ECONOMIC REPORT

MANUFACTURING IN MINNESOTA

JANUARY 2026

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ABOUT BOYUM

YOUR TRUSTED MANUFACTURING TEAM

Manufacturing and distribution companies face growing challenges in today's environment, including rapid technology changes, pricing pressures, complex tax requirements, and ongoing talent shortages. At Boyum Barenscheer, we help clients navigate these obstacles and turn opportunity into advantage. Our experienced team partners closely with manufacturers and distributors to address their most important operational, financial, and strategic needs, including:

- Performance & Strategy Advisory
- Tax Consulting & Compliance
- Assurance & Compliance Services
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WE SHARE YOUR PASSION FOR INNOVATION.

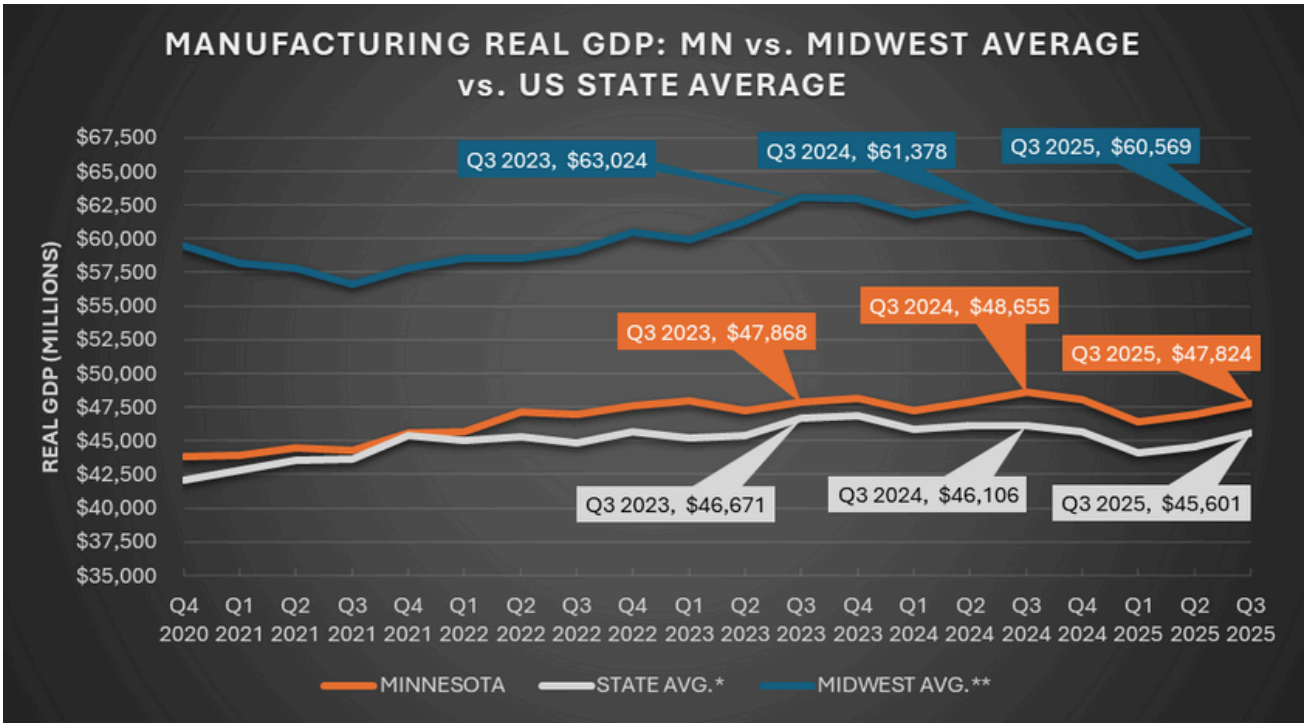
INTRODUCTION

2026 is now underway – while 2025 was a year of uncertainty and cautious optimism, the latest data indicates Minnesota manufacturing could be primed for growth. The following analysis includes the most recent data publications as well as data points covering the past five years. As this is the edition of The Minnesota Manufacturing Index, some analysis was conducted on the historical information – moving forward, future editions of this report will be focused on the most recent data and what story it tells. The combination of these indicators lays a strong foundation for the manufacturing industry. Understanding this data and how it plays into your specific company is a key component in navigating the future of the manufacturing industry.

If you missed the introduction report or need a refresher on what each of these indicators are, please revisit that report HERE.

KEY INDICATORS | MINNESOTA MANUFACTURING

REAL GROSS DOMESTIC PRODUCT: MANUFACTURING



**State averages were calculated by taking the total United States Manufacturing GDP and dividing by 50 states.*

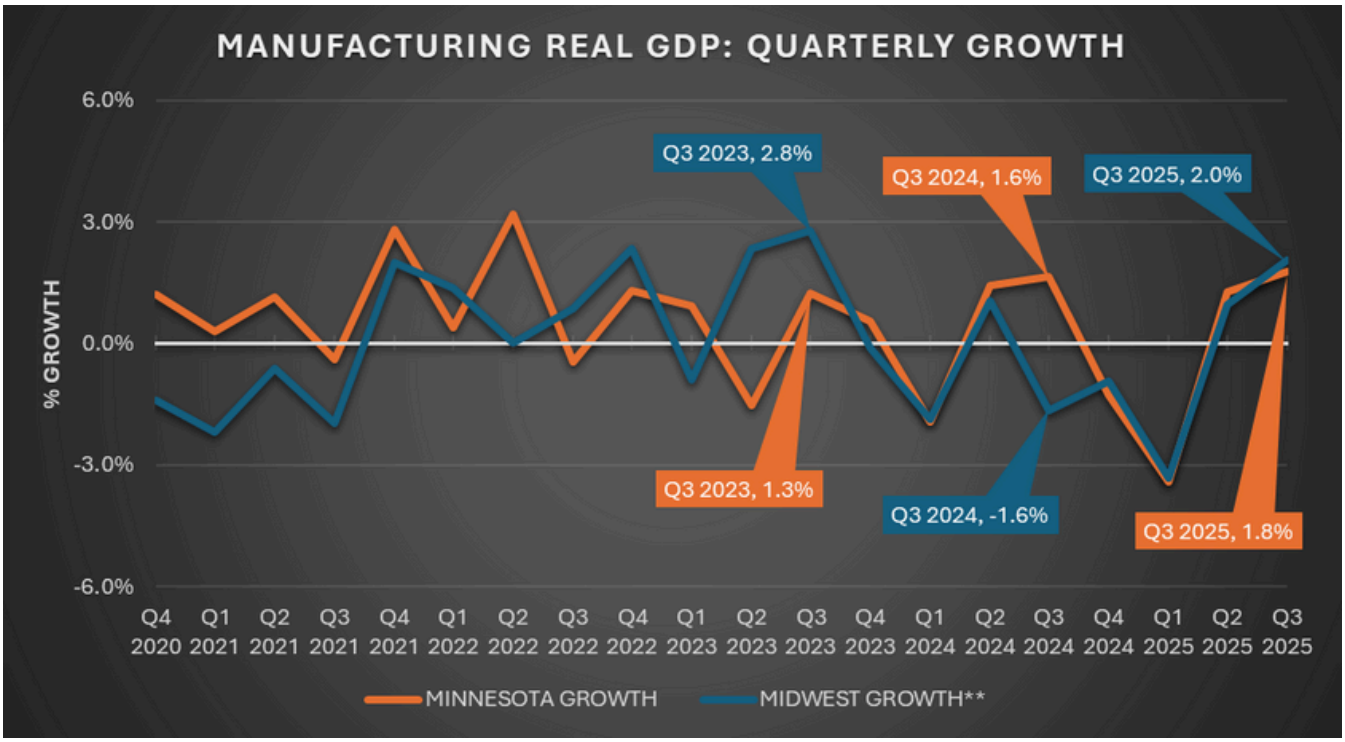
***Midwest refers to Iowa, Michigan, and Wisconsin. North & South Dakota excluded due to population and GDP size relative to aforementioned states.*

