

Fifth Third Bank

**Executive
Insights
on the U.S.
Manufacturing
Resurgence**





A Guide for Businesses Looking to Expand Manufacturing in the U.S.

Since 1858, Fifth Third has been helping manufacturers navigate through all economic cycles and providing guidance for growth and expansion challenges. In this guide, Fifth Third's trade, finance, and economic experts look at the implications of the resurgence of U.S. manufacturing and provide operational insights and tools for executives who may be considering initiatives to expand their manufacturing within or to the United States.

“After reevaluating our strategic objectives to facilitate growth and reduce risk, we decided that relocating our manufacturing process to the U.S. was the right decision.”

—Midwest metal gases manufacturer and Fifth Third Bank client



Background and Current State 4

Over the last half century, companies' operations have become more global to take advantage of lower production costs and increased efficiency and to capitalize on reduced friction in the movement of goods, services, and capital.

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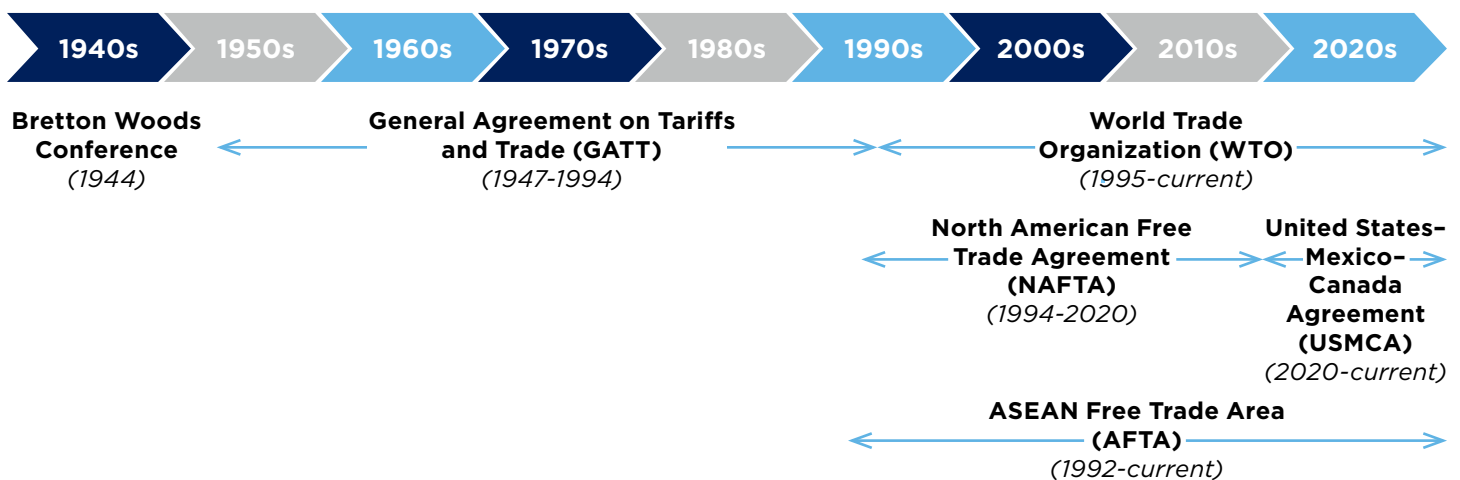
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When executing an expansion strategy, there are a number of factors manufacturers should consider before choosing a trusted financial partner.



Background and Current State

Over the last half century, companies' operations have become more global to take advantage of reduced production costs and increased efficiency and to capitalize on reduced friction in the movement of goods, services, and capital. As new policies promoting free trade were adopted after World War II, more markets opened to foreign companies. In the process, many firms searching for ways to reduce their labor costs moved manufacturing offshore. In addition, just-in-time (JIT) inventory management became a broadly adopted practice starting in the 1970s, allowing companies to both react more quickly to new trends and reduce their on-hand inventory needs and associated costs.



Globalization benefits

- Allows companies to find lower-cost ways to produce their products
- Increases competition, driving prices down and providing more choices for consumers
- Reduces poverty in developing countries

Just-in-time (JIT) inventory management

- More broadly adopted starting in the 1970s
- Increases efficiency, reduces inventory costs, and decreases waste by receiving goods only as a company needs them
- Allows companies to more quickly react to new trends
- Requires producers to forecast demand accurately

Yet, after decades of increasing free trade, the globalization trend is dramatically slowing and, in some prominent cases, being reversed. Concerns about a trade war between the U.S. and China, side effects of Russia's invasion of Ukraine, mounting supply chain problems, growing restrictions on high technology exports, and an array of government programs designed to bring manufacturing jobs back to domestic factories have prompted many companies to rethink their overall manufacturing strategy.

Also driving the shift:

- Supply chain disruptions during the COVID-19 pandemic, changes in inventory management practices, and the desire for supply chain agility
- Growing global inflation, which has increased the price of many commodities and other manufacturing inputs
- Efforts by governments to implement industrial policies that aim to create high-paying jobs in their domestic economies

All of this has led to a resurgence of domestic investment in factories in the U.S. in order to develop more local and resilient manufacturing production (*See Figure 1, addendum*). Since 2010, there has been an increase in reshoring by U.S. companies, coupled with increased foreign direct investment (FDI) by overseas companies in U.S. manufacturing facilities. The growth in U.S. manufacturing was evident from the [192% increase in manufacturing job announcements](#) from 2020 to 2022.

Many countries have recently moved from supporting globalization policies such as free trade to promoting protectionist tactics like imposing tariffs, which would seem to encourage deglobalization. While protectionist policies have gained more traction recently, trade between some countries is still flourishing.

Factors Supporting the U.S. Manufacturing Resurgence

Companies have decided to reshore or expand capacity in the U.S. in response to many factors. Mentions of reshoring or nearshoring during American companies' earnings calls [increased 216% between 2022 and 2023](#), according to Bloomberg.

A 2022 report by consulting firm Deloitte said that [62% of U.S. manufacturers](#) had already begun reshoring or nearshoring production to neighboring countries like Canada and Mexico. The White House cited [\\$628 billion](#) in manufacturing-related investments from private companies in the U.S. in the last three years.

Industries leading this boom include life sciences, technology, auto, and healthcare. Not only are construction companies experiencing a backlog on building manufacturing projects, the U.S. Bureau of Economic Analysis reported that construction and manufacturing spending totaled just under \$200 billion as of August 2023, a 66% increase year over year and the highest level of spending since data tracking began in the mid-20th century.

The top reasons C-suite executives offer for their decision to reshore are:

1. **Supply chains.** Many executives have become convinced that the traditional global supply chain model no longer works efficiently. Some were impacted by [shipping challenges during the pandemic, when ports were jammed with loaded container ships](#) and [freight rates skyrocketed](#).

