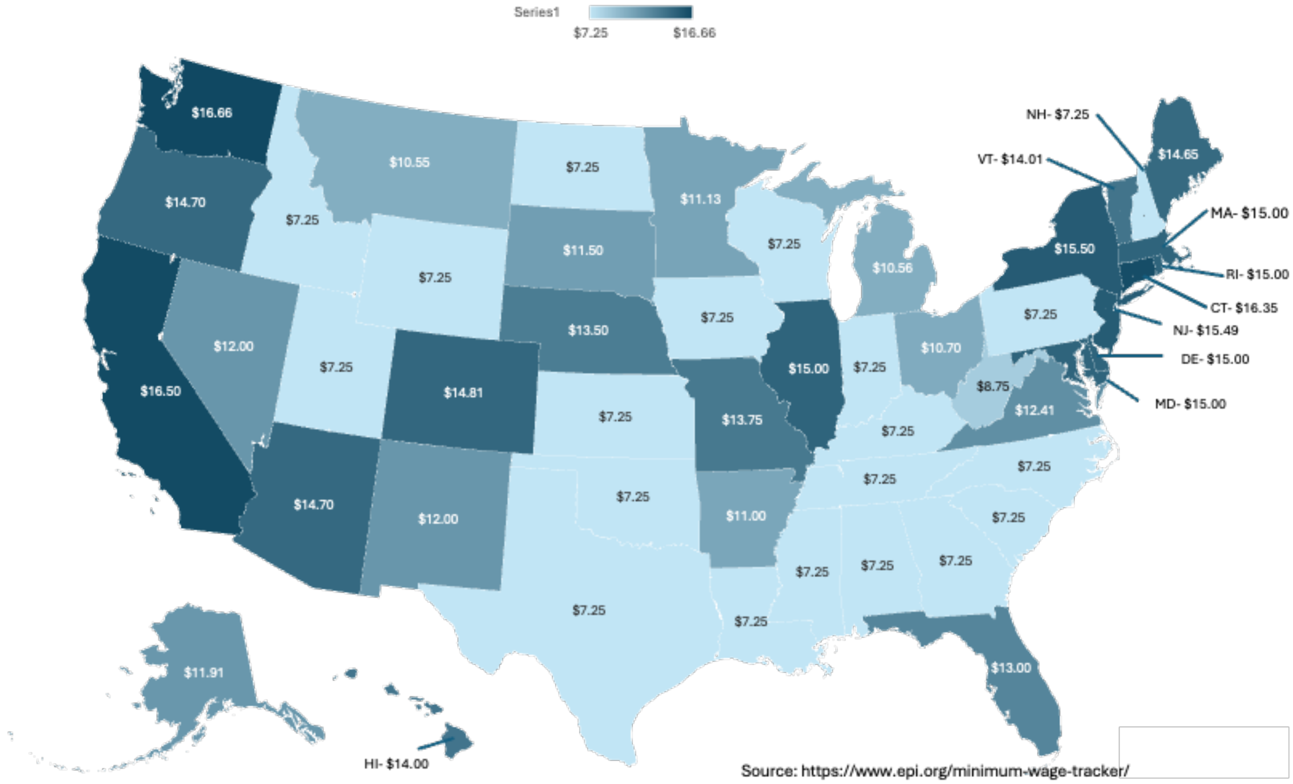

Minimum Wages and Reshoring

Wage rates are often the starting point for global manufacturing strategies and reshoring decisions. Low wages in foreign countries, particularly China, and lower overall cost of operations drove the offshoring of U.S. manufacturing in the late 1990s and early 2000s. However, business conditions change over time, including labor rates and operational strategies. For China in particular, labor rates have risen to the point that China can no longer be considered a low-cost country.

Changing geopolitics, rising foreign costs, and the risk of long global supply chains have driven many companies to evaluate the possibility of bringing some manufacturing back to America. Wage rates are a critical first step and a location decision factor in this evaluation. Companies often compare costs in various regions of the U.S. to look for competitive economic locations. With this in mind, we set out to research the minimum wages in the largest cities in each of the states in America. While minimum wages do not paint the entire cost picture, this data is a starting point for further investigation.

High Labor Content vs. Low Labor Content

If a product has a high labor content in its cost structure, then most companies producing this product would look for low-cost/low-wage countries. Products with lower labor content i.e. those produced by automated factories, have more location options. For example, a company that produces apparel in a sewing factory, with lots of people sitting at sewing machines would look for low-cost production environments in places like Indonesia, Vietnam, Bangladesh, El Salvador, and Honduras. However, a company producing textiles where fabrics are produced by machinery with very few employees, has more location options, including the U.S.

Most products fall somewhere in between high labor and full automation, thus wage rates often become a deciding factor regarding where to locate.