Real Manufacturing GDP (M-GDP) in Minnesota historically lags the Midwest (Iowa, Michigan, and Wisconsin). Averaging 22% less M-GDP than its regional competitors over the last five years; Minnesota struggles to shrink that gap – over that past four quarters of data, Minnesota continues to trail the Midwest average by 21%. Minnesota, however, consistently outperforms the United States (US) average, averaging a gap of 3.6%. Minnesota has expanded that gap over the trailing four quarters of data, averaging 5.4% higher M-GDP than the US average.

Minnesota peaked over the third quarter of 2024, while the Midwest and US average peaked in Q3 and Q4 of 2023, respectively. 2025 was a rebuilding year for manufacturers in the United States, all three subjects look to rebound in Q4 2025 to catch back up to their 2024 Q4 levels since the dip sustained between Q4 2024 and Q1 2025.

KEY INDICATORS | MINNESOTA MANUFACTURING

REAL GROSS DOMESTIC PRODUCT: MANUFACTURING

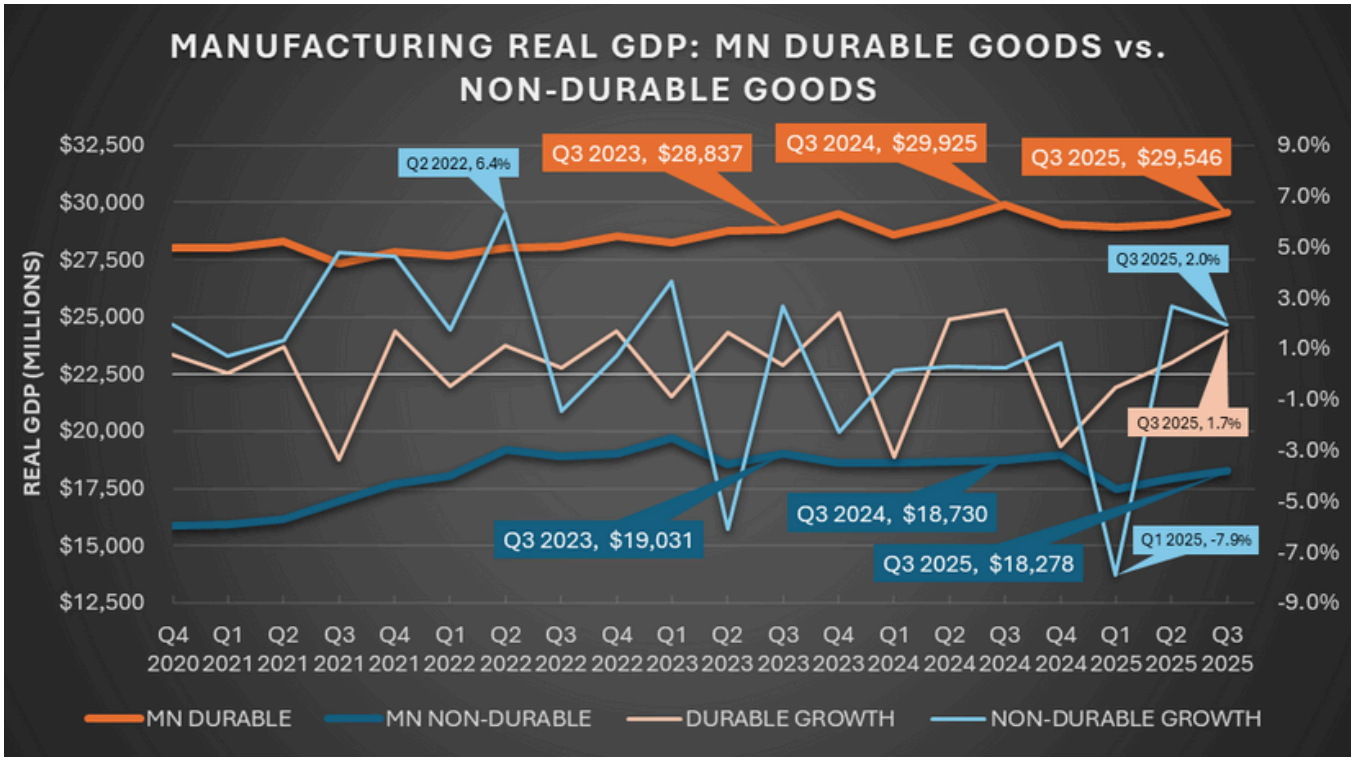


***Midwest refers to Iowa, Michigan, and Wisconsin. North & South Dakota excluded due to population and GDP size relative to aforementioned states.*

Minnesota has seen a total of 9% growth in M-GDP since Q4 2020 ($43,842M to $47,824M), compared to the Midwest's growth of only 1.8% over that same period ($59,469M to $60,569M). Minnesota only saw six quarters with regression, whereas the Midwest saw ten quarters of regression. In that same time frame, Minnesota only had two consecutive quarters of M-GDP decline, compared to six sets of back-to-back quarterly regressions, displaying Minnesota's ability to quickly rebound after a negative quarter. Both Minnesota and the Midwest felt the effect of the nationwide tariff uncertainty, from Q3 2024 to Q2 2025, M-GDP output dropped 4.6% and 4.3%, respectively. Minnesota Q3 2025 M-GDP was only $45M below Q3 2024 levels, compared to the Midwest average which lags $1,838M behind their Q3 2024 output. Despite pessimism for the future of manufacturing in Minnesota, the past five years have shown that even during economic uncertainty, Minnesota is a state that holds fast and rebounds quickly from down periods.