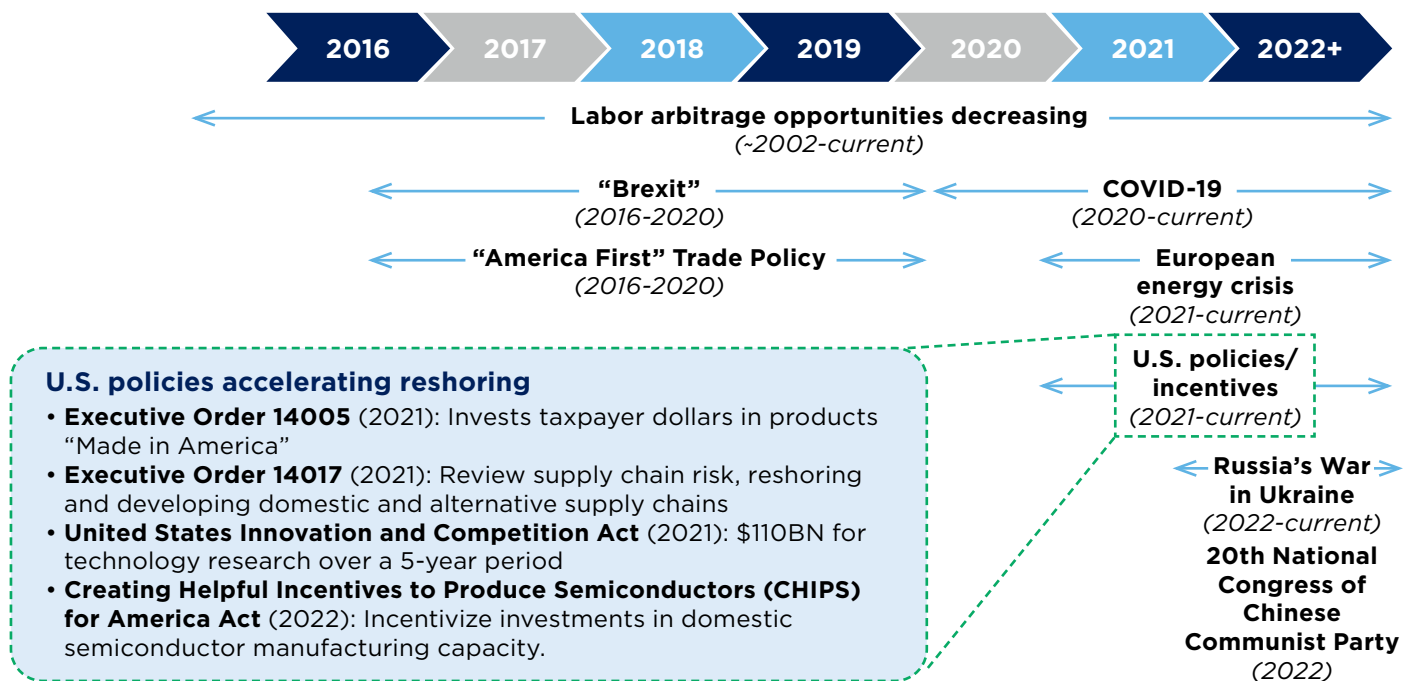
Just-in-Case Replaces Just-in-Time. Widespread supply chain bottlenecks during the pandemic led many companies to adopt a just-in-case inventory management policy to replace the leaner JIT policies. The central idea was to ensure the reliable availability of parts closer to domestic factories to protect against long shipping times and delays. While somewhat costlier, just-in-case has led to more reshoring as companies invest in suppliers close to their home operations and customers.

Supply Chain Issues. A variety of issues are affecting both up- and downstream portions of supply chains. The COVID-19 shutdown, particularly China's Zero COVID policy, affected nearly all industries. Because many companies had become reliant on China-based manufacturing to take advantage of the country's lower labor costs, most production ground to a halt when China shut down. Since many companies also kept inventories low because of JIT best practices, the result was widespread shortages of key components and parts.

DUAL-SHORING AND FRIEND-SHORING

The restructuring of global supply chains also includes two other trends: "dual-shoring" and "friend-shoring." Dual-shoring involves companies using both domestic sources and global vendors to ensure important relationships are maintained and their U.S. supplier partners survive. A more recent concept of "friend-shoring" seeks to take advantage of lower global labor costs while sourcing from countries with lower risk for embargoes or trade tensions. India has been a recent beneficiary of the friend-shoring trend. Trade between the U.S. and India reached [\\$132.6 billion in 2022](#), up 16% from 2021.

2. **Political risks.** Tensions between the U.S. and China have prompted executives to diversify their vendors to other countries. Between January and June 2023, [Chinese exports to the U.S. fell by 14%](#). The war between Russia and Ukraine and ensuing sanctions on Moscow have seriously disrupted commodity and industrial exports from those countries and caused prices of metals [like palladium to soar](#), says consulting firm KPMG. At the same time, companies have been concerned that the Israel-Hamas conflict might become a wider conflict and affect global oil supplies, which hasn't yet materialized.
3. **Tax incentives.** Former President Donald Trump's administration imposed global tariffs on a range of imports such as steel and washing machines, which caused companies to bring some manufacturing back to the U.S. The 2022 CHIPS and Science Act passed under President Joe Biden caused a surge in the construction of new semiconductor chip production facilities in the U.S. The Inflation Reduction Act (IRA), also passed in 2022, [provided tax credits for domestic production](#) of renewable energy products such as solar panels and spurred automakers to locate manufacturing plants for electric vehicle (EV) batteries in the U.S.
4. **Labor issues.** [Wage inflation in China](#) and other offshore manufacturing locations has been increasing, while the cost of U.S. labor has remained relatively stable for the last decade. Because of increasing local wages and the addition of tariffs on key imports from Beijing, a 2023 report by Boston Consulting Group found that manufacturing in China is [roughly 21% more expensive](#) than in the U.S.
5. **Energy transition.** Companies are scrambling to find new sources of the raw materials needed for the energy transition to net zero. According to the International Energy Agency, an electric vehicle requires [six times the mineral inputs of an internal combustion car](#) and onshore wind turbines use nine times more mineral resources than a gas-fired plant. The IRA [mentions key minerals](#) that miners are incentivized to produce.



The Growing Political Risks

Global political risk is a major concern for companies that formerly imported many of their inputs for JIT manufacturing. Moving production back to the U.S. gives firms the ability to reduce political risk while shifting the manufacturing process closer to their customers. Concerns about conflicts and corruption interrupting a manufacturer's supply chain also have played a role. Additionally, the country in which an offshore manufacturer is located can pose a geopolitical risk. This can connect with government policy (e.g., a lack of intellectual property rights protection), a conflict within or outside the country (e.g., the U.S.-China trade war), or a change in local government resulting in the nationalization of assets (e.g., Venezuela's confiscation of ConocoPhillips' assets in 2007).

A New Set of Tax Incentives

There are several tax incentive programs designed to entice manufacturing investment in the U.S. The CHIPS Act provides \$52 billion in incentives to support domestic semiconductor manufacturing capacity and research, [encourages semiconductor manufacturing](#) through its grant fund for facilities and equipment, and provides tax credits and workforce training loans. Since passage of the law, U.S. and foreign firms have [invested \\$220 billion in new](#) fabrication facilities or "fabs" as a result of the legislation, according to the Semiconductor Industry Association.

