Chicago Tribune

Chicago manufacturing 'punching below its weight,' report says

July 30, 2014 | Kathy Bergen and Alejandra Cancino, Tribune reporters

Metro Chicago lags behind many counterparts nationwide in the recovery of its manufacturing sector as well as the exports it fuels, a serious deficit as the city reaches for a bigger share of global economic activity.

While the 14-county tri-state area was the fourth-largest exporter among the 100 top metro areas nationwide in 2012, it fell to the middle of the pack on gross domestic product growth, export growth and exports as a share of economic activity, according to "Revival in the Heartland: Manufacturing and Trade in Chicago," a report to be released Wednesday by HSBC Bank and the Chicago Council on Global Affairs.

"Manufacturing in Chicago is an old heavyweight slugger, punching below its weight," the study stated, noting that it remains the second-largest economic driver in the region after government and social services.

Cranking up the growth rate is crucial for the city's economic future, observers say, because manufacturing accounts for two-thirds of the region's exports. And nationwide, exports are fueling economic recovery in urban centers, according to the Brookings Institution, a nonprofit public policy think tank.

Manufacturing "is the primary source of global innovation and trade…More than two-thirds of research and development, and patenting, come out of the manufacturing sector," said Amy Liu, co-director of Brookings' Metropolitan Policy Program. "In order for the U.S. to continue to be on the cutting edge of global economic growth, we have to be at the forefront of innovation."

The HSBC study relies significantly on Brookings data, which estimates metro exports based on where goods were produced. Census Bureau data, in which Chicago ranked seventh in 2012, is based on where goods were moved out of the country.

Brookings found that Los Angeles, New York and Houston surpassed Chicago in exports in 2012, with Houston edging Chicago out of the third-place seat it held in 2010.
Global and industry shocks can lead to year-over-year ranking shifts, said Richard Longworth, senior fellow at the Chicago Council on Global Affairs.

More telling is metro Chicago's lackluster showing on other metrics: From 2009, when the recession ended, through 2012, it clocked annualized GDP growth of 1.6 percent, to rank No. 54 among metros, and registered annualized export growth of 7 percent, to rank No. 40.

Study authors and individual manufacturers cite a range of historical factors that have contributed to the weak performance:

- A lack of civic and government attention to the sector because of a perception that it was dying.
- An absence of intraregional cooperation on economic issues.
- Freight rail gridlock.
- Lingering wariness about expanding business within the state, given its fiscal problems.

Some of those situations are beginning to change, but an uphill climb remains. The perception that manufacturing was fading stems from tremendous job loss as factories have moved south or overseas and local shops have become increasingly automated. The region had 409,800 manufacturing workers last year, compared with nearly 689,900 in 1990, according to the Chicago Federal Reserve Bank.

And while there has been some job recovery since the recession, losses continue as well. Workers at Midwest Folding Products, for instance, worry about their futures as their employer tentatively plans to close its factory on Chicago's West Side and consolidate operations in Temple, Texas.

"What's going to happen to us?" said Lorenzo Vargas, 57, who makes $12 per hour assembling folding tables that his employer sells to schools, a job he has held for 30 years.

The HSBC study authors stress that while manufacturing will no longer create huge numbers of assembly line jobs, it remains a linchpin in the local economy. It will drive exports, spawn smaller numbers of high-tech, good-paying jobs and provide spillover support to professionals — lawyers, accountants and the like — whose expertise in the sector can be sold overseas as well.

"Manufacturing is the lifeblood of the local economy … but there is so much more we can be doing to make the pie even bigger," said Steve Trepiccione, HSBC's head of commercial banking for the Midwest.

A number of local initiatives have the potential to help Chicago evolve into a center of cutting-edge manufacturing, observers say, including plans for a federally backed Digital Lab for Manufacturing on Goose Island. Efforts to retool the city colleges to train students for advanced manufacturing jobs also help the city's status, as does a Cook County-led effort to corral Chicago and the collar counties into coordinated efforts to bolster industry and build exports.

In May, the region won designation as one of 12 manufacturing communities eligible to share in $1.3 billion in federal funding for workforce development. The program will benefit metals industries.

Separately, Cook County President Toni Preckwinkle is spearheading development of a two-year pilot program to connect small and midsize businesses with existing export assistance programs. The program, to be announced this fall, will involve Chicago, Cook County and the six collar counties in Illinois, and it fits into Mayor Rahm Emanuel's 2012 goal of doubling exports among small and midsize businesses in five years. A number of manufacturers cite other issues they would like addressed.

Bill Hickey, president of Lapham-Hickey Steel Corp. in Bedford Park, says customers tell him they will not expand in Illinois because of the state's fiscal problems.

"Everybody is afraid. They know the shoe will fall on unfunded pension liabilities, especially after the Supreme Court ruling July 3 that the state can't change retirement benefits," Hickey said. The ruling related to the state's pension reform law.

A spokesman for the Illinois Department of Commerce and Economic Opportunity said business confidence and hiring have been rising because of steps taken by Gov. Pat Quinn to cut state spending, overhaul pensions and Medicaid, reduce the backlog of unpaid bills and provide $16 million in support for the Digital Lab for Manufacturing.

At Few Spirits LLC, a craft whiskey and gin distillery in Evanston, owner Paul Hletko said he would like to increase sales of his products outside the U.S., but he's restricted by his craft distiller's license, which caps production at 35,000 gallons a year. "The state of Illinois is a challenging place to do business," Hletko said.

Hletko is producing 20,000 to 25,000 gallons a year and exports about 10 percent of his product to 14 countries, he said. The United Kingdom is his biggest customer outside the U.S.
Ingredion, a Westchester-based corporation, would like to see local government invest in measures to ease rail congestion, which hampers its ability to move its corn, tapioca, wheat and potato products to other markets.

Ilene Gordon, its CEO, said delays can run for hours or days, citing one instance of a shipment that took 10 days to go 300 miles.

A project to untangle the mess "would help the U.S. manufacturing base," she said. "We could make more investments, get return on those investments and add jobs."