

U.S. Municipal Bond Market

Manufacturing Revival Meets Economic Reality

- “Liberation Day” has fueled calls to revive U.S. manufacturing, but economists warn a manufacturing job renaissance is unrealistic.
- The emotional pull of a manufacturing revival is strong, but experts urge a pivot toward future-focused industries like AI, robotics, and biosciences.
- Manufacturing jobs follow a global “inverted U” pattern—rising with industrialization, then falling with automation and productivity gains. Economists viewing the labor market in phases of structural change see large-scale manufacturing job recovery unlikely in the U.S.
- Tariffs and reshoring face headwinds: high labor costs, automation, and a shrinking workforce. An even bigger challenge: China’s dominance in high-tech sectors.
- Industrial and labor policy shifts may affect **municipal bond credit quality**, but **economists expect only modest reshoring and job growth**. Our base case is a **neutral outcome, with a resurgence seen as unlikely**.

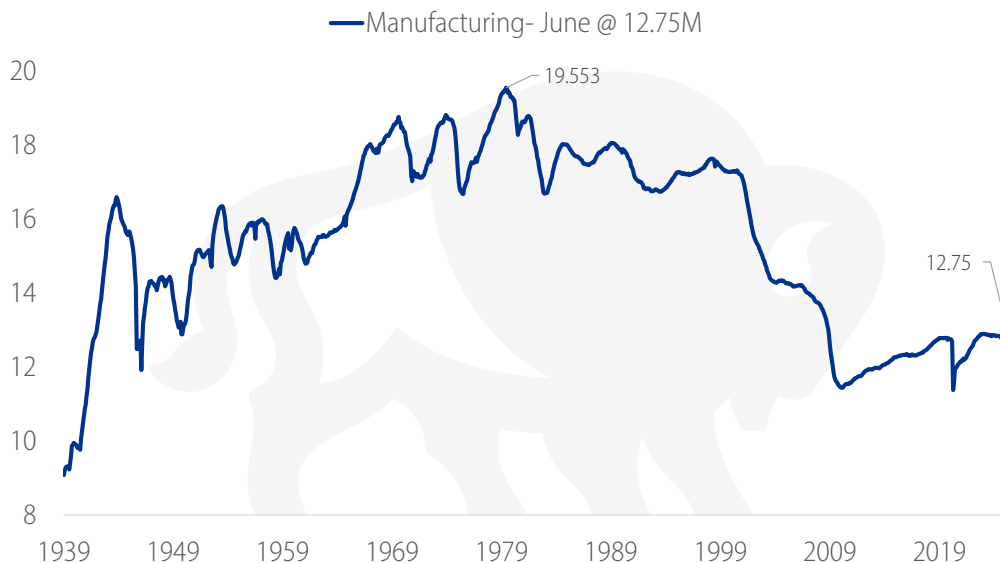
Tom Kozlik
Head of Public Policy and
Municipal Strategy
214.859.9439
tom.kozlik@hilltopsecurities.com

Industrial Ambition and Liberation Day

Since the announcement of Liberation Day and its anticipated impact on U.S. industrial and labor policy, financial markets have been adjusting to a rapidly evolving policy landscape. At the heart of this shift is a powerful, nostalgic ambition: **to restore American manufacturing employment to its previous leadership position**. This vision continues to resonate with many Americans.

Industrial and labor policy shifts may affect municipal bond credit quality, but economists expect only modest reshoring and job growth.

U.S. Manufacturing Employment (# in millions)



Source: U.S. Dept. of Labor, FRED, and HilltopSecurities.

Nowhere is this aspiration more deeply felt than in the American Rust Belt. Once a symbol of industrial might, the region has struggled with factory closures and job losses for more than four decades. The Trump administration's [national emergency plan](#) – reshore production, reinforce domestic supply chains, and impose tariffs on foreign competitors – has kindled hopes of manufacturing jobs that could reinvigorate these communities.

The Trump administration's national emergency plan – reshore production, reinforce domestic supply chains, and impose tariffs on foreign competitors – has kindled hopes of manufacturing jobs that could reinvigorate these communities.

Rust & Revival

The term “Rust Belt” emerged in 1984 when [Walter Mondale, campaigning in Cleveland, warned](#) that President Reagan's trade policies were turning the factory-centered Midwest into a “rust bowl.” But on the ground in the 1980s: creeping deindustrialization, job loss, and urban decay. That decline left a lasting imprint on these communities and local economies.

The bulwark of American manufacturing – stretching from western New York across the Great Lakes to Wisconsin – once accounted for [over half of all U.S. manufacturing employment](#). By June 1979, U.S. manufacturing (see line chart on page one) employed 19.6 million people, or [22% of all nonfarm jobs](#). These unionized, well-paying roles enabled millions to buy homes, raise families, and achieve upward mobility – often without a college degree. As economist [Susan Helper notes](#), postwar prosperity fueled a consumer-driven economy centered on durable goods, with American-made products symbolizing innovation and success.

While the emotional appeal of a manufacturing revival remains strong, economic policy requires a clear understanding of the structural forces that have transformed global industry and labor markets.