KEY INDICATORS | MINNESOTA MANUFACTURING

REAL GROSS DOMESTIC PRODUCT: MANUFACTURING

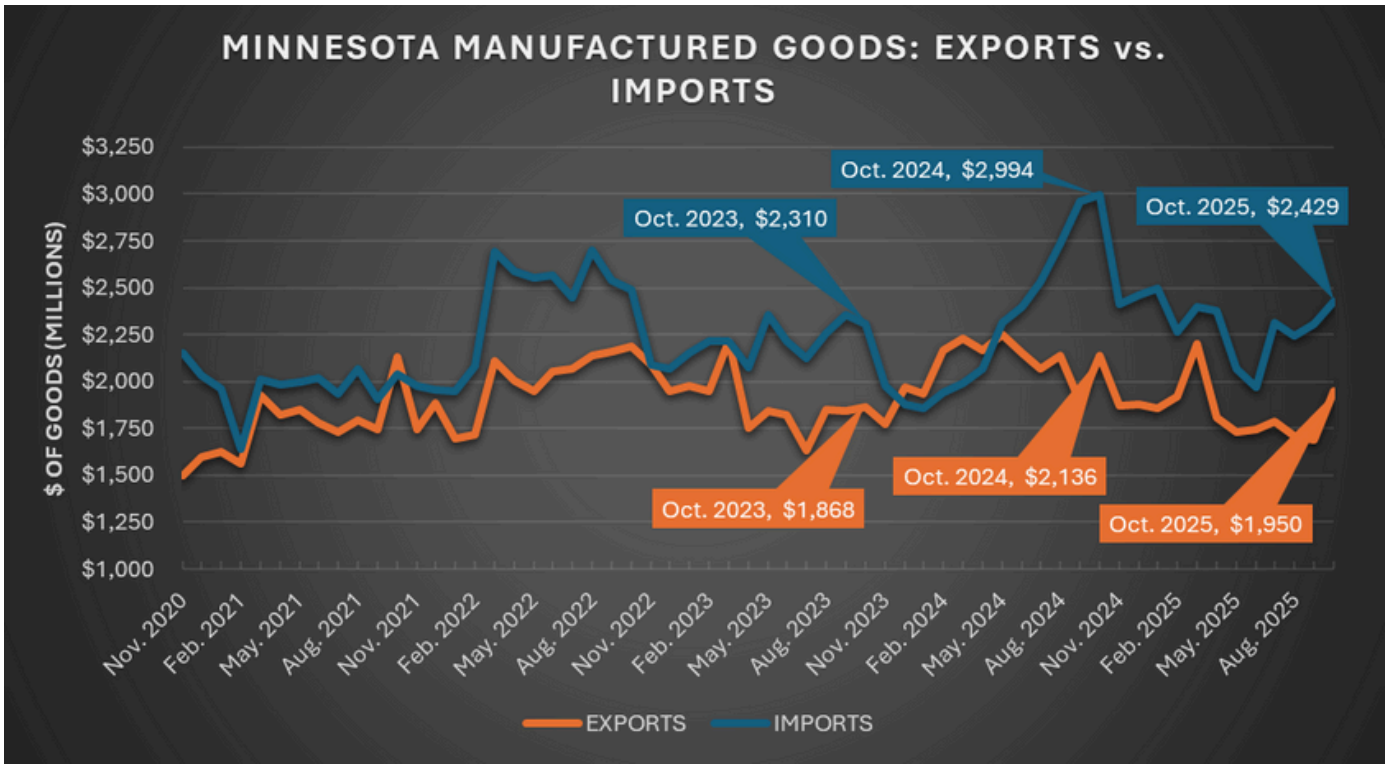


Approximately 60% of Minnesota's M-GDP has been held on the back of durable goods manufacturing over the past five years. The non-durable goods subsector of M-GDP is growing at a higher rate than durable goods – 0.9% average quarterly growth compared to 0.3%. Over the same time frame, federal interest rates (prime rate) jumped from 3.25% (Q4 2020) to a peak of 8.5% (Q2/Q3 2023) before starting the decline to 7.25% (Q3 2025). It appears that rising interest rates did not correspond to a decline in durable goods manufacturing, but it does seem to have impeded growth potential. A major factor of the manufacturing industry throughout the United States has been the uncertainty surrounding tariffs. The first official tariff announcement took place in January 2025. Non-durable goods dropped 7.9% in the quarter immediately following the announcement. Durable goods saw only a 0.5% dip in that same quarter. This indicates a much higher reliance of non-durable goods manufacturers on global supply chains, compared to durable goods manufacturers.

Non-durable goods are more volatile than durable goods. This volatility is driven primarily by rapid cost swings. Manufacturers can limit their volatility by diversifying their supply chain, exploring hedging and forward contracting, investing in demand forecasting, and ensuring the flexibility of their production capacity. Durable goods manufacturers are not as subject to sudden economic shifts but are deeply impacted by major cycle shifts. Monitoring leading indicators is crucial to proactively navigate economic shifts rather than reacting to them. Key points of emphasis for durable goods manufacturers to avoid volatility include the diversification of customer bases and industries, strengthening long-term supply contracts, continuing investment in technology (robotics, AI, automation), and monitoring macroeconomic leading indicators.

