chain (33.8%) concerns—both of which dominated in 2022—have continued to moderate.
- **Manufacturers continue to struggle with a regulatory onslaught from Washington.** Concern about the overall business climate was elevated and not far from levels last seen at the end of 2016. With so many rules under consideration and being promulgated, respondents were asked about the difficulties that these federal regulations pose for their business. Two-thirds of manufacturers said that these rules take significant time to understand and comply with (Figure 5). Other top responses include that the rules will be costly to implement (65.5%) and may undermine day-to-day business operations (54.3%). In addition, 43.0% of those completing the survey said that, by having so many rules being finalized in such a short period, it amplifies their impact and difficulty and extends the time needed to comply. Moreover, 42.7% suggest that the rules exceed the expected scope of agencies’ regulatory authority, and 30.7% note that these rules will overlap or conflict across agencies.
- **Smart tax policy should be used to incentivize R&D and capital investments.** Nearly 94% of respondents say that it is important for the federal tax code to help reduce manufacturers’ costs for conducting R&D, accessing capital via business loans and investing in capital equipment purchases, with 58.0% saying that it is very important.
- **The recent expiration of critical pro-growth tax provisions has already harmed manufacturers.** The expiration of federal tax incentives related to R&D, interest deductibility and expensing for capital investments has already caused nearly 40% of respondents to pull back on hiring and investing due to increased taxes. The NAM expects this number to rise if these tax incentives are not reinstated soon.
- **Manufacturers are working to improve operational and supply chain resiliency by investing in new technologies and digitalization.** Nearly 28% are implementing such projects companywide, and almost one-quarter are experiencing varying levels of progress in different departments (Figure 6). These investments come at a time with 25.8% of respondents listing trade uncertainties as a major business challenge.
- **Artificial intelligence has key use cases in the industry.** Respondents stated that AI models are used to increase efficiency (31.0%), to inform predictive maintenance (23.1%) and to assist product design and development (16.9%), among others (Figure 7). It is notable that the top response was uncertain (46.9%), suggesting that many manufacturers are still trying to figure out the use case for their business.
- **The U.S. must protect intellectual property rights, maintain a strong patent system and defend against government incursion on private-sector patents.** These IP and other protections are

important to manufacturers because they promote innovation in the United States (90.1%), support R&D and job creation (78.2%), bolster American competitiveness (77.8%) and allow for the commercialization of innovative products (73.7%) (Figure 8).

- **Health care supply chain middlemen are a concerning problem.** Nearly two-thirds of respondents (62.5%) said that these “pharmacy benefit managers” are driving up costs manufacturers pay to provide prescription drug coverage to their employees and the prices that manufacturing employees pay at the pharmacy counter.
- **Permitting reform will be beneficial.** As with previous surveys, the majority of respondents (72.4%) said that the length and complexity of the current permitting reform process affects their investment decisions in various degrees, with 38.9% suggesting that they were extremely or moderately impacted. In survey responses throughout 2023, manufacturers stated that reform to the current system could allow them to hire more workers, expand their business and increase wages and benefits.
- **Manufacturers are exploring ways to improve recruitment and retention.** About 8 out of 10 respondents stated that increased compensation—including wages, salaries and benefits, including overtime—has helped keep their company competitive in its ability to recruit and retain employees. Additionally, more than half of respondents have increased flexibility for production workers to help attract new employees and retain current staff.
- **Manufacturing employment and production both rebounded in the first quarter in the latest PMI analysis, while capital spending decreased marginally on net.** The majority of respondents reported no change in hiring or capital spending between the fourth and first quarters, while there were improvements in those suggesting production and employment increased in the quarter in this release (Figure 9 and the table below).

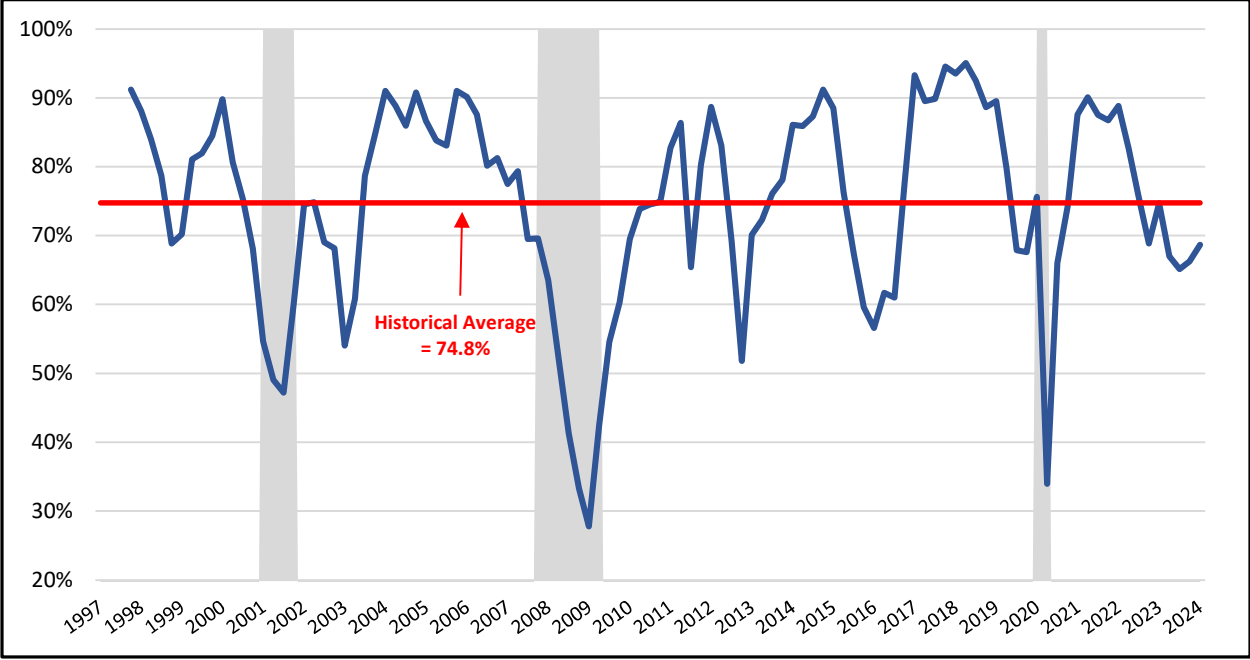
	Previous PMI	First Quarter 2024 Relative to Fourth Quarter 2023			
		Higher	No Change	Lower	PMI
Production	43.3	35.1%	38.5%	26.4%	54.4
Employment	46.1	23.3%	56.8%	19.9%	51.7
Capital Spending	50.4	23.4%	52.5%	24.1%	49.7

