

Higher sales but less employment and investment

Sales revenue in 2010 is expected to increase from 2009 levels across the district except in Montana, where a sales decrease is anticipated (see Chart 2 on page 14). Meanwhile, sales gains are expected across all sectors except construction. "Forest products have been terrible for three and a half years with another year, at least, to go," commented a Montana manufacturer that supports the construction industry.

Meanwhile, employment is projected to fall further. A quarter of the respondents expect to decrease employment in 2010, while 18 percent expect to increase jobs. Every sector and geographic area foresees decreased hiring. Most respondents reported that securing workers is not a challenge.

Access to credit may be affecting hiring and capital expenditure decisions. About a third of the respondents reported that access to bank credit has deteri-

orated over the past three months. As a result, 21 percent of respondents say it affected their hiring plans. "Businesses are struggling and, as they weaken, credit just gets tougher," commented a Minnesota manufacturer. Another Minnesota manufacturer noted that "banks are pulling back on credit—they need to continue lending or small businesses like us will struggle and fail." Tighter credit may be affecting capital expenditures, as nearly a third said the difficulty accessing credit has hurt planned capital expenditures. "They have added new restrictive reporting requirements and are not funding projects they would have funded in the past," said a Minnesota agricultural producer.

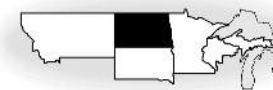
Investment in plant and equipment is expected to drop in 2010, with a third of respondents expecting decreased levels and 21 percent anticipating increased levels. The decrease is widespread across sectors and geography. Productivity was

sluggish in 2009: 44 percent of respondents reported level or decreased productivity.

Company pricing pressure is modest. A quarter of respondents expect to increase prices on their products and services, while 20 percent see price declines in 2010. Moderate price pressure is stable across district states but varies among sectors. Only 5 percent of construction firms expect to increase prices, while 40 percent expect to decrease prices. Meanwhile, 57 percent of agricultural producers expect higher prices for their products.

The biggest challenge facing businesses is complying with government regulation. Eighty-six percent of respondents reported that complying with government regulations will be a challenge in 2010. Said one Minnesota construction company, "Government regulation continues to add cost with little benefit realized." ■

NORTH DAKOTA



Harvests good, but don't hold your breath

Things came up mostly green for North Dakota's farmers this year.

According to the U.S. Department of Agriculture, the state's soybean crop will be up 10 percent from a year ago, thanks to higher yields and an increase in harvested acres. The state is also a leader in pulse crops, which had banner years. The state's dry pea crop rose 46 percent, and the lentil harvest is expected to be more than triple the size of last year's crop because of significantly more harvested acres, which itself was driven by prices that are double those in 2006. The state's average sunflower yield is expected to approach its 2005 record.

Not everyone is having a spectacular year, however. Potato growers are facing blight for the first time in years and expect production to drop by 17 percent. The corn crop is down by one quarter, though mostly due to much lower harvested acres. The wheat harvest is only expected to match its five-year average.

State farmers also have been pioneers in getting paid for their carbon-capturing ability, but prices for so-called carbon offsets have crashed. In May 2008, carbon contracts were trading over \$7 per metric ton on the Chicago Climate Exchange. Prices dropped to about 60 cents by summer and to 15 cents in early December.

Exporting the wind

The burgeoning wind market in North Dakota is starting to find sales outlets in other states.

Recently, the Tennessee Valley Authority, which serves a seven-state region, agreed to purchase 200 megawatts of power annually from a wind farm being developed in Ashley, N.D., along with 250 megawatts from a wind farm in neighboring South Dakota.

The Western Area Power Administration has also signed a three-year deal to buy up to 50 megawatts annually from a wind farm owned by Basin Electric Power Cooperative. WAPA is a federal agency serving a 15-state region that markets hydroelectric power generated from rivers in 11 states. The agency is attempting to integrate water and wind power, and is also negotiating for 100 megawatts of wind power from an independent wind farm developer with holdings in both North Dakota and Minnesota.

—Ronald A. Wirtz

Manufacturing crashed in 2009; small bounce expected in 2010

By TOBIAS MADDEN
Regional Economist

Manufacturing activity declined significantly in 2009 across the Ninth District. Manufacturers' outlook for their operations in 2010 is for a small bounce back, but they expect the overall economy to fall further, according to the November survey of manufacturers conducted by the Federal Reserve Bank of Minneapolis and the Minnesota Department of Employment and Economic Development.

