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For First Time in More than 100 Years, US Set to Lose Place as World's Largest Manufacturer

Study from Global Insight Says China to be Number 1 in 2009; Rapid Chinese Growth, Combined with US Slowdown, Expected to Bring Change in Top Spot Earlier than Expected; Gap will Continue to Widen

SCDigest Editorial Staff

Most knowledgeable observers knew the day was coming soon, but now the researchers at Global Insight say that the US will lose its position as the world's largest manufacturer to China in 2009 – some four years earlier than the firm had predicted previously.

In research done for the Financial Times, Global Insight now says that the US will retain the position it has held for more than 100 years in 2008, but that the combination of China's continued growth and the slowing US economy will create a shift in rankings the following year.

For 2008, Global Insight says the US will produce 16.9% of global value-added factory output, with China at 15%. In 2009, however, China's global share should rise to 17%, with the US having a 16% share.

The numbers do not reflect absolute levels of manufacturing output, but rather relative ones. So, the US has been losing global manufacturing market share even as its own factory volumes rise, but not nearly as quickly as China's growth.

To show how fast the situation is changing, in 2007 the US had a 20% share of global manufacturing to just 13.2% for China. China will have closed that 7% gap in just two years.

Just last year, Global Insight economists had predicted that the US would retain the top position until 2013, but a large downward revision in likely output this year and next is expected to cause the US to slip more quickly than had been expected. A faster than expected economic recovery – or a slow down in the Chinese economy – could enable the US to keep the crown for another year or two.

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But fundamentals, including population size differences, the continuing shift of the US to a more services-based economy, and continued migration generally of manufacturing to lower cost countries, means the change was inevitable at some point. Manufacturing represented 37.1% of Chinese Gross Domestic Product in 2007, for example, versus just 13.4% for the US.

In 1990, less than 20 years ago, China's share of global manufacturing was just 3%. After a series of reforms and a general opening of the economy, the Chinese economy took off. Interestingly, by some accounts China was the world's largest manufacturer for centuries before 1840, when it was overtaken by Great Britain, with the US taking the top spot later in the 19th century. The Global Insight numbers include the China-based operations of US or other countries in the China output figures, as it does for the foreign operations operating in the US.

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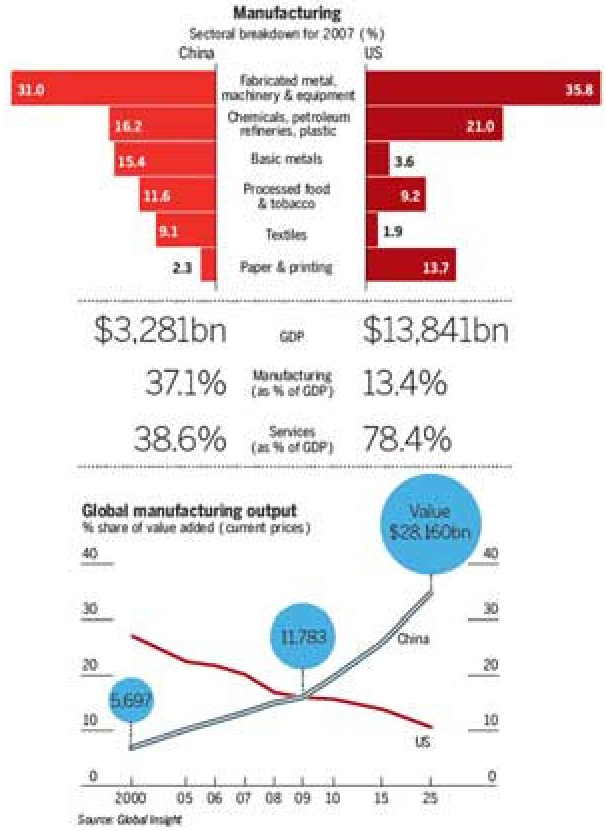
The Financial Times quotes **Jim Womack**, chairman of the Lean Enterprise Institute, as commentating that: "Americans have watched for more than a generation as the US fraction of total world manufacturing has fallen. And it's easy to confuse the country's absolute level of domestic output, which has in most cases gone up, with the US's share of the whole world pie, which was bound to go down no matter how good American-based plants were."

However, even though the vast majority of what is consumed in total in the US is made here, the news is likely to fuel still more concerns about offshoring, trade policy and US competitiveness.

That's especially true when looking further out in the Global Insight numbers. As shown in the chart nearby, it predicts that by 2025, the Chinese share of global manufacturing will have risen to about 35% - while the US share will fall to just over 10%.



Source: Financial Times