The federal government also earmarked \$3.5 billion to help spur construction of U.S. factories for producing EV batteries. In the latest development, Japanese carmaker Toyota announced in October 2023 that it would [invest \\$8 billion to construct eight](#) EV lithium-ion battery production lines in Liberty, North Carolina. A month earlier, the Illinois state government said [that a \\$2 billion factory to produce EV batteries](#) would be built in rural Manteno. **Over the past three years, \$90 billion has been invested in EV battery factories in eight states** being called the Battery Belt: Michigan, Indiana, Ohio, Kentucky, Tennessee, North Carolina, South Carolina, and Georgia.

Similarly, **the IRA launched new and expanded tax credits for clean energy manufacturing investments** through 2032. For example, First Solar, the largest producer of solar panels in the U.S., said in July 2023 that passage of the IRA had [prompted it to invest \\$1.1 billion](#) in building a fifth plant to increase its domestic solar production. The company has spent \$2.8 billion on new solar factories in Ohio and Alabama.

Clean energy equipment manufacturers may also qualify for up to 30% in tax credits for purchasing and building facilities by January 1, 2025.

These acts have drawn many manufacturers back to the U.S. to take advantage of tax incentives offered for domestic production. **Along with domestic manufacturers, foreign companies also can qualify for CHIPS Act subsidies**, bringing in additional investments and creating jobs in the U.S. through FDI. For example, the Taiwan Semiconductor Manufacturing Company, which accounts for more than half of the global semiconductor market share, is investing [\\$40 billion to open a new manufacturing facility in Arizona](#), where it will produce chips for Apple. Qcells, a South Korean solar panel manufacturer, [opened a new plant in Georgia](#).

The U.S. Department of Energy has also selected [seven regional clean hydrogen hubs](#) across the country, providing \$7 billion in funding from the Infrastructure Investment and Jobs Act adopted in 2021. The project is designed to create a national network of clean hydrogen producers and consumers, while also building connective infrastructure to support the process.

In addition to federal reshoring incentives, **many state governments have launched programs to entice manufacturing development** within their jurisdictions. A prime example is [Jobs Ohio](#), a unique private economic development corporation with access to long-term private capital, which provides companies with economic development grants and loans.

There's also the [Missouri Business Use Incentives for Large-Scale Development](#), which issues bonds to finance infrastructure support or capital improvements. In Georgia, companies can qualify for credits for each new manufacturing job added in the state, ranging from \$750 to \$3,500 per job over five years. **A final consideration for developing new manufacturing facilities in the U.S. is [foreign-trade zones](#)** (also referred to as free-trade zones). They are located near ports of entry and are considered outside of the U.S. Customs and Border Protection territory. Merchandise within these zones is not subject to the U.S. duty or excise tax, and exports are also exempt from these taxes.

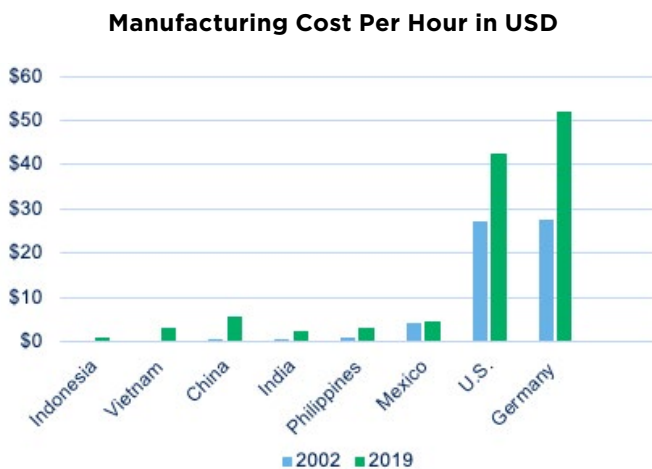
Thanks to the availability of government incentives, **several large multinational companies are committing to increasing their manufacturing presence in the Midwest and Southeast**. For example, Germany's Volkswagen said it will produce [90,000 EVs](#) at its plant in Chattanooga, Tennessee, to take advantage of the federal tax credit for U.S.-produced EVs.

This expansion not only presents opportunities to diversify suppliers, but also augurs well for the growth of a range of suppliers based in these regions, ranging from tier 1 (final products) to tier 3 (raw materials).

Labor Costs

Although labor costs in the U.S. tend to be higher than overseas, Chinese production wages have also risen, reducing the country's labor cost advantage compared with other popular production areas such as Mexico, Vietnam, and India. **China has seen an 83% increase in wages over the last 10 years, while American wages have increased at a slower pace**. While hourly wages are higher in the U.S., automation can reduce those costs significantly.

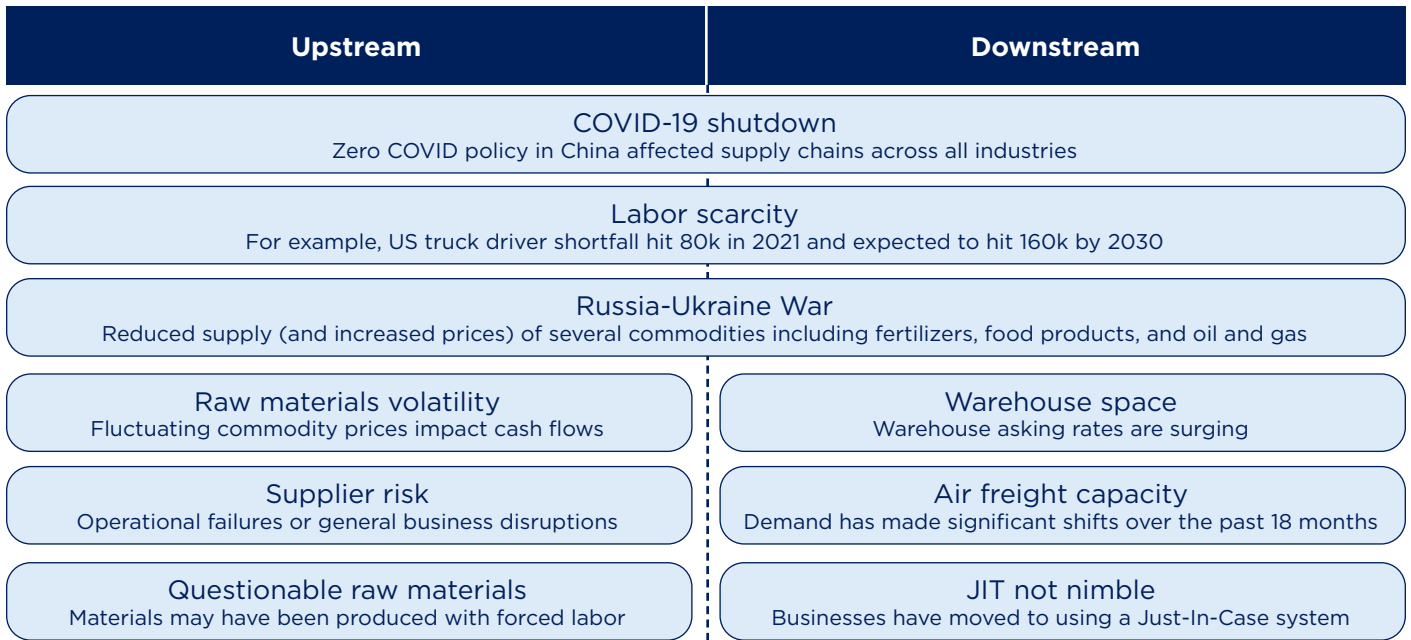
Some companies are opting for nearshoring their production facilities to Mexico, [where hourly wages average \\$5.30](#), lower than in either the U.S. or China. Mexico has the advantage of being relatively close for shipping purposes and is part of the 2020 United States-Mexico-Canada Agreement, which eliminates most import tariffs for U.S. firms.



