

Part 2 - Made in America: Reshoring is Real—or is it?

American manufacturing appears to be taking a turn and recovering from the decisions made by many businesses to take some of their operations offshore for varied reasons, mainly as a cost savings. The migration had a large impact on the economy and affected many sectors both directly and indirectly. In recent news, however many reports show manufacturers returning (onshoring) to the U.S.A.

Two major shifts seemed to have started the ball rolling and the hope for a return—one by General Electric in 2012 when they announced that they would be investing a billion dollars in an appliance plant in Louisville, Kentucky. They also planned to reshore four thousand jobs and eventually add almost twenty thousand factory positions.

The other happened in 2013 when Walmart announced that it would invest \$250 billion over 10 years on U.S. made goods while estimating that the shift would create 250,000 manufacturing jobs.

Recently (October 2016) CNN reported -

- U.S. factories are producing three to five times more output than in the early 1950s to mid-1960s, when America was the globe's manufacturing powerhouse.
- U.S. aircraft production is at a record high and well ahead of the rest of the world.
- U.S. auto production and employment has also been growing steadily since bottoming out in 2009 with the bankruptcies at GM and Chrysler.
- Chemical production hit a record \$797 billion last year, up 30% in the last 10 years.
- Not only have GM (GM), Ford (F) and Fiat Chrysler (FCAU) all been hiring and investing in U.S. plants, but foreign automakers are expanding operations here as well.

Differing data and who's right?

Unfortunately, evidence-based data about reshoring cannot be depended upon to be conclusive. The following is just one recent example where two survey companies came to opposite conclusions about whether manufacturing is indeed returning to the U.S. Many other news outlets, reports and surveys also differ—some say it is—some say it isn't.

For instance, [A.T. Kearny](#) concluded from their 2015 survey –

“... the reshoring phenomenon, once viewed by many as the leading edge of a decisive shift in global manufacturing, may actually have been just a one-off aberration. Indeed, the 2015 data confirms that offshoring seems only to be gathering steam, while the U.S. reshoring train that so many predicted has yet to leave the station.”

In contrast, the [Boston Consulting Group](#) recently updated their previous survey results -

Thirty-one percent of the senior U.S.-based manufacturing executives surveyed—working at companies with at least \$1 billion in annual revenues—said that their companies are most likely to “add production capacity in the U.S. within five years for goods sold in the U.S.”, while “20% said they are most likely to add capacity in China.”

Both survey companies have been gathering data on the subject for a few years. Whatever may be happening—there does seem to be some indication companies have been reanalyzing the total cost of ownership (TCO) of offshoring.

The Guardian reported -

“Manufacturing employment is inching upwards again and, in some parts of the country there are signs that foreign manufacturers, drawn to set up shop in the US itself, could be helping it do so. Traditional manual jobs are unlikely to return, but factors such as a desire to enter the American market directly, the inconvenience of shipping across the world and rising wages in China have created the potential for a shift of advanced manufacturing back to the US.”

What’s Driving the Return?

For years, American manufacturing has been one of the main industries driving research and development in the U.S, and has shown a 250% increase in manufacturing efficiency per employee since 1987. Efficiency saves money and when companies look for what will be the best fit—the reality is that they will only add production capacity to a certain location if the economics make sense.

A statement from Forbes may sum up what’s really happening –

“Manufacturers are shifting production in many directions—all at the same time. Some companies are offshoring certain operations while simultaneously bringing other activities back to the United States.”

Total cost of ownership and other drivers will continue to warrant or at least cause manufacturers to consider reshoring to the U.S. -

- Reputation for producing quality products
- Reduction in freight costs
- China’s rising wages
- U.S. government incentives
- Available skilled workforce and training
- Reduced lead times, time to market
- Demand for rapid order fulfillment
- Proximity to market
- Reputation surrounding “Made in USA” brand
- U.S. ability to quickly automate and adapt
- Technological dominance in advanced manufacturing

Mexico – near-shoring

Manufacturers leaving China may still not return to the U.S. and some have decided to instead near-shore, for instance to Mexico for the benefits such as reduced labor costs, favorable duty and tax treatment and access to the country’s consumer. Different from China’s stronghold in electronics—which may or may not have a lasting effect on American manufacturing —trade flow appears to be more balanced.

In an article written by the L.A. Times, an economist at Texas A&M explained -

“Instead of thinking of Mexico as a separate part of production, it’s now part of our manufacturing process,” said Raymond Robertson, an economist at Texas A&M University. “Mexican companies aren’t just producing products that rival ours, they are producing parts of our products.”

In fact, Hisco has several distribution warehouses in Mexico. The maquiladora program (HiscoMex*) began in 1965 to help spur economic growth following the adoption of the North American Free Trade Agreement (NAFTA) in 1994. Today, more than 2,000 U.S. manufacturers operate maquilas.

Many efforts have come about in support of reshoring including “The Reshoring Initiative” launched in 2010. Their mission - bring back well-paying manufacturing jobs to the U.S. The non-profit provides research, case studies and even a calculator to help manufacturers determine whether it’s worth it for companies to offshore.

As reshoring continues, many manufacturers struggle to fill positions. In general, manufacturing does not attract younger people like other more glamorous positions because of the perception that the pay is low. In Part 3 of our Made in America series, we’ll take a look at what’s happening in the manufacturing job market in the past few years; and the ongoing and future challenges manufacturers face in this area.

*Note – All HiscoMex locations have chemical permits (Cicoplafest) allowing for hazardous chemical importations and storage. Its refrigeration facilities for solder paste, adhesives and other temperature-sensitive products easily accommodate electronic assembly and MRO needs. Additionally, HiscoMex is a AS9120 distribution company with aerospace-certified sites in Mexicali, Bajio, Chihuahua and Nogales.