AN AFIMAC PERSPECTIVE PAPER

The Labor Gap is an Operational Gap

A Strategic Guide to Operational Continuity for Manufacturers Facing Labor Shortages

Introduction

The National Association of Manufacturers, in a 2024 study with Deloitte, reports that growth in the manufacturing industry is outpacing available labor.

It's a significant gap they forecast will require 3.8 million additional workers by 2033. The silver lining is that the widening labor deficit can be attributed in part to a growing domestic manufacturing sector after decades of downsizing and offshoring. If that growth is to continue, however, manufacturers will need to address the labor shortage now and over the long term. More than that, though, manufacturers will need to rethink labor strategy to both source the needed people and skills and to maximize Return on Labor (ROL).

Origins of the Labor Gap

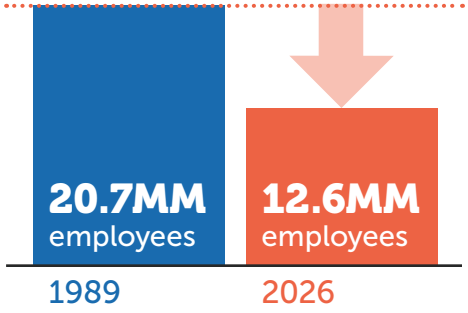
A few key pressures are widening the labor gap for employers.

Historical Contraction

Long-term Domestic Manufacturing Withdrawal

Over the course of several decades, an emphasis on offshoring, automation and consolidation shrank the need for domestic manufacturing labor. Looking over the last 40 years, manufacturing employment as of April 2026 (12.6MM employees[1]) is down nearly 40% from a peak of 20.7MM employees[2] in 1989. With fewer manufacturing jobs available, many workers faced three options: retrain, relocate, or leave. Many left permanently.

Perhaps more impactfully, the retraction limited opportunities for prospective laborers and tarnished the image of the stable, rewarding manufacturing job. As the manufacturing sector shrank, the service sector grew, absorbing a generation of would-be manufacturing laborers. Manufacturing labor feeder sources, including high school, community college and trade school vocational programs de-emphasized manufacturing skills further reducing the pool of qualified labor.



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As a career consideration, manufacturing ranks low. In April 2026, manufacturing employment as a percentage of total U.S. labor employment hit 7.3%, continuing a multi-year decline.[3]

Recent Economic Crises

In more recent history, between 2007 and 2010, the Great Recession wiped out 2.3 million manufacturing jobs.[4] Coming out of 2019, the sector had nearly managed a full recovery to 2007 levels when the global COVID-19 pandemic hit. While "essential industry" designations helped preserve many manufacturing jobs, the private manufacturing sector alone still shed nearly 2 million jobs[5] in 2020. In recent years, the decline has continued. In the 12 months ending in April 2026, the industry lost another 66,000 jobs.

Prospective Expansion

The pandemic was not all bad news for the long-term prospects of U.S. manufacturing. It exposed risks and weaknesses in the global supply chain and forced companies to reevaluate what gets produced where. The push to shore up supply chain vulnerabilities is helping drive a trend toward reshoring by U.S. companies and development of U.S.-based manufacturing operations by foreign companies.

Add to the mix:

- **Growing geo-political risks**, such as trade tensions with China and other trade partners
- **Rising costs of shipping and foreign labor**, which lessen the advantages of offshoring
- **Federal and state incentives**[7] to reshore existing operations and develop new operations domestically

While the climate is right for expansion, the reality is more tenuous. The decline has continued. Forbes magazine points to several indicators — including declines in U.S. manufacturing, a softening labor market and worrisome signs from the bond market[8] — that show U.S. manufacturing in recent decline.[9]

"After the COVID-19 pandemic hit, the private manufacturing sector alone shed nearly 2 million jobs in 2020. The decline has continued."

Where are the Workers?

A softening labor market means fewer opportunities and reduced hiring in the short term, but it's less likely to have a meaningful impact on the labor shortage over the long term.

According to the National Association of Manufacturers[10], 65% of manufacturers say attracting and retaining talent is a primary business challenge.

As recently as April 2026, the number of available domestic manufacturing jobs and unemployed manufacturing workers were about equal according to the U.S. Bureau of Labor Statistics.[11, 12] While low unemployment is a positive indicator for the economy overall, it puts manufacturers at a deficit with, arguably, the most available labor pool. On the other hand, it's estimated that as many as 80% of available jobs, generally, are aimed at hiring away qualified workers from competitors. For the industry as a whole, this puts the net baseline need more in line with the available pool of unemployed manufacturing labor.