While the emotional appeal of a manufacturing revival remains strong, economic policy requires a clear understanding of the structural forces that have transformed global industry and labor markets. At stake are two ideas: 1) that tariffs can reignite manufacturing jobs in the U.S. and 2) that manufacturing can again serve as the engine of broad-based American prosperity.

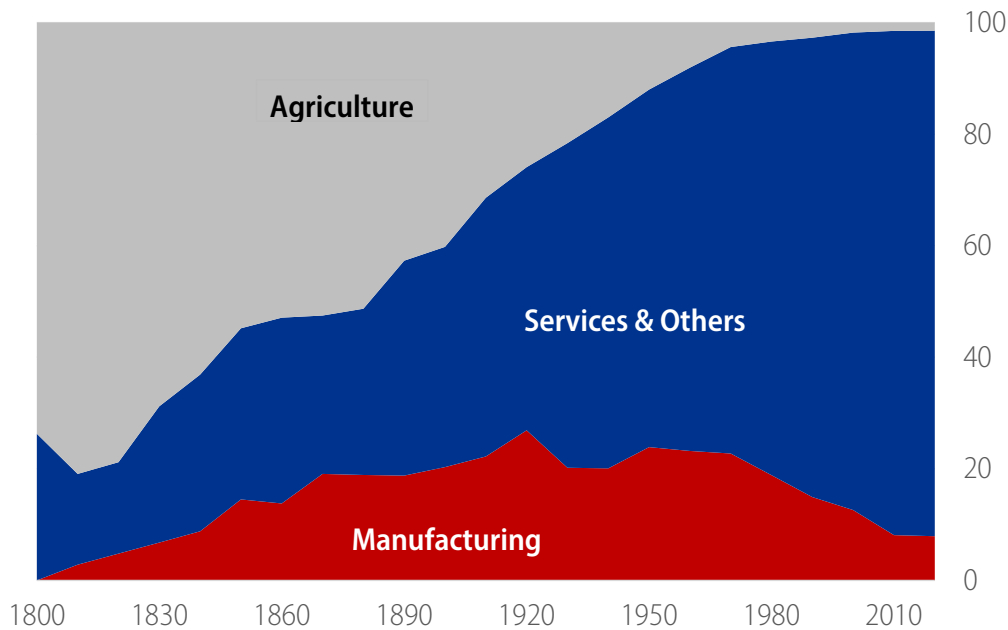
The Inverted “U” Curve of Manufacturing Employment

Economist Robert Z. Lawrence, in [Behind the Curve: Can Manufacturing Still Provide Inclusive Growth?](#), argues that manufacturing's role as a mass employment engine has fundamentally changed. He describes an “inverted U-shaped curve” in manufacturing employment: jobs rise during early industrialization but decline as productivity increases and demand plateaus.

In the U.S., manufacturing's share of employment has fallen from 27% in the 1920s to under 8% today. Lawrence attributes this decline not to trade deficits or offshoring alone, but to deeper structural forces: automation, technological change, and a shift toward services. Modern manufacturing is increasingly capital-intensive and demands highly skilled labor, making it an unsuitable path for inclusive growth. He warns that protectionist policies and industrial subsidies are unlikely to reverse these trends and instead advocates for investments in worker retraining, job placement, and service-sector expansion.

In the U.S., manufacturing's share of employment has fallen from 27% in the 1920s to under 8% today.

U.S. Employment by Sector (% of employment by sector)



Source: Robert Z. Lawrence and HilltopSecurities.

The High Costs & Hard Limits of Reshoring

Senior economists at Wells Fargo see formidable structural barriers to a revival of domestic manufacturing through tariffs and trade policy. They estimate that reversing the decline in manufacturing employment would require at least \$2.9 trillion in new capital investment. Even with sustained policy support, any rebound would take years and come at a steep economic cost due to structural constraints:

- **Labor costs:** U.S. wages are significantly higher than in many competing countries.
- **Capital intensity:** Modern factories require fewer workers & include more automation.
- **Workforce constraints:** A tight labor market and declining interest in factory work limit the talent pool.

The Next China Shock: High-Tech Competition

The original “China Shock,” as documented by economists David Autor, David Dorn, and Gordon Hanson, revealed the devastating impact of China’s World Trade Organization (WTO) accession on U.S. manufacturing. Between 2001 and 2011, the influx of low-cost imports helped wipe-out over 1 million manufacturing jobs and 2.4 million jobs overall, particularly in trade-exposed regions like North Carolina’s furniture industry. The shock was not just economic—it was social, eroding the foundations of entire communities.

Now, in 2025, Autor warns of a looming “China Shock 2.0.” This time, the threat isn’t cheap labor—it’s China’s rapid ascent in high-tech sectors like AI, semiconductors, robotics, biotech, and clean energy. Autor and Hanson argue that U.S. policy is stuck fighting the last war, focused on reviving lost manufacturing jobs instead of preparing for the next wave of disruption in an essay published just this week.

Even with sustained policy support, any rebound would take years and come at a steep economic cost due to structural constraints.

