

Washington Manufacturing Alert

The Newsletter
Of The State's
Most Important Industry

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Newsire: Metal-building manufacturer closes Spokane plant; Triumph Group puts Spokane plant up for sale; state board approves financing for manufacturing projects in Mason, Grant counties; year-to-year manufacturing job loss widens in state; plus other news items. **Page 4**

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Pacific Marine Expo 2016: Some Prospects, Some Uncertainty For The Coming Year

BY BILL VIRGIN
Editor/Publisher

Opening day of the annual Pacific Marine Expo trade show in Seattle featured more exhibitors and decent crowds checking out the displays, but not a lot of certainty or consensus on what's ahead for next year for the Northwest's boatbuilding and marine-equipment manufacturing sector.

For some companies, such as Sedro-Woolley-based fishing-vessel builder Strongback Metal Boats, "2017 looks good. Bristol Bay had a good season so we're getting lots of interest and got lots of boats to build," said general manager Rob Smith.

But other companies report a lackluster pipeline of orders, generated by continued weak oil prices (affecting the market for work boats for that sector) and a murky regulatory climate in specific fisheries.

That uncertainty plays out not only in the fisheries themselves, affecting how much can be caught, but in spending on vessels and equipment, said Arne Arnesen, commercial maritime lending manager with Peoples Bank in Seattle.

"If you don't have as much fish as you think you're going to have, you don't buy a crane this year," Arnesen said. Lower volumes of purchases "affects the brokers, it affects the banks because we're not lending toward those purchases and certainly it affects the shipyards."

Vessel owners, meanwhile, are reluctant to make major investments to comply with regulations not yet written. While there's been lots of conjecture about recapital-

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State, Local Higher Minimum Wages Add To Cost Pressures For Manufacturers

Manufacturers already feeling squeezed on margins, between higher costs on one side and customer demands for price reductions on the other, just had the vise tightened on them even further.

Initiative 1433, approved by more than 57 percent of Washington voters in the Nov. 8 election, promises to hit employers in several ways. There's the direct impact on those positions currently compensated at a rate below the current statewide minimum of \$9.47 an hour.

Then there's an impact on the overall wage scale. If employers want to compensate employees more to reflect greater skill, experience or responsibilities, pay for those positions will have to be increased even if they're already above the minimum.

Manufacturers could also wind up paying more for goods and services from suppliers and vendors dealing with the same compensation increases — unless, of course, those suppliers are located in a state with lower minimums.

They'll likely be competing against companies operat-

Minimum Wage Rates, Hourly

WA 1/01/17 without I-1433	\$9.53
WA 1/01/17 with I-1433	\$11
Seattle current (fewer than 500 employees)	\$12 (\$10 with medical coverage)
Seattle current (more than 500 employees)	\$13 (\$12.50 with med coverage)
Seattle 1/17, large	\$15/\$12.50
Seattle 1/17, small	\$13/\$11
Tacoma current	\$10.35
Tacoma 1/01/17	\$11.15

ing in such states. Idaho and Utah, for example, are at the federal minimum of \$7.25. Oregon's is \$9.75 an hour

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Two Large Builders Are Swamped In Work

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ization of the North Pacific fleets, spending on entirely new boats is being held up in part by lack of clarity on what will be required. "If you can spend money to reskin a boat, put it in some new steel, that's a lot cheaper than building from the ground up," Arnesen said.

That's not true across the entire spectrum of fishing, he added. Smaller salmon vessels are being built and Peoples is financing some of them. "Can you justify a [salmon boat] right now for a few hundred thousand bucks? Yeah. Can you justify a crabber for what industry thinks is \$12 million, at least? That's tough."

Another factor that might encourage spending is opening of the tanner (bairdi) crab fishery in Alaska, which had been closed for the coming season. "There's a lot of money that's on ice," Arnesen said.

Strongback is one company that is doing well on the salmon fishery. The company has eight employees, but plans to increase that after moving to a new facility that will allow it to build four to five more boats a year.

Others are relying on other sectors to keep afloat. Snow Boatbuilding in Seattle recently finished a 40-foot tender boat for an oyster operation on Hood Canal. Rozema Boat Works in Mount Vernon is building a 65-foot oil skimmer for Western Canada Marine Response Corp.

Two of the region's larger shipyards report strong order books. Nichols Bros. Boat Builders on Whidbey Island has on its order book two cruise boats, two articulated tug barges, two line-haul tugs, two catamarans and one container ship.

"We're buried" in work, said Matt Nichols, chief executive, whose company has 435 employees. "We've had to turn away some beautiful jobs."

