

Manufacturing and What it Means to Us

Written by Dan Juneau
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October 5 has been designated “Manufacturing Day” in the U.S. It is appropriate to reflect upon the role manufacturing plays in our economy nationally and here in Louisiana.

Our national economy is trying hard to recover from one of the longest and deepest recessions in our history. Over the last few years, economic indicators often take two steps forward and three steps back. Stubborn unemployment figures and negative wage levels seem to keep the U.S. in a state of economic stagnation.

The housing industry leads most economic recoveries. As workers return to work and replenish their earnings and savings, they act on the large financial decisions they have postponed. The top item on that list is buying a home. As housing flourishes so do the industries that provide the building materials and furnishings for homes—and economic expansion takes off. This recession has been very different. Housing continues to languish and even decline in some months. Fortunately, another industry—manufacturing—is assuming the role of catalyst in the economic recovery.

For years, economists and pundits have written off manufacturing as a dying industry. It certainly has had its problems in years past, some from cutthroat global competition and a considerable amount from government-imposed regulations that increase costs and hinder productivity. Perhaps more than any other industry, manufacturing has made a comeback from the huge employment losses spawned by the recent major recession. Without the good-paying jobs and significant investments generated by our U.S. manufacturers, the dismal economic numbers we continue to see would be significantly worse.

According to the U.S. Bureau of Economic Analysis, manufacturing comprises almost 20 percent of Louisiana’s economic output and directly employs over 7 percent of our workforce. Those fortunate workers are compensated 84 percent higher than other nonfarm workers in the state are—over \$75,000 per worker on average, some \$35,000 higher than other workers.

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Exports provide a substantial portion of Louisiana's economic activity. Approximately 60 percent of Louisiana's exports come from manufacturing. Over 140,000 of our workers are employed producing and distributing our manufactured exports. Many Louisiana residents probably assume that most of our state's companies engaged in exporting are large multi-national companies and there is a void in small business involvement. The opposite is actually true. Small businesses compromise 86 percent of our exporters.

Almost all manufacturing is "value-added." Companies take raw materials and use them to develop products that are more valuable or take several individual products and combine them into items that are more sophisticated. Louisiana is blessed with several key elements that give us an advantage in manufacturing. Raw materials are abundant in this state. Oil and gas, agricultural crops, timber and non-petroleum minerals exist in abundance. Those items comprise the feed stocks for our manufacturing industries in the state. However, many of those industries wouldn't be here if it were not for the multitude of deep-water and shallow-water ports we have along the Mississippi River and our coastal communities.

One particular factor is driving the renaissance in manufacturing in Louisiana and across the nation: the abundance of shale gas that is lowering the key cost of energy for manufacturers. The Haynesville Shale play in North Louisiana and other shale plays in other regions are stabilizing energy costs and prompting manufacturers to expand manufacturing in the U.S. and in some instances "reshoring" it from foreign countries.

Manufacturing is not without its challenges and many of them are government-induced. High tax rates, ever-increasing regulatory costs, lack of basic skill training, and government impediments to domestic energy production cloud the future of American manufacturing. That doesn't have to be the case. If government will collaborate with manufacturing by removing those obstacles, the great success story of a rebounding manufacturing sector will continue and our economy will benefit greatly.

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