Manufacturing Costs Per Hour Benchmarked Against the 2002 US Dollar		
Country	2002	2019
Indonesia	>\$0.01	\$0.03
Vietnam	\$0.01	\$0.11
China	\$0.02	\$0.21
India	\$0.03	\$0.09
Philippines	\$0.04	\$0.11
Mexico	\$0.15	\$0.17
U.S.	\$1.00	\$1.55
Germany	\$1.01	\$1.90

Source: Statista, Kearney

Recent supply chain issues

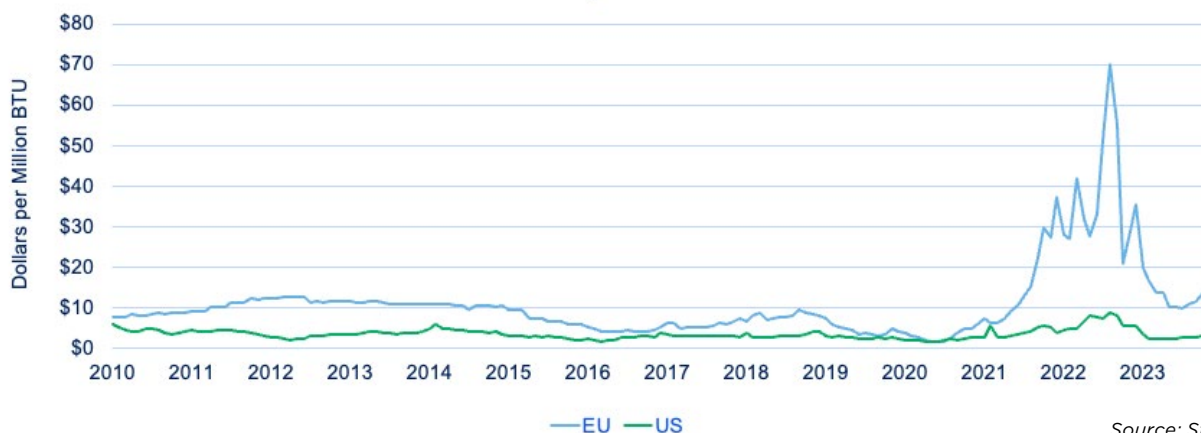


Source: Global X, Flexe Institute, Inbound Logistics

Embargoes imposed as a result of Russia’s invasion of Ukraine also affected the availability of commodities like fertilizers and oil and gas. In addition, storage and transportation of supplies became an increasingly significant issue. Warehouse space and air freight are at or near capacity, resulting in a 20% increase in costs due to farther distances to new facilities. And ocean shipping costs are beginning to decrease from dramatic spikes. Exacerbating these factors is an ongoing critical shortage of truck drivers in the U.S., with the shortfall reaching [80,000 in 2023](#) and expected to grow to 160,000 by 2030.

Energy Costs. Another significant factor in the reshoring movement is energy costs. European energy costs have historically been higher than those in the U.S., but the European energy crisis caused that gap to widen further. This resulted in a drastic cost increase for manufacturing plants in Europe, with companies reducing production and exploring opportunities outside of Europe. While energy prices eased in 2023, the volatility in natural gas prices made it difficult for companies to predict their future costs and they began to seek alternatives. For example, Dutch fertilizer company OCI, which requires natural gas for its production process, slashed its European ammonia output and announced investments to triple imports from its production facility in Texas.

Natural Gas Prices in EU vs US by month from Jan 2010 to Nov 2023



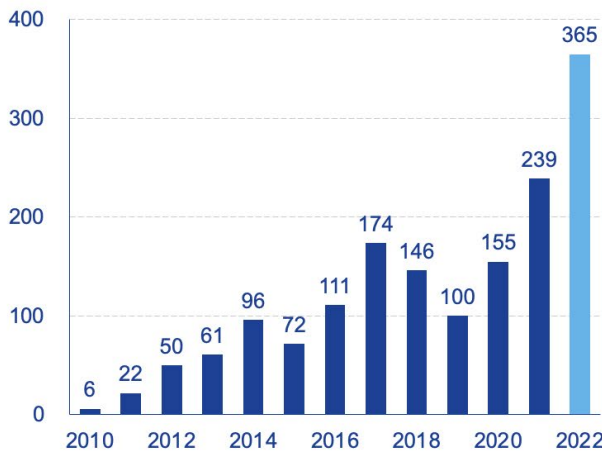
Source: St. Louis Fed



Sectors of Opportunity

Analysis of reshoring and FDI job announcements in the manufacturing subsector in 2022, shows electrical equipment, appliances, and components topped the list, with EV batteries being the primary driver. Notably, the Department of Energy in June 2023 agreed to [loan \\$9.2 billion to a joint venture between the Ford Motor Co. and South Korean battery maker SK On Co.](#) to establish manufacturing plants for EV batteries in Kentucky and Tennessee.

US manufacturing jobs announcements (Ks)
Reshoring + foreign direct investment (FDI)



2022 US reshoring + FDI jobs by industry (Top 5)

Rank	Industry	Primary drivers	Jobs (K)	% of jobs
1	Electrical equipment, appliances & components	Electric vehicle batteries	152	42%
2	Computer & electronic products	Solar panels, robotics, drones, & semiconductors	93	26
3	Chemicals	Pharmaceuticals & renewable fuels (e.g., hydrogen)	28	8%
4	Transportation equipment	Automobiles (excludes EV batteries)	26	7%
5	Medical equipment & supplies	Personal protective equipment	14	4%

Source: Reshoring Initiative 2022 Data Report

Significant other new investments in the Midwest and Southeast have been occurring over the past few years. These investments include reshoring, FDI, and infrastructure development, including those of the following companies:

- **Intel.** Most notably, the company announced it is building two chip factories in the Columbus, Ohio, region. It is expected to be one of the world’s largest chip-producing sites, with the company investing up to \$100 billion.
- **General Motors.** The car manufacturer is making a \$7 billion investment in Michigan to expand facilities to build EVs.
- **Eli Lilly.** The pharmaceutical firm is investing \$1 billion in North Carolina for expanding facilities to increase its medicine manufacturing capacity.
- **Hyundai.** The Korean carmaker is investing \$5.5 billion for EV and battery manufacturing.
- See also [Addendum Figure 1: U.S. Construction Spending of Manufacturing Facilities](#) for reference.

Among the other major industries considering reshoring are pharmaceutical businesses that produce essential goods such as vaccines and protective equipment, whose availability was disrupted during the supply chain crisis during the COVID-19 pandemic. Having a domestic source for manufacturing for these products will ensure that the U.S. has reliable access in the event of future supply chain disruptions.

