



The Washington Times

Manufacturing Recovery Likely Slow to Come

By [David M. Dickson](#)

American manufacturers have started to come back after suffering the deepest, most prolonged collapse since the Great Depression.

But manufacturing's recovery will likely be slow, and job losses will continue to mount for quite some time, economists and manufacturing executives say.

"There's shared pain throughout," said Ron Bullock, chairman and chief executive officer of Bison Gear & Engineering Corp.

Sales have dropped 20 percent during the past year at Mr. Bullock's 49-year-old firm, which produces power-transmission and motion-control products in St. Charles, Ill.

Bison's work force has declined from 300 before the recession began to 215 today. There's no overtime. And salaries have been frozen.

Despite the grueling recession, the industry has its optimists.

"The facts clearly illustrate that manufacturing is central to America's economic future," said Emily Stover DeRocco, president of the Manufacturing Institute.

"The United States has the largest manufacturing economy in the world, producing \$1.6 trillion in goods annually," Ms. DeRocco said. She points out that productivity growth is higher in manufacturing than in other sectors. This long-term trend has helped to hold down inflation and has contributed to a higher standard of living.

"Manufacturing continues to generate more economic activity per dollar of production than any other business sector in the country," Ms. DeRocco said. "And manufacturing drives innovation by conducting nearly half of all research and development and creating the bulk of technology in the nation."

Manufacturing production, which represents about 12 percent of gross domestic product (GDP), reached its all-time peak in December 2007 — when the recession began.

During the next 18 months, manufacturing output plunged 17 percent, according to Federal Reserve Board data. Factory production finally began rising in July and continued expanding in August and September, the Fed reported.

However, factory output may not return to its pre-recession level until 2014, said David Huether, chief economist for the National Association of Manufacturers (NAM), an industry trade group.

"Manufacturing output will continue to considerably lag the growth rate of the overall economy, creating tremendous problems for the U.S. economy," said Alan Tonelson, a research fellow at the U.S. Business and Industry Council, a national business organization whose 1,900 members are mainly small and medium-sized domestic manufacturers.

"If we want to increase our living standards, we can't just increase savings. We must increase production," said Mr. Tonelson.

Manufacturing employment has already lost more than 2 million jobs since the recession began, according to the Bureau of Labor Statistics.

Employment in manufacturing industries will likely continue to fall through the middle of next year, Mr. Huether said. Then, during the next 4½ years, from mid-2010 through the end of 2014, only 43 percent of those lost jobs will return, according to the NAM forecast.

The depth of manufacturing's collapse was breathtaking, not only in the United States, but worldwide as well.

Between December 2007 and June 2009, U.S. factory output plunged 17 percent. That's nearly five times the 3.7 percent decline in the entire economy. The 17 percent plunge in factory output is also nearly twice the 8.8 percent decline suffered during the 1981-82 recession, when the overall unemployment rate reached a postwar high of 10.8 percent. The U.S. unemployment rate hit a 26-year high of 9.8 percent in September.

When the industry hit bottom in June 2009, manufacturing output had fallen below production levels of June 1998.

Since the beginning of the recession, manufacturing employment has plummeted by 15 percent, much more steeply than the proportion of manufacturing job losses experienced during the 1973-75 recession (10.2 percent) and the 1981-82 downturn (11 percent).

"Every major manufacturing industry was hit," said Daniel J. Meckstroth, chief economist of the Manufacturers Alliance, another trade group. "Nothing was spared." The worst declines occurred in motor vehicles, machinery, construction materials, furniture and textiles, he said.

In leading the nation into its longest, deepest recession since the Great Depression, manufacturing was accompanied by the housing, finance and construction industries. "But manufacturing was the only one that wasn't 'bubble-ized,'" noted Mr. Tonelson.

Since the downturn began, output of primary metals, including steel, has plunged more than 40 percent, compared to 16 percent during the 1973-75 recession, according to Federal Reserve data compiled by Mr. Tonelson.

Automotive output declined by 33 percent and reached its lowest level since 1973. Machinery production has fallen by 27 percent, versus 10 percent during the 1973-75 recession, and is at its lowest level since 1988.

"It's been tough," said Alan Petrucci, chief executive officer of B A Die Mold Inc., an Aurora, Ill.-based manufacturer of plastic injection molds for business machinery, electronics and medical products. During the recession, annual sales declined from \$3 million to \$2 million, while the firm downsized from about 25 workers to 15.

In addition to being battered by the recession, Mr. Petrucci said the mold-building industry has been losing business to China. "Customers are either buying molds from China or moving there themselves," he said.

I Squared R Element Co. Inc., which manufactures silicon carbide heating elements in Akron, N.Y., a suburb of Buffalo, saw its sales and profits fall by 27 percent during the first three quarters of 2009 following a "good year" in 2008, said Jack Davis, the founder and president.

After seven workers were laid off, the 70 remaining employees have been working just three to four days per week. The auto-industry collapse has hurt his firm, said Mr. Davis, who founded his company in a garage in 1964. Many of his former customers are no longer in business, including TV manufacturers and auto-supply firms, which have moved offshore, Mr. Davis said.

