Making it in America: US competitiveness and revitalization of manufacturing

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Manufacturing is a bellwether of competitiveness in the global economy

US manufacturing industries employ...

9% of US workforce

... making outsized direct contributions to the US economy...

- 12% GDP
- 20% net capital stock
- 35% productivity growth

- 55% patents
- 60% exports
- 70% R&D spend

... and numerous indirect contributions

- 55% spillover effect on services
- 25% strengthening of local economies and business ecosystems

SOURCE: McKinsey Global Institute analysis
### Opportunities to improve US competitiveness as a manufacturing location

**Key metrics**

#### Firms
- Is the location conducive to tapping market growth?
  - Market size vs. top 15 manufacturing nations
  - Market growth vs. top 15 manufacturing nations
  - Local supplier quality
  - Local supplier availability

#### Institutions
- Does the location provide strong institutions and a business-friendly environment?
  - Ease of doing business
  - Statutory corporate tax rate
  - Availability of capital
  - Incentives for investment
  - Competition regulation
  - Regulatory transparency and flexibility

#### Infrastructure
- Does the physical and digital infrastructure support business needs?
  - Quality of road infrastructure
  - Quality of port infrastructure
  - Quality of rail infrastructure
  - Electricity cost
  - Natural gas cost
  - Adoption of digital technologies

#### Ideas
- Is there a strong innovation ecosystem?
  - Protection of intellectual property
  - Public and private R&D spend
  - University-industry collaboration in R&D

#### People
- Does the location provide skilled workers and does it attract and retain talent?
  - Availability of scientists and engineers
  - Size of labor pool
  - Ability to attract and retain talent
  - Flexibility of labor market
  - Cooperation in labor-employee relations
  - Employee training

**US position relative to other developed economies**

**Trend**

*SOURCE: WEF; OECD; IMD; POLES data; EIA; IHS; McKinsey Global Institute analysis*
Declining competitiveness is putting pressure on the industrial base—larger firms are better able to manage the pressures

Normalized manufacturing cumulative sales\(^1\)
1990–2016, FY1990 = 100

1 Sales deflated by Producer Price Index (FY1990 dollars) for manufacturing sector.
2 Long term (LT) compound annual growth rate percent over entire time frame of 1990–2016.
3 Years of sector classification changes; for FY2000 Q1 to Q3 data reported per SIC while Q4 data reported per NAICS classification. To ensure consistency, Q4 FY2000 data approximated by taking average growth rate of Q4 over Q3 from 1997–1999 and applied on Q3 FY2000 base; 4 Average sales for FY15-16 estimated based on number of active corporations in each tier

SOURCE: US Census Bureau; US Bureau of Economic Analysis, McKinsey Global Institute analysis
The decline of manufacturing has driven 2/3rd of the decline in labor share—and hollowed out middle-income households and communities.

### Labor share of US GDP

<table>
<thead>
<tr>
<th>Year</th>
<th>Share</th>
</tr>
</thead>
<tbody>
<tr>
<td>1970</td>
<td>59.8</td>
</tr>
<tr>
<td>1980</td>
<td>60.0</td>
</tr>
<tr>
<td>1990</td>
<td>58.3</td>
</tr>
<tr>
<td>2015</td>
<td>55.6</td>
</tr>
</tbody>
</table>

Decline of 2.7 p.p.

### Sector contribution to decline in labor share of US GDP, 1990–2015

<table>
<thead>
<tr>
<th>Sector</th>
<th>Contribution</th>
</tr>
</thead>
<tbody>
<tr>
<td>Manufacturing</td>
<td>68%</td>
</tr>
<tr>
<td>Retail</td>
<td>16%</td>
</tr>
<tr>
<td>Transportation</td>
<td>8%</td>
</tr>
<tr>
<td>Other¹</td>
<td>8%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>100%</strong></td>
</tr>
</tbody>
</table>

### Contribution of drivers in the decline in labor share of total value added

<table>
<thead>
<tr>
<th>Source</th>
<th>Contribution</th>
</tr>
</thead>
<tbody>
<tr>
<td>Decline of labor share</td>
<td>45%</td>
</tr>
<tr>
<td>within sector’s value added</td>
<td>81%</td>
</tr>
<tr>
<td>Decline of sector’s value added of total economy</td>
<td>55%</td>
</tr>
</tbody>
</table>

1 Primarily construction, utilities, agriculture, and mining.

NOTE: Numbers may not sum due to rounding. Not to scale.

SOURCE: OECD, McKinsey Global Institute analysis
Improving competitiveness could help address the widening US trade deficit in advanced industries

**US trade balance in advanced industries**
Real $ billion (2005 $)

**Overall advanced industries trade balance as a share of GDP (%)**

<table>
<thead>
<tr>
<th>Year</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>1980</td>
<td>0.1</td>
</tr>
<tr>
<td>1985</td>
<td>-0.5</td>
</tr>
<tr>
<td>1990</td>
<td>-0.2</td>
</tr>
<tr>
<td>1995</td>
<td>-0.7</td>
</tr>
<tr>
<td>2000</td>
<td>-1.1</td>
</tr>
<tr>
<td>2005</td>
<td>-1.0</td>
</tr>
<tr>
<td>2010</td>
<td>-0.8</td>
</tr>
<tr>
<td>2015</td>
<td>-1.9</td>
</tr>
</tbody>
</table>

SOURCE: IHS; McKinsey Global Institute analysis
Restoring US competitiveness will require coordinated action—the task is beyond the scope of individual firms or local governments.

1. Strengthen the domestic supplier base
2. Pursue growth through deeper global engagement
3. Improve digital adoption to boost productivity
4. Look for new ways to create value
5. Develop the manufacturing workforce of the future
6. Think—and invest—for the long term

SOURCE: McKinsey Global Institute analysis
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