

2011 Survey of Connecticut Manufacturers



Prepared by Congressman Chris Murphy

Manufacturers – the lifeblood of our economy

Manufacturing is in the DNA of the state. Early Connecticut residents like Eli Whitney, Samuel Colt, and Simeon North put Connecticut on the map as a defense-related manufacturing center, and their legacy lives on today. Connecticut has also been a leader in the shipbuilding industry since the late 18th century.

I developed this survey to hear directly from the people working in the industry that has sustained our state through three centuries and to find ways to rebuild Connecticut's manufacturing base.

Since 2001, over 42,000 factories have closed and five million jobs have been lost in manufacturing nationally. In the same period, Connecticut lost tens of thousands of manufacturing jobs. Total manufacturing employment in Connecticut continues to decline, from 171,000 in 2000 to 166,000 in 2010. Despite that, many of those who responded to this survey are confident that in the coming year their employees' salaries will increase, gross revenues will increase, and they will hire new workers.

This survey shows that:

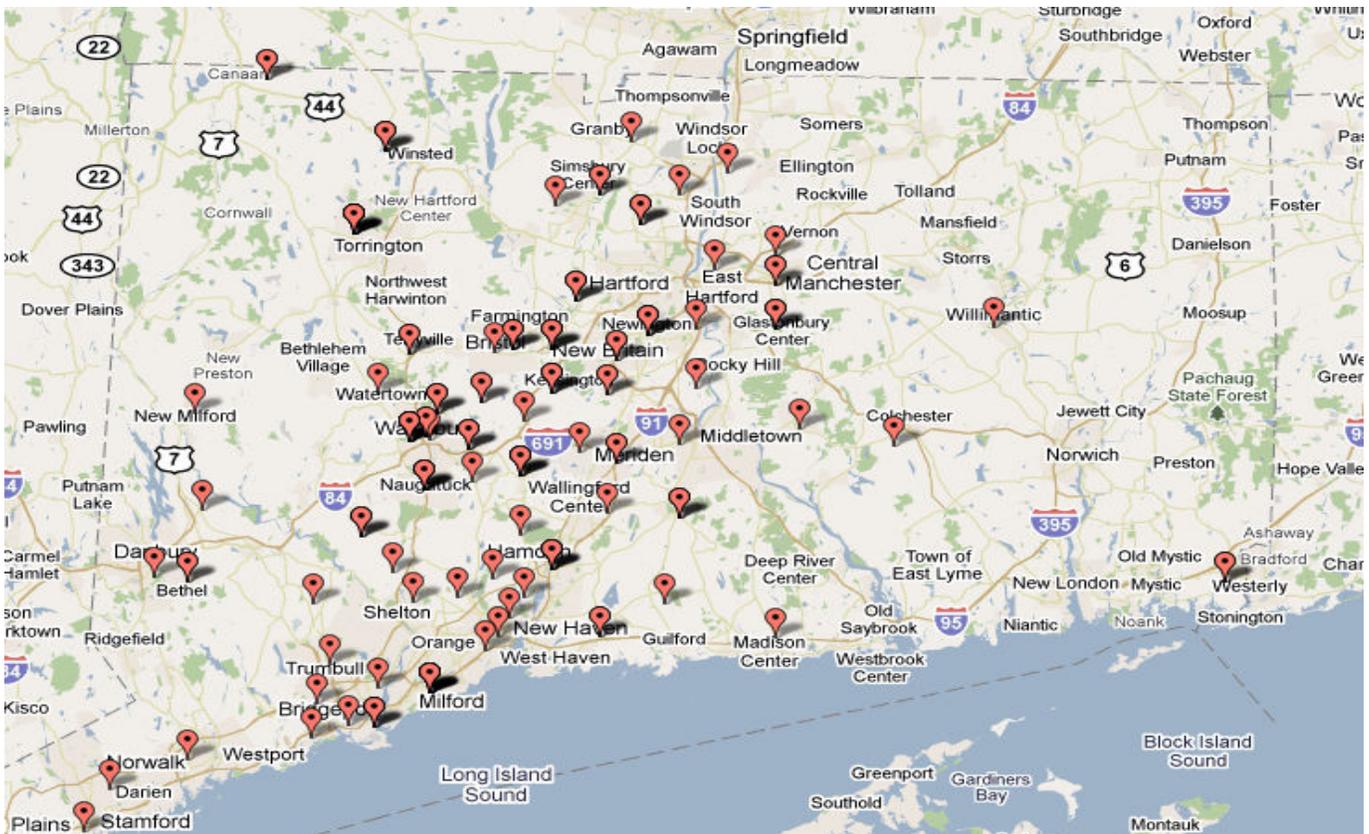
- Manufacturers are confident in the health of their businesses and are looking optimistically towards the future.
- The federal government has to do a better job of communicating with manufacturers and creating an environment where Connecticut businesses can thrive, which includes tax reform, bringing down the cost of health care, and smart regulatory reform.
- There is a growing demand for skilled workers and manufacturers are having trouble filling those vacancies. Manufacturers demand we do a better job in training students for the manufacturing jobs of the future.
- Contracting with the federal government is an important part of Connecticut's manufacturing economy. More needs to be done to improve relationships between manufacturers and the government.
- Outsourcing has hurt Connecticut's manufacturers. Manufacturers believe we need to strongly enforce existing statutes, such as "Buy American" that would bolster domestic manufacturers and halt off-shoring of manufacturing jobs.
- China's growing influence on American manufacturers must be addressed.

