The Great Recession & Manufacturing Jobs

United States and Utah

Manufacturing is an important piece of the economic pie.

The Great Recession started in December 2007 and ended in June of 2009. Those are the official dates. All industrial sectors of the economy were impacted. To better understand the effects of the business cycle on the manufacturing sector we need to put it in perspective - to set the stage, if you will. Manufacturing is a very important industry because it's where 'stuff' is made. Stuff we use to make other stuff; stuff that we use off the shelf; and stuff we sell to other countries.

Manufacturing has evolved through the years from a primary cog in the industrial revolution to an important, but smaller piece of the economic pie. In the U.S. two important phenomena have affected, and continue to affect, manufacturing. First is the shift in methods of production away from labor intensive to capital (machine) intensive processes. This happens largely through technological advances. Because of technology, machines replace labor. For example, painting cars in the automotive industry is now done by robots instead of workers with spray guns. Second, is the movement of domestic production to production of products outside the U.S. This movement was, and is, a result of capitalistic forces. Goods will be produced where costs are minimized. Labor costs "offshore" are less than in the U.S., resulting in the placement of production activities for many of the more labor intensive processes to where per unit labor costs are lower. In other words, the economy, through basic concepts of capitalism (profit and price mechanism) sends work where it can be done at a lower cost. Consumers buy 'stuff' primarily based on price, and the lower the price the more sold.

Manufacturing —A Little Background

Much has been said of the "demise" of the manufacturing industry in America. As mentioned above, technology and off-shoring have affected the industry, but remember the U.S. produces more manufactured goods than any other country. In terms of jobs, U.S. manufacturing employment peaked back in 1979 when 19.4 million workers toiled in the industry. In 2007 (pre-recession) the count of U.S. jobs in manufacturing was 13.9 million. Utah has fared much better as manufacturing employment has been growing in the state, increasing from 104,000 in the early 1990s to 128,000 in 2007. Yet at the national and state level, the industry accounts for an ever-decreasing share of total employment. In manufacturing's heyday nationally, one-quarter of all jobs fell in this sector. Now, that slice of the jobs pie is about 9.0 percent. In Utah, manufacturing's largest share of total jobs was 18 percent back in the 1960s. By 2007 it was down to 10 percent.

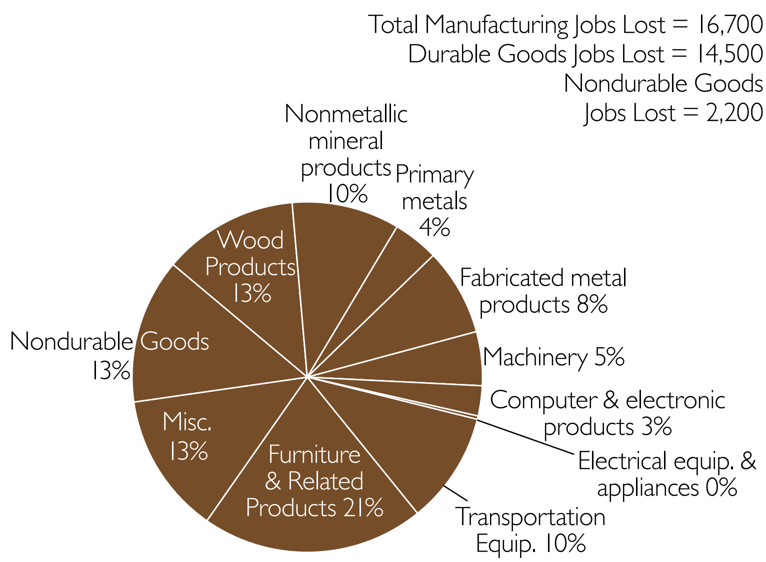
Before analyzing the industry through the recent recession, let's add another dimension to the review because it will come to play in a big way in the analysis. Manufacturing is the industry where things are made. It is very diverse, from breakfast cereal to steel girders for buildings. This diversity is classified in a structure that defines what businesses do, i.e. the product they make. The first broad classification differentiates the industry based on how long the goods produced are expected to last. Those goods with a three year or less life are considered non-durable goods, examples being food, paper, chemicals, and textiles. Those with longer life spans are considered durable goods such as heavy equipment, computers, fabricated metal, vehicles, etc.

What Happened to Manufacturing During the Recession

Generally, when the business cycle peaks, a slide in economic activity characterized by a loss of demand for goods and services follows. When the demand falls for goods produced by the manufacturing companies, the demand for workers drops off and employers cut back the number of workers. That means the loss of jobs. For the 18 month period of December

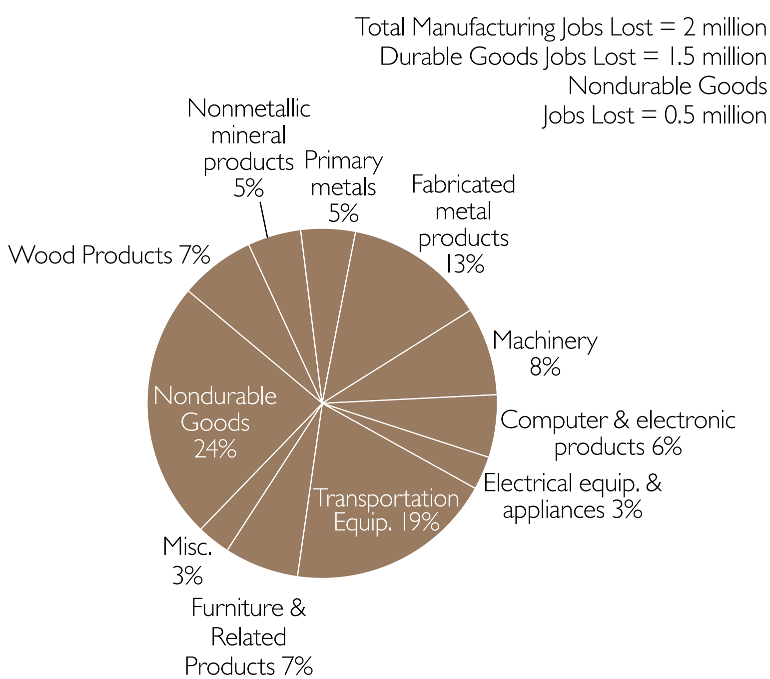
Utah Manufacturing Percent Job Loss by Sector in the Great Recession December 2007-June 2009

Source: Utah Department of Workforce Services.



United States Manufacturing Percent Job Loss by Sector in the Great Recession December 2007-June 2009

Source: U.S. Bureau of Labor Statistics.



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2007 through June 2009 the nation lost more than 2 million manufacturing employees, or 15 percent of the manufacturing workforce. In Utah the recession's impact dropped manufacturing employment from 129,400 to 112,700, a nearly 13 percent decline.

Durable Goods Manufacturing Takes the Biggest Hit

At the national level, 76 percent of the total 2 million lost manufacturing jobs were in durable goods. That's not an equal share as durable goods account for 63 percent of manufacturing employment, yet three-fourths of all losses were in that group. On the other hand, only 24 percent of job losses occurred in non-durable manufacturing. Hardest hit sectors in durable goods were transportation equipment, fabricated metal, machinery, wood products, and furniture. Transportation equipment (auto industry) lost 23 percent of its jobs. The other sectors listed lost workers because their products went to the construction industry, which in turn went south, due to little demand for building or furnishing homes.

In Utah, durable goods took an even harder hit than the nation. About 87 percent of all manufacturing jobs lost during the recession were in durable goods. That means durable goods made up 14,500 of the total 16,700 manufacturing jobs lost—a decline of 17 percent. During the 18-month recession, the durable goods industry sectors with the most job losses were furniture and related products (-3,430), miscellaneous manufacturing (-2,180), wood product manufacturing (-2,110), and transportation equipment (-1,700). Three of these four are tied directly to the construction industry. Non-durable goods manufacturing did lose about 2,200 jobs, a relatively small 13 percent proportion of the total 16,700 job loss.

That Was Then. What's Happening Now?

June of 2009 seems like a long time ago. It's been longer since the recession officially ended than the duration of the recession itself. So what's happened to the economy and manufacturing? The numbers tell us that there has been some improvement, but not by much, and not widespread over all sectors. The "recovery" is taking place but at a very, very slow pace. U.S. manufacturing employment, on a moving year-over month comparison, has been positive each month since October 2009. Job growth rates have been in a range from 0.6 percent to 1.9 percent.

The picture in Utah is brighter. Utah's economy is adding jobs at about a 2.2 percent pace (June 2011). Manufacturing job growth has been a little slower at 2 percent through the first half of 2011. During the June 2010 to June 2011 period, 2,240 manufacturing jobs were added lifting employment from 111,490 to 113,730. Remember that 16,700 manufacturing jobs were lost during the 18-month recession. Utah's recovery will be slow. Full recovery may take years, but it will happen.

For more information on the nation and the recession's effects on manufacturing see:

http://www.bls.gov/opub/mlr/2011/04/art5full.pdf