The Outlook for U.S. Manufacturing

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Overall performance
Manufacturing employment decreased by 15,000 jobs over the past twelve months.
Manufacturing workers have suffered steep employment declines over the past several years.
When changes in nonfarm employment are considered, the most recent manufacturing employment downturn is not unprecedented.
Manufacturing job losses are geographically wide-spread and do not seem to be related to concentration of manufacturing employment.
Manufacturing output has been rising since the fall of 2003.
Manufacturing output has expanded at a slower pace than previous cycles.
However, productivity within the manufacturing sector has grown at a faster rate than during any previous expansion.
Manufacturing output in the United States has never been higher
Manufacturing capacity utilization has been improving since June 2003.
New orders and shipments for capital goods have been doing very well.

Nondefense capital goods, excluding aircraft and parts
Billions of dollars (SA)
While more cyclical, profits in manufacturing have out-performed returns in nonfinancial corporate businesses.
Industry performance
Real oil prices are well above levels of the past twenty years.

Real West Texas Intermediate oil price
real dollars per barrel (2005 dollars)

1970 '75 '80 '85 '90 '95 '00 '05
This has translated into a 75% increase in mining and oil and gas field machinery output over the past three years.
Capacity utilization for the machinery sector rose to the highest rate in over twenty-five years.
The Caterpillar 797B costs over $4,000,000
Construction equipment production has improved markedly.
Heavy-duty truck order books for 2006 are full, in anticipation of EPA regulatory changes that will take effect on January 1, 2007.
Aerospace production remains robust

Industrial output for aerospace products and parts
percent change from year ago

1990  '91  '92  '93  '94  '95  '96  '97  '98  '99  '00  '01  '02  '03  '04  '05  '06
The high-tech sector’s output growth has been at a solid rate

**Industrial output for computers, communications equipment, and semiconductors**

Percent change from year ago

- Yearly data from 1990 to 2006

- The chart shows a trend of fluctuating outputs with notable peaks and troughs, indicating variability in growth rates.
Steel industry growth has been slowing from extremely high rates.
New vehicle prices have been under pressure since 1997.
Light vehicle sales have shown no growth for the past eight years.
Passenger car sales have been moving higher.

Passenger car and light truck sales

millions of units saar

13
12
11
10
9
8
7
6
5
4
3

1990  '91  '92  '93  '94  '95  '96  '97  '98  '99  '00  '01  '02  '03  '04  '05  '06

Light trucks

Passenger cars
Light truck market share has been falling since August 2004.
While passenger car production has been relatively stable, light truck production has been falling.
GM and Ford produce some of the largest vehicles
Since 1999, General Motors’ sales declined by nearly a million vehicles.
Ford’s sales declined by nearly 1.3 million vehicles
DaimlerChrysler’s sales fell by nearly half a million vehicles
So with losses approaching 3 million units, the Big-Three’s market share has deteriorated.
So with sales slipping for the Big-Three, foreign nameplate models have risen by over two million units.
However “new domestic” production rose by over 900,000 vehicles.

### Vehicle sales - foreign transplants

**millions of units**

<table>
<thead>
<tr>
<th>Year</th>
<th>Sales</th>
</tr>
</thead>
<tbody>
<tr>
<td>1996</td>
<td>2.2</td>
</tr>
<tr>
<td>1997</td>
<td>2.4</td>
</tr>
<tr>
<td>1998</td>
<td>2.6</td>
</tr>
<tr>
<td>1999</td>
<td>2.8</td>
</tr>
<tr>
<td>2000</td>
<td>3.0</td>
</tr>
<tr>
<td>2001</td>
<td>3.2</td>
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<td>2002</td>
<td>3.4</td>
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<td>3.6</td>
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<tr>
<td>2004</td>
<td>3.8</td>
</tr>
<tr>
<td>2005</td>
<td>4.0</td>
</tr>
<tr>
<td>2006</td>
<td>3.8</td>
</tr>
</tbody>
</table>
Buy American

2005 Ford Mustang

65% U.S. and Canadian parts

2005 Toyota Sienna

90% U.S. and Canadian parts
Domestic content for the Big Three has been declining, while domestic content for the “new domestics” has been rising.

Average percentage of auto parts made in the U.S. and Canada for cars sold in North America

<table>
<thead>
<tr>
<th>Company</th>
<th>1997</th>
<th>2005</th>
</tr>
</thead>
<tbody>
<tr>
<td>GM</td>
<td>90%</td>
<td>80%</td>
</tr>
<tr>
<td>Ford</td>
<td>70%</td>
<td>60%</td>
</tr>
<tr>
<td>DaimlerChrysler</td>
<td>75%</td>
<td>70%</td>
</tr>
<tr>
<td>Toyota</td>
<td>45%</td>
<td>50%</td>
</tr>
<tr>
<td>Honda</td>
<td>60%</td>
<td>65%</td>
</tr>
<tr>
<td>Nissan</td>
<td>35%</td>
<td>40%</td>
</tr>
</tbody>
</table>
Light vehicle production has been declining at a more moderate pace than focusing on Big-Three losses would suggest.
Regional analysis
Construction and nondurable manufacturing have the largest employment concentration in the Southeast.
Nondurable manufacturing and information have the largest employment concentration in Georgia.

Georgia employment distribution (2004)

100 = national average share

- Farm
- Natural resources and mining
- Construction
- Manufacturing
- Manufacturing - durable
- Manufacturing - nondurable
- Trade transportation and utilities
- Information
- Financial activities
- Professional & business services
- Educational & health Services
- Leisure and hospitality
- Other services
- Government
Georgia’s employment has been doing relatively better than the nation.
Georgia’s manufacturing has been close to the experience of the nation, doing a bit better in durables and a bit worse in nondurable
Summary

• Manufacturing continues to expand at solid rates
• Most industries are doing very well
• The domestic nameplate automobile manufacturers are struggling
• The domestic nameplate supplier base are also deeply affected
• Outside of the Big Three the rest of the domestic automobile producers are doing well