

## US set to regain industrial crown

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By Peter Marsh in London

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The era of widespread offshoring of manufacturing from the US to China is coming to an end, according to a study that forecasts a renaissance for American production industries over the next five years.

The report by the Boston Consulting Group (BCG) forecasts that, by 2015 – on the back of good productivity growth and relatively low wages – the US is likely to be slightly ahead of China as a base for making many of the goods destined for sale in North America.

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Another important factor is rapidly rising wage growth in many parts of China, which is reducing the incentive to base production in that country for anything other than selling to the large domestic market.

The study will be welcomed in the White House, where President Barack Obama has made the revival of US manufacturing an important feature of [plans for a sustained upturn](#).

In recent months, large companies such as [Caterpillar](#), [General Electric](#) and [Ford](#) have announced plans for new investments in US manufacturing, while the [production sector increased](#) at an estimated annual rate of 9.1 per cent in the first quarter of 2011, making it the fastest-growing part of the US economy.

However, the projected rise in US industry's fortunes is unlikely to be enough to enable the nation to regain its title as the [world's biggest manufacturer](#), which it held for more than a century until China overtook it last year.

Hal Sirkin, senior partner at BCG, said the expected "immense demand" for goods by Chinese industry and consumers in the next few decades would be sufficient to keep China in the number one slot for some time, with supply of most of these products coming from locally based factories.

"All the indications are that the US will remain a strong number two [in manufacturing] and well ahead of other countries such as in western Europe, where the economic trends are less favourable," said Mr Sirkin.

John Makin, a resident scholar at the American Enterprise Institute think-tank, said the projected rise in US industry fitted into trends in which more US companies were re-orienting production to "more sophisticated goods that can be made with novel labour-saving technology".

Dan DiMicco, chief executive of Nucor, the second-biggest US steel producer, said many American companies had a “great opportunity” in the next decade to increase manufacturing in the country, helped by the weaker dollar.

Last year, China accounted for 19.8 per cent of world manufacturing output, fractionally in advance of the US, with 19.4 per cent, according to data by IHS Global Insight, a consultancy. In 1990, China accounted for only 3 per cent of the total.

The BCG study says that Chinese manufacturing wage costs seem likely to rise 17 per cent a year in the next five years, compared with only 3 per cent a year in the US.

While the productivity of the average Chinese factory worker has increased tenfold in the past 20 years, it is still less than a third of the comparable figure in the US – offsetting the fact that Chinese wage costs are typically a tenth of those in America.

Since employee costs typically account for 20 to 30 per cent of overall manufacturing expenses, with other costs such as covering equipment often no lower than elsewhere, by 2015 China is unlikely to have a cost advantage over US factories in making many products for the US market.

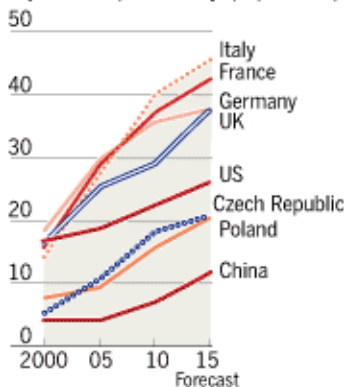
The goods that look like being more attractive to produce in the US include those made in small volumes and involving many design changes – such as construction machines and furniture.

Items made in long runs and with little variation – such as mobile phones and televisions – will continue to be made in China, even for sale in the US, the study says.

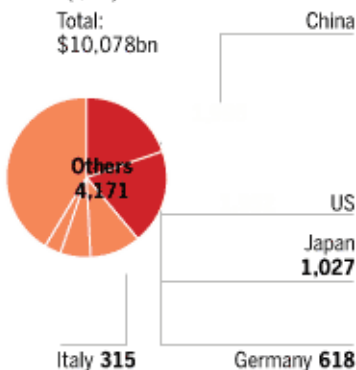
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### US industry is pulling away from Europe, though China will retain the top slot

Nominal production worker wages, adjusted for productivity (\$ per hour) (rebased)



Value added in manufacturing 2010 (\$bn)



Sources: The Boston Consulting Group; World Industry Service; IHS Global Insight