

# ISM® Reports Economic Improvement to Continue in 2021



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Manufacturing Growth Expected in 2021; Revenue to Increase 6.9%; Capital Expenditures to Increase 2.4%; Capacity Utilization Currently at 85.7%; Services Growth Projected in 2021; Revenue to Increase 1.6%; Capital Expenditures to Increase 12.7%; Capacity Utilization Currently at 86.6%

TEMPE, Ariz., Jan. 19, 2021 /PRNewswire/ -- Economic improvement in the United States will continue in 2021, say the nation's purchasing and supply management executives in the December 2020 *Semiannual Economic Forecast*. This expansion will continue a growth trend that began in June 2020, as indicated in the monthly ISM® *Report On Business*®. Revenues are expected to increase in 15 of 18 manufacturing industries and 12 of 18 services-sector industries. Capital expenditures are expected to increase by 2.4 percent in the manufacturing sector (after a 2.4-percent decline in 2020) and increase by 12.7 percent in the services sector. The manufacturing employment base is expected to grow by 2.5 percent following a decline of 2.8 percent in 2019. Growth in the second half (H2) of the year is projected to be stronger than in H1.

These projections are part of the forecast issued by the Business Survey Committee of Institute for Supply Management® (ISM®). The forecast was released today by Timothy R. Fiore, CPSM, C.P.M., Chair of the ISM Manufacturing Business Survey Committee, and by Anthony S. Nieves, CPSM, C.P.M., A.P.P, CFPM, Chair of the ISM Services Business Survey Committee.

## Manufacturing Summary

Expectations for 2021 are positive, as 59 percent of survey respondents expect revenues to be greater in 2021 than in 2020. The panel of purchasing and supply executives expects a 6.9-percent net increase in overall revenues for 2021, compared to a 1.3-percent decrease reported for 2020. Fifteen of the 18 manufacturing industries expect revenue improvement in 2021, listed in order: Printing & Related Support Activities; Transportation Equipment; Nonmetallic Mineral Products; Apparel, Leather & Allied Products; Machinery; Computer & Electronic Products; Primary Metals; Plastics & Rubber Products; Fabricated Metal Products; Miscellaneous Manufacturing; Chemical Products; Electrical Equipment, Appliances & Components; Food, Beverage & Tobacco Products; Furniture & Related Products; and Paper Products.

"Manufacturing's purchasing and supply executives expect to see strong growth in 2021. They are optimistic about overall business prospects for the first half of 2021, with business continuing to expand through the second half and at higher rates. Manufacturing experienced seven consecutive months of growth from June through December 2020, with December's PMI® at its highest level since August 2018, the peak of the last manufacturing expansion. Respondents expect an increase in raw materials pricing pressures in 2021, as well as improved profit margins. Wages and employment will also return to growth. Manufacturers also predict growth in both exports and imports in 2021," says Fiore.

In the manufacturing sector, respondents report operating at 85.7 percent of their normal capacity, up 9.8 percentage points from the 75.9 percent reported in May 2020. Purchasing and supply executives predict that capital expenditures will increase by 2.4 percent in 2021 over 2020, compared to the 2.4-percent decrease reported for 2020 over 2019. Manufacturers expect employment in the sector to grow by 2.5 percent in 2021 relative to December 2020 levels, while labor and benefit costs are expected to increase an average of 2.7 percent. Respondents also expect the U.S. dollar to weaken against six of the seven currencies of major trading partners in 2021; it is expected to strengthen relative to the Mexican peso.

The panel predicts the prices paid for raw materials will increase by 2.5 percent during the first five months of 2021, with an overall increase of 2.9 percent for 2021. This compares to a reported 2.8 percent decrease in raw materials prices between the end of 2019 and May of 2020.

**Services Summary**

Forty percent of services supply management executives expect their 2021 revenues to be greater than in 2020. They expect a 1.6 percent net increase in overall revenues for 2021 compared to a 4.8-percent decrease reported for 2020. The 12 industries expecting increases in revenues in 2021 — listed in order of percentage increase — are: Mining; Management of Companies & Support Services; Professional, Scientific & Technical Services; Agriculture, Forestry, Fishing & Hunting; Wholesale Trade; Retail Trade; Transportation & Warehousing; Health Care & Social Assistance; Real Estate, Rental & Leasing; Utilities; Construction; and Finance & Insurance.

"Services supply managers report operating at 86.6 percent of their normal capacity, higher than the 73.3 percent reported in May 2020. They are optimistic about continued growth in the first half of 2021 and more growth for the second half, with a projected increase in growth rate for capital reinvestment. They forecast that their capacity to produce products and provide services will rise by 3.2 percent during 2021, and capital expenditures will increase by 12.7 percent. Services panel members also predict their overall employment will increase by 1.6 percent during 2021," says Nieves.

Respondents in services industries expect the prices they pay for materials and services to increase by 3.5 percent during 2021. They also forecast that their overall labor and benefit costs will increase 2.2 percent. Profit margin decreases were reported in the second and third quarters of 2020, but respondents expect them to increase between now and May 2021.

**OPERATING RATE**

**Manufacturing**

Manufacturing purchasing and supply executives report their companies are currently operating at 85.7 percent of normal capacity. This is a 9.8-percentage point increase when compared to May 2020 (75.9 percent) and an increase when compared to December 2019 (83.7 percent). The following 11 industries — listed in order — are operating at or above the average rate of 85.7 percent: Wood Products; Paper Products; Electrical Equipment, Appliances & Components; Chemical Products; Food, Beverage & Tobacco Products; Primary Metals; Apparel, Leather & Allied Products; Plastics & Rubber Products; Computer & Electronic Products; Fabricated Metal Products; and Furniture & Related Products.

