**Manufacturing**

**Rustbelt recovery**

*Against all the odds, American factories are coming back to life. Thank the rest of the world for that*

Mar 10th 2011 | CHICAGO AND WASHINGTON, DC | from the print edition

ACME INDUSTRIES is a small contract manufacturer with only ten big customers. But those customers are a cross-section of the industrial economy, spanning mining, oil, transport and construction. Right now, Acme’s order book is bulging. "Everyone is up across the board," says Bob Clifford, the company’s head of sales and marketing.

In one corner of its factory just outside Chicago, three workers polish what looks like a steel Lego brick the size of a steamer trunk. This is designed to channel water underground at high pressure, and will go into natural-gas-drilling equipment. In another corner sit rows of hollow steel cylinders that will hold bearings inside the wheels of gigantic mining trucks being built in nearby Peoria. Mr Clifford points to several parts destined for diesel locomotives built by a subsidiary of Caterpillar a big maker of heavy equipment. Caterpillar is booming, and its ecosystem of suppliers across Illinois is “seeing a real trickle-down effect,” he says.

At the nadir of the recession Acme’s sales had fallen 20% and it had laid off ten of its 125 employees. Sales are back up, the head count is now up to 130, and Acme reckons it will hire 20 more people this year to handle the growing order book.

For the first time in many years, American manufacturing is doing better than the rest of the economy. Manufacturing output tumbled 15% over the course of the recession, from December 2007 to the end of June 2009. Since then it has recovered two-thirds of that drop; production is now just 5% below its peak level (see chart 1).

Factory employment has been slower to recover than output, less, that too is growing. 13,000 from January. In the past year manufacturing
employment has gone up by 189,000, or 1.6%, the biggest gain since the late 1990s. Total employment rose just 1% in that period. Unemployment has fallen more sharply than the national average in Illinois, Ohio and Michigan, which are relatively dependent on manufacturing.

Much of the recovery there is payback for the stomach-churning plunge that came before. Sales of cars, still one of America’s biggest manufacturing sectors, collapsed between 2007 and 2009 as customers lost access to credit, lost their jobs, or lost confidence in cars made by General Motors and Chrysler, which went through government-sponsored bankruptcy. That rippled through the industry’s thousands of suppliers strung out across the rustbelt. "We were in the valley of death in April of 2009," says John Winzeler, president of Winzeler Gear, whose small plastic gears go into door latches, lumbar supports and countless car parts. Sales, down 40% during the recession, have recovered more than half that drop, in line with the recovery in car production.

Beyond this cyclical bounce-back, though, a structural shift may also be under way. Makers of floorings, furniture and glass, all of which go into houses, were especially hard hit and have yet to start hiring again. But those that make things for businesses or customers overseas—computers, machinery, electronic equipment, heavy-duty trucks—are thriving. Cisco Systems and Intel Corporation notched up record sales last year. Caterpillar and John Deere, which makes diggers, bulldozers and farm equipment, saw sales leap. Kash Mansori, who provides economic consulting for manufacturers, attributes this to the composition of economic growth (see chart 2). Housing and car sales have typically led previous recoveries, but this time both have been held back by tight credit conditions and heavy household debt. Meanwhile business investment, typically a laggard, is rising because of tax incentives and because firms had so long delayed replacing ageing equipment. Exports are even stronger, thanks to the robust appetites of emerging markets and a lower dollar.

In its Economic Report of the President last month, Barack Obama’s Council of Economic Advisers calculated that each additional percentage point of another country’s growth boosts its imports from America by three percentage points. It thus expects emerging economies, including Mexico, to account for 71% of America’s export growth from 2009 to 2014—especially in farm products, aircraft, integrated circuits and oil- and gas-field machinery.

Some hope this marks a broader turning point. American manufacturing employment peaked in 1979 and has been generally falling since. This was mostly because of rising productivity; but it also reflected the steady loss of domestic market share to foreign imports, especially from China. Some now wonder if those trends have stopped. Mr Winzeler points to announcements of Japanese and German companies opening plants in America. His own company has weaned itself off American car brands by developing relationships with foreign-owned suppliers.

Yet the notion that jobs may flood back from abroad seems a fantasy. Caterpillar added 19,008 employees (excluding acquisitions) last year; 60% of those were overseas. Like most multinationals, Caterpillar prefers to produce where it sells. Last year sales to Asia rose 43%, and to Latin America 58%, compared with 30% for North America. As long as emerging markets are growing fastest, that’s where the bulk of new manufacturing jobs are likely to go.