All American Marine's biggest project is one that doesn't float — a new and larger facility on the Bellingham waterfront. Once it moves in, it will start work on a 125-

foot, 500-passenger tour boat for Argosy Cruises. Joe Hudspeth, vice president of business development, said he hopes to have more projects to announce by the end of the year. The company has about 50 employees.

"I have absolutely no concerns about 2017 and 2018," Hudspeth said. "Boatbuilding in the Northwest is somewhat insulated from what's going on in the Gulf Coast or in D.C."

Going in a much different direction is Inventech Marine Solutions, a Bremerton company that makes small, fast and maneuverable boats with inflatable and foam collars.

If that sounds like what another Kitsap County company, Safe Boats International, does, there's a reason. Bill Hansen founded both companies, and is still a major holder of Safe Boats.

While Safe Boats has landed major contracts for military, security and law-enforcement customers, Hansen's 14-employee venture, started less than three years ago, is aimed at a different market. "We don't want to get really big because we always want to be able to produce the safest, most cost-effective platform in the world for families and small municipalities," he said. IMS builds to order, and its models range from a 15-foot inflatable to a \$3 million 50-footer.

Are there buyers? "There are," Hansen said. "We probably sold in the last two weeks \$2 million worth of boats."

Pacific Marine Expo is also a showcase for equipment manufacturers. Smak Plastics of Vancouver was displaying a new insulated 285-gallon seafood tote, complete with lid-mounted cutting board.

Breedt Production Tooling and Design of Kent (WMA April 11, 2016) was at the expo with its environmentally friendly marine bumpers and piling protectors. Company founder Andries Breedt said he's now talking to prospects in Alaska and Hawaii, and has bid on a major canal project in Germany. "The six years of work is starting to pay," he said.

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Higher Costs, Lower-Cost Competitors Among The Challenges

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(\$9.50 for non-urban counties), although that state is due for some significant increases in coming years.

The higher statewide minimum also doesn't take into account the difference in operating and living costs between regions within Washington. The statewide average for a machinist, according to the Employment Security Department, is \$24.02. In the Seattle-Bellevue-Everett region it's \$25.11. In Spokane it's \$18.27.

Labor-cost inflation isn't new for manufacturers, particularly if they operate in the Puget Sound region or are competing for talent with Boeing. Washington's minimum, at one time the highest in the U.S., had inflation adjustments built in.

But the recent state and municipally mandated increases guarantee that pressure on costs aren't going to stop. Washington's minimum-wage initiative (which also included a paid-sick-leave provision) increases the rate to \$11.50 in 2018, to \$12 in 2019, and to \$13.50 in 2020. In 2021 the system returns to an annual inflation-based adjustment.

Tacoma's minimum wage is scheduled to hit \$12 by 2018.

Seattle's system is more complex, with minimum wages determined by number of employees and whether the employer contributes to the cost of medical care, defined as a silver level or equivalent plan under the Affordable Care Act and paying at least 70 percent of the full actuarial value of the benefits provided under the plan.

Large employers, defined as those with more than 500 employees worldwide, are scheduled to hit the \$15 an hour minimum in 2018, if they provide some contribution toward medical care.

Small employers will hit \$15 (with medical contribution) in 2021, but the city says they'll go to \$17.25 an hour in 2024. The distinction between large and small disappears in 2025.

The increased labor costs come at a time when manufacturers are under pressure not just from competitors but from their customers to reduce prices. One huge source of pressure is Boeing, which through its Partnering for Success program has been asking for, and in many cases getting, double-digit-percentage cuts. The company's former chief executive complained that in some instances suppliers' margins were larger than Boeing's.

The result is that manufacturers are scrambling to further trim costs from what were for many already lean levels.

Tom McLaughlin, executive director of the Center for Advanced Manufacturing Puget Sound, said that when the organization got its start, bank credit was the biggest prob-

Job title	# of positions	Average wage
Assemblers/fabricators	2,941	\$14.79
Cabinetmakers/bench carpenters	1,846	\$18.12
CNC Machine Tool Programmers, Metal/Plastic	397	\$39.60
Cut/Punch/Press Mach Setters/Oprs/Tenders, Metal/Plastic	2,525	\$19.44
Electromechanical Equipment Assemblers	726	\$18.07
Extruding/Drawing Mach Setters/Operators/Tenders, Metal/Plastic	1,036	\$19.22
Foundry Mold & Coremakers	305	\$15.77
Industrial Machinery Mechanics	6,005	\$27.83
Machinists	9,523	\$24.02
Packaging & Filling Machine Operators & Tenders	8,029	\$14.85
Production & Operating Worker Supervisors	12,809	\$33.73
Sawing Machine Setters/Operators & Tenders, Wood	1,803	\$17.98
Semiconductor Processors	1,124	\$18.91
Sheet Metal Workers	3,634	\$30.14
Tool & Die Makers	1,298	\$33.06

Wage figures are per hour. Source: Employment Security Department 2016 Occupational Employment and Wage Estimates

lem member companies were dealing with. In recent years the focus has shifted to workforce issues and where to find trained and trainable employees.