KEY INDICATORS | MINNESOTA MANUFACTURING

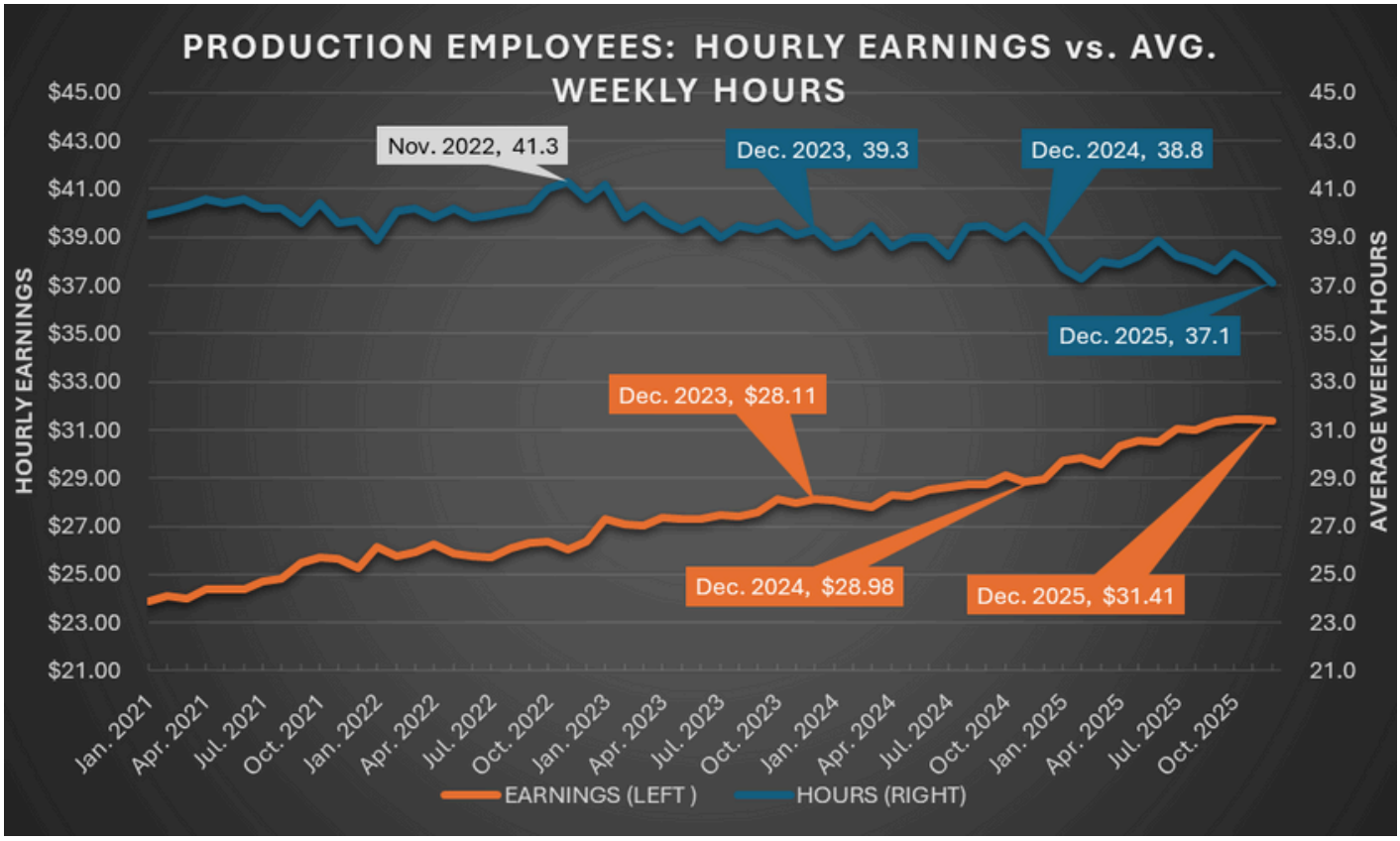
IMPORTS & EXPORTS OF MANUFACTURED GOODS



A key insight to Minnesota manufacturers' susceptibility to supply chain disruptions is to evaluate their net trade ratio. Over the last five years Minnesota has had a positive net trade ratio in only seven months, which indicates a heavy reliance upon national and global supply chains. Totaling imports and exports on an annual basis, Minnesota has experienced a net trade deficit (total imports more than total exports) for each of the last four full years, and it continues to expand. A focus on strengthening local supply chains can provide a multitude of benefits. A strong local supply chain reduces exposure to global supply chain disruptions and allows companies to take advantage of the benefits that come from having shorter lead times on raw materials (better inventory management and improved alignment between supply and production schedules – to name a few). Local supply chains also reduce transportation costs, provide transparency to the supply chain, and assist in risk management.

KEY INDICATORS | MINNESOTA MANUFACTURING

AVERAGE WEEKLY HOURS & HOURLY EARNINGS OF PRODUCTION EMPLOYEES



There is a distinct pattern in the average hours and average hourly earnings of production employees in Minnesota. In the past five years, hours have dropped by 7.0%, while earnings have grown 31.4%. In that same time span, November 2022 recorded the highest average hours of production. Looking behind at M-GDP for Minnesota in Q1 2023, when those hours would have resulted in actual M-GDP output, Minnesota M-GDP posted its 4th highest M-GDP since Q3 2015. However, the three quarter that exceeded Q1 2023 were Q4 2023, Q3 2024, and Q4 2024 – a time when production hours essentially flatlined. The output of Minnesota Manufacturers appears to be growing while the hours worked steadily decline.

Wages have steadily increased over the past five years, averaging nearly 0.5% wage increase every month. Minnesota manufacturers have made it clear that the demand for skilled laborers is at an all-time high. If Minnesota manufacturers were offering purely inflation-based compensation increases, production employees at the end of 2025 would have been averaging only $27.02/hour. Despite the increase in compensation, the industry continues to struggle to attract skilled workers.

At their current rate of growth (wages) or decline (hours), manufacturers will see their production employees averaging 35 hours/week and making $40/hour in only four years. To get ahead, manufacturers need to create a strategic plan that focuses on growth, without heavy reliance on production employees. If current workforce struggles continue, manufacturers will be forced to adapt their production process and invest in technology and process efficiencies that limit the human hours required to produce goods.

