

Investing in Manufacturing for an Inclusive Recovery

This is an excerpt from a JEDE Background Report, 2021 Priorities for an Inclusive Economic Recovery

Manufacturing plays an important role within the California economy, supporting international trade and small businesses within the global supply chain while providing high-paying jobs throughout. In 2017, California's 35,321 manufacturing establishments accounted for 14.2% of all manufacturing plants in the US, which produced 10.67% of state GDP.

In 2018, the California manufacturing sector contributed over \$316.7 billion to the state economy, representing 10.7% of total output. Manufacturing employed 1.3 million workers in California in 2018, accounting for 7.66% of the state's non-farm employment in 2019. Average annual income for a worker in manufacturing was \$109,875 as compared to \$59,149 for the nonfarm workers. Average hourly earnings in manufacturing were \$31.58 in January of 2018, as compared to \$30 for all private industry sectors and \$18.04 for leisure and hospitality jobs.

Manufacturers bear a disproportionate share of federal regulatory costs. According to a report by the National Association of Manufacturers, the average US company, manufacturer or otherwise, pays \$9,991 per employee per year to comply with federal regulations. The average manufacturer in the US pays \$19,564 per employee per year. For small manufacturers (fewer than 50 employees), the regulatory impact is \$34,671 per employee per year.

Manufacturing is California's most export-intensive activity, with \$154 billion in manufactured goods exported in 2018, accounting for 86.6% of California's annual exports. Employment related to manufacturing has historically supported 25% of all manufacturing jobs. The growth in manufactured good between 2010 and 2019 was 19.8%. California exported \$40.4 billion in exports to Mexico and Canada under the USMCA agreement in 2019. The two largest exports by aggregate dollar value in 2020 were computers and electronic products valued at \$37.6 billion (25.4% of all exports) and transportation equipment at (\$17.3 billion (10.8%). *Appendix I* (page 65) includes a fact sheet on California trade and foreign investment activity.

Manufacturers comprise the largest sector of foreign-owned companies with US affiliates, employing 208.4 million workers in 2017. Also, manufacturing jobs have a large employment multiplier effect. According to the Milken Institute, each manufacturing job supports roughly 2.9 other jobs in the state's economy overall. In some specialized manufacturing sectors, such as electronics and computer manufacturing, the multiplier effect is as high as 16 to 1. One of the reasons for the large multiplier effect is the extended supply chains that are needed to support manufacturing and the export of goods, which include many small businesses and logistic companies.

Pre-Pandemic Estimates of Manufacturing Employment

EDD currently projects that, between 2016 and 2026, total employment in California will rise by 16.3%, with total employment in the manufacturing sector in California rising by only 0.1%, as shown in **Chart 12** below.

Chart 12 – Net Employment Growth in California				
	Annual Average Employment in 2016	Estimated Employment in 2026	Numerical Change	Percent Change
Total Employment	18,089,600	20,022,700	1,933,100	10.7%
Manufacturing	1,311,200	1,312,500	1,300	0.1%

While the aggregate employment growth is low, some subsectors are anticipated to have more significant increases, including motor vehicle manufacturing (103.1%) and Beverage and tobacco product manufacturing (20.5%). *Chart 13* provides a more detailed look at selected job growth in the manufacturing sector.

Chart 13 – Selected Net Job Growth in Manufacturing				
	Annual Average Employment in 2016	Estimated Employment in 2026	Numerical Change	Percent Change
Manufacturing	1,311,200	1,312,500	1,300	0.1%
Durable Goods Manufacturing (321,327,331-339)	820,800	829,500	8,700	1.1%
Wood Product Manufacturing	23,800	25,400	1,600	6.7%
Other Wood Product Manufacturing	16,800	18,000	1,200	7.1%
Primary Metal Manufacturing	17,300	15,200	-2,100	-12.1%
Fabricated Metal Product Manufacturing	130,500	126,500	-4,000	-3.1%
Machinery Manufacturing	74,200	75,000	800	1.1%
Motor Vehicle Manufacturing	9,600	19,500	9,900	103.1%
Aerospace Product and Parts Manufacturing	76,600	75,100	-1,500	-2.0%
Ship and Boat Building	9,400	8,000	-1,400	-14.9%
Furniture and Related Product Manufacturing	35,800	34,800	-1,000	-2.8%
Medical Equipment and Supplies Manufacturing	52,600	56,300	3,700	7.0%
Nondurable Goods Manufacturing (311-316,322-326)	490,400	483,000	-7,400	-1.5%
Food Manufacturing	160,500	166,600	6,100	3.8%
Beverage and Tobacco Product Manufacturing	57,500	69,300	11,800	20.5%
Apparel Manufacturing	47,700	37,200	-10,500	-22.0%
Paper Manufacturing	22,000	20,400	-1,600	-7.3%
Petroleum and Coal Products Manufacturing	13,900	12,400	-1,500	-10.8%
Chemical Manufacturing	84,400	85,800	1,400	1.7%
Pharmaceutical and Medicine Manufacturing	51,400	54,000	2,600	5.1%
Plastics and Rubber Products Manufacturing	44,500	41,200	-3,300	-7.4%

Supporting California's Manufacturing Competitiveness

The JEDE Committee spent a significant amount of time considering how the state can support manufacturing and overcome the challenges of California's complex tax and regulatory system (outlined in the regulatory reform section of the report).

