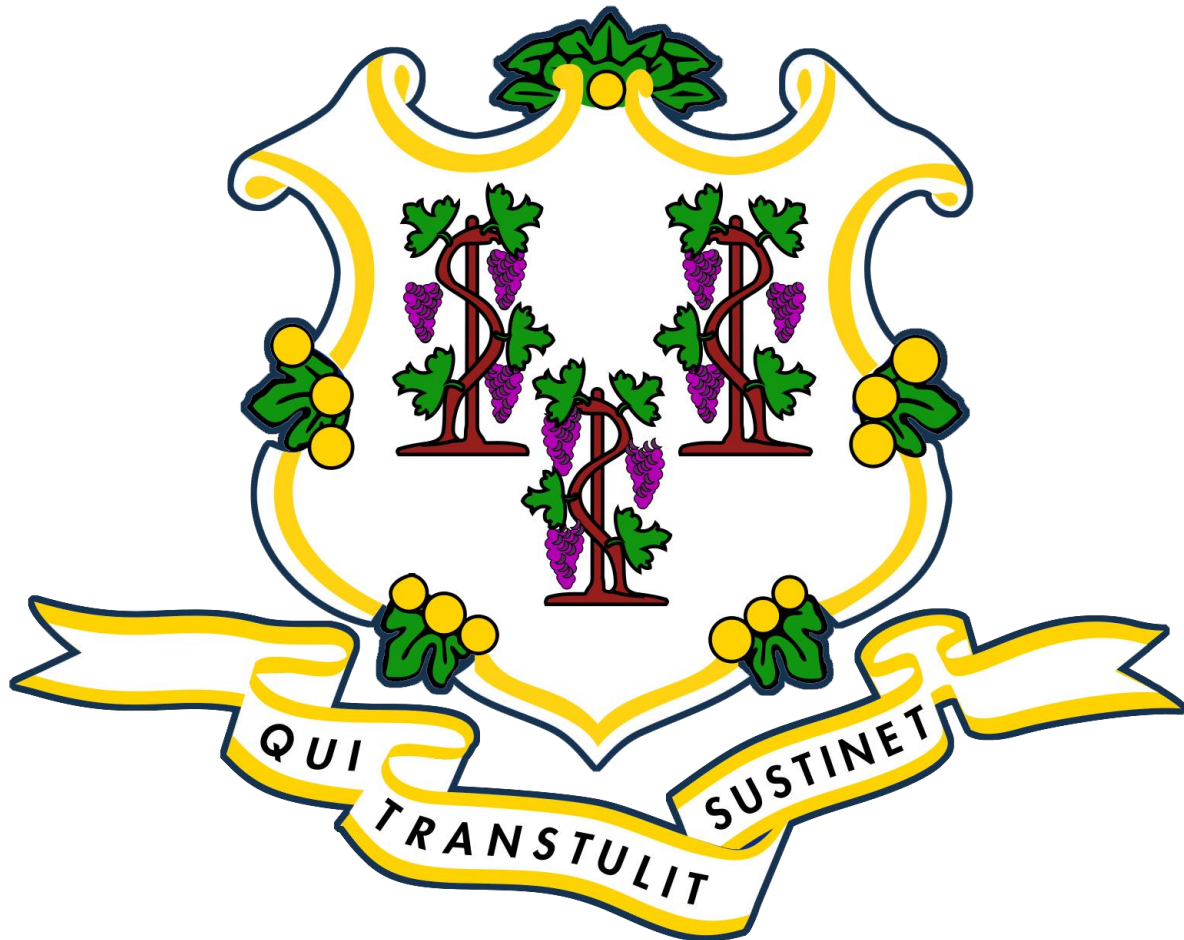


2012 SURVEY OF CONNECTICUT MANUFACTURERS



COMPILED BY:
SENATOR RICHARD BLUMENTHAL &
CONGRESSMAN CHRIS MURPHY

2012 Survey of Connecticut Manufacturers

Compiled by Congressman Chris Murphy and Senator Richard Blumenthal

For over three centuries, manufacturing has played a central role in Connecticut's economic and social history. From Eli Whitney's revolutionary cotton gin to Samuel Colt's firearm production, Connecticut has been a center for innovation in manufacturing throughout its history.

