Made in the USA—The Resurgence of American Manufacturing

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In the early 1990s, the North American Free Trade Agreement (NAFTA) was a hotly debated topic. Proponents saw the benefits of less-constrained international trade; those opposed feared that U.S.-based manufacturing jobs would be lost. Both were right: NAFTA passed, jobs left, but U.S.-based manufacturers soon reaped bottom line benefits from lower labor costs—not just in Mexico, but across the globe. China's massive growth, fueled by globalization, industrialization, urbanization, and automation, also played a role. As workers moved from farms to cities, they needed jobs. American manufacturers were only too happy to step up. Outsourcing jobs meant they could pay a foreign labor force a fraction of what unions demanded back home. Since 2001, American manufacturing jobs dropped by 5.1 million, according to *US News and World Report*.[1]

Now the landscape is changing—reshoring is beginning to bring manufacturing back home. According to non-profit organization Reshoring Initiative, reshoring has helped restore close to 15% of the more than 500,000 post-recession jobs created in the U.S. manufacturing sector. Further, a survey of U.S. manufacturers by Boston Consulting Group (BCG) found that 54% are considering relocating production to the U.S. from China, a substantial increase from 37% in 2012. That same study revealed that 16% were already actively reshoring – more than double the 7% doing so in 2012.[2]

The reasons for this change are varied, but most important is the level of productivity, which directly impacts cost. For the past several years, U.S.-based manufacturers have made massive investments in infrastructure, education, technology, and transportation. Now American workers produce 10-12 times the output of their Chinese counterparts.

In addition, although the average U.S. worker earns $2,600 a month, compared to $537 for one in China,[3] that gap is narrowing. When rising transportation and shipping costs, coupled with lower energy expenses, are factored in, manufacturers have meaningful financial incentives to use American plants.

[1] http://www.forbes.com/sites/forbesleadershipforum/2015/02/02/why-its-time-to-bring-manufacturing-back-home-to-the-u-s/

[2] https://www.bcgperspectives.com/content/infographics/globalization_supply_chain_management_manufacturing_reshoring/

[3] http://www.wsj.com/articles/companies-tiptoe-back-toward-made-in-the-u-s-a-1421206289

The old corporate model called for separating research and development (which occurred stateside) from manufacturing (which was outsourced to lower-cost locales). But U.S. companies have come to recognize that it is expensive to shuttle engineers back and forth, and the cost of resettling and displacing executives (and their families) to manage offshore facilities adds up.

The separation between manufacturing and distribution centers is similarly problematic because these systems are difficult to manage from afar and can leave companies vulnerable to supply chain disruptions.

Demand for rapid order fulfillment (as exemplified by Amazon) also requires huge inventories—a costly line item on the corporate balance sheet.

Patent protection is also more readily ensured by the American legal system, and it is easier to do business in the U.S. - the complexities here pale in comparison with those in China. The "Made in the USA" brand also carries cachet with customers, which can result in a nice bump in sales.

Not every manufacturer is jumping on the bandwagon, however. Citing better engineering skills and a stronger work ethic abroad, some U.S. manufacturers still derive benefits from offshoring. Electronics is a case in point—most of its manufacturing base moved offshore years ago, and it can take time to retool domestic factories to meet demand. Pittsburgh-based ForeFront Product Design LLC brought production back home in 2013, but the pumps and lithium-ion batteries it uses to manufacturer battery-powered spray devices for pesticides are still made in China, where they can be produced more cheaply. It will take time for U.S. companies to rebuild the expertise and supplier networks that were displaced by capitalizing on lower labor costs abroad.

Asian manufacturers have another advantage: specialization in contract manufacturers to produce finished goods. They are also oftentimes hungrier for business, and are more nimble - being able to adjust labor to meet demands and manage frequent design and specification changes for new products.[4]

Reshoring, although gaining momentum, is not yet an overwhelming trend. From 2009-2013, U.S. manufacturing output grew by a 6% average annual rate, but imports of manufactured goods from low-cost areas in Asia grew by an average 8% annual rate.[5] As the rate of reshoring continues to increase, certain kinds of manufacturing companies especially stand to benefit.

"High-precision products, requiring significant skills and quality control, will find their way back to U.S.-based manufacturing," says Kevin Pianko, WeiserMazars Partner and Manufacturing & Distribution Practice Leader. "A case can be made that we are in a currency war, and given that these sometimes can last 5 – 15 years, the U.S. manufacturing base has a real incentive to capitalize on satisfying domestic demand and shortening the supply chain."

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[4] Op. Cit. WSJ/companies tiptoe
[5] : http://www.wsj.com/articles/u-s-manufacturing-rebound-lags-behind-work-sent-abroad-1418605630

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