- Some other trends regarding predicted growth rates over the next 12 months (Figure 10):
 - **Sales:** Respondents expect sales to rise 2.2% over the next 12 months, up from 1.5% in Q4 and the strongest reading in one year (four quarters). Nearly 56% of manufacturers predict sales will increase over the next four quarters, with 34.5% feeling orders will rise 5% or more. In contrast, 19.4% anticipate declining sales, with 24.8% predicting no change.
 - **Production:** Respondents expect production to increase 2.3% over the next 12 months, up from 1.7% in Q4 and a four-quarter high. Fifty-five percent of respondents forecast output to rise over the coming months, with 19.8% seeing declining production. More than 34% anticipate production growth of 5% or more over the next year.
 - **Full-Time Employment:** Respondents expect full-time employment to rise 1.0% over the next 12 months, up from 0.6% in Q4 and a three-quarter high. Nearly 38% anticipate an

increase in full-time hiring over the next year, with 16.4% predicting reduced employment. At the same time, 45.8% see hiring levels remaining the same over the next year.

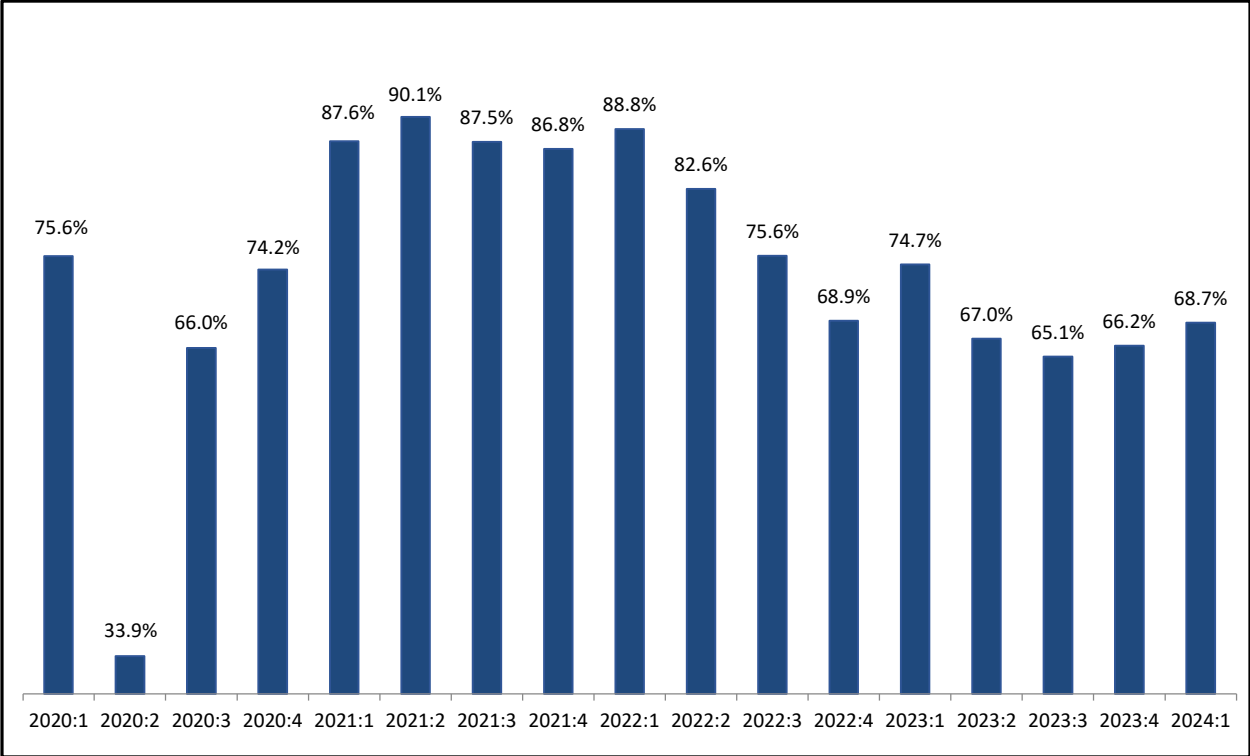
- **Employee Wages:** Respondents anticipate employee wages (excluding nonwage compensation, such as benefits) to rise 2.8% over the next 12 months, inching down from 2.9% in Q4. More than 55% of manufacturers predict wage growth of 3% or more over the next 12 months, with 5.4% suggesting more than 5%.
- **Capital Investments:** Respondents expect capital spending to rise 1.4% over the next 12 months, jumping from 0.6% in Q4 and a four-quarter high. In this survey, 42.3% expect additional capital spending in the next year, with 38.3% predicting no change and 19.5% forecasting reduced capital expenditures.
- **Exports:** Respondents expect exports to increase just 0.2% over the next 12 months, the same pace as in Q4. Overall, 20.3% anticipate higher exports in the next year, with 65.2% seeing no changes and 14.5% forecasting declines.
- **Inventories:** Respondents anticipate inventories shrinking 1.6% over the next 12 months, declining for the seventh straight quarter. This suggests that manufacturers are continuing to draw down their stockpiles, which should necessitate additional production once demand strengthens. More than 44% of firms expect falling inventories over the next year, with 16.8% predicting increases and 38.9% seeing no changes.

