



THE DISPARATE IMPACT OF RESHORING

RESHORING: BRINGING JOBS BACK TO THE U.S.

There is much debate on both the extent and actual economic impact of companies that are reshoring jobs back to the U.S. As Morris Cohen, professor at The Wharton School, notes, “Reshoring isn’t a myth, but it’s not a phenomenon either.” While reshoring may not be widespread, where it is occurring, its impact on local economies is tangible in the form of jobs added. This impact is disproportionately represented in Southeast markets given the region’s relative low cost of doing business and emphasis on manufacturing.

COMPELLING REASONS TO RESHORE

Major companies that have reshored include General Electric (GE) Appliances, Ford, Whirlpool, and Wal-Mart. In 2009, GE Appliances transferred its water heater production from China to Louisville, KY while Wal-Mart is currently implementing its \$250 billion “Made in America” initiative through 2023. According to the Reshoring Initiative, the most common issues that drive companies to reshore their jobs in the current economic climate can be seen in **Figure I**.

Per the Reshoring Initiative, the highest incidence of reshored cases has occurred among Electronics/Appliances/Components, Computers/Electronic, and Apparel manufacturers. The majority of jobs were reshored from China, Mexico, and India with fewer cases returning from Canada, Japan, Taiwan, Korea, Hungary, and Vietnam.

Reshoring would most benefit companies whose industries change rapidly, whose products’ market value do not justify shipping costs, and who are not employing offshoring as a key strategy for accessing global markets. **Figure II** on the next page, illustrates the types of manufacturers that chose to inshore operations, categorized by their product type.

Overall, the reshoring option has become a compelling strategy for businesses as the average cost to manufacture goods in the U.S. is approximately 5% higher than in China, according to BCG’s August 2014 Global Manufacturing Cost-Competitiveness Index. Factors contributing to this trend include: fracking depressing oil and gas costs, rising wages in China, stagnant wages in the U.S., the weak U.S. dollar, and increasing productivity in the U.S.

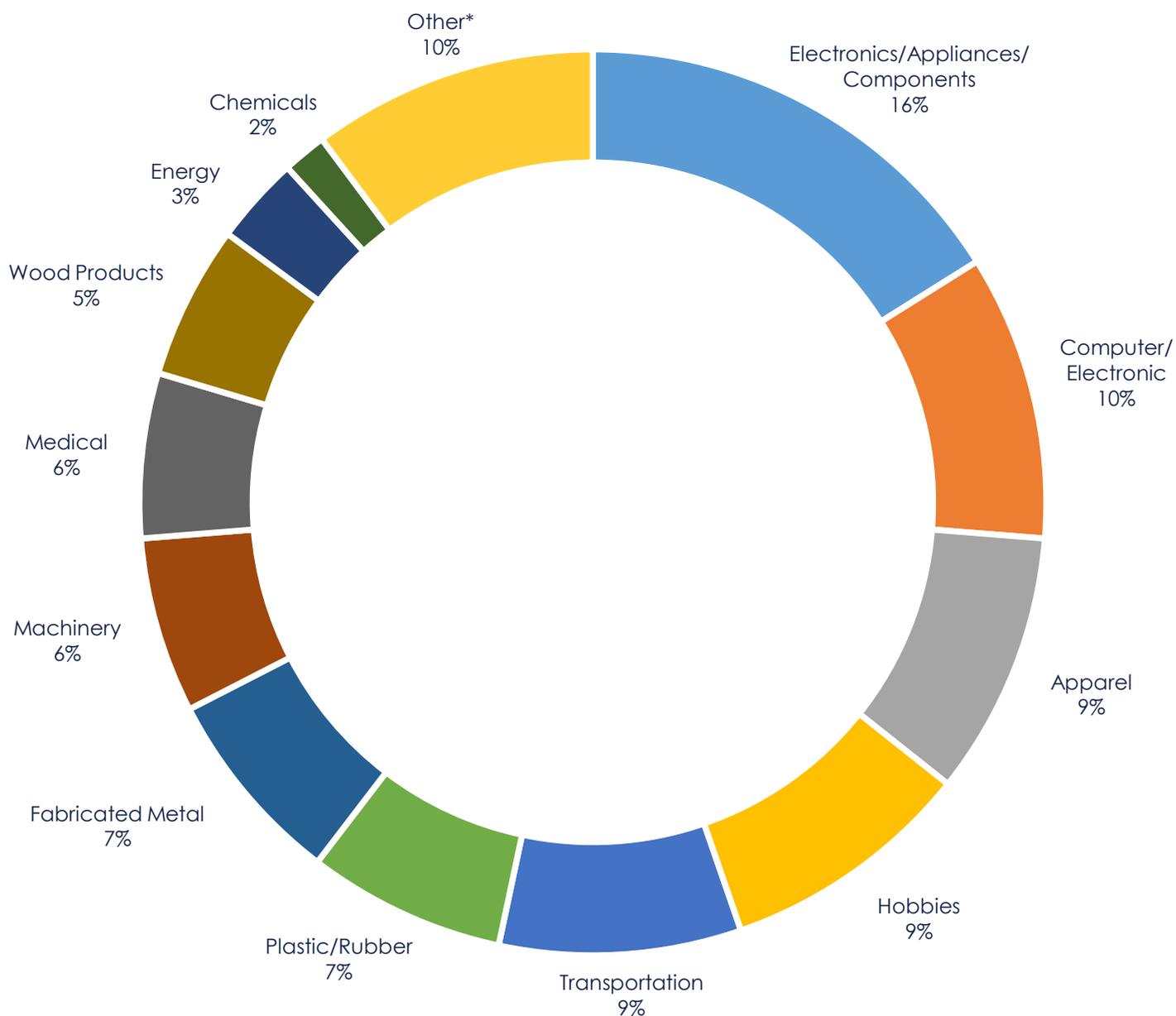
FIGURE I: TOP TEN REASONS FOR COMPANIES TO RESHORE