In this second annual survey of Connecticut's manufacturers, we wanted to continue our open dialogue with the industry and hear directly from people working in manufacturing.

Connecticut manufacturers are proof that American companies and American workers can continue to build the products that power our economy. This survey is our way of understanding how they do it—and what we can do to help.

This year, 191 manufacturers representing a broad cross-section of the sector responded to our survey. Our survey results from 2012 show that:

- The economic recovery continues to be a major source of concern for manufacturers, with 54% of respondents anticipating a “flat” national economy for the upcoming year. 17% of respondents expect an economic expansion.
- Despite concern about the recovery, there is significant optimism among Connecticut's manufacturers for the future of their businesses. A total of 77% said they were confident in the financial future of their company. Nearly half of respondents said that they expect their company's profitability to increase in 2012 and 52% expect to see an increase in gross revenues.
- A majority of manufacturers in Connecticut plan on creating jobs and increasing wages over the next year. However, Connecticut manufacturers are still having some difficulty finding workers with the skills needed to fill open positions.
- Connecticut manufacturers continue to feel the effects of increasing competition from foreign countries, most notably from China.

Promoting Manufacturing Growth in Connecticut

We conducted this survey to hear directly from manufacturers about the issues that are most concerning to them. It is imperative that we enact and maintain federal policies that help to reenergize our manufacturing sector. The results of our survey confirm that the work we have already done to bolster Connecticut manufacturers is helping, but there is still work to be done to foster long-term growth in Connecticut's manufacturing sector.

Our plan to encourage manufacturing growth in Connecticut includes:

Reforming our Tax Code

- We are cosponsors of the *Bring Jobs Home Act*, which would give a 20% tax credit to help cover moving costs for businesses that bring jobs back to America from abroad. This bill provides a major incentive for manufacturing businesses to reverse the long-term trend of outsourcing.
- We are strong supporters of the *Manufacturing Reinvestment Account Act*, introduced by Senator Blumenthal and Representative DeLauro. This bill would establish tax-exempt manufacturing reinvestment accounts (MRAs) for taxpayers engaged in a manufacturing business. This legislation allows such manufacturers to make tax deductible cash payments into an MRA, which will bolster Connecticut's manufacturing economy.
- We have both called for an extension of the 100% bonus depreciation tax incentive, because Washington needs to make it clear that we are not going to tax investment in factory floors.
- We will continue to fight for long term, comprehensive tax reform that makes the corporate tax code fairer and the American economy more productive. We hope to have an ongoing dialogue with the manufacturing community as the debate over tax policy reform continues.

Developing a Skilled Labor Pool

- *The Pathways Back to Work Act*, introduced by Senator Blumenthal and cosponsored by Representative Murphy, establishes funding to provide employment opportunities for low-income youth and work-based training programs for unemployed, low-income adults and youth.
- Senator Blumenthal has introduced the *Community College Innovation Act*, a bill that provides grants for the development and expansion of community college skills training programs that lead to an industry-recognized credential in a high growth industry.

Making Health Care More Affordable

- The *Affordable Care Act* passed in 2009 gives tax credits to small businesses with fewer than 25 full-time equivalent employees, who pay an average wage of less than \$50,000 a year, and pay at least half of employee health insurance premiums. In addition, when the law is fully implemented in 2014, small businesses will be able to participate in a new health care exchange that will lead to more health care choices at lower costs.

Make the Federal Government a Better Partner

- Congressman Murphy and Senator Blumenthal are leaders in Congress on the issue of strictly enforcing our “Buy American” policies, with Congressman Murphy founding the Congressional Buy American Caucus. We have introduced the *American Jobs Matter Act* in both the House and Senate which will encourage the federal government to purchase more from American manufacturers.

