Written by **Bob Adelmann** on February 14, 2012

U.S. Manufacturing Is Making Headway

More jobs. Higher profits. Lower unemployment. Faster growth. All good. Economist Mark Perry is on board with the new robust sector: "By all relevant measures of economic performance…American manufacturing remains the shining star of the U.S. economy." And this is taking place right under the noses of politicians who are decrying the perceived woes in manufacturing, such as Rick Santorum, who said:

> We went from about 21% of jobs in this country when I was a kid being in manufacturing down to 9%. We lost those jobs overseas. We need to bring them back.

He may be right about the numbers but wrong about being worried about them. Manufacturing lost 7 million jobs since its peak in 1979 but the productivity of the workers remaining has improved enormously. According to Joshua Feinman, chief global economist at DB Advisors, "Productivity has grown much faster in manufacturing than in the economy as a whole." In fact, despite the loss of jobs manufacturing output has tripled in this country since 1980 and the United States remains the largest manufacturer in the world.

Evidence for the manufacturing revival is popping up in likely places. Freight shipments rose 3.9% in December, the largest increase in 17 years, reports the Research and Innovative Technology Administration (RITA). Confirming that, the agency's Freight Transportation Services Index which measures month-to-month changes in freight shipments by every major mode of transportation — for-hire trucking, rail, inland waterways, pipelines and air freight — and then converts those numbers into an index, shows the index at the highest level since RITA has been keeping score. Since the bottom of the recession in April 2009 the index is up over 20%.

The *Los Angeles Times* noted on Friday that California's ports set a new record for exports for the year 2011, eclipsing a record set 11 years ago. Jock O'Connell, an advisor with Beacon Economics which provided that data to the *Times* said, "Despite a widespread conviction that California has been closed for business, 2011 turned out to be the best year ever for California's export trade." And most of it is high-tech products being shipped to Canada, Mexico, China and South Korea.

Another surprise came from Michigan. Cost-cutting in that state has brought down expenditures to below revenues without bookkeeping shenanigans employed by other states to balance their budgets. In fact, Michigan's revenues have actually been growing a little, resulting in an "unlikely discovery" according to Monica Davey in *The New York Times*: a surplus of $457 million. And Michigan is not alone. 17 states last year exceeded their personal income tax revenue projections in the first quarter of their current budget year, while 18 states received more in sales tax revenues than they anticipated. The unemployment rate in Michigan has declined from over 14 percent at the depth of the recession to just over 9 percent now. Although still above the national average, it reflects increases in automobile production led by — surprise surprise — General Motors regaining its position as the world's largest auto maker.

Some part of these numbers must be attributed to the change in manufacturing dynamics between China and the United States. Although China still boasts an average hourly rate per worker of just $2.18 compared to $19.13 in the United States, other factors are driving the "re-shoring" of jobs back to this country. Economist Mark Perry pointed out that there is much more than just labor costs to determine whether jobs should be performed there, or repatriated back to the U.S.:

> It's not only rising labor costs, but also rising land costs in China, that increases the cost of production there for U.S. manufacturers. There are other economic factors contributing to the reshoring of production, including long delivery times and rising delivery costs for overseas production, quality control issues, the physical separation of design and production personnel and a lack of safeguards on intellectual property outside the U.S.

There's something else that puts China at a long-term disadvantage: technology. Vivek Wadhwa, a technology entrepreneur, predicts that the "China advantage" is fading rapidly and that jobs will be returning to the United States very soon. The advantage enjoyed in the United States in artificial intelligence, robotics and digital manufacturing are tilting the advantage back to America. Wadhwa said "The manufacturing of the past is gone…Manufacturing is coming back to the United States because we have the most skilled, creative, innovative people in the world." He added:

> China has, at the most, 10 years to enjoy the money it's making off manufacturing. In the next 5 to 10 years, we'll see a major disruption happening in China, and in 10 to 20 years, there will be a hollowing out of China's manufacturing industry, just as there was in the U.S. If I were China, I'd be losing sleep right now.

About the only thing that stands in the way of the continuing revival of American manufacturing is the present administration. By imposing costly new rules and regulations and rejecting the Keystone XL pipeline project, President Obama's ideology remains clear: revival of the American economy isn't part of his agenda. Jay Timmons, president of the National Association of Manufacturers (NAM), was explicit:

> Over the past few years under this administration, we keep taking one step forward and three steps back.

One can dream of the day when America resumes its position as the premier manufacturing economy in the new high-tech world. One can also dream of the day when the administration supports that idea and steps aside and lets it happen.

Photo: Manufacturing a Boeing 787 Dreamliner