



Regions Insights Podcast

Episode 6: The Reshoring Revolution

This episode will give you a fresh perspective on the future of domestic manufacturing, the industries likely to be affected, and the implications for all of us. Regions analysts Fran Smitherman and Chris Walker will provide a peek into the world of reshoring and its seismic impact on the global supply chain. Our guest, Harry Moser, the founder of "The Reshoring Initiative," will talk about his mission to rekindle manufacturing jobs here in the U.S.

Episode Transcript

Chris Blose: How many times have you heard the phrase “supply chain” in the past three years? With the disruptions companies and consumers experienced in receiving parts and products during the pandemic, chances are you heard the phrase more than usual.

Now more companies — particularly those in manufacturing — are considering the option of reshoring, or bringing the production of some of those parts and products back to American shores.

Welcome to The Regions Insights Podcast. I’m your host, Chris Blose, and on this show, we look at trends, tips and triumphs around your money. Our topic today is reshoring.

The story of international trade for the past several decades has been one of increasing segmentation and more complicated supply chains. In some cases, this has brought costs down and improved access and convenience — but it also has meant lost jobs and a trade deficit for the country. The pandemic didn’t start the trend of reshoring, but it did accelerate it.

Later, we’ll get perspective on what that means for companies and investors alike from Regions team members Fran Smitherman and Chris Walker. But first, we hear from Harry Moser, a man who has personal experience with the loss of jobs and production to other countries.



Harry Moser, President and Founder of “The Reshoring Initiative”: I grew up in Elizabeth, New Jersey, which is right across the river from New York City. And the biggest thing in town was Singers sewing machine. That was their main plant in the world. And at one time it was the largest factory of any kind in the world. And my father ran about a third of it. His father was a foreman. I worked there summers and, and it was a Goliath. And I went past 20 years ago, and it's gone, you know, everything, as far as I can tell, the Singer sells as imported from typically low lower cost countries, lower wage countries. And throughout my career I sold CNC machine tools, foundry equipment, that kind of thing. And company after company, industry after industry, I wanted to sell to went out of business, wiped out by imports. And so I said, when I have a chance, I'm going to do something about that.

Chris Blose: Moser went on to get two degrees in engineering, an MBA, and become president of a manufacturing company. But his current mission is The Reshoring Initiative, which he founded with the goal of bringing 6 million manufacturing jobs back to the U.S.

I started by asking him more about what he sees as the driving factors behind reshoring, and what the benefits might be.

Harry Moser: The answer to that changes a bit over time. I founded this in 2010, and the trends started going then and from then until say 2019 companies started to recognize a variety of costs in what I'll call small risk, like a week late delivery or, you know, costs like travel and carrying cost of inventory because you have to keep more because you don't know for sure when the delivery's going to arrive. And a variety of things like that, sort of death of a thousand cuts and a fair number of companies decided to act on it. But then around 2020 we'd had the experience of Covid and Suez Canal and then eventually the Russian Ukraine, and now the geopolitical tension over Taiwan. And now companies are worried about not a week later, two weeks late, but maybe never receiving the things that they have on order or being cut off completely from those sources. And they're starting to say, I can deal with a little more price to make sure I have the product.

Chris Blose:

When you speak with the heads of companies, when you speak with people in the industry is there more movement or more momentum behind this idea of reshoring now after the supply chain disruption, after the other geopolitical events that you mentioned that we've experienced here in the last two or three years?



Harry Moser:

We track the number of jobs announced to be reshored because it can take a year or two years sometimes to build the factory. So we tracked the announcements and that rate has gone from about 6,000 jobs announced per year back in 2010 when we started, to last year, 2022, 360,000 in the year. And this year looks like 410 or 420,000. So continuous increase in the rate of reshoring has been very satisfying in that regard. And manufacturing employment in the US is consistent with that. For a long time, US manufacturing employment had been declining. And if you regress that, if you draw a line through the trend that was going on and then compare it to where we are actually now, we've got four or 5 million jobs more than one would've projected 13 years ago. Why? Because there's a lot less offshoring, a lot less factories shutting down here and there, we're going somewhere else and a lot more of the factories coming back here from offshore. So the result has been very satisfying.

Chris Blose:

With that trend and an increase in the number of manufacturing jobs are the types of job changing as well with, you know, the emergence of new technology like automation and manufacturing and other factors such as that?