The Survey Respondents

151 manufacturers, making up a broad cross section of the manufacturing community, responded to the survey.

In all, 18 Presidents and CEOs, seven business owners and eight Vice Presidents as well as a multitude of other executives and leaders in the manufacturing community answered this survey.

The businesses they represent are located all over the state, mostly in central Connecticut in the Connecticut River Valley and the I-91 Corridor (See map)



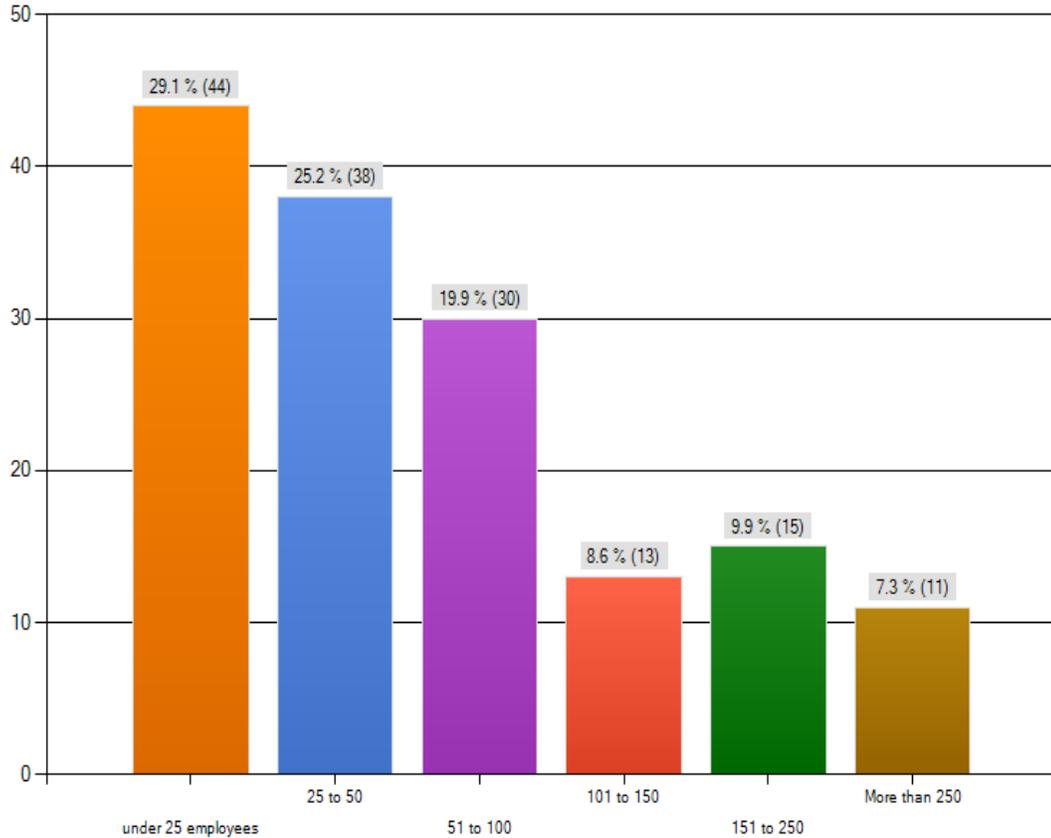
The respondents employ in total between 9,000 and 17,000 people, which makes up almost 10% of the manufacturing workforce in Connecticut. The majority of the respondents represent manufacturers with less than 100 employees, which is why I have paid particular attention in Washington to the needs of these small and medium-sized manufacturers.