Figure 1: Manufacturing Business Outlook by Quarter, Q4 1997 – Q1 2024
(Recessions Are Highlighted with Gray Shading)



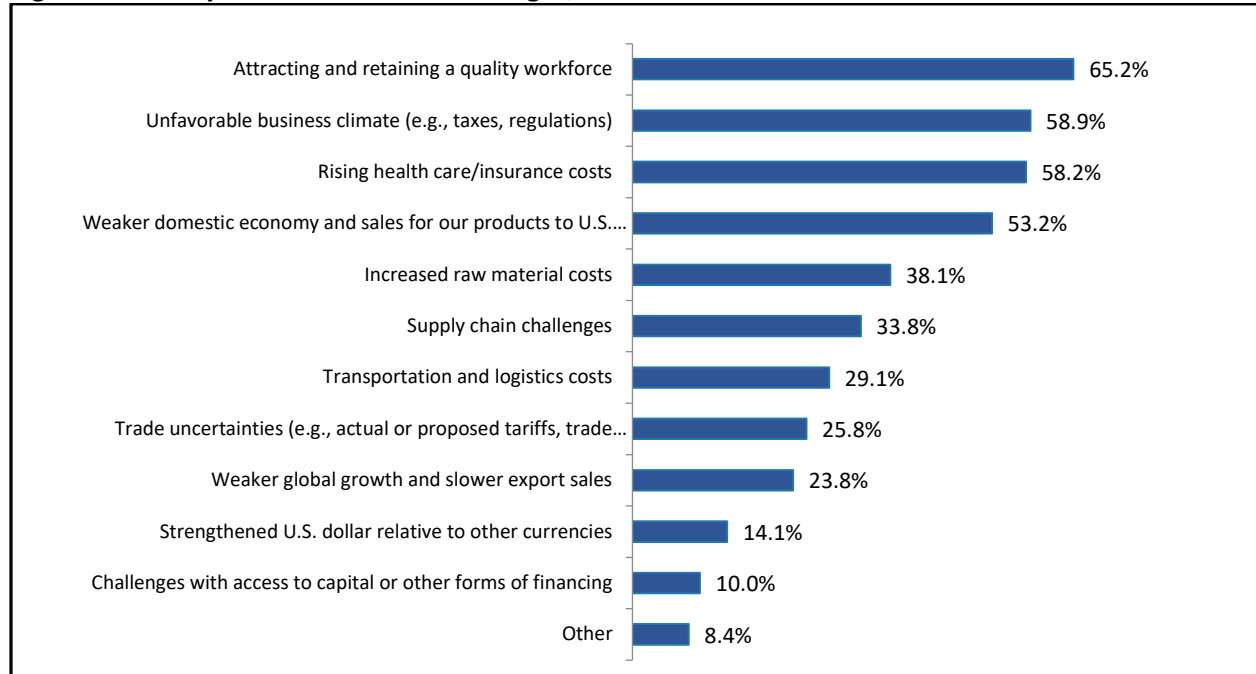
Note: Percentage of respondents who characterized the current business outlook as somewhat or very positive. Recessions are designated by the National Bureau of Economic Research.

Figure 2: Manufacturing Business Outlook by Quarter, Q1 2020 – Q1 2024



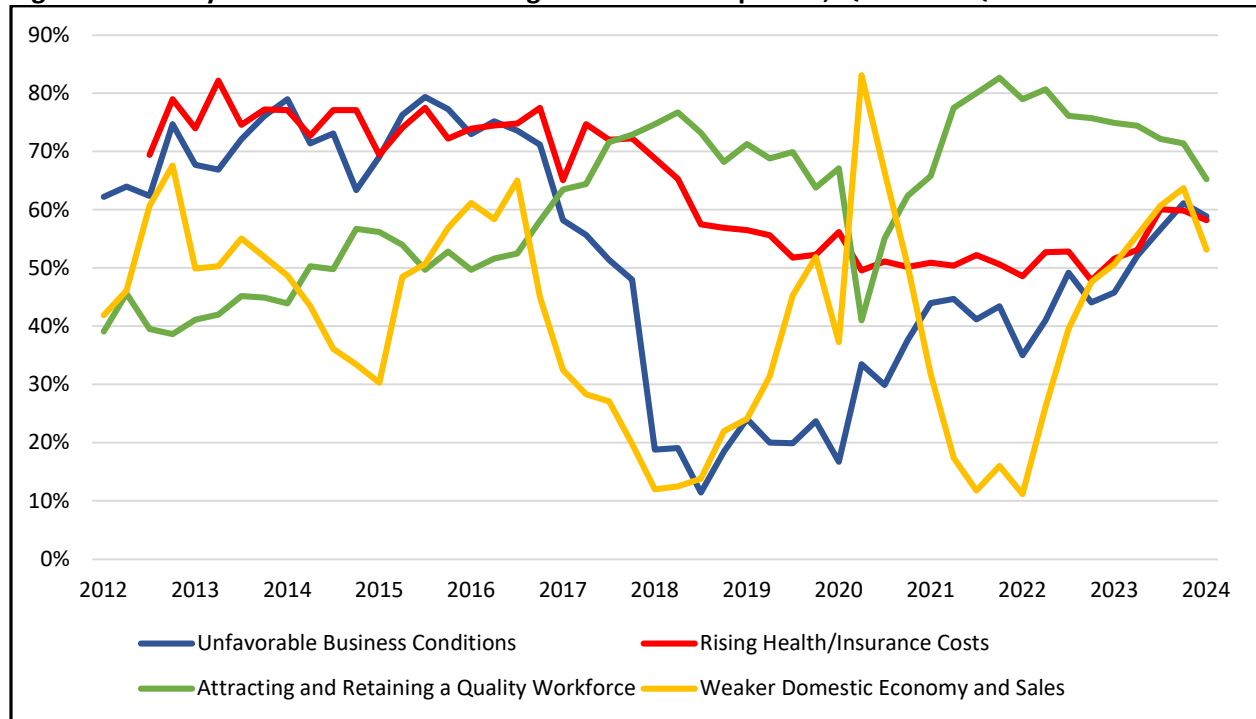
Note: Percentage of respondents who characterized the current business outlook as somewhat or very positive.

