

The Kensho Group

UNITED STATES

Manufacturing on the Leading Edge of Recovery

At first, the expectation was that economic recovery would come from green energy. Then talk shifted to a rebound in real estate, which was the catalyst for the recession. Then Wall Street started to show some life again, posting record profits and it looked as if finance might take the lead.

But a funny thing happened on the way to recovery: manufacturing. The industry once thought to be long dead, an American industry that could no longer survive in the global marketplace, seems to be waking up.

In the week ending September 19 (the most recent reporting period) of the 15 states that reported large drops in new unemployment claims, 10 said the bump came from decreases in manufacturing layoffs.

In September, The Institute for Supply Management reported that its Purchasing Managers Index hit 52.9 percent, its first indication of growth since June 2007. This number may falter as stimuli, like the Obama administration's CARS program, work their way out of the system.

Yet, once federal stimulus runs its course, and retailers and distributors have refilled their dwindled stocks, other conditions will soon step in to support American manufacturing.

In the near term, the dollar's lower value is making it cheaper to purchase domestically rather than from the E.U. and China. Additionally, the lower value of the dollar is adding demand for U.S. goods overseas, where countries are for the first time in years able to get discounted American products.

More long-term, the rising cost of energy is making domestic manufacturing more cost-effective, and will likely be the largest driver of a sustained manufacturing resurgence. Importing cheap products from the other side of the world has been made possible by an abundance of inexpensive fuel powering massive cargo ships. However, fuel prices are already higher than in the past and will only go up further in the future adding a prohibitive cost to the importing of many goods.

"If we were to come out of the recession led by real estate or dot-coms or finance, there is a good chance we would be setting ourselves up for another bubble," says Tony McKinnon, president of MRINetwork. "Seeing a sector like manufacturing starting to take the lead, however, is a very different story. A successful manufacturing sector sets the foundation for a true and lasting recovery."

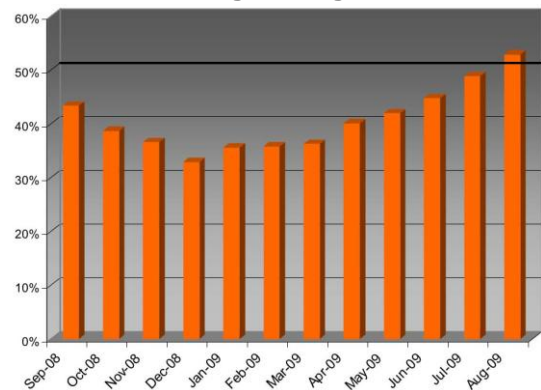
Today, robotics and automation mean that assembly lines can employ a fraction of the workers they once required. Nonetheless, a profitable manufacturing sector in the United States means that more money flows domestically rather than overseas. That money aids all the engineers, accountants, marketers, insurers, lawyers, bankers, shippers, trash collectors and others who are needed to keep the plants running.

Recent MRINetwork® Analysis

"Right now, there are a lot of people to choose from. Clients can look and see who has background. But with Michigan having the highest unemployment rate in the country—15 percent—clients are open to candidates who are not working. My placements this year are at around 50 percent for those without a job. In Michigan, if you've been out of work around six months, it's not viewed negatively."

*Paul Pennington, The Judson Group
As quoted in ChannelWeb, September 2009*

Purchasing Managers Index



Source: Institute for Supply Management

"For employers, the recent signs of strength in manufacturing are reason for cautious optimism. While the growth in the coming years may be slow, it is increasingly less likely that the growth will be temporary," says McKinnon. "This means that employers can consider hiring full-time staff with a degree of confidence that the positions will continue to be needed."

Continued positive movement in the manufacturing space in October's BLS report will only add more credence to projections that it will emerge atop of the economy.

"With how quick we have been to compare the current recession to previous downturns, it is important to also look at past recoveries," notes McKinnon. "In March 1991, the nation was emerging from recession and the *New York Times* chose to write about how Seattle seemed to be recovering before the rest of the country. They highlighted how the state's economy was heavily dependent on one industry and the one company that led it—Boeing.

"As we now know, it was the personal computer, not the airplane, that took the country out of recession. We may not know where our recovery will come from until it's already here."

UNITED KINGDOM

In the Wake of the Storm

According to several leading business groups, the U.K. is no longer in a recession, yet, compared to recent memory, growth will be underwhelming for quite awhile. The CBI, a U.K.-based business-lobbying group, expects an annualized GDP growth rate of just 1.5 percent by the fourth quarter of this year.

