boyumbarenscheer

FEBRUARY
2026

ECONOMIC REPORT

MINNESOTA MANUFACTURING INDEX

FEBRUARY 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
- Accounting & Outsourced Services

WE SHARE YOUR PASSION FOR INNOVATION.

MINNESOTA MANUFACTURING | FEBRUARY 2026

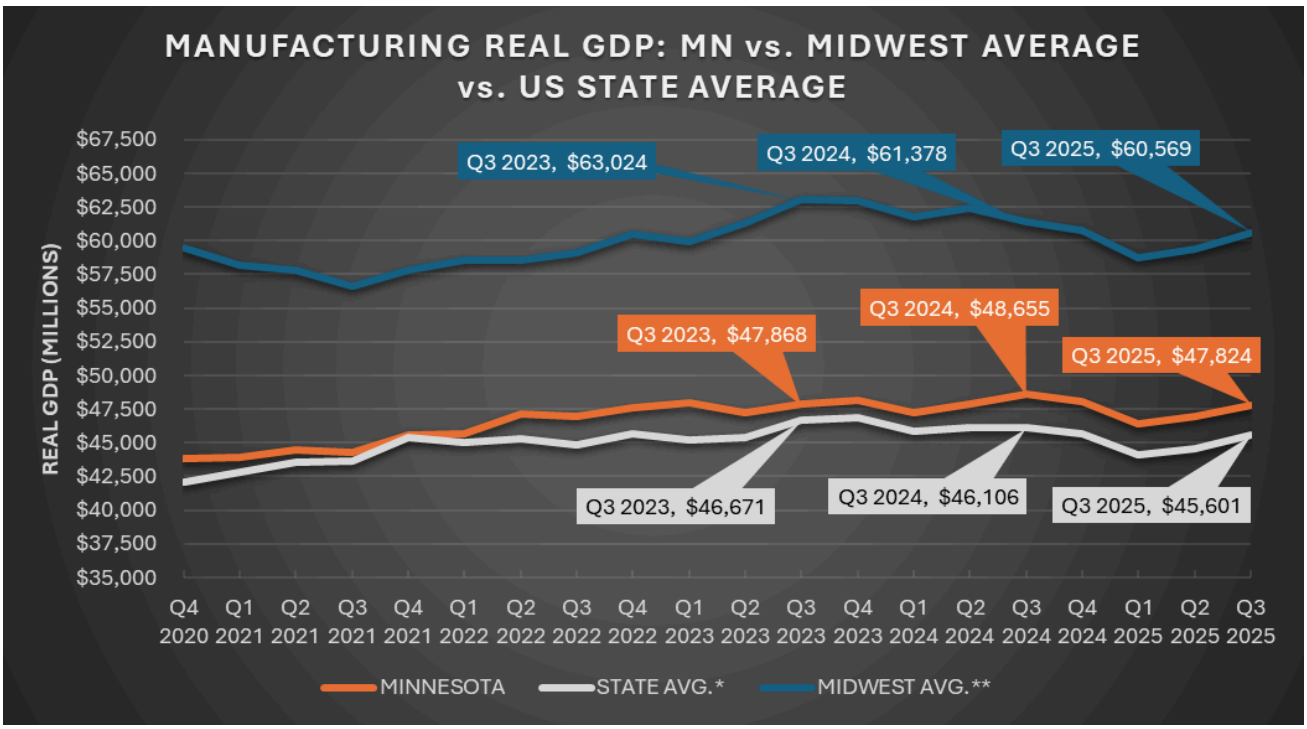
February's Minnesota Manufacturing Index reflects a constructively improving start to 2026 while acknowledging areas that merit close monitoring. Trade data through December 2025 show Minnesota continuing to run a manufactured-goods trade deficit, reinforcing the importance of cost-effective supply chain strategy and export competitiveness as demand stabilizes. On the sentiment side, the February Business Conditions Index indicates overall expansion, supported by a notable improvement in New Orders and Production – while Employment remains a key variable to watch as activity strengthens. At the National level, OECD Business Confidence has returned to roughly its long-term baseline near 100 in February 2026, consistent with broader signs of stabilization and a more predictable operating environment for manufacturers. Meanwhile, inflation at the factory gate remains contained but positive: total manufacturing PPI increased modestly in January 2026, underscoring persistent, but manageable, input and pricing pressures. Finally, operating conditions appear more balanced rather than stretched as Cap-U sits around 75.5% in January 2026 and IPI has risen to the strongest level since late 2022, a combination that supports continued output gains without signaling immediate capacity restraints.

To catch up on prior reports that include introductions to economic indicators, a five year historical analysis, and updates from January 2026, visit those reports with the following links.

