Marlin Steel Wire Products

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Factories boom, but with few new workers

Productivity gains mean many low-skilled workers are shut out

By John W. Schoen Senior producer

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Drew Greenblatt, president of Marlin Steel Wire Products, says higher productivity at his Baltimore company has boosted output, sales - and workers' wages.

The U.S. manufacturing sector is roaring back after the worst recession in generations. So why aren't factory jobs coming back as quickly?

One big reason: Business executives like Drew Greenblatt, owner of Baltimore-based Marlin Steel Wire Products, have figured out how to make more widgets with the same number of workers. To do so, he's had to upgrade the skills — and wages — of his employees. But his profits are bigger than ever.

Last July, the company, which makes wire baskets, installed $700,000 worth of robots, continuing a steady process of automation Greenblatt began when he bought the company in 1998.

"In the old days, we had a $6 an-hour-guy who would hand-bend 300 bends an hour," said Greenblatt. "Now we have guy who's paid $22 an hour with the robots but he's giving me (20,000) bends an hour. Do the math."

For Greenblatt, the math goes like this: Last year, his revenues and profits were up 12 percent — his best year since buying the company in 1998. That year, Merlin Steel did $800,000 in sales with 18 workers. Today the company has 25 employees and does $3.9 million in sales, exporting to 33 countries.

Automation raises productivity not just by making products faster; it also makes them better, said Greenblatt.

“It’s better quality, so we have a lot less rework,” he said. “We have more reorders because the client is delighted. And we ship faster because we’re not going back and fixing things.”

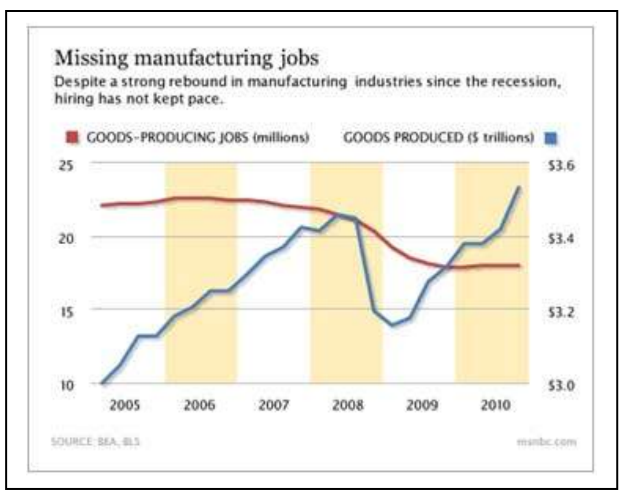
Productivity gains like those continue to show up throughout the manufacturing sector. The level of output per hour worked rose by 2.6 percent in the last three months of 2010, the Labor Department reported Thursday.

A separate report by the Commerce Department showed that U.S. factory orders rose in December, pushed higher demand from businesses for machinery and communications equipment. Orders have risen in five of the past six months.

The rise in orders has prompted manufacturers to boost hiring. On Friday, the government reported that the sector added 49,000 new jobs in January - even as bad weather dampened employment gains for other industries.

Productivity is a pretty simple concept: It’s a measure of how much stuff a worker makes in a given number of hours. But increases in U.S. productivity are the result of complex forces that have been reshaping the manufacturing workforce for decades and are expected to continue.

Recently, productivity got a boost from the fallout of a harsh recession that put weaker, less-productive companies out of business or forced them to sell out to stronger, more productive competitors.



Widespread job cuts during the recession also transformed the workforce on individual factory floors, said Greenblatt.

“The guys that are the survivors are the most proficient, the smartest, the hardest-working, best character people,” said Greenblatt. “And those people make more widgets per hour.”

Productivity has also risen as American manufacturers have moved to specialize in more valuable products, sending manufacturing of cheaper goods overseas where wages are lower. As the value of American-made products has risen, so too has the average level of output per worker when measured in dollar terms.

For example, an aerospace engineer who designs a landing gear for a Boeing 777 adds a lot more to U.S. GDP than a high school graduate bending metal into a dish washer. As the overall mix of American-made goods becomes more valuable, the U.S. economy produces more in dollar terms with same number of workers. So the economy becomes more "productive."

"A lot of the low-end and basic commodities are now produced somewhere else," said Tom Runiewicz, an economist at IHS Global Insight who follows the manufacturing sector. "That means products higher up the value chain are manufactured here."

Demand for high-end goods

Rising global demand for high-end, capital intensive goods is boosting exports for American manufacturers like Oshkosh Corp., a Wisconsin-based maker of high-end, heavy-duty specialty trucks. The company recently began hiring to keep up with increased demand from overseas customers and to fill a new truck order from the Defense Department.

"We're ramping up from about 10 trucks a day to 40 to 45 in about another seven or eight months," Oshkosh CEO Charlie Szews told CNBC this week. "So it's going to mean 650, 750 jobs for the Oshkosh community."

The order will also mean about $1 billion in business for the company's suppliers, said Szews.

Manufacturing high-end products like fire trucks or military vehicles requires piles of capital to build the cutting edge plants and buy the sophisticated equipment needed to make them. Though American manufacturers have been slow to re-hire workers, they've been making big bets on capital investment coming out of the recession, especially in high tech products.

"Production of high-tech goods has become a bigger proportion of overall manufacturing output," said Paul Ashworth, chief U.S. economist at Toronto-

based Capital Economics. “That also skews the average productivity figures because productivity grows much faster in those industries.”

At some point, productivity gains could become harder and harder to achieve and begin tapering off. But economists like Runiewicz say American manufacturers are a long way from reaching that point.

“We are still in a period of this increasing productivity,” he said. "Mechanization and computerization is still advancing.”

But while automation is advancing, millions of low-skilled factory workers are being left behind, said Runiewicz.

“The unskilled production worker is become more and more obsolete,” he said. “This is something that been going on for years, but the recession has accelerated the process because it’s shaken out the lower productivity firms.”

Higher completion rates for college diplomas and a boom in admissions to technical schools and community colleges are helping to upgrade worker skills. Some of the burden is also falling on employers like Greenblatt.

“A lot of schools are graduating kids that can’t do fifth-grade math, so it’s hard for us to teach people to program a robot when they don’t even know how to use a tape measure,” he said. “We have had to do a lot of training and a lot of upgrading to find talent that can read a blueprint and understand how to program a computer.”

Improved access to training, along with booming exports, will help. But most economists expect the jobless rate to remain stubbornly high – especially among lower-skilled workers. Without a more robust economic expansion, it will be years before those factory workers sidelined by the recession will begin collecting a paycheck again, according to Dean Baker, co-director of the Center for Economic and Policy Research.

“Even in the best case scenario you could make, I can’t imagine you could look to make up the up the gap with increased exports in seven, eight or nine years,” he said.

Many of those workers may never get back to work, said Baker.

“Long-term unemployment is really debilitating,” he said. “Obviously it’s a real strain on the families. But it also leads people to lose their connection to the workforce. If they’re unemployed for a year or two — a lot of those people never get another job.”

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