Figure 3: Primary Current Business Challenges, Q1 2024



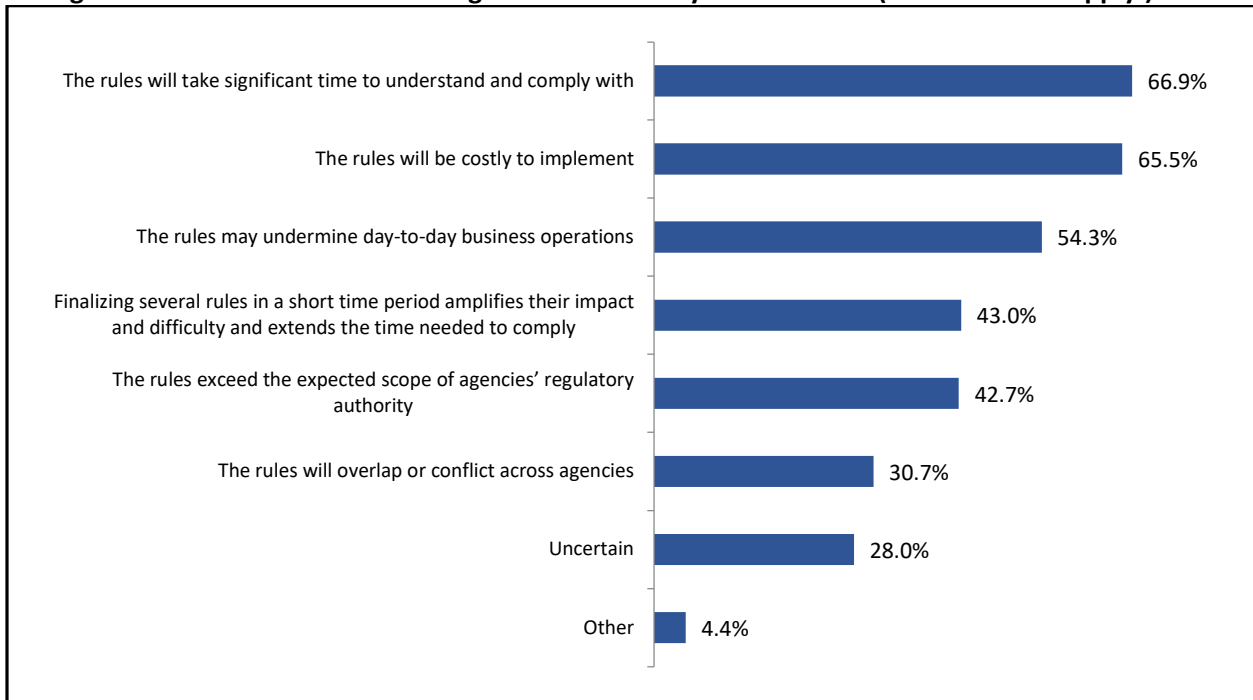
Note: Respondents were able to check more than one response; therefore, responses exceed 100%.

Figure 4: Primary Current Business Challenges for Select Responses, Q1 2012 – Q1 2024



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

Figure 5: What Are the Key Difficulties Your Business Will Face as the Administration Rolls Out a Spate of Regulations from Various Federal Agencies in the Early Part of 2024? (Select All That Apply.)



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

Figure 6: Thinking About Your Company's Efforts to Improve Operational and Supply Chain Resiliency, How Would You Characterize Your Investments in New Technologies and Digitization?