Manufacturing workers, of course, are not interchangeable widgets. The reality is that unemployed manufacturing workers may be unqualified for or uninterested in the needed roles or both. The greater challenge facing manufacturers is finding talent that aligns with the skills they need. Skills that are evolving. For example, in a 2025 survey of global manufacturing executives[13], respondents expect a growing need for AI and machine learning specialists and technical specialists, while the need for legacy roles like assembly and factory workers will likely decline.

Closing the Gap

The labor gap, in the simplest terms, is a lack of available, qualified people in the labor market. In practice, though, the problem is much more nuanced. Let's consider a hypothetical labor market where a sufficient number of qualified workers exist. Those workers may not be viable candidates for many reasons, such as:

- Industry
- Skillset
- Location
- Cost
- Competition
- Cultural fit

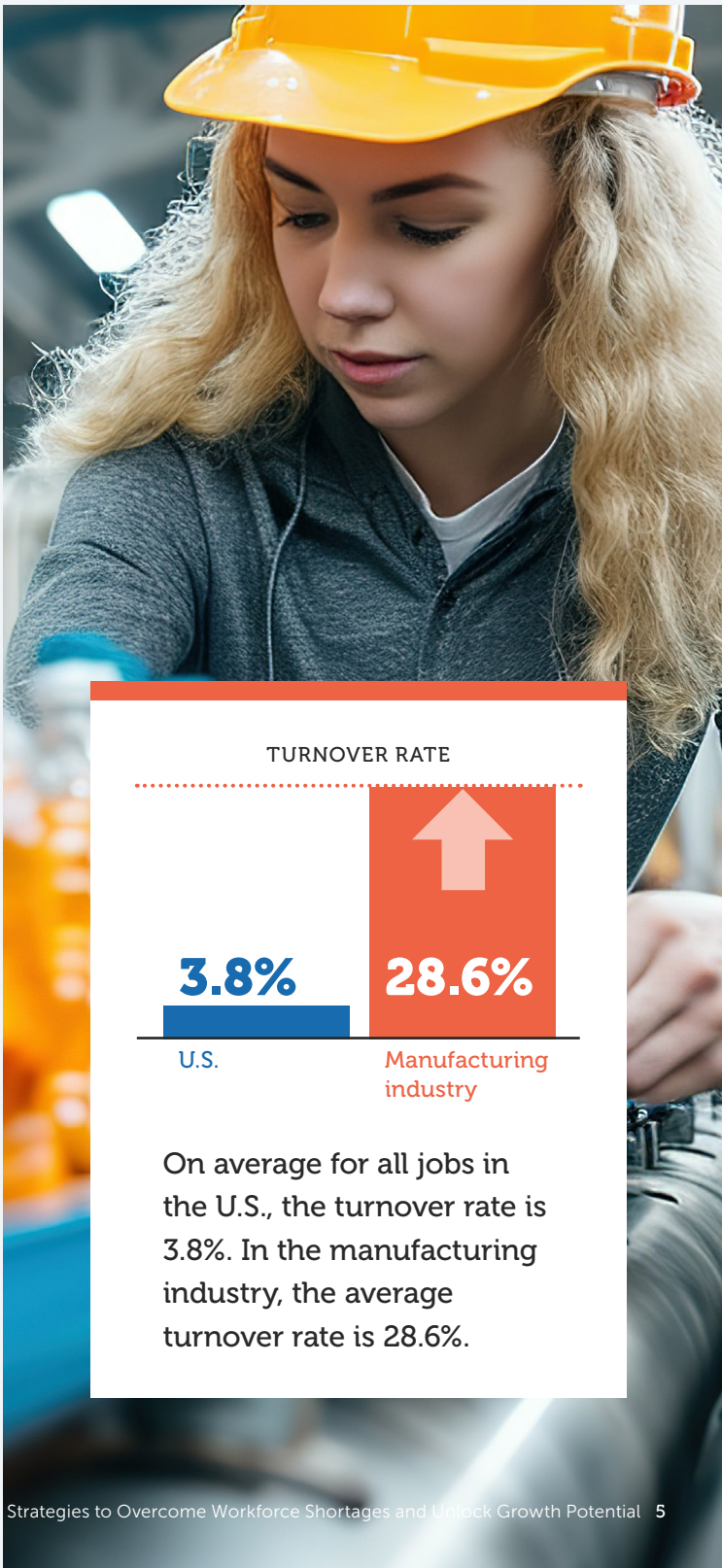
Where the stars align and a manufacturer can hire a viable employee, high turnover rates in the industry loom as a constant threat. On average for all jobs in the U.S., the turnover rate is 3.8%. In the manufacturing industry, the average turnover rate is 28.6%. The biggest risk period, however, is in the first year when more than 40% of employees leave before their second year.[14]

This brings into sharp focus the need for a diverse staffing strategy.

Creating a stable, sustainable labor market and closing the estimated 3.8MM worker gap will require a balanced focus between short- and long-term solutions.

