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The Insight

August 2023

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Economic News

187,000 Jobs Added In July As Unemployment Falls To 3.5%

Hiring roughly held steady in July as employers added 187,000 jobs despite high interest rates and inflation.

The unemployment rate, which is calculated from a separate survey of households, from 3.6% to 3.5%, the Labor Department said August 4.

Economists surveyed by Bloomberg had estimated that 200,000 jobs were added last month.

Payroll gains for May and June were revised down by a total of 49,000, portraying a somewhat softer spring labor market than believed. The June rise in employment was downgraded to 185,000 from 209,000.

What is the wage growth rate?
Average hourly earnings rose 14 cents to $33.74, keeping the yearly increase at 4.4%. Full Story S***ource: USA TODAY, 08.04.2023***

Goldman Sachs Cuts Recession Probability

Goldman Sachs' Chief Economist Jan Hatzius said on July 17 the bank was cutting its probability that a U.S recession will start in the next 12 months to 20% from an earlier 25% forecast. "The main reason for our cut is that the recent data have reinforced our confidence that bringing inflation down to an acceptable level will not require a recession," he said in a research note.

Market expectations of a so-called hard landing - a scenario in which the Federal Reserve's interest-rate hikes tip the economy into a recession - have been recently challenged by data showing slowing consumer and producer price inflation in June. Slowing inflation would likely lead to a more dovish monetary policy going forward. Meanwhile, economic activity has remained resilient, despite significantly higher borrowing costs since the Fed started its rate-hiking campaign in early 2022. Full Story
Source: Reuters, 07.17.2023

Fed Raises Interest Rates To 22-Year High

The Federal Reserve resumed raising interest rates and Chair Jerome Powell left open the possibility of further hikes, which he emphasized will depend on incoming data that has recently signaled a resilient U.S. economy. After pausing rate increases in June, policymakers lifted borrowing costs again at their policy meeting on July 26 for the 11th time since March 2022 to curb inflation. The quarter percentage-point hike, a unanimous decision, boosted the target range for the Fed's benchmark federal funds rate to 5.25% to 5.5%, the highest level in 22 years.

While Powell pointed to encouraging signs that the Fed's rate hikes are working to curb price pressures, he reiterated that policymakers have a long way to go to return inflation to their 2% goal. The Fed chief refused to be pinned down on when officials may hike again, citing a raft of economic reports due before the Fed's next meeting in September, including two jobs reports, two reports on consumer-price inflation and data on employment costs.

"All of that information is going to inform our decision as we go into that meeting," he said. "It is certainly possible that we would raise [rates] again at the September meeting, if the data warranted. And I would also say it's possible that we would choose to hold steady at that meeting."

"The default at this point is that the Fed is going to go again – at least once more," said Stephen Stanley, chief U.S. economist at Santander U.S. Capital Markets. "But the timing is open and will depend on the data. He emphasized yet again that the Fed is taking things on a meeting-by-meeting basis."

The Fed has since early last year engaged in the most aggressive tightening campaign since the 1980s in an effort to curb inflation, which in 2022 hit a 40-year high. While policymakers paused rate hikes last month to assess the impact of previous moves, they also signaled at the time that two more increases would probably be appropriate by the end of the year.

What Bloomberg Economics Says...
"While the lack of substantive changes to the policy statement suggests the majority of officials still want to keep the door open for another rate hike, Chair Jerome Powell's somewhat dovish performance at the post-meeting news conference suggests a willingness to skip a hike at the September meeting, provided inflation data continue to be soft," said Anna Wong, chief U.S. economist.
Source: Bloomberg, 07.26.202

Inflation Rose Just 0.2% In June, Less Than Expected Break From Price Increases

Inflation fell to its lowest annual rate in more than two years during June, the product both of some deceleration in costs and easy comparisons against a time when price increases were running at a more than 40-year high. The consumer price index, which measures inflation, increased 3% from a year ago, which is the lowest level since March 2021. On a monthly basis, the index, which measures a broad swath of prices for goods and services, rose 0.2%.