KEY INDICATORS | MINNESOTA MANUFACTURING

BUSINESS CONDITIONS INDEX

MINNESOTA						
INDEX	JANUARY	DECEMBER	CHANGE	TREND*	OUTLOOK	PACE
Overall	54.1	45.7	8.4	1	Growth	Fast
New Orders	49.1	40.2	8.9	2	Recovery	Fast
Production	53.3	46.4	6.9	1	Growth	Fast
*Supplier Deliveries****	*54.8*	*50.0*	*4.8*	*16*	*Growth*	*Fast*
Employment	54.7	41.5	13.2	1	Growth	Fast
Inventories	58.6	50.2	8.4	2	Growth	Fast
NATIONAL						
INDEX	JANUARY	DECEMBER	CHANGE	TREND*	OUTLOOK	PACE
Overall	52.6	54.4	-1.8	2	Growth	Slow
New Orders	57.1	57.9	-0.8	2	Growth	Slow
Production	55.9	56.0	-0.1	3	Growth	Fast
*Supplier Deliveries****	*54.4*	*51.8*	*2.6*	*2*	*Growth*	*Moderate*
Employment	48.1	52.0	-3.9	1	Contraction	Moderate
Inventories	47.6	54.2	-6.6	1	Contraction	Fast
MID-AMERICA**						
INDEX	JANUARY	DECEMBER	CHANGE	TREND*	OUTLOOK	PACE
Overall	49.6	47.6	2.0	3	Contraction	Slow
New Orders	48.8	42.9	5.9	4	Recovery	Fast
Production	52.1	47.4	4.7	1	Growth	Fast
*Supplier Deliveries****	*54.4*	*53.2*	*1.2*	*25+*	*Growth*	*Slow*
Employment	47.2	44.0	3.2	10	Contraction	Moderate
Inventories	45.5	50.4	-4.9	1	Contraction	Fast

**Number of months with the same indication, above 50 or below 50.*
***Mid-America is defined by Creighton University's Dr. Ernest Goss as Arkansas, Iowa, Kansas, Minnesota, Missouri, Nebraska, North Dakota, Oklahoma, and South Dakota.*
****Supplier Deliveries is the only sub-indicator that is reported inversely. > 50 = contraction – viewed as longer lead times (a negative signal), <50 = improvement, faster lead times.*

Minnesota manufacturers appear to have flipped the page and carry positive sentiment going into 2026. Overall BCI jumped over eight points from December 2025. New orders lag the sub-indicators, being the only indicator below 50. Compared to the National data, Minnesota carries a higher overall BCI, while outright beating the National sub-indicators in Supplier Deliveries, Employment, and Inventories. Compared to Mid-American manufacturers, Minnesota is expecting to outperform in every sub-indicator.

KEY INDICATORS | MINNESOTA MANUFACTURING

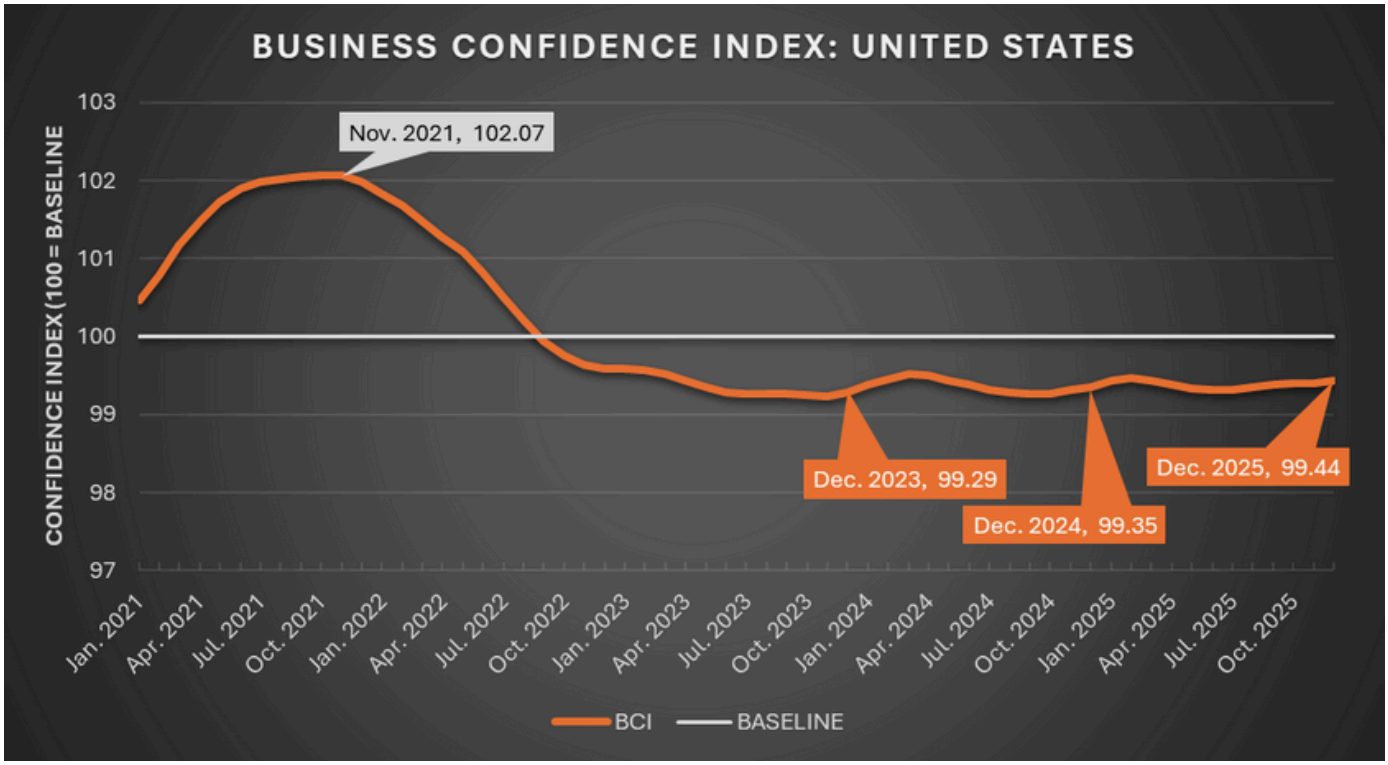
BUSINESS CONDITIONS INDEX CONTINUED

The Minnesota combination of Production and Employment at 53.3 and 54.7, respectively, indicates that manufacturing facilities are sitting in a healthy position, and those facilities are staffed at a level to meet current workloads. Supplier Deliveries carry a level above 50 for the 16th straight month. Delivery lead times continue to be slow. However, Inventories reported in January show the highest positive sentiment (58.6), meaning that manufacturers have adjusted to these lead times and ensured proper inventory management, building stock. If lead times continue this trajectory, prioritizing inventory management becomes even more critical.