Respondents Represent a Spectrum of Manufacturers

In terms of annual revenue, there was a broad range of business types. Reported annual revenues varied from \$50,000 to \$1.3 billion, with the most respondents reporting that their business took in between \$5 and \$10 million annually.

The primary type of manufacturing of those who answered the survey was very diverse, representing all facets of Connecticut industry. They serve sectors ranging from defense and aerospace to medical supplies; from paper to plastic.

How many employees do you currently employ in Connecticut?



Looking Toward the Future – Reversing the Trends.

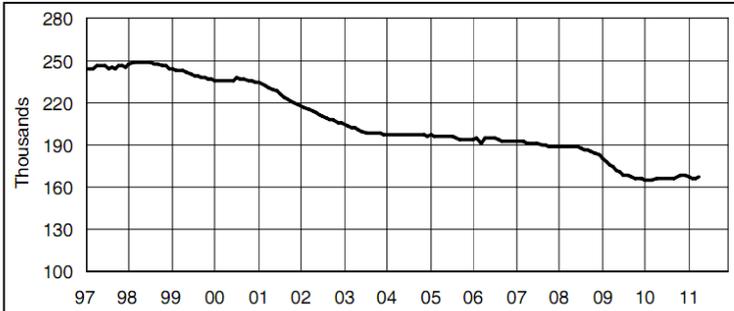
The precipitous decline of manufacturing in Connecticut is no secret to the survey respondents. Many have witnessed first hand the real life effects of Connecticut’s manufacturing decline.

Connecticut Nonfarm Employment:				
INDUSTRY	HISTORICAL			FORECAST
	2006:Q4	2008:Q4	2010:Q4	2012:Q4
TOTAL	1,717,038	1,701,407	1,634,289	1,649,459
GOODS PRODUCING.....	262,995	248,551	219,228	215,256
Mining.....	749	747	581	600
Construction.....	68,964	63,300	52,246	50,816
Manufacturing.....	193,282	184,503	166,401	163,840

Source: Connecticut Department of Labor

While economists are predicting a continued erosion of Connecticut’s manufacturing economy, the survey respondents are more optimistic, and data from the beginning of 2011 seems to confirm some of their optimism.

MANUFACTURING EMPLOYMENT *(Seasonally adjusted)*



<u>Month</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
Jan	180.1	165.1	167.2
Feb	177.9	165.1	166.3
Mar	176.1	165.2	166.2
Apr	174.0	165.4	167.1
May	172.6	165.7	
Jun	171.0	165.7	
Jul	169.0	166.2	
Aug	168.4	166.2	
Sep	167.4	165.9	
Oct	166.6	167.3	
Nov	165.8	168.3	
Dec	165.4	168.1	

Source: Connecticut Department of Labor & the Connecticut Department of Economic and Community Development

Survey respondents were asked what they think of the year ahead. Few predict that we are going to face a second or “double-dip” recession. 76% are confident about the future of their company. In terms of their financials, 53% believe that their company’s gross revenue will increase in the coming year, while only 14% believe it will decrease. Though they are optimistic about the future, these businesses were significantly impacted by the credit crunch following the economic collapse in 2008. 75% of the respondents say that the credit crunch had either a modest or a significant impact on their businesses, with 37% of respondents saying that the recession prevented them from creating more jobs in their shops.

Skilled Workers – The Key to Success for Connecticut Manufacturers

Those with the skills to be a part of Connecticut's manufacturing economy are in high demand. Unlike most other Americans, these workers can expect to see higher wages in the coming year according to 53% of the respondents who said they plan to increase wages. Only 8% said that they expect wages to decrease. At the same time, 89% say they plan on hiring or maintaining their current workforce for the rest of the year, hopefully signaling that the precipitous decline of Connecticut's manufacturing sector may be stabilizing.

