Hello and welcome to *Market Talk*. In this episode, we'll hear from Bob Zenouzi, Delaware Investments chief investment officer of our Real Estate Securities and Income Solutions team, who will discuss his views on the American Midwest as an emerging market.

Zenouzi: We began to explore the U.S. manufacturing renaissance during the 2008 recession. The ability of U.S. companies to cut costs relative to their European and emerging market counterparts has been a significant advantage in the U.S. profit recovery. If companies realize it's easier to make profits in one region versus another, they will shift manufacturing activity to that lower-cost option.

During the past 15 years, China and other emerging market regions benefited from cheap labor and lower energy prices, thus encouraging outsourcing from the U.S. to the emerging markets. However, the environment has changed and we believe the ease of profiting from cheap labor is over for emerging markets. Simultaneously, the U.S. has become an increasingly attractive destination for manufacturing.

Companies can more easily control costs due to cheap labor, low energy prices, and subdued inflation. As a result, companies will increasingly manufacture products in the U.S. and the economic multiplier for manufacturing is an important contributor to GDP (gross domestic product) growth.

U.S. manufacturing is benefiting from a host of long-term competitive advantages, but there are three that are most important:

1. Restrained U.S. labor costs;
2. Large wage increases in the emerging markets; and
3. Abundant U.S. energy supplies.

A few other important factors to mention though: demographics, rule of law, and corporate accounting transparency, deep and liquid capital markets, well-developed infrastructure, and a historically low U.S. dollar.

But first, labor costs. No other country has been able to keep unit labor costs essentially flat for 30 years than the U.S.

In terms of wages: Brazil, 8.3% annual wage increases since 2001; China, 17% annual wage increases since 2007; and India, 10.7% annual wage increases since 2007 as well (Source: Bloomberg).

In terms of low energy costs, in Japan, natural gas prices are $16 per million Britishthermal units (mmBtu) in Korea, $16 as well; in Europe $12; and in the U.S. only $4 per mmBtu, providing a significant cost input advantage for U.S. manufacturers. U.S. energy production bottomed at 15 million barrels of oil per day in 2005. Today we are producing 21 million barrels per day, lessening the dependence on foreign oil (Source: Cornerstone Macro).

So with a resurgent manufacturing sector, we believe the new emerging market is the U.S. Midwest and this, in turn, will lead to better relative growth here in the U.S. versus the emerging markets.

Thanks to Bob and our listeners for joining us for this episode of Delaware Investments *Market Talk.* We encourage you to visit our website at delawareinvestments.com/markettalk for more information. Talk with you next time.

(Source: *Bloomberg; Cornerstone Macro*)

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