Written by **Bob Adelmann** on July 9, 2015

Fracking Is Boosting Reshoring of American Jobs

In its latest report on American competitiveness, the Boston Consulting Group (BCG) estimates that the average cost to make goods in the United States is now only five-percent higher than in China, and between 10 and 20 percent lower when compared to the major European economies such as Germany and France. In less than three years, BCG projects China's advantage to disappear altogether.

While part of the reason is rising wages in China and in the Eurozone and American companies improving their productivity faster than their competitors abroad, the primary reason, says BCG, is fracking — the technology that has driven energy costs to a fraction of what they were just a few years ago.

Back in August 2013, Harold Sirkin, a senior partner at BCG, predicted the U-turn that would result in "reshoring" of millions of jobs, starting in 2015:

> Over the past couple of years, we've projected an improvement in U.S. manufacturing competitiveness by 2015 that would help drive an American manufacturing revival. The results of our latest survey make clear that a profound shift in attitude is beginning.
>
> When you look at the total cost of production for many goods, the U.S. appears increasingly attractive.

That was before decisions by OPEC led to sharp declines in oil prices. Efforts by hydraulic fracking companies drove down natural gas prices and resulted in precisely the "improvement" Sirkin predicted. U.S. industrial electricity costs are now between 30 percent and 50 percent lower than those in foreign countries.

Other factors than energy costs are factoring into decisions causing American companies to reshore jobs lost over the last decade. Factors such as delays in shipping, piracy risks, port strikes, not to mention local investments and partnerships that Beijing requires of foreign companies wanting to do business there.

The subterranean turnaround, largely ignored by the press, is remarkable. Just in the last couple of years, American companies have earmarked almost $140 billion in new investments here, with more to come. For instance, Sasol, the petrochemical giant, started construction on an $8 billion ethane cracking plant near Lake Charles, Louisiana. Cheniere and other energy companies are busy building liquid natural gas (LNG) terminals on the Gulf of Mexico to export overseas where natural gas is often three to four times as expensive as it is here.

Dow Chemical recently announced its decision to invest $6 billion in expanding its manufacturing facilities in the United States by 40 percent. This represents a major reversal of the petrochemical giant's policy of taking advantage of cheap labor overseas. Doug May, a Dow spokesman and division president, expects the energy advantage to continue well into the mid-2020s:

> We're putting $6 billion here in the U.S. Gulf Coast, betting that the gas advantage [will allow] us to get a suitable return on that investment [well] into the next decade.
>
> I think those trends [of lower energy costs] are going to last at least into the early or middle part of the next decade.

Although declining energy costs, thanks to fracking, have helped Dow and other petrochemical giants make those decisions, companies in other sectors such as metals, paper, and auto manufacturing are making similar decisions. Ford has shifted 3,250 jobs from Mexico to Ohio and Michigan, to build its F-650 and F-750 trucks, along with its Fusion automobile. Walmart has reshored more than 4,400 jobs back to the United States from a number of countries that are no longer competitive. GE and Caterpillar each has reshored 1,900 jobs to Kentucky, Ohio, Georgia, and Texas. Flextronics, NCR, and Boeing are also moving jobs back to the United States, thanks largely to the competitive advantage of lower energy prices.

A recent report by consulting firm AT Kearney confirmed the sea-change taking place:

> The documented reshoring activity has been observed across several sectors, including some where reshoring was expected: computers and electronics, appliances and medical equipment, primary metals, machinery, furniture, plastics and rubber, paper and fabricated metals.
>
> But reshoring is also happening in sectors that most thought would never return, such as apparel and textiles.

The advantage that fracking is giving the U.S. economy is likely to have very long legs, according to Harvard's Michael Porter: The United States has 101,117 fracked wells while in second place is Canada with 16,990. This contrasts with China, which has just 258. This gives the United States at least a 15-year advantage, and major companies are banking on that advantage to continue well into the future.

A graduate of an Ivy League school and a former investment advisor, Bob is a regular contributor to The New American *magazine and blogs frequently at www.LightFromTheRight.com, primarily on economics and politics.*

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