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Minnesota Manufacturing Business Conditions Survey. Contact Alicia-Cordes-Mayo at 763-406-9965 for more information.

# **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)*

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| --- | --- | --- | --- | --- | --- |
| **Expected impact of current interest rates** | **Up** | **Same** | **Down** | **Diffusion** | **Diffusion** |
| **on your businesses in 2025** |  |  |  | **Index 2024\*** | **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).”*

*“Horrible shortage of workforce availability.”*

*“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 health insurance as a benefit to our FT employees it is a huge cost.”*

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

*Notes:*

*Based on responses from 299 Minnesota businesses. From 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 5.4% at a 95% confidence level.*

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