**Services**

Services supply executives report their organizations are currently operating at 86.6 percent of normal capacity. This is higher than the 73.3 percent reported in May 2020 and the 86 percent reported in December 2019. Considering the production capacity increases reported in the following section of this forecast, this indicates that services industries are continuing to add capacity, but also find it necessary to maintain their capacity utilization at a relatively high level. The nine industries operating at or above the average capacity level of 86.6 percent — listed in order — are: Finance & Insurance; Management of Companies & Support Services; Real Estate, Rental & Leasing; Public Administration; Health Care & Social Assistance; Wholesale Trade; Utilities; Agriculture, Forestry, Fishing & Hunting; and Information.

Operating Rate						
	Manufacturing			Services		
	Dec	May	Dec	Dec	May	Dec
	2019	2020	2020	2019	2020	2020
90%+	40%	33%	52%	51%	37%	59%
50%-89%	58%	54%	44%	48%	50%	37%
Below 50%	2%	13%	4%	1%	13%	4%
Est. Overall Average	83.7%	75.9%	85.7%	86.0%	73.3%	86.6%

**PRODUCTION CAPACITY**

**Manufacturing**

Production capacity in manufacturing increased 0.5 percentage point in 2020, as 32 percent of purchasing and supply executives reported an average capacity increase of 11 percent, 19 percent reported an average decrease of 15.7 percent, and 48 percent reported no change. This compares to a predicted decrease in production capacity of 3.6 percent for 2020 made in May 2020. Expectations for 2021 are for an increase of 5.3 percent. The 16 industries that expect an increase in production capacity in 2021 — listed in order — are: Printing & Related Support Activities; Nonmetallic Mineral Products; Apparel, Leather & Allied Products; Fabricated Metal Products; Food, Beverage & Tobacco Products; Machinery; Transportation Equipment; Plastics & Rubber Products; Furniture & Related Products; Wood Products; Primary Metals; Miscellaneous Manufacturing; Chemical Products; Computer & Electronic Products; Electrical Equipment, Appliances & Components; and Paper Products.

Manufacturing Production Capacity						
	Predicted For 2020		Reported For 2020		Predicted For 2021	
	Predicted May 2020	Magnitude of Change	Reported Dec 2020	Magnitude of Change	Predicted Dec 2020	Magnitude of Change
Higher	17%	+14.7%	32%	+11.0%	45%	+12.5%
Same	55%	NA	48%	NA	53%	NA
Lower	28%	-21.5%	19%	-15.7%	2%	-15.0%
Net Average		-3.6%		+0.5%		+5.3%

The principal means of achieving increases in production capacity in 2020 were (in order of importance):

- 1) Additional plant and/or equipment
- 2) More hours worked with existing personnel
- 3) Additional personnel (permanent, temporary or contract)
- 4) Replaced equipment with technically advanced equipment.

### Services

The capacity to produce products or provide services in the services sector increased 0.1 percent during 2020. This compares to the 2.5-percent increase reported in December 2019 for the year 2019 and beats the May 2020 prediction of a 2.8-percent decrease for 2020. For 2021, an increase of 3.2 percent is predicted. For 2021, 32 percent of services supply managers expect increases averaging 12.2 percent, and 5 percent of respondents expect decreases averaging 13.8 percent. Sixty-three percent expect no change in capacity. The 15 industries expecting increases in capacity in 2021 – listed in order – are: Arts, Entertainment & Recreation; Accommodation & Food Services; Transportation & Warehousing; Management of Companies & Support Services; Retail Trade; Wholesale Trade; Information; Health Care & Social Assistance; Mining; Construction; Finance & Insurance; Real Estate, Rental & Leasing; Professional, Scientific & Technical Services; Public Administration; and Educational Services.

Services Production or Provision Capacity						
	Predicted For 2020		Reported For 2020		Predicted For 2021	
	Predicted May 2020	Magnitude of Change	Reported Dec 2020	Magnitude of Change	Predicted Dec 2020	Magnitude of Change
Higher	6%	+16.3%	20%	+14.1%	32%	+12.2%
Same	71%	NA	61%	NA	63%	NA
Lower	23%	-17.0%	19%	-14.6%	5%	-13.8%
Net Average		-2.8%		+0.1%		+3.2%

The principal means of achieving increases in production or provision capacity in 2020 were (in order of importance):

- 1) Additional personnel (permanent, temporary or contract)
- 2) More hours worked with existing personnel
- 3) Replaced equipment with technically advanced equipment
- 4) Additional plant and/or equipment.

### CAPITAL EXPENDITURES – 2020 vs. 2019

**Manufacturing**

Purchasing and supply managers report 2020 capital expenditures decreased 2.4 percent on average when compared to 2019 levels. Expenditures for 2020 beat survey respondents' previous expectations, as they predicted a decrease of 19.1 percent for 2020 in May 2020. The 23 percent of purchasers who reported increased capital expenditures in 2020 indicated an average increase of 31.9 percent, while the 34 percent who said their capital spending was reduced reported an average decrease of 29.1 percent. Forty-three percent of respondents said their levels of spend were unchanged in 2020. The seven industries showing increases in capital expenditures for 2020 — listed in order of percentage increase — are: Textile Mills; Food, Beverage & Tobacco Products; Fabricated Metal Products; Plastics & Rubber Products; Chemical Products; Transportation Equipment; and Machinery.

**Services**

Services supply management executives report their level of capital expenditures in 2020 decreased 4 percent compared to 2019. This is less than the 2-percent increase reported for 2019, and beats the 13.4-percent decrease predicted by respondents in May 2020. Twenty-four percent report increases averaging 32.9 percent, while 33 percent report decreases averaging 36 percent. Forty-three percent indicate they spent the same on capital expenditures in 2020 as in 2019. The four industries experiencing increases in capital expenditures in 2020 are: Agriculture, Forestry, Fishing & Hunting; Public Administration; Utilities; and Professional, Scientific & Technical Services.

