

US Macroeconomics

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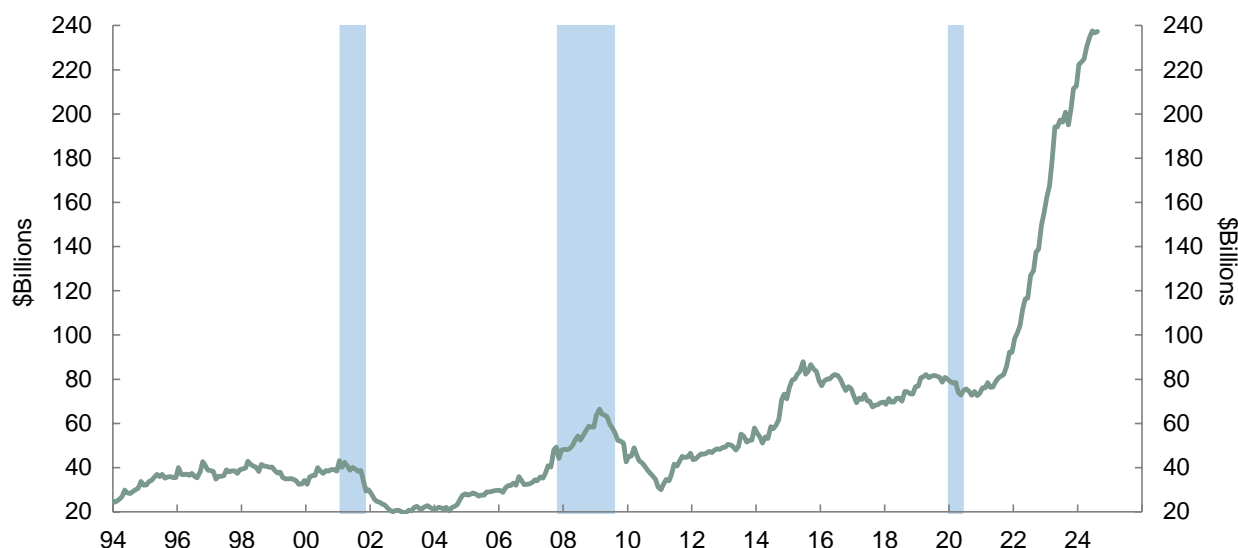
An American Manufacturing Renaissance?

Goods manufacturing is being onshored into the US and Latin America. We have long argued that **the combination of a more aggressive and supportive US industrial policy framework** (which carries both bipartisan *and* public appeal), **high and rising geopolitical tensions** and **the scarring effects from Covid supply chain backlogs, could foment a fundamental shift in the fabric of the global supply chain**. The case was and *is* clear: a simpler, shorter supply chain where industrial production occurs in closer proximity to western consumers would be a logical hedge against supply chain vulnerabilities, geopolitical volatility, and shipping costs. This is an increasingly attractive proposition with relations between the West and China (but especially the US and China) continuing to deteriorate.

This is clearly registering as the building of private manufacturing facilities has surged to nearly \$240B, which is a record! **Following a 155% growth spurt since the pandemic recession ended, this item has grown to over 25% of total structures investment.** Historically this line item only accounted for around 11% of US structures investment (Q4 2019). Helping to instigate this has been the CHIPS Act (passed in August 2022) which provided \$39B in subsidies for US-based semiconductor manufacturing, capital equipment tax credits and \$13B for advanced semiconductor research. Since this bill passed, real structures investment has increased by a 19.3%.

Although this future manufacturing activity may come with a larger wage bill, which is generally considered inflationary, there are also many efficiencies offsetting much of this impact. For example, there will be a reduced reliance on cargo ships trafficking goods through a global network of ports, which was a key source of supply chain backlogs. Even ignoring the geopolitical advantage that this creates for the US vis-à-vis China, this critical dynamic means that domestic labor demand, economic growth and the neutral rate of interest are likely higher now than in the 2010-2019 period.

Value of Construction Put in Place for Manufacturing Structures



Sources: BEA, NBER, Haver, SMBC Nikko

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