Can the U.S. midwest ward off a Rust Belt slump?

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Inspector Patricia Platt looks over a 2005 Lincoln Mark LT truck in the quality control area at the Dearborn Assembly Plant in Dearborn, Mich., Jan. 31, 2005. (AP/Carlos Osorio)

DETROIT (AP) - General Motors Corp. and Ford Motor Co., North America's two biggest automakers, ordered fresh production cutbacks this week after they again lost business and valuable market share to Asian rivals in May. Some of their key suppliers have seen orders dwindle so much they've had to declare bankruptcy.

Add to that Friday's news of fewer jobs in the U.S. manufacturing sector as a whole, and it raises a disturbing question: Could the U. S. midwest be falling back into the Rust Belt malaise of the early 1980s, when Michigan's unemployment rate topped 16 per cent and GM, the world's largest automaker, saw its market share tumble nearly 10 percentage points?

"There's definitely a headwind for the midwest economies," said Dana Johnson, chief economist at Comerica Inc., a Detroit-based bank. "Nationally, there's not a very steep or disturbing downshift in growth, but there's a very different situation here in the midwest because of the Michigan-based automakers and suppliers."

A generation ago, it seemed like a weekly occurrence for a midwest steel plant or aging manufacturing plant to close and thousands of union workers to end up on the unemployment rolls as companies shifted production to lower-cost plants overseas.

While that trend hasn't disappeared, one big change now is that Asian auto manufacturers are adding jobs in the United States - although few of the new assembly plants are in Michigan or other states surrounding the Great Lakes.

Hyundai Motor Co., for example, opened its first U.S. plant two weeks ago in Montgomery, Ala. Toyota Motor Corp., meanwhile, is building another plant, this one in San Antonio, to increase production of its pickups.

U.S. Labor Department figures released Friday showed that total employment U.S.-wide rose by a smaller-than-expected 78,000 in May, in part because of a net decline of 7,000 manufacturing jobs. That followed a loss of 9,000 manufacturing jobs in April.

Earlier in the week, the Purchasing Management Association of Chicago said its index of business activity in the Chicago area dropped to 54.1 in May from 65.6 in April and 69.2 in March. Readings above 50 indicate expansion in manufacturing; figures below 50 mean contraction. The following day, the Institute for Supply Management's U.S. manufacturing index for May came in at 51.4, suggesting a slowdown in growth.

That makes sense when you consider that GM and Ford both saw sales fall last month - GM by 5.5 per cent from a year earlier and Ford by three per cent. In particular, the two companies are having trouble attracting buyers for their trucks and sport utility vehicles, which generate the biggest profits, in part because of aging lineups and high gas prices.

In the first five months of this year, GM's U.S. market share fell to 25.4 per cent from 27 per cent a year ago, while Ford's dropped to 17.9 per cent from 18.8 per cent. Meanwhile, Asian brands' share of the U.S. market grew to 36.5 per cent from 34.3 per cent, according to Autodata Corp. DaimlerChrysler AG's Chrysler Group is the only domestic carmaker that has had a share increase this year - to 14 per cent from 13.3 per cent.

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