Harry Moser:

Certainly that's the case and it is driven by a couple things. First, you need to get the cost down and our wages are 2, 3, 5 times as high as some of these other countries. So if you're gonna be anywhere near competitive, you have to be highly automated. On the other hand, US manufacturing labor productivity, so the output per labor hour has been dismal for the last 10 or 12 years. It's been rising at about half a percent or 1% per year down from two or 3% a year prior to that. And compared to the Chinese who at least claim that they're achieving 5, 6, 7% per year productivity improvement. So we're like in Alice in Wonderland, we're not, we've gotta run a lot faster just to stay even.

Chris Blose:

What are some of the techniques or processes that used to try to increase that or, or reduce that sort of deficit and productivity?

Harry Moser:



The first thing is to measure the difference between the cost here and the cost there or the price here and the price there, to look not at the FOB price, not at the X Works price, but instead of the total cost of ownership. So we have online, a free tool, for companies to use that helps them calculate that and it starts with that FOB price and that adds in the duty and the freight and the carrying cost of inventory and the travel cost and the risk of stocking out and a variety of other considerations like that. When they do that, the picture changes dramatically. I took the first 190 cases we had where users had compared the US to China, and based on price, the US won 8% of the time based on total cost of 32% of the time. And if there was a 25% section 301 tariff, the Trump tariffs on China, then the US win rate went up to over 50%. So just by doing the math correctly, by going away from just looking at price to looking at all the relevant costs and risks, the US win rate rises dramatically.

That's key to do the math correctly, to get things going. If you don't do that, the work is gonna stay abroad.

Chris Blöse:

Yeah, it sounds like it's a little bit of looking at a big picture and a longer term picture as well. With that in mind, you know, you've talked about some of the supply chain challenges, some of the geopolitical events that you reduce your exposure to that by reshoring. What about consumer behavior? That's something we've talked about a lot in the last three or four years and how drastically that has changed. How are companies potentially able to benefit with reshoring as it relates to, you know, new trends in consumer behavior?

Harry Moser:

Increasingly, surveys of consumer behavior, or consumer preference, show that consumers prefer to buy a made in USA product. And they certainly prefer to not buy a made in China product or a Russian product, you know, at the moment. Consumers say they do that, but then they go into the store and if you're looking at a typical small clothing store, 98% of it's made offshore. To me, the challenge is for the companies to make it easy for the consumer to follow their preferences. So I've recommended to smaller stores that they have a sign up that says "ask us about our made in USA product" and a big flag and so on. And then you can go over to them and say, I'm interested. And they give you a printout and it says shirts aisle three, you know, shelf four <laugh> kind of thing.

Cause if you don't do that, you have to turn a hundred labels to find one or two that are made in the United States. So we think that if companies did that, if retailers did that, they'd say, huh, the US still sells em, maybe we should stock some more made in USA product. And if you made



it easy for people, made it easier. Like I go out shopping and if I want a hammer and I pick up 10 hammers and none of 'em are made in the US well I buy one of 'em cuz I can't spend an hour there looking for hammers. So you've gotta make it easy for people and if you do that, I'm convinced that even more reshoring will happen.

Chris Blöse:

Yeah. Ease and convenience, obviously that's one big hurdle to overcome. What are other challenges that companies face if they're thinking about reshoring?

Harry Moser:

Workforce. No, we all know that there's a shortage of people and in all it's been true in manufacturing for 40 years. There's been a shortage, toolmakers, welders, precision machinists, everybody was told you gotta go to college if you want to get ahead and therefore they did. And that has left us for years with a shortage. And now it's even worse cuz the whole workforce has shrunk a bit due to covid and early retirement and things like that. And therefore the other occupations have shortages too. And now they're fighting with manufacturing for the available workforce. To achieve my mission of 40% increase in manufacturing, it's gonna take 30 or 40% more people, millions, millions more people. And to be competitive, to overcome that wage rate of being, you know, 2, 3, 4 times many of our competitor countries we need highly skilled people that can help automate and help optimize the use of that automated equipment. So we get our costs down to the point where we're competitive, and so the companies can then see that it makes sense to bring the work back.

Chris Blöse:

Yeah. And where have you seen successes in sort of overcoming some of those challenges, whether it's, you know, looking for the right workforce, overcoming the sort of wage gap that you've described, or even those consumer preferences. Where have you seen successful techniques implemented?

Harry Moser:

You know, one of the most impressive is that one of the major national retailers, consumer goods retailers had a 250 billion per year program to increase their sales of made USA products and they did pretty well against it. And then they just recently increased that to \$350 billion dollars over a 10 year period. So 250 billion over 10 years, now, 350 billion over 10 years, and have done a nice job. They, the retailer in fact, claims that made in USA is the second most important criterion for purchases by their customers, second beyond price.



