

## **Focus on manufacturing: Bringing work back to Memphis**

### **Economy could benefit from rise in offshore costs**

By Ted Evanoff

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Memphis and the Mid-South could gain a wave of reshoring jobs as China's rising costs push U.S. manufacturers back to America, business analysts say.

Chinese factory wages have climbed steadily, nearing U.S. levels. And oil prices have risen almost tenfold since trading at \$10 per barrel in 1998, making shipping to the United States expensive.

Now, managers at dozens of U.S. companies are looking at reshoring -- bringing back to the United States work that had been offshored to China.

The Memphis area, where a third of the industrial jobs have slipped away since the mid-1990s, looks desirable for its relatively low wages and taxes and the big logistics hub built around FedEx.

No one knows if a few hundred new jobs will appear, or many thousands, but experts say the trend has begun.

"We project a significant reshoring in the United State," said site relocation expert John H. Boyd Jr.

"Not all the manufacturing jobs that were offshored are coming back," said Boyd, a principal in The Boyd Co., Princeton, N.J., a firm that helps companies find expansion sites. "But some of the final assembly will come back for a variety of reasons."

Memphis already has had a taste, Boyd said, landing the 1,240-employee plant of Swedish appliance maker Electrolux.

While that plant isn't reshoring from China, Boyd said it's coming to Memphis for many of the same reasons.

Mexico looks less desirable for manufacturing. It's been roiled by drug cartels and hidden costs, such as high turnover.

America is stable by comparison, he said, and the Memphis area stands out for its business costs.

"The big driver for U.S. manufacturing will be health care products and medical devices," Boyd said.

Operating a 325-employee medical device plant would cost about \$23.1 million per year in Memphis. That's \$3 million less than in Minneapolis, and \$7 million less than Los Angeles, but exceeds some other mid-tier Sun Belt cities including Louisville (\$22.6 million), Birmingham (\$22.9 million) and San Antonio (\$23 million), according to a Boyd Co. study.

Boston Consulting Group, a management adviser, reached a conclusion about reshoring similar to Boyd's, but contends the impact will be far greater, and bring back \$100 billion worth of annual output.

Reshoring will bring back some transportation goods, electrical equipment and appliances, the consulting firm predicts, along with furniture, plastic and rubber products, machinery, fabricated metal products and electronics.

Several Southern states including Tennessee "will turn out to be among the least expensive production sites in the industrialized world" for an array of these reshored products, the consulting firm last month told the Journal of Commerce, a New York business newspaper.

Bringing in new work -- especially work that requires no college-level training -- would lift Memphis.

America's recession raked hard on people whose formal education ended in 12th grade. In metropolitan Memphis, only 27 percent of people between the ages of 25 and 44 have a college degree, compared to 36 percent in Nashville.

That's one reason the jobless rate in the Memphis area -- 10.5 percent in September -- exceeds Nashville's 8.5 percent.

Memphis Mayor A C Wharton figures the education and social problems here will hold back the area when the U.S. rebounds.

"Even when the recovery occurs Memphis will have a disproportionately large number of individuals who, even on the best of days, won't be able to find a job," Wharton said.

While it's clear reshoring could help the city, some analysts doubt the United States will see an industrial surge.

"I don't think that the pattern is going to change. There's always going to be a lower-cost producer than us," said economist John Gnuschke of the University of Memphis.

The pattern has been stark. Since the mid-'90s, nearly 400,000 industrial jobs have vanished in Arkansas, Mississippi and Tennessee, along with some 5.5 million lost in all the other states.

Just why they all vanished isn't clear. Alliance for American Manufacturing, a Washington trade group funded by labor unions, estimates production in China displaced 1.9 million factory jobs in the United States since 2001, including 99,000 in Arkansas, Mississippi and Tennessee.

Two other factors weighed in as well. Some plants closed, unable to compete. Rivals, many of them American, absorbed the customers. And many survivors invested in machines that displaced workers and boosted productivity, a clear trend in metro Memphis.

Between 2001 and 2010, the value of goods made in Memphis-area plants rose 42 percent to nearly \$8 billion per year, while the industrial workforce declined 24 percent to 44,100 workers.

Boyd, however, says America is recalculating the cost of offshored work.

Managers know automation is a cost saver. It can be combined with short delivery times made possible by producing in America the items consumed here to give U.S. goods a cost edge. Typically, a product made in China takes 21 days to reach its U.S. destination.

"Costs in China have gone up in recent years. And there's a lot of concern about piracy in China," Boyd said. "In many respects China is a victim of its own success."

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