Stripping out volatile food and energy prices, core CPI rose 4.8% from a year ago and 0.2% on a monthly basis. Consensus estimates expected respective increases of 5% and 0.3%. The annual rate was the lowest since October 2021. In sum, the numbers could give the Federal Reserve some breathing room as it looks to bring down inflation that was running around a 9% annual rate at this time in 2022, the highest since November 1981.

"There has been significant progress made on the inflation front, and today's report confirmed that while most of the country is dealing with hotter temperatures outside, inflation is finally cooling," said George Mateyo, chief investment officer at Key Private Bank. "The Fed will embrace this report as validation that their policies are having the desired effect – inflation has fallen while growth has not yet stalled." However, central bank policymakers tend to look more at core inflation, which is still running well above the Fed's 2% annual target. Mateyo said the report is unlikely to stop the central bank from raising rates again later this month.

Fed officials expect the inflation rate to continue falling, particularly as costs ease for shelter, which makes up about one-third of the weighting in the CPI. However, the shelter index rose 0.4% last month and was up 7.8% on an annual basis. That monthly gain accounted for about 70% of the increase in headline CPI, the Bureau of Labor Statistics said.

"Housing costs, which account for a large share of the inflation picture, are not coming down meaningfully," said Lisa Sturtevant, chief economist at Bright MLS. "Because rates had been pushed so low by the Fed during the pandemic and then increased so quickly, the Federal Reserve's rate increases not only reduced housing demand — as intended — but also severely limited supply by locking homeowners into homes they would have otherwise listed for sale."

When inflation first began to accelerate in 2021, Fed officials and most Wall Street economists thought it would be "transitory," or likely to fade once factors specific to the Covid pandemic wore off. They included surging demand for goods over services and supply chain clogs that created scarcity for vital items such as semiconductors. However, when inflation proved more stubborn than anticipated, the Fed began hiking, ultimately raising benchmark rates by 5 percentage points through a series of 10 increases since March 2022.

The muted increase for the headline CPI came even though energy prices increased 0.6% for the month. However, the energy index decreased 16.7% from a year ago, a time when gasoline prices at the pump were running around $5 a gallon. Food prices rose just 0.1% on the month while used vehicle prices, a primary source for the inflation surge in the early part of 2022, declined 0.5%. Airline fares fell 3% on the month and now are down 8.1% on an annual basis.

The easing in the CPI helped boost worker paychecks: Real average hourly earnings, adjusted for inflation rose 0.2% from May to June and increased 1.2% on a year-over-year basis. During the inflation surge that peaked last June, worker wages had run consistently behind the cost-of-living increases.
Source: CNBC, 07.12.2023

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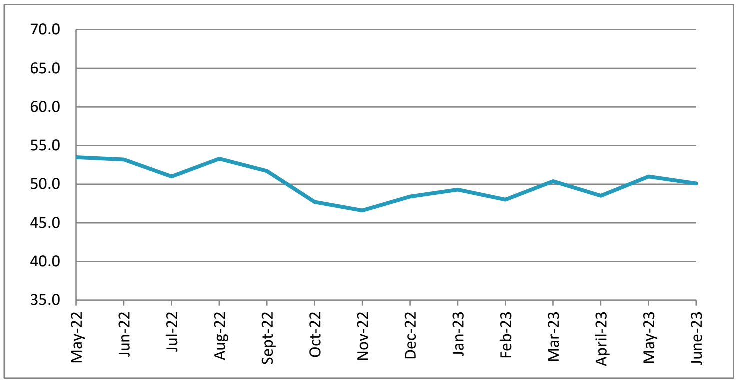
Key Economic Indicators

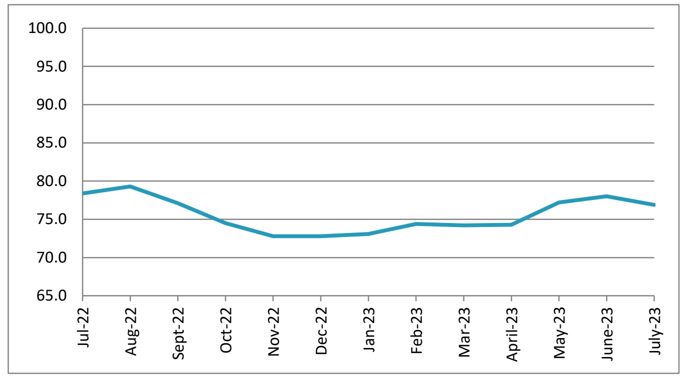
Architecture Billings Index (ABI)