During manufacturing's deepest downturn in seven decades, the experience of [Marlin Steel Wire Products LLC](#) in Baltimore has been "atypical," said owner Drew Greenblatt. After achieving a record sales level of \$3.5 million during 2008, Marlin's revenues have jumped by double-digits in 2009. So far this year, the company has increased its payroll from 24 workers to 28 and invested in two big robots.

Increasing productivity is the name of the game in the manufacturing business, especially during recessions, Mr. Greenblatt explained. "And we are the tip of the spear [for productivity improvement](#)," he said. "We help companies make do with less. Marlin is one of the beneficiaries of the recession."

Marlin designs and produces precision wire baskets and sells them to other factories, which use them to carry products along the assembly line while robots perform sophisticated operations on them.

"We don't make 8 million baskets and sell them to Wal-Mart," he said. "We [export them around the world](#)."

If the economic recovery has already begun, as many economists believe, the vast majority of manufacturing firms that have been battered by the recession hope to join Marlin in expanding their output and sales, if not their employment.

"Everything is moving in the right direction but moving slowly," said Norbert J. Ore, chairman of the Institute for Supply Management Manufacturing Business Survey Committee. The ISM's latest report showed manufacturing continuing to expand in September but at a slower rate than in August.

Mr. Ore expects "minimum growth in manufacturing next year."

The auto and housing industries comprise the major driving forces for manufacturing, Mr. Ore said. Housing is unlikely to contribute much growth next year, and vehicle sales will likely top out at 12 million next year, 25 percent below pre-recession levels.

"We are beginning a process when manufacturing will be adding more fuel to the recovery," said Bernard Baumohl, chief global economist for the Economic Outlook Group. He is confident the recent pickup in factory output was not a short-term phenomenon.

"The Obama stimulus will create the critical mass for a sustained recovery," said Mr. Baumohl.

Mr. Tonelson of the USBIC disagreed. "The very modest signs of life seen in recent months are nothing more than the transient effect of government stimulus," he said.

"If electric shock is administered to a dead body, it will twitch. And that is what we are seeing," Mr. Tonelson said. "There are no signs that the private sector can provide its own juice."

Mr. Huether, the economist at NAM, doesn't expect a vibrant uptick in the overall economy until after the first quarter of next year. His outlook for manufacturing is a "modest" increase next year, probably less than 3 percent, as the auto industry suffers "payback" for the Cash for Clunkers program.

Factory output should rise about 6 percent per year in 2011 and 2012, he said, but it will not surpass the pre-recession peak until 2014, more than six years after the recession began.

To meet those goals, manufacturing's export sales will have to expand by double-digit rates in 2011 and 2012, Mr. Huether said. Whether China allows its currency to resume its appreciation will be a big factor, as will the economic growth rates of other countries, analysts agreed.

In the early 1970s, U.S. imports and exports of manufactured products each amounted to about 7 percent of GDP. About a quarter of factory production was exported in 2007, while 36 percent of manufactured products purchased by households and businesses were imported that year.

"Manufacturing output could stagnate or fall further because import competition will continue to be relentless, as more and more consumer demand is supplied from overseas," said Mr. Tonelson, who projected that "the growth of exports will not exceed the growth of imports."

Mr. Davis, president of I Squared R Element, said he doesn't "see it getting any better," especially after his firm just lost two orders to China. "I don't believe those numbers," he said, referring to growth forecasts in manufacturing.

"We need to get the economic uncertainty out of the environment," said an otherwise optimistic Mr. Bullock of Bison Gear. "We need to know if we are going to be punished [by the Obama administration] from a tax point of view," he said, referring to health care reform and surtaxes to pay for it. He also worried about the effect on energy prices from pending legislation to limit greenhouse-gas emissions.

Mr. Greenblatt, whose firm produces [steel-wire baskets](#), was very optimistic. "In the last two weeks, orders have been dreamy," he said.

But Mr. Petrucci of B A Die Mold expects a double-dip recession. He worries that "interest rates will snap up because of the huge budget deficits," triggering another downturn within two years.

Even if factory output rebounds, virtually nobody expects manufacturing employment to rise anytime soon. "We are focusing on stabilizing it," said Thea Lee, chief international economist for the AFL-CIO.

Ms. Lee expressed concerns about yet another "jobless recovery" — not just in manufacturing, but for the economy as a whole.

Even though it may take until 2014 to return to pre-recession factory-production levels, Mr. Huether is still optimistic about manufacturing's future in the United States — provided Washington policymakers don't erect too many insurmountable cost barriers.

"U.S. manufacturers are the most productive in the world," he said. But U.S. global competitiveness during the next five to seven years depends in many ways on issues that are beyond the cost control of manufacturers, including health care, tort and regulatory reforms, energy and taxes.

"Costs outside [manufacturers'] control can drive global investment flows," he said. In the long run, these investment flows will determine whether American manufacturers will remain the most productive in the world.

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