Capital Expenditures 2020 vs. 2019						
	Manufacturing			Services		
	Predicted May 2020	Reported Dec 2020	Magnitude of Change	Predicted May 2020	Reported Dec 2020	Magnitude of Change
Higher	10%	23%	+31.9%	8%	24%	+32.9%
Same	34%	43%	NA	53%	43%	NA
Lower	56%	34%	-29.1%	34%	33%	-36.0%
Net Average	-19.1%		-2.4%	-13.4%		-4.0%

**PREDICTED CAPITAL EXPENDITURES – 2021 vs. 2020**

**Manufacturing**

Purchasing and supply executives expect capital expenditures to increase 2.4 percent in 2021. The 29 percent of respondents who predict increased capital expenditures in 2021 indicate an average increase of 26.4 percent, while the 16 percent who said their capital spending would be reduced predict an average decrease of 32.7 percent. Fifty-five percent said they expect to spend the same in 2021 as in 2020. The 10 industries predicting increases in capital expenditures above the average increase of 2.4 percent for 2021 — listed in order of percentage increase — are: Paper Products; Nonmetallic Mineral Products; Primary Metals; Textile Mills; Furniture & Related Products; Fabricated Metal Products; Transportation Equipment; Miscellaneous Manufacturing; Electrical Equipment, Appliances & Components; and Computer & Electronic Products.

**Services**

Services purchasing and supply executives are expecting an increase of 12.7 percent in capital expenditures in 2021, above the decrease of 13.4 percent for 2020 they reported in May. The 35 percent of respondents expecting to spend more on capital expenditures predict an average

increase of 50.2 percent. An additional 18 percent anticipate a decrease averaging 28.5 percent. Forty-seven percent expect to spend the same on capital expenditures in 2021 as in 2020. The eight industries expecting increases in capital expenditures in 2021 — listed in order of percentage increase — are: Real Estate, Rental & Leasing; Mining; Public Administration; Wholesale Trade; Professional, Scientific & Technical Services; Utilities; Management of Companies & Support Services; and Finance & Insurance.

Predicted Capital Expenditures 2021 vs. 2020				
	Manufacturing		Services	
	Predicted Dec 2020	Magnitude of Change	Predicted Dec 2020	Magnitude of Change
Higher	29%	+26.4%	35%	+50.2%
Same	55%	NA	47%	NA
Lower	16%	-32.7%	18%	-28.5%
Net Average		+2.4%		+12.7%

PRICES — Changes Between End of 2019 and End of 2020

**Manufacturing**

After an earlier forecast in May 2020 of a 1.6-percent decrease in prices paid for raw materials in 2020, survey respondents report price increases averaging 1.5 percent for the year. The 48 percent who say their prices are higher now than at the end of 2019 report an average increase of 7.8 percent, while the 22 percent who report lower prices averaged a 10.1-percent decrease. The remaining 30 percent indicate no change in 2020. The 10 industries experiencing above average price increases of 1.5 percent in 2020 — listed in order — are: Printing & Related Support Activities; Apparel, Leather & Allied Products; Paper Products; Fabricated Metal Products; Machinery; Furniture & Related Products; Textile Mills; Miscellaneous Manufacturing; Computer & Electronic Products; and Plastics & Rubber Products.

Manufacturing Price Changes Between End of 2019 and End of 2020						
	Predicted Dec 2019	Magnitude of Change	Predicted May 2020	Magnitude of Change	Reported Dec 2020	Magnitude of Change
Higher	50%	+5.0%	27%	+7.2%	48%	+7.8%
Same	26%	NA	35%	NA	30%	NA
Lower	24%	-5.9%	38%	-9.2%	22%	-10.1%
Net Average		+1.1%		-1.6%		+1.5%

**Services**

In 2020, services supply managers report, prices they pay increased by 2.3 percent. This is less than the 3.9-percent increase they predicted in May 2020, and more than the 1.9-percent increase for 2020 predicted one year ago. Forty-eight percent of purchasers report price increases averaging 8.4 percent. Fourteen percent of purchasers indicate decreased prices, with an average reduction of 12.7 percent, and 38 percent of respondents did not experience price changes this year. The five industries reporting price increases above the average of 2.3 percent in 2020 are: Health Care & Social Assistance; Public Administration; Wholesale Trade; Finance & Insurance; and Arts, Entertainment & Recreation.

Services Price Changes Between End of 2019 and End of 2020						
	Predicted Dec 2019	Magnitude of Change	Predicted May 2020	Magnitude of Change	Reported Dec 2020	Magnitude of Change
Higher	57%	+4.6%	32%	+19.1%	48%	+8.4%
Same	31%	NA	48%	NA	38%	NA
Lower	12%	-6.6%	20%	-11.3%	14%	-12.7%
Net Average		+1.9%		+3.9%		+2.3%

## PRICES – Predicted Changes Between End of 2020 and May 2021

### Manufacturing

Fifty-two percent of purchasing and supply managers expect the prices they pay to increase in early 2021 by an average of 6.1 percent. At the same time, 12 percent anticipate decreases averaging 5.8 percent. Including the 36 percent who expect no change in prices in the first five months of 2021, purchasers expect a net average overall price increase of 2.5 percent. The 11 industries predicting a higher than 2.5 percent average increase in prices paid in the first part of 2021 – listed in order – are: Apparel, Leather & Allied Products; Primary Metals; Fabricated Metal Products; Furniture & Related Products; Printing & Related Support Activities; Wood Products; Electrical Equipment, Appliances & Components; Nonmetallic Mineral Products; Machinery; Food, Beverage & Tobacco Products; and Paper Products.

