

# US WEEKLY ECONOMIC UPDATE



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# US Economic and Investment Perspectives

## Manufacturing Jobs Still Declining in Industrialized Economies

Manufacturing payrolls in the industrialized economies fell again in 2004, extending a trend that has been in place for the past decade. According to preliminary data, manufacturing employment in the United States, Europe and Japan declined by 880,000 in 2004. It did rise in several industrialized economies, notably Canada and Australia, but in each case the number of new manufacturing jobs was less than 20,000.

Final figures for the top 20 countries will not be published for several months because many key emerging economies such as China have yet to publish payroll data. But the global trend is clear: Factory jobs continue to disappear in large numbers across a wide range of industrialized economies.

Significantly, these losses are not only occurring where economic growth has been weak, as in Europe and Japan. It is also true of the US, where it has been strong and where the declining dollar has made the economy more competitive internationally. This suggests just how difficult it will be to reverse the tide.

Higher productivity has undoubtedly played a major role in this phenomenon. Last year, US manufacturing productivity grew nearly 5%, matching the fast gain of 2003 and further curtailing the need for factory job creation.

Numerous industries have also shifted production within their global manufacturing platforms toward developing economies, where costs are lower. As platforms have shifted, so too have jobs—a phenomenon which will likely continue indefinitely, in our view.

### Europe's Experience

Manufacturing job losses have been widespread in Europe, afflicting the UK, France, Italy, Spain, the Netherlands and Sweden. However, the losses

continue to be concentrated in Germany, where another 125,000 manufacturing jobs disappeared last year. In the 1990s, Germany employed as many manufacturing workers as the UK, France and Spain combined. Today, it employs two million fewer people. Part of the decline reflects the job losses that followed the reunification of East and West Germany. (Unfortunately, there is no precise count as to the number of jobs lost in each.)

The loss of manufacturing jobs also spans many industries, notably clothing, textiles, electrical equipment and metals. Europe will likely continue to lose jobs this year, given expectations for relatively modest growth and a strong currency. The largest decline should continue to be in Germany, where a number of companies are working with unions to pare staff and shift production elsewhere.

### Japan's Experience

Japan's manufacturing job losses totaled a staggering 350,000 last year—almost 100,000 more than the prior year. It was Japan's thirteenth consecutive annual loss.

The country has been bleeding manufacturing jobs for the past decade as companies move to global platforms and shift production overseas. Initially, the jobs were shifted to other industrialized economies as Japan's manufacturers established affiliates closer to their new customer bases and tried to mitigate the negative effects of currency appreciation. More recently, Japanese manufacturers have moved production to other Asian locations including China. Given the very weak growth outlook for Japan and the relatively high cost of domestic production, further manufacturing job losses look inevitable, in our view, for 2005.

### United States Experience

The US lost more than 150,000 manufacturing jobs last year. The decline ran counter to our forecast. Indeed, a year ago we thought the odds were high for a modest gain in 2004, assuming the combination of strong economic growth and a competitive

currency would encourage US and foreign multinationals to produce in the US and employ a greater number of people there. We were wrong.

The breadth of the fall in manufacturing payrolls was as surprising as the total numbers. According to the Bureau of Labor Statistics, 15 of the 18 manufacturing industries reported declines in payrolls last year. The apparel and textile industry lost roughly 50,000 jobs, as did the two technology industries, computers and electronic products and electrical equipment and appliances. Chemicals, food manufacturing, printing, primary metals and transportation equipment also experienced substantial losses.

One of the primary reasons for the US losses is that the price adjustment brought about by the dollar decline has simply been too small. As we noted two weeks ago, dollar prices for imported automobiles are up 2% over year-ago levels, while those for other

consumer goods are up around 0.5%. Prices of imported capital goods are down 1.2%.

The rise in import prices has been far less than is implied by the decline in the foreign exchange value of the dollar. This is because foreign producers, angling to retain a greater market share, have been willing to absorb some of the currency hit in their margins.

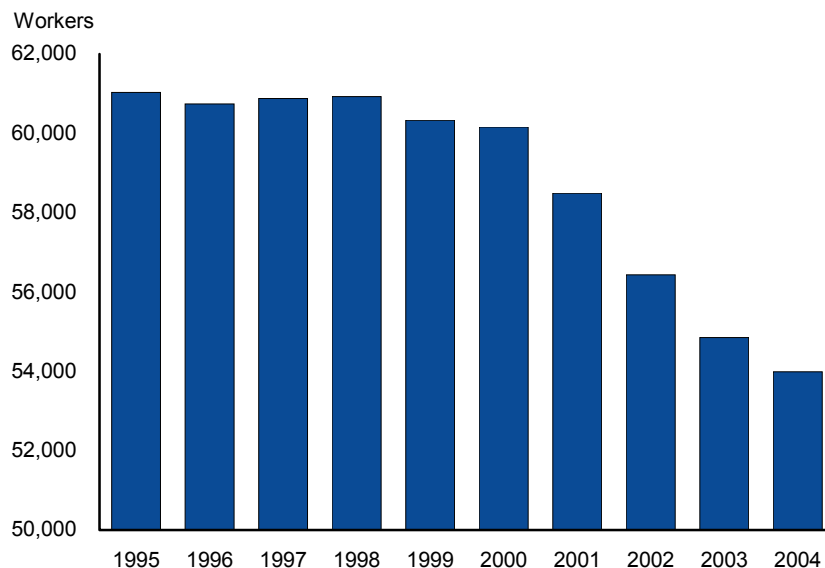
We still expect the US to eventually reap the benefits of the realignment of exchange rates. But it now appears it will take more dollar weakness and more time for those jobs to materialize. The size of the recovery in factory jobs is also likely to be less than we initially expected because some US industries will continue to migrate overseas for years to come.

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## Display 1: Factory Jobs Continue To Disappear in Developed Markets Manufacturing Employment in Industrialized Countries\*



\* US, Canada, Japan, Europe and Australia

Source: Bloomberg L.P. and Alliance Capital Fixed Income, February 18, 2005

***Factory jobs continue to disappear in industrialized economies, reflecting slow growth, strong productivity gains, and a shift in the global manufacturing platform toward Asia and Eastern Europe.***

***According to our analysis, nearly 865,000 jobs were lost in 2004—bringing total job losses over the past five years to 6.3 million.***

## Display 2: US Factory Jobs Declined Again in 2004

Total Change in US Manufacturing Payrolls By Industry: Increase/(Decrease) 1994–2004

	1 Year	5 Years	10 Years
Wood Products	11.3	(71.8)	(12.2)
Nonmetallic Mineral Products	10.6	(36.4)	(0.5)
Primary Metals	(11.4)	(159.3)	(164.6)
Fabricated Metal Products	18.7	(230.5)	(68.2)
Machinery	(7.9)	(324.7)	(237.6)
Computer & Electronic Products	(29.0)	(454.7)	(324.7)
Electrical Equipment & Appliances	(12.7)	(141.3)	(141.9)
Transportation Equipment	(10.8)	(323.8)	(173.1)
Furniture & Related Products	(0.4)	(92.3)	(28.1)
Food Manufacturing	(18.8)	(52.5)	(42.2)
Beverage & Tobacco Products	(5.6)	(14.2)	(10.5)
Textile Mills	(22.8)	(158.6)	(239.3)
Textile Product Mills	(1.5)	(39.4)	(40.9)
Apparel	(27.3)	(270.8)	(571.9)
Printing & Related Support Activities	(15.3)	(149.4)	(137.2)
Petroleum & Coal Products	(1.5)	(14.9)	(31.2)
Chemicals	(19.3)	(95.7)	(117.7)
Plastics & Rubber Products	(8.9)	(142.2)	(83.5)
<b>TOTAL</b>	<b>(152.7)</b>	<b>(2,772.5)</b>	<b>(2,425.5)</b>

Source: Bureau of Labor Statistics and Haver Analytics, February 18, 2005

***We were wrong. A year ago, we thought the combination of strong growth and a weak US dollar would spur job growth in the US manufacturing sector. Although growth was solid, the manufacturing sector lost another 150,000 factory jobs last year.***