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Making it in America: US competitiveness and revitalization of manufacturing

SREE RAMASWAMY

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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



Spillover effect on **services**

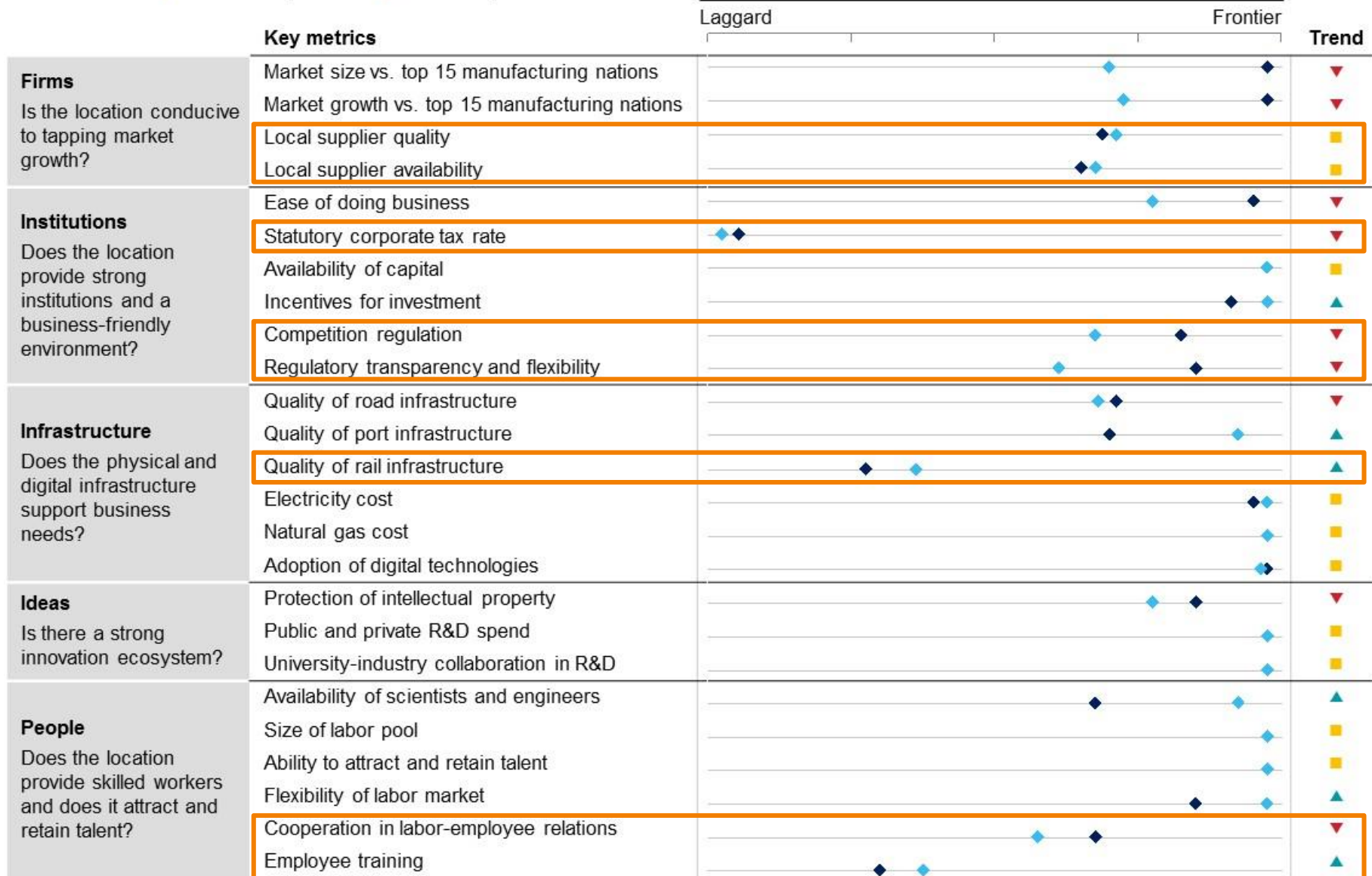


Strengthening of local economies and **business ecosystems**

Opportunities to improve US competitiveness as a manufacturing location

◆ US historical position ◆ US current position

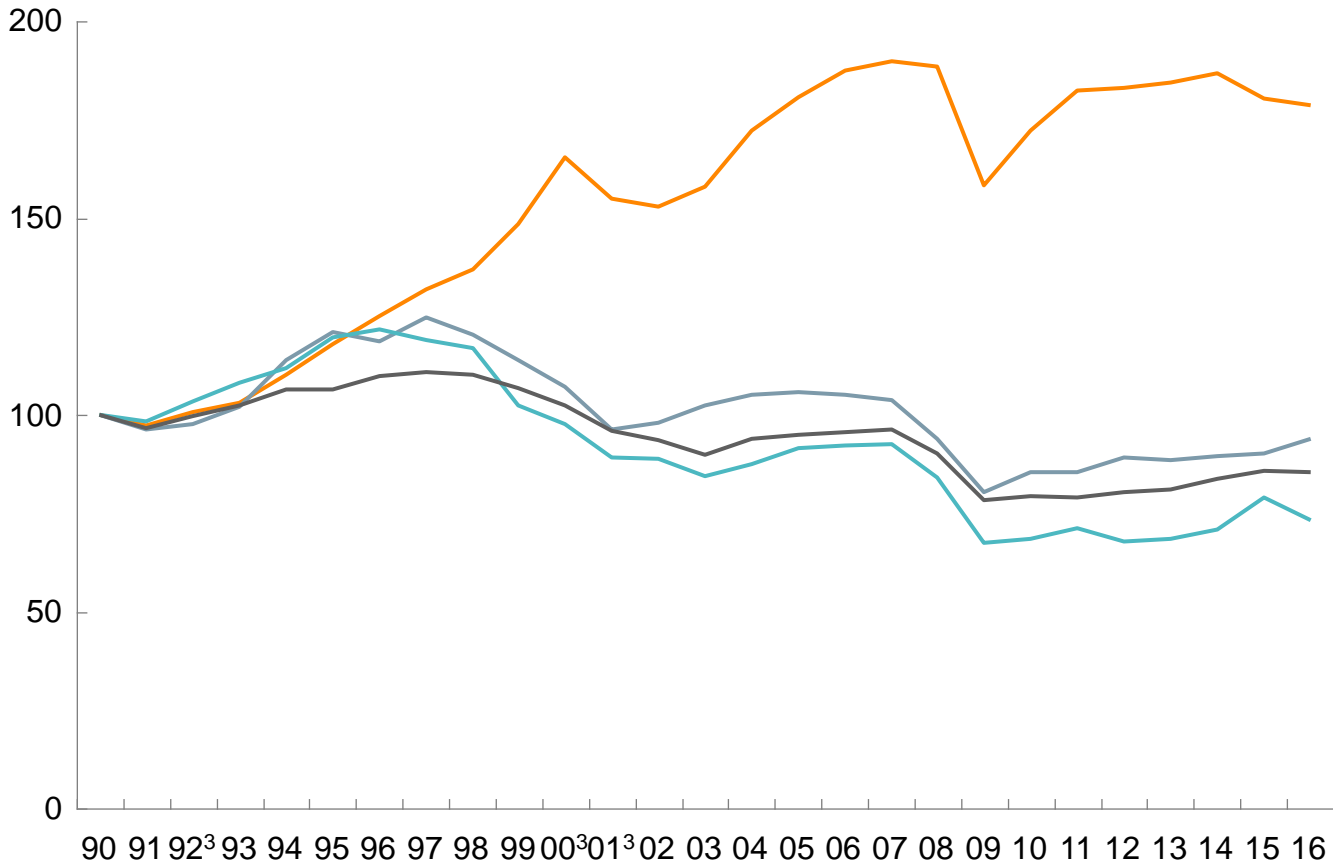
US position relative to other developed economies



Declining competitiveness is putting pressure on the industrial base— larger firms are better able to manage the pressures

Normalized manufacturing cumulative sales¹

1990–2016, FY1990 = 100



Assets	Average Sales ⁴ \$Billions	Long term CAGR ² %
>\$1 billion	6.0	2.3
\$250 million–\$1 billion	1.0	-0.2
<\$100 million	0.1	-0.6
\$100 million–\$250 million	0.5	-1.2

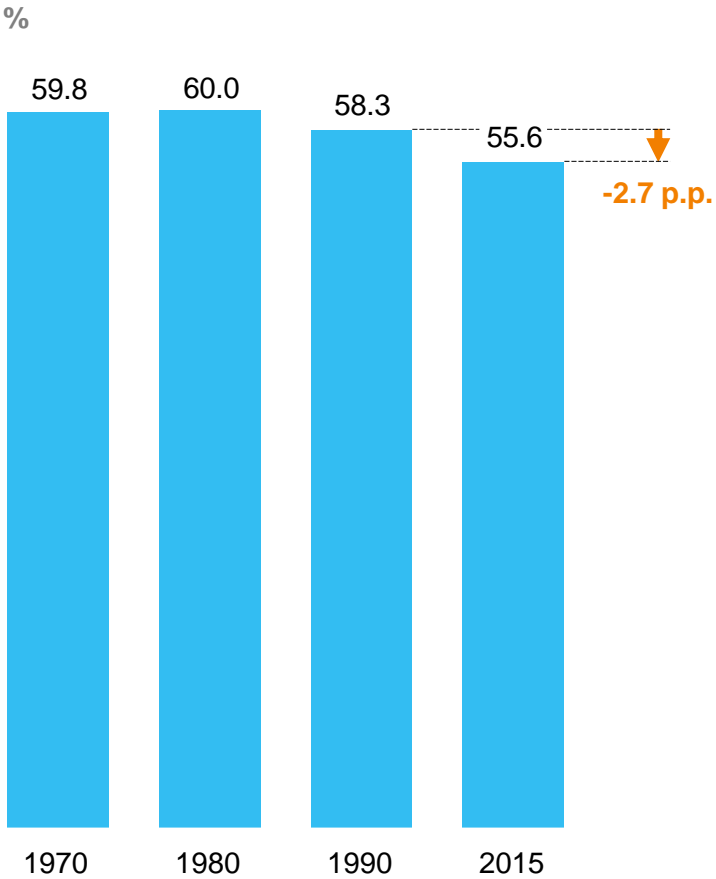
1 Sales deflated by Producer Price Index (FY1990 dollars) for manufacturing sector.

2 Long term (LT) compound annual growth rate percent over entire time frame of 1990–2016.

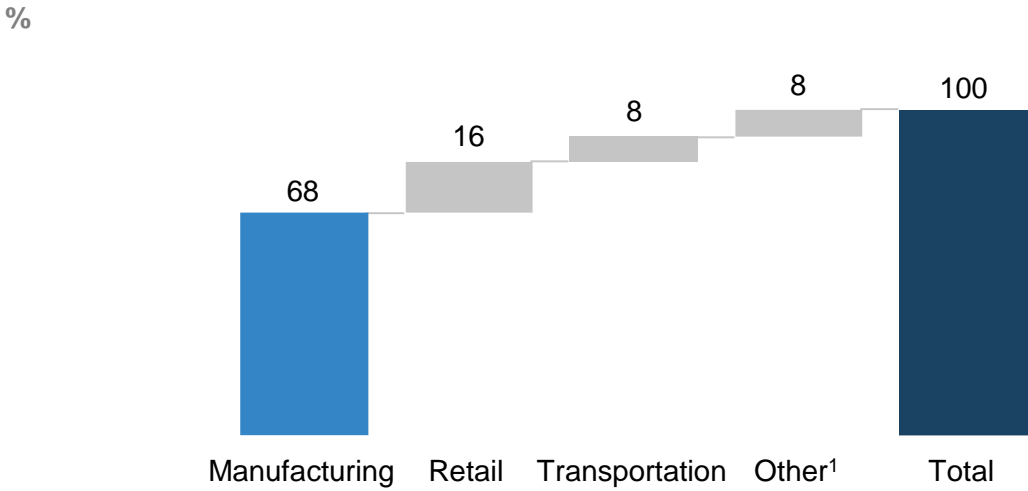
3 Years of sector classification changes; for FY2000 Q1 to Q3 data reported per SIC while Q4 data reported per NAICS classification. To ensure consistency, Q4 FY2000 data approximated by taking average growth rate of Q4 over Q3 from 1997–1999 and applied on Q3 FY2000 base; 4 Average sales for FY15-16 estimated based on number of active corporations in each tier

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



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



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

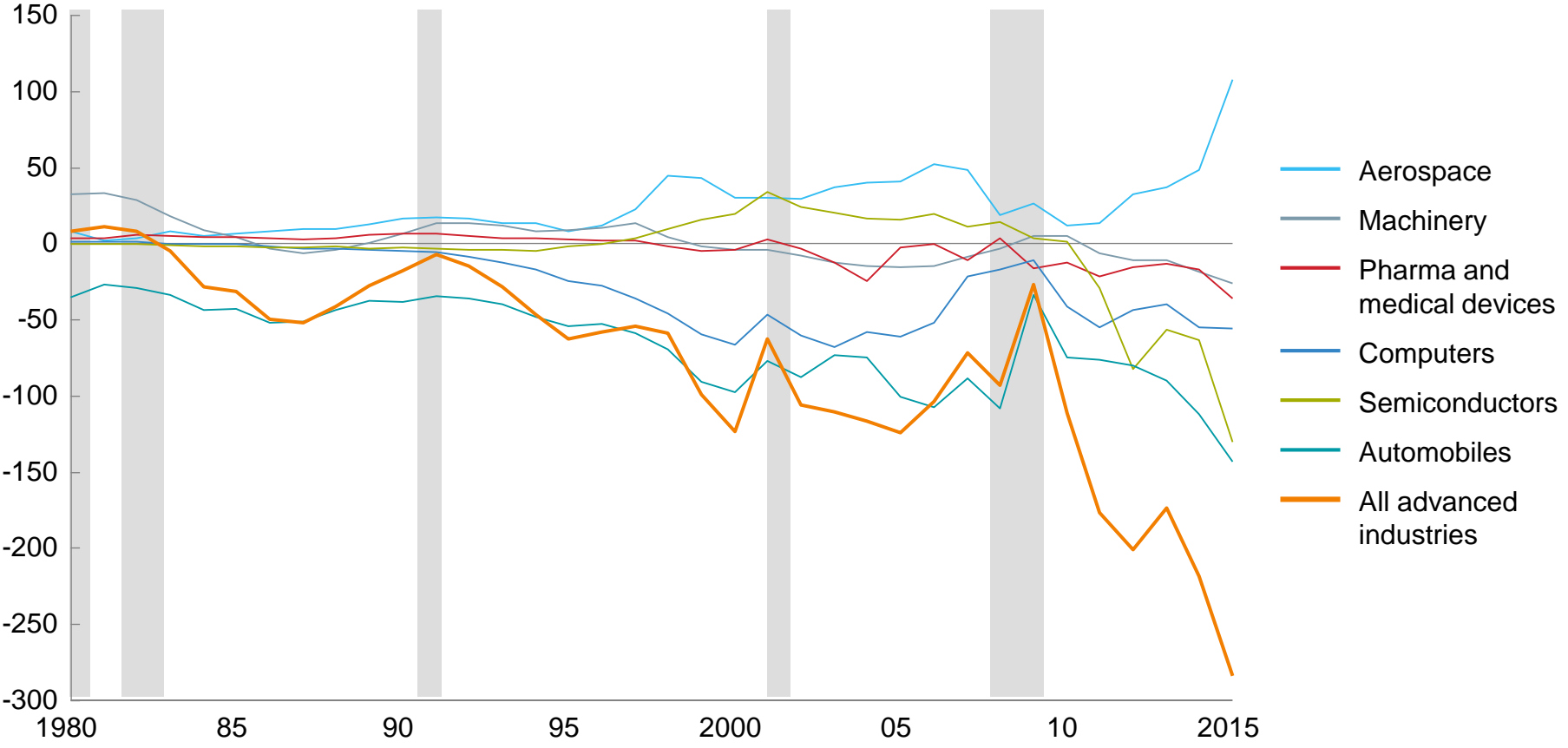
Driver	Manufacturing	Retail	Transportation	Other ¹
Decline of labor share within sector's value added	45	81	67	11
Decline of sector's value added of total economy	55	19	33	89

¹ Primarily construction, utilities, agriculture, and mining.
NOTE: Numbers may not sum due to rounding. Not to scale.

Improving competitiveness could help address the widening US trade deficit in advanced industries

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

■ Recession



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



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

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