Top Markets for U.S. Manufacturing Resurgence

As the accompanying charts show, manufacturing industries with the highest potential for reshoring and adding domestic jobs are in the Midwest and Southeast of the U.S., according to the Kenan Institute of Private Enterprise. In fact, more than 500 counties in the U.S. [rely on manufacturing](#) as the area's primary employer. There is an established culture of manufacturing in these markets, and they will continue to see growth due to the presence of such factors as multimodal logistical advantages, an existing manufacturing base, training infrastructure, and a favorable cost of doing business.

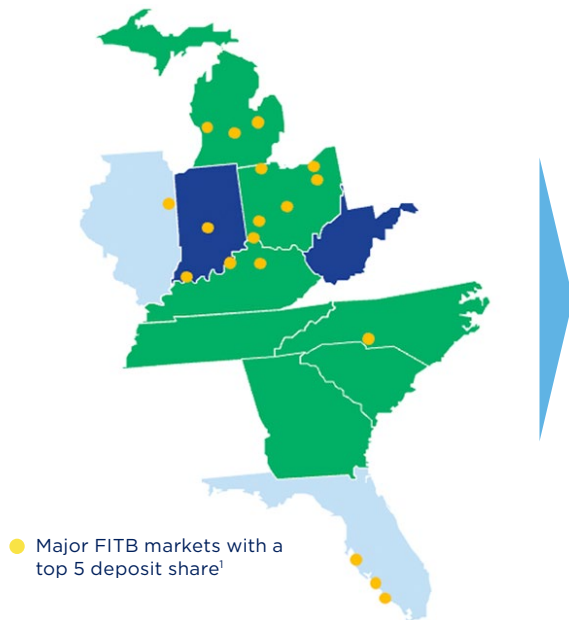
Detroit, for instance, has seen growth over the last 20 years thanks in part to a pivot that includes clean energy production in addition to auto manufacturing. Similarly, Spartanburg, South Carolina, is home to a BMW factory that exports SUVs to more than 100 countries.

The Kenan Institute also [identified microeconomies](#) in the U.S. based on productivity levels. New Orleans and several Rust Belt cities were noted as emerging areas of productivity thanks to a shift towards advanced manufacturing. This increase in productivity has been reflected in each area's overall resurgence, indicating that reshoring manufacturing helps local economies throughout the U.S. The top five cities that benefited the most in productivity between 2007 and 2022 were New Orleans, Louisiana; Pittsburgh, Pennsylvania; Salt Lake City, Utah; Portland, Oregon; and Columbus, Ohio.

Interestingly, Ohio serves as a key location connecting several major transportation corridors. The state has also invested in the Smart Mobility Corridor, which is testing intelligent transportation systems—which could be a major benefit to manufacturing facilities based in the area and transporting goods and materials across the country.

The space economy is another contributor to regional manufacturing resurgences. Manufacturing in this industry increased [5.8% in 2021](#) and included computer and electronic products as well as transportation equipment. Palm Bay, Florida and San Antonio, Texas are two of the strongest microeconomies for space manufacturing.

While manufacturing isn't as strong as it once was in these areas, the skills and knowledge of prospective employees, employers, and communities will play a role in the resurgence of manufacturing. Workforce development programs and community benefits agreements have been [proven to be successful strategies](#) in communities with large manufacturing presences.



2022 reshoring + FDI jobs and companies by State (Top 20, footprint only)²

Rank	State	Jobs (K)	Companies
2	OH	30	103
3	GA	28	57
4	TN	27	69
5	NC	27	93
6	MI	25	115
8	KY	16	44
9	SC	15	81
15	IN	9	58
17	WV	7	28

Our footprint represents **52% of total US reshoring/FDI jobs** (vs. 27% of US GDP³)

¹Includes MSAs with \$5BN+ in deposits on a capped basis (deposits per branch capped at \$250MM per June 2023 FDIC data).
²Source: Reshoring Initiative 2022 Data Report; ³Source: Bureau of Economic Analysis, U.S. Department of Commerce, 4th quarter 2022 GDP

Impact on Employers/Resources

Due to current labor and skill shortages in manufacturing, employers hoping to open new facilities may need to reassess their hiring requirements and strategies, such as using internal training for less experienced hires rather than requiring training prior to employment. Companies need to recruit and train younger workers because manufacturing employment has been skewed toward older generations, which are in the process of retiring from the workforce.

Companies can position manufacturing as a lucrative job with higher salaries and benefits for those who have specialized manufacturing skills. Manufacturers can also work with local communities to help build a talented workforce by investing in vocational training and collaborating with community colleges, public schools, and other manufacturers.

These investments in manufacturing are likely to result in more job creation and a stronger economy. “Every manufacturing job has a high multiplier,” said Fifth Third Commercial Bank Chief Economist Jeff Korzenik. “We used to estimate that each manufacturing job created three other jobs, but the current thought is that they create six, seven, or eight jobs.”

A 2022 McKinsey report said that while manufacturing accounts for just 11% of the U.S. GDP, it contributes 20% of the country’s capital investment and 35% of productivity growth. U.S. manufacturing also accounts for 60% of exports and 70% of research and development spending, indicating that the industry has an expansive ripple effect in the economy.



Mentions of reshoring in S&P 500 earnings transcripts were up significantly in the first quarter of 2023 compared to one year earlier. Members of America's C-suite—from CEOs to COOs—are looking at the initiative from several angles, but financing is often at the forefront of discussions.

Here are examples of how two Midwest manufacturers facilitated their reshoring projects and how a West Coast manufacturer expanded its U.S. manufacturing capacity:

Lowering Emissions: A Case Study



About

JSW Steel USA, an Ohio-based subsidiary of India-based JSW Steel, is part of the \$23 billion diversified U.S. JSW Group. JSW Steel USA has two locations in the U.S.: Mingo Junction, Ohio and Baytown, Texas. The company has both the largest and most modern Consteel™ EAF technology in North America as well as one of the widest plate mills servicing shipyards, oilfield fabricators, heavy equipment producers, machinery makers, the global energy and petrochemicals industry, and other end users and distributors that need high-quality steel.

The Challenge

Objective: JSW Steel USA is on a journey to become a premier “melted and manufactured in the U.S.” company, supplier, and employer. To meet growing demand for domestically made steel products in the U.S., while also cutting emissions from its production process, financing was needed to make investments in the Ohio plant to allow the company to produce high-quality domestically produced steel products required by its customers in the infrastructure and renewable energy sectors.

The investment included installing a vacuum tank degasser in its facility, which can lower carbon emissions compared to traditional steam ejector technology, as well as implementing dynamic soft reduction technology in its casting operations to improve defects in the center of casted steel slabs, helping it produce a wide range of high-quality slabs in the U.S. These projects will also help JSW Steel achieve its long-term ESG goals.

The Results

Fifth Third's Financing Solutions and Expertise: Fifth Third helped facilitate the project, serving as sole manager in arranging funding utilizing Jefferson County Port Authority Economic Development tax-exempt revenue bonds:

- \$40 million municipal bond funding
- Fixed-rate, bullet maturity
- Fifth Third's International Corporate Banking team brought new insights to JSW Steel, including highlighting the fact that this project could qualify for tax-exempt municipal debt: the same section of the IRS code that allows for financing of hospitals and various non-profits, also allows financing of solid waste improvements. Scrap metal/solid waste goes into an electric arc furnace, and the project therefore qualified for the municipal bond.