And so they've succeeded in terms of workforce the country and states and communities have, have taken a serious effort to provide the workforce that's needed. So for example, on these chip foundries and some of the auto plants and the battery plants that have gone in, some combination of federal money, state local money, community college, builds a new training center, hundreds of kids are going through it to get trained to become the technicians and maybe the engineers for the factories.

And, I'd like to see us be more like Germany, you know, in Germany, Switzerland, Austria, 50, 60% of the kids go into apprenticeships and they wind up on average doing as well as the kids that go on to university. And in US people that go into apprenticeships do as well as people that go onto university on average, but they don't know that that's available. They don't know that that's a equally attractive outcome. And so it's up to the Department of Labor, Department of Education to educate the parents, the guidance counselors, the students, that apprenticeship and similar kinds of training is a wonderful career.

Chris Blose:

Yeah. It seems like several of these issues are, are bound up in perceptions, basically, whether it's the, the workforce and getting people into that pipeline or whether it's, you know, perceptions around that made in made in the USA label as well.

Harry Moser:

One of the problems actually is government. So I've chastised the Department of Labor frequently in that they have a chart, you, you've probably seen it's a bar chart and it has income as a function of number of degrees starting with no high school working its way up. And it says "make a million dollars more with a degree versus high school." But I'm trying to convince them to put the average income of someone who's passing an apprenticeship and show that it's as good as the bachelor's degree, but without the tuition and starting work and getting paid four or five years earlier. And so the government is, is part of the problem and needs to get out of the way to let the economy work.

Chris Blose:

Now talking in terms of the economy too, I know a big part of this in terms of advocacy, advocacy for you is the balance in trade, right? So why do you think it's so important to address our current trade deficit and what benefits to the country emerge from a better balance there?

Harry Moser:



For the country, it's amazing what it will do. You fix the trade deficit and at the same time you fix the budget deficit to a significant extent because you've got more people working in higher income jobs and more companies making profits and paying taxes. And so you reduce the budget deficit, the environment that's now, you know, one of the highest priorities for most people. We've done a study of comparing an aluminum dye casting produced in China and shipped here versus produced here. And the combination of the emissions from the transportation, but even more so that the Chinese electricity is much more coal based and therefore more carbon emitting per kilowatt hour. You put those two together and the US produced product for the US has 25 to 50% less emissions than otherwise.

But the companies think mainly about putting solar cells on the roof of their store instead of changing where they buy the product that they're gonna put in the store. Now, income inequality, we've all seen the charts that show the severe change in income equality. And some of that's, we've got more billionaires, no question, but an awful lot of it is the hollowing out of the middle because we lost those 5 or 6 million middle class solid manufacturing jobs. You push those back in and all of a sudden the curve looks an awful lot better, which then tends to give you better political stability, better cooperation, local taxes being paid, every, everything's better. So, we believe naturally that that reshoring will solve an awful lot of problems for the country.

Not to forget now, the defense industrial base. Now every day in the media I read about, we don't have enough howitzer shells to ship to Ukraine. And if we got into a war over Taiwan, our supplies would run out in a week or two. Unlike the Second World War where we were the arsenal of democracy and our factories were able to produce everything that was needed for the wars. So having a bigger industrial base, producing more steel, producing more nuts and bolts, producing more of everything, it allows the country to then convert some of that capacity to produce the things it needs, if it ever gets into a condition, which I hope it'll never happen, but if it ever gets there, you got the capacity to meet it.

Chris Blöse:

Yeah, that's fascinating. I don't think that's an aspect of this that many people consider.

Harry Moser:

Well, actually, the committee in the House of Representatives did a simulation of a war against Taiwan, and they concluded the US would run out of most things within two weeks.



Chris Blose:

Wow. I can understand why you're an advocate for this. Harry, you've mentioned some positive trends, particularly with the, you know, uptick in manufacturing jobs here in the last three or four years. What sort of trends do you expect to see later this year, going into next year and the next few years? What should people watch for in this area?

Harry Moser:

Well this year the number of jobs announced, we believe, will go from 360,000 last year to 410,420 this year, may be a 10% increase, a very satisfying, very nice number. But the labor availability is gonna get tighter cuz there's been dozens of these billion dollar plus factories announced for chips, for EV batteries, for all kinds, solar, all kinds of things. And those are gonna suck up tens of thousands of workers, which is gonna tighten the supply even further from where it is today. So if we want the trend to continue, if we want to get up to 500,600,000 reshoring jobs announced per year, we have to get our society to help students see that getting a, you know, apprenticeship, a skill, and at the same time, perhaps getting an associate's degree and then going on to get a bachelor's degree at night and let your employer pay for everything can be a very attractive alternative for the worker, the company and for the country.