Introductory Index: HERE
January 2026 Index: 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.*

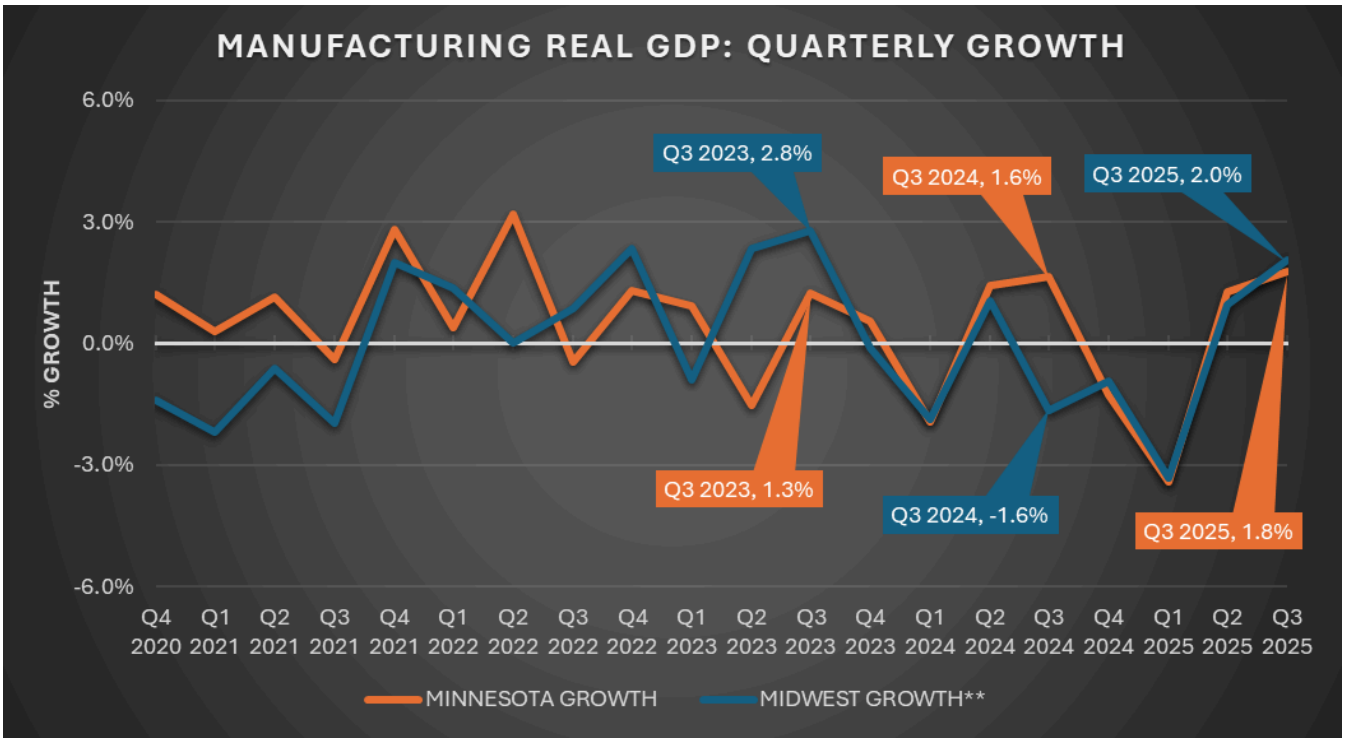
GDP data is released on a quarterly basis, with the Q4 2025 figures scheduled for publication in April 2026. The graph above, along with the analysis that follows, is drawn from our January 2026 report.

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



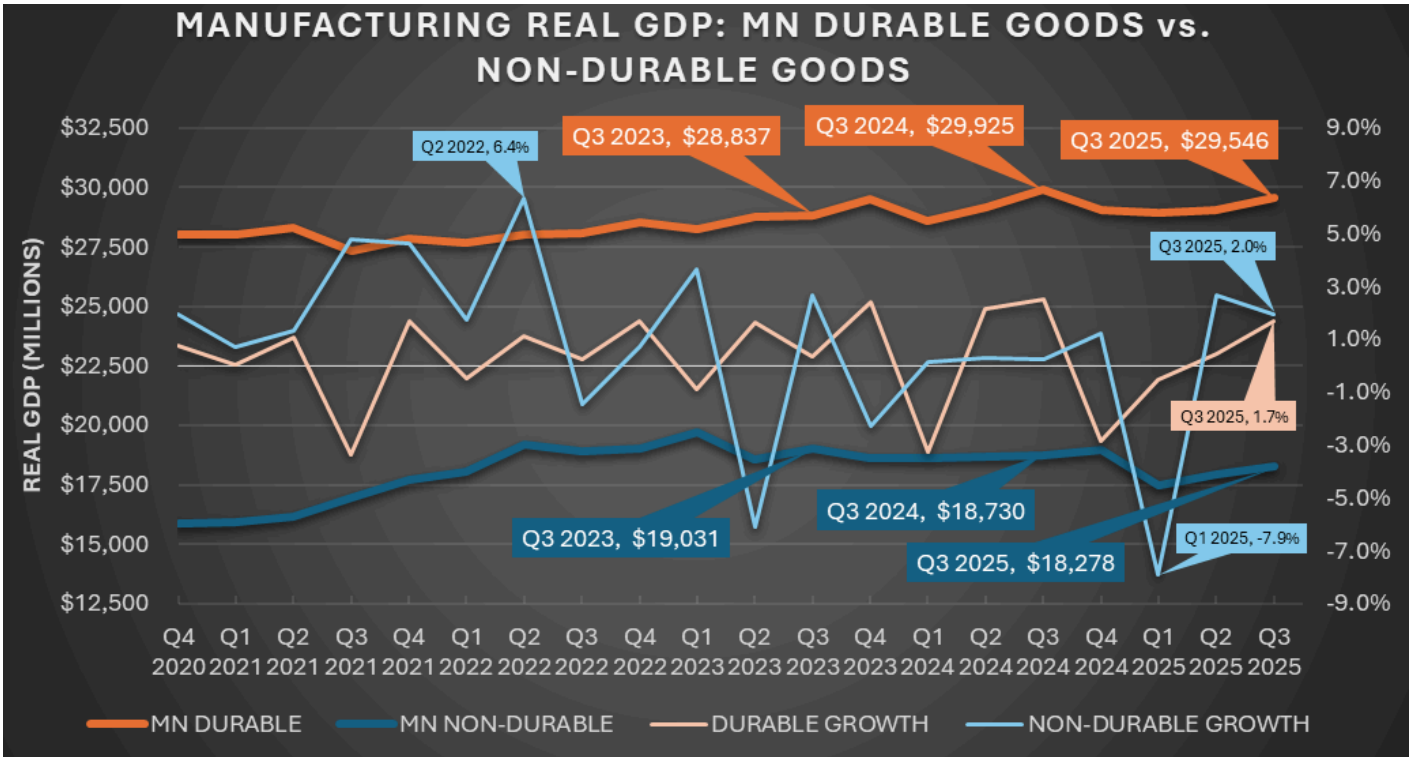
***Midwest refers to Iowa, Michigan, and Wisconsin. North & South Dakota excluded due to population and GDP size relative to aforementioned states.*

