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THE THREE MAJOR IMPACTS ON MANUFACTURING IN 2018

BY STEVE BERGSMAN | SPONSORED BY SIOR FOUNDATION

When SIOR members were asked what factors, economic or otherwise, would have the most impact on the manufacturing sector this year, the surprising answer was not the economy or the new tax bill, but labor. Apparently, there is such a shortage of laborers for industrial jobs, especially manufacturing, that it impacts site selection and local economic support.

In December, the *Wall Street Journal* published an unusual story about parents of high school students being invited to the plant of a local manufacturer, where they were told their children could have great, well-paying jobs as “the next generation of makers.” The concept was to attract youthful Americans back to manufacturing jobs by getting the support of parents.

Recently, when *SIOR Report* asked members of SIOR to name three major impacts on manufacturing in 2018, a majority of responders said labor was going to be the most important issue in the coming months.

Here’s the problem, according to the Bureau of Labor Statistics as reported by the *Journal*; there are currently 400,000 open manufacturing positions across the county, and this is at a time when many counties and cities across the country, including the Midwest, have very low unemployment numbers, which makes it even harder to fill those jobs.

Take the case of an industrial state like Wisconsin. The unemployment rate for the state is 3.4% and employers have 90,000 jobs listed on the Department of Work Force website, says Jeff Hoffman,

SIOR, principal and co-chair of Industrial Services Practice at Cushman & Wakefield, Milwaukee. “The challenge we have in Wisconsin is people. Everyone who wants a job can get a job but we are left to figure out how to staff-up and keep businesses growing.”

Labor is a critical issue in the industrial sector, adds Grant Miller, SIOR, a senior vice president with Colliers International, Charlotte. And it is going to affect where companies locate, because, as Miller points out, when a company is looking at potential sites to relocate or open a new plant, they need to know that the positions can be filled.

Finding qualified workers is going to be a constant challenge, observes John Skoglin, SIOR, a vice president with CBRE in Baltimore. “The work force is aging and fewer millennials are interested in getting into manufacturing. Someone has to instill upon the younger generation that manufacturing is a good thing and these are good, rewarding jobs.”

The irony is, most of the new industrial jobs are tech oriented and these should all be of interested to the millennials, probably the most tech savvy generation.

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Wisconsin was the lucky lottery winner, when Apple-supplier Foxconn announced it would spend \$10 billion to open a huge campus in the state. “This was a great win for the state,” says Hoffman, “but there will be short-term pinch-points on the labor market as Foxconn is talking about a campus that could reach 25 million square feet and at build-out could employ 13,000 people. Just the construction alone to develop that campus including infrastructure and roadwork is expected to suck up 10,000 jobs in the trades.”

Cushman & Wakefield in Milwaukee has been telling clients that once Foxconn development begins in earnest, which could be as early as spring 2018, the region will be extremely challenged for labor in any other new construction.

Once Foxconn is up and running it will stress the other employment base because the company will need employees with some type of technical, college, or special skill-sets background. “The worker who has dropped out of high school and doesn’t have the skills or can’t pass a drug test has a hard time getting hired in a modern manufacturing environment,” says Hoffman.

Part of the solution is technical training and Wisconsin has spent several billion dollars in work force development over the past eight years.

Charlotte, which has seen an influx of people, has also found it difficult to fill empty manufacturing positions. “Labor, labor, labor is the big issue in industrial,” exclaims Don Moss, a senior vice president with Colliers International, Charlotte. “Skilled labor is hard to find. The region consists of 14 counties, but still has its challenges getting skilled labor.”

Smaller cities, such as Shelby, N.C., in the wider Charlotte metro have taken up

work force development, says Moss. “The city has been identifying labor needs and matching that up with training programs through the community college system. Communities like Shelby and Rock Hill are reaching into the community colleges, technical schools, and even into the high schools, informing students that they can earn a good, middle-class living working in manufacturing jobs.”

TECHNOLOGY

The second most mentioned issue that will affect the industrial market in 2018 is technology and all its underlying formats, from artificial intelligence to 3-D printing to robotics.

“About 80 percent of manufacturing processes will have some kind of technology advancement in the next year,” says Skoglin. “If you are not up with the times and not using technology to your advantage you are going to fall behind. The American worker today, especially in the manufacturing sector, is going to be assisted or replaced by technology.”

Expect major capital investments for technology in the manufacturing space, especially in robotics, says Travis Land, SIOR, a partner at NAI Partners, Houston. “A lot of people are familiar with automation and robotics as it relates to the Amazons of the world, but we are starting to see other manufacturers put a lot more money into these devices as well. The oil and gas producers here in Houston have been slower to adopt because of what has been going on in the industry. Now with oil prices rising, there is more re-investment in the manufacturing processes.”