Attracting skilled workers remains a major difficulty for Connecticut manufacturers. A full 87% said that it was difficult or very difficult to fill vacancies. It's clear that there is a role for state, local and the federal government to play in helping manufacturers find the skilled workers they need to be successful in the future. Input from the respondents on attracting skilled workers is instructive for policy makers.

Here are some suggestions:

- 56% of respondents cited education as the most important means to improve the quality of employees. One respondent said, "We need to be able to hire people who require training only in the specific requirements of their job, not basic life skills. Middle and high schools need to provide that education, at a minimum."
- 30% of respondents said changing the cost of doing business in Connecticut, including tax reform, would help manufacturing in Connecticut. One respondent said, "We need to reduce the tax burden and reverse the exit of manufacturing companies from the state. The only way to attract and keep skilled labor is to have some opportunities here for them." Additionally, "There is no point in training if there is no manufacturing to hire trained workers."

Respondents are calling for:

- Grants for internships in the manufacturing industry.
- Providing high school students information about the high demand for manufacturing skills in Connecticut and properly funding a vocational school feeder program to ensure a steady supply of skilled laborers.
- Maintaining support for vocational schools. If the schools work with manufacturers, there will be much better correlation between what students study and the skills their future employers require.

Contracting with the Federal Government

Over one quarter of the respondents contract with the federal government as part of their businesses. These 41 firms provide insight into how the federal government can be a better partner in contracting.

Those who do not contract with the federal government overwhelmingly pointed to “red tape” and perceived difficulties in doing business with the federal government. One manufacturer said that he/she had “no desire to deal with governmental bureaucracy.” 17% said that they were an indirect supplier for the government already.

For those who do contract with the federal government, clearly more needs to be done in order to maintain a good relationship going forward. Only 1 respondent said that the federal government was adequately meeting their needs, while 17 of the respondents say that it is not.

Promoting Growth:

119 respondents gave their ideas about how the federal government can help promote growth. This advice will be invaluable going forward. Connecticut’s manufacturers’ ideas for promoting growth include:

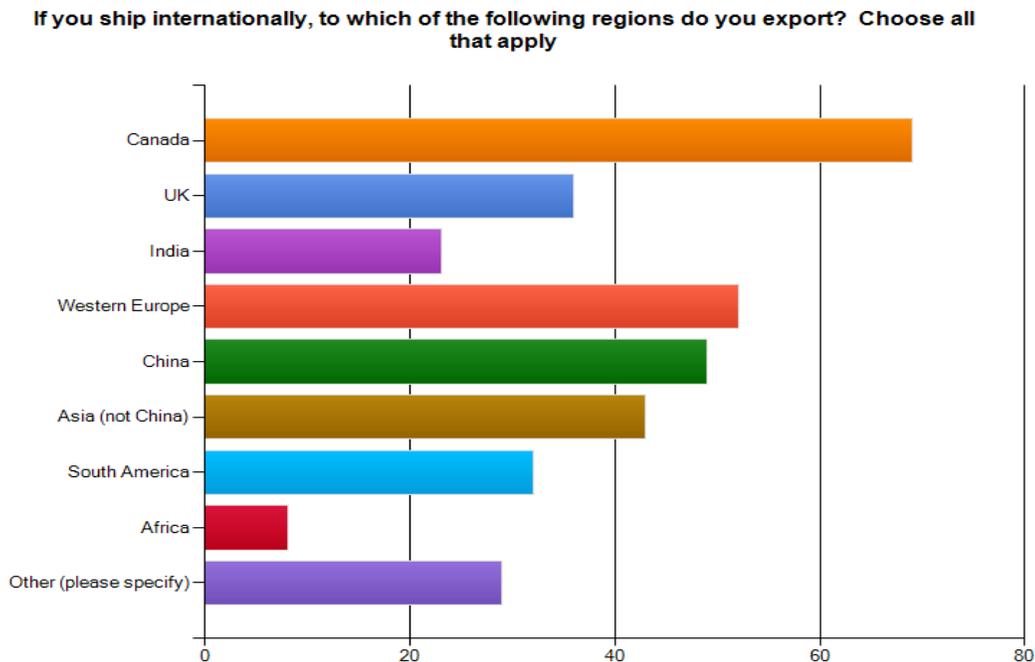
- Enforcing stronger “Buy American” requirements to bring federal money back to U.S. Manufacturers. Make targeted investment in federal initiatives that create jobs.
- Reverse the trend of outsourcing and off-shoring by opposing federal policy that encourages manufacturers to create jobs overseas.
- Smart tax reform and regulatory reform, including reform of the International Traffic in Arms Regulations (ITAR) system.
- Increased investment in training and science, technology, engineering, and mathematics (STEM) education.
- Control the federal debt in the long-term.