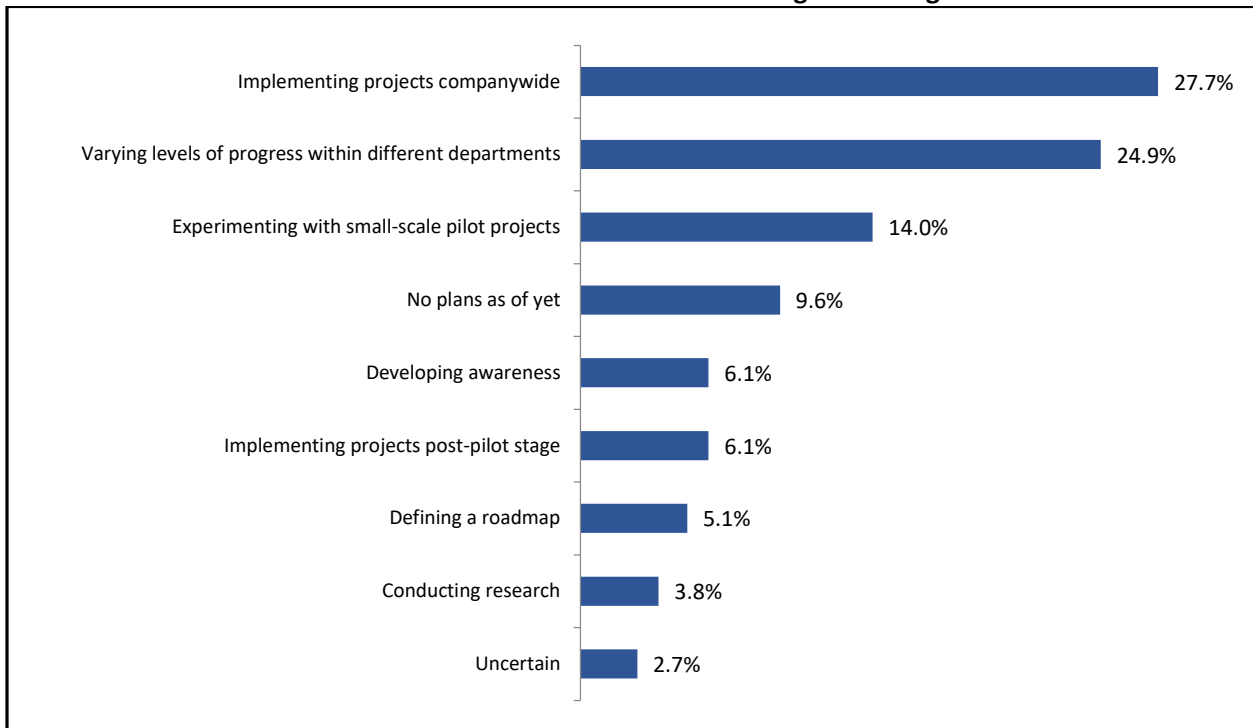
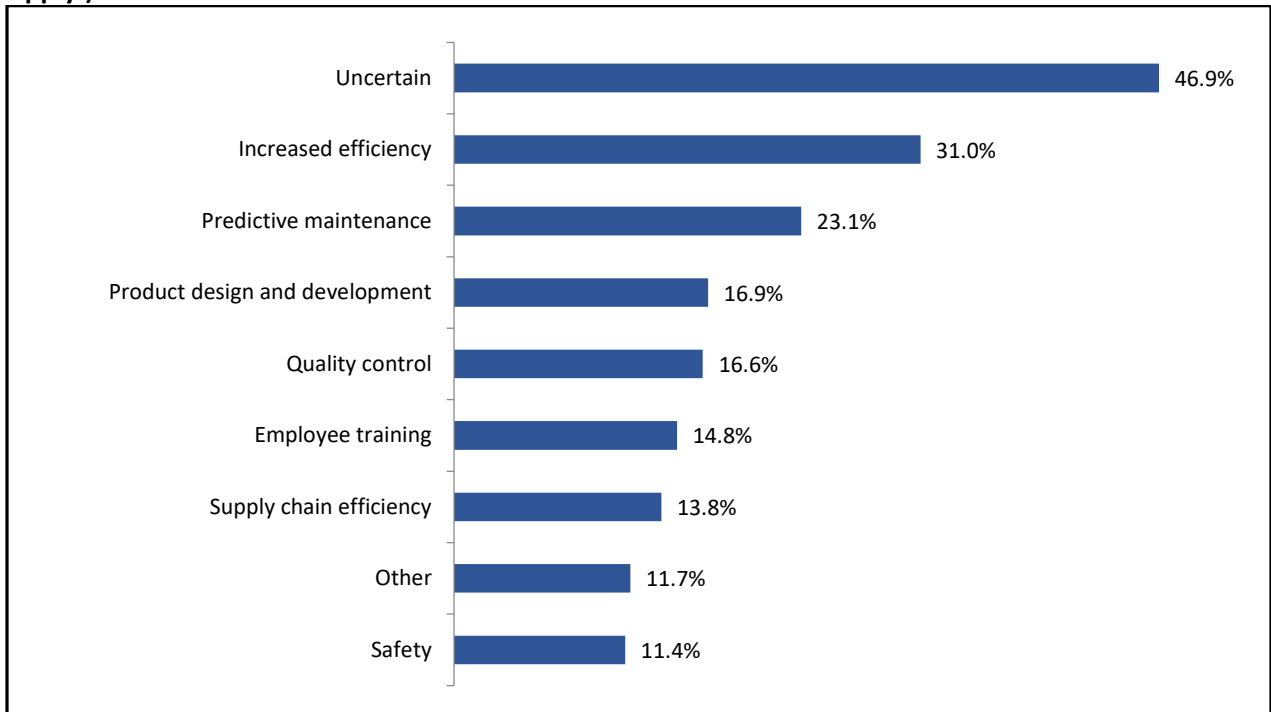
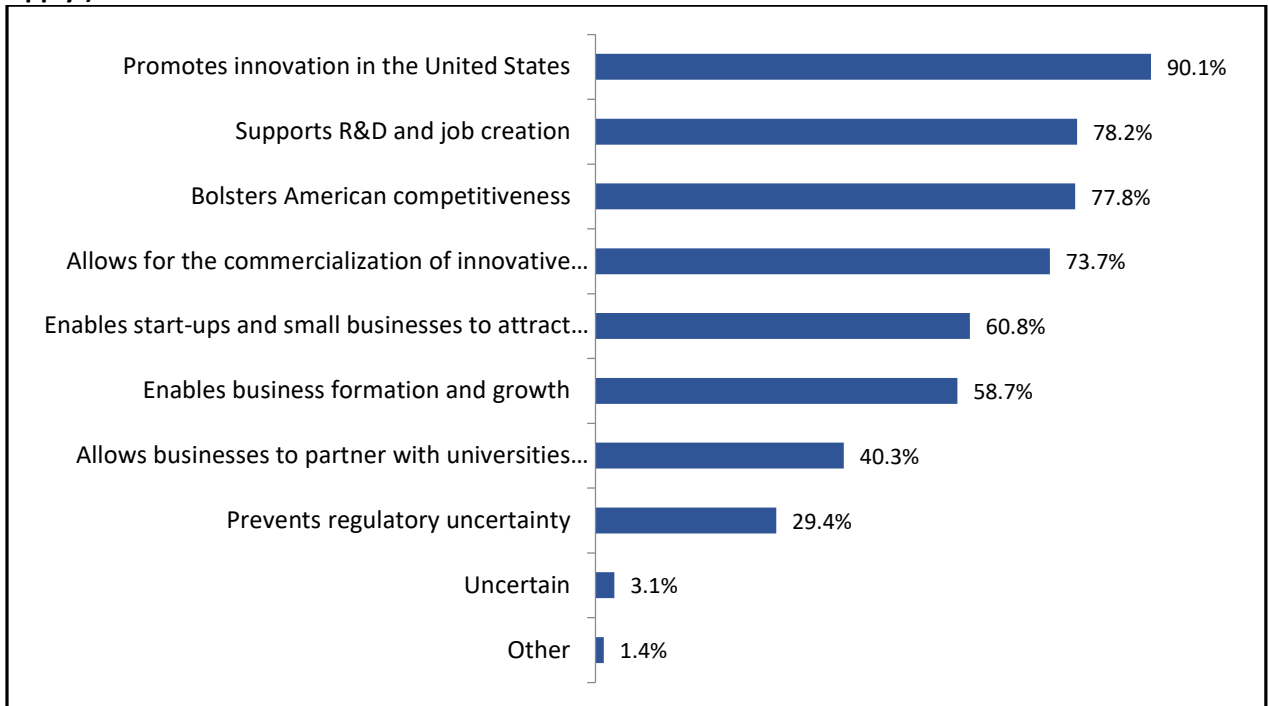


Figure 7: What Are the Ways in Which Your Company Utilizes Artificial Intelligence? (Select All That Apply.)



