

SEPTEMBER 20, 2021

KEY THEMES

Some Areas of Optimism: The Chief Economist of the National Association of Manufacturers (NAM), Chad Moutray, sounded optimistic about the continued strength of US manufacturing and consumer spending.

Favorable Manufacturing Outlook: The latest NAM survey showed ~87.5% of respondents felt positive about their company's outlook—due to healthy US job growth, increases in wages, and elevated capital spending—resulting in the US production outlook of 5.4% and sales growth projection of 5.6% over the next 12 months.

Supply Chain Issues Expected to Last Well into 2022: Supply chain issues, including production shortages, container costs, port congestion, and transportation costs, may not start to ease until 2H22.

Vietnam Lockdowns Extended: The extended lockdowns in Vietnam are likely to further disrupt production as well as downstream and upstream supply chains.

US Manufacturing Bright Spots: Mr. Moutray remains upbeat about US manufacturing levels, which are higher than the pre-pandemic level for several sectors, such as aerospace, chemicals, computers, and machinery.

US Supply Chain Update

TAG Conference Call Series: US Supply Chain and Manufacturing Update

On Friday, September 17, we hosted a conference call with Chad Moutray, Chief Economist of the National Association of Manufacturers (NAM) to discuss the current state of the global supply chain.

TAG View: Mr. Moutray sounded optimistic about the continued strength of US manufacturing and consumer spending in 2021 and 2022. This is supported by the latest NAM survey where ~87.5% of respondents felt positive about their company's outlook—due to healthy US job growth, increases in wages, and elevated capital spending—resulting in the US production outlook of 5.4% and sales growth projection of 5.6% over the next 12 months. That said, manufacturers highlighted concern about COVID-19, rising raw material costs, higher supply chain expenses, and the inability to find enough talent. These cost pressures continue to impact profitability, although Mr. Moutray believes stronger demand and production should continue to outshine near-term cost issues.

Positive Outlook in 2H21 and 2022: Mr. Moutray expects US production to rise 5.4% over the next 12 months and 4.0% in 2022. This positive outlook is based on Mr. Moutray's survey work, which suggests solid US consumer spending supported by an increase in employment levels, rising wages (average manufacturing wage of \$24/hour; all manufacturing jobs average wage of \$30/hour), higher savings rates during the pandemic, and recently heightened willingness to take on credit card debt. In manufacturing, Mr. Moutray estimates that there are ~380K fewer workers employed today than prior to the pandemic, although production in several sectors has exceeded pre-pandemic levels. Importantly, the uptick in the job quit rate, 800K+ manufacturing job openings, increase in automation, and healthy consumer demand should continue to boost manufacturing levels in 2022. From a global standpoint, the US and Europe are seeing healthy production levels, Latin America is mixed, and China and Mexico are down.

Supply Chain Issues Here to Stay in 2022: Mr. Moutray indicated the COVID-19 pandemic continues to cause global supply chain imbalance, delaying production and increasing costs. The supply chain imbalance started (and continues) with production delays and shortages from Asia, primarily due to COVID-19. These issues became exaggerated by container shortages, resulting in higher prices of up to ~4x the pre-pandemic norm—a trend expected to continue in the near term due to higher demand for inventory in the US. Furthermore, the port congestion around the world as well as in the US (worst at ports of Los Angeles and Long Beach, CA, with 40 or more ships waiting to anchor at those ports on any given day in recent weeks) has caused delays in unloading products. Finally, the shortage of US truck drivers is making it harder to deliver products to US stores, distribution centers, and consumer's homes.

Mr. Moutray expects the supply chain issues to worsen over the next month or two as companies look to prevent shortage of inventory during the holiday season. To offset higher supply chain costs, companies are raising prices, reducing promotions, and on a longer-term basis, considering on-shoring some production. Mr. Moutray expects supply chain challenges to only fully end once COVID-19 ceases to be a major issue. Broadly, Mr. Moutray expects the supply chain issues to start to ease in 3Q22 or 4Q22.

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Vietnam Production Delays: The Vietnamese government last week extended its COVID-19 related lockdowns in parts of the country, particularly Ho Chi Minh City until the end of September, from a prior deadline of September 15. These lockdowns are likely to further delay production coming out of Vietnam and disrupt downstream and upstream supply chains, which we believe could take several months to normalize.

US Manufacturing Activity: Mr. Moutray remains upbeat about US production levels, which are higher than the pre-pandemic level for several sectors, such as aerospace, chemicals, computers, and machinery. The recent US manufacturing production data increased 0.2% MoM, a moderation from past periods due to the resurgence of the Delta variant of COVID-19 and supply chain headwinds. In addition, the ability to attract labor remains a top concern for the manufacturing industry, similar to the service sector, despite rising wages. Mr. Moutray believes the greater use of automation and technology as well as higher supply chain costs should help revive the US manufacturing sector in the longer term.

Sample

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MARKET PERFORM	30	37.50%	1	3.33%
UNDERPERFORM	0	0.00%	0	0.00%

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