Overall, current Minnesota sentiment paints an interesting picture – current activity appears strong but there appear to be some risks looking at future demand. If New Orders continue to post sub-50 levels, production is likely to follow suit, and continuing elevated levels of inventory could turn from being a protective overstock to a risk. Managing employment is also essential during the navigation of New Order uncertainty – it could be beneficial to consider overtime or flexibility in staffing to address workforce changes rather than hiring a new employee, which could wait for known increases in New Orders. If New Orders rebound back to a level above 50, this would support the current expansion that is otherwise showing. Minnesota appears primed for a season of expansion in 2026 – with the caveat that it is balancing on the leg of New Orders. A concentrated focus on the procurement of New Orders, while continuing the optimization of the other factors, is crucial for manufacturers to capture this expansion in the first half of 2026.

KEY INDICATORS | NATIONAL MANUFACTURING

BUSINESS CONFIDENCE INDEX



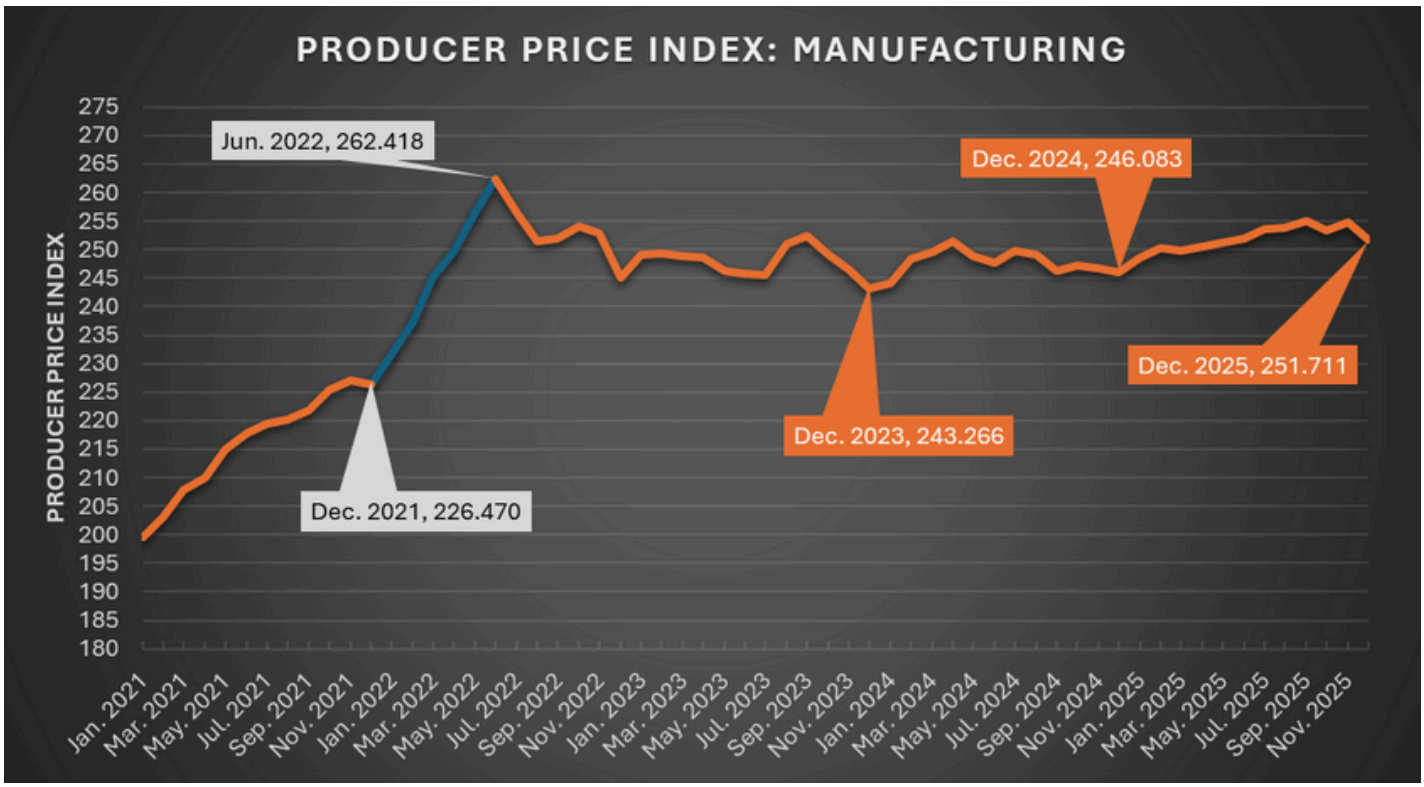
Overall business confidence, across all industries, remains below the baseline, as it has since September 2022. The United States saw six straight months of increased positivity to cap off 2025. Although still under the benchmark, it gives hope that overall sentiment can turn positive in the near future.

Overall pessimism indicates uncertainties, while at the same time offering opportunities. Prolonged periods of weak business sentiment can lead to favorable financial conditions for investment – capital often becomes cheaper (whether it be through more friendly financing terms or straight price drops) and opportunities can be captured at lower costs. While this does not mean an investment comes risk-free, manufacturers with the appropriate structure to take advantage of expansion opportunities are more likely to be able to reap the rewards of a recovering economy. Additionally, extended periods of low confidence often accompany overall economic struggles which offer the opportunity for markets and industries to reset themselves by exposing things like inefficiencies, poor inventory management, and outdated and ineffective processes.

For a company to ensure its survival and potential for growth during phases of persistent pessimism, concentrated efforts on proactive financial planning, cash flow management, and establishing risk management frameworks are crucial.