About

Barr Brands International, a Fifth Third client for more than 12 years, was founded by William M. Barr in the mid 1940s in Memphis, Tennessee, as the manufacturer of the first nonflammable paint remover. Barr Brands is a 100% employee-owned S Corp ESOP that owns and operates W.M. Barr and Microban. W.M. Barr is a market leader in outdoor cleaning, home improvement, and automotive refinishing products. The company manufactures and sells its products through retail and distributor channels in the U.S. and abroad and has a successful track record of acquiring and integrating branded products with its marketing and distribution capabilities. Barr's portfolio of brands includes well-known products such as Goof Off®, Mold Armor®, Klean Strip®, DampRid®, and Microban.

The Challenge

Objective: Since 2017, the company's DampRid brand has doubled in size while the company's in-house manufacturing capacity remained the same, making the company more reliant on third party suppliers overseas. With supply chain disruptions, COVID-19 shutdowns in China, a backlog of container shipments, and a spike in China's freight costs, the company faced difficulties meeting growing demand in 2022 which drove the strategic decision to expand manufacturing capacity in the U.S. to create a more robust, flexible, and reliable supply chain, triple in-house capacity, and enable the company to respond quickly to changes in demand. The company also needed to renew existing ESOP financing to fund future ESOP dividends.

The Results

Fifth Third's Financing Solutions and Expertise: Fifth Third's Memphis-based commercial banking team and leveraged finance team collaborated with a focus on providing Barr Brands with the capital it needed to reshore and keep the ESOP strong:

- Financing for the reshoring initiative, which includes a unique delayed-term loan structure. Barr Brands can draw on it six times over 2.5 years, giving the company the flexibility to utilize it when needed. The new production line will include new technology to increase in-house capacity and capability.
- Lead left syndication of a \$214 million credit facility for new capital needed to reshore operations as well as for ESOP repurchase obligations and working capital. The credit facility is made up of a \$44 million revolving line of credit, a \$120 million term loan, and a \$50 million delayed draw term loan.
- Solutions to help the company reduce risk, including FX hedging and interest rate swaps, as well as automated treasury management tools and ESOP advisory.

The long-term relationship Barr Brands has with Fifth Third was built on trust and an appreciation for Fifth Third's consultative-first approach. Fifth Third relationship managers take the time to thoroughly understand a client's business goals. Then, they help make them happen through strategic advice, industry insights, and customized solutions that address current business challenges while creating additional value for their business.

About

Coast Aluminum was founded in Hayward, California, in 1982 as a branch of Clark Metals and was incorporated as Coast Aluminum in 1991. It is a second-generation business that provides an extensive inventory of stainless steel, carbon steel, aluminum stock, and specialty metals, as well as value-added services such as precision cutting, machining, and fabrication.

The Challenge

Objectives: The name “Coast” was chosen with the hope, and confidence, to take what was a successful beginning in the San Francisco Bay Area and provide goods and services up and down the West Coast. The company was seeking capital to expand and construct new plants in El Paso, Texas; Boise, Idaho; and Medford, Oregon.

The Results

Fifth Third’s Financing Solutions and Expertise: Fifth Third recommended a flexible lending structure to support the growing working capital needs of expansion:

- \$170 million [asset-based line of credit](#), with owner-occupied real estate as collateral. Unlike some institutions, Fifth Third gives businesses the unique option to use real estate as collateral, along with inventory and equipment. The line is also serving as a backup funding source for third-party construction loans.
- An interest rate swap to hedge against rising rates and commodity hedging to control fuel and aluminum costs.

Today, the company has more than 20 locations throughout the western United States, with construction of the three new plants underway. The owner commented, “I’ve learned more from Fifth Third in the first year than I did during the entire time I was with another bank.”



Four Key Steps to Manufacturing Expansion

A company interested in opening or expanding U.S. manufacturing operations typically completes four key steps in order to decide whether to move forward and, once that decision has been made, to begin the process of opening a U.S. facility. In the decision process, companies are often supported by consultants, economic development agencies, corporations, and banks. Here are the steps ([plus see the chart page 17](#)):

1. **Identify the business opportunity.** Evaluate the cost benefits and risk factors in making the change. Consult with trusted advisors or create a board of advisors, including an experienced banker, to help evaluate financials and potential tax credits.
2. **Explore site selection.** Make a short list of possible sites and include metrics about planned investment and hiring needs.
3. **Decide whether to relocate.** Finalize financing with a financial institution.
4. **After the site selection,** design the manufacturing facilities, build a supplier network, develop a strategy for getting the factory in production, and liaise with local governments to make infrastructure changes such as widening streets to deal with potential traffic flow changes.

A Note About the U.S. Permitting Process

Permitting in the U.S. can be complex, with multiple sets of approvals required by local, state, interstate, and federal agencies. Example permitting requirements include:

- Local land-use permits based on zoning and planning ordinances
- State environmental impact approvals
- Federal permits regarding wildlife protection, air and water protection, and federal/protected land usage

A bill in Congress called the Building American Energy Security Act of 2023 aims to set a maximum timeline for permit reviews on energy and infrastructure projects. If passed, it could streamline some investments on energy-related manufacturing projects.

Phase	Activity
1. Identification of Business Opportunity/ Problem	Consider need/desire for additional capacity or onshoring/reshoring
	Identify potential locations (countries, regions)
	Evaluate costs/benefits and risk factors
	Decide to move forward or not with exploration phase to open new/move capacity
2. Exploration/ Site Selection	Identify short list of locations for potential sites
	Develop metrics/business plan for intended location, including planned investment and hiring needs
	Engage consultants and economic development corporations to navigate site selection and incentives (optional)
	Conduct markets visits to ~2-3 potential markets
	During market visits, engage with key potential partners: corporate real estate, utilities, legal, etc.
	During market visits, meet with customers or key businesses in region (e.g., financial institutions)
	Set up site visits
	Engage with local and state governments
	Discuss/negotiate incentives with state/local governments based on planned metrics
	Discuss infrastructure and additional impact with relevant government parties
	Refine project metrics for 3-5 years (e.g., new job growth, capital) based on site selected
Finalize government incentives and establish alignment on potential update/needs (e.g., infrastructure, workforce development)	
3. Decision	Make final decision to relocate
	Finalize financing for buildout with financial institution
	Issue press release
4. Post-Site Selection	Design the manufacturing facilities
	Build out supplier network
	Develop strategy for starting up the factory
	Develop plan for hiring and training employees
	Engage with governments and private partners to carry out additional infrastructure changes (e.g., traffic patterns)
	As applicable, develop plans to shut down former factory

Businesses may want to make incremental decisions on which elements of production to move back to the U.S. or to start building in the U.S. market, rather than moving an entire business back to the U.S. at one time.

Firms also need to take into consideration the higher costs that come with maintaining more inventory. They should be careful not to overvalue short-term government incentives or assume that tax rates will not change.

