Top Five Reasons Why Manufacturing is Coming Back to the U.S.

Did you know that manufacturing investment from reshoring and foreign companies to the U.S. surged in 2017, adding 171,000 new jobs? According to the Reshoring Initiative, a non-profit institute that supports reshoring investment in the U.S., that number is up 50% from 2016 and 2,800% since 2010.

Due to factors ranging from tax cuts to increased consumer demand to the need for skilled labor, the future of foreign direct investment (FDI) and reshoring in the U.S. is looking bright.

What are the top five factors driving this fast-paced growth?

1. Tax and Regulatory Reform

In late 2017, Congress passed the new Tax Cuts and Jobs Act (TJCA). The initiative reduced the U.S. federal corporate income tax rate from 38.9% to 21%. The new rate puts the U.S. in line with many competing countries like Spain, Canada and the Netherlands, and slightly more favorable over countries such as China, Japan, Mexico, and Germany.

"The reduced tax and regulatory burdens are enough to shift about one million manufacturing jobs to the U.S., based on our analysis of the price and total cost differences between sourcing in China vs. the U.S. This shift will take years to be fully realized, but made a great start in 2017," says Harry Moser, president, Reshoring Initiative.

In addition, there have been some industry specific taxes enacted on products imported to the U.S. market. For example, imported solar panels are now imposed a 30% tariff, a move that was requested by Suniva and SolarWorld, two U.S. solar panel manufacturers who said the tariffs would help boost the competitiveness of their products and therefore their ability to create U.S. jobs.

2. Technology & Automation Advancements

Advances in technology and automation are arguably the most critical factor in reshoring and FDI manufacturing growth in the U.S. The shift to production automation has taken the burden off of labor costs as a major operating cost factor, meaning less focus on chasing low-cost labor markets overseas.

"Automation clearly works to the benefit of the U.S. our labor is expensive and scarce. Capital equipment is less expensive here due to not having a Value Added Tax and has a better payback due

to the higher labor costs," continues Moser. "Automation pays off for fast local delivery. So, even if the low labor cost countries also automate, the U.S. gains advantage."

A recent report published by Deloitte and Singularity University says innovation enabled by "exponential technologies" (a term coined to reflect the rapid acceleration of technology) through means such as artificial intelligence, robotics, digital fabrication, and others, can help manufacturers grow faster, be more agile and unlock new forms of value.

Manufacturers are just scratching the surface of the opportunities that rely on technology to become more operationally efficient, which is great news for the future of U.S. manufacturing and reshoring.

3. Skilled Labor Requirements

The availability of skilled labor is one of the most important location drivers for manufacturing operations today.

It's important to understand that automated production does not equate to zero jobs; instead it means that operations need more skilled labor to operate, maintain and retool technologically advanced equipment.

With its rich history of industrial manufacturing skills, the U.S. is a prime location for companies to find skilled workers.

In 2013, an Indian automaker named Mahindra was seeking to establish a new international automotive design technical center. The company was looking at the U.S., Korea, Japan, Germany and the United Kingdom for its relocation. It ended up choosing Detroit for its skilled workforce.

The increased need for skilled workers has sparked an increased effort to train and promote manufacturing careers for Americans. Many U.S. states and local communities are working with local employers and community colleges to develop training programs for the desired skill sets required for today's manufacturing operations. This continued focus will be critical for continued growth of U.S. manufacturing.

4. Transportation/Supply Chain Efficiency

Increased costs—and time—for global transportation of goods means shrinking price advantages for products made overseas. It's a lot cheaper (and faster) to transport big items, such as appliances, by truck a few hundred miles versus shipping it overseas and then delivering it to a U.S. distribution center.

Being closer to U.S. customer markets also means production can react faster to fulfill orders and speed up the delivery of new products.

LG Electronics is currently constructing a state-of-the-art, one million-square-foot manufacturing facility in Clarksville, TN, to produce washing machines domestically to save on shipping costs and reach customers

faster. The highly automated facility is planned to begin production in 2019 and will be able to produce a fully assembled washer every 10 seconds.

Delivery times also have been jeopardized by both natural and man-made risk factors. The longshoreman's union at the Port of Los Angeles and Long Beach have held a number of strikes in recent years, some of which have resulted in containers of goods stuck sitting on ships in the harbor while retailers and consumers waited desperately to receive orders during the crucial holiday shopping months. Investing in U.S. manufacturing capacity eliminates this risk.

5. Increased Consumer Demands

Producing products in the U.S. allows companies to get products to customers much faster, increasing demand.

Last year, Volvo, who is currently constructing its first U.S. manufacturing plant in South Carolina, announced it would double its investment and add another production line to the plant. Volvo plans to produce two different vehicles designed for American consumers, including the new S60 sedan and the popular XC90 crossover car.

"The U.S. is, and will be, the single biggest market for the XC90. It's very natural to bring it much closer to consumers," says Lex Kerssemakers, outgoing CEO, Volvo Cars of North America.

Lately, more consumers are also making buying decisions based on labels stating products are "Made in USA." A recent study by Ford Motor Company found that 91% of millennials—whom account for the most purchasing power in the U.S. over any other generation (over $200 billion per year)—believe American manufacturers make products of equal or better quality as foreign competitors, and 74% believe purchasing American-made products is important.

What does the future hold?

As long as technology continues to evolve, and the U.S. tax climate remains "business friendly," expect the growth of reshoring and FDI investment to continue. As automation continues its rise in the manufacturing industry, more skilled labor will be required, and the U.S. is where corporations will be able to find it. As a result, more well-paying jobs will be added to the U.S. economy, increasing consumer buying power and appeal for more "Made in the USA" products.