Buy American

Those who currently do business with the federal government were asked what they think about the rule that requires only 50% of the cost of an item needs to be American for the entire item to be treated as American. Even though the law requires 50%, many of these manufacturers know that our procurement law is so full of loopholes, waivers and exceptions that products that the government buys are often mostly made overseas. Based on this survey, many Connecticut manufacturers would like this percentage to be higher than 50%; some say it should be 100%. There is broad agreement that we should enforce existing statutes that require American manufactured content on items that the government purchases.

Connecticut Manufacturers and the Global Economy

Survey respondents are linked into the global economy, with most manufactures importing some raw material from abroad and exporting their products to overseas customers.



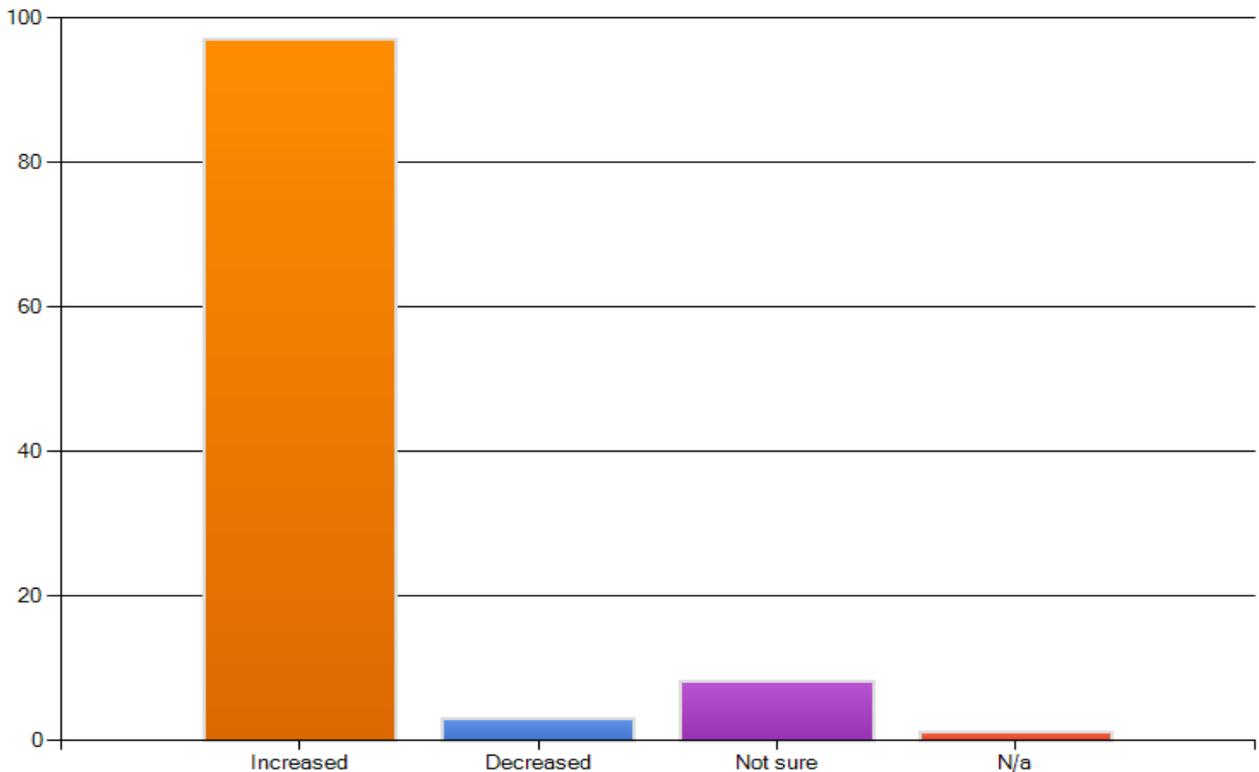
85% of the respondents face competition from foreign sources, 73% say their competition is located in China. 89% say that foreign competition has increased in the last 10 years. The last decade has been marked by persistent lack of job creation, correlated closely to the loss of manufacturing jobs that these Connecticut businesses are reporting. Outsourcing has been blamed for the loss of American manufacturing jobs in the last several decades. Unsurprisingly, 65% of respondents believe that this trend has hurt their business.