Special Considerations for Non-U.S. Companies

Foreign direct investment in U.S. manufacturing [has increased substantially](#) in recent years, jumping from \$569.3 billion in 2006 to \$5.2 trillion in 2022, according to the U.S. Bureau of Economic Analysis. In 2021, the [largest FDI spending](#) in manufacturing included chemical manufacturing, computers, and electronic products. While many of the recent federal tax incentive programs apply to non-U.S. companies, President Biden signed an executive order in September 2022 requiring additional review of foreign investors in certain economic sectors.

The Committee on Foreign Investment in the United States requires review in five areas. This mandatory review process takes up to 45 days, with filing fees as high as \$300,000 depending on the transaction value, and looks at:

- Supply chain resilience and security
- Technological leadership
- Investment trends
- Cybersecurity risks
- Sensitive data



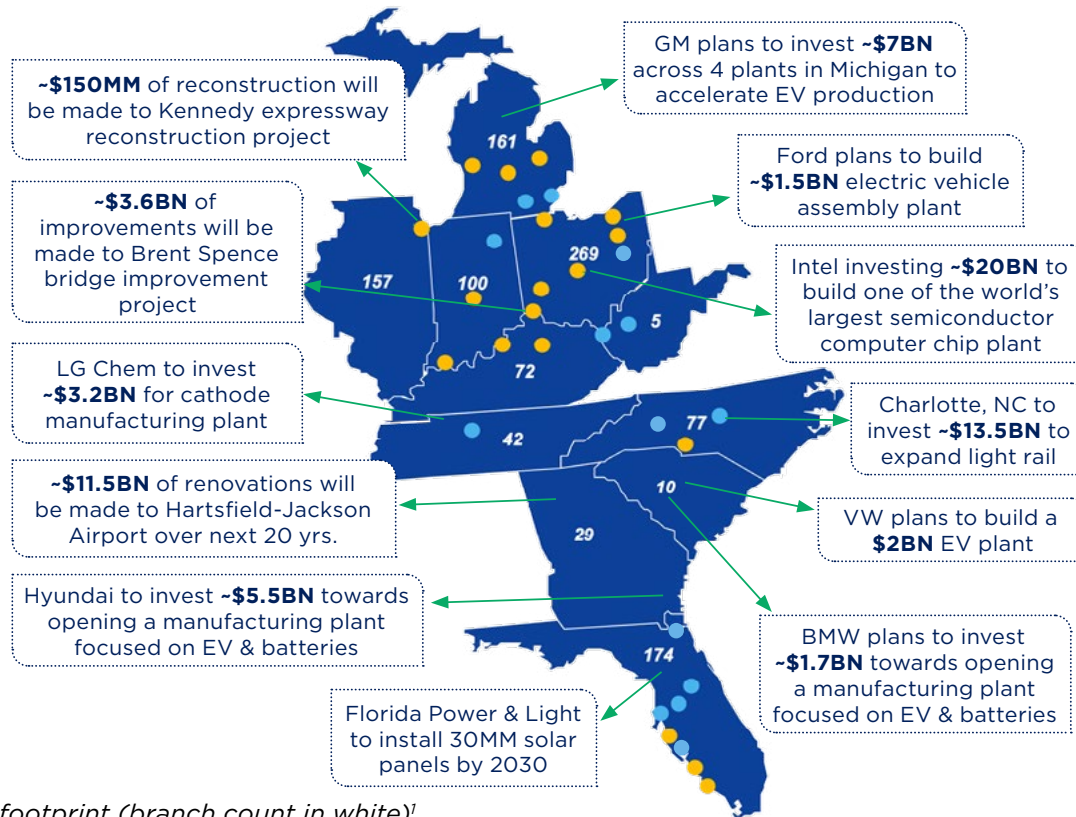
Fifth Third Bank Can Help

When executing an expansion strategy, there are a number of factors manufacturers should consider before choosing a bank as a financial partner. Most important is local market knowledge: **How well does your bank know the community, the key players across government, economic development, and private investors in the region?**

Financial Support and Technology Solutions: Eight Reasons to Partner with Fifth Third

1. A strong geographical presence in the Midwest and Southeast markets—areas that are well positioned to benefit from a manufacturing resurgence with reshoring investments and FDI.

Large-scale U.S. Manufacturing Projects in Fifth Third’s Footprint



- Regional footprint (branch count in white)¹
- Major FITB markets with a top 5 deposit share²
- Major FITB markets with a top 10 deposit share²

¹Branch count as of 2/01/24; ²Includes MSAs with \$5BN+ in deposits on a capped basis (deposits per branch capped at \$250MM per June 2023 FDIC data)

2. Fifth Third outranks regional peer banks with the highest percentage of manufacturing loans outstanding in the Commercial and Industrial loan portfolio¹. Fifth Third has a long history of financing manufacturing subsectors, including metal, steel, injection molding, electrical, food and beverage, and paper. We emphasize balance sheets and assets rather than cash flow when looking at loan eligibility. We have wide experience in underwriting manufacturing loans of all types.

¹of peers that disclose manufacturing loans; source: 2Q23 10-Q filings

3. **Footprint includes major commercial transportation hubs**, including air and rail.
4. **Two international offices (Toronto and London)** with expertise in helping international companies with U.S. operations since the 1990s. Fifth Third's International Corporate Banking team has extensive expertise in arranging private activity bonds for foreign companies seeking to expand their operations in the US.
5. **Local, microeconomic intelligence and research** driven from our collaboration with the University of North Carolina Kenan Institute for Private Enterprise.
6. **Local regional presidents who are well connected with other business owners, government leaders, and economic development corporations** to support your site decisions, navigate tax incentives, develop workforce pipelines, and help companies prepare to build new sites.
7. **Proprietary geospatial technology with granular data to help analyze site selection**, including labor force demographics and proximity to local transportation and education. This technology enables Fifth Third to open 30-plus new banking centers per year in the most optimal locations for growth.

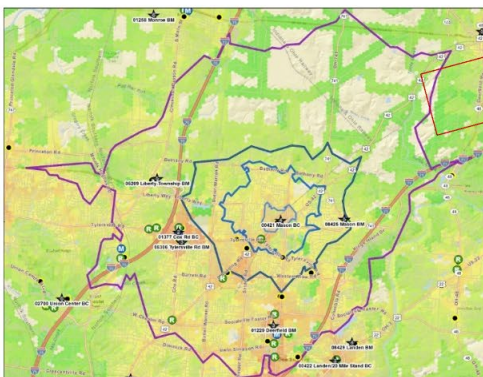
Geo-analytics: Market comparison

Markets

		Nashville, TN	Charlotte, NC	Atlanta, GA
Proximity / infrastructure	% of US population within 8-hour drive	60%	55%	50%
	Distance to major airport	4 mi.	5 mi.	6 mi.
	Distance to nearest port	-	200 mi.	248 mi.
Labor	Size of labor force	1.6MM	2.1MM	4.5MM
	Projected labor force growth (5-year CAGR)	6.7%	5.7%	4.7%
	# of manufacturing employees	0.4MM	0.6MM	0.8MM
	Unemployment rate	3.6%	3.8%	4.0%
Education	# of 4-yr engineering programs	2	3	4
	% of population with at least 2-yr college degree	43%	48%	47%
Costs	Commercial Real Estate cost index (1-low, 10-high)	6/10	7/10	8/10
	Median manufacturing annual wage	\$48K	\$52K	\$54K
	Median management annual wage	\$80K	\$82K	84K
	Cost of living index (1-low, 10-high cost of living)	6/10	7/10	8/10