GDP data is released on a quarterly basis, with the Q4 2025 figures scheduled for publication in April 2026. The graph above, along with the analysis that follows, is drawn from our January 2026 report.

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



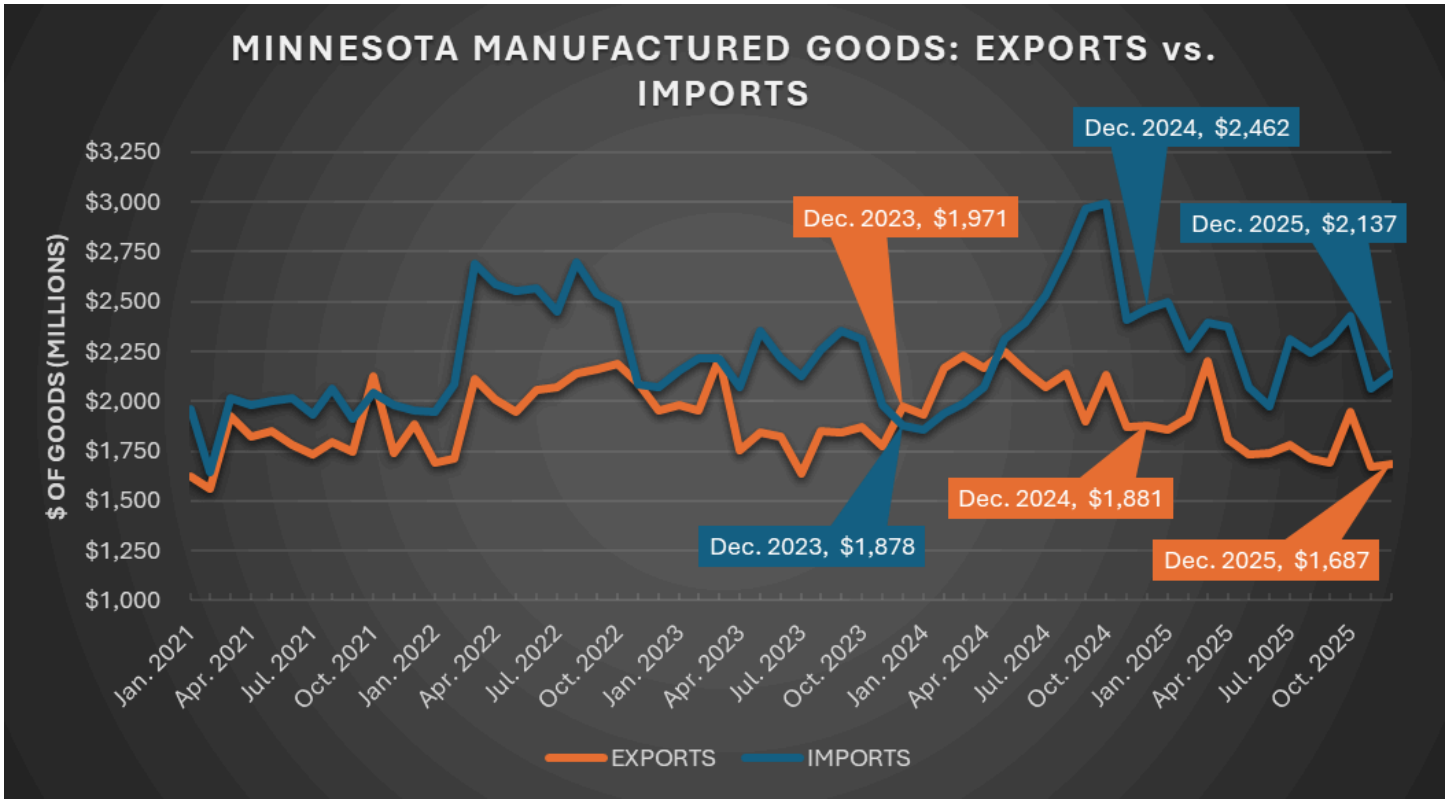
GDP data is released on a quarterly basis, with the Q4 2025 figures scheduled for publication in April 2026. The graph above, along with the analysis that follows, is drawn from our January 2026 report.

