3 THINGS TO KNOW

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CUSHMAN & WAKEFIELD INDUSTRIAL SERVICES

The calculus around locating manufacturing to countries with cheaper labor is no longer easy. Whether it's a **reshore**, **near-shore** or **offshore** approach, companies continue to face myriad factors in making long-term production location decisions.

1. More than half of large companies with Chinese manufacturing operations say they are in the process of or are considering reshoring some production. > More

   54%

2. *Build where you sell* is now integral to supply chain strategies. Near-shorers take note: Latin America boasts nearly 25% of the top 100 global outsource locations. > More

   1/4

3. Estimates put the number of manufacturing jobs that have been repatriated recently at 50,000. > More

   50K

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Changes in attitude. Changes in latitude (and longitude). A recent survey by The Boston Consulting Group shows that executives are increasingly rethinking China—54% are either planning to reshore some manufacturing to the U.S. or are contemplating it. Less than two years ago, only 37% of respondents answered similarly. That uptick suggests reshoring momentum is growing.

While it's likely the U.S. will be the primary beneficiary of the trend, it's not the only country. In the U.K., for example, the Manufacturing Advisory Service surveyed more than 500 manufacturers and reported in late 2013 that one in six had either brought some production back from overseas or had begun the process.

BRITISH TV ON THE TREND

> READ THE FINANCIAL TIMES ARTICLE (REGISTRATION)

The shift in attitude is attributable to several factors. Labor tops many lists. The cost of the workforce in China, for example—although still relatively inexpensive compared to the U.S., Germany and Britain—has been rising at a 15%-20% annual rate for the last few years.

Stabilization. While the data on the return of manufacturing is positive, relative to growth in non-manufacturing industries, it's somewhat muted. The NAIOP Research Foundation notes that even though some manufacturing sectors will expand between 2010 and 2020—particularly those that are less labor intensive like chemicals, machinery manufacturing, and computers and electronics products—the overall effect will be to balance investment that goes elsewhere.

> DOWNLOAD THE NAIOP REPORT

BACK TO THE DRAWING BOARD

A 2013 survey by the National Association of Manufacturers highlights the reasons why manufacturers are reevaluating off-shore production. Here are the most cited.

68% Rising cost of offshore labor

Supply chain uncertainty **52%**

44% Rising transportation costs

Increased U.S. labor productivity **36%**

32% Currency volatility

Intellectual property concerns **28%**

In the neighborhood. The same factors that are pushing manufacturers to look at reshoring options are prompting looks at near-shoring. As supply chain network strategies shift to models where goods are produced and sold near the customer—enabling faster cycle times, lower inventory costs, lower freight costs and more—neighboring countries stand to gain.

An AlixPartners study reveals that Mexico is the number one near-shoring choice for U.S. manufacturing companies that sell to the U.S. market. Freight savings, speed-to-market and lower inventory carrying costs are high on the list of considerations.

Auto and Aerospace are among the manufacturing industries that have seen growth in Mexico. Mexico is now the 8th largest car producer in the world, having surpassed Canada, Russia, Spain and France. And U.S. firms are not the only ones investing in Mexico. Significant auto assembly line projects from Japan and Germany have recently been announced as companies seek greater proximity to car buyers in both North and South America.

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Other Latin American countries are seemingly poised to benefit from manufacturers' *build-where-you-sell* strategy. Tholons ranks the **Top 100 Outsourcing Destinations**, and nearly 25% of 2014's list can be found in Latin America.

LATIN AMERICA
OUTSOURCE LOCALES IN GLOBAL TOP 100

> SOURCE: THOLONS

But what about the jobs? Compared to manufacturing positions lost between 2000 and 2009 (6 million), the number of new manufacturing jobs gained since 2010 is modest—just over 550,000. The number of positions that have returned from abroad is more so. The Reshoring Initiative estimates 50,000.

Modest good news may be better than bad news, yet few if any believe manufacturing employment will return to its former heights. Even without the mass exodus of production to countries with low wages, it's possible those lost jobs might have disappeared from the U.S. economy over time anyway. Today's advanced manufacturing operations require fewer workers as robots replace feet on the factory floor. Take the example of a textile mill in South Carolina, formerly shuttered but reopened in 2010.

Advances in automation enable the company to use 140 workers to produce 2.5 million pounds of yarn a week. In 1980, that kind of productivity would have required 2,000 people.

14:1
RATIO

> READ THE NEW YORK TIMES ARTICLE

Still, even if manufacturing remains a shadow of its former self in the U.S., we should be encouraged by recent stabilization. The Obama administration's former "Car Czar" Steven Rattner notes in a recent article that R&D operations are often located near manufacturing—bringing high paying jobs and more innovation that drives residual employment. Additionally, for every manufacturing job, 4.6 more service and supplier jobs are needed to support it.

MANUFACTURING AS PERCENTAGE OF GDP

32%

21%

16%

12%

> Our Take on the 3

Our Take.

The regionalization of manufacturing—keeping production in two or more global geographies—will likely continue as a way to hedge risk, allowing companies to take advantage of the benefits of production in far-flung operations and as well as those in production facilities closer to home and customers.

"Right-shoring," as one might call it, will continue to evolve and look different for different companies. Because the significant forces influencing manufacturing investment will not change any time soon, it's incumbent on manufacturers to consider all of the potential risks and rewards prior to making what could be a game-changing decision—whether at home, nearby, or far away.

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