Sourcing Labor Now

- **Fast-track training programs** — Manufacturer training and reskilling initiatives can attract local and regional candidates with aptitude for roles they have no direct experience performing. Small-scale investments to meet short-term needs here can also serve as a springboard for more fully-developed, permanent labor development programs.
- **Internal reorganization** — As part of any large-scale staffing initiative, manufacturers will need to treat existing staff as a labor source. Training and moving existing employees to harder-to-source roles and hiring easier-to-source labor to replace them in their former roles may be faster, more cost effective or better for overall production than simply filling open roles from outside sources.
- **Dynamic staffing** — While not a new practice, temporary staffing to backfill open roles or augment a workforce during production spikes will continue to be an essential staffing tactic.
- **Expanded geographic reach** — Both relocating talent for more senior roles and sourcing short-term traveling workforces for semi-skilled roles open up manufacturers to a deeper labor pool. Higher cost relative to locally sourced talent should be weighed against the risk and opportunity cost of understaffing.
- **Tap new talent pools** — Women, African Americans, and Latinos are present in the broader U.S. workforce in higher numbers than in manufacturing. The current manufacturing workforce is made up of 29% women, 11% African Americans, and 19% Latinos, compared with 47%, 13%, and 20% respectively among U.S. workers overall.[15]



Labor Sourcing Over the Long Term

- **Source development** — Collectively and individually, manufacturers will need to increase investments in labor development programs with high schools, trade schools, colleges, and universities and retraining / reskilling programs with trade groups and associations.
- **Rebranding** — Modern manufacturing is often innovative, technical, rewarding work.[16] It often pays well, offers great benefits and career opportunities, but while it has made great strides in recent years, its overall image in the public's perception still lags the reality.
  - A 2024 study[17] found that Americans broadly support manufacturing. In the study, 80% said the country would be better off if more people worked in the industry. But only 25% said they would choose manufacturing over their current job. That gap is the perception problem manufacturers haven't solved.
  - In the age of AI threatening job stability in many industries, manufacturers, as a whole, need to take more deliberate measures to rebrand manufacturing as a viable career path.
- **Adapting to Changing Priorities** — Millennials and the youngest members of the workforce, Gen Z, have forced a shift in other industries toward different priorities, flexibility in work being one of the most important. Together they make up 54% of the working U.S. population[18] and, with the youngest members of Gen Z born in 2012, that number will only grow over the next ten years. Structuring manufacturing work to accommodate greater flexibility and autonomy is critical to attracting and retaining this population.

A 2022 study found that while 64% of respondents believe U.S. manufacturing jobs are creative, innovative and employ problem-solving skills, only 40% would encourage their child or other young people to pursue a career in manufacturing.

Guarding Against Outliers

In recent memory, the industry has endured lasting labor dips in the wake of the Great Recession and the COVID-19 pandemic. These are extreme events — difficult to anticipate, let alone mitigate — but events damaging to a sector or a business' labor supply chain happen at a smaller scale every day.

Critical labor situations can be externally caused — a natural disaster, or health emergency — or caused by internal crises like an accident or short-term production shortfall. Often, they are growth and opportunity based — a large order from a new customer or plant expansion to supply a rapidly emerging market.

Critical labor situations share a common component: failure to address them adequately poses significant risk to the business. Operational continuity planning and any investment in labor infrastructure needs to acknowledge that critical labor situations will happen and can create lasting damage if left unaccounted for.

Critical labor situations are outliers and, by definition, addressing them requires a ready source of labor outside of traditional local channels.

Critical Situation Labor

At its most basic, a critical labor situation is two things:

- A temporary shortage of qualified workers
- Meaningful risk to the business attributable to the shortage

For example:

