Press release

Euler Hermes: U.S. ready for long-term manufacturing rebirth

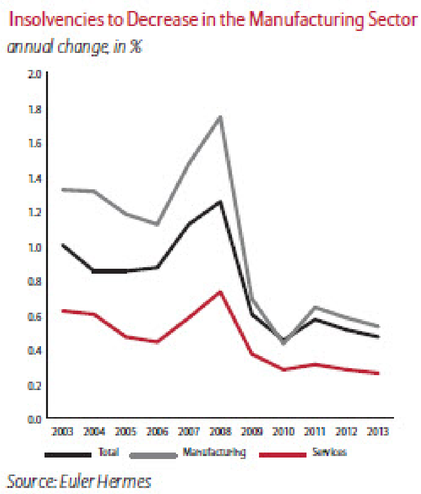
BALTIMORE, MD. – 29 APRIL 2013 – The United States possesses the key elements necessary for a long-term revival in manufacturing, according to Euler Hermes, the world's leading provider of trade credit insurance. Although the industry has been decimated during the past decade by the offshoring of jobs to lower-wage countries, a process of "on-shoring" is underway, bringing manufacturing jobs back to the U.S. and fueling industrial rebirth.

"The primary drivers of this phenomenon are the high productivity of American workers and the distinct closing of the manufacturing wage gap between the U.S. and China, along with the game-changing emergence of the U.S. as a source of cheap energy," said Dan North, Euler Hermes' lead economist for North America. "However, it's not a uniform rebirth – some industries and regions will benefit more than others."

"Made in America"

Several key factors lead to the on-shoring trend predicted by Euler Hermes in its report:

- U.S. manufacturing productivity has grown at a relatively high rate compared to other industrialized nations, making U.S. unit labor costs among the lowest in the industrialized world.
- Energy costs are low thanks to the shale gas bonanza.
- Highly skilled American workers can more reliably produce higher value-added goods.
- Cost of capital is very low given the Fed's ultra-accommodative monetary policy.
- Costs such as transportation, inventory and lag time are lower in the U.S., making production in the U.S. more desirable.
- The weak dollar makes U.S. exports very competitive in the majority of U.S. export markets – between the end of 2009 and August 2012, exports from the U.S. have risen 45 percent.
- The housing market is rebounding.
- Insolvencies in the manufacturing sector, which fell sharply in 2009, are expected to continue their downward trend with a 6 percent decrease in 2013.



The sector stars of reindustrialization

Several sectors have contributed to substantial and dramatic growth in the manufacturing sector during the last couple of years:

- *Computer and Electronics Manufacturing*: This sector has retained its leadership and even strengthened its weight within the U.S. manufacturing sector during the last decade with semiconductor/electronic equipment manufacturing and navigational, measuring, electromedical/control instruments manufacturing particularly outperforming.
- *Machinery:* This sector contributed strongly to U.S. manufacturing output expansion with double-digit growth in 2010 and in 2011. It is also expected to regain its pre-recession average annual production in 2013.
- *Petroleum and coal manufacturing:* This sector has reclaimed its pre-recession benchmark due to momentum posted by the paving, roofing and other petroleum and coal products sector.
- *Automotive:* Despite uneven global economic performance, including weakness in Europe, many global automakers have reported rising sales and profitability, driven by growth in emerging markets and China in particular. In the U.S., auto sales posted a second year of growth due to easier credit, low interest rates and pent-up demand resulting from the recent recession and an aging vehicle fleet.

The southern draw

Evidence strongly suggests that the South is a region primed to benefit from this reindustrialization. The region enjoys significant compensation, productivity and unit labor cost advantages compared to the rest of the country. These advantages have caused an influx of foreign manufacturers into the South, and this is expected to continue.

Euler Hermes' analysis of Gross State Product (GSP) has shown that four of the top six states in terms of productivity (GSP divided by employee hour) are Southern. When it comes to unit labor costs (GSP divided by compensation), five of the top eight are Southern.

