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The Mechanics Behind Manufacturing Job Losses

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More than 2 million manufacturing jobs disappeared during the 2007-09 recession. Such a large decline has renewed concerns that our economy is suffering damage from the loss of particularly good jobs. These concerns are often reflected in the press by those who seem to believe that the only alternative to a manufacturing job is one in a low-paying service industry. But such views ignore the reality of job turnover in a dynamic growing economy. Throughout the economy, literally millions of people move from job to job every month. The number of job changes in 2012 did not reach its pre-recession peak, but measures of job turnover were all higher than the year before.[1]

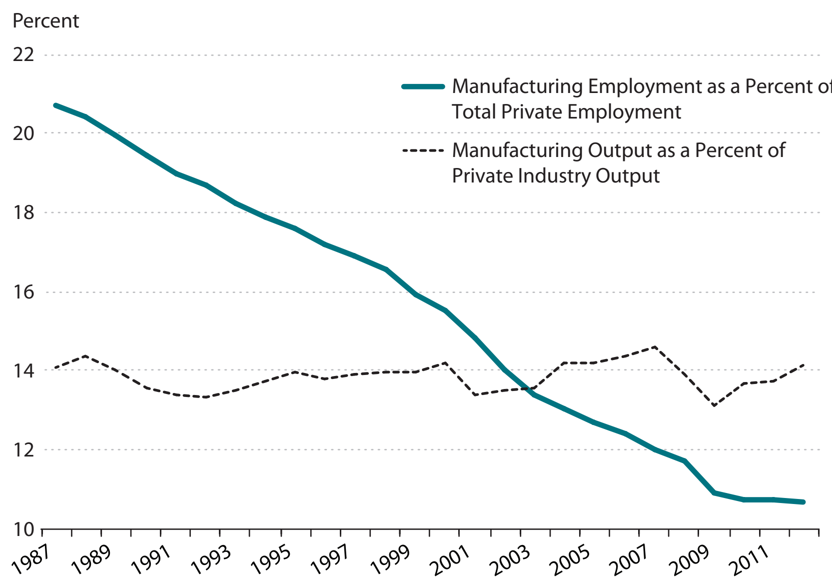
An average of 234,000 workers in the manufacturing sector left their jobs each month during 2012. Of these, 107,000 quit voluntarily; the remaining job changes were layoffs and other separations. During the same period, manufacturing firms hired an average of 247,000 new workers each month. This turnover—an order of magnitude larger than the net change—reflects workers moving to better jobs who are optimistic about a better future, as well as some workers who get left behind because of changes in technology and tastes.

With millions of people changing jobs, it is easy to find and report on specific examples of companies that moved U.S. operations overseas while ignoring the foreign companies that set up operations here. It is also easy to find people who lost high-paying manufacturing jobs and were forced to accept lower-paying jobs in the service sector. However, the loss of manufacturing jobs is an ongoing phenomenon associated with a long trend of technological advance that is a necessary part of a growing economy. (Because it does cause hardships for those affected, the government extends a wide safety net to assist people who become unemployed or are unemployable because of skill mismatch.)

The chart shows manufacturing jobs as a percentage of private employment has fallen by half—from about 21 percent in 1987 to less than 11 percent today. Yet, manufacturing output as a percentage of private output has followed a steady trend of about 14 percent over the same period. Producing the same share of output with a declining share of the workforce reflects the rising productivity of employees in manufacturing firms who have become more efficient by getting better training and by working with better equipment and software.

From 1987 to 2007, the loss of manufacturing jobs averaged about 200,000 per year, a rate of about 1.2 percent per year. During the recent recession (December 2007 through June 2009), 2 million manufacturing jobs were lost. This particularly severe loss was caused by an unusually large decline in industrial production. In the past two years, as the economy has rebounded from the deep recession, the sector has gained almost 400,000 jobs. However,

Manufacturing Sector Trends: Employment and Output



SOURCE: Data from Haver Analytics.

these increases should not be expected to continue indefinitely. At some point, the manufacturing sector will return to its long-run trend of declining employment (shown in the chart)—but also of higher productivity and a declining share of the workforce.

Manufacturing jobs as a percentage of private employment has fallen by half—from about 21 percent in 1987 to less than 11 percent today. Yet, manufacturing output as a percentage of private output is cyclical with a fairly flat trend averaging about 14 percent.

Manufacturing is not the only sector to experience large declines over time. Since 1955, the share of employment in agriculture reported in the Bureau of Labor Statistics household survey data declined from 8.8 percent to 1.5 percent. Throughout this period, agricultural output remained a stable share, about 1 percent of value added for private industries. The decline in manufacturing employment should be viewed in the same fashion. There are always some pockets of economic distress associated with change, but overall, declining employment in these sectors has been a sign of progress and higher standards of living for the average American. ■

Note

[1] For example, 271,000 of the average 3.6 million new job openings per month in 2012 were in manufacturing. See Hathaway, Kendra C. "Job Openings Continue to Grow in 2012, Hires and Separations Less So." *Monthly Labor Review*, May 2013, *136*(5), pp. 17-35.

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