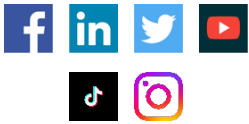


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Date: May 26, 2023
Topic: **Thematic**



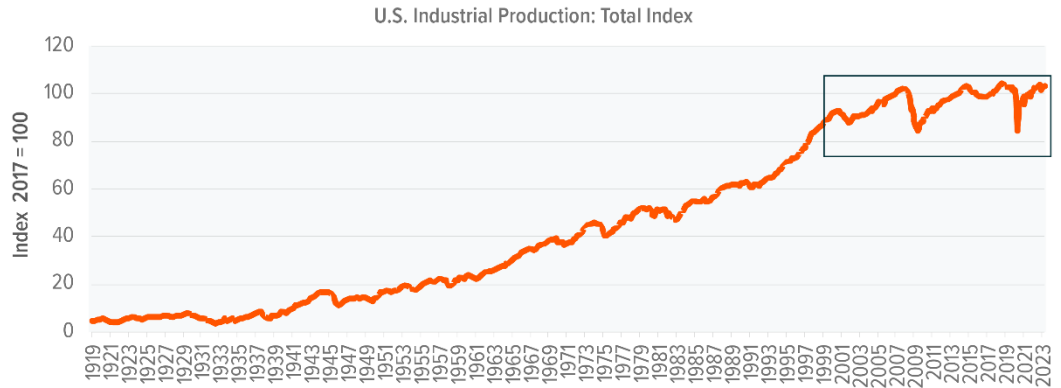
GLOBAL X ETFs RESEARCH

From Stagnation to Resurgence: U.S. Industrial Production’s New Path Highlights Infrastructure, Automation, and Commodities Themes

For 80 years, rapid industrial production growth defined the U.S. economy. Starting in the early 2000s, though, the U.S. industrial production machine began a two-decade stagnation. But things are changing. Deglobalization is gaining momentum, and developed economies want to strengthen their supply chains. To mitigate economic and geopolitical risks, the U.S. plans to invest heavily in reconstructing and modernizing the country’s mechanisms for industrial production. We expect this renaissance to lead to greater infrastructure, more automation, increased demand for commodities, and related investment opportunities.

AFTER 20-YEARS OF STAGNATION, US INDUSTRIAL PRODUCTION IS POISED TO RESUME ITS GROWTH TRAJECTORY

Source: Global X ETFs with data from Board of Governors of the Federal Reserve System (US), May 16, 2023.



Key Takeaways

- Globalization and Chinese manufacturing offered low production and labor costs, but it came at a cost in the form of stagnant U.S. industrial production growth and supply chain vulnerabilities.
- Now a reinvigorated focus on domestic manufacturing and infrastructure development presents a unique window of opportunity for investors.
- The forthcoming U.S. industrial production boom will be a thematic intersection of infrastructure development, automation technologies, and related commodities from which we expect compelling investment opportunities to emerge.



Deglobalization Opportunities Start to Materialize

The impetus for the U.S. moving to revitalize its industrial sector traces to China's accession to the World Trade Organization (WTO) in 2001. China joining the WTO catapulted its global export share from a mere 2% to a significant 15%.¹ China's ascent to manufacturing powerhouse, which enticed the world over with low costs, had profound implications for global industrial production.

Two decades later, developed economies are reevaluating their supply chains. Notably, the G7 and its allies are preparing to invest heavily in reconstructing and modernizing their industrial infrastructure.

The opportunity is massive. Remember the impact of China's infrastructure boom on natural resource industries in the 2000s? Commodity prices soared due to demand for copper, steel, cement, and other raw materials, as did demand for energy by way of coal and oil. The upcoming U.S. industrial production boom brought on by deglobalization is expected to be even bigger because it spans multiple verticals.

In our view, infrastructure, automation, and key commodities are in line to benefit significantly.

Infrastructure Is the Foundation for Economic Growth

It's essential for businesses to operate efficiently and reduce costs, particularly in challenging economic environments and periods of transition, like the transitions brought on by climate change. Good transportation infrastructure lowers the cost of transporting goods and materials. Reliable power and water supply improves productivity by reducing downtime. Well-developed communication and information technology infrastructure help businesses connect with suppliers and customers.

From the Infrastructure Investment and Jobs Act (IIJA) in 2021 to last year's CHIPS and Science Act and Inflation Reduction Act (IRA), a plethora of spending on U.S. infrastructure is ahead. With the CHIPS and Science Act, for example, Intel announced plans to invest \$20 billion in two new semiconductor manufacturing facilities in Ohio and TSMC announced plans to invest \$40 billion in new semiconductor manufacturing facilities in Arizona.^{2, 3}

Automation and Industrial Production Are Interconnected

As the U.S. seeks to revitalize its industrial sector, automation will play a crucial role in transforming production processes. Automation technology enables companies to achieve higher levels of productivity with increased efficiency, reduced costs, and improved product quality. Automation reduces the need for manual labor and empowers machines and robots to handle repetitive tasks, freeing up human workers for more complex and strategic roles.

The auto industry is leading the way in robotics and automation installations, especially in the United States. In 2022, the North American robotics market installed 20,391 industrial robots – up 30% compared to 2021.⁴ We expect this trend to intensify as automakers shift their fleets to EVs and look to maximize their efficiency during the transition.

Commodities Are Core to the Renewed U.S. Manufacturing Push

The increased demand for steel, copper, aluminum, and other indispensable raw materials is a generational opportunity for the commodity market. Copper, for example, is a key component in many industrial products, including electrical wiring, pipes, and building materials. As U.S. industrial production rises, the demand for copper is likely to increase as well. This demand could lead to higher copper prices, which would benefit copper producers. Bank of America estimates copper prices to reach \$12,000 per ton this year, up from today's \$8,000–9,000.⁵



Conclusion: U.S. Readies to Flex Its Industrial Production Muscle

Twenty years after stagnating, a new era of U.S. industrial production growth is materializing, spurred by deglobalization and historical public and private sector investments. Chipmakers, battery developers, and car companies increasing manufacturing capacity, industrial robot installations making manufacturers more efficient, and commodity players delivering the raw materials that companies need will be core to helping U.S. industrial production growth return to an upward trajectory. For investors, we believe that exposure to these long-term, structural themes and the forces that propel them can bring meaningful growth potential to portfolios.

Footnotes

1. World Trade Organization. (2022). Trade Profiles – China. Accessed on May 23, 2023.
2. U.S. Senate Committee on Commerce, Science, & Transportation. (2022, September 9). \$20 Billion Intel Semiconductor Plant to Break Ground After Passage of Cantwell-led Bill.
3. Kinery, E. (2022, December 6). TSMC to up Arizona investment to \$40 billion with second semiconductor chip plant. CNBC.
4. International Federation of Robotics. (2023, May 23). Robot Sales in North American Manufacturing Up 12 Percent.
5. Pistilli, M. (2023, April 26). When will copper go up? Copper Investing News.

Information provided by Global X Management Company LLC.

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