Top 10 States

	GSP /Employee Hour 2011	Rank	GSP /Compensation 2010	Rank	Combined Rank
Louisiana	209.3	1	5.0	1	1
Oregon	163.4	2	4.1	2	2
Wyoming	139.5	3	3.3	3	3
North Carolina	93.0	5	2.8	5	5
Texas	102.3	4	2.6	7	6
Alaska	83.9	8	2.8	4	6
New Mexico	92.7	6	2.7	6	6
Delaware	82.2	10	2.3	9	10
Virginia	81.2	11	2.4	8	10

Source: Euler Hermes

Foreign automakers have taken advantage of this situation and moved production to the U.S. South, where they can avoid elevated union wages and high legacy costs. Their lower costs, in turn, make the total cost of manufacturing cars in the South lower than manufacturing overseas and shipping to the U.S. The U.S. auto industry now has a second concentration in the seven southern states of Alabama, Georgia, Kentucky, Mississippi, South Carolina, Tennessee and Texas.

California, the innovation incubator

Despite suffering from significant job losses in manufacturing during the past decade, conditions are ripe for improvement in the Golden State. California is the largest state in terms of nominal GDP and the largest U.S. employer. Furthermore, job growth is expected to outpace the rest of the U.S. over the next two years. Also boosting California are the hallmark industries that support the state's manufacturing: computer and electronic products and petroleum.

California's ID Card

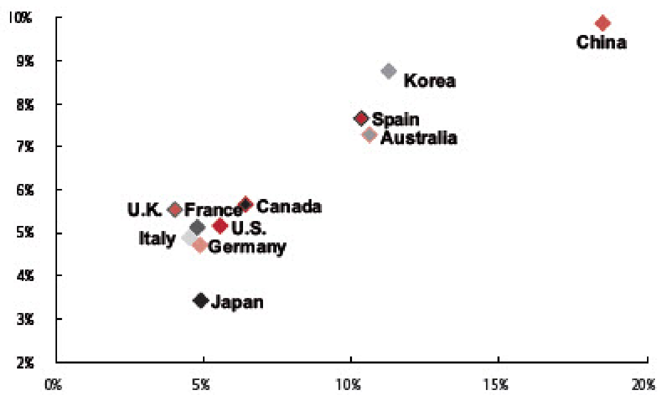
	% of California manufacturing	% of total US in California
Manufacturing	100%	13%
Computers and electronic products	31%	25%
Petroleum and coal products	17%	21%
Food, beverage and tabacco products	10%	10%
Chemicals	9%	9%
Miscellaneous	7%	17%
Fabricated metal products	5%	9%
Machinery	4%	7%
Other transportation equipment	5%	12%
Plastics and rubber products	2%	7%

Source: Bureau of Economic Analysis

What's next?

Though there are compelling factors that affirm that the U.S. is poised for a reindustrialization, other actions are required in order to maintain the momentum. Research and development (R&D) is critical to competitiveness and innovation. For example, the U.S. is beginning to fall behind its global competitors in patent generation.

GDP Growth VS. R&D Growth
averaged annualized rates 1987-2009



Source: Organisation for Economic Co-operation and Development

U.S. manufacturers need to resume a faster pace of investment to become more competitive in the global marketplace. Profits need to be redistributed to promote investment, and the corporate tax code should be reformed.

“However, while resurgence in the manufacturing industry is expected, companies will likely continue to face risks along the way,” said Ludovic Subran, Euler Hermes chief economist and director for Economic Research. “To fully participate in a manufacturing rebirth, corporations will need to hedge themselves against these risks. They will also need to transition from a cash-hoarding mentality to a focus on investing in the most sustainable opportunities. The stars are aligned and, with effort, this reindustrialization will be successful.”

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To learn more about Euler Hermes’ perspective, view the recent report, “The Reindustrialization of the United States.”

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