American industry is going through a “digital transformation,” which is the hip phrase meaning change associated with the application of digital technology.

“New methodologies keep businesses lean and functional,” says Skoglin. “New technologies will give manufacturers the equipment to make sound decisions going forward.”

This is important, because many technology sectors are not growing as fast as one would assume, says Skoglin. Until 2020, growth in the machinery sector is expected to be 2.5 percent; computers, 2.6 percent; and aerospace, 3.3 percent. “Hopefully, after 2021, things will pick up based on technologies available.”

However, there is one new technology that could bring disorder to the industrial sector – 3-D printing, or making solid objects from a digital file. For example, someone in Hong Kong can digitally send plans for a chair to a plant in Las Vegas, which will automatically construct the chair according to data points in the digital message. Which means instead of shipping chairs from Hong Kong, the chairs are automatically constructed in a plant somewhere else in the world.

“I’ve been hearing about 3-D printing for the past five years and everyone acts as if its just around the corner,” says Land. “With my client base, I haven’t heard it talked about any more than just concepts. I don’t believe that any of my clients are using it, but they are definitely looking into it. It’s a hot conversation topic. What’s unclear is the timeline of the process coming to fruition.”

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LOGISTICS

A third major impact is logistic, which has become more important especially on the consumer side of the business, where companies promise next-day deliveries to the doors of buyers.

"E-commerce has put logistics into play," says Miller, which is why consumer companies such as Amazon are building regional distribution buildings, to be able to get goods to the consumer quickly. The sticking point, however, is not the international shipment of goods or even warehousing and distribution, it's the haul between port and distribution center or distribution center to consumers.

Trucking is the concern, says Miller. "New regulations, electronic log-ins, drivers aging out, are all issues. Everyone wants to double-check as to how the product is going to be moved. Can they get on-time delivery Where is the consumer base is located? Where is the end product going and the what are the logistics of how the product will get there?"

In December 2015, the federal government required all trucking operations to implement electronic log-ins and that has created a driver shortage, says Moss. "The overall requirements for drivers are getting tighter and tighter. Also, millennials are not as interested as the baby boomers in becoming truck drivers. They don't want to be on the road for long periods of time, so it is getting more difficult to find truck drivers, especially long haul and certified truck drivers."

MORE IMPACTFUL FACTORS

Other impacts on manufacturing for 2018 include such outlier topics as incentives, cost of development, strength of dollar, and the new tax bill.

In regard to incentives, Moss says, local and state commerce authorities

are dialing back or tightening regulations on incentives because the economy is doing so well. "State and Local Governments and Economic Development Authorities are getting pickier on the types of projects in which they will grant incentives," he says. "In North Carolina, the most incentive grants haven't changed, but the state is making the requirements for incentives stricter and the process requires additional steps."

Land believes the strength of the dollar and price of oil and gas will be issues in the year ahead. "The stronger the dollar, the harder it will be to sell your manufactured goods overseas," he says. "Most manufacturing companies that sell to overseas prefer a weaker dollar. Any volatility in the dollar can drastically affect their projections."

As for oil and gas prices, Land adds, "Lower oil prices means there is more discretionary income for the consumer. That extra money is re-diverted to other consumable items, which further stimulates the economy."

Finally, Hoffman sees two issues that could impact manufacturing in 2018. The first is the increasingly high cost of development.

"In the Milwaukee area, the cost just to buy the land and erect new buildings has appreciated 30 percent over the last eight years," he says. "A typical user in our market probably occupies a 50,000-square-foot building. When the recession ended in 2010, you could have built that structure for about \$50 a square foot and that included land. Right now I would be shocked if anyone could do that for less than \$70 a square foot."

Perhaps, the one thing that could impact manufacturing businesses, if not all American industry from top to bottom, was only mentioned once – the Republican tax bill passed in December. Hoffman believes the bill will be an immense help to American companies.

"What you see is an immediate write-off of capital investments and the top corporate tax rate is once again globally competitive at 21 percent" he says. "Corporate America that has money parked overseas should repatriate those dollars and re-invest in U.S. plants and equipment. A lot of manufacturing that was held in S Corps, or pass-throughs, will see a lower tax burden as well. What we are hearing from our clients is that the expectation of a robust tax package is going to lead to significant investment on the manufacturing side."

The tax bill will have a bigly effect on manufacturing – or not! ▼



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