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WHERE THE CLIMATE FOR BUSINESS IS PERFECT

The pain and promise in manufacturing

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Over the past three decades, the United States has lost 40 percent of its manufacturing jobs, partly because companies moved plants overseas. But some are bringing their operations back home as outsourcing loses its luster. Banks should take heed.

The media frequently notes that the American economy has lost its ability to make things; that most of our manufacturing capabilities have gone to China and Mexico. The common wisdom is that we have become a nation of hamburger-flippers, as well as a nation where we merely trade information with each other.

There is no question that employment losses within the U.S. manufacturing sector over the past 30 years have been massive. Almost everybody knows a neighbor, a friend, or a family member who lost a job in manufacturing, particularly in the industrial Midwest.

U.S. manufacturing employment peaked in 1979 at 19.6 million people. That total has fallen consistently and painfully to 11.6 million—a loss of 8 million jobs, or 40 percent of all manufacturing positions. It's true that a share of these jobs have left in search of less costly havens, initially Mexico and then China. However, the most important factor in the overall job loss is actually major gains in worker productivity. We simply make more goods with fewer bodies.

It might surprise you to know that the U.S. continues to lead the world in manufacturing output. We produce more than the Chinese, the Japanese, and the Germans. In fact, U.S. output exceeds that of China by 40 percent.

It also might surprise you to know that the U.S. share of global manufacturing output, at 20 to 25 percent is essentially the same as it was 40 years ago.

What makes this possible—despite the decades of decline in manufacturing positions—is that output per U.S. worker is three times what it was in 1980 and twice as high as it was in 1990.

Lately there have been some job gains. U.S. manufacturing employment actually rose by 136,000 net new jobs during 2010, the first annual increase since 1997. The manufacturing sector also added 102,000 net new jobs in 2011's first quarter, the strongest three-month gain in 16 years.

Longer-term estimates suggest the manufacturing sector could easily add 1 million jobs during the next four or five years. Such a rise clearly won't make up for the loss of

2 million manufacturing jobs in the Great Recession, but it helps.

American companies have continued the exodus of former U.S. jobs to less costly parts of the world, but the pace has slowed. The rationale also has changed somewhat.

Hundreds of firms had moved production to China, with products then shipped back here to be sold. The current environment finds more of that production sold within China or other Asian countries. This shift is identical to that of major foreign automakers which have built billion-dollar facilities in the United States, with the intent of selling those cars not back home, but within the U.S. market.

One very favorable development within the U.S. manufacturing sector is that more and more American companies are opting to bring back production and jobs previously sent to low-cost locations. Ford, General Electric and dozens of other companies have seen the cost of their overseas operations, particularly wages, climb dramatically, and shipping costs have surged.

Issues like shoddy products and the theft of intellectual property have blackened the eye of outsourcing. The reality of too many midnight telephone calls and frequent trips halfway around the world to deal with problems has also taken its toll.

Another painful reality faces companies with an interest in setting up production in China: The unspoken but understood fact that a company must typically give up sensitive trade and technological secrets to the Chinese in order to get in the door.

The United States still accounts for 40 percent of worldwide research and development spending. Notably, we are the leaders in science and technology, though that lead is slipping, according to Rand Corp.

Certainly major challenges remain in the manufacturing sector. Millions of lost jobs will never return. But at the same time, 90 percent of manufacturers report having difficulty finding skilled production workers.

There are growth opportunities in this segment of the economy, and bankers should look to strengthen relationships with manufacturers of all types. Many have faced severe challenges to compete in recent years, only to emerge stronger than ever.



Nevada Industry Excellence NNDAA's partner in economic development

When it comes to manufacturing and mining, Nevada Industry Excellence is Nevada's expert support group. Working on site with job producing companies through education, seminars and direct input, NVIE is helping our local industries grow stronger and more successful. As a partner with the Northern Nevada Development Authority (NNDAA), they are the sustainable business arm of economic development here in the Sierra. NVIE assists in the attraction of new businesses to the state and plays a vital role in the retention of companies already located in Nevada.

Statewide, in the last nine years (2002 through 2010), NVIE's program has generated \$854 million in positive industrial economic impact along with 4,316 jobs created and retained. Each year, NVIE brings in at least \$760,000 of federal funds to support Nevada's manufacturing and industrial sector. In the last two years, NVIE received \$1.8 million from the Department of Commerce alone.

NVIE works closely with NNDAA by providing the employee training for our regional manufacturers in conjunction with Western Nevada College. This creates jobs and retains companies. In this role, they complement Nevada's Economic

Development entities, the Department of Employee, Training and Rehabilitation, and Workforce Investment boards. NVIE is the steward for these agencies and has leveraged the state dollars available to assist manufactures from programs such as the Train-Employees-Now (TEN) and Career Enhancement Program (CEP). These programs have shown successful results for client companies since November 2002, with a 40 to 1 return on investment of state dollars.

If you are a manufacturer and you have not accessed the services provided by NVIE, you owe it to your employees and your shareholders to contact them today to see what their programs can do for your company. If you are an employee of a manufacturer, you should be thankful that NVIE is around as you may owe your present job to them. And—if you are a Nevadan—you should be delighted that such an organization exists and is out there every day making our economy better.

For information about the programs and services offered by NVIE, call Jeff Lawrence at (775) 856-5315 or email Jeff_Lawrence@nshe.nevada.edu. For more information or to get involved with NNDAA, call 775-883-4413 or email nnda@nnda.org.

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