Architecture firms reported flat billings in June, according to the latest Architecture Billings Index (ABI) from the American Institute of Architects (AIA) and Deltek. The ABI score of 50.1 for the month indicates that billings at architecture firms remained steady as design activity continues to slowly recover from roiled economic conditions. This also marks the first time since last fall that there have been two consecutive months of scores above 50, although growth in June was weaker than May (any score above 50 indicates an increase in firm billings). Firms located in the Midwest continue to report the strongest billings for the eighth consecutive month, while firms in nearly all regions of the country also reported improving business conditions in June. Firms also reported that inquiries into new projects fell slightly from 57.2 to 56.7 the previous month. Further, the value of new design contracts edged up to 52.7 in June from 52.3 in May. Firm backlogs have decreased from their record-high levels in 2022 but remain robust at an average of 6.8 months.

The AIA/Deltek ABI is a leading economic indicator derived from a monthly survey sent to AIA member-owned firms which measures demand for design services by architecture firms throughout U.S., providing insight into current and future construction activity across various sectors including commercial/industrial/institutional buildings and residential projects such as single-family housing and multifamily units. ***Source: AIA, 7.19.2023***

Steel Capability Utilization

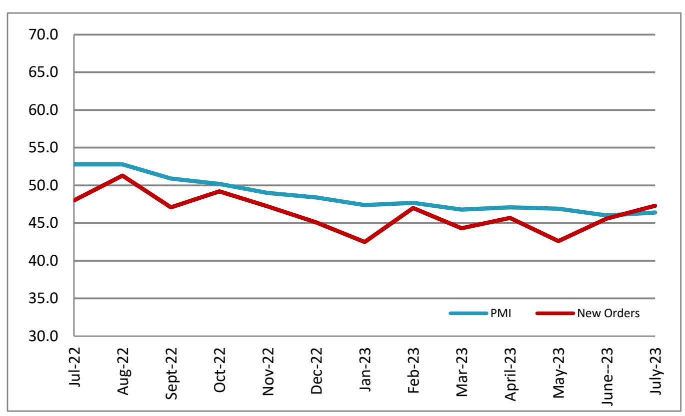


In the week ending on July 29, 2023, domestic raw steel production was 1,749,000 net tons while the capability utilization rate was 76.9%. Production was 1,721,000 net tons in the week ending July 29, 2022 while the capability utilization then was 78.1%. The current week production represents a 1.6% increase from the same period in the previous year. Production for the week ending July 29, 2023 is up 0.5% from the previous week ending July 22, 2023 when production was 1,741,000 net tons and the rate of capability utilization was 76.6%.

Adjusted year-to-date production through July 29, 2023 was 51,111,000 net tons, at a capability utilization rate of 75.8%. That is down 2.4% from the 52,362,000 net tons during the same period last year, when the capability utilization rate was 80.0%.

Broken down by districts, here's the production for the week ending July 29, 2023 in thousands of net tons: North East: 134; Great Lakes: 552; Midwest: 219; Southern: 782 and Western: 62 for a total of 1749.Brazil (3,090,000 NT, down 8%), South Korea (2,649,000 NT, down 9%) and Japan (1,278,000 NT, up 13%). ***Source: AISI, 07.29.2023***

Purchasing Managers Index (PMI)®



The July Manufacturing PMI® registered 464%, 0.4 percentage point higher than the 46% recorded in June. Regarding the overall economy, this figure indicates an eighth month of contraction after a 30-month period of expansion. The New Orders Index remained in contraction territory at 47.3%, 1.7 percentage points higher than the figure of 45.6% recorded in June. The Production Index reading of 48.3% is a 1.6 percentage point increase compared to June's figure of 46.7%. The Prices Index registered 42.6%, up 0.8 percentage point compared to the June figure of 41.8%. The Backlog of Orders Index registered 42.8%, 4.1 percentage points higher than the June reading of 38.7%. The Employment Index dropped further into contraction, registering 44.4%, down 3.7 percentage points from June's reading of 48.1%.