REASON RANK	CONS OF OFFSHORING	PROS OF RESHORING
1	Lead time	Skilled Workforce
2	Quality/Rework/Warranty	Image/Brand
3	Rising Wages and Currency Variation	Government Incentives
4	Freight Cost	Automation/Technology/3D Printing
5	Total Cost	US Energy Prices
6	Inventory	Redesign
7	IP Risk/Supply Chain Interruption Risk	Higher Productivity
8	Delivery	Research & Development
9	Communications	Lean
10	Green Considerations/Loss of Control	Ecosystem Synergies

Source: Reshoring Initiative Library

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FIGURE II: PERCENT OF RESHORED CASES BY PRODUCT TYPE



Source: Reshoring Initiative, March 2015

*Includes Castings, Primary Metal, Non-Metallic Mineral Products, Food, Services and Home/Office Products



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MIXED REVIEWS OF RESHORING

An estimated 60,000 manufacturing jobs were added to the U.S. economy in 2014 as a result of foreign direct investment and reshoring, per the Reshoring Initiative, while only 30,000 to 50,000 jobs were offshored. However, The Institute for Research on Labor and Employment (IRLE) projects that offshoring and domestic outsourcing will expand as the economy continues to grow. The reshoring process also includes major hindrances such as: the extensive analysis required to decide to reshore, the complicated execution process, a skilled labor force shortage in the U.S. (particularly in STEM fields), and the costs associated with conformance to U.S. regulations.

The overarching takeaway of recent trends is that the operations decisions that companies are making have become more complex than what occurred in the 2000s, when companies in certain industries offshored jobs seemingly en masse. The current calculation extends beyond the "narrow quantitative-cost measures" that companies had previously relied upon per PWC's, "Going beyond reshoring to right-shoring" report. Companies are increasingly executing a mixed strategy of reshoring select operations while offshoring others, thereby mitigating the economic impact of reshoring. As Morris Cohen, professor at The Wharton School, notes, "Reshoring isn't a myth, but it's not a phenomenon either." However, in the specific cases where reshoring is occurring, the jobs added to local economies does have a major impact.

More importantly, this impact is disproportionately represented in Southeast markets given the region's relative low cost of doing business. According to Area Development's survey of site selection consultants, the top 10 states for doing business in 2015 rank in order as follows: Georgia, Texas, South Carolina, Tennessee, Alabama and Florida (tied for fifth), Indiana, North Carolina, Louisiana, Ohio, and Kentucky.

This ranking takes into account the states' overall cost of doing business, regulatory environment, labor climate, infrastructure, and global access. Per their Overall Infrastructure & Global Access ranking, Tennessee and Georgia rank as second and third. As a result of the business climate in the Southeast, reshoring is prevalent in this region. **Figure III** illustrates the number of jobs returned to the Southeast per the Reshoring Initiative's study.

FIGURE III: JOBS RESHORED BY STATE 2007-2014

STATE	NUMBER OF JOBS	NUMBER OF COMPANIES
South Carolina	7,780	7
Georgia	3,005	7
Tennessee	2,490	11
North Carolina	1,020	14
Florida	611	12
Mississippi	540	5
Alabama	397	4
TOTALS/AVG	15,843	60

Source: Reshoring Initiative Library

Note: Data covers cases from 2007 to August 2014

Overall, while reshoring may not be the big boon for the U.S. economy as some have touted, it certainly is a positive indicator for job growth in the Southeast.

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