Chris Blose:

Well, Harry, thank you so much for joining us today. We really appreciate your perspective on this.

Harry Moser:

Very good. It's an honor to be here.

Chris Blose: Harry Moser is clearly an advocate, based on both his personal and professional experience. But the mission to reshore large numbers of jobs has implications for both the broader economy and the banking sector.

To get insights into those implications, we're joined by Chris Walker, Equity Analyst at Regions Bank.

I started by asking Chris: How does he recognize when reshoring might make sense for a company?



Chris Walker, Equity Analyst at Regions Bank:

Yeah, so companies that stand to benefit from the reshoring movement, or companies that have very complex supply chains, meaning some companies have a condition of interconnectedness or interdependencies across their network, where a change in one component could have an effect on another portion of the supply chain. Prime example would be the ship shortage that we've experienced here recently. So with the semiconductor shortage, that was a multifaceted problem that began during the pandemic when a large number of the working population had to work from home, schools, held classes virtually. So that caused just everyone to purchase tablets, laptops, gaming consoles, electronics all at once. and the demand for these devices put a strain on the chip manufacturers that were dealing with lockdowns themselves, not having their workforces at full capacity, you know, cause supply chain disruptions just bled into other industries like automobiles and other electronic devices not having chips.

So, while the pandemic was still ongoing and as I mentioned, with trade relations in the US and China deteriorating you also had a drought in Taiwan that produces 60% of the world's semiconductors. So due to that drought the Taiwanese government limited the amount of water that those factories could use. CHIP production requires massive, massive amounts of water. So this hurt production there.

So all of the events that helped with the passage of the Chips and Science Act of 2022 that offers grants and tax incentives to encourage semiconductor plant construction for chip related companies. This will help cut down on the US's dependency on overseas chip makers and help solve some of the complex supply chain issues for semiconductors. So this stands to benefit many of those semiconductor companies moving some of their overseas manufacturing facilities back to the states. This also helps automobile makers that stand to benefit with auto companies moving factories back to the states. One is building their EV facility in Memphis and as the EV adoption grows other companies in the electrical equipment space stand to benefit from automating these auto companies assembly lines, pharma and medical device companies looking to reduce their reliance on China, which supplies around 70% of global active pharmaceutical ingredients. China being one of the largest medical device manufacturing hubs. So with companies moving away from these exposures in China will help secure the supply of essential drugs and medical equipment.



And then just secondary effects: construction companies, engineering companies with the designing and building of new facilities, can be clear beneficiaries of the move to reshore. And then, for every durable goods manufacturing job that is brought back to the US, an estimated seven indirect jobs would be created in industries like banking, retail, and more. So having said that, an investor could research whatever banks and particular geographical region that stand to benefit from people moving there for new jobs that came about because of REshoring.

Chris Blöse:

So it really does have downstream effects too. It's not just those, those individual manufacturing jobs.

Chris Walker: Absolutely.

Chris Blöse:

So I'm glad you brought up the geographic regions. Are there certain geographic areas, either because of access to ports or other sort of supply line advantages that stand to benefit more from this reshoring movement than others?

Chris Walker:

Yes. So I mentioned that the CHIPS Act brought on investment from a particular company to build two facilities in the U.S. more specifically the Phoenix Metro area which has dubbed itself the 'semiconductor desert'. So because of this company that's building one factory and has and will potentially build a second facility there that would bring total investment to Arizona in the semiconductor space to 40 billion just from that company trading 1900 jobs over five years. And why this company chose Arizona more specifically Phoenix this company considered all 50 states, but ultimately landed on Phoenix, in part because of its existing semiconductor businesses there.

And then another company that's based in the Netherlands that develops and builds the equipment for these semiconductor companies moved their North American headquarters to Phoenix, that employs 750 people. It also doesn't hurt that Phoenix agreed to provide 200 million to develop roads, sewers, and other infrastructure for this company's development that came about with the CHIPS Act. In addition to tax breaks and other grants, the state of Arizona promised to expand technical engineering education in the state and Arizona State University



there in Tempe, lobbied hard for the passage of the CHIPS Act and promised to put considerable money into their engineering schools. So I think, you know, Phoenix is clearly one region to focus on.