Level the Playing Field in the Global Market

- We strongly support the *Currency Reform for Fair Trade Act*, a bill that would level the playing field by giving the administration additional tools to address China’s fundamental undervaluation of its currency. We need to enact policies that will impose harsher penalties for market-distorting behavior and use existing dispute settlement mechanisms to enforce current law.

Encourage Infrastructure Investment

- The type of large-scale federal investment in our aging infrastructure proposed in the *American Jobs Act*, which we cosponsored, is both necessary for our country’s continued prosperity and valuable in creating manufacturing jobs for long-term projects.







A Broad Spectrum of Manufacturing Respondents

A total of 191 Connecticut manufacturers responded to this year’s survey, representing an extensive cross section of the manufacturing community. Compared to last year’s survey, we have seen an increase in both overall participation and buy-in from leaders within the manufacturing community.






Most of this year’s respondents represent small or medium-sized businesses with a wide range of annual revenues and strong ties to Connecticut. Nearly 70% of respondents employ fewer than 100 workers in Connecticut. In addition, over 85% of respondents described their companies as “rooted in Connecticut,” and less than half have employees outside of the state.

This year’s respondents engage in a wide variety of types of manufacturing. However, most continue to receive a significant portion of their business from traditional sectors within the state, such as defense and medical supplies.

6. How many employees do you currently employ in Connecticut?*

Response	Chart	Percentage
under 25 employees		30%
25 to 50		19%
51 to 100		19%
101 to 150		8%
151 to 250		13%
More than 250		11%

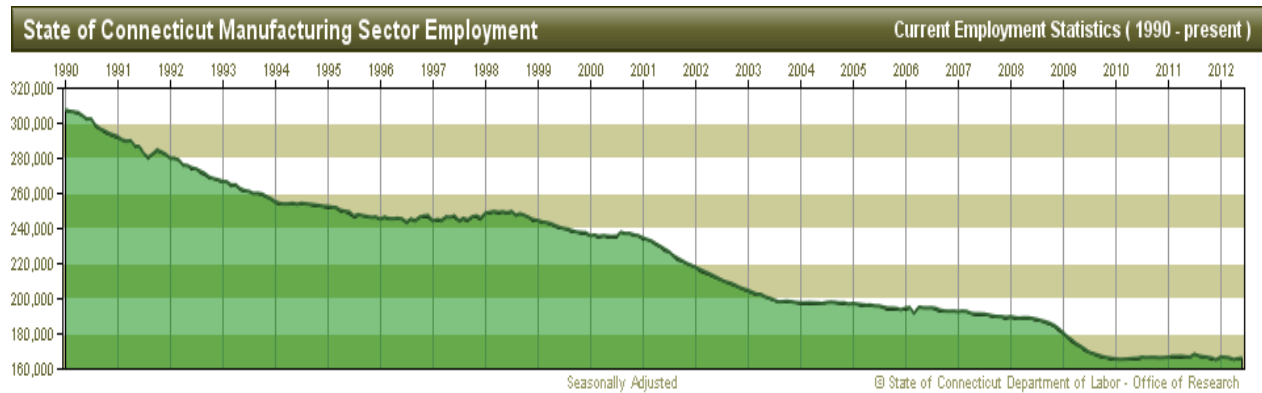
8. What are your annual business revenues?*

Response	Chart	Percentage
Under \$1 million		16%
More than \$1 million to \$5 million		17%
More than \$5 million to \$10 million		20%
More than \$10 million to \$20 million		13%
More than \$20 million		33%

Reversing the Trend of Decline

Connecticut’s manufacturers have witnessed first-hand the dramatic loss of manufacturing employment in the state over the last two decades. However, the decline appears to have flattened since last year. Manufacturing employment in Connecticut has increased every month from April to July of 2012, up to the current level of approximately 167,000 workers.

