U.S. Factories Keep Losing Ground to Global Rivals

After Paring Capacity, Moving Abroad, Steelmakers, Truck Manufacturers Find It Difficult to Switch Gears

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America’s shale boom has raised hopes of a revival in U.S. manufacturing, in part fueled by cheaper energy. But U.S. factories still are losing ground to rivals in Asia and Europe.

Much of the problem stems from steel, trucks, car parts, industrial machinery and furniture.

The U.S. deficit on trade in goods swelled in the first half to $371.59 billion from $354.64 a year earlier. Imports rose 3.3%, while exports increased 2.6%. Manufactured exports, excluding petroleum and coal, rose just 0.8%—far below last year’s modest 2.1% gain.

Without a strong, sustainable increase in exports, U.S. factories are unlikely to have the kind of resurgence forecast by some pundits. But achieving that growth is difficult as China and other countries have pursued aggressive export strategies and the U.S. has lost manufacturing skills and suppliers after shifting production overseas. China isn’t the only country winning the battle. U.S. trade gaps with the three largest members of the euro zone—Germany, France and Italy—all increased in the first half.

Some economists say it is just a matter of time before the U.S. starts to make gains in international trade. IHS economist Michael Montgomery says lower energy costs, the narrowing wage gap and other factors have a slow-motion effect that isn’t yet visible in the trade balance.

And imports of steel and industrial machinery in many cases are investments in the U.S. manufacturing base, something that will bolster the U.S. energy industry and factories in ways that should help spur exports down the line.
While the U.S. deficit in manufactured goods has expanded over the past 10 years, reaching $469 billion last year, exports have increased 90% while imports have increased 70%, according to data from Global Trade Information Services.

In some respects, U.S. manufacturers should be ahead of the global pack in boosting exports. Energy costs are dropping in the U.S. as hydraulic fracturing and other techniques have unlocked huge deposits of oil and natural gas in shale. Prices are falling for utilities that use natural gas to generate electricity. Industrial users in Germany pay 2.4 times more for electricity than their U.S. counterparts, according to the International Energy Agency.

And U.S. wages are stable, while wages in China have soared, narrowing the wage gap between the U.S. and its biggest economic rival. Add shipping, inventory and other costs, and the outlay for producing some goods in the U.S. can be roughly comparable with that of China, says Boston Consulting Group.

Four years ago, the White House aimed to double all U.S. exports over five years. That would have meant a rise to $3.16 trillion of exports this year. But research firm IHS Inc. forecasts $2.34 trillion in exports this year and $2.51 trillion next year.

The Commerce Department in part cites "unexpectedly strong global economic headwinds and macroeconomic factors outside our control. But that just means that we have more work to do." The department says it is providing information to small and midsize companies to help them pursue export opportunities, among other initiatives.

The best spots in the U.S. trade picture are related to energy. Petrochemical exports are expected to start rising rapidly in 2016 as new plants begin operating, reaching about $37 billion in 2019 from $26 billion this year, according to IHS. That will help. But it won’t make a big dent in the trade deficit on goods, which totaled $702 billion last year.

The reasons U.S. manufacturers are losing ground depend on the type of good. In electronics, production has shifted abroad so the U.S. doesn’t even compete in areas such as smartphones and television sets. Commercial truck makers fled to Mexico over the past decade and see no reason to come back.

"Certainly it’s the [lower] labor costs," says Navistar International Corp. Chief Operating Officer Jack Allen. "But it’s also a skilled and highly educated workforce, and we’ve had great cooperation from the union there, as well as the government."

Steel is a big part of the expanding trade deficit. Mill capacity and raw-material supplies were cut so much during the recession that there isn’t enough to meet rising demand. U.S. steel production was 95 million tons last year, while demand was 107 million tons, according to the American Iron and Steel Institute.

The U.S. is the "only mature economy" with a shortage of steel, says Mark Millett, chief executive of Fort Wayne, Ind., steelmaker Steel Dynamics Inc.

Just as drillers in North Dakota’s Bakken Shale and elsewhere need steel pipes for fracking, their suppliers have to look overseas. Makers of shelves and other steel-based products—cars, construction sites, for example—also need to import steel. U.S. imports of iron and steel rose 37.5% in the first half, to 21.9 million tons.
U.S. pipe makers have been losing ground to importers.

To cope with lost market share, TMK Ipsco recently idled a pipe mill in Kentucky and reduced working hours at other plants. David Mitch, CEO of the company, a unit of Russia’s OAO TMK, says government subsidies help some overseas competitors undercut his company's prices by 20%.

U.S. Steel Corp., citing similar factors, has halted work at plants in Mckeesport, Pa., and Bellville, Texas, that make steel pipes and tubes, resulting in 260 layoffs.

Some relief may be in sight. The U.S. International Trade Commission last week ruled that imports of oil pipes from South Korea and five other nations are being sold below fair value and should be subject to antidumping duties.

Where steelmakers are increasing output, they often are getting raw ingredients from abroad.

Charlotte, N.C., steelmaker Nucor Corp. boosted pig-iron imports 10% in the first half because of increased production, says CEO John Ferriola. Overall, U.S. pig-iron imports increased 28% to 2.4 million tons, much of it from Russia.

The trade gap for industrial machinery also expanded in the first half.

AccuRounds Inc., which makes parts for medical, aerospace and energy equipment, has spent more than $2 million over the past 18 months on computer-controlled machinery to shape metal, says CEO Michael Tamasi. All the machinery was made in Asia.

In the truck industry, while U.S. demand is rising, much of that demand is being met by Mexico and other countries. U.S. commercial-truck imports rose 36% in the first half. Mexico produced 297,229 commercial trucks last year, 68% higher than in 2010, says Power Systems Research.

A decade ago, nearly all of Navistar’s heavy-duty trucks were assembled in Chatham, Ont., and Garland, Texas. But the Lisle, Ill., company closed both sites and now builds the bulk of its heavy-duty models in Escobedo, near Monterrey, Mexico. A "great portion of our supply base has already relocated to Mexico or the southwest region of the U.S.,” say Mr. Allen, the operating chief. Escobedo "is 150 miles on a great highway to Laredo, Texas." Navistar also builds commercial trucks in Springfield, Ohio.

Large trucks used in mining were a bright spot for U.S. exports several years ago, but sales have since plunged as the mining industry retrenched. Sales of Caterpillar Inc.'s large mining trucks—as big as small houses—this year are expected to be down about 80% from the 2012 peak. "We're well poised to respond to our customers when the market improves," says a spokeswoman for the Peoria, Ill., company.

At least one longtime importer is hopeful of getting more supplies within the U.S. in the next few years, however.

Sim-Tex LP President Chuck Scianna says he imports about 95% of the roughly 500,000 tons of steel a year he supplies to distributors who sell to oil and gas companies.

That wasn't always the case. The Waller, Texas, wholesaler used to get supplies largely from U.S. Steel before the industry retrenched. "In the United States, it's not as easy to have blast furnaces and different kinds of mills because of [environmental] rules," Mr. Scianna says.
The pendulum is poised to change direction again, though as billions of dollars in new plants in the U.S. come online in the next few years.

Mr. Scianna says he plans to distribute steel pipe and tube made at a plant that Austria-based Benteler Steel & Tube is building in Shreveport, La. It will open next year and lower Sim-Tex’s percentage of imports to 80%, Mr. Scianna says.

"If you go around the world and talk to people, the United States is the new emerging market" for steel products, he says.

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