The Supplier Deliveries Index figure of 46.1% is 0.4 percentage point higher than the 45.7% recorded in June. In the last eight months, the Supplier Deliveries Index has recorded its eight lowest readings since March 2009 (43.2%). (Supplier Deliveries is the only ISM® Report On Business® index that is inversed; a reading of above 50% indicates slower deliveries, which is typical as the economy improves and customer demand increases.)

The Inventories Index increased by 2.1 percentage points to 46.1%; the June reading was 44%. The New Export Orders Index reading of 46.2% is 1.1 percentage points lower than June's figure of 47.3%. The Imports Index remained in contraction territory, registering 49.6%, 0.3 percentage point higher than the 49.3% reported in June." The two manufacturing industries that reported growth in July are: Petroleum & Coal Products. A Manufacturing PMI® above 48.7%, over a period of time, generally indicates an expansion of the overall economy. ***Source: IMSWorld, 7.31.2023***

U.S. Manufactured Goods Orders Jump Again In June

Orders of big-ticket manufactured items soared past analysts' expectations to grow by almost 5% in June, fueled once more by buoyant transportation equipment orders, according to U.S. government data released Thursday. The surge in new orders in June is the fourth consecutive month of increases, indicating strong demand for durable goods despite an aggressive campaign of interest rate hikes by the U.S. Federal Reserve to tame inflation. On July 31, the Fed raised interest rates for an 11th time, and left open the option for more if inflation proved stubborn to bring down to its long-term target of 2%.

Manufactured durable goods orders rose by 4.7% in June from a month earlier to $302.5 billion, the Commerce Department announced in a statement. The increase was more than triple the median expectation of a 1.5% rise in orders in a MarketWatch survey of economists. This was largely due to a jump in new orders of transportation equipment, which rose by 12.1%, the Commerce Department said.

"A contraction in the manufacturing sector has been a consistent feature of the U.S. economy over the last year," Andrew Hollenhorst, Citi's chief U.S. economist, wrote in a note to clients after the durable goods data was published.

But he added there are now "growing signs that the manufacturing contraction is easing," and that business equipment investment is picking up.

Durable goods orders increased by a revised 2% in May on the back of higher transportation equipment orders.

Excluding transportation, new orders only increased 0.6%, while new orders excluding defense orders rose by 6.2%, according to the Commerce Department. ***Source: IndustryWeek, 07.31.2023***

Construction Material Costs Remain Elevated

The latest construction news reports that while interest rates remain high, inflation is finally losing steam. This could go a long way toward helping U.S. construction projects. However, there seems to be a pull in both directions. This is mainly due to ongoing labor shortages and the inflated cost of materials plaguing construction efforts. While it appears the Fed's hawkish stance on interest rates finally started to slow down inflation, the cost of construction materials has yet to drop. But while many breathe sighs of relief over the dropping economic pressures, the construction industry still faces several key challenges in Q3 and Q4 of 2023. Month-over-month, the index traded sideways, inching down just 2.73%.

Construction projects continue to struggle under high material costs, causing delays and increased project expenses. According to research from Gordian, construction materials have seen significant price increases since 2020. This accounts for around 82.5% of materials affected. Meanwhile, construction news outlets report that metals like steel and aluminum have experienced substantial price hikes (long-term wise). Supply and demand imbalance remains the primary factor in these elevated costs. The COVID-19 pandemic significantly disrupted global supply networks, resulting in raw material shortages and higher transportation prices. As the global economy continues to recover from the pandemic and construction activity grows, the heightened demand for construction supplies could lead to even more price increases.

This material price volatility introduces more uncertainty to building projects, making it challenging for contractors to forecast project costs effectively. And despite recent price decreases, overall building material costs remain significantly higher than pre-pandemic levels.

According to the Associated Builders and Contractors (ABC), construction supplies are still 37% more expensive than before the pandemic. This indicates the long-term influence the pandemic continues to have on material costs, which will also impact the industry going forward.

The high cost of construction materials, particularly metals like steel and aluminum, significantly affects project profitability. As contractors grapple with increased expenses, businesses must accept higher project costs and potential compromