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# Manufacturing Is Surprising Bright Spot in U.S. Economy

By FLOYD NORRIS

For the first time in many years, manufacturing stands out as an area of strength in the American economy.

When the Labor Department reports December employment numbers on Friday, it is expected that manufacturing companies will have added jobs in two consecutive years. Until last year, there had not been a single year when manufacturing employment rose since 1997.

And this week the Institute for Supply Management, which has been surveying American manufacturers since 1948, reported that its employment index for December was 55.1, the highest reading since June. Any number above 50 indicates that more companies say they are hiring than say they are reducing employment.

There were new signs Thursday that the overall jobs climate was improving, as the Labor Department reported that new claims for unemployment benefits fell last week and a payroll company's report showed strong growth in private-sector jobs in December.

As stores have filled with inexpensive imports from China and other Asian countries, the perception has risen that the United States no longer makes much of anything. Certainly there has been a long decline in manufacturing employment, which peaked in 1979 at 19.6 million workers. Now even with hiring over the last two years, the figure is 11.8 million, a decline of 40 percent from the high.

But those numbers obscure the fact that the United States remains a manufacturing power, albeit one that has been forced to specialize in higher-value items because its labor costs are far above those in Asia. The value of American manufactured exports over a 12-month period peaked at \$1.095 trillion in the summer of 2008, just before the credit crisis caused world trade volumes to plunge. At the low, the 12-month figure fell below \$800 billion, but it has since climbed back to \$1.074 trillion. Those figures are not adjusted for inflation.

In total exports, including manufactured goods as well as other commodities like agricultural products, the United States ranked second in the world in 2010, behind China but just ahead of Germany. For the first 10 months of 2011, Germany is slightly ahead of the United States.

The United States is particularly strong in machinery, chemicals and transportation equipment, which together make up nearly half of the exports. Exports of computers and electronic products are growing, but are well below their precrisis levels. Production of cheaper computers and parts shifted to Asia long ago.

Just how long the rise in manufactured exports can last depends, in part, on the health of other economies. The euro zone no longer takes as large a share of American exports as it once did, but it is still a major customer. A recession there this year, as has been widely forecast, would hurt all major exporters, including the United States.

Similarly, the strong exports provide a stark reminder of how vulnerable this country could be to protectionist trade wars. The Doha round of world trade talks, which was supposed to result in the lowering of more trade barriers, has stalled. And last month China imposed punitive duties on imports of American large cars and sport utility vehicles, which total about \$4 billion a year.

That move was seen as retaliation for United States requests that the World Trade Organization rule that Chinese subsidies for its solar and poultry industries violated international law. The Chinese denounced those requests as protectionist.

The American government denies that, of course. "Part of a foundation of a rules-based system is dispute settlement," said Ron Kirk, the United States trade representative, in an interview with Reuters after the Chinese announced the new tariffs. "That's what we think is so important about the W.T.O. How China reacts to that is up to China. But I just cannot buy into the argument that our standing and protecting the rights of our exporters and workers is somehow igniting a trade war or being protectionist."

Since employment in the United States hit its recent low, in February 2010, the economy has added 2.4 million jobs through November, of which 302,000 were in manufacturing. With government payrolls shrinking, and financial services jobs also fewer, manufacturing employment has played an important role in keeping the economy growing. It also is helping that construction employment appears to have hit bottom. In the first 11 months of 2011, it is up a small amount.

To be sure, the gains in manufacturing employment and exports have come after sharp declines during the recession and credit crisis. There are still 6 percent fewer manufacturing

jobs than there were when President Obama took office at the beginning of 2009, and it seems very unlikely that he will be the first president since Bill Clinton, in his first term, to preside over growing manufacturing employment during a four-year term.

During George W. Bush's two terms, the number of manufacturing jobs fell by 17 percent in the first four years and by 12 percent in the following four years. The number declined by 1 percent in Mr. Clinton's second term.

The Institute for Supply Management survey of manufacturers has shown more companies planning to hire than to fire in every month since October 2009. That string of 27 months is the longest such string since 1972, but remains well behind the longest one, 36 months, which ended in December 1966.

Over all, that survey has indicated that a plurality of companies has believed business is getting better for 29 consecutive months, and December's reading of 53.9 was the strongest since June.

This summer, one widely watched part of the Institute for Supply Management survey showed that a small plurality of companies reported new orders were falling, a fact that helped to stimulate talk of a double-dip recession. But the latest reading, of 57.6, indicates widespread strength in new orders.

In an economy where there is widespread concern over consumer spending, and in which government spending and payrolls are under heavy pressure, manufacturing has become a bright spot. It is not enough to produce a strong rebound, and it remains vulnerable to weakness overseas. But it has helped to keep a weak economic recovery from turning into a new recession.

*Floyd Norris comments on finance and the economy at [nytimes.com/economix](http://nytimes.com/economix).*