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

Figure 8: Why Is It Important That the U.S. Protect Intellectual Property Rights, Maintain a Strong Patent System and Protect Against Government Incursion on Private-Sector Patents? (Select All That Apply.)



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

Figure 9: Change in Manufacturing Activity in Q1 2024 Relative to Q4 2023

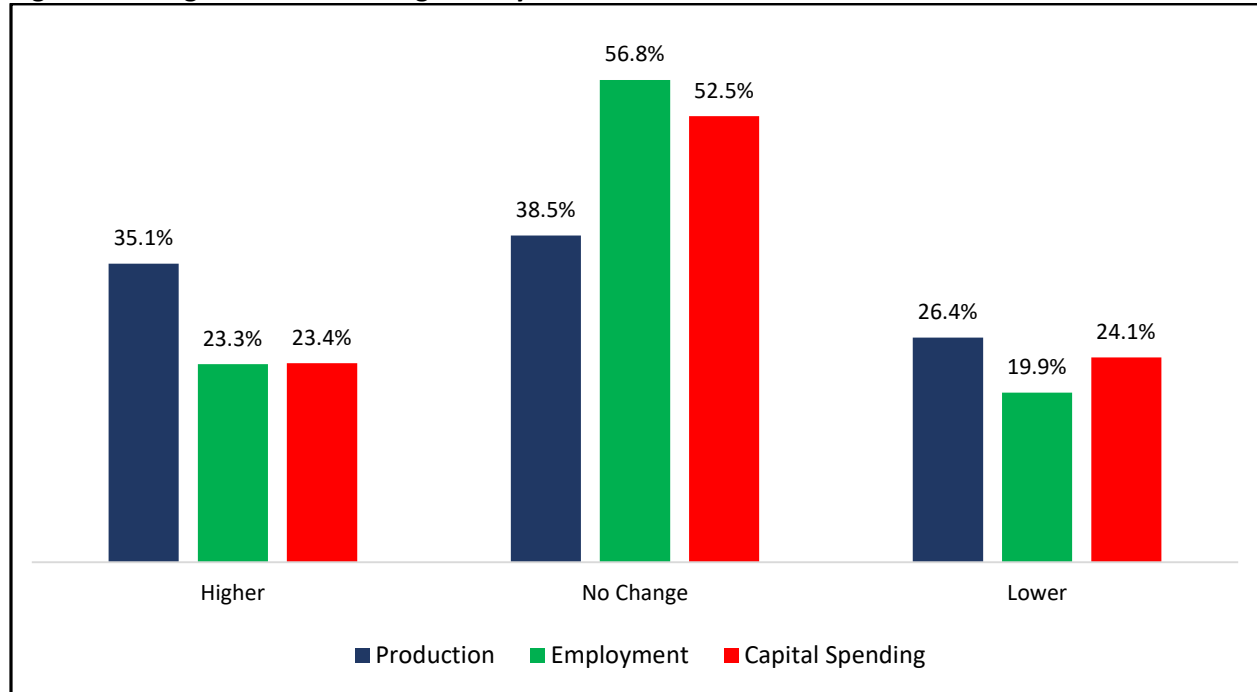
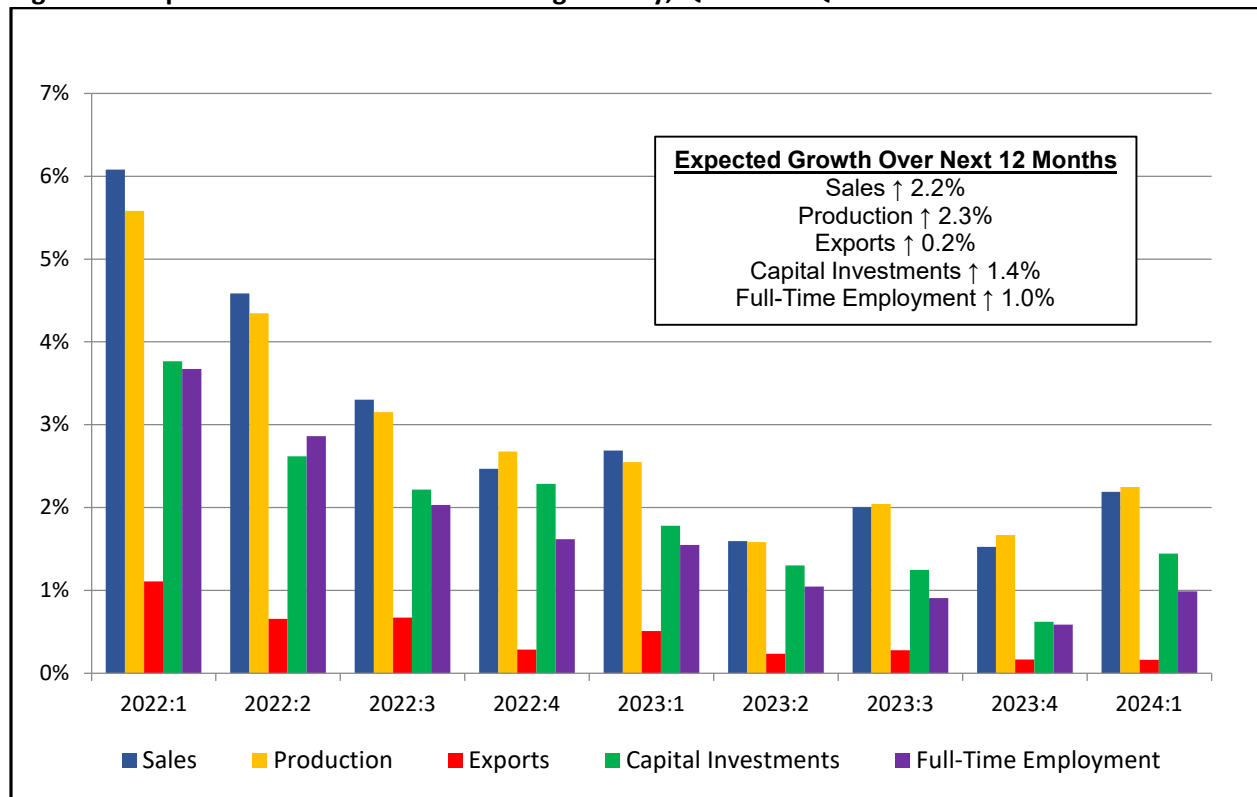


