

ACCELERATING LOSS OF MANUFACTURING JOBS IS MORE DETRIMENTAL TO CALIFORNIA'S ECONOMIC HEALTH THAN ORIGINALLY BELIEVED

Manufacturing jobs and gross sales from start-up companies and in-migrants fail to match the job and sales losses from business failures and departures

The Keystone Group, a collaboration of Southern and Central California economic development executives, today issued the findings of its in-depth study of the accelerating disappearance of manufacturing jobs in California. The research centered on the years between 1990 and 2003.

The first detailed screening of the Keystone Report data will be made public at the CMTA Manufacturing Summit to be convened by Supervisor and Chairman Don Knabe on February 27 from 7:30-10:00 AM at the Los Angeles County Supervisors Chambers, 500 West Temple Street, Hearing Room A, County Board of Supervisors Room 374.

The findings reveal that California is losing considerable manufacturing capacity as companies close their doors or move out of the state to what they see as "more friendly" locations. This is not surprising to industry observers who have been trying for several years to draw attention to the "bleeding of California's manufacturing base."

In fact, says Larry Kosmont, President and CEO of Kosmont Companies, one of the research groups that participated in the Keystone study, "What overwhelms us is the factual and empirical definition of the problem. The effect of the bleeding is far worse than anyone thought and it is most assuredly time to see a doctor."

The research study published today was staffed and directed by Kosmont Partners, one of the Kosmont group of economic and real estate consulting companies, in conjunction with the Rose Institute of State and Local Government at Claremont McKenna College.

"We can now for the first time verify with precise data which previously was anecdotal and uncoordinated evidence," said Mr. Kosmont. "We felt that the California manufacturing sector is in serious trouble. We can now allocate precise figures to conditions that many of us have been aware of but until now have been unable to quantify."

In an extensive catalog of California's problems, Keystone highlighted the following:

- Over 261,000 manufacturing jobs and \$98 billion in gross sales of California-manufactured products disappeared in the three-year period between 1999 and 2002. The loss in manufacturing jobs is particularly damaging because

manufacturing jobs pay exceptionally well “almost 50 percent more than the average of all California jobs.” For decades, manufacturing jobs in California have been the prized “one way ticket” to the middle class for those on lower rungs of the job ladder (in particular the Latino worker). “Manufacturing jobs have a pronounced ‘multiplier effect’ they create jobs in other sectors of the economy, at a rate at least twice that of the trickle down from the retail industry. “California legislation in recent years has had a noticeable anti-manufacturing bias.” State and local land use policies make the development of manufacturing facilities difficult.

Mr. Kosmont said, “As a result of all these factors, doing business in California is more difficult and more expensive than in neighboring states. California is drifting down the path of becoming a region of smaller storefront companies. Many of the large or mature companies are taking all or a portion of their operation out of town.”

The disturbing new data highlights the financial importance of manufacturing to the State, and the very significant contribution manufacturing wages make to total worker’s income. “We are losing high-pay manufacturing jobs and replacing them with lower paying or minimum wage jobs,” said Kosmont. Look at what we know today as a result of this survey that we really did not know yesterday.”

1. During the 13-year period (1990 to 2003), California lost 400,000 manufacturing jobs. Between 1998 and 2003, a five-year period, 288,000 manufacturing jobs disappeared, and during a 3.5 year period between 1999-2003, 261,000 jobs were lost. It is this accelerating rate of job loss that arouses special concern.
2. While there were slightly more manufacturers starting up than closing down, the net overall job losses were substantial. During the study period (1999-2002) at least 30,000 California manufacturers went out of business and 39,000 started up. However approximately 750,000 jobs that were lost were replaced by only 485,000 jobs from start-ups, for a net loss of 261,000 jobs. Gross sales during this period from failed businesses would have been about \$284 billion. Unfortunately, sales from new start-ups were only about \$186 billion for a \$98 billion loss in activity.
3. There was an insignificant difference in the number of manufacturing businesses that left compared with those that entered the State (during 1999-2003). However, California lost substantially more jobs from out-migration than it gained from in-migration (8,126 more jobs left than came in). In-migrant companies generated \$3.5 billion in sales versus \$12 billion lost because of out-migration. During the same period 363 manufacturers left the state and 261 in-migrated from other states.

4. Almost no industry sector is going untouched by job losses are spread over a broad variety of sectors.

Industry sectors with high job losses:

Defense and Space	104,000
Computers	96,000
Electronics	59,000
Communications	54,000
Food Processing	38,000
Wood Processing	31,000
Aircraft	24,000

5. Average compensation for manufacturing jobs in California is \$57,000 per year, which is over 50% higher than the median State income (as of 2000).

6. Of the 363 - firms that left California, 60% were mature businesses with five or more years in operation and 51 firms had over 21 years in the state.

“It’s like watching our economy’s foundation crumble, quietly yet broadly. In a sense, we appear to be replacing more with less,” continued Kosmont. “The data clearly indicate that California is taking a substantial economic hit as a result of the loss of well-paying manufacturing jobs, said Dr. Steven Frates, Rose Institute Senior Fellow. “It is also significant that California is losing manufacturing jobs to other states. California policymakers would be well advised to pay careful attention to the negative consequences of this trend.”

The Keystone Group was formed early last year (2003) in response to business and industry concerns about the ever-increasing cost of doing business in California and the steady loss of manufacturing jobs.

The Keystone Group is a brain trust of economic development leadership in Central and Southern California. It includes the Presidents and CEOs of the following regional economic development organizations in partnership with Southern California Edison: The Economic Alliance of San Fernando Valley, the South Bay Economic Development Partnership, the San Gabriel Valley Economic Partnership, the Westside Economic Collaborative, Gateway Cities Partnership, the Greater Antelope Valley Economic Alliance, the Orange County Business Council, the Inland Empire Economic Partnership, the Coachella Valley Economic Partnership, the Tulare County Economic Development Corp., the Economic Development Collaborative Ventura County, and the Los Angeles County Economic Development Corporation.

The Keystone Group research was conducted by Kosmont Partners, economic and real estate consultants, and the Rose Institute of State and Local Government at Claremont McKenna College.

When formation of the Keystone Group was announced, Larry Kosmont said, "California has experienced a noticeable level of business flight but even worse there is anticipation in the business community that there is more to come.

It is time for California to reverse the perception that the State no longer cares about its employers or employees."

This study provides the basis upon which state leaders and legislators can begin to formulate an effective economic development strategy for manufacturing.

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