While the growth will be positive, it is not expected to accelerate much. Over the last five quarters, the U.K. economy has shrunk in total by 5.5 percent.

Recently, consumer spending has begun to grow more rapidly which the governing Labour Party has taken credit for by having passed a reduction in the VAT—the U.K. equivalent of a national sales tax—from 17.5 percent to 15 percent. The Conservative Party position—that the tax reduction has only led to the waste of billions of dollars—will be put to the test in January, when the VAT returns to 17.5 percent.

The unemployment rate for the U.K. has risen to 7.9 percent, a 14-year high, yet it remains below the 9.7 percent unemployment in the U.S. and the 9.5 percent unemployment in the euro region.

“Right now there are nearly 2.5 million unemployed in the U.K. That’s the most we’ve had in 17 years,” says Derek Smith,

managing partner of 360 Search, an MRINetwork office in Great Missenden, about 40 km west of London. “While the economy seems to have all the pieces in place for a recovery, such high unemployment will continue to weigh down consumer spending and could hamper any semblance of a national recovery.”

Yet, while such news should do little to improve the outlook for Britons, according to the U.K. Nationwide Consumer Confidence Index, confidence has been building since the beginning of the year. Confidence indices between countries are hardly comparable on a one-to-one basis, yet, upticks in confidence did begin about three months earlier than in the U.S., implying at least a quicker psychological recovery.

Recently, 360 Search conducted a survey of employees and candidates most directly tied to consumer sentiment—those working in the consumer goods and related wholesale and logistics areas. Of those respondents who were unemployed, only 16 percent said that the job market has gotten worse over the last six months. Additionally, of those who were employed, less than 11 percent felt their job was in any immediate danger.

“There really isn’t anything great or exciting about the economy right now. But many of the elements that were causing so much angst are at last fading away,” says Smith. “It sounds like we might be bumping along the bottom for awhile, but it’s not getting worse. When a recovery sweeps the globe, there is nothing that will hold us back from being in step with it.”

TENNESSEE

One City Finds Relief in the Form of the Automotive Industry

Cotton and automobiles don’t sound like the products of a successful economy, and East Tennessee isn’t exactly enjoying rip-roaring times right now either. The bright light on the horizon for the Chattanooga area, though, is coming from an unexpected source—a new \$1 billion Volkswagen plant scheduled to open in 2011.

For businesses, Tennessee is a notoriously low tax state. There is no income tax and sales and property taxes are relatively low as well.

For the automotive industry, Tennessee and other southern states offer another more important benefit—it is a “right-to-work” state. Right-to-work laws, which were made possible by the 1947 Taft-Hartley Act, prevent union membership from being a requirement to begin or continue employment. Essentially, it undermines the ability of unions to conduct collective bargaining. As a result, the cost of labor is cheaper in Tennessee compared to other states where unions are more influential.

“The Volkswagen plant itself is bringing about 2,000 jobs to a city of 170,000 people, but we are already seeing parts suppliers setting up operation here as well to support the plant, not to mention the ancillary jobs that will be required to support all of those employees,” says Al Clark, managing partner of Management Recruiters of Chattanooga.

“While there will undoubtedly be people moving here to take

positions at the plant, Volkswagen will also have a large pool of qualified talent to choose from who are already in the area. These are locals who have fallen on hard times over the last few years but are ready and qualified to work,” Clark continues.

In the last three years, the Chattanooga metro area has lost nearly 4,000 manufacturing jobs. Perhaps one of East Tennessee’s biggest strengths today is the abundance and availability of highly trained, non-union employees.

“After the layoffs of the last few years, many people, seeing the bad times ahead, chose to return to school rather than remain in the job market,” notes Clark. “Starting in the next year or so, these already well-trained workers are going to begin emerging from local colleges with even more training and experience and will be looking for work.”

While the Volkswagen plant is the largest project waiting in the wings and ready to absorb talent, more than \$5 billion worth of projects are also under way in the Chattanooga area. A \$1.2 billion solar equipment maker will begin hiring in the next few years and construction has already begun on a \$2.4 billion second reactor at the Watts Bar Nuclear Power Plant.

“Where we are seeing the talent squeeze is in the industries that are supporting the local economic drivers. Despite the recession, finding top professional talent still remains elusive for many white-collar industries,” says Clark.

East Tennessee is often able to source these candidates from other parts of the state or from neighboring states, but the supply remains scarce.

“The best candidates, as we’ve always seen, are still employed right now, and rooting them out is the most difficult task of all,” Clark says.