The following chart from the State of Connecticut Department of Labor shows just how precipitous the decline in manufacturing since 1990 has been:



There are a number of factors that have contributed to the decline in manufacturing employment in the United States. Since the enactment of the North American Free Trade Agreement in 1994, the United States has experienced increasing trade deficits with Mexico and Canada and a subsequent decrease in manufacturing employment. In addition, China’s admission as a member of the World Trade Organization in 2001 has coincided with an even more rapid decline in manufacturing employment. More than 70% of respondents say they face competition from foreign sources and 45% say that outsourcing has hurt their business.

47. Has offshore outsourcing hurt or helped your industry?

Response	Chart	Percentage
Hurt		45%
Helped		16%

Despite the historic decline, Connecticut manufacturers remain optimistic about the future of their companies. Even though a majority of this year’s respondents anticipate a sluggish economy in the upcoming year, nearly 80% feel confident about the future of their own companies. Over half of respondents expect their company’s gross revenue to increase in 2012, and just under half expect an increase in company profitability.

This year's survey results also offer hope that the layoffs suffered by the manufacturing industry are becoming less frequent. While 23% of respondents laid off workers in 2011, only 10% of respondents plan on laying off workers in 2012. In addition, respondents indicated that the impact of the credit crunch following the economic collapse in 2008 has lessened significantly over the past year. Only 40% of this year's respondents said that the credit crunch had either a modest or significant impact on their business, compared with 75% of this year's respondents.

Increasing the Supply of Skilled Workers

Connecticut workers who have the skill set desired by manufacturers in our survey can expect to see higher wages and more job opportunities. 56% of this year's respondents plan on hiring more workers in the next year, and 58% expect to increase wages.

Over the past year, the demand for skilled laborers in manufacturing has continued to exceed the supply. However, the results of this year's survey point to a promising trend. Only 70% of this year's respondents, compared to 87% of last year's respondents, found it difficult to attract qualified candidates for job vacancies at their company. The specific responses reflect a strong demand for engineers of all types, as well as skilled machinists, toolmakers and electro-mechanical designers.

The respondents saw a role for the federal government to play in helping Connecticut manufacturers find the skilled workers they need. The most common suggestions for policy makers centered on education reforms to increase the state's skilled labor pool. Respondents see a need to increase the federal government's investment in vocational schools, expand training programs at community colleges, and place a greater emphasis on Science, Technology, Engineering, and Mathematics (STEM) courses. Many respondents also cited the advantages of skills training programs that focus on the needs of local businesses and provide real world experience through an internship or apprenticeship. This feedback is immensely helpful as we look for ways to provide Connecticut manufacturers with the human capital they require.

Sample suggestions from survey respondents:

- “Continue to provide grant funding for skill training efforts which are company driven.”
- “Stress basic math skills so younger workers have the basics to learn – let young people know the opportunities for workers with these skills.”
- “Get more funding for the trade schools. Not every graduating high school senior is slated for a four year college degree. We need to start giving these kids an option.”
- “Appropriate education is of course a requirement but add in actual, practical working experience at almost any type of work. They need to know what work really is and be responsible for their actions.”
- “Work with colleges to foster apprentice type programs with manufacturers.”

Enhancing Connecticut's Business Climate

Connecticut's manufacturers remain concerned with the general business climate in the state. In this year's survey, we asked respondents to rank how concerned they were about various aspects of doing business in Connecticut on a scale of 1 to 5. In the chart below, 1 indicates they are not concerned at all, and 5 indicates they are very concerned.

	1	2	3	4	5
The costs of health care coverage	5 (4%)	1 (1%)	4 (3%)	17 (14%)	96 (78%)
Cost of employee salaries and benefits, not including healthcare	3 (2%)	11 (9%)	40 (33%)	32 (26%)	37 (30%)
The ability to attract and retain qualified workers	4 (3%)	10 (8%)	25 (20%)	44 (36%)	40 (33%)
Increased competition from foreign sources	22 (18%)	21 (17%)	25 (20%)	22 (18%)	33 (27%)
Government regulations	5 (4%)	12 (10%)	23 (19%)	33 (27%)	48 (40%)
Federal, state and local taxes	2 (2%)	8 (7%)	17 (14%)	34 (28%)	61 (50%)
The availability of capital and credit	16 (13%)	29 (24%)	36 (30%)	21 (17%)	19 (16%)
Financial stability of vendors	8 (7%)	33 (27%)	45 (37%)	25 (21%)	10 (8%)
Financial stability of key customers	11 (9%)	20 (17%)	29 (24%)	38 (32%)	21 (18%)
Lack of consumer demand	15 (12%)	22 (18%)	31 (26%)	29 (24%)	24 (20%)

