SPECIAL REPORT

TD Economics

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Executive Summary

OFFSHORING, ONSHORING AND THE REBIRTH OF AMERICAN MANUFACTURING

At the end of the last decade American manufacturing appeared to be a shadow of its former self. Ten years of consecutive employment declines – interjected by two recessions – reduced the number of jobs in the industry by nearly six million. But in January 2010, bloodletting in manufacturing employment finally ceased, and the sector has added nearly a half-million jobs since then.

One of the reasons for manufacturing bucking its declining trend is the slowdown in offshoring activity. This trend of "shipping jobs overseas" has effectively offshored about one million jobs since the turn of the century, mostly in apparel and computers & electronics. Offshoring peaked in the mid-2000s but has recently decelerated, as rapidly rising offshore wages, an appreciating renminbi, and volatile transportation rates have begun to weaken its cost advantages. These advantages have also been increasingly undermined by domestic benefits in the U.S. stemming from intellectual property protection, flexibility of tighter supply chains, a trend toward mass-customization, and abundant shale natural gas. These factors are beginning to gradually rebalance, and perhaps even slowly tip the scales away from offshore-based production. We estimate that over the last twelve months about one-quarter of the 200,000 manufacturing jobs created in the U.S. was due to slowing offshoring activity.

For select industries – like computers & electronics and plastics & rubber – the offshoring tide appears to have ebbed altogether. Hope is that firms will re-establish or expand production in the U.S., becoming de facto onshoring pioneers. But so far, evidence remains largely anecdotal with signs of en masse industry onshoring yet to emerge. Having said that, we believe some industries may be primed for a comeback over the coming decade. This is especially true for the recently-offshored manufacturing industries including machinery, electrical equipment, and fabricated metals, which tend to be relatively capital-intensive and suffered substantial offshoring over the last decade. We see little hope for onshoring across the more labor-intensive early-offshored industries like apparel, although furniture could benefit. However, while offshoring in these industries is likely to continue, it will manifest itself more in the absence of job creation rather than outright job cuts. Then there is a group of industries – petroleum, chemicals, primary metals – which are not expected to significantly onshore, but only because they never really offshored in the first place due to their business cost structures. These industries should nonetheless contribute to the revival of American industry through organic domestic- and export-oriented growth.

America's manufacturing sector looks ripe for a revival as changing global conditions, domestic advantages, and productivity gains are making U.S. manufacturing more attractive. This revival will hinge on increasing competitive advantage in several key industries. However, these industries tend to be more capital-intensive with any future employment contribution somewhat muted as a result. In other words, jobs that may come back will not be the same jobs that left, with nearly six million positions lost during the last decade unlikely to be fully made up, at least not in the foreseeable future.

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