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

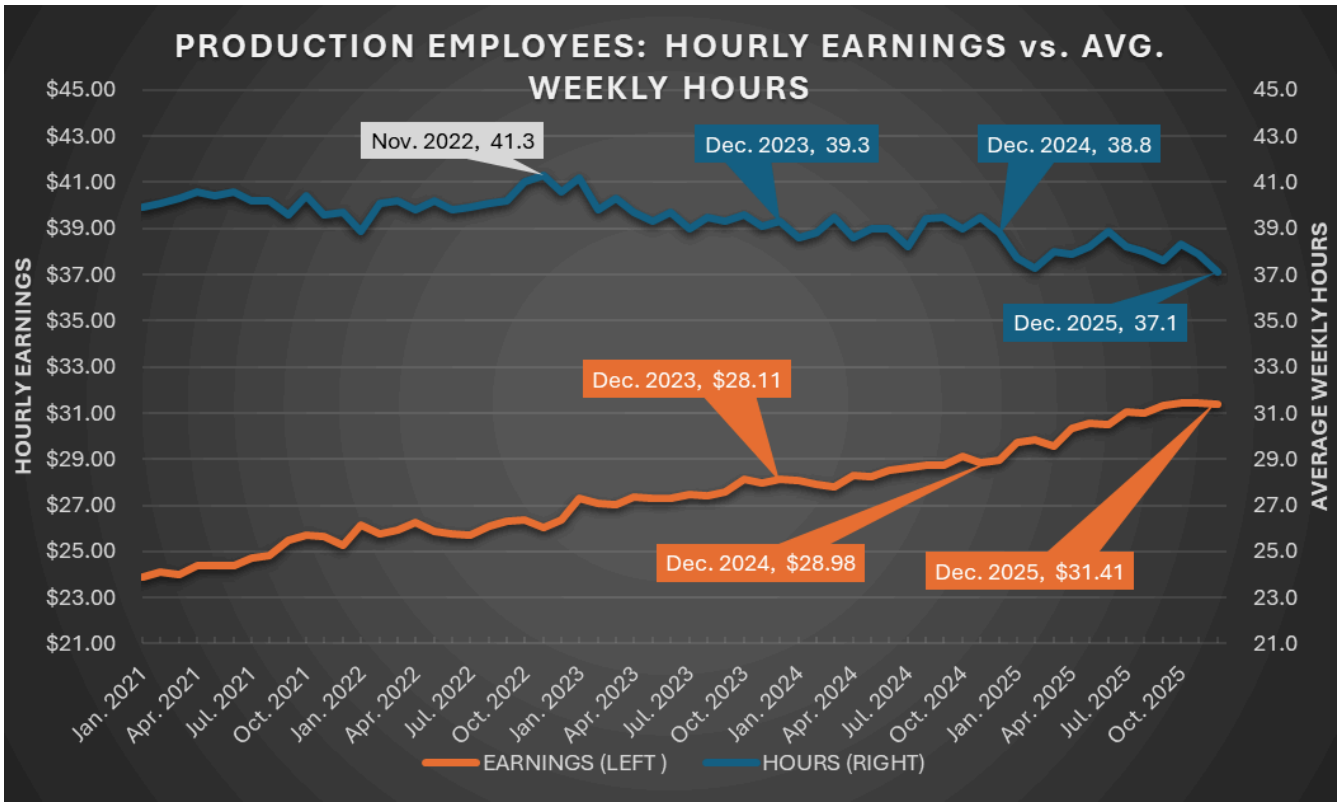


Since the last report, two additional months of data have been reported. November came in with $2.1B and $1.7B for imports and exports, respectively. Sharp drops in both categories from October reports ($363M decline in imports and $280M for exports). December carried a slight uptick from November - $72M gain in imports and $16M gain in exports. Minnesota continues to carry a trade deficit, as it has since April of 2024. As Minnesota manufacturing carries a positive outlook to start 2026, a concentrated effort on localizing supply chains could prove beneficial.

For the entirety of 2025, Minnesota manufacturing had a net trade deficit of ~$5.3B. A 41% increase from 2024's trade deficit of ~$3.8B. If the deficit persists throughout 2026, it may increase pressure on manufacturers to reassess sourcing strategies, particularly where domestic alternatives are viable. Entering a trade surplus often carries many benefits along with it. Minnesota's manufacturing is spread throughout the greater Minnesota area, meaning that employment throughout the entire state strengthens, not just the Twin cities. Trade surplus also leads to resiliency – if US consumer spending as a whole is down, Minnesota Manufacturing can survive if the state is more self-sufficient. A dependency upon other states or countries carries many risks.

KEY INDICATORS | MINNESOTA MANUFACTURING

AVERAGE WEEKLY HOURS & HOURLY EARNINGS OF PRODUCTION EMPLOYEES



Average weekly hours and hourly earnings of production employees is typically published monthly, however, there has been a delay and the next set of data is expected in early April 2026. The graph above, along with the analysis that follows, is drawn from our January 2026 report.