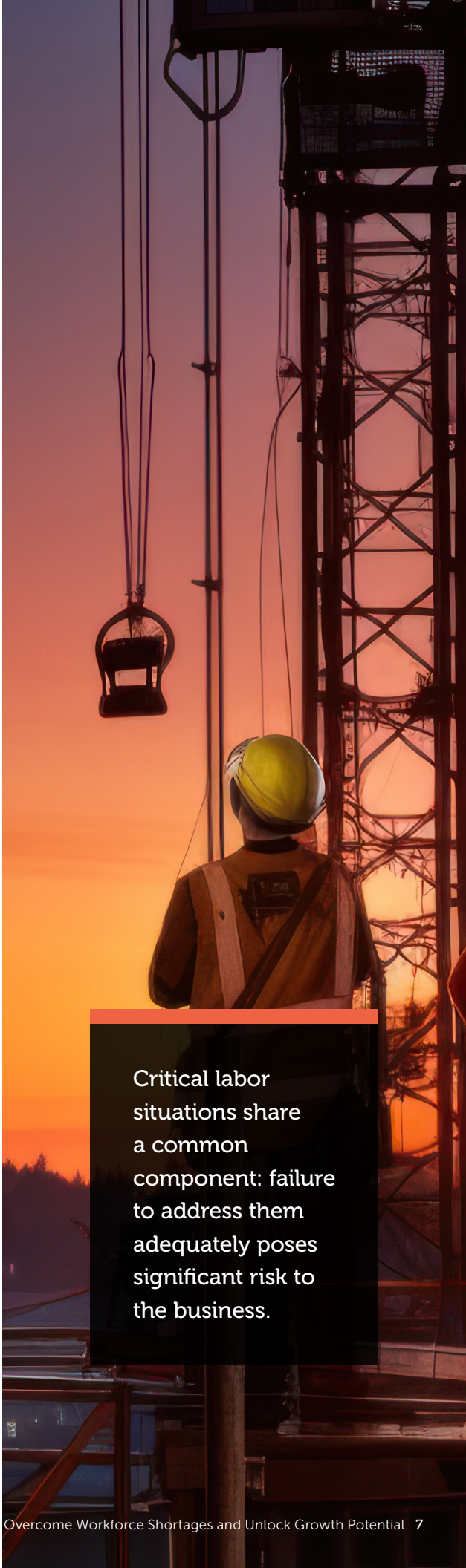
- Loss of revenue
- Key client defection
- Missed growth opportunity
- Reputational damage
- Credit default
- Closure

Not always, but oftentimes, a critical labor situation has additional factors of consequence, including:

- Urgency
- Inability of standard labor channels — internal staffing, local temp staffing — to supply the needed people

Planning for Critical Labor Needs

Like any component of business continuity planning, even if the nature and scope of a future critical labor situation is unknown, the basic elements of response can be estimated. Vetting and engaging with a critical situation travel labor partner early, aligning on organizational structure and potential future labor needs and establishing a strategic response plan helps ensure a fast and effective response when a critical situation arises.



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Staffing in Critical Situations

Addressing a critical labor situation starts with assessing the risk and opportunity, and the specific staffing need.

Assessment

A critical labor situation assessment should qualify and quantify the risk and evaluate the need.

- **Qualifying the risk**
  - What is the direct risk of not taking action? (i.e. failure to fill an order)
  - What is the indirect risk of taking action? (i.e. lost future orders or reputational damage)
- **Quantifying the risk**
  - What is the total estimated direct and indirect bottom line cost of not taking action?
- **Evaluating the impact and the need**
  - What functions of the business are impacted?
  - How many staff in which roles are needed and for what period of time?
  - To what extent can the risk or opportunity be addressed with existing staff? This goes beyond the status quo and may include overtime shifts, for example.
  - To what extent can existing staffing resources supply additional temporary workers with the needed skill sets?
  - What additional managerial and back office support will be needed?
  - Are any process modifications, facility modifications or procedural changes needed to accommodate additional or alternate staff?

For more information on CSTL and operational continuity solutions, contact:

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Fulfilling The Staffing Need

The assessment process will ultimately qualify and quantify a net labor need beyond existing staff and staffing resources. This is where firms that specialize in critical situation travel labor (CSTL) — firms like AFIMAC Global — come in. When evaluating prospective CSTL partners, manufacturers must seek to understand:

- Can the partner supply the needed skills and quantity of people?
- How quickly can the needed resources be deployed? And as a component of speed: are the required staff already on hand or do they need to be recruited?
- What support does a prospective partner provide beyond the core workers? Do they provide:
  - On-site managers?
  - Payroll, insurance, health benefits and other back office support for the temporary workforce?
  - Travel and accommodations for the duration of the engagement?
  - Do they require a retainer or long-term contract to ensure availability and prioritize response time?
  - Do they impose a minimum length of engagement?

Applying The Right Metrics

Established manufacturers often have employment tiers with set compensation ranges by tier, which they use to budget and account for labor costs. If they use temporary staffing regularly, costs are based on established labor rate sheets.

Critical situation temporary labor, by its nature, is unique. It usually requires workers to travel for the duration of the engagement and has additional requirements — quick response, hard-to-find skill or experience levels — that go beyond normal staffing protocols.

As a result, critical situation labor comes at a premium compared to more standard offerings and may fall outside approved ranges for temporary labor. Manufacturers, instead, need to evaluate any CSTL deployment on a Return on Labor (ROL) basis. Hiring CSTL labor has value where it produces a net benefit compared to not taking action.

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Endnotes

1. https://www.bls.gov/news.release/pdf/empsit.pdf
2. https://www.statista.com/statistics/664993/private-sector-manufacturing-employment-in-the-us/
3. https://www.bls.gov/news.release/empsit.t01.htm
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