Manufacturers were blown away in 2009. "The economy is terrible," noted a small Minnesota manufacturer. A whopping 72 percent of respondents said orders were down in 2009 from 2008. Two-thirds sliced production, and 61 percent cut employment. Manufacturers also cut investment and product prices. Profits fell as well. "I've been in business for 33 years and now face losing it," said another small Minnesota manufacturer. The dismal results were evident across states and sizes of firms. "We are struggling to survive and may not make it," a small South Dakota producer said.

Many manufacturers are experiencing tighter credit: 28 percent reported that their access to bank credit deteriorated over the past three months, and only 9 percent said credit conditions improved. "We were dropped by our bank of 10 years even though we were never late on any payment. Our sales and profits are down, and we no longer 'fit' their risk tolerance, which they blame on tighter scrutiny by the Federal Reserve," said a medium-sized Wisconsin firm.

Compared with 2009, manufacturers' outlook for orders and production are

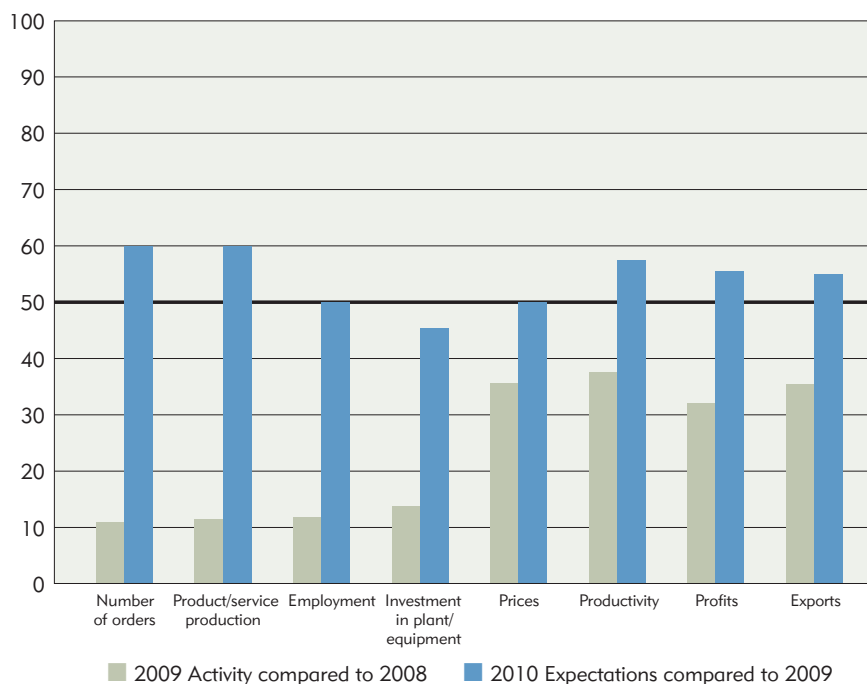
up (see chart). However, they expect to keep employment, investment and prices at 2009 levels. "We are keeping the door open and waiting for an upturn in the economy," a Montana medium-sized producer said. Manufacturers expect productivity and profits to edge up in 2010 from 2009 levels. Meanwhile, after dropping in 2009, respondents believed exports will increase slightly in 2010, led by Minnesota and South Dakota exporters.

Even though respondents expect their own businesses to recover somewhat, they anticipate continued deterioration in

their state economies. "Hold on to your hat; this is gonna be a tough one coming!" said a small Montana manufacturer. Respondents anticipate downturns in business investment, employment, corporate profits and consumer spending, and they believe overall economic growth will be flat. Respondents from the Dakotas are the most optimistic, and those from the Upper Peninsula of Michigan are the most pessimistic for their state economies. Over half of respondents expect increased inflation levels in 2010 from the tepid inflation of 2009. ■

Manufacturing activity was way down in 2009 and should increase slightly in 2010

(Above 50 indicates expansion; below 50 indicates contraction)



Sources: Federal Reserve Bank of Minneapolis; Minnesota Department of Employment and Economic Development