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

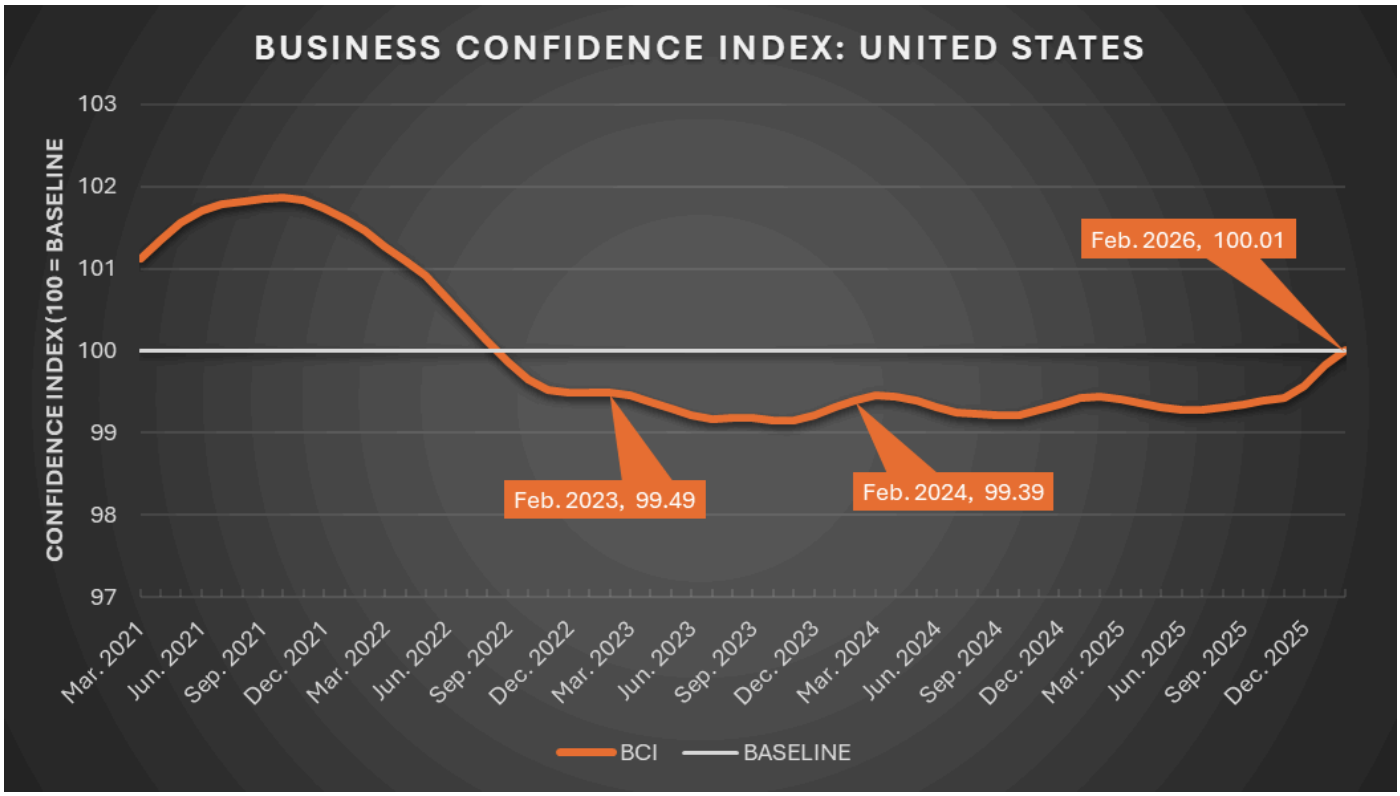
MINNESOTA						
INDEX	FEBRUARY	JANUARY	CHANGE	TREND*	OUTLOOK	PACE
Overall	56.6	54.1	2.5	2	Growth	Moderate
New Orders	59.7	49.1	10.6	1	Growth	Fast
Production	58.1	53.3	4.8	2	Growth	Fast
*Supplier Deliveries***	*57.3*	*54.8*	*2.5*	*17*	*Contraction*	*Moderate*
Employment	49.7	54.7	-5.0	1	Contraction	Fast
Inventories	58.3	58.6	-0.3	2	Growth	Slow
NATIONAL						
INDEX	FEBRUARY	JANUARY	CHANGE	TREND*	OUTLOOK	PACE
Overall	52.4	52.6	-0.2	3	Growth	Slow
New Orders	55.8	57.1	-1.3	3	Growth	Slow
Production	53.5	55.9	-2.4	4	Growth	Moderate
*Supplier Deliveries****	*55.1*	*54.4*	*0.7*	*3*	*Contraction*	*Moderate*
Employment	48.8	48.1	0.7	2	Contraction	Slow
Inventories	48.8	47.6	1.2	2	Contraction	Slow
MID-AMERICA**						
INDEX	FEBRUARY	JANUARY	CHANGE	TREND*	OUTLOOK	PACE
Overall	54.7	49.6	5.1	1	Growth	Fast
New Orders	59.3	48.8	10.5	1	Growth	Fast
Production	56.7	52.1	4.6	2	Growth	Fast
*Supplier Deliveries****	*55.5*	*54.4*	*1.1*	*26+*	*Contraction*	*Slow*
Employment	49.2	47.2	2.0	11	Contraction	Moderate
Inventories	52.8	45.5	7.3	1	Growth	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.*

February carried the optimism for 2026 that was started in January. Minnesota Manufacturing as whole brought an overall Business Conditions Index value of 56.6, growth of 2.5 above levels reported for January. In the prior report, it was noted that Minnesota Manufacturing was primed for a strong start to 2026 so long as New Orders came in. February brought forth a 10.6 point increase in New Orders from January, a mark that beats the National and Mid-American reports. Supplier delivery times continue to lag behind the other indicators, increasing 2.5 points, Manufacturers are seeing longer lead times than the previous month, which could lead to supply issues to fulfill new orders in the long-term. Short-term appears safe given the strong levels of inventory, but management of the supply is crucial to maintain the ability to fulfill orders over the course of the next several months. Minnesota and Mid-America continue to outpace the Nation as a whole, however the National indicators appear to be more consistent throughout the sub-indicators, showing their ability to mitigate peaks and valleys of the industry and maintain consistency.