KEY INDICATORS | NATIONAL MANUFACTURING

PRODUCER PRICE INDEX: TOTAL MANUFACTURING



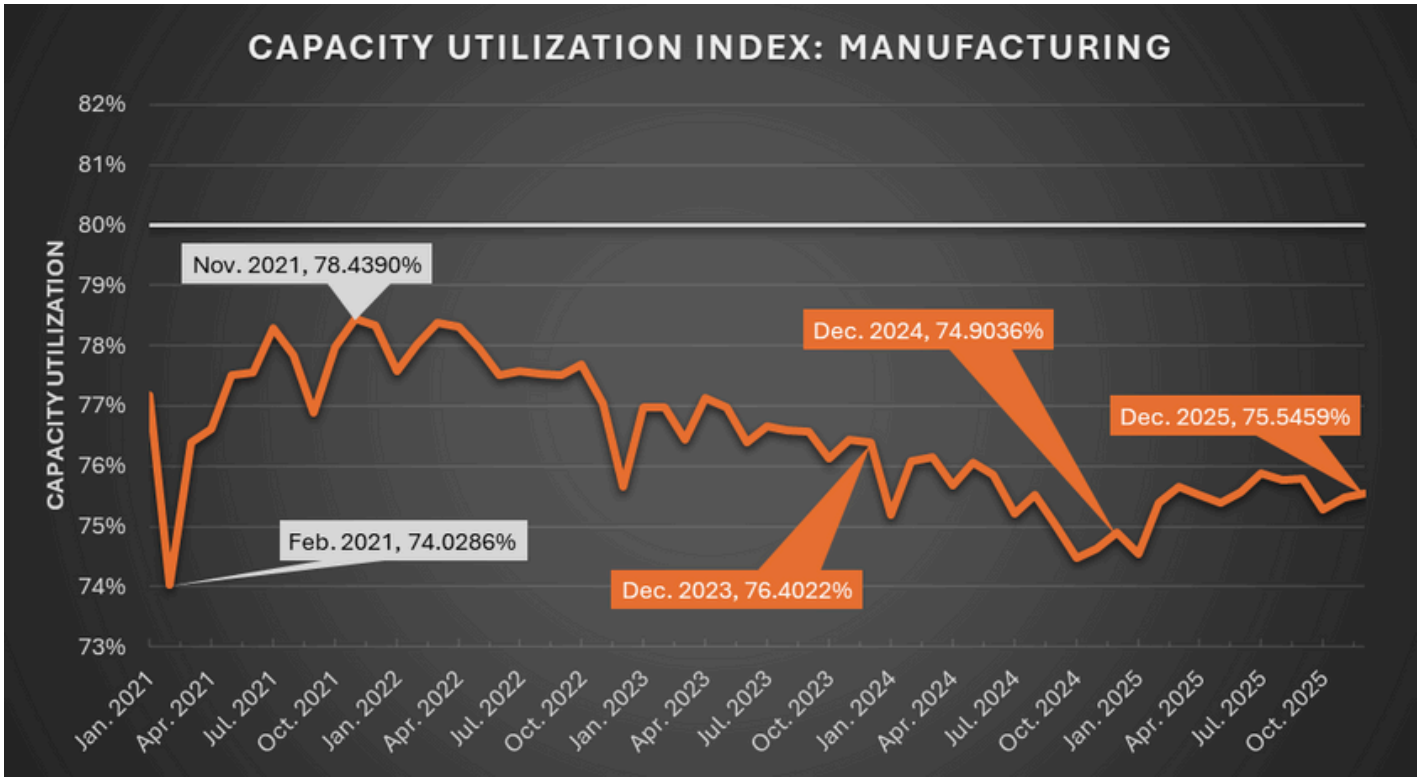
PPI steadily grew throughout 2025, peaking in September and seeing some relief in the final quarter and a dip in December. Consistent growth of PPI over an extended period is one of the most common indicators of inflation at the producer levels. When this happens, manufacturers are increasing costs to manage their elevated input costs. If the late 2025 trend continues into 2026, this would give indications of lowered risk of price pressures, providing some relief and freedom to manufacturers.

PPI rose about 2.3% from December 2024 to December 2025 – with this information at your fingertips, it provides an opportunity to reflect on your last year. If your output prices rose by less than 2%, more than likely you will have experienced compressed margins. Review your contracts with vendors, they may include escalators tied to PPI – ensure vendor price increases matched the data. Monitoring PPI for not only manufacturing, but energy and commodities used in your production allows for better pricing strategies – allowing you to stay ahead of cost shifts and maintain consistent margins.

Highlighted in the graph is the period of December 2021 to June 2022. PPI saw a heavy increase of almost 16% in only six months. Inflation during this time was one of the worst in recent history. 2022 annual inflation hit 8% in the year and peaked in that June at 9.1%. Monitoring PPI for spikes such as these allows manufacturers to pick up on inflationary trends, setting them up to proactively strategize, rather than react and adjust when it becomes forced.

KEY INDICATORS | NATIONAL MANUFACTURING

CAPACITY UTILIZATION: MANUFACTURING



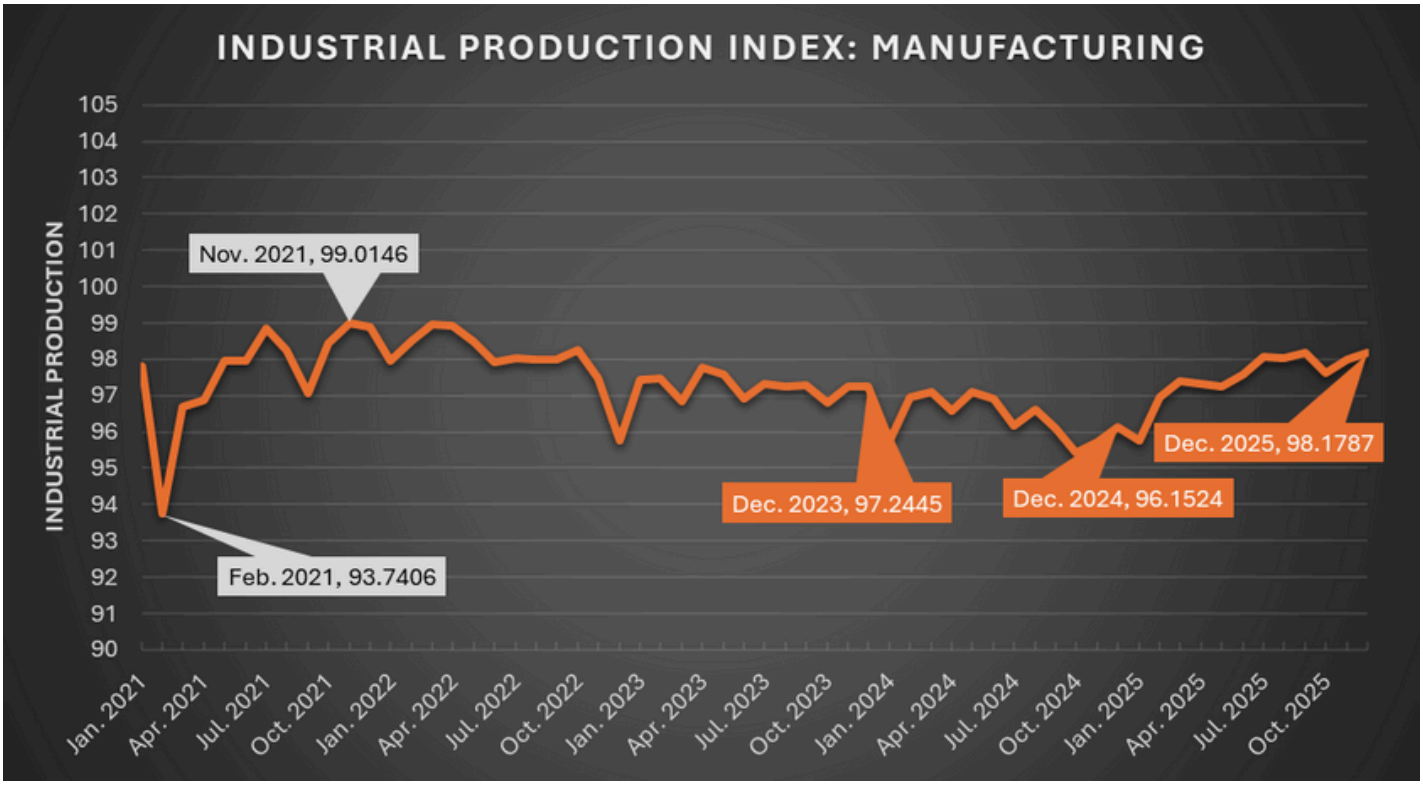
Minnesota's manufacturers can look at 2025 with cautious encouragement surrounding Cap-U data. Utilization rose from 74.9% in December 2024 to 75.5% in December 2025, signaling modest, but steady growth. Manufacturing held its ground throughout 2025 amid cost pressures, shifting demand, tariff uncertainty, and overall economic volatility. Although 2025 remained below the long-term average of 78.2%, the gradual improvement over the last year suggests manufacturers are finding equilibrium in the new era of manufacturing in the United States – maintaining stable operations and minimizing rapid shifts in utilization.

