Factory boom cranks up

Plant construction leads to strongest growth in 2 years

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USA TODAY

After years of factory closings shrank the nation's industrial footprint, a miniboom in plant construction is beginning to reverse the trend and fuel faster economic growth.

A 12.6% surge in spending on non-residential structures — notably new and expanding factories — was a big reason for last week's upward revision of second-quarter economic growth. The Commerce Department said the economy expanded at a 4.6% annual rate, up from its previous 4.2% estimate and the strongest growth in 2½ years.

An auto sales boom, the housing recovery, and the oil and natural gas drilling frenzy are all forcing manufacturers to build or enlarge plants to supply these industries. Factory output is up 3.2% so far this year after rising 2.6% in 2013.

"Manufacturers are relatively upbeat about the next few months, and that's really playing into increased investment," says Chad Moutray, chief economist of the National Association of Manufacturers.

Spending on construction or renovation of factories is up 12% so far this year after being virtually flat in 2013, Census Bureau figures show. After declining steadily since 1998 as much of U.S. production moved offshore, the number of U.S. factories has stabilized since last year and should grow modestly over the next couple of years, says Dan Meckstroth, chief economist of MAPI, the manufacturing industry's research arm.

Early in the recovery that began in 2009, manufacturers met a rebound in demand mostly by buying new equipment, Meckstroth says.



Factories were running at 77.3% of capacity in August, up from 63.9% in 2009 and near pre-recession levels.

With the economy humming, manufacturers are stepping up output and introducing new product lines, often requiring expanded facilities.

That means more good news for the economy. While new equipment purchases alone may let some manufacturers produce more with fewer workers, additional factory space is almost inevitably followed by more hiring, Meckstroth says. Manufacturing employment is up by 105,000 so far this year, compared with an increase of 88,000 for all of 2013.

Mitsubishi Caterpillar Forklift America recently hired 50 employees to work in a factory it built last November next to its existing plant in Houston.

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