

US Macroeconomics

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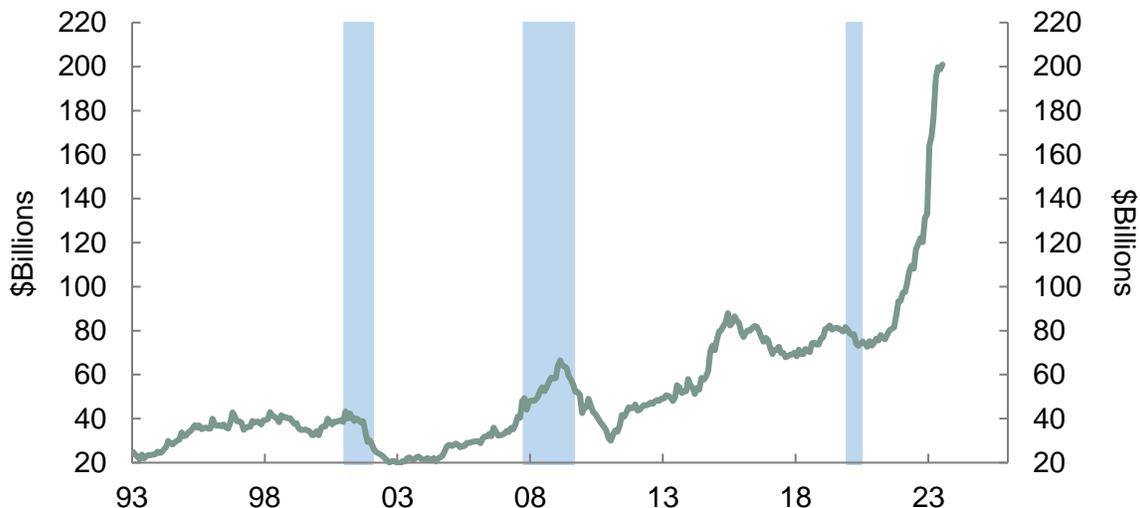
A Rejiggered Supply Chain Tailwind

Goods manufacturing is in the process of being onshored into the US and Latin America. Some analysts speculated that following the Covid pandemic — and the resulting supply chain backlogs and heightened geopolitical tensions — a shift in the global supply chain would take place. The case was clear: a simpler, shorter supply chain where industrial production was in closer proximity to western consumers would be a logical hedge against supply chain vulnerabilities. This case is increasingly appealing with trade relations between the West and China (but especially the US and China) continuing to deteriorate.

This is registering as the building of private manufacturing facilities has surged to over \$200B, which is a record level (charted below). Historically this item was relatively minor, accounting for 11% of US structures investment in Q4 2019. This has more than doubled to over 26% of total structures investment in Q2 2023. Supply chain rejiggering has keyed real structures investment growing at its fastest rate (9.5% YoY) since Q2 2014! Helping to instigate this development 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. In the three quarters since the bill passed, real structures investment has increased 10.5%.

Although this future manufacturing will undoubtedly come with a heftier wage bill — generally considered inflationary — there are also many efficiencies that could mitigate much of this impact. For example, there will be a reduced reliance on cargo ships passings goods through a global network of ports, which was one key source of supply chain backlogs. Even ignoring the geopolitical advantage that this creates for the US vis-à-vis China, all of 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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