China's Influence on Connecticut's Manufacturing

In the same period of time that Connecticut manufacturers were losing jobs, China's economy has been growing at a rapid pace. China's economy grew at an average rate of 10% per year during the period 1990–2004, the highest growth rate in the world. Connecticut's manufacturers have felt the effect of that growth. Respondents were asked about the growing influence of China. Some report that the growing Chinese export market has helped their business. However, a majority report that their parent companies, suppliers, and customers have all moved work to China in the recent years, having a disastrous effect on many Connecticut businesses. Connecticut manufacturers find that they often can't compete with the cheap cost of Chinese labor and lax environmental regulations. Respondents feel that we still maintain an edge, but we are quickly losing our advantage to China.

Most economists believe that the yuan, China's currency, is undervalued compared to the U.S. dollar. By manipulating its currency, China has an unfair advantage over U.S. manufacturers by effectively lowering the price of their exports. Currency manipulation also imposes a direct cost on U.S. exports, making American goods sold in China more expensive. 57% of the survey respondents believe that addressing currency manipulation will help their businesses.

Has competition from foreign sources increased or decreased over the last 10 years?



Doing Business in Connecticut

This survey shows that leaders in Connecticut must do more to improve the business climate in Connecticut. Only two respondents believe that Connecticut is going in the right direction in terms of being a competitive business location; however, 75% of the respondents say that their business is rooted in Connecticut. One of the issues that respondents want addressed is tax reform. Every respondent had an idea about how to reform the tax code to make Connecticut more competitive; with 64% saying that cutting the corporate tax rate was most needed.

The leadership of the manufacturers who responded to this survey listed how concerned they are about some aspects of doing business in Connecticut. For each factor listed below, respondents rated how concerned they are about that specific factor using a scale of 1 to 5, where 1 means they are not at all concerned and 5 means they are very concerned.

	1	2	3	4	5	Rating Average
The costs of health care coverage	0.8% (1)	1.6% (2)	1.6% (2)	5.5% (7)	90.6% (115)	4.83
Cost of employee salaries and benefits, not including healthcare	1.6% (2)	11.8% (15)	22.8% (29)	29.9% (38)	33.9% (43)	3.83
The ability to attract and retain qualified workers	2.4% (3)	8.7% (11)	19.7% (25)	31.5% (40)	37.8% (48)	3.94
Increased competition from foreign sources	5.5% (7)	11.0% (14)	14.2% (18)	30.7% (39)	38.6% (49)	3.86
Government policies and regulations	0.8% (1)	3.1% (4)	11.8% (15)	22.0% (28)	62.2% (79)	4.42
Federal, state and local taxes	1.6% (2)	0.8% (1)	10.3% (13)	17.5% (22)	69.8% (88)	4.53
The availability of capital and credit	8.8% (11)	20.0% (25)	30.4% (38)	19.2% (24)	21.6% (27)	3.25
Financial stability of vendors	8.7% (11)	20.5% (26)	37.0% (47)	27.6% (35)	6.3% (8)	3.02
Financial stability of key customers	6.3% (8)	15.0% (19)	37.0% (47)	22.8% (29)	18.9% (24)	3.33

A Plan for Connecticut's Manufacturers

I conducted this survey in order to listen to Connecticut's manufacturers and learn what I can do as a representative in the federal government to promote Connecticut's businesses through policies in Washington. The survey confirms and justifies my prior efforts and opens the door for future work on these important issues. The following is my plan for Connecticut's manufacturers.