Chris Blose:

Yeah, it sounds like it's pretty multifaceted. You've got the private enterprise piece and, and companies are perhaps looking for that existing expertise in a region, but then you've clearly got the sort of incentives coming from, from regulation and from the government side as well. Are there other things that an investor should pay attention to, other factors related to the reshoring movement if they want to stay on top of this trend and make the most of what companies are going to do well in this environment?

Chris Walker:

Sure. So if investors are you know, interested in putting some money towards this theme, it's more just kind of keeping up with, you know, you see it a lot with companies earnings reports that just being like a buzzword, reshoring, you hear CEOs and CFOs just mentioning that at a pretty good clip. But I would say just with some of those industries that I mentioned come different risk. So first and foremost, like an investor just you know, should consider like what their goals are, their risk tolerance is and their objectives, and whether or not that warrants exposure to some of these growth companies that stand to benefit from reshoring you know, like semiconductors electric vehicle names, pharma, aero, aerospace manufacturing. You know, some of these companies have betas that are greater than the market. So, some of these companies have betas that are right at two, whereas some of these, maybe construction companies, transportation companies, engineering companies, they have a beta less than one, so less volatility, less fluctuation. So, you know, kind of taking all that into consideration and then, you know, just constantly monitoring and interviewing these companies on a regular basis, I think is a good place to start.

Chris Blose: You know, it sounds like this is going to change the entire supply chain, and, and some cases, if, you know, your chips are no longer coming from across the world, they're coming from someplace here in the United States, you've got a different set of partners, you've got an entirely different supply chain. Does that change the vetting process for investors when they're thinking about an opportunity?

Chris Walker:

Yes. I think with companies moving jobs back to the states you could see consumers' perceptions change because they might see a company producing their goods here



domestically. They might put a higher level of quality or liability versus if it was made overseas. But they also need to consider that this is a long process. So with companies bringing back jobs here to the states, it can bring increases in production costs due to higher wages, stricter regulations, but also it can reduce transportation costs with importing goods. Being closer to production may be advantage for companies to get their certification and compliant processes done at a higher quicker pace. And then lastly, with companies bringing jobs back to the states, they consumers might prioritize sustainability and ethical considerations. Reshoring can align consumers' concerns about buying goods from companies that might prioritize environmental standards and fair labor practices. And in doing so, this could attract an environmentally and socially conscious investor. So I think the net effect will depend on just a myriad of factors.

Chris Blöse:

And how, in terms of sustainability and just growth for companies that are pursuing reshoring, how can manufacturers leverage new technologies such as automation, AI, machine learning, etcetera, as they're sort of rethinking their entire process and reshoring?

Chris Walker:

Yeah, so I saw a survey recently that 55% of companies plan to invest in some sort of automated technology in the next 12 months. You've seen annual investment in AI has reached you know, over 150 billion; investors are pouring tons of money into these things, with you know, cloud computing and internet of things technology. So, with AI and machine learning you know, I think they're key elements in the move toward new systems that can kind of make sense of disconnected data and bring a new level of harmony to global supply chains. You've seen McKenzie do research on how much AI could potentially change the way manufacturing, and they estimate by 2030 the share of physical and manual task and the overall economy will have fallen by almost 30% since 2016. So, you know, you could, you could definitely see these manual physical tasks being reduced and being replaced by more, I guess, technological and cognitive skills.

Chris Blöse:

We're talking about something that if, if we do have an increase in domestic production and, and reshoring does continue as a trend, it could really shift the trade ballot. So what effect do you see that having on sort of trade policies and international relations and just the general geopolitical landscape?

Chris Walker:



Before Covid there were talks of souring trade relations with the US and China, then covid happened. Then the China trade relations worsened, which got a lot of businesses to really start rethinking their supply chains. This stems from more and more companies coming forth with, with evidence of theft of intellectual property, about by the Chinese government companies fear of just conducting normal business activities in China, such as market research could be construed as spying with their expanded anti espionage laws. So companies have to understand the risk if your entire product or one of its key components is manufactured, you know, not just in China, but in other countries.

So you know, one has to consider, you know, the control of intellectual property. You know, what happens if a company moves away from a contractor or joint venture partner overseas? Does the company have enough knowledge of your production processes to replicate it? You know, so I think that's a real important question. And I think it's just, you know, companies on one hand, they would love to bring back manufacturing facilities back to the states, reducing dependence on foreign suppliers, more collaboration with various groups within their organization, less regulatory risk, political stability, you've got the IP protection standpoint that I'm, that I mentioned, and then just a more sound regulatory environment. But on the other side, you've got the big driver of more expensive labor costs, potential increase in raw materials, and then you've got more cost to try and educate your existing workforce and recruiting efforts. And then, you know, as I mentioned, just the fear of retaliation by these companies to replicate or attempt to produce your product.