During the 2017-18 Legislative Session, the Legislature and Governor extended the term and expanded the scope of the partial sales tax exemption for manufacturing equipment as part of the adoption of the 2017-18 State Budget.

The \$200 million annual California Competes Tax Credit was extended for an additional five years as part of the 2018-19 State Budget actions, except for \$20 million which is being refocused to provide small business technical assistance. The Legislature and the Governor also passed two significant tax credits for the aerospace and film industries.

In 2019, the Sales and Use Tax Exclusion was extended five years for a new sunset date of 2026. This extension is competitively awarded to advanced manufacturers, alternative transportation, and biomass equipment manufacturers.

The Role of Manufacturing During the COVID-19 Pandemic

California has and is facing many hurdles in meeting the challenge of the coronavirus emergency. Among these challenges, has been access to key essential goods, including, access to sanitizing agents, personal protective gear, ventilators, and key component parts of essential products, such as swabs for testing kits. Extended global supply chains hampered the state's ability to meet the basic needs of its health care system. While California's disaster response capabilities have been demonstrated to be some of the best in the world, COVID-19 has also demonstrated the serious downsides to global supply chains for crucial goods.

With limited domestic capacity, public and private entities in California had to initially pursue contracts with out-of-state and foreign producers. This too often resulted in high cost, poor quality, and unreliable deliveries. In a rapid response to these unacceptable outcomes, the Governor's Office of Business and Economic Development partnered with state trade associations, like the California Manufacturing and Technology Association (CMTA), who will be testifying at today's hearing; and the state-and-federally-supported, small business assistance centers, including the California Manufacturing Technology Corporation (CMTC), who testified at the February 23, 2021, hearing.

Over a matter of weeks, these entities collectively and individually reached out to California's dynamic manufactures to assess how these businesses could contribute to the state's emergency response efforts. Governor Newsom established a website (<https://covid19supplies.ca.gov/>), where businesses holding inventories of or with the capacity to produce health care-related products could directly connect with state contracting staff. Top priority products included ventilators, surgical masks, hand sanitizers, and hospital exam gowns. CMTA led in this effort by polling all its membership to identify current production and repurposing capacity. CMTA's manufacturer repurposing list can be found at:
https://cmta.net/multimedia/10th_list_of_mfg_repurposing_for_covid_19_cmta_w:o_contact_info_copy.pdf

The CMTC, working under repurposed funding from the GO-Biz Small Business Technical Assistance Expansion Program, worked one-on-one with small and medium-size manufacturers to shift their production to meet the state's top emergency supply needs. This pivot in manufacturing has required retooling of facilities, reworking of staffing, and establishing new supply sources, to name only a few of the required innovations. Below are examples how CMTC's clients evolved to meet California's COVID-19 challenge.

- ***Allett, National City***: Allett is a family-run slim wallet company established in 1995. By rethinking their production line, the company is transforming their warehouse in National City from making wallets to face masks. This project that began as a small one-time donation has become a business model. For anyone that purchases two masks, the company donates a mask. Most recently the company reported that it has donated over 3,500 masks, which has also allowed the small business to double its workforce.
- ***Armenco Truck Company, Chatsworth***: Since 1977, Armenco Truck, a family run company, has designed and delivered mobile trucks for food and other industries. For the COVID-19 pandemic, Armenco has the capabilities to supply mobile hand wash stations, mobile kitchens, and triage units for parks, homeless encampments, and other applications. Armenco is also supplying plastic partitions and guard stations which are being installed between manufacturing equipment stations and office areas.
- ***Dermaesthetics, Inc., Anaheim***: Dermaesthetics is a global skincare company, primarily selling to beauty professionals for over 30 years. When the call for hand sanitizers came, the company pivoted its production line and shipped at no-charge to California clinics, hospitals, senior care centers, etc. In addition, Dermaesthetics is selling its FDA and WHO compliant product in various sizes to the companies and the general public.

- ***Able Industrial Products, Ontario***: Able Industrial Products is a second generation family owned business, which pivoted to manufacture face shields from manufacturing automotive and aerospace gaskets. The company now provides 2,500+ face shields daily to St. Jude Medical Center in Fullerton and other medical centers in Southern California.

The Assembly Committee on Jobs, Economic Development, and the Economy, worked on legislation to support the financing of California products, [AB 3077 \(Garcia and Cervantes\)](#), as well as sending a letter to the Governor calling the establishment of ***Manufacturing Response and Recovery Initiative***. The purpose of the ***Manufacturing Response and Recovery Initiative*** was to both jump-start California's economic recovery, as well as becoming better prepared to protect the health and safety of Californians in the future.

CMTA joined with the California Business Roundtable and similar business and industry groups in Oregon and Washington State to write an open letter to their Governors outlining a [framework for reopening](#), which included the following goals:

- Business must help lead the recovery
- Expectations must be clear
- Employer concerns must be resolved
- Businesses – and individuals – should be allowed to return to work as soon as reasonable safety standards can be met
- Different sectors or regions may need different strategies and timelines
- The hardest hit industries should receive additional support and consideration
- Worker retraining should occur sooner rather than later
- Reviving our economy, and building strength for the long-term, must become a priority.

During the March 16, 2021, hearing Members will have an opportunity to hear more about the role CMTC and California manufacturers can play in an inclusive economic recovery.