

Is the U.S. Losing Its Manufacturing Base?

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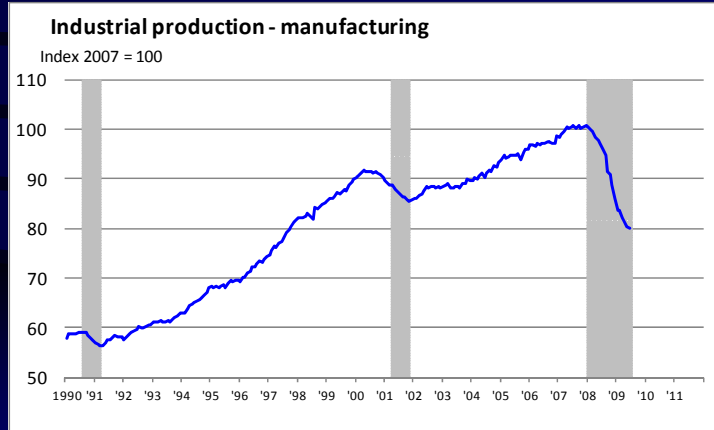
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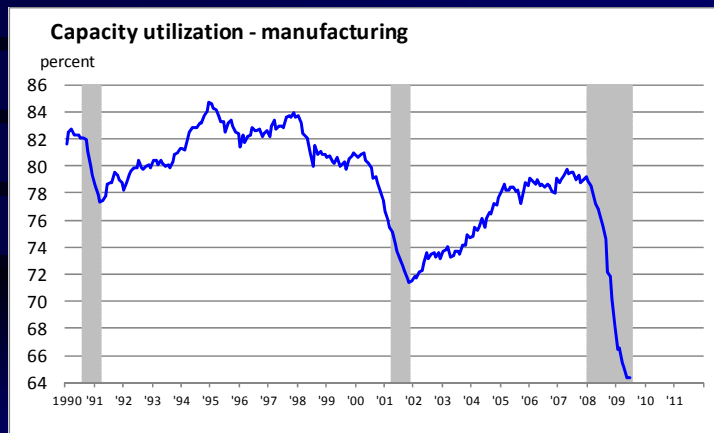
The Setup



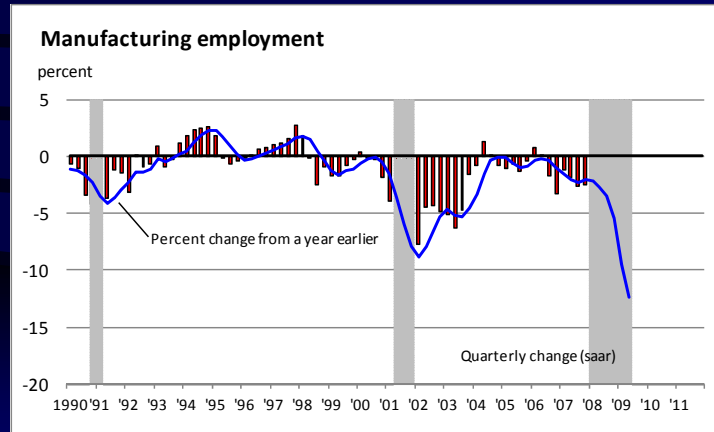
**Manufacturing output peaked in December 2007
and fell 20.5% over the following 18 months**



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



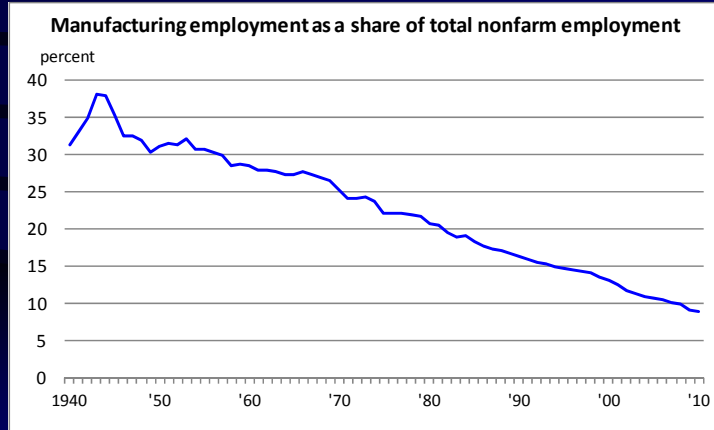
**Job declines in the manufacturing sector were significant,
with over 2 million jobs lost over that same period**



