

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.

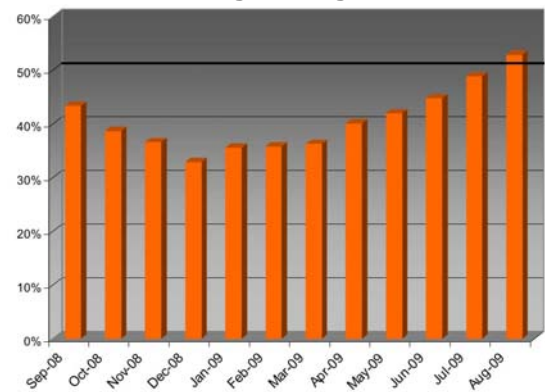
GTR Insight...

We know what you are hearing out there, in fact we see it in the news every day. When you make about a 100 calls a day between employers and employees – you start to hear some interesting tidbits. Here is what we have heard recently...

- **Electric Transmission** – 2 Engineering firms are taking advantage of excess commercial real estate and new business opportunities – Opening offices in FL & TX
- An **Energy Storage Manufacture** estimates that their growth plans call for them to double in size each year, for the next 6 years.
- Two **Renewable (Wind) Companies** have stated that commercial lending has picked up considerably over the last 6 weeks and within another 6 weeks – several projects could start to break open!

*Mike Ellis, President
GTR*

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."