Is the U.S. Losing Its Manufacturing Base?

Manufacturing output peaked in December 2007 and fell 20.4% over the following 18 months.

Manufacturing capacity utilization collapsed to the lowest rate in 70 years.

Job declines in the manufacturing sector were significant, with over 2.0 million jobs lost over that same period.
Manufacturing employment as a share of national employment has been declining for over 50 years

The number of jobs in manufacturing has been relatively stable over this period, edging lower on average by -0.3% per year since 1947

Not to make a mountain out of a molehill, but manufacturing employment was increasing up until 1979 and has been moving lower over the past 30 years

However, service sector employment has grown more than fourfold over this period, averaging growth of 2.3% per year since 1947

While manufacturing employment growth has been edging lower over the past 63 years, manufacturing output increased by 3.1% per year

This translated into an almost 600 percent increase in manufacturing output over this time period
The increase in output can be attributed to strong productivity growth experienced by the manufacturing sector.

What took 1,000 workers to produce in 1950 takes 170 workers today.

Manufacturing productivity growing faster over the past 40 years.

The divergence in productivity appears to have occurred around the mid-1970s.

This divergence is especially apparent in durable manufacturing.

Strong productivity growth had allowed the manufacturing sector to grow faster than the overall economy.
However, lower relative prices in the manufacturing sector has lead to manufacturing comprising a smaller share of GDP over time.

Manufacturing share of GDP

How profitable is manufacturing?

While more cyclical, profits in manufacturing have out-performed returns in nonfinancial corporate businesses.

The Manufacturing Sector Continues to Re-invent Itself

Over the last twenty years the fastest growing sector, not surprisingly, has been computer and electronic components.

Industrial output: 1990 - 2011

There has been a large number of industrial sectors that have risen and fallen over the past twenty years.

Industrial output: 1990 - 2011
The collapse in manufacturing experienced in 2008-2009 is closely linked with the economic recession.

Declines in manufacturing output were broad-based during the Great Recession – especially in vehicle and primary metals manufacturing.

The recovery has also been broad-based with motor vehicles and primary metals manufacturing leading the way.

Manufacturing workers have suffered steep employment declines over the current cycle.

But the overall economy’s employment growth also struggled.

When changes in nonfarm employment are considered, the most recent manufacturing employment downturn is not unprecedented.
The financial crisis and its aftermath has hampered the current economic expansion.

The recovery in manufacturing output is in-line with past industrial recoveries.

Productivity in the overall economy has grown at a rate near the low-end of previous expansions.

However, productivity within the manufacturing sector has grown at a much faster pace.

Manufacturing employment losses have occurred across numerous countries – among 20 big economies, 22 million jobs were lost.

Is the U.S. positioned to continue its strong productivity gains?
Is the U.S. Losing Its Manufacturing Base?

U.S. maintaining its commitment to research and development

The vast majority of U.S. research and development is being privately funded

Lessons from the farm sector

We are producing more in our farm sector than at any time in our history

And we are accomplished this remarkable feat with less than 2.0% of our employment devoted to farming

Trade with China
China has risen to number one in terms of U.S. imports, representing 18.1% of all imports in 2011.

While China has risen to be our third largest export country, it represents only 7.0% of U.S. exports.

This difference has led to China having the largest trade deficit with the U.S.

China has certainly increased the amount of goods flowing into the U.S.

They have also represented the largest gain for exports from the U.S.

While China has increased its share of imports to the U.S., the Pacific Rim as a whole has had a declining share since the mid-90s.
The Current Expansion

Beginning in July 2009, manufacturing output in the United States has been increasing at a 6.5% annualized rate and has recovered 74.8% of its drop in output.

Industrial production—manufacturing

Index 2007 = 100

Manufacturing capacity utilization has been rising since June 2009.

And while manufacturing jobs have been rising, they have only recovered 21.1% of the jobs lost during the downturn.

Summary

Manufacturing output is in the process of recovering its losses. The success of manufacturing has been driven by productivity. Manufacturing employment has shown little change over the past 70 years – with a steady decline over the past 30 years. The most recent decline in manufacturing was cyclical, not structural. Profits in manufacturing have outperformed profits for the rest of the nation. The trends that have dominated manufacturing for the past 70 years are suggestive of the future for U.S. manufacturing: ever increasing output with employment representing a smaller share of total employment.