Chris Blöse:

Yeah. It seems like it'll be an interesting space to watch here in the next few years. I mean, with that in mind, how do you see this trend reshaping the investment landscape over the next few years?

Chris Walker:

I would say I would think that it's going to be a mix of reshoring, friend-shoring that I mentioned. So that's, you know, maybe moving manufacturing facilities out of China and into you know, Vietnam, Malaysia, India, or Nearshoring, for instance, which is moving manufacturing facilities to a country that you share borders with and have good trade relations with. So like Mexico for instance, I think that could, they could be a huge beneficiary of this. And I think just from, the manufacturing sector is recovered little over a million jobs that it had lost in the decade prior to 2010 when it saw losses of almost 6 million manufacturing jobs. From 2000 to 2010 I think there's gonna be more and more of an emphasis on AI, with billions



of dollars being invested, to provide just an increased amount of coherence around global supply chains. I think it's inevitable that the share of physical and manual tasks continue to decline in the coming years.

You know, so taking all this into account, I think we're just rapidly approaching a critical juncture for companies to address skill gaps in their workforces. Companies will have to decide, you know, which approach works best for their organization? Is it hiring new staff with the right skills, retraining their existing workforces to prepare for new roles? Or is it taking a hybrid approach, some sort of balance between those two. And I think it might not make sense for a company to bring back all of their manufacturing jobs to the states. So, as I said, I think it's going to be some mixture of reshoring and either nearshoring and friendshoring.

Chris Blöse:

Seems like it's gonna be an interesting space to watch here in the next few years. Thank you so much for joining us today, Chris. We really appreciate your time and your perspective.

Chris Walker:

Thanks so much for having me.

The views and opinions expressed are those of myself and myself only and do not reflect the views and opinions of Regions bank or Regions Investment Management.

Chris Blöse: As both Harry and Chris have noted, reshoring is not an entirely new discussion or phenomenon. That's why our next guest has been studying it for years, including producing research reports.

Fran Smitherman is Director of Equity Research for Regions Investment Management. I asked her what led her to want to analyze reshoring and its implications for the industry.

Fran Smitherman, Director of Equity Research for Regions Investment Management:

A few years ago I read a book that was actually written in 2006. You know, it kind of posed the idea that by 2024, you know, cause of all of the death that we had as a nation, we would be insolvent. And then by 2040, because of all the moves offshore of our manufacturing facilities, we would not have any manufacturing jobs in this country by 2040. So, clearly that got my attention and I started wanting to do a little bit of research on it, and I have been working with



my team with various industrial analysts to look further into it. And just this past year, all of the research came to fruition in the form of a paper that we had written. I think with the pandemic, there's finally been a lot of realization that moving everything offshore kind of poses risk for the United States manufacturer. So I think it's starting to get a little bit more attention now. So that's really what got my interest, it was a book called *The Hollowing of America*, by Dr. James Cunningham.

Chris Blöse:

What are some of the factors that have brought this to the forefront? You know, I know supply chain is something obviously we've talked about quite a bit. Tell our listeners why this is something that has become a little bit more important in people's minds.

Fran Smitherman:

I think one of the first things that happened was the dramatic drop in the supply of automobiles. And this was really pretty prevalent during the pandemic, and it could all go back to the lack of supply of chips. You know, that we have OEMs, we have auto manufacturers in the United States, but they couldn't get one very critical piece of the puzzle to get the cars out. And, you know, this was just one tiny thing that, sparked inflation for car prices, used car prices, and this was starting to happen across a bunch of different industries as things weren't being able to make it over to the United States. So, you know, I've been in the business for, like I said, almost 30 years, and inflation has been tame until that point. So I think when people see prices going up, it really might make them think a little bit more about Made in America. So it's definitely become more in the public's eye in the last couple of years, largely due to inflation and the supply chain constraints that you mentioned.

Chris Blöse:

Yeah, and I'm glad you brought up pricing. Obviously that's a big part of it, both from the producer and the consumer aspect of this ultimately, you know, bringing supply onto the, onto American Shores, you know, bringing manufacturing in some form or fashion onto American Shores. How can that affect the pricing dynamics within a particular industry?