1. Strict enforcement of "Buy American" policies.

I have been intervening on a case by case basis when Connecticut manufacturers feel that contracting officials at Federal Agencies have not properly followed the spirit of our procurement policies when awarding contracts. As Co-Chairman of the bi-partisan Congressional Buy American Caucus, I am suspect of a culture of procurement at federal agencies that rewards cheap foreign products without regard to the disastrous effect of those policies. Our nation's policy that is supposed to assure that taxpayer dollars are awarded to U.S. firms is full of loopholes and waivers. My office released a report in June 2011 showing that in the last four fiscal years, the Department of Defense has issued 161,000 waivers of the Buy American Act, allowing the DoD to award contracts to foreign firms. The total cost of those waivers was over \$53 billion. The most glaring loopholes that lead to the loss of jobs and U.S. tax dollars to foreign firms are automatic "overseas exemptions", which state that items that are being used outside of the United States do not need to come from U.S. manufacturers. Given the significant global presence of the U.S. government, this exception has become the rule. I have twice attempted to eliminate this loophole in Defense spending bills. Most recently, during a House Foreign Affairs Committee consideration of H.R. 2583, the Foreign Relations Authorization Act for 2012, I successfully passed an amendment that would apply the language of the Buy American Act to purchases made for items used by the State Department overseas. Since FY09 and FY10 alone, the Department of State spent over \$1 billion on articles, materials, and supplies manufactured outside the United States.

2. Reform of the Procurement Process

Beyond just enforcement of current law, we need to look at long term reform of the procurement process. I introduced H.R. 1354, the American Jobs Matter Act, which would allow American manufacturers to report on the amount of jobs that they expect to create or maintain with the award of a contract. I offered this legislation as an amendment to the most recent Defense Authorization bill, and my amendment only failed by 4 votes, which is an encouraging sign that this can be accomplished in the future. I am also working with a group of

like-minded House Members in the “Make it in America” working group who are working on several pieces of legislation that will help American manufacturers. One piece of that initiative is the Buy American Improvement Act, which will comprehensively reform the Buy American Act to create more transparency, eliminate some loopholes in the law, and simplify the procurement process. The ultimate goal of any procurement reform should be to make it easier and more efficient for American manufacturers to do business with the federal government.

3. Develop a National Manufacturing Strategy

I am a co-sponsor of H.R. 1366, the National Manufacturing Strategy Act. This legislation directs the president to work with industry, labor leaders, and other stakeholders to develop a national strategy to increase manufacturing. This national strategy is long overdue. Other manufacturing powerhouses like Germany have a national concerted effort of focus on manufacturing, and we should too.

4. Level the playing field with China

Most economists agree that China’s currency manipulation is holding American manufacturers back. The Economic Policy Institute suggests that China’s currency could be undervalued by as much as 25% to 30%. Paul Krugman, winner of the 2008 Nobel Prize in Economics, estimates that China’s exchange rate policy reduces U.S. GDP by 1.4 to 1.5 percentage points annually and reduces U.S. employment by 1.4 or 1.5 million jobs. That is why I am a strong supporter and co-sponsor of the Currency Reform for Fair Trade Act of 2011. This legislation seeks to level the playing field for American workers and businesses by giving the administration additional tools to address China’s fundamental undervaluation of its currency. The U.S. has lost over 5.3 million manufacturing jobs in the last decade, and this bill will give the executive branch the teeth they need to stick up for American manufacturers with regard to China.

5. Reform Export Controls

ITAR (International Traffic in Arms Regulation) is a set of U.S. regulations that govern export and import of certain defense-related items on the United States Munitions List (USML). These items range from firearms to aircraft to military electronics to classified articles, etc. ITAR was enacted during the Cold War to deny the sale of weapons or technology to countries in a similar fashion to the restriction on exporting to eastern bloc countries. As the world is changing, these sometimes-onerous regulations have hurt Connecticut’s aerospace industry. After hearing from survey respondents about how ITAR reform is needed, I co-sponsored H.R. 2004, the

Technology Security and Antiboycott Act. The bill would essentially reclassify many products Connecticut manufacturers produce, making them easier to export, which could in turn revitalize the industry. The U.S.'s total market share in this sector has declined from about 74% in 1998 to around 27% currently. I plan to continue to work with his Congressional colleagues to enact sensible reform of the ITAR system.