These days, he said, the No. 1 issue he's hearing members discussing is how to contain costs.

Loren Lyon, president of manufacturing consulting service Impact Washington, said labor-cost pressures are prompting increased interest in robotics. Robotics had been seen as best suited for low-mix high-volume

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Newsire: The Latest In Washington Manufacturing

AIRWAY HEIGHTS: Houston-based NCI Building Systems said it has ended production at its Garco subsidiary near Spokane and issued layoff warning notices to 112 workers. A spokeswoman for NCI said the plant was closed due to weakness in the regional market for Garco's products. NCI operates 41 plants in the U.S. and abroad. The company plans to keep offices for technology, sales and procurement at Airway Heights, but fewer than 50 employees will remain. Garco, which made metal buildings and roofs, was founded in 1958 and acquired by NCI in 2007.

SPOKANE: Triumph Group is putting its Spokane aircraft composites components plant up for sale. The Berwyn, Pa.-based company said it doesn't have any further details about a timeline or prospective buyers. The plant, purchased from Boeing in 2002, makes reinforced thermoplastic laminates, composite and core sandwich floor panels, environmental control systems ducting and composite flight deck and interiors assemblies.

Triumph said the move is part of a broader restructuring plan. It announced a decision earlier this year to close an operation in Everett. The Spokane plant, which had a strike by members of the Machinists union for more than a month earlier this year, has more than 500 employees.

SHELTON: The Washington Community Economic Revitalization Board has approved a \$160,000 loan and a \$160,000 grant to the Port of Shelton for expansion of Johns Prairie Industrial Park for Fraser MetalWorks. The funds will be used to convert an existing 11,600-square-

foot structure into a steel fabrication assembly building that includes space for manufacturing and testing of industrial electrical control panels. Fraser MetalWorks will invest \$1,269,500 in a 3,000-square-foot expansion, steel fabrication machinery and equipment, and create or retain 69 permanent jobs as a result of the project. Local sources are providing \$400,000 in matching funds.

The board also approved a \$1.2 million loan and a \$300,000 grant to the city of George for Industrial Park No. 5 water system improvements for Ancient Lake Wine Co., which plans to invest \$46 million in a 9,000-ton wine grape processing facility with 55 employees.

OLYMPIA: Washington manufacturing employment in October was down by 5,100 jobs from the same month a year ago, the Employment Security Department said in reporting preliminary numbers (not seasonally adjusted). The statewide total was 287,100. Aerospace products and parts employment dropped by 4,500 jobs from October 2015; Wood-products manufacturing was down by 400 jobs from a year ago, while machinery manufacturing was off by 500. Food manufacturing was up by 1,000.

TUKWILA: ClearSign Combustion Corp., which makes emission-reducing industrial combustion technology, has received a follow-on contract from Tricor Refining LLC of Bakersfield, Calif., for a boiler system at its refinery. The project is to be completed by the fourth quarter of 2017. ClearSign has been targeting the oil refining market for its products, but said its latest contract opens a market for packaged boilers, small steam-producing units.

Salary Compression Another Consequence Of Minimum-Wage Hikes

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production, due to set-up times, he said.

But improvements to technology and the declining cost of robotics are changing that thinking. "With some of the new tools, such as virtual reality, it's really opening applications for low-volume high-mix work," Lyon said.

That could mean increased migration of robotic systems into everything from paint booths to material handling.

The move to robotics has one added benefit for employers and employees, Lyon added: fewer workers' compensation claims due to repetitive-motion injuries.

But Lyon cautioned that robotics aren't a cure-all for labor-cost problems. "A lot of manufacturing jobs that are labor-intensive have gone off shore already, he said.

There will also be a push to improve enterprise resource planning (ERP) systems to reduce overhead labor

costs, he said.

Manufacturing executives will also have to decide what to do about their wage and salary structure. Even those companies with most positions at or above the new minimums still face a problem with what's known as salary compression, in which the gaps between different job classifications are narrowed.

Allowing that to occur carries some negative consequences, the Seattle employer services company Archbright warned in a 2014 report. Those include low employee morale, poor employee retention, decreased employee engagement, loss of productivity, weakened trust in leadership, decreased overall job satisfaction, damaged work relationships and reluctance for potential supervisors to accept promotions (if that new job doesn't carry sufficiently higher compensation that recognizes the increased complexity and stress).