

# a nascent US manufacturing renaissance?

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An Interview with James Balfour, CFA, Senior Macro Strategy Analyst

We believe the US economic recovery is gaining momentum, and we expect this recovery to stabilize as it becomes more diverse. A resurgent manufacturing sector is part of this economic diversification. After declining for over forty years, manufacturing's contribution to US GDP has been slowly rising since the end of the recession in 2009, and we believe a US manufacturing renaissance is developing. Senior Macro Strategy Analyst James Balfour explains the economic implications of a stronger US manufacturing sector.

## IS US ECONOMIC GROWTH GAINING TRACTION?

Yes, we believe the economy is picking up speed for a number of reasons. The impact of budget cuts are fading, which should create a tailwind for growth over the next one to two years. The drivers of growth include a return to a more normal level of housing starts, increasing energy self-sufficiency, cheap energy and the related trend of a growing manufacturing sector in the US. Additionally, Europe is pulling out of a nearly two-year recession. The recent expansion in their manufacturing cycle is helping to lift not only US manufacturing but global manufacturing as well.

The energy sector has been driving much of the recent growth in manufacturing and has also supported economic growth more broadly. For example, the energy boom in Texas has fueled a surge in state revenues,<sup>i</sup> incomes and housing prices; West Virginia utility bills fell by 5.3% in 2012;<sup>ii</sup> the natural gas boom pushed office rents in Pittsburgh to a decade high;<sup>iii</sup> the Staten Island ferry and GE's car fleet are being converted to run on natural gas;<sup>iv</sup> and natural gas filling stations are expected to be built on interstate highways across the US.<sup>v</sup>

## ARE WE SEEING US MANUFACTURING BECOMING MORE COMPETITIVE?

The cost of manufacturing in the US has been steady for roughly 30 years, but recently, manufacturing costs have been escalating overseas. At the same time, we are starting to see an upturn in the size of the manufacturing sector as a percent of the US economy, from about 11% in 2009 to 12% in 2013.<sup>vi</sup> While relative wages are part of the story behind the nascent manufacturing renaissance, it has primarily been driven by the growth of cheap energy in the US.

## WILL THERE BE MORE MANUFACTURING JOBS CREATED IN THE US?

Improvements in technology and productivity are largely driving the expected upturn in US manufacturing. These technological advances should continue to allow companies to minimize labor costs with a marginal increase in domestic employment. Textile plants in the Carolinas, for example, are ramping up production at the expense of overseas jobs, and Boeing has been creating airplane parts with new 3-D printing technology. Local manufacturing also has other advantages like reduced transportation costs and shorter turnaround times for new orders. All these factors are driving the manufacturing renaissance in the US.

The energy sector, however, is producing a material increase in new jobs. In addition to the jobs needed for the mining and production of new sources of energy, companies are adding jobs to capitalize on cheap energy in the US. For example, companies have begun relocating to the US to take advantage of our cheap natural gas. Methanex, a Canadian firm, is planning to relocate its second methanol plant from Chile to Louisiana. Louisiana estimates these plants will create a combined 165 jobs directly and 1,200 jobs indirectly; many of these will be classified as manufacturing jobs. The \$1.1 billion investment will also result in 2,500 construction jobs to build the new plants.<sup>vii</sup> We believe the US is just beginning to realize the benefits of cheap energy.



## ENDNOTES

- <sup>i</sup> Meagan Baker, "Texas Oil and Gas Generate \$900 Million in New Tax Revenue," *Energy in Depth Texas*, August 6, 2013.
- <sup>ii</sup> Jessica Borders, "West Virginia utility bills, on average, lower during 2012," *Times West Virginian*, January 20, 2013.
- <sup>iii</sup> Hortense Leon, "Many US Office Markets to Improve in 2013, Accelerating in 2014," *World Property Channel*, November 27, 2012.
- <sup>iv</sup> Keith Barry, "Staten Island Ferry Goes Green With Natural Gas," *Wired*, January 4, 2013.  
Antony Ingram, "GE Adds Natural-Gas Vehicles To Its Electric and Alternate-Fuels Fleet," *Green Car Reports*, January 9, 2013.
- <sup>v</sup> "America's Natural Gas Highway: The Clean Energy Solution," *Clean Energy*, November 19, 2012.
- <sup>vi</sup> Bureau of Economic Analysis.
- <sup>vii</sup> Louisiana Economic Development, "Methanex to relocate 2nd methanol plant from Chile to Louisiana," *Biodiesel Magazine*, April 25, 2013.

## DISCLOSURE

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