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AMERICA IS REGAINING ITS GLOBAL ECONOMIC STRENGTH

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We live in a global economy. US companies must compete with China and Europe and others like never before. Reports have been published recently that the US is on the downslide economically...that the US has lost its edge. Well, data suggests that the US is actually gaining ground in the global competition for business. The China-US competition for business is starting to swing back to the US. Offshoring is out, “re-inshoring” is the new fashion. “Made in America Again” – a report this month by Boston Consulting Group, said Chinese wage inflation, which is running at 16% a year for a decade, has closed much of the cost gap. China is no longer the “default location” for cheap plants supplying the US.

A “tipping point” is near in computers, electrical equipment, machinery, autos and motor parts, plastics, and even furniture. “A surprising amount of work that rushed to China over the past decade could start to come back”, said BCG’s Harold Sirkin. The reduction in the wage gap, shipping costs, and reliability are just a few of the reasons why the advantage is shifting back to the US.

The list of “repatriates” is growing. Farouk Systems is bringing back assembly of hair dryers to Texas after counterfeiting problems, ET Water Systems has switched its irrigation products to California, NCR is bringing back its ATM output to Georgia, and Master Lock is returning to Milwaukee. Boston Consulting expects up to 800,000 manufacturing jobs to return to the US by mid-decade, with a multiplier effect creating 3.2 million in total.

As Cleveland Federal Reserve chief Sandra Pianalto said last week, US manufacturing is “very competitive” at the current dollar exchange rate. Whether intended or not, the Fed’s zero rates and \$2.3 trillion printing blitz have brought matters to an abrupt head for China, making US exports much more competitive on a currency basis.

Other examples of America regaining economic strength are Korea’s Samsung beginning a \$20 billion US investment blitz, and Volkswagen investing \$4 billion in America. Also, Intel, GM, and Caterpillar, among others, are opting to invest at home rather than abroad.

The switch in advantage to the US is relative. It does not necessarily imply a healthy US recovery. The global recession will grind on as much of the Western world tightens fiscal policy and slowly purges debt. One huge advantage is that America is almost the only economic power with a fertility rate above 2.0 – and therefore has the ability to outgrow debt, which is in sharp contrast to the demographic decline facing Japan, China, Korea, Germany, Italy and Russia.

Don’t discount the power of demographic trends. And don’t publish America’s obituary just yet.

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