### Services

Services survey respondents predict their purchases in the first five months of 2021 will cost an average of 3.7 percent more than at the end of 2020. This is more than the increase reported for calendar year 2020. Fifty-eight percent of services respondents predict the prices they pay will increase an average of 7.8 percent in the first part of 2021. Four percent of respondents expect price decreases averaging 17.5 percent. The remaining 38 percent predict no change in prices in the first five months of 2021. The eight industries predicting price increases of at least 3.7 percent on average in the first part of 2021 – listed in order of percentage increase – are: Health Care & Social Assistance; Transportation & Warehousing; Public Administration; Professional, Scientific & Technical Services; Wholesale Trade; Mining; Management of Companies & Support Services; and Information.

Prices – Predicted Changes Between End of 2020 and May 2021				
	Manufacturing		Services	
	Predicted Dec 2020	Magnitude of Change	Predicted Dec 2020	Magnitude of Change
Higher	52%	+6.1%	58%	+7.8%
Same	36%	NA	38%	NA
Lower	12%	-5.8%	4%	-17.5%
Net Average		+2.5%		+3.7%

## PRICES – Predicted Changes Between End of 2020 and End of 2021

### Manufacturing

Respondents predict a net average increase in prices paid of 2.9 percent between December 2020 and December 2021. Fifty-seven percent of respondents expect an average price increase of 6.9 percent for the full year of 2021, while 16 percent expect an average reduction of 6.3

percent. The remaining 27 percent expect no change in their average prices paid for the year 2021. The 11 industries expecting price increases above the predicted average of 2.9 percent by the end of 2021 — listed in order — are: Apparel, Leather & Allied Products; Primary Metals; Nonmetallic Mineral Products; Electrical Equipment, Appliances & Components; Furniture & Related Products; Wood Products; Chemical Products; Food, Beverage & Tobacco Products; Machinery; Paper Products; and Petroleum & Coal Products.

**Services**

For all of 2021, services supply management executives expect their prices to increase an average of 3.5 percent. Fifty-seven percent of respondents expect increases averaging 7.5 percent, 7 percent anticipate prices to drop an average of 12.2 percent, and 36 percent foresee no change in prices during the next year. The seven industries expecting greater than the 3.5-percent average price increase by the end of 2021 — listed in order of percentage increase — are: Health Care & Social Assistance; Wholesale Trade; Public Administration; Professional, Scientific & Technical Services; Transportation & Warehousing; Mining; and Educational Services.

Predicted Price Changes Between End of 2020 and End of 2021				
	Manufacturing		Services	
	Predicted Dec 2020	Magnitude of Change	Predicted Dec 2020	Magnitude of Change
Higher	57%	+6.9%	57%	+7.5%
Same	27%	NA	36%	NA
Lower	16%	-6.3%	7%	-12.2%
Net Average		+2.9%		+3.5%

**LABOR AND BENEFIT COSTS — Predicted Rate Change End of 2020 vs. End of 2021**

**Manufacturing**

Purchasing and supply executives expect higher overall labor and benefit costs for 2021. Fifty-two percent of respondents expect labor and benefit costs to grow by an average of 5.6 percent for all of 2021, while the 4 percent forecasting lower costs see them decreasing by an average of 6.7 percent. Including the 44 percent of respondents who believe costs will remain the same, the overall net rate of increase is expected to be 2.7 percent for the year. The seven industries expecting to pay an increase of 2.7 percent or greater — listed in order of percentage increase — are: Printing & Related Support Activities; Furniture & Related Products; Apparel, Leather & Allied Products; Primary Metals; Nonmetallic Mineral Products; Transportation Equipment; and Fabricated Metal Products.

**Services**

Purchasing and supply executives expect a 2.2-percent increase in labor and benefit costs services industries in 2021. Forty-three percent of respondents expect such costs to increase by an average of 6.1 percent. Another 3 percent of respondents expect labor and benefit costs to shrink by an average of 11 percent, and 54 percent believe costs will remain stable during 2021. The 10 industries expecting to pay an increase of 2.2 percent or higher — listed in order of percentage increase — are: Transportation & Warehousing; Mining; Professional, Scientific & Technical Services; Wholesale Trade; Health Care & Social Assistance; Management of Companies & Support Services; Accommodation & Food Services; Utilities; Arts, Entertainment & Recreation; and Information.



Labor and Benefit Costs — Predicted Rate Change End of 2020 vs. End of 2021						
	Manufacturing			Services		
	Predicted for 2020 Dec 2019	Predicted for 2021 Dec 2020	Magnitude of Change	Predicted for 2020 Dec 2019	Predicted for 2021 Dec 2020	Magnitude of Change
Higher	66%	52%	+5.6%	59%	43%	+6.1%
Same	27%	44%	NA	36%	54%	NA
Lower	7%	4%	-6.7%	5%	3%	-11.0%
Net Average	+0.7%		+2.7%	+1.8%		+2.2%

## EMPLOYMENT – Change in Overall Employment

### Manufacturing

ISM's Manufacturing Business Survey Committee members report that sector employment decreased 2.6 percent in 2020 and forecast that employment will increase by 2.5 percent, on average, for the full year of 2021. Thirty-seven percent of respondents expect employment to be 9.1 percent higher in 2021, while 12 percent predict employment to be lower by 7.9 percent. The remaining 51 percent of respondents expect their employment levels to be unchanged in 2021. The 13 industries predicting increases in employment in 2021 – listed in order – are: Printing & Related Support Activities; Apparel, Leather & Allied Products; Transportation Equipment; Primary Metals; Nonmetallic Mineral Products; Fabricated Metal Products; Plastics & Rubber Products; Furniture & Related Products; Food, Beverage & Tobacco Products; Electrical Equipment, Appliances & Components; Computer & Electronic Products; Machinery and Paper Products.