Between 2001 and 2011, the influx of low-cost imports helped wipe-out over 1 million manufacturing jobs and 2.4 million jobs overall, particularly in trade-exposed regions like North Carolina’s furniture industry.

Autor and Hanson argue that U.S. policy is stuck fighting the last war, focused on reviving lost manufacturing jobs instead of preparing for the next wave of disruption in an essay published just this week.

This new competition is not only economic but geopolitical. China is reshaping global markets and alliances, while iconic American firms like General Motors, Boeing, and Intel face mounting pressure. A retreat into isolationism risks ceding leadership in innovation, economic influence, and national security. The priority must be to equip Americans with the skills, credentials, and mobility to thrive in a high-tech economy that is already here.

A retreat into isolationism risks ceding leadership in innovation, economic influence, and national security.

Planting the Seeds of the Future

The Fourth Industrial Revolution—driven by artificial intelligence, quantum computing, and other advanced technologies—is already reshaping the global economy. If the U.S. hopes to avoid another “China Shock,” it needs forward-looking investments in education, innovation, infrastructure, and workforce development.

Energy for the future, advanced manufacturing, biotechnology, and artificial intelligence are no longer prospects—they are the engines of growth today. Municipal credit outcomes will be strongest where state and local governments actively invest in these emerging sectors and prepare their communities for the economy of tomorrow.

For example, Pittsburgh is investing in robotics, advanced manufacturing, and envisions itself as a hub for energy-hungry AI. St. Louis maintains a bioscience corridor that blends research, entrepreneurship, and workforce development. These cities are planting the seeds of tomorrow’s economy. They are investing in retraining, AI-integrated production, and tech incubators that promise not just jobs, but careers.

Municipal credit outcomes will be strongest where state and local governments actively invest in these emerging sectors and prepare their communities for the economy of tomorrow.

Municipal bond investors are paying close attention to the potential effects of this new industrial policy. While some see opportunity—particularly in regions historically tied to manufacturing—there is also significant skepticism. The central question is whether these policies can meaningfully boost employment and revitalize local economies.

Building the Future, Not Rebuilding the Past

Nostalgia may inspire, but it cannot rebuild an economy. The future will not be found on the factory floors of the 1950s. It is being shaped in today’s labs, classrooms, and innovation hubs.

Sustainable growth depends on strategic investments in education, infrastructure, innovation, and workforce development. Energy, advanced manufacturing, biotechnology, and artificial intelligence are no longer emerging sectors. They are drivers of economic growth today. Municipal credit will be strongest where governments embrace these industries and prepare their communities for the economy ahead.

A return to mid-20th-century manufacturing employment is highly unlikely in a globalized, automated, and AI-enabled world, based on our analysis. Economists warn pursuing it may distort markets, raise costs, and weaken U.S. competitiveness. We believe overestimating the fiscal benefits of industrial nostalgia could lead to misjudgments in municipal credit analysis.

We believe overestimating the fiscal benefits of industrial nostalgia could lead to misjudgments in municipal credit analysis.

The next economic miracle will not come from restoring what was lost. It will come from building what comes next.

Recent HilltopSecurities Municipal Commentary

- [Infrastructure, Muni Investors, and Trump Score Big with the OBBBA, July 3, 2025](#)
- [Cyberattacks on U.S. Infrastructure May Be Blowback from U.S. Strike on Iran, June 23, 2025](#)
- [Trump's FEMA "Phase Out" Triggers New Era of Risk Realignment Across America, June 16, 2025](#)
- [Navigating the Chaos: Embracing Selectivity in Today's Municipal Bond Market, June 10, 2025](#)
- [The Wisdom of the Market in an Era of Looming Fiscal Reckoning, June 3, 2025](#)

Readers may view all of the HilltopSecurities Municipal Commentary [here](#).

The paper/commentary was prepared by HilltopSecurities (HTS). It is intended for informational purposes only and does not constitute legal or investment advice, nor is it an offer or a solicitation of an offer to buy or sell any investment or other specific product. Information provided in this paper was obtained from sources that are believed to be reliable; however, it is not guaranteed to be correct, complete, or current, and is not intended to imply or establish standards of care applicable to any attorney or advisor in any particular circumstances. The statements within constitute the views of HTS as of the date of the document and may differ from the views of other divisions/departments of affiliate Hilltop Securities Inc. In addition, the views are subject to change without notice. This paper represents historical information only and is not an indication of future performance. This material has not been prepared in accordance with the guidelines or requirements to promote investment research, it is not a research report and is not intended as such. Sources available upon request.

Hilltop Securities Inc. is a registered broker-dealer, registered investment adviser and municipal advisor firm that does not provide tax or legal advice. HTS is a wholly owned subsidiary of Hilltop Holdings, Inc. (NYSE: HTH) located at 717 N. Harwood St., Suite 3400, Dallas, Texas 75201, (214) 859-1800, 833-4HILLTOP

©2025 Hilltop Securities Inc. | All rights reserved | MEMBER: NYSE/FINRA/SIPC