KEY INDICATORS | NATIONAL MANUFACTURING

BUSINESS CONFIDENCE INDEX

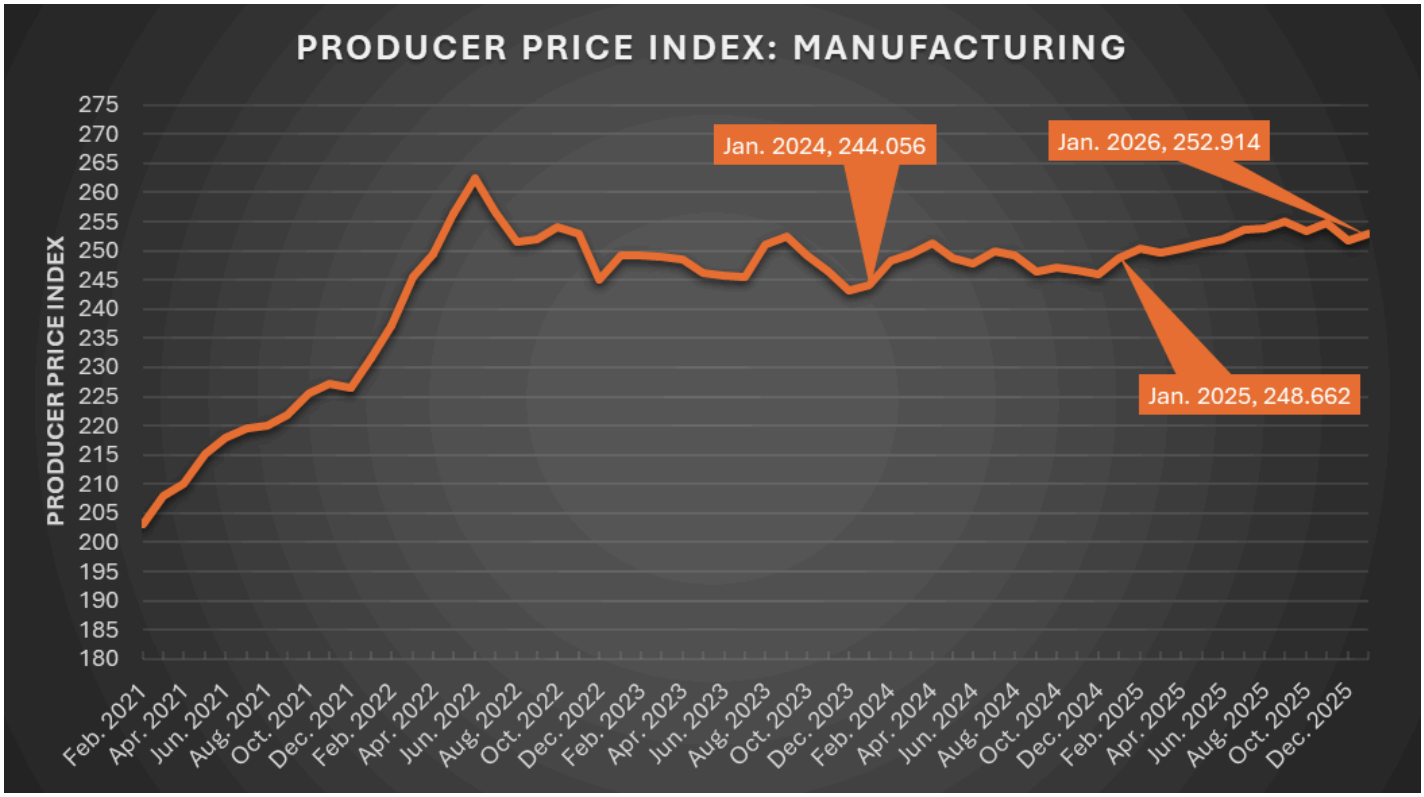


February marked the first month since August 2022 to mark business confidence above the benchmark of 100, and also marks 7 straight months of increasing confidence. This data matches the Business Conditions Index, in which the US has reported 3 consecutive months of overall Business Conditions above the benchmark of 50. The peripheral sub-indicators of Business Conditions also suggest that this trend should continue, and we would expect BCI to remain around its long-term baseline of 100, subject to normal month-to-month volatility.

Historically, a level above 100 signals changes to inventory management – levels under 100 generally coincide with running lean inventory and periods of destocking, to periods of rebuilding and restocking. The upward tick in New Orders for February in Minnesota and Mid-America also encourages a period of restocking and a buildup of inventory. Additionally, as confidence increases and businesses' uncertainty drops, investment in business and hiring tends to climb. This also coincides with Business Conditions as employment levels fell below the benchmark of 50 in February, down from 54.7 in January. As New Orders and Production strengthened, hiring pressures are likely to increase in coming months, though employment remained in contraction during February.