Figure 10: Expected Growth of Manufacturing Activity, Q1 2022 – Q1 2024



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 – 11.33%
 - b. Somewhat positive – 57.33%
 - c. Somewhat negative – 28.67%
 - d. Very negative – 2.67%

Percentage that is either somewhat or very positive in their outlook = 68.66%

2. Over the next year, what do you expect to happen with your company's overall sales?
 - a. Increase more than 10 percent – 8.70%
 - b. Increase 5 to 10 percent – 25.75%
 - c. Increase up to 5 percent – 21.40%
 - d. Stay about the same – 24.75%
 - e. Decrease up to 5 percent – 8.03%
 - f. Decrease 5 to 10 percent – 7.69%
 - g. Decrease more than 10 percent – 3.68%

Average expected increase in sales consistent with these responses = 2.19%

3. Over the next year, what do you expect to happen with your company's overall production levels?
 - a. Increase more than 10 percent – 8.05%
 - b. Increase 5 to 10 percent – 26.17%
 - c. Increase up to 5 percent – 20.81%
 - d. Stay about the same – 25.17%
 - e. Decrease up to 5 percent – 10.74%
 - f. Decrease 5 to 10 percent – 5.37%
 - g. Decrease more than 10 percent – 3.69%

Average expected increase in production consistent with these responses = 2.25%

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 – 7.09%
 - b. Increase 3 to 5 percent – 5.41%
 - c. Increase up to 3 percent – 7.77%
 - d. Stay about the same – 65.20%
 - e. Decrease up to 3 percent – 4.39%
 - f. Decrease 3 to 5 percent – 4.73%
 - g. Decrease more than 5 percent – 5.41%

Average expected increase in exports consistent with these responses = 0.16%

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 – 2.68%
 - b. Increase 5 to 10 percent – 11.41%
 - c. Increase up to 5 percent – 38.93%
 - d. Stay about the same – 37.25%
 - e. Decrease up to 5 percent – 8.72%
 - f. Decrease 5 to 10 percent – 0.67%
 - g. Decrease more than 10 percent – 0.34%

Average expected increase in product prices consistent with these responses = 1.80%

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 – 4.01%
 - b. Increase 5 to 10 percent – 18.06%
 - c. Increase up to 5 percent – 36.45%
 - d. Stay about the same – 32.11%
 - e. Decrease up to 5 percent – 8.36%
 - f. Decrease 5 to 10 percent – 1.00%
 - g. Decrease more than 10 percent – 0.00%

Average expected increase in raw material prices consistent with these responses = 2.38%

7. Over the next year, what are your company's capital investment plans?
 - a. Increase more than 10 percent – 13.76%
 - b. Increase 5 to 10 percent – 15.10%
 - c. Increase up to 5 percent – 13.42%
 - d. Stay about the same – 38.26%
 - e. Decrease up to 5 percent – 6.38%
 - f. Decrease 5 to 10 percent – 2.68%
 - g. Decrease more than 10 percent – 10.40%

Average expected increase in capital investments consistent with these responses = 1.44%

8. Over the next year, what are your inventory plans?
 - a. Increase more than 10 percent – 0.34%
 - b. Increase 5 to 10 percent – 6.71%
 - c. Increase up to 5 percent – 9.73%
 - d. Stay about the same – 38.93%
 - e. Decrease up to 5 percent – 23.83%
 - f. Decrease 5 to 10 percent – 12.42%
 - g. Decrease more than 10 percent – 8.05%

Average expected increase in inventories consistent with these responses = -1.55%

9. Over the next year, what do you expect in terms of full-time employment in your company?
 - a. Increase more than 10 percent – 2.01%
 - b. Increase 5 to 10 percent – 12.04%
 - c. Increase up to 5 percent – 23.75%
 - d. Stay about the same – 45.82%
 - e. Decrease up to 5 percent – 11.37%
 - f. Decrease 5 to 10 percent – 3.01%
 - g. Decrease more than 10 percent – 2.01%

Average expected increase in full-time employment consistent with these responses = 0.99%

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 – 5.39%
 - b. Increase 3 to 5 percent – 49.83%
 - c. Increase up to 3 percent – 35.69%
 - d. Stay about the same – 8.42%
 - e. Decrease up to 3 percent – 0.67%

- 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 = 2.79%

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 – 7.72%
 - b. Increase 10.0 to 14.9 percent – 19.80%
 - c. Increase 5.0 to 9.9 percent – 37.92%
 - d. Increase less than 5.0 percent – 25.50%
 - e. No change – 6.04%
 - f. Decrease less than 5.0 percent – 0.34%
 - g. Decrease 5.0 percent or more – 0.34%
 - h. Uncertain – 2.35%

Average expected increase in health insurance costs consistent with these responses = 7.09%

