The Return of Local Manufacturing

May 06, 2022

Some economists have suggested that the global economy made a significant shift due to the rippling effects of the ongoing pandemic, which exposed some of the risks of the way manufacturing has been conducted for the past 20 years. At issue is globalization, which can be broadly defined as wealthy countries in North America and Europe applying their technology but outsourcing the manual part of their assembly to low-cost labor markets like China and Mexico.

The most visible impact of this arrangement was the loss of manufacturing jobs in high-labor-cost countries like America and in Europe. In the U.S., there were 19.6 million manufacturing jobs in 1979, compared with 12.6 million now. This, in turn, gave companies the power to squeeze salaries across the economy—which is most visible in the dramatic decline in private sector unionization. Union workers represented 24% of payrolls in 1973; today that figure is 6.1%.

When Covid hit, the complicated supply chains that made globalization possible either collapsed or were significantly disrupted, and then came Russia's invasion of Ukraine. It's a nice savings if a chip maker can outsource assembly to Taiwan, to workers who make 66% of what they would have to pay a comparable American. But it becomes a bigger expense if the delivery of the finished chips is delayed or disrupted.

The shift that is quietly becoming an economic topic of conversation is not about the end of globalization, but instead a movement to bring manufacturing back from Asia closer to home, to Mexico or to some of the U.S. states hardest hit by the movement to outsource manufacturing. Workers in North America can expect to be in higher demand and be paid more than they have been in recent decades. Yes, this will cause prices to go up, but it will protect U.S. and European manufacturing from sudden, painful disruptions in their supply chains.

Sources:

https://www.advisorperspectives.com/articles/2022/04/12/eleven-themes-for-the-new-global-economy-part-1

https://www.advisorperspectives.com/articles/2022/04/13/eleven-themes-for-the-new-global-economy-part-2

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Please feel free to forward this article and offer to anyone you know who might have financial questions or need some unbiased advice. Most financial advice is sales advice. In stark contrast, we are fee-only (non-commissioned) fiduciary advisors. We just provide truthful, unbiased advice to our clients.

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