KEY INDICATORS | NATIONAL MANUFACTURING

PRODUCER PRICE INDEX: TOTAL MANUFACTURING



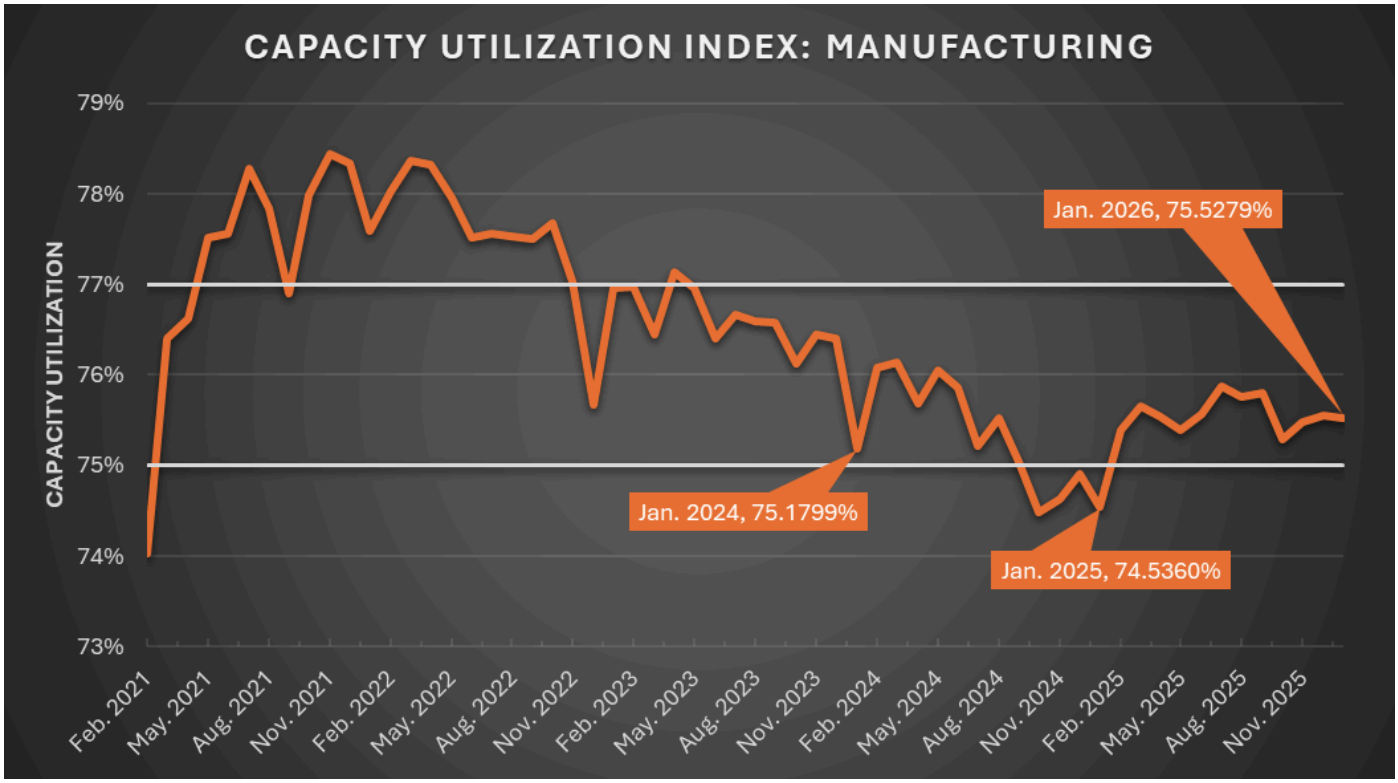
PPI increased from 251.71 in December to 252.91 in January – a marginal uptick. As inflation has cooled off over the past several months, PPI has remained relatively flat. Over the past six months, PPI has averaged 253.60 – 0.68 points above the current data point. The period of January 2024 through January 2025, there was an increase of 1.9%, and from January 2025 to January 2026, PPI rose 1.7%, with some peaks and valleys off the mean in both periods.

Extended periods of consistent growth (the past two years) generally indicate a handful of items. First of all, the impacts of inflation (resulting from the rapid spike from 2021 through mid-2022) have now been incorporated into the production process. After an attempt to wait out the increased prices, manufacturers have now settled on the fact that costs are up and not likely to come back down. Cost expectations have been adjusted upwards and the increased costs are baked into expectations for the long-term.

Pending the pricing power of manufacturers, there are generally two outcomes of steady long-term PPI growth. If manufacturers have the pricing power, they have the ability to pass costs through to consumers, at the risk of rising CPI and subsequent inflationary increases. If manufacturers lack pricing power, they are forced to absorb costs and manage the implications of compressed margins.