The fact that Cap-U remains under historical averages indicates that manufacturers can handle incremental growth without being forced to expand physical capacity. New Orders remain under the benchmark of 50, while all other Business Conditions sub-indicators hover above 50, combining those factors with facilities that have open capacity, indicates that Minnesota is primed for a strong 2026.

Additionally, the Federal Reserve's annual revisions moved utilization figures down, suggesting that the industry has been operating with even more slack than was originally thought. With this information in mind, Minnesota manufacturers can focus efforts on things like automation, workforce retention, and maintenance upgrades, while continually monitoring capacity levels and projected future demand, to shift capacity accordingly.

KEY INDICATORS | NATIONAL MANUFACTURING

INDUSTRIAL PRODUCTION: MANUFACTURING

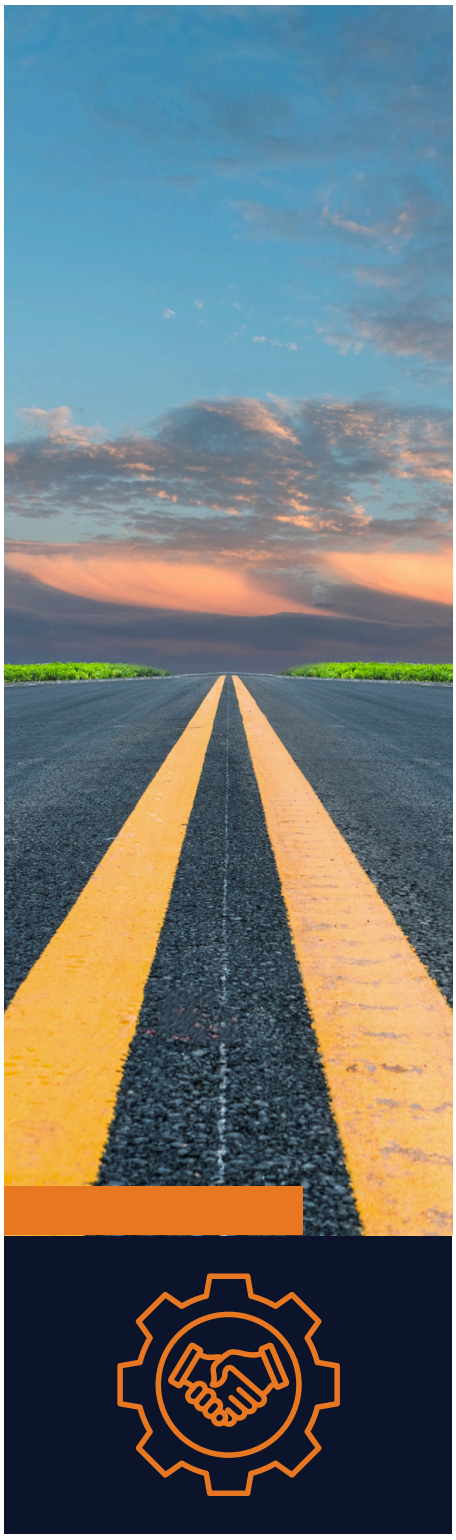


IPI grew 2.1% over the course of 2025, nearing levels not seen in the past couple of years. This indicates a stable but subdued demand environment; however, you should remain cautiously optimistic. IPI levels remain below the baseline of 100 established in 2017, indicating manufacturing has found traction once again. The current data suggests that early 2026 focuses should be centered on productivity, maintenance, automation improvements, and workforce development – lifting the capacity of output over time without the requirements of significant capital expenditures.

Actual production data confirms what many manufacturers have felt over the last year. Order volumes remain steady and reliable but lack the overall strength to spark the manufacturing growth the industry is primed for.

Increasing IPI, while Average Hours of Production Employees trend downwards and Cap-U remains relatively low, points to manufacturers already having focused on improving productivity, efficiencies, and automation. If employment trends continue, however, continued investment in these areas is crucial for maintaining competitiveness in the manufacturing industry.

SUMMARY



Minnesota's manufacturing sector enters 2026 with a foundation of resilience and cautious optimism. Despite the disruptions of recent years – from tariff-driven volatility to workforce pressures and shifting global demand – Minnesota has produced steady output, improving productivity, and is primed for growth. Key indicators such as rising IPI, stabilizing Cap-U, and strengthening Business Conditions suggest that manufacturers are positioned well for forward momentum.

As 2026 unfolds, the companies best equipped to succeed will be those that pair operational discipline with strategic investment – leveraging technology, data, and adaptability to capture opportunities as they emerge.

Questions?
Reach out to us at info@myboyum.com.

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