How Real is the U.S. Manufacturing Revival?

BY LISA KENNEY

"The Competitiveness of U.S. Manufacturing." Federico J. Díez and Gita Gopinath, Federal Reserve Bank of Boston Current Policy Perspectives No. 14-3, June 2014.

The U.S. manufacturing share of GDP has increased every year between 2010 and 2012, prompting suggestions of a revival in the sector, according to a recent paper from the Boston Fed. In light of this GDP data, authors Federico Díez and Gita Gopinath set out to discover if U.S. manufacturing is truly gaining an edge against foreign competition. Their answer: No, but it might happen in the not-too-distant future.

To determine whether the increase in GDP share reflected an improvement in the competitiveness of U.S. manufacturing — or, perhaps, a temporary shrinking of the U.S. financial sector following the Great Recession — the authors looked at data for 1999 to 2012 on the U.S. import ratio (the share of domestic U.S. demand met by imports). They found that the competitiveness of U.S. manufacturing had not increased overall.

The result of their data analysis is not all negative with regard to U.S. trade balances, however. In energy-intensive industries, there was a relatively large decline in import ratios. The authors also note that labor costs are declining in the United States relative to the rest of the world. This energy channel and labor cost channel are considered recent phenomena, and the authors conclude that it is possible that these two channels may interrupt the "historical trend of rising import shares for the United States."

"Are Concerns About Leveraged ETFs Overblown?" Ivan T. Ivanov and Stephen L. Lenkey, Federal Reserve Board Finance and Economics Discussion Series No. 2014-106, November 2014.

Leveraged exchange-traded funds are often seen as contributing to the volatility of financial markets, but according to research from the Federal Reserve Board of Governors, these ETFs are falling victim to "exaggerated" concerns.

Leveraged and inverse ETFs "track a multiple of the performance of an underlying index, commodity, currency, or some other benchmark over a specified time frame, which is usually one day." The belief in their volatility comes from the idea that they exert upward price pressure on the underlying assets with positive returns and downward pressure on assets with negative returns — a belief based, in turn, on the perception that leveraged ETFs rebalance their portfolios in the same direction as the returns on their assets.

Ivanov and Lenkey argue that critics likely ignore the effects of capital flows — money moving in and out of ETFs as investors buy and sell shares — on the rebalancing of leveraged ETFs. The authors claim that capital flows "substantially reduce the need for ETFs to rebalance when returns are large in magnitude and, therefore, mitigate the potential for these products to amplify volatility." For instance, the rebalancing of an ETF's portfolio has the largest effect on volatility when the underlying returns are large — but capital flows mitigate the need for rebalancing in these cases.

The key is that capital flows change the size of an ETF, which then alters the amount of leverage needed to reach the target leverage ratio. The authors use a sample of U.S. equity-based ETFs to determine that capital flows are frequent and that they offset the need for portfolio rebalancing, therefore lessening the potential for these ETFs to exacerbate volatility.

"Home Hours in the United States and Europe." Lei Fang and Cara McDaniel, Federal Reserve Bank of Atlanta Working Paper No. 2014-5, June 2014.

When it seems as if there just aren't enough hours in the day, how does one decide how to divide his or her time between work and home? Researchers at the Atlanta Fed have asked this question and discovered that, over the last 50 years, the amount of time people spend engaged in "home hours" has declined in both the United States and Europe.

They looked at data that breaks a person's day into two categories: home hours and market hours. Home hours include household work such as cooking and cleaning, as well as shopping, errands, home repair, and child care. Market hours are all time spent working for pay and commuting to and from work. Combined work is the sum of market and home hours.

The authors say "the allocation of time for home activities not only is interesting in itself but also may be important for facilitating our understanding of the market labor supply." They find breakdowns by sex and age group to be of particular interest.

They found that women in all countries reduced their home hours, while men in almost all countries increased their home hours. In all countries, the women's decline occurred at a much larger rate than the men's increase. This leads the authors to conclude that the overall decline in home hours is a result of female time-allocation decisions.

Looking at age groups, the researchers found that members of the prime-age group (25-54) tend to have a more equal allocation of time between the two categories of hours than do the young and old groups. The authors also found that across countries, decades, and sexes, the young spent less time at home and the old spent more time at home than the prime-age group. **EF**