KEY INDICATORS | NATIONAL MANUFACTURING

CAPACITY UTILIZATION: MANUFACTURING



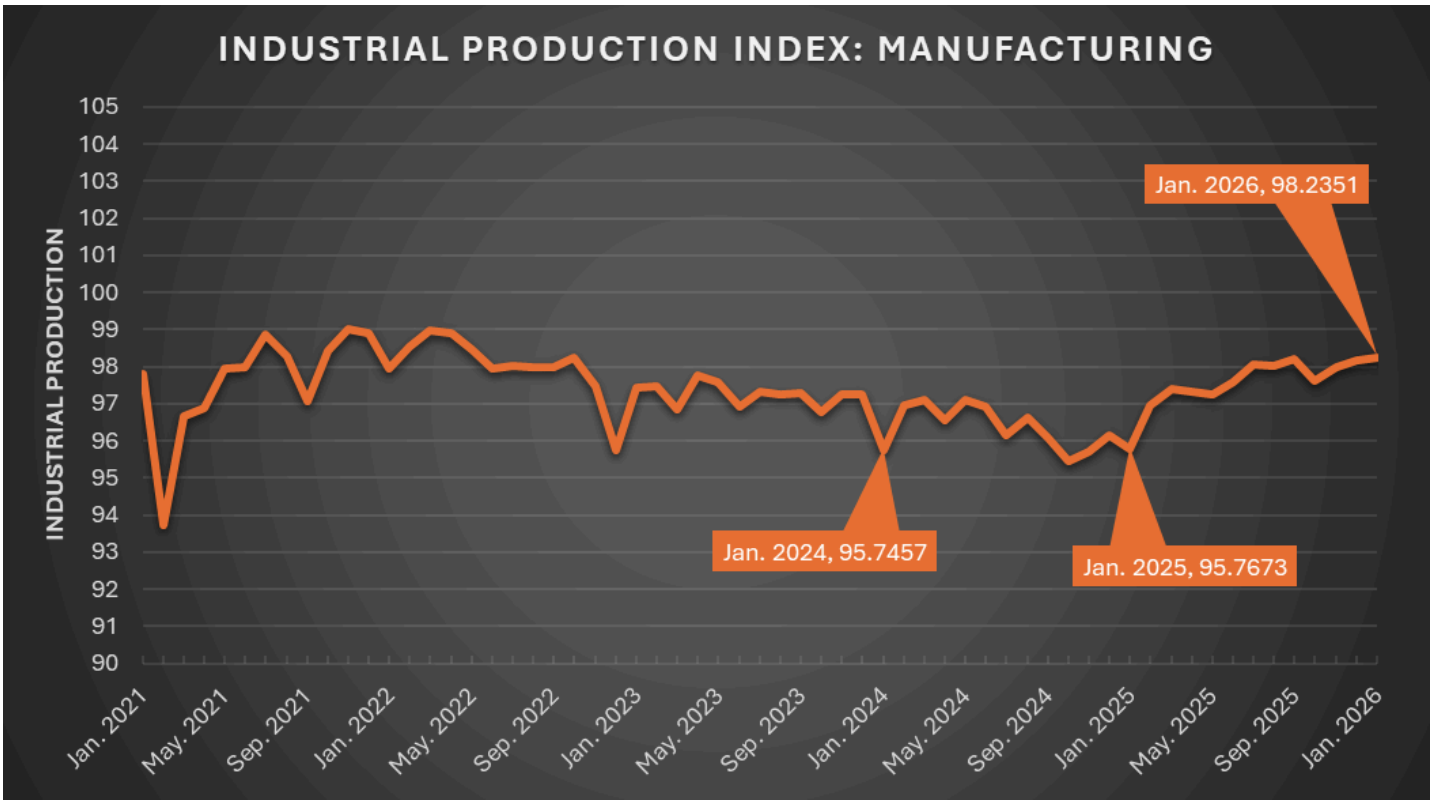
The Federal Reserve has noted that the old 80% benchmark is no longer the best benchmark as it was established when Manufacturing was the main GDP driver of the United States – a period with much lower automation and capacity was much less flexible. As such, the Federal Reserve has noted a benchmark of ~75-77% is more reasonable.

For the purposes of this analysis, an upper threshold of 77% and a lower threshold of 75% are being used. One important note is that 75.48% is the average over the 20 year period from January 2000 through December 2020. This average includes 3 periods of recession – March through November 2001, December 2007 through June 2009, and February 2020 through April 2020 – none of which are included on the graph above.

Given the updated benchmark – January 2026 reports sit between the upper and lower thresholds at 75.5%, indicating a healthy level of Cap-U. Hovering between these thresholds tells manufacturers that they are managing capacity well with little incentive to push for plant expansion or heavy investment in new facilities. Given the Business Conditions sub-indicators trending with positive sentiment, we could see Cap-U increase over the next several months, but assuming continued investment in automation and more efficient and effective processes, there is little reason to assume Cap-U would hit the upper threshold and signal a requirement to invest heavily in new facilities.

KEY INDICATORS | NATIONAL MANUFACTURING

INDUSTRIAL PRODUCTION: MANUFACTURING



IPI continues the steady increase that has been experienced since January 2025. Reporting the highest levels of production output since October 2022. This information, combined with increasing PPI, healthy capacity utilization, and rising New Orders reports, indicates that the manufacturing industrial cycle is re-strengthening and not just stabilizing after a prolonged period of uncertainty and struggles.

The increasing production levels, combined with increasing New Orders is a particularly construction combination of factors. This suggests that the increased production is a result of increasing demand, not simply a period of restocking or a buildup of inventory in hopes of New Orders increasing. These two factors, combined with healthy levels of Cap-U implies that the Manufacturing industry has room to increase production to hit higher levels of demand, should they come – without fear of bottlenecks, overtime, equipment strain, or labor complications.

Over the course of the next several months, if these trends continue – increasing production, consistent levels of capacity, and new orders growth, it signals that the manufacturing industry's growth is expanding efficiently.

SUMMARY

In conclusion, February's data continues the theme from January – cautious optimism for Minnesota Manufacturing. Activity is expanding as New Orders and Production strengthen, while labor remains a key item to watch given the employment component's relative weakness. National conditions are also constructive – IPI is rising and Cap-U remain in a balanced range, suggesting the industry has room for growth without immediate capacity restraint. At the same time, factory gate inflation continues to edge higher, although much more reasonably than recent history. This reinforces the need for disciplined pricing and margin management as demand continues to improve. With business sentiment returning near long-term baseline and leading indicators pointing upward, the near-term priority is execution. Conversion of improving demand into sustainable output gains while managing staffing, lead times, and costs through the first half of 2026.

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

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