Geo-analytics: Site evaluation

Industrial Site map



		15 min drive	30 min drive	45 min drive	60 min drive
Proximity / infra.	% of MSA population	15%	45%	70%	90%
	Access to major airport(s)	0	0	1	1
	Access to bus / passenger train routes	0	1	5	10
Labor	# of manufacturing employees	1,500	10,000	35,000	60,000
Education	College / universities	1	3	8	20

8. Expert financial solutions and capabilities:

Finance expansions

- Owner-occupied [construction lending](#)
- [Equipment and other leasing](#). We can identify the best financing or leasing option and calculate the cost of ownership, as well as the tax benefits and return on investment.
- [New market tax credit lending and public finance options](#)
- [Interest rate risk management](#)
- Public finance—new capital improvement for water, wastewater, and solid waste/recycling
- [Asset-based loans and working capital lines of credit](#)

Attract and retain employees

- Expert banking services
- [Employee banking—Membership Advantage](#)
- Employee benefits programs

Optimize working capital and liquidity

- Receivables optimization
- Treasury Management / Deposit options
- Payments
- Fraud detection services

Enhance supplier relationships

- Foreign exchange and commodities hedging
- [Global trade finance/supply chain finance](#)
- Payables automation

Contact Us

For questions about reshoring and expanding manufacturing in the U.S., please contact a [Fifth Third relationship manager](#).

For foreign entities looking to establish a production facility in the U.S., [contact us](#).

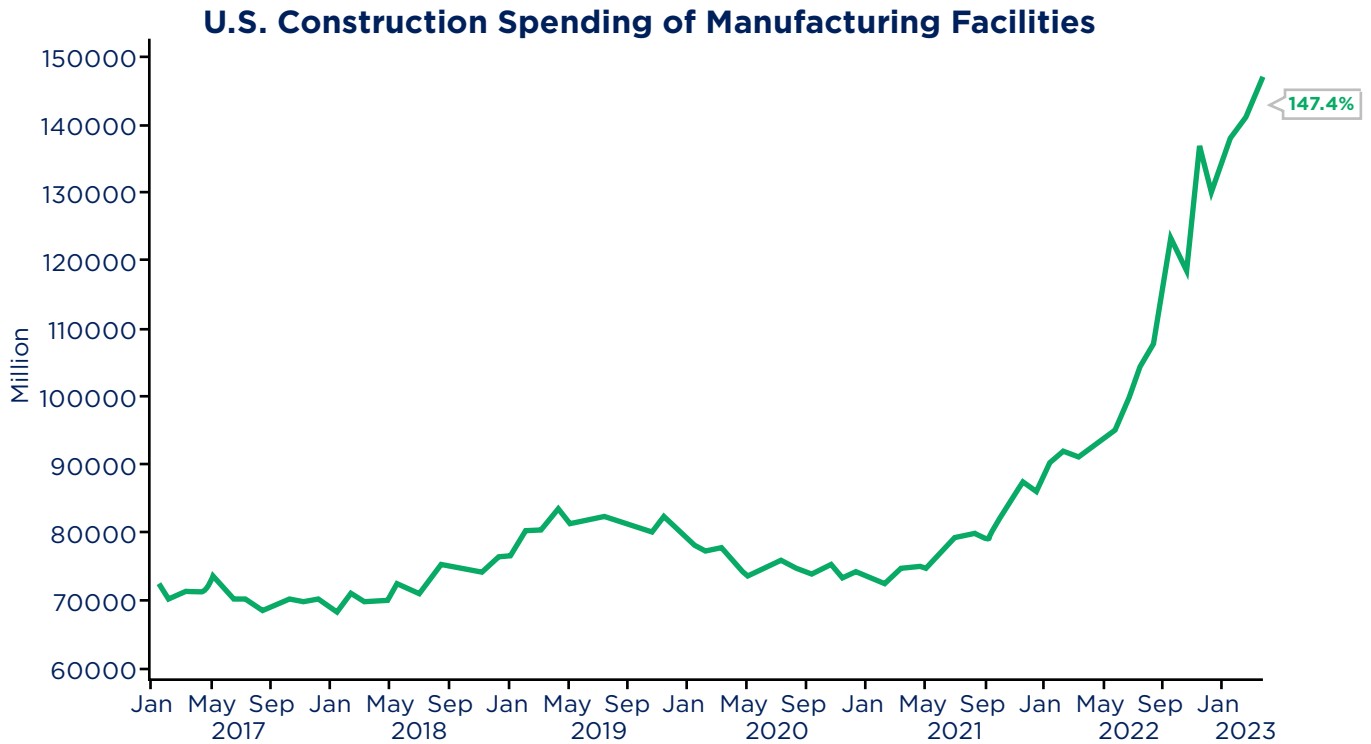


FIFTH THIRD BANK



Figure 1: U.S. Construction Spending of Manufacturing Facilities

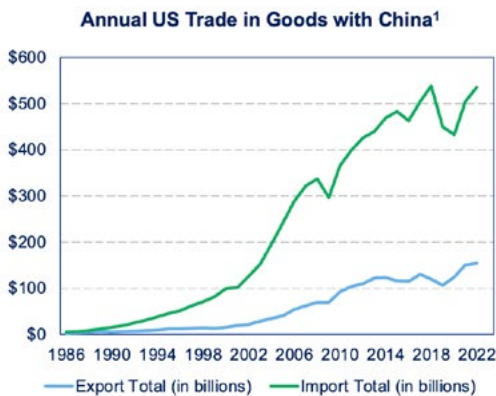
Reshoring of U.S. Manufacturing



Source: Metrobond, Census Bureau, Bloomberg, as of 5/3/2023

Figure 2: U.S.-China Trade Tensions

US-China trade relationship



US-China trade policy changes

Year	Policy change	Trend
1972	Nixon Administration opening door for trade with China	Globalization
1979	Normalization of US-China relations under Carter	Globalization
2001	China entered the WTO	Globalization
2002	US tariffs on Chinese steel	Deglobalization
2006-2016	US-China Strategic Economic Dialogue	Globalization
2009	US tariffs on Chinese tires and steel pipes	Deglobalization
2010	China tariffs on US chicken products and cars	Deglobalization
2012	US tariffs on Chinese solar	Deglobalization
2015	Chinese tariffs on US apples, nuts and chicken	Deglobalization
2018-2020	US tariffs on solar, washing machines, tech, US investment (trade war)	Deglobalization
2018-2020	China tariffs on US agricultural products, cars, chemicals, oil, steel, rubber, more (trade war)	Deglobalization

Despite mostly “deglobalization” policies from 2009-2020, trade between the US and China has continued to grow

¹Source: United States Census Bureau: <https://www.census.gov/foreign-trade/balance/c5700.html>

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May Lose Value

Are Not Insured By Any Federal Government Agency

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