Manufacturing Change in Overall Employment						
	Reported for 2020 (since May) Dec 2020	Magnitude of Change	Reported for 2020 (since Dec 2019)	Magnitude of Change	Predicted for 2021 Dec 2020	Magnitude of Change
Higher	18%	+9.6%	19%	+10.7%	37%	+9.1%
Same	45%	NA	45%	NA	51%	NA
Lower	37%	-12.3%	36%	-13.1%	12%	-7.9%
Net Average		-2.8%		-2.6%		+2.5%

### Services

ISM's Services Business Survey Committee members report that sector employment has decreased 3.7 percent since May 2020. They forecast that employment will increase 1.6 percent by the end of 2021. In the coming year, 28 percent of respondents expect higher levels of employment, 12 percent anticipate lower levels, and 60 percent expect their employment levels to be unchanged. The 14 industries anticipating increases in employment in 2021 – listed in order – are: Other Services; Professional, Scientific & Technical Services; Arts, Entertainment & Recreation; Retail Trade; Management of Companies & Support Services; Transportation & Warehousing; Construction; Agriculture, Forestry, Fishing & Hunting; Mining; Wholesale Trade; Health Care & Social Assistance; Information; Finance & Insurance; and Utilities.

Services Change in Overall Employment						
	Reported for 2020 (since May Dec 2020	Magnitude of Change	Reported for 2020 (since Dec 2019)	Magnitude of Change	Predicted for 2021 Dec 2020	Magnitude of Change
Higher	17%	+6.6%	19%	+7.8%	28%	+10.2%
Same	48%	NA	50%	NA	60%	NA
Lower	35%	-13.7%	31%	-16.3%	12%	-11.2%
Net Average		-3.7%		-3.5%		+1.6%

Note: A diffusion index above 50 percent would generally indicate an expectation of higher employment; below 50 percent, an expectation of lower employment.

### EXPORT BUSINESS – Predicted Change for Next Half Year (First Half of 2021)

#### Manufacturing

Survey responses indicate purchasers expect increases in new export orders for the first half of 2021. Of the 77 percent of respondents who reported export sentiment, 53 percent predict an increase (51 percent moderate and 2 percent substantial) over the next five months. Five percent of respondents predict a decrease (5 percent moderate and 0 percent substantial) in their exports, and 42 percent anticipate no change in exports over the next five months. The 12 industries expecting growth in exports during the first half of 2021 – listed in order – are: Petroleum & Coal Products; Primary Metals; Chemical Products; Transportation Equipment; Electrical Equipment, Appliances & Components; Fabricated Metal Products; Food, Beverage & Tobacco Products; Paper Products; Plastics & Rubber Products; Computer & Electronic Products; Miscellaneous Manufacturing; and Machinery.

#### Services

For the first half of 2021, services supply managers who report that their organizations engage in exporting are less optimistic concerning their export business. Of the 20 percent of services business survey respondents who report that they export, 8 percent predict an increase (8 percent moderate and 0 percent substantial) over the next five months. Ten percent of the respondents expect a decrease in their exports (10 percent moderate and 0 percent substantial), and 82 percent anticipate no change in exports over the next five months. Of the industries that report they export, the five expecting growth in export business in the first half of 2021 are: Construction; Mining; Agriculture, Forestry, Fishing & Hunting; Wholesale Trade; and Professional, Scientific & Technical Services.

Predicted Change in Export Business — Next Half Year				
	Manufacturing		Services	
	Predicted For 2020	Predicted For 2021	Predicted For 2020	Predicted For 2021
	First Half of 2020  Predicted Dec 2019	First Half of 2021  Predicted Dec 2020	First Half of 2020  Predicted Dec 2019	First Half of 2021  Predicted Dec 2020
Substantial Increase	3%	2%	2%	0%
Moderate Increase	35%	51%	22%	8%
No Change	48%	42%	69%	82%
Moderate Decrease	13%	5%	7%	10%
Substantial Decrease	1%	0%	0%	0%
Diffusion Index	61.6%	74.0%	58.2%	49.0%

**IMPORT BUSINESS – Predicted Change for Next Half Year (First Half of 2021)**

**Manufacturing**

Purchasers expect increases in imports in the first half of 2021. Of the 89 percent of purchasers who reported they import, 36 percent predict an increase in their imports over the next five months (32 percent moderate and 4 percent substantial), while 17 percent predict a decrease in imports of materials (15 percent moderate and 2 percent substantial). Forty-seven percent of survey respondents expect no change in imports in the first half of 2021. The 13 industries expecting growth in imports – listed in order – are: Wood Products; Nonmetallic Mineral Products; Electrical Equipment, Appliances & Components; Plastics & Rubber Products; Textile Mills; Fabricated Metal Products; Transportation Equipment; Machinery; Chemical Products; Paper Products; Food, Beverage & Tobacco Products; Miscellaneous Manufacturing; and Computer & Electronic Products.

**Services**

Services have higher expectations for the use of imports for the first half of 2021 than they did in December 2019 for the first half of 2020. Of the 40 percent of services organizations who reported they import, 20 percent (19 percent moderate and 1 percent substantial) predict an increase in their imports during the first half of 2021. Eleven percent of respondents (11 percent moderate and 0 percent substantial) predict a decrease in imports of materials and services. The remaining 69 percent of purchasers expect no change in imports over the next five months. The seven industries expecting growth in imports – listed in order – are: Agriculture, Forestry, Fishing & Hunting; Transportation & Warehousing; Real Estate, Rental & Leasing; Wholesale Trade; Construction; Information; and Professional, Scientific & Technical Services.