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 – 53.18%
 - b. Weaker global growth and slower export sales – 23.75%
 - c. Trade uncertainties (e.g., actual or proposed tariffs, trade negotiation uncertainty) – 25.75%
 - d. Strengthened U.S. dollar relative to other currencies – 14.05%
 - e. Challenges with access to capital or other forms of financing – 10.03%
 - f. Unfavorable business climate (e.g., taxes, regulations) – 58.86%
 - g. Increased raw material costs – 38.13%
 - h. Rising health care/insurance costs – 58.19%
 - i. Transportation and logistics costs – 29.10%
 - j. Supply chain challenges – 33.78%
 - k. Attracting and retaining a quality workforce – 65.22%
 - l. Other – 8.36%

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

- a. Chemicals – 6.69%
- b. Computer and electronic products – 2.34%
- c. Electrical equipment and appliances – 5.35%
- d. Fabricated metal products – 25.08%
- e. Food manufacturing – 2.68%
- f. Furniture and related products – 2.01%
- g. Machinery – 12.37%
- h. Nonmetallic mineral products – 2.01%
- i. Paper and paper products – 1.34%
- j. Petroleum and coal products – 0.33%
- k. Plastics and rubber products – 10.03%
- l. Primary metals – 3.34%
- m. Transportation equipment – 5.35%
- n. Wood products – 2.34%
- o. Other – 18.73%

14. How would you characterize **production** in the first quarter relative to the fourth quarter?

- a. Higher – 35.12%
- b. No change – 38.46%
- c. Lower – 26.42%

Production Purchasing Managers' Index = 54.4

15. How would you characterize **employment** in the first quarter relative to the fourth quarter?
- a. Higher – 23.31%
 - b. No change – 56.76%
 - c. Lower – 19.93%

Employment Purchasing Managers' Index = 51.70

16. How would you characterize **capital spending** in the first quarter relative to the fourth quarter?
- a. Higher – 23.41%
 - b. No change – 52.51%
 - c. Lower – 24.08%

Capital Spending Purchasing Managers' Index = 49.67

SPECIAL QUESTIONS

17. What are the key difficulties your business will face as the administration rolls out a spate of regulations from various federal agencies in the early part of 2024? (Select all that apply.)
- a. The rules will be costly to implement. – 65.53%
 - b. The rules will overlap or conflict across agencies. – 30.72%
 - c. The rules will take significant time to understand and comply with. – 66.89%
 - d. Finalizing several rules in a short time period amplifies their impact and difficulty and extends the time needed to comply. – 43.00%
 - e. The rules exceed the expected scope of agencies' regulatory authority. – 42.66%
 - f. The rules may undermine day-to-day business operations. – 54.27%
 - g. Other: _____ – 4.44%
 - h. Uncertain – 27.99%
18. Thinking about your company's efforts to improve operational and supply chain resiliency, how would you characterize your investments in new technologies and digitization?
- a. Implementing projects companywide – 27.65%
 - b. Implementing projects post-pilot stage – 6.14%
 - c. Experimenting with small-scale pilot projects – 13.99%
 - d. Varying levels of progress within different departments – 24.91%
 - e. Defining a roadmap – 5.12%
 - f. Developing awareness – 6.14%
 - g. Conducting research – 3.75%
 - h. No plans as of yet – 9.56%
 - i. Uncertain – 2.73%
19. What are the ways in which your company utilizes artificial intelligence? (Select all that apply.)
- a. Safety – 11.38%
 - b. Increased efficiency – 31.03%
 - c. Employee training – 14.83%
 - d. Quality control – 16.55%
 - e. Product design and development – 16.90%
 - f. Predictive maintenance – 23.10%
 - g. Supply chain efficiency – 13.79%
 - h. Other: _____ – 11.72%

- i. Uncertain – 46.90%
20. Why is it important that the U.S. protect intellectual property rights, maintain a strong patent system and protect against government incursion on private-sector patents? (Select all that apply.)
- a. Promotes innovation in the United States – 90.10%
 - b. Allows for the commercialization of innovative products – 73.72%
 - c. Enables start-ups and small businesses to attract capital – 60.75%
 - d. Supports R&D and job creation – 78.16%
 - e. Enables business formation and growth – 58.70%
 - f. Allows businesses to partner with universities and entrepreneurs – 40.27%
 - g. Prevents regulatory uncertainty – 29.35%
 - h. Bolsters American competitiveness – 77.82%
 - i. Other: _____ – 1.37%
 - j. Uncertain – 3.07%
21. Are you concerned health care supply chain middlemen like so-called “pharmacy benefit managers” are driving up costs manufacturers pay to provide prescription drug coverage to their employees and the prices that manufacturing employees pay at the pharmacy counter?
- a. Yes – 62.46%
 - b. No – 8.19%
 - c. Unsure – 29.35%
22. How important is it that the federal tax code reduce manufacturers’ costs for conducting R&D, accessing capital via business loans and investing in capital equipment purchases?
- a. Very important – 58.02%
 - b. Somewhat important – 27.99%
 - c. Slightly important – 7.85%
 - d. Not at all important – 3.75%
 - e. Uncertain – 2.39%
23. Key federal tax incentives related to R&D, interest deductibility and expensing for capital investments have expired recently. Have these expirations caused you to pull back on hiring and investing in your company due to increased taxes?
- a. Yes – 37.07%
 - b. No – 50.34%
 - c. Uncertain – 12.59%
24. How significantly does the length and complexity of the current permitting process affect your investment decisions?
- a. Extremely affected – 12.97%
 - b. Moderately affected – 25.94%
 - c. Somewhat affected – 20.48%
 - d. Slightly affected – 12.97%
 - e. Not at all affected – 18.77%
 - f. Uncertain – 8.87%
25. In general, would you say that increased compensation—including wages, salaries and benefits, including overtime—has helped keep your company competitive in its ability to recruit and retain employees at your company?
- a. Yes – 77.55%
 - b. No – 16.67%
 - c. Not applicable—we have not increased compensation. – 1.70%
 - d. Uncertain – 4.08%

26. Have you increased worker flexibility for production workers to help attract new employees to your company and retain current staff?
- a. Yes – 53.24%
 - b. No – 43.69%
 - c. Uncertain – 3.07%