Fran Smitherman:

You know, I think if you had a more efficient and reliable supply chain, that would hypothetically impact pricing dynamics for consumers in a good way, because it would probably save on costs for the companies that are manufacturing the goods, but initially it may not have such a positive impact because goods would be more expensive if we had to make them here just because we have a higher labor cost structure. You know, one of the reasons that we



shifted overseas was because the low cost countries that were manufacturing for us helped save companies money. You know, but recently even China's minimum wage has risen, so the discrepancy maybe isn't what it once was, and the time could be right. It could actually have a positive impact on pricing that could impact consumers.

Chris Blose:

With that idea, the idea of higher labor costs, obviously that's been a big factor that has caused that move overseas with a lot of manufacturing for instance. How do you make the case now to American manufacturers to other companies about moving things to America? You know, how do you make that counter case on what the benefits are that might outweigh those higher labor costs?

Fran Smitherman:

You know, one of the biggest benefits, besides the costs and the social aspect of it is, is the reduction of business risks and exposures to geopolitical risk. Whenever you're depending on an outside party that's thousands of miles away to deliver key inputs, that's gonna add risk to your profile. So while bringing things in house might add cost in the near term, it's always gonna be good to have greater control and closer proximity to your suppliers. The recent chips and semiconductor act, which my team wrote a piece on last year, addresses some of the current concerns that we saw with semiconductors. I mentioned that previously. So we're going to be watching with excitement as fabrication plants are built here in the United States, and, you know, we're hoping this is gonna have implications for jobs, for supply chains, for innovation, for reducing business risk and geopolitical risk. And chips, they just touch so many different industries. We know of manufacturing going up now in New York and Arizona and Ohio. So I really think that, you know, there's a lot that you can really go into to explore what kind of benefits this is gonna have for our country.

Chris Blose:

I'm curious what, you know, chips being a, a pretty prime example. If more chips are produced in America, for example, how can that trend potentially lead to increased innovation, increased technological advancements, and what sort of industries might that apply to?

Fran Smitherman:

Lots of different industries. You know, there's been so much attention this year in the media on AI or artificial intelligence, but to me there just really hasn't been enough attention on this reshoring trend. And they're tied in my mind, they are, you know, the manufacturing story for



the plants that are being built to fuel AI. That's as big of a story to me and it's gonna take a few years for these semiconductor plants to come online. But I think when they do, there is gonna be increased innovation. There are gonna be technological enhancements, it's gonna impact robotics automation. I think it's gonna impact the trucking industry a great deal. I've even heard of it impacting, you know, the healthcare industry, financial services. So it's far flung, the impact it can have. I just think the biggest impediment, what we're really gonna have to be ready for, is the training involved and companies are gonna have to be willing to hire the right type of designers and engineers to support this wave. And, you know, we've lost a lot of manufacturing over the last few decades, like apparel. Not saying that everything's gonna be coming back over here, but I do think that we do have an innovative wave and an appetite for this that, you know, the timing might be right, that we're gonna start to see more of this and it will lead to technological advancements here.

Chris Blose:

Yeah. I'm curious too for those industries that may not fully come back onshore, that may not be fully reshored. Are there other sort of alternative approaches to either, you know, shoring up the supply chain or reducing some of that risk that some of those industries are taking?

Fran Smitherman: There's probably some industries that may never come back here. And if there's any one reason, it could be the lack of willingness to work in those industries. I think there's really more of a draw to the technological aspect in the semiconductors and things along those lines. But, you know, there's been so much in the way of automation and robotics that we may never see some industries fully come back here to the US and apparel could be one of those. It, you know, it's almost 100% outside the US at this point. So the theme of reshoring doesn't assume that every industry's gonna come back, but even, you know, some swing of the pendulum back our way would be a positive.

Chris Blose:

You mentioned the CHIPS Act, that's obviously a case where, a regulatory environment or policy is supporting that move. Are there other things, you know, that manufacturers, companies, investors should watch on the regulatory front or on the policy front?

Fran Smitherman:

The regulatory part is gonna be difficult cause these companies that have been manufacturing for so long outside of the United States, they've come a long way to satisfy the regulatory requirements and the strict specifications. So I think that that's gonna be a problem. It's gonna be a deterrent to getting the manufacturing plants back in the United States cause we are so



regulated even getting the land approved for these plants. So I definitely think that, you know, that and labor could be some deterrence or some things that could be a little bit of a roadblock. Because we do have a lot of regulations here in the US.

You know, we take a lot of pride in the thought of bringing manufacturing back to the United States. We wanna think that if it's back here, it's automatically going to be you know, products are gonna be better, they're gonna be safer. But you know, like I said, these companies that have been working under our standards for so long have actually got it down to a science. So it's gonna take a lot of education and training to get our new manufacturing plants up to that level.

