A manufacturing revival in N.C.?

If you follow the business media, you’ve read the stories. Manufacturing is returning to America! A combination of rising wages in China and rising energy prices is eroding the incentive to manufacture goods in China.

If this is true, it could be big news for North Carolina. We’re no longer the top manufacturing state in the country, as we were in 1990 (measured by the proportion of workers in manufacturing jobs), but manufacturing still matters here. It matters even more in the Triad, which is still the top manufacturing region in the state.

But a look at the data raises some questions, at least about the prospects for North Carolina. The claims of a manufacturing revival are predictions that could come true in spite of what the current data say. Even so, let’s see where we stand with the numbers.

Nationally, manufacturing has fared relatively well in the current expansion. Since payroll employment hit its low point in February 2010, total employment has risen 3 percent while manufacturing employment has grown 4.4 percent. Both figures are very low considering that they cover a period of more than two years, but the key is their relation to each other.

The picture is reversed in North Carolina. Overall employment growth in the state has been about the same as on the national level, about 2.9 percent since February 2010. But manufacturing employment has grown only 1.7 percent.

Why is our manufacturing sector growing so slowly? Some will point to taxes and regulation, no doubt, but the key factor is our mix of manufacturing industries.

Fifty-six percent of North Carolina’s manufacturing jobs are in nondurable goods plus furniture, as compared to 41 percent nationally. The difference used to be much greater, before the shrinkage of such nondurable industries as textiles, apparel and tobacco.

Industries that make durable goods are, on average, more dynamic and more productive; and they pay better wages. Durables include computers and electronics, machinery and transportation equipment. These industries tend to be more dependent on technology and innovation. Since 1990, labor productivity in durable goods (measured as output per hour of labor) has grown more than twice as fast as that of nondurables.

Not only does our durable/nondurable split work against us, but North Carolina’s signature durable-goods industry, furniture manufacturing, has long exhibited productivity growth even lower than that of nondurables.

The split has implications for labor costs as well. Labor accounts for a declining percentage of total costs in all manufacturing industries, but the decline is more than twice as big for nondurables as for durables. We often fear technology, but in the long run it’s been the fuel for both wage growth (what little we have) and employment.

Of course there are exceptions to the durable/nondurable split. Chemical manufacturing, which includes pharmaceuticals, is a nondurable industry that’s quite strong here and is obviously very focused on technology. But on the whole, the picture in North Carolina is that of a downsizing manufacturing base.

Why does this matter? Because the future of manufacturing in America is most likely an automated one. Manufacturing is increasingly a high-tech, high-margin proposition that demands higher-skilled workers than in the past.

Some manufacturing activity will return to North Carolina, but the question is whether we can once again be a manufacturing leader. Our reliance on low-margin industries, combined with the relatively low skill level of our workforce, implies that we have a lot of work to do. Andrew Brod is a research fellow in UNCG’s Center for Business and Economic Research and a member of The Business Journal’s Editorial Board of Contributors. Reach him at (336) 708-6435 or andrewbrod@uncg.edu. An archive of Dr. Brod’s columns is available at http://cher.uncg.edu.