



Yardi Matrix

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Reshoring to Slowly Reshape Industrial

- In recent years, U.S. manufacturers have become well acquainted with the risks involved in making goods abroad. Not only did the pandemic stress supply chains but other risks posed by U.S. tensions with China over Taiwan, the war in Ukraine and climate change all can jeopardize a firm's operations. Consequently, many businesses are exploring reshoring production of goods to the U.S. The semiconductor industry is already beginning the process, which will facilitate further U.S. manufacturing, since semiconductors are critical components of countless products.
- While some companies were already building semiconductors stateside, the CHIPS Act passed by Congress and signed into law by President Biden this summer will allocate \$53 billion in funding to support domestic semiconductor manufacturing. Beyond chip manufacture, the Biden administration has committed billions to increase domestic supply-chain resiliency, and the Inflation Reduction Act incentivizes stateside production of renewable energy products, further boosting the long-term outlook of U.S. manufacturing.
- After decades of decline, manufacturing employment in the U.S. began to slowly recover coming out of the Great Financial Crisis. Data from the Bureau of Labor Statistics shows the economy adding more than 1.3 million jobs in the manufacturing sector between 2010 and 2020. However, that growth was waning and the sector was seeing minor declines even before the pandemic. As global supply chains have become stressed while the world rebounds from the pandemic, manufacturing employment growth has picked up pace, and there are more workers in the manufacturing sector now than at any point since 2008. The sector's employment growth has been higher than 3% year-over-year every month in 2022, a pace that had not been reached since November of 1984.
- Manufacturers that reshore production will face a unique set of challenges. Not only will they need industrial space to manufacture goods but logistics and distribution facilities, as well. With a national vacancy rate of just 4.1%, space may be hard to come by. A tight labor market means that site selection will not only be dependent on infrastructure but also on labor pools. American labor costs are also much higher than in places where manufacturing has been offshored, meaning firms will explore automation solutions and likely increase costs for their products to strike a balance. Production and supply chains are complex systems that take years to reshape—reshoring is not a quick fix for firms struggling in the current global economy. We expect that reshoring will continue during this decade, albeit at a slow pace, and be a driver of industrial real estate demand for years to come.