Predicted Change in Import Business — Next Half Year				
	Manufacturing		Services	
	Predicted For 2020	Predicted For 2021	Predicted For 2020	Predicted For 2021
	First Half of 2020 Predicted Dec 2019	First Half of 2021 Predicted Dec 2020	First Half of 2020 Predicted Dec 2019	First Half of 2021 Predicted Dec 2020
Substantial Increase	1%	4%	1%	1%
Moderate Increase	30%	32%	23%	19%
No Change	45%	47%	55%	69%
Moderate Decrease	20%	15%	19%	11%
Substantial Decrease	4%	2%	2%	0%
Diffusion Index	53.4%	59.3%	51.7%	54.3%

## INVENTORY-TO-SALES RATIO

### Manufacturing

Of the manufacturing panel, 20 percent anticipate increasing their purchased inventory-to-sales ratio during 2021. An additional 15 percent expect their ratio to drop, and 65 percent see no change. The diffusion index of 52.8 percent suggests the inventory-to-sales ratio will increase in 2021.

### Services

Twelve percent anticipate increasing their purchased inventory-to-sales ratio during 2021. An additional four percent expect their ratio to drop, and 84 percent see no change. The diffusion index of 54 percent suggests the inventory-to-sales ratio will increase in 2021.

Predicted Change in Purchased Inventory-to-Sales Ratio				
	Manufacturing		Services	
	For 2020	For 2021	For 2020	For 2021
	Predicted Dec 2019	Predicted Dec 2020	Predicted Dec 2019	Predicted Dec 2020
Greater	15%	20%	8%	12%
Same	56%	65%	81%	84%
Smaller	29%	15%	11%	4%
Diffusion Index	43.3%	52.8%	48.2%	54.0%

Note: A diffusion index above 50 percent would indicate an increase in the inventory-to-sales ratio; below 50 percent, a decrease in the ratio.

## U.S. DOLLAR – Predicted Strength vs. Major Trading Currencies – in 2021 – Manufacturing Only

### Manufacturing

Purchasing and supply executives are expecting the U.S. dollar will weaken in 2021 against all the foreign currencies listed below, except the Mexican peso. The average diffusion index for this forecast is 48.3 percent, a decrease of 11.3 percentage points compared to the December 2019 forecast average of 59.6 percent for 2020.

U.S. Dollar Will Be:	Euro	Canada \$	British Pound	Japanese Yen	Mexican Peso	Korean Won	Taiwan \$
Stronger than	32%	29%	32%	23%	47%	19%	25%
Same as	28%	37%	33%	44%	27%	48%	43%
Weaker than	40%	34%	35%	33%	26%	33%	32%
Diffusion Index	46.1%	47.6%	48.2%	45.4%	60.7%	43.3%	46.6%

Note: A diffusion index above 50 percent would predict a generally stronger U.S. dollar; below 50 percent, a generally weaker U.S. dollar, with the distance from 50 percent indicative of the predicted strength or weakness.

## BUSINESS REVENUES

### Business Revenues Comparison – 2020 vs. 2019

#### Manufacturing

Summarizing revenues for 2020, 37 percent of respondents say revenue was better than 2019, and that revenues increased an average of 13.9 percent over 2019. Thirty-seven percent say their revenues decreased in 2020 by an average of 17 percent, and the remaining 26 percent indicate no change. Overall, purchasing and supply executives indicate a net decrease of 1.3 percent in business revenues for 2020 over 2019. This is less than the 10.3-percent decrease that was forecast in May 2020 for all of 2020 and dramatically different from the 4.8-percent increase predicted in December 2019 for all of 2020. The seven industries reporting increases (highest to lowest) in revenues in 2020 – listed in order – are: Transportation Equipment; Food, Beverage & Tobacco Products; Paper Products; Chemical Products; Electrical Equipment, Appliances & Components; Textile Mills; and Computer & Electronic Products.

Manufacturing Business Revenues — 2020 vs. 2019						
	Predicted Dec 2019	% Change	Predicted May 2020	% Change	Reported Dec 2020	% Change
Higher	58%	+10.4%	18%	+10.6%	37%	+13.9%
Same	29%	NA	24%	NA	26%	NA
Lower	13%	-9.2%	58%	-21.2%	37%	-17.0%
Net Average		+4.8%		-10.3%		-1.3%

#### Services

Services supply management executives report that business revenues for 2020 decreased compared to 2019 by 4.8 percent. This is less than the 10.4-percent decrease predicted in May 2020 for all of 2020. The 19 percent of respondents reporting better business in 2020 than in 2019 estimate an average revenue increase of 10 percent. This contrasts with an average decrease of 17.3 percent reported by the 38 percent of respondents who indicate worse business in 2020. The remaining 43 percent have experienced no change in 2020. The two industries reporting increases in revenues in 2020 are: Agriculture, Forestry, Fishing & Hunting; and Wholesale Trade.

Services Business Revenues — 2020 vs. 2019						
	Predicted Dec 2019	% Change	Predicted May 2020	% Change	Reported Dec 2020	% Change
Higher	50%	+8.7%	9%	+13.1%	19%	+10.0%
Same	39%	NA	34%	NA	43%	NA
Lower	11%	-8.3%	57%	-20.1%	38%	-17.3%
Net Average		+3.4%		-10.4%		-4.8%

## Business Revenues Prediction for 2021

### Manufacturing

Manufacturing survey respondents forecast that business revenues for 2021 will be stronger than in 2020. The 59 percent of respondents forecasting better organizational business revenues in 2021 estimate an average increase of 12.7 percent. This contrasts with an average decrease of 7 percent forecast by the 10 percent who predict lower business revenues in 2021. Including the 31 percent who see no change in 2021, the forecast for overall net increase in business revenues for 2021 is 6.9 percent. Fifteen of the 18 manufacturing industries are expecting revenue improvement in 2021, listed in order: Printing & Related Support Activities; Transportation Equipment; Nonmetallic Mineral Products; Apparel, Leather & Allied Products; Machinery; Computer & Electronic Products; Primary Metals; Plastics & Rubber Products; Fabricated Metal Products; Miscellaneous Manufacturing; Chemical Products; Electrical Equipment, Appliances & Components; Food, Beverage & Tobacco Products; Furniture & Related Products; and Paper Products.

