Return of Manufacturing From China, Rising Exports Could Create Up to 3 Million Jobs in the U.S.

Material Handling Industry of America

Improved U.S. competitiveness and rising costs in China will put the United States in a strong position by 2015 to eventually add 2 million to 3 million jobs and an estimated $100 billion in annual output in a range of industries, according to a new report by The Boston Consulting Group (BCG).

The report, titled "U.S. Manufacturing Nears the Tipping Point: Which Industries, Why, and How Much?," is the latest in an ongoing study of the emerging reshoring trend. The report expands upon earlier research released last year on the changing economics that are starting to favor manufacturing in the U.S.

The first report, "Made in America, Again: Why Manufacturing Will Return to the U.S.," published in August 2011, explained how 15 to 20 percent annual increases in Chinese wages and other factors were rapidly eroding China's manufacturing cost advantage over the U.S. As a result, by 2015--when higher U.S. worker productivity, supply chain and logistical advantages, and other factors are taken fully into account--it may be more economical to manufacture many goods in the U.S.

The report predicts that the impact of the changing cost advantage of manufacturing in the U.S. will be felt the most in seven industry sectors that could reach a tipping point over the next five years. That tipping point will occur when the rising costs of producing in China will make it more economical to shift the manufacture of goods consumed in the U.S. to the U.S.

Together, these seven industries account for nearly $2 trillion in annual U.S. consumption. In 2010, the U.S. imported nearly $200 billion worth of products in these categories from China—almost two-thirds of total Chinese exports to the U.S. These industries are the following:

Computers and Electronics. The U.S. imports from China around 26 percent of the electronics it consumes, led by computers, wireless phones, and televisions. U.S. imports of these products from China in 2010 were worth $122 billion.

Appliances and Electrical Equipment. China supplies more than $4.5 billion in lighting products and $6 billion in small appliances such as fans, vacuum cleaners, and microwave ovens each year. China also exports big appliances like refrigerators, freezers, and dishwashers. U.S. imports of these products from China in 2010: $25 billion.

Machinery. Leading Chinese exports in this broad category include air conditioners, heaters, pumping equipment, office machinery, power tools, optical

products, photocopiers, and farm equipment. U.S. imports from China in 2010: $16 billion.

Furniture. This industry, a traditional strength of southern U.S. states such as Virginia and North and South Carolina, witnessed a surge in imports from China from 2001 through 2006. U.S. imports from China in 2010: $13 billion.

Fabricated Metals. The array of metal products now made in China include plumbing fixtures, hardware, hand tools, cutlery, and pots and pans. U.S. imports from China in 2010: $10 billion.

Plastics and Rubber. Top Chinese exports to the U.S. include tires, floor coverings, and bottles. U.S. imports from China in 2010: $9 billion.

Transportation Goods. China has become a major source of car and truck components, motorbikes, bicycles, and aircraft parts. U.S. imports from China in 2010: $6 billion.

The combination of manufacturing work returning from China in these sectors and increased U.S. exports due to improved global competitiveness is expected to create 2 million to 3 million U.S. jobs by the end of the decade. The job gains will come directly through added factory work (600,000 to 1 million jobs) and indirectly through supporting services, such as construction, transportation, and retail.

"Rising Chinese wages are only part of the reason America is poised for a manufacturing renaissance," said Harold L. Sirkin, a BCG senior partner and coauthor of the report. "The U.S. manufacturing sector has gotten a lot more competitive over the past decade. And in recent years, companies have been paying much closer attention to the total costs of delivering a product made in China compared with making it closer to the end customer." When higher U.S. productivity, logistics, and the many indirect risks and costs of sourcing products in China are taken into account, Sirkin said, more companies will find it makes good economic sense to make many products in the U.S. for consumption in North America.

The research identified many companies -- large and small -- that have added or are planning to add U.S. production after assessing the total costs and risks. The latest report cites several, including ET Water Systems, a maker of irrigation controls; high-end cookware manufacturer All-Clad Metalcrafters; electronics manufacturing services company AmFor Electronics; and Farouk Systems, a maker of hair irons and dryers.

"This trend is still in the early stages," stressed Michael Zinser, a BCG partner who leads the firm's manufacturing work in the Americas. "But we expect it to accelerate as the new math of manufacturing increasingly favors the U.S. and as federal, state, and local governments provide more support for companies considering opportunities to reshore work."

In another sign of growing American manufacturing competitiveness, foreign

companies are adding capacity in the U.S. to serve both the domestic market and export markets. Electrolux recently decided to build a new plant in Memphis, Tennessee; and Bridgestone, Toyo Tires, and Continental Corporation all have announced plans to add U.S. capacity to manufacture vehicle tires. "Companies are unveiling moves with increasing regularity," noted Justin Rose, a BCG principal and coauthor.

Strong productivity is a key to America's improved export competitiveness. Productivity growth has been higher in the U.S. than in Western Europe, for example, while the dollar has depreciated against the euro over the past decade. Adjusted for productivity, the average U.S. worker is around 35 percent cheaper than the average Western European worker. A decade ago, the same U.S. worker was only 12 percent cheaper. "We expect this gap will continue to widen, giving the U.S. one of the lowest manufacturing cost structures in the industrialized world," said Douglas Hohner, another BCG partner who focuses on manufacturing.

The global production shift is still in the early stages, and the full impact of the changing cost structures may not be felt until the end of the decade. Still, companies should reassess their global manufacturing footprints now, especially if they are in an industry nearing the tipping point.

Sirkin added: "The decisions companies make today on where to add new production capacity will influence their competitiveness for the next 20 or 30 years. These decisions must be based on the total cost of making a particular product at a particular place -- not just today but well into the future. We firmly believe this process will lead many companies to take a fresh, hard look at the U.S."

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