6. Tax reform

The manufacturers who responded to this survey would like to see reform of the tax code. While both parties in Washington differ on how to clean up the tax code, I have listened to those who say our corporate tax system is far too confusing and inefficient. Sometimes the complexity in the tax code forces manufacturers to make decisions that send investment and jobs overseas. Reform of the tax code should lower the corporate tax rate making American business and the American worker more competitive globally. I am also a co-sponsor of Rep. Rosa DeLauro's H.R. 110, Manufacturing Reinvestment Account Act, which establishes tax-exempt manufacturing reinvestment accounts (MRAs) for taxpayers engaged in a manufacturing business. This bill allows such manufacturers to make tax deductible cash payments into an MRA which will bolster Connecticut's manufacturing economy.

7. The cost of Health Care

Survey respondents are chiefly concerned with the cost of health care. This finding reaffirms what I have been hearing for years. This was also one of the reasons that I voted in favor of the Patient Protection and Affordable Care Act, because it gives tax credits to small businesses to help pay for the cost of health care. Between 1999-2009, health insurance premiums have more than doubled for families, rising by \$7,500 for the average employer-based family plan. The percentage of small employers offering health insurance dropped from 65 to 59 percent during that same ten-year period. Because of the Patient Protection and Affordable Care Act, in 2014, small businesses could save up to \$350 per family policy and many may be eligible for tax credits of up to 50 percent of their premiums. Some tax credits are already available to small businesses, and cover up to 35 percent of premiums. By 2019, all businesses will likely see lower premiums of \$2,000 per family, which could generate millions of dollars in savings. My office stands ready to assist Connecticut's manufacturers in navigating the new benefits of health care reform, and to answer any questions about how new health care policies will generate savings over the next several years.

8. Training skilled workers

I believe we need to get serious about the future of American education. Survey respondents reported that it is very difficult attracting skilled workers to fill their vacancies. Manufacturing will continue to decline if manufacturing skills go overseas along with manufacturing jobs. I supported the America COMPETES Act which helps ensure that our workforce will meet the challenges of the 21st century economy, by investing in science, technology, engineering, and math (STEM) education. The COMPETES Act increases funding for the National Science Foundation, which promotes cutting-edge research by funding innovation in fields from computer science, to mathematics, to genomics. I will continue to work with my colleagues in the “Make it in America” working group to advocate for smart investment in world class science, technology, engineering, and math education. This must include fostering partnerships with local high schools, institutions of higher education, and Connecticut manufacturers to create externship opportunities for students. We must work with students while they are young to promote careers in manufacturing for high school students.

9. Building on past successes

Since coming to Washington, my colleagues in the “Make it in America” Working Group have secured several victories for American manufacturers. In the future, we must be vigilant that these legislative initiatives are not weakened or defunded. In 2010, President Obama signed the following bills into law with my support:

- **U.S. Manufacturing Enhancement Act:** Makes it cheaper for American companies to obtain the materials they need to manufacture goods. [Public Law 111-227]
- **Protecting American Patents:** Helps the Patent Office to begin to unclog the backlog—totaling about 1.2 million pending applications—by giving the agency access to more of the fees it collects so that patent applications can continue to be processed and innovative ideas can continue to move to market. [Public Law 111-224]
- **Preventing Outsourcing:** Prevents the outsourcing of U.S. jobs by closing tax loopholes that encourage companies to send U.S. jobs overseas. [Public Law 111-226]
- **Small Business Jobs Act:** Expands much needed lending to millions of small businesses and offers tax incentives to help small businesses grow, hire, and fuel our economy, without adding a dime to the deficit. [Public Law 111-240]
- **Energy Jobs and Training for Veterans Act:** Provides grants for programs to provide on-the-job training, apprenticeship, real experience, and long-term employment in all energy fields. [Public Law 111-275]

Thank You!

Dear Friends,

Thank you for taking the time to fill out the 2011 Survey of Connecticut Manufacturers. Analyzing these results has confirmed some things I have been hearing during visits I make to manufacturers across the state. Other aspects of the results came as a surprise to me, and will be eminently helpful to me when I return to Washington. I didn't need to conduct this survey to know that manufacturing has been on the decline in Connecticut, and the recession only made it worse in many cases. However, I share the optimism of many of you who filled out this survey.

I don't believe those who say that American manufacturing is dead, and I know you don't either. With this survey as my guide, I am going to continue to fight like mad for Connecticut's manufacturers.

To view the full survey results, please click [here](#). If you have any further questions, or ever need any assistance, please do not hesitate to call my office, 860-223-8412.

Every best wish,

Christopher S. Murphy
Member of Congress