### Services

Services survey respondents forecast that business revenues for 2021 will improve by an average of 1.6 percent. This is more than the 4.8-percent decrease reported for 2020, and less than the 3.4-percent increase predicted one year ago for 2020 revenues. The 40 percent of respondents forecasting better business in 2021 estimate an average revenue increase of 11.3 percent. This contrasts with an average decrease of 17.2 percent forecast by the 17 percent who predict worse business in 2021. The remaining 43 percent see no change. The 12 industries expecting increases in revenues in 2021 — listed in order of percentage increase — are: Mining; Management of Companies & Support Services; Professional, Scientific & Technical Services; Agriculture, Forestry, Fishing & Hunting; Wholesale Trade; Retail Trade; Transportation & Warehousing; Health Care & Social Assistance; Real Estate, Rental & Leasing; Utilities; Construction; and Finance & Insurance.

Business Revenues — 2021 vs. 2020				
	Manufacturing		Services	
	Predicted Dec 2020	% Change	Predicted Dec 2020	% Change
Higher	59%	+12.7%	40%	+11.3%
Same	31%	NA	43%	NA
Lower	10%	-7.0%	17%	-17.2%
Net Average		+6.9%		+1.6%

## PROFIT MARGINS

**Manufacturing**

Survey respondents report that profit margins decreased on average during the second and third quarters of 2020, as 28 percent experienced an increase in profit margins, 36 percent had lower margins, and 36 percent reported no change. Expectations are higher between now and May 2021, as 39 percent of respondents forecast better profit margins, 15 percent predict lower profit margins, and 46 percent predict no change. The 12 industries expecting an increase in profit margins through May 2021 – listed in order of percentage increase – are: Plastics & Rubber Products; Textile Mills; Primary Metals; Electrical Equipment, Appliances & Components; Machinery; Fabricated Metal Products; Computer & Electronic Products; Nonmetallic Mineral Products; Chemical Products; Food, Beverage & Tobacco Products; Miscellaneous Manufacturing; and Transportation Equipment.

**Services**

Among services supply management executives, 15 percent indicated their organizations experienced an increase in profit margins during the second and third quarters of 2020, 31 percent found smaller profit margins, and 54 percent had no change in margins during the same period. From now through May 2021, 30 percent of supply managers expect improved profit margins, 14 percent expect lower profit margins, and the remaining 56 percent of respondents anticipate no change. The 11 industries expecting an increase in profit margins through May 2021 – listed in order of percentage increase – are: Mining; Retail Trade; Agriculture, Forestry, Fishing & Hunting; Management of Companies & Support Services; Transportation & Warehousing; Real Estate, Rental & Leasing; Professional, Scientific & Technical Services; Accommodation & Food Services; Construction; Utilities; and Finance & Insurance.

Profit Margins				
	Manufacturing		Services	
	May 2020 through	Dec 2020 through	May 2020 through	Dec 2020 through
	Dec 2020	May 2021	Dec 2020	May 2021
	Reported Dec 2020	Predicted Dec 2020	Reported Dec 2020	Predicted Dec 2020
Better	28%	39%	15%	30%
Same	36%	46%	54%	56%
Worse	36%	15%	31%	14%
Diffusion Index	45.9%	61.5%	41.6%	57.6%

**BUSINESS COMPARISON**

**The First Half of 2021 Compared with the Last Half of 2020**

**Manufacturing**

Survey respondents are optimistic about the next five months, as reflected in the diffusion index of 69.5 percent. Comparing their outlook for the first half of 2021 to the last half of 2020, 47 percent predict it will be better, 8 percent predict it will be worse, and 45 percent expect no change. The 12 industries expecting improvement in the first half of 2021 – listed in order – are: Printing & Related Support Activities; Electrical Equipment, Appliances & Components; Fabricated Metal Products; Machinery; Primary Metals; Computer & Electronic Products; Food, Beverage & Tobacco Products; Chemical Products; Nonmetallic Mineral Products; Plastics & Rubber Products; Transportation Equipment; and Miscellaneous Manufacturing.

**Services**

The first half of 2021 is predicted to be better than the last half of 2020, according to services purchasing and supply managers. The diffusion index indicating current expectations is 67.4 percent. Forty-five percent of respondents expect the first half of next year to be better than the last half of 2020, 11 percent anticipate it will be worse, and 44 percent predict no change. The 14 industries expecting improvement in the first half of 2021 — listed in order — are: Mining; Transportation & Warehousing; Real Estate, Rental & Leasing; Agriculture, Forestry, Fishing & Hunting; Construction; Management of Companies & Support Services; Accommodation & Food Services; Wholesale Trade; Professional, Scientific & Technical Services; Utilities; Retail Trade; Finance & Insurance; Other Services; and Health Care & Social Assistance.

Business — First Half 2021 vs. Last Half 2020		
	Manufacturing	Services
	Predicted Dec 2020	Predicted Dec 2020
Better	47%	45%
Same	45%	44%
Worse	8%	11%
Diffusion Index	69.5%	67.4%

Note: A diffusion index above 50 percent would generally indicate an expectation of the first half of the coming year being better than the second half of the current year.