Chris Blöse:

You mentioned earlier, perception's obviously a part of this and you talked about that made in America label. So, what is the current perception of that made in America label and how might that change over time if there are more and more products being produced here again?

Fran Smitherman:

Yeah, there's a company called Kearney that I love to read their reports each year because they follow this manufacturing and reshoring theme very, very closely. And they put a poll out in 2022. And the results of that poll were that consumers that were looking for American made goods were willing to pay anywhere from 10 to 20% more for those goods. So now I don't have anything to prove it, but I'm just thinking, just common sense would say if we begin to reverse this decades old trend of moving manufacturing outside the United States and we see more of our goods made here in America, that premium associated with that might begin to dissipate as it becomes more common, so to speak. But that's just my conjecture. I don't have anything to prove that.

Chris Blöse:

I wanna talk about the investor side of this too. So, you know, if you're an investor, and obviously you're looking at markets across the board here, so if you're talking to an investor and they're interested in, in looking at what's going on in manufacturing right now, how are you gonna advise them on, what's happening right now? What's coming in the future? How should they be watching this reshoring trend and what are the implications for this kind of investment policies?

Fran Smitherman:



Yeah. I think of it in two different ways. One is obviously the immediate earnings impact. Investors have short time horizons, they wanna know what's gonna impact earnings now. And there are a lot of people that have a lot of hope for this theme. But there are also a lot of people who are skeptical and they say that we've got weak PMI data right now. It's not really indicating that these domestic CapEx trends are convincing enough to say that this is happening. But I would just love to remind everybody that, you know, have patience. It took time for the productivity enhancements from the nineties technology to actually make their way to corporate margins and bottom lines. And I think that reshoring is gonna take time as well. So it's not an immediate benefit. It may not be an immediate benefit, it may cost money in the near term but I think it's the right move over time to reduce our reliance on overseas suppliers.

And then in terms of, you know, thinking of like from an ESGs perspective like corporate governance and sustainability, companies are feeling this pressure from a social standpoint to bring manufacturing back here. And due to the nature of what I do in the business, we have access to a lot of due diligence on publicly traded companies with respect to their business practices. And as investors, the companies that we struggle the most with are those that do a lot of international manufacturing. It's harder for us to determine whether they're using fair labor practices, what the environmental impact of their manufacturing overseas might be. So more times than not, I would say that those companies with so many international operations are probably disadvantaged when people are selecting stocks for investment clients that specifically want corporate accountability. So companies do well by doing good and when reshoring becomes more prominent, I think that these companies stocks would be revised upwards because their ESG scoring would be more easily discernible and there'd be more information about them. So I think that those companies will do well from a stock perspective as well if there's more visibility about their own manufacturing, which there would be if it was over here.

Chris Blöse:

And Fran, any last words of advice or kind of trends that people should watch here this year or in the coming couple of years on this topic?

Fran Smitherman:

I would say the biggest thing is, you know, it's been an impediment for the last few years because people thought that moving overseas was such a money saver for companies. But I do think that, you know, two things, the supply chain issues that we experienced in the last couple



of years actually ended making things cost more, leading to inflation. So a lot of that good has been offset. And I think secondly, consumers have become accustomed to higher prices due to these supply shortages. So if there were higher prices resulting from reshoring and having a higher labor cost structure, I don't think it would be as shocking now as it would've been five or 10 years ago. You know, consumers were initially shocked when sky rocketing inflation after decades without it, kind of took off a few years ago during the pandemic. But right now we've got low unemployment rates, asset prices are high, consumers seem to be outspending even with higher inflation than I've seen in my entire career. And so I think that, you know, that's another reason to think that maybe the timing might be right, not that people have become immune to higher prices but I think they would be more able to absorb them and accept them than maybe even five or 10 years ago.

Chris Blose:

Well Fran, thank you so much for joining us. We really appreciate your insight on this and it was a pleasure speaking with you.

Fran Smitherman:

Oh, thank you Chris, so much.

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Chris Blose:

Whether you're an investor, a business owner, or just someone who pays attention to where your purchases come from, reshoring is a trend to watch. As our guests noted, there are complexities involved such as labor costs, training gaps and regulation, but there are benefits to consider as well, from potential improvements to safety, quality and innovation to building a supply chain that's less prone to massive disruptions.

Thank you to Harry Moser, Chris Walker and Fran Smitherman for joining us today and walking us through some of the ins and outs of reshoring, and thank you for listening.

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