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Lowest Wages are in the South and Less Populated States

As expected, the lowest U.S. minimum wages are in the rural South and the less populated states. The highest minimum wages are in the east and west coastal areas. Depending on the labor content of the products being manufactured, businesses should consider wage rates as an important factor in location decisions.

Rural Minimum Wages

In some states, wages in rural areas are at the bottom of what is mandated by state law. However, in these rural areas, the labor pool may not be large enough to sustain operating there. As a result, we selected the largest cities in each state to be sure the labor pool was adequate to support manufacturing. We concentrated our research on these cities and assumed that rural areas would pay the state minimum wage.

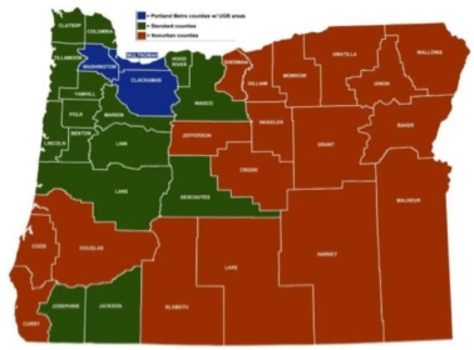
State-to-State Minimum Wage Laws

One of the first things that we noticed was a difference in state laws. States are guided by the federal minimum wage which is set by the US Congress at $7.25 per hour. States can raise that wage to whatever they choose but they are constrained to at least give the minimum that is set by the federal government.

For example, Alabama has a minimum wage set at $7.25, which under federal law is the minimum that employers must pay. Cities do have the option to raise that wage within their local districts but in this case, Alabama cities are uniform throughout. Wages in Tuscaloosa are going to be the same as wages in Montgomery.

On the flipside of this in California, minimum wages are set at $16.50 but in this case, the local government takes matters into their own hands. In San Francisco, minimum wages are set at $20.96, to counteract rising housing costs but in Southern California wages are different. In the city of San Diego, minimum wages are set at $17.25. This is an example of state law minimum wages throughout the state, but cities have the option to go higher.

These tactics don't always pan out for the cities trying to enact a higher wage. In 2015 two Kentucky cities tried to raise wages in each city. Lexington (Fayette County) and Louisville (Jefferson County) both were slated to increase their minimum wages gradually over 3 years, raising wages from $7.25 to $10.10 and $9.00, respectively, over 3 years. Lexington's raise was slated to become law in the Fayette County area but when the Kentucky Supreme Court struck down a Louisville-Metro ordinance, the result effectively invalidated the minimum wage hike and applied the ruling state-wide.

