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WEDC sees manufacturing outweighing biotech for future economic growth

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MILWAUKEE -- Manufacturing and dairy farming still drive Wisconsin's economy and are the key places to focus future resources, despite struggles during the Great Recession and despite a disdain in some sectors for those industries' old-fashioned, blue-collar image, a comprehensive new study shows.

But enthusiasm in recent years for promoting Wisconsin as a biotech or life sciences hub isn't realistic -- at least when it comes to allocating the resources of the Wisconsin Economic Development Corp., a WEDC representative and an industry analyst told members of the Milwaukee Rotary Club on Tuesday.

Lee Swindall of the WEDC and John Brandt, CEO of MPI Group, which compiled the data, discussed findings of the newly released, 611-page Wisconsin Economic Future Study. It identified "driver industries" in the state and ranked them by change in growth, production and competitiveness since 2003.

The study, commissioned by WEDC, WMEP and the Milwaukee 7, also compared the performance of Wisconsin's economy with eight states classified as "competitors" -- Minnesota, Illinois, Michigan, Indiana, Ohio, Pennsylvania, Georgia and North Carolina.

While the purpose of the report was not to downplay the importance of any specific industry, knowing which industries can realistically be expected to grow and provide jobs is the key to the state's future, said Swindall, who is vice president for business and industry development at the WEDC.

"It is my charge and my charter to support targeted industry development in the state for the industry sectors that are the most competitive, that offer the best potential for sustainable, long-term growth both in company size, company revenue and employee growth. In order to do that, we make data-based decisions," he said.

The study identified 37 "economic driver" industries in Wisconsin, 36 of which are in manufacturing. (The remaining one is in electronic shopping and mail houses.) "Driver industries" must have more than 100 employees, meet a complex formula comprised of 12 factors for growth and productivity, and produce more goods than can be consumed locally, thereby creating out-of-state

revenue.

Some good news -- the data shows that 31 of the 37 driver industries grew between 2008 and 2011. The not-so-good news -- few of Wisconsin's driver industries meet the criteria of "technology intensive."

"That's important because there's a lot of literature out there says that industries that are technology intensive and have strict educational requirements tend to grow significantly faster than other industries," Brandt said.

Wisconsin's top economic drivers include:

- * Transportation equipment manufacturing, other than automotive, in particular, motorcycle, bicycle and military vehicle components
- * Electrical equipment manufacturing
- * Pulp, paper and paperboard mills
- * Dairy product manufacturing
- * Foundries
- * Non-metallic mineral products, in particular, sand extracted in Wisconsin quarries to feed the hydraulic fracturing or "fracking" industry elsewhere
- * Glass and glass product manufacturing.

Brandt said he was surprised how well Wisconsin's manufacturing businesses held up during the Great Recession. Swindall also cheered the stability and resilience of manufacturing. He said Wisconsin would have fared far worse during the recession were not for manufacturing and that Wisconsinites should embrace, rather than discourage, factory growth.

That also goes for encouraging young workers to embrace careers in manufacturing, something he said isn't stressed to students at a young-enough age.

The WEDC plans to spread the word about manufacturing careers to middle-schoolers from now on, he said, along with continued efforts to help manufacturers collaborate with community colleges and tech schools.

Swindall told WisBusiness.com that he often hears laments about a lack of qualified workers in Wisconsin and that applicants are short on both technical and so-called "soft" skills. But Brandt told the audience that complaints of skilled-worker shortages are partly true -- as in large numbers of pending retirements -- and partly perceived, noting that companies that pay as little as \$10 an hour are the most likely to complain of worker shortages.

Wisconsin's comparison to states with similar industry capabilities was a mixed, but mostly negative bag.

"For none of these measures that we looked at does Wisconsin rank highest

among the eight competing states," said Brandt. "In fact, Wisconsin ranks lowest among the eight states, in 2011 at least, for gross state product and for productivity. That would be something I would look at if I was looking at policy around here."

The study found that Wisconsin industries badly lag in global engagement -- "being ready to source overseas or sell overseas," Brandt said. "What we saw was a significant gap in Wisconsin manufacturers and everybody else in being aware of and taking a look forward in 'How are we going to become global?' "

A bright spot was that Wisconsin's paper manufacturing and some other industries showed growth in exports, Brandt said, but noted "there is still room for improvement."

Still, both Swindall and Brandt said manufacturing is the way for the state to go.

"Manufacturing is the engine that drives Wisconsin," said Brandt. "If you look at the research, every dollar of manufactured goods made in the United States drives another \$1.43 of activity in other sectors. For years now, two-thirds of all research has been done by manufacturing."

Swindall said the study boosts WEDC's plans to convert the former Eaton Corp. facility on Milwaukee's south side into a "lab" for members of the electronic power control manufacturing industry to test and develop new products.

"We will place three-quarters of a million dollar investment in that accelerator to recruit new companies to Wisconsin, especially early-stage and start-up companies," said Swindall. The center, to be called the Wisconsin Energy Research Consortium, will be open by the end of the year, he told WisBusiness.com .

However, the emphasis on manufacturing and farming means that economic incentives will be less focused on attracting less-established industries in the state, such as scientific or research-based businesses.

"Where we see great things happening in economic development these days is not typically creating new industry," explained Brandt. "There was a period of about 10, 15 years ago when everywhere I went, people were telling me they wanted to be the next biotech capital of the world. I knew they all couldn't be right."

In an interview afterward, Swindall reiterated that the biotech industry "is not supported by the market" and stressed that the WEDC has to be guided by the market.

"We shouldn't be saying, 'We have all this unique IP value in the form of

research and discovery by our academic class of researchers and a few companies in the state' and say, 'We have all this, now somebody come and buy it.' The demand has to be the leading force there."

"Biotech doesn't meet the driver industry test," said Swindall.

However, when asked by WisBusiness whether it makes sense, based on the data, for the state to invest in future iron-ore strip mining, Swindall was more open-minded.

"Economic diversity is important. We also need to emphasize increasing diversity in our state's economy, just as you would an investment portfolio to reduce risk," he said. "We're not focusing on mining as a strategic sector, but we're not opposing it. We think it's for the industry and for the local stakeholders to decide."

Swindall did say that biomedical equipment manufacturing is considered an economic driver industry in some parts of Wisconsin.

Members of the audience asked why health care -- a major employer in the state -- was not listed as an economic driver by the study.

Brandt said that's because health care is "intensely local."

"For the most part, it's not importing patients and not importing dollars," he said.

To see the entire study, go to: <http://inwisconsin.com/economicfuturestudy/>.

-- *By Kay Nolan*

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