**The Second Half of 2021 Compared with the First Half of 2021**

**Manufacturing**

Purchasing and supply executives are similarly optimistic about the second half of 2021 compared to the first half of 2021. The percentage of survey respondents who forecast the second half of 2021 to be better than the first half is 49 percent, while 5 percent expect it to be worse, and 46 percent expect no change. The diffusion index for the second half of 2021 is 72 percent, compared to 69.5 percent for the first half of 2021. The 16 industries predicting improvement in the second half of 2021 — listed in order — are: Printing & Related Support Activities; Apparel, Leather & Allied Products; Primary Metals; Miscellaneous Manufacturing; Machinery; Chemical Products; Plastics & Rubber Products; Computer & Electronic Products; Furniture & Related Products; Electrical Equipment, Appliances & Components; Food, Beverage & Tobacco Products; Transportation Equipment; Nonmetallic Mineral Products; Petroleum & Coal Products; Paper Products; and Fabricated Metal Products.

**Services**

Services purchasing and supply executives feel more optimistic about the second half of 2021 than for the first half of the year. (The diffusion index for the second half is 77.1 percent, and the first half is 67.4 percent.) The percentage of respondents who currently forecast the second half of 2021 to be better than the first half is 58 percent, while 4 percent expect it to be worse. An additional 38 percent of purchasers expect no change. The 17 industries expecting improvement in the second half of 2021 — listed in order — are: Mining; Arts, Entertainment & Recreation; Retail Trade; Other Services; Management of Companies & Support Services; Transportation & Warehousing; Real Estate, Rental & Leasing; Wholesale Trade; Utilities; Construction;



Accommodation & Food Services; Professional, Scientific & Technical Services; Public Administration; Educational Services; Information; Health Care & Social Assistance; and Finance & Insurance.

Business — Second Half 2021 vs. First Half 2021		
	Manufacturing	Services
	Predicted Dec 2020	Predicted Dec 2020
Better	49%	58%
Same	46%	38%
Worse	5%	4%
Diffusion Index	72.0%	77.1%

Note: A diffusion index above 50 percent would generally indicate an expectation of the second half of the coming year being better than the first half.

OUTLOOK FOR THE NEXT 12 MONTHS

Manufacturing

Compared to the outlook for 2020 reported in December 2019, survey respondents this year are more optimistic about the outlook for 2021. Sixty-three percent of respondents believe 2021 will be better than 2020. Thirty percent of respondents believe 2021 will be the same as 2020, and 7 percent believe 2021 will be worse than 2020. The resulting diffusion index for the outlook for 2021 is 77.8 percent, compared with 59.1 percent for 2020 from one year ago.

Services

Services survey respondents are overall more optimistic on their outlook, compared to their predictions for 2020. A larger proportion of respondents this year believe 2021 will be better than 2020. The diffusion index looking forward into 2021 of 69.6 percent is higher than the diffusion index looking forward into 2020 (61.4 percent).

Outlook — Next 12 Months				
	Manufacturing		Services	
	Predicted for 2020 Dec 2019	Predicted for 2021 Dec 2020	Predicted for 2020 Dec 2019	Predicted for 2021 Dec 2020
Better	42%	63%	37%	49%
Same	34%	30%	49%	42%
Worse	24%	7%	14%	9%
Diffusion Index	59.1%	77.8%	61.4%	69.6%

SUMMARY

Manufacturing

The manufacturing sector is currently expanding, and the forecast indicates that it may continue in the first half of 2021 and expand at a slightly higher rate in the second half of 2021.

- Operating rate is currently at 85.7 percent.
- Production capacity increased by 0.5 percent in 2020.
- Production capacity is expected to increase by 5.3 percent in 2021.
- Capital expenditures decreased 2.4 percent in 2020.
- Capital expenditures are expected to increase 2.4 percent in 2021.
- Prices paid increased 1.5 percent in 2020.
- Overall, 2021 prices paid are expected to increase 2.5 percent.
- Labor and benefit costs are expected to increase 2.7 percent in 2021.
- Manufacturing employment is predicted to increase 2.5 percent in 2021.
- U.S. exports growth expected in 2021.
- U.S. imports growth expected in 2021.
- Manufacturing revenues decreased 1.3 percent in 2020.
- Manufacturing revenues are expected to increase 6.9 percent in 2021.
- The U.S. dollar is expected to weaken versus six of the seven major trading partner currencies in 2021.
- Manufacturing supply managers have an optimistic outlook, with 63 percent of respondents predicting 2021 will be better than 2020.

### **Services**

The services sector continues to expand, and the forecast indicates an increased rate of expansion in 2021.

- Operating rate is currently at 86.6 percent.
- Production capacity increased 0.1 percent in 2020.
- Production and provision capacity is expected to increase 3.2 percent in 2021.
- Capital expenditures decreased 4 percent in 2020.
- Capital expenditures are expected to increase 12.7 percent in 2021.
- Prices paid increased 2.3 percent in 2020.
- Prices paid are expected to increase 3.7 percent in 2021.
- Labor and benefit costs are expected to increase 2.2 percent in 2021.
- Employment is expected to increase 1.6 percent in 2021.
- Export levels expected to decrease in 2021.
- Import growth expected in 2021.
- Services revenues are down 4.8 percent in 2020.
- Services revenues are expected to rise 1.6 percent in 2021.
- Services supply managers are positive in regard to their outlook, with 49 percent of respondents predicting 2021 will improve compared to 2020.

**\*Miscellaneous Manufacturing** includes items such as medical equipment and supplies, jewelry, sporting goods, toys and office supplies.

**\*\*Other Services** include services such as equipment and machinery repairing; promoting or administering religious activities; grant making; advocacy; and providing dry-cleaning and laundry services, personal care services, death care services, pet care services, photofinishing services, temporary parking services, and dating services.