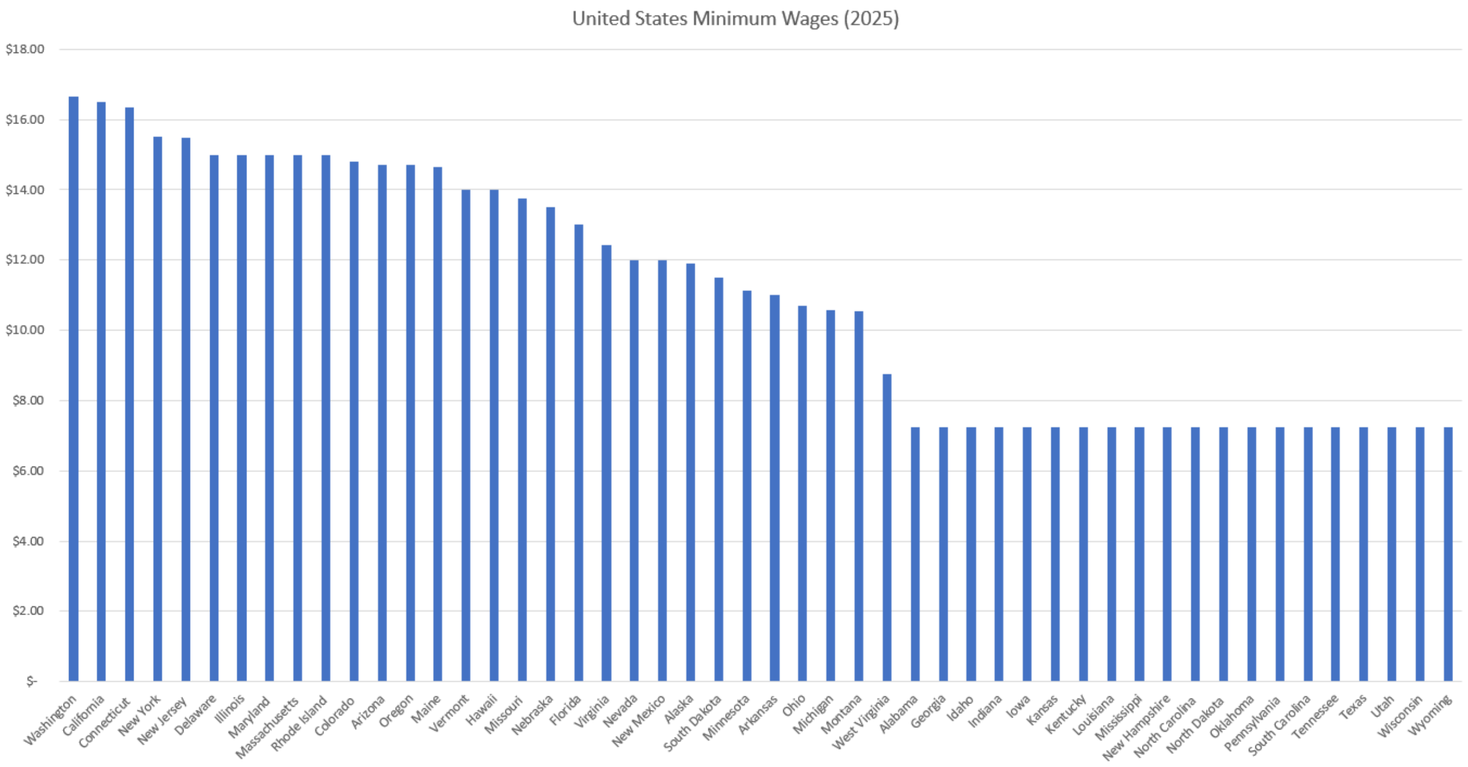


Bigger Population Cities vs. Smaller Cities

There is a difference between bigger and smaller populations and minimum wages. An example of this is the state of Oregon. Within Oregon, there is a difference between the wages in the rural and urban areas of the state. The state has adopted what they call an Urban Growth Boundary. Within these set boundaries, minimum wages are set higher than everywhere else in the state. In the city of Portland, OR wages are set at $15.95. This is to account for the growth that is taking place within the region around Portland.

Outside the Urban Growth Boundary is what Oregon classifies as 'Standard'. These areas are close enough to urban growth to be affected by it, but they aren't experiencing the kind of growth the cities are experiencing. Wages in this classification are set at $14.70. Eighteen different areas in the state are classified under the standard minimum wage.

When you leave the more populated areas of Oregon and head east towards the more rural area of the state, you enter the Non-Urban area of minimum wage set at $13.70. Geographically, this is what most of the state uses but when we look at where the population centers are, it's easy to see that most of the state sits under the Standard classification.



Oregon is a classic case of applying minimum wage laws by population centers. Even though Oregon's minimum wage in the rural areas is lower than the rest of the state, it still exceeds the federal minimum of $7.25. In 2014, Oregon Governor Kitzhaber reaffirmed this kind of system, and the state continues to use it today.

New York City

New York City is one of the largest cities in the world. With a population of 8.1 million (2025), it is one of the most densely packed areas not only in the United States but around the world. The boroughs of NYC all have their own challenges and diverse populations that make up the Big Apple.

This is another case of a unique minimum wage structure. With so many moving parts in New York City, the State of New York has opted to give NYC an exception to its minimum wage law. New York state has classifications of workers, for example, hospitality and fast-food workers. The state itself raised the minimum wage to $15.50 per hour in 2025 but in New York City, the minimum wage is $16.50 per hour. Within the city, tipped food service workers are slated to have their minimum wages raised to $11 and a $5.50 tip credit. This credit is a certain amount of money that an employer does not have to pay if you make that amount in tips from the job performed.

What Do These Minimum Wages Mean?

So much can go into a single business decision on where to locate and considering all of the moving parts is vital. Political, financial, and economic factors influence what businesses do.

When choosing a place to manufacture in the United States, minimum wage rates must be a part of that decision. Navigating state laws like the example of Kentucky is something that a company must understand to make a safe and reliable decision. Understanding classifications and what those mean like the State of Oregon, can be the difference between a good and bad economic decision for your business. Finally, the example of New York City in which there are so many moving parts in each borough, is more complicated than the federally mandated minimum wage set in Alabama.

Several other factors like the unemployment rate, business environment, local training and education, and quality of life for employees must be considered. But if you're looking for a low-cost environment with a viable workforce, we suggest you start with minimum wage and the unemployment rate. These two numbers give you a starting point for location decisions.

ABOUT THE AUTHOR

Michael Gherman graduated from the University of Kentucky with a Bachelor of Business Administration and a double major in Management and Marketing. Michael was a student intern at the Reshoring Institute in the Summer and Fall of 2022, and is currently an Account Executive, Group Sales at the Golden State Warriors in San Francisco.

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ABOUT THE RESHORING INSTITUTE

We provide information, research, and consulting for companies endeavoring to reshore manufacturing back to America and nearshore to Mexico. This includes topics and projects such as site selection, tax incentives, marketing, public relations, cost comparison development, consulting, and case studies.

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