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Renaissance Manufacturing (Part One)

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Ahhhh, the “common wisdom” in America...so easy to pass on to associates, to family, and to friends

The common wisdom is that we have lost our ability to “make things” in this country....lost it to China, Mexico, etc. Our nation is now a place where we simply trade information with each other...and serve each other hamburgers

The common wisdom...so often wrong

The Numbers

The American manufacturing sector added an estimated 50,000 net new jobs during January, the best performance in a year. Manufacturing job gains in January were second only to a larger estimated gain in professional & business services jobs. In addition, the Institute for Supply Management noted in its latest monthly release that new factory orders rose to a nine-month high in January. These manufacturing job gains are particularly important given ongoing weakness in financial services and government sector employment.



The January gain of 50,000 jobs followed an estimated 32,000 manufacturing job rise in December. It is anticipated that the sector will add a few hundred thousand net new jobs this year, marking the third year in a row of gains, following years of job losses.

No question, the manufacturing sector has been hit very hard in recent decades. Total manufacturing employment peaked in 1979 at 19.6 million people. With job gains of the past few months, and the addition of 338,000 net new jobs during the past year, total employment is roughly 11.9 million, down 39% from the peak, even as the population has risen sharply. U.S. manufacturing jobs accounted for 25% of American employment in 1970, versus 9% today.

Note, however, that much of the reason for the decline is that U.S. manufacturing workers are soooooo much more productive than they used to be. A study of a “manufacturing return” to the U.S. by Jones Lang LaSalle Research noted that it took 1,000 workers in 1960 to do what 184 workers can do now (*The Agurban*).

The U.S. ranks with the Chinese and the Germans as the three major manufacturing powers in the world, with U.S. manufacturing exports exceeding \$1 trillion annually. The U.S. is particularly strong in exporting machinery of all types, chemicals, fuel, and transportation equipment (*The New York Times*).

Autos Rebound

Again...the common wisdom. We can't make a quality car in this country anymore, having lost our way to the Japanese, the Germans, and the Koreans.

Wrong again. The quality of U.S.-made cars by the Big Three ranks with the best in the world. Note: my last three cars (I lease them) were two Chrysler 300s and a Jeep Grand Cherokee, among the best cars I have ever had the privilege to drive.

Recent American auto sales have run at a 14.2 million annual rate, the best in a number of years. Most of the strength in January manufacturing employment was in this durable goods sector (goods designed to last more than three years).

China's Small Share

The common wisdom now suggests that most manufactured goods we buy are made in China. Again wrong.

The vast majority of goods and services sold in the U.S...88.5%... are produced here, notes the Federal Reserve Bank of San Francisco in a report entitled “The U.S. Content of ‘Made in China.’” Obviously, part of the issue here is that nearly 70% of consumer spending is on

services, which are primarily produced locally.

Imported goods account for much of the rest, with those from China amounting to 2.5% of GDP. Even this figure is misleading. When one accounts for “U.S. content” of wholesale and retail margins, only 1.2% actually represents China-produced content (*The Agurban*).

So Many Openings

We have noted before the frustration felt by manufacturing managers in their inability to fill open positions. An estimated 600,000 positions for skilled workers are currently available and unfilled, accounting for five percent of all manufacturing jobs. A majority of manufacturers note that the inability to fill open positions has hampered opportunities to expand output (www.nadca.com).

We have discussed before the fact that one new wrinkle in the job frustration game is the inability of tens of thousands of skilled workers to move from point A to point B to fill such positions. Too many skilled workers are buried in their homes, with mortgages that exceed the value of their homes. This is particularly true in the Upper Midwest. Fewer firms are willing to absorb major financial hits to get the skilled workers they need.

Perception

Manufacturing jobs of all types will be available in coming years in significant quantities across the nation...that much seems clear. Millions of manufacturing workers are in their 40s and 50s, with relatively few younger workers joining manufacturing ranks in recent years.

One of the challenges in coming years will be the need to change peoples' perceptions of manufacturing employment. Too many young people today, as with the previous generation, have visions of attending college and then making their fortune on Wall Street. Finance jobs are sexy...working in a manufacturing plant is typically not.

When a daughter or a son brings their new boyfriend or girlfriend home to meet mom and dad, the parents want to hear about medical school or finance or law, not goals about being an eventual bigwig in a manufacturing firm...

...sad but true

We have talked *ad nauseam* for years about the need to tie manufacturing job needs with local high school and community college training programs. Some good programs exist, while others are largely a waste of taxpayer funds. Unfortunately, where are cuts likely to be when school districts are under enormous funding pressures?

...you guessed it

A major image building effort is needed, with the school system playing a significant role. Too many high school students are pushed toward the college or university environment. Not enough are directed toward apprentice programs and training programs in manufacturing.

Even as manufacturing activity has blossomed in recent years, fears remain. A European financial implosion could trim a key market for U.S.-made goods. Manufacturing owners and managers fear the costs of Obamacare and the Administration's strong support of unionized workers. Many manufacturers still fear the Chinese.

The China Syndrome

Next week's *Tea Leaf* will focus on the challenges of shifting jobs to China, and why rising costs of doing business there provide a real opportunity for American firms to expand jobs at home or bring jobs back...

...stay tuned

“TEA”ser

All you need is love.

—John Lennon



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