The cost of providing health care coverage to employees was the largest concern among respondents, with 92% ranking it a 4 or 5. This is why we are eagerly anticipating the full implementation of recently-enacted health care reforms that will bring down the cost of health insurance in the long term. A majority of this year's respondents indicated their support for extending the payroll tax cut and enacting broad corporate tax reform. Many respondents mentioned that long-term, stable tax policy is needed for business leaders to prepare adequately for the future.

Nevertheless, a number of respondents pointed out that tax policy is less of a hindrance to business growth than a continued lack of consumer demand for their products, a concern for 44% of respondents. Increased competition from foreign sources was a concern for 45% of the respondents, and the inability to find skilled workers was a concern for 69% of the respondents. Our plan to promote growth for Connecticut manufacturers is targeted at the concerns these respondents listed.

Making The Federal Government A Better Partner

Over a third of our respondents reported that they contract with the federal government. In an effort to make the federal government a better partner in contracting, we asked for insight from Connecticut manufacturers.

Among those that do not contract with the federal government, the most commonly cited reason by far was “red tape.” There is need among Connecticut manufacturers for a more streamlined federal contracting process that provides transparency and accountability to taxpayers.

There is a shared sentiment among all respondents that we have a lot of work to do in order to make the federal government a better partner to Connecticut manufacturers. We asked Connecticut manufacturers for their ideas about how the federal government’s policies can promote growth in manufacturing and make it easier to do business with the government. This year’s suggestions included the following:

- Changing federal policies that encourage companies to outsource or offshore their business by eliminating loopholes in the tax code and incentivizing insourcing.
- Making it easier for small businesses to compete for contracts with the federal government.
- Enforcing stronger “Buy American” requirements to bring federal money back to U.S. manufacturers.
- Reforming the International Traffic in Arms Regulations (ITAR) system to remove unnecessary barriers to exportation for those in the defense manufacturing industry.
- Increasing federal investment in STEM-based education and skills training programs.

Connecticut Manufacturers in the Global Market

While manufacturers import raw materials from all over the world, China remains the largest exporter of raw material to Connecticut's manufacturers:

36. From where do you import raw material?

Response	Chart	Percentage
China		46%
Canada		30%
Africa		4%
India		13%
Asia (not China)		25%
UK		14%
South America		8%
Western Europe		41%
Russia		4%
Other, please specify...		24%

Connecticut's manufacturers export their products all over the world:

38. If you ship internationally, to which of the following regions do you export?

Response	Chart	Percentage
China		38%
Western Europe		67%
UK		42%
South America		37%
Canada		63%
India		14%
Asia (not China)		43%
Russia		8%
Africa		12%
Other, please specify...		31%

Connecticut manufacturers continue to face increased competition from foreign sources; 66% of respondents indicated that such competition has increased over the last ten years. Most respondents were particularly concerned with China's monetary and trade policies, such as currency manipulation, which they believe unfairly benefit China's exporters at the expense of manufacturing in Connecticut.

Thank You!

We sincerely appreciate the input that Connecticut manufacturers have provided us in the second year of our Manufacturing Survey. Hearing directly from this vital industry will guide our policy decisions in Washington, and we will continue to aggressively share this feedback with our colleagues and other policy-makers in the nation's capital and throughout Connecticut. We hope that you will continue to communicate with our offices so that together we can continue Connecticut's proud manufacturing tradition.

Sincerely,

Richard Blumenthal
United States Senate

Christopher S. Murphy
Member of Congress