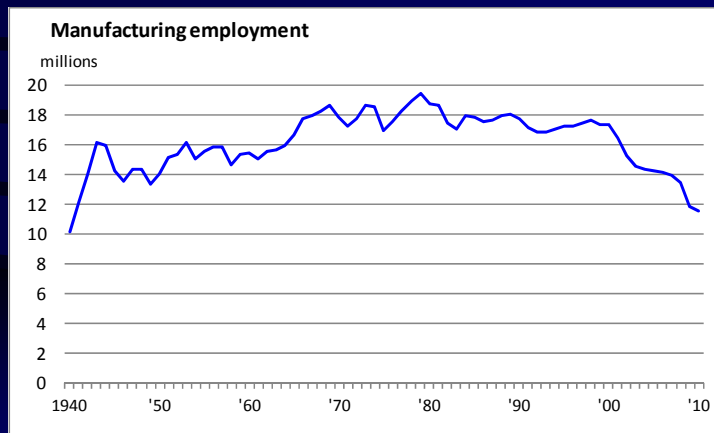
**Is the U.S. Losing Its
Manufacturing Base?**



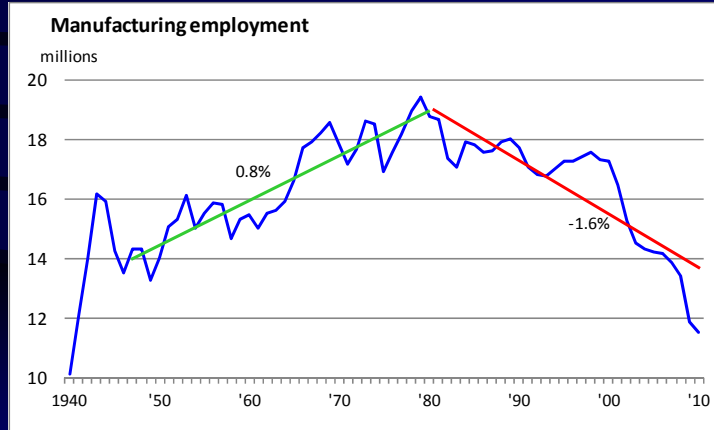
Manufacturing employment as a share of national employment has been declining for over 50 years



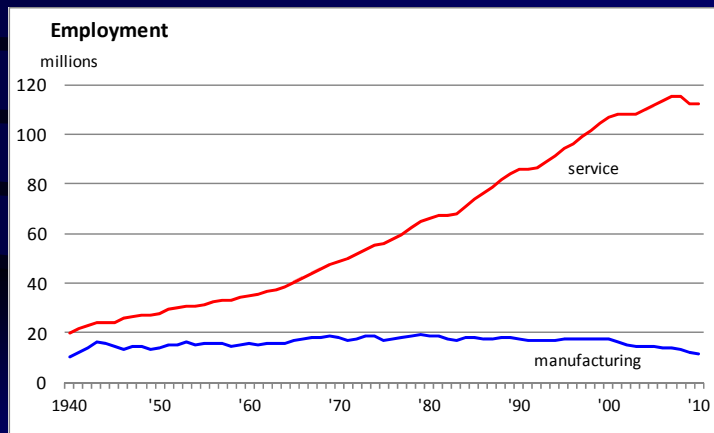
The number of jobs in manufacturing has been relatively stable over this period, edging lower on average by -0.3% per year since 1947



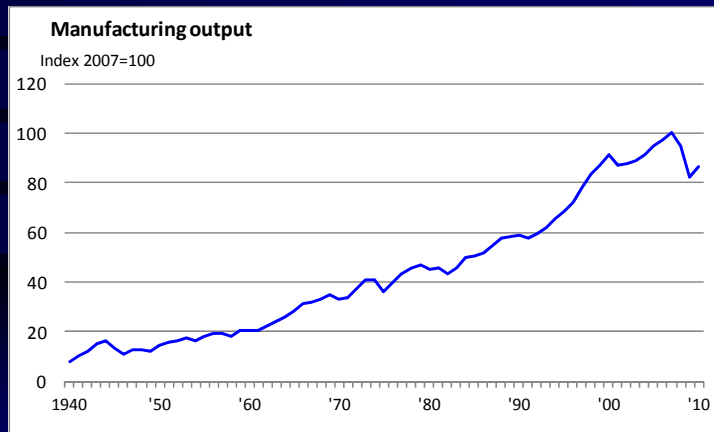
**Not to make a mountain out of a molehill,
but manufacturing employment was increasing up until 1979
and has been moving lower over the past 30 years**



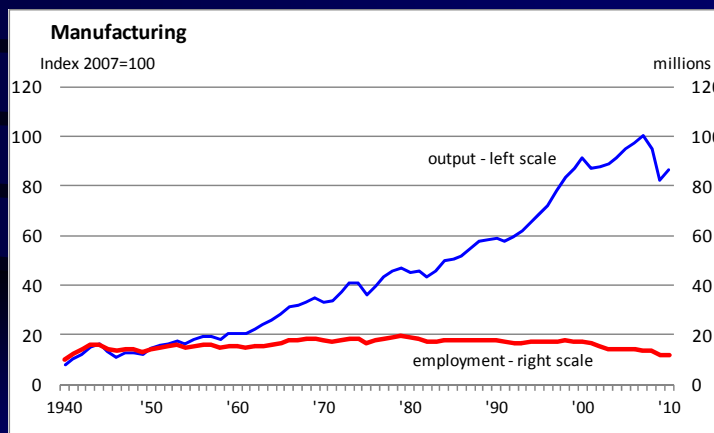
**However, service sector employment has grown
more than fourfold over this period,
averaging growth of 2.3% per year since 1947**



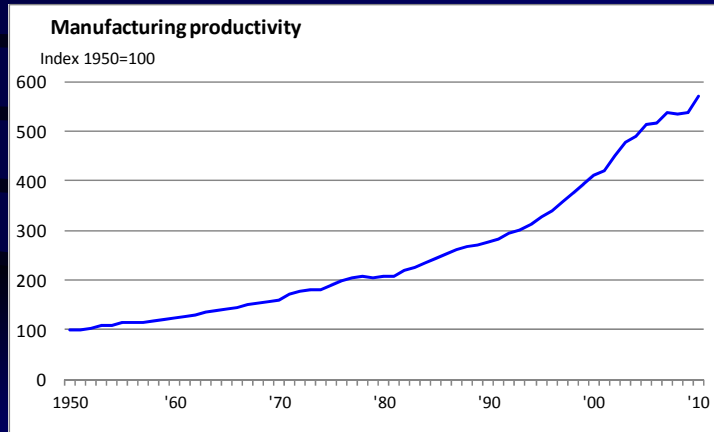
While manufacturing employment growth has been edging lower over the past 63 years, manufacturing output increased by 3.1% per year



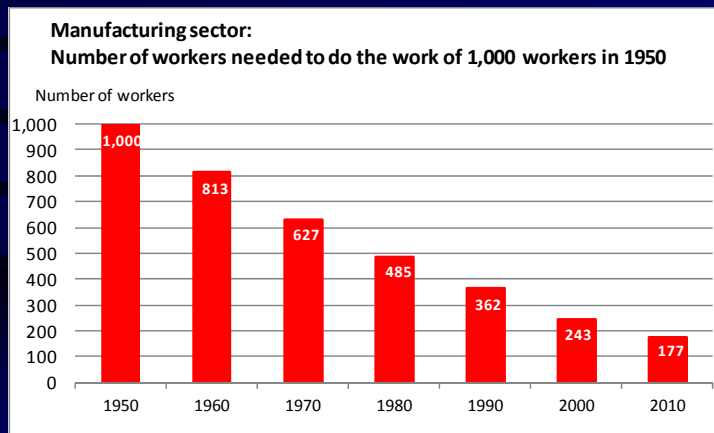
This translated into an almost 600 percent increase in manufacturing output over this time period



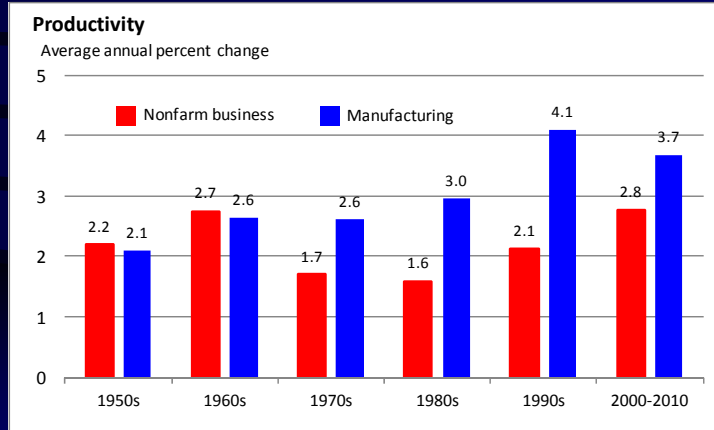
The increase in output can be attributed to strong productivity growth experienced by the manufacturing sector



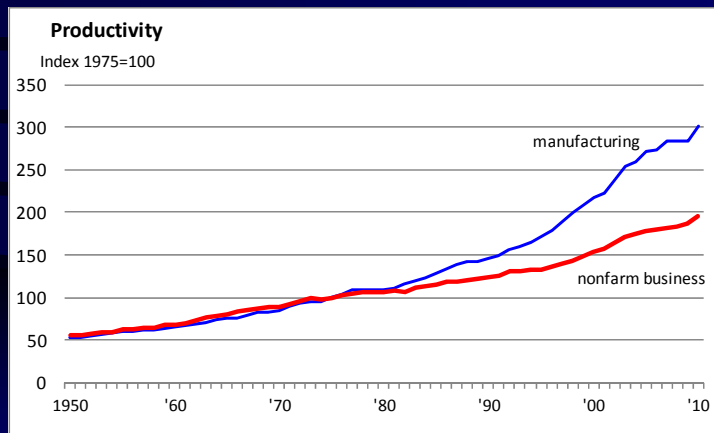
What took 1,000 workers to produce in 1950 takes 177 workers today



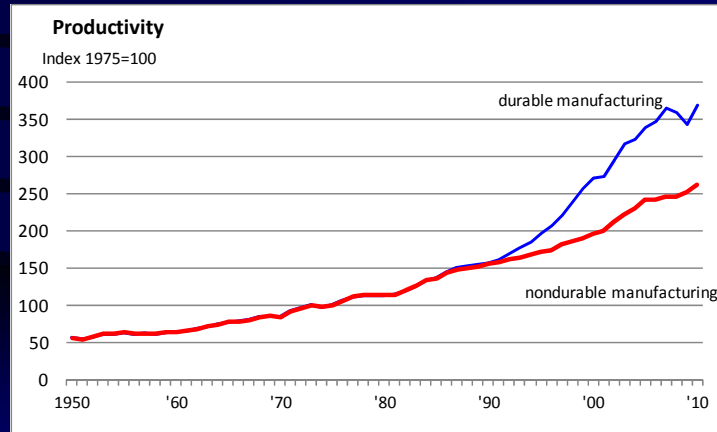
Manufacturing productivity growing faster over the past 40 years



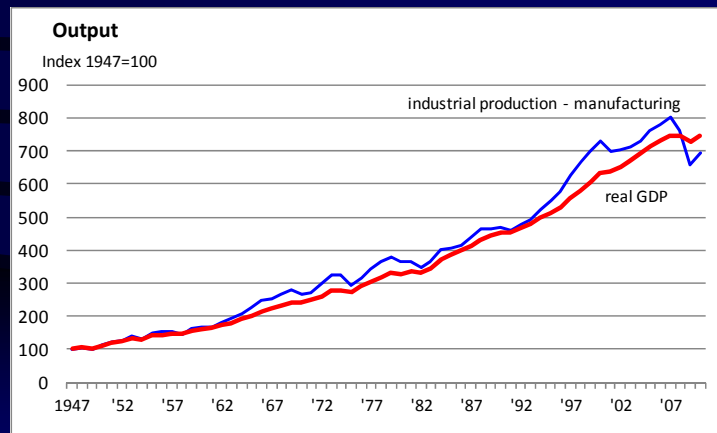
The divergence in productivity appears to have occurred around the mid-1970s



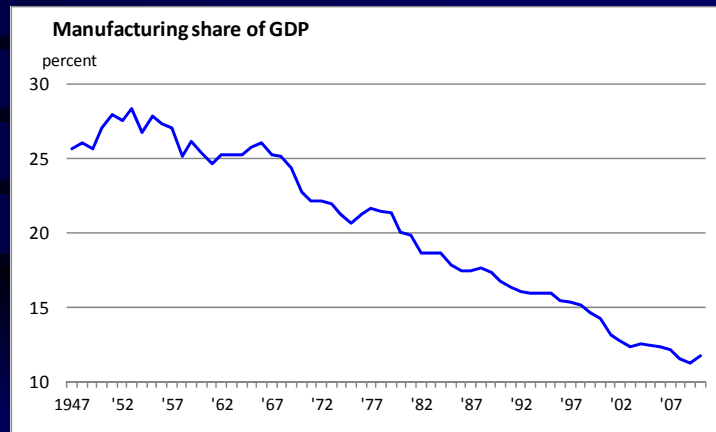
This divergence is especially apparent in durable manufacturing



Strong productivity growth had allowed the manufacturing sector to grow faster than the overall economy



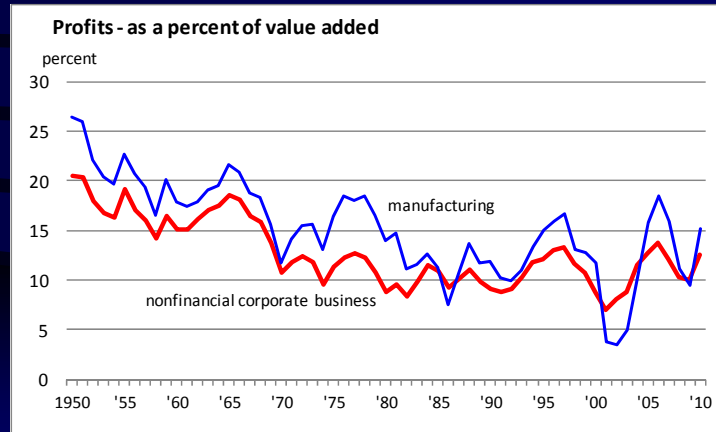
**However, lower relative prices in the manufacturing sector
has lead to manufacturing comprising
a smaller share of GDP over time**



**How profitable
is manufacturing?**

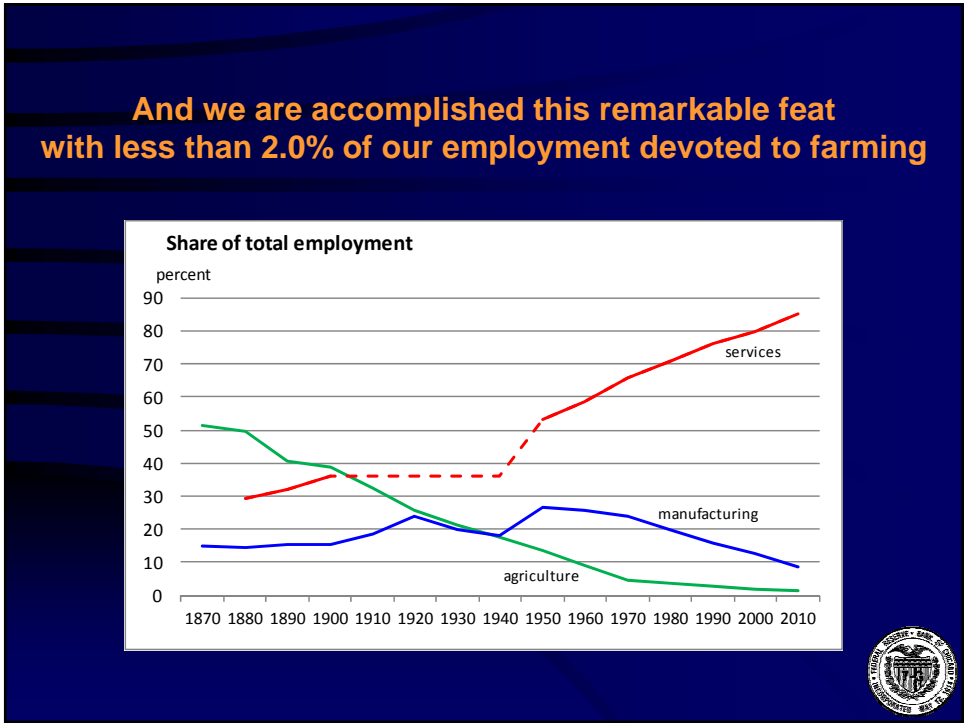


While more cyclical, profits in manufacturing have out-performed returns in nonfinancial corporate businesses



Lessons from the farm sector

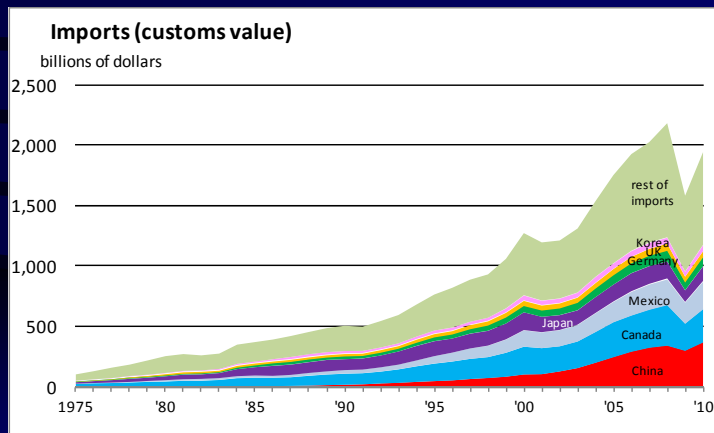




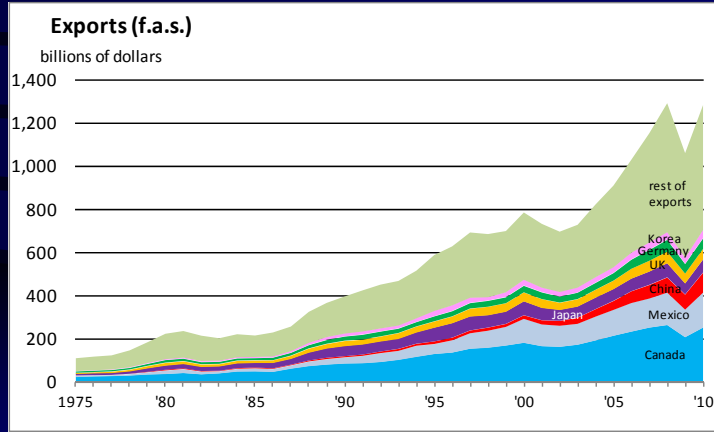
Trade with China



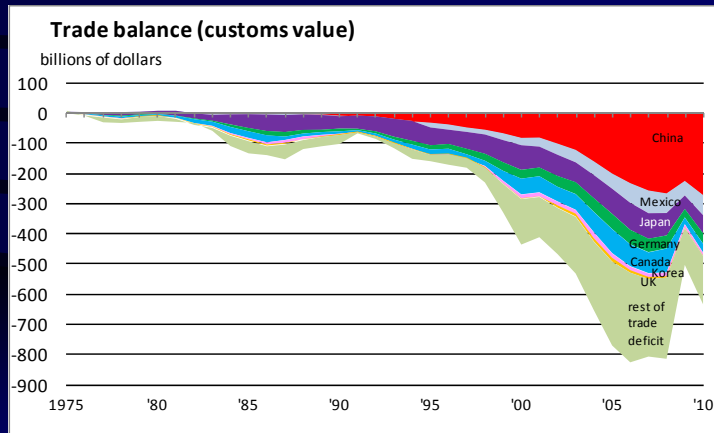
China has risen to number one in terms of U.S. imports, representing 19.1% of all imports in 2010



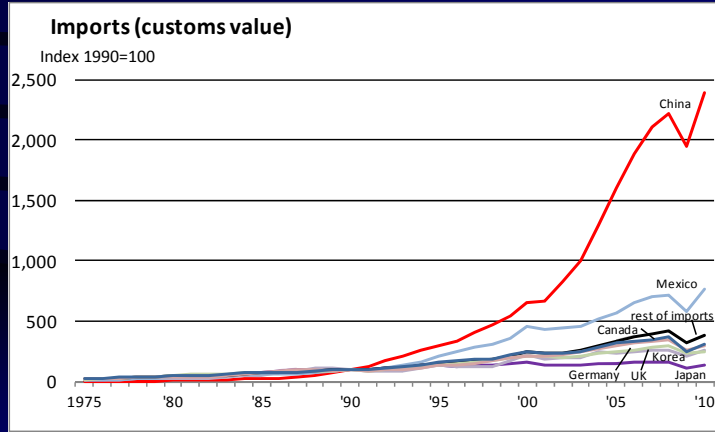
While China has risen to be our third largest export country, it represents only 7.2% of U.S. exports



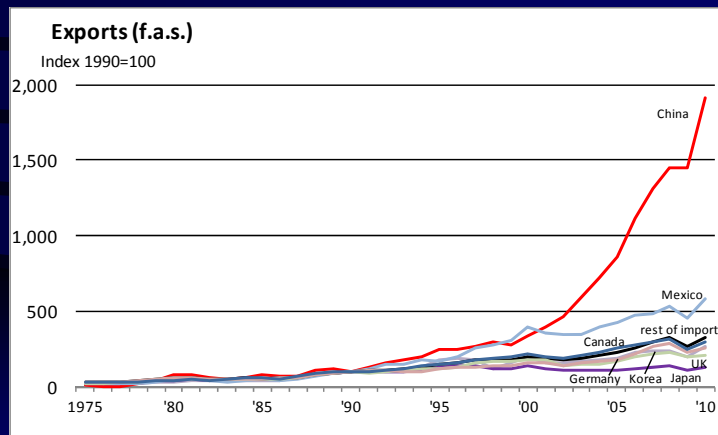
This difference has led to China having the largest trade deficit with the U.S.



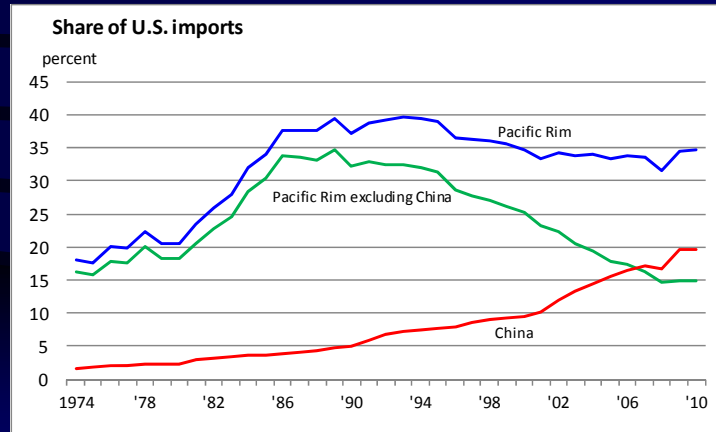
**China has certainly increased
the amount of goods flowing into the U.S.**



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



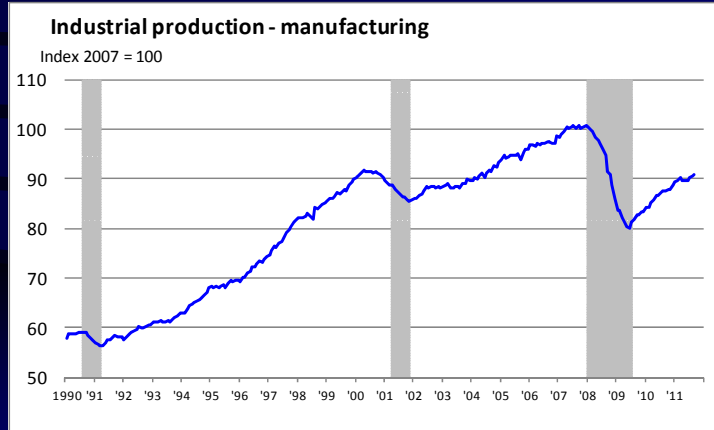
**While China has increased its share of imports to the U.S.,
the Pacific Rim as a whole has had
a declining share since the mid-90s**



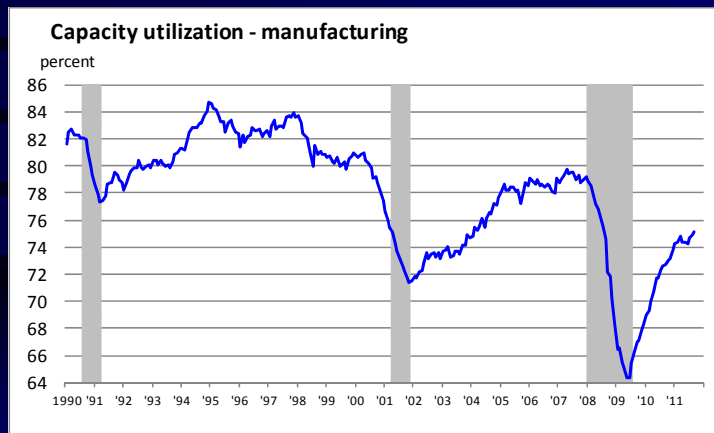
The Current Expansion



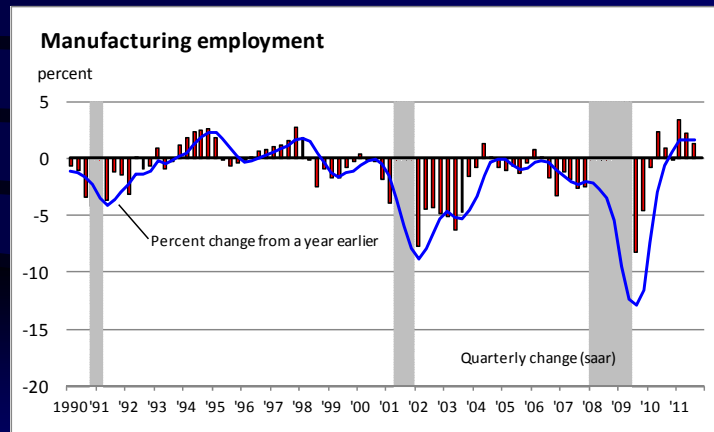
Beginning in July 2009, manufacturing output in the United States has been increasing at a 5.8% annualized rate and has recovered 52.8% of its drop in output



Manufacturing capacity utilization rebounded



Manufacturing jobs have been rising



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



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