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L.A. Loses Out On U.S. Manufacturing Boom

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Guest Contributor

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The nation’s manufacturing sector recorded its best month in more than two years, as new orders grew while production and export levels rose, though many Los Angeles-area firms were left out of the recovery.

At 55.7, the Institute for Supply Management's index reading in August was an improvement over July's 55.4 reading. Prior to the report released on Sept. 3, some analysts had predicted a slight dip after July's unexpectedly strong results. Any number over 50 is a sign of growth. While the numbers indicate resurgence in the industry on a national level, local views of manufacturing growth in the Los Angeles area are mixed.

"What we're hearing from our field staff is that companies are continuing to hold on to cash, they're continuing to ask people to work overtime. They're very reticent to hire," says John Anderson, director of industry consulting business unit at California Manufacturing Technology Consulting. Located in Torrance, Calif. CMTC is a non-profit company providing consulting services and solutions for manufacturers.

According to Anderson, the recent growth in sectors like the automotive industry and food makes it seem as if manufacturing is improving across the board, but that is not the case for all sectors, especially L.A.'s aerospace industry. These manufacturers have largely missed out on the upswing in the economy because even though consumers are more willing to spend, they might be buying minivans, but not fighter jets.

"In terms of manufacturing output, one of the big drivers is the increase in durable goods, like cars and light duty vehicles. Households are replacing the old cars that they had been hanging on to. But that industry doesn't have a presence in Southern California," says Robert Kleinhenz, chief economist at the Los Angeles County Economic Development Corporation.

Instead, the area is home to an extensive network of subcontractors that manufacture parts and products for the aerospace industry. Since a large portion of their business is tied to government contracts, the fate of aerospace manufacturers big and small is dependent upon decisions made by Congress rather than consumer buying patterns.

The budget sequestration, which limits government spending, has companies in the aerospace industry acting cautiously, even as manufacturing picks up for other sectors.

"The majority of our customers in the U.S. are likely to be first-tier customers to the military. If they see a headline that says 'military cuts budget 10 percent,' they're not sure where those cuts are coming from. So they hunker down and wait until the dust settles. We're seeing that trickle down to our company," explains Rob Lewis, vice president of Mattco Forge, a manufacturer of forged metal products based in Paramount, Calif.

The consequences are clear: "You delay things that would be positive to the economy, hiring more people, investing in new equipment." Lewis thinks the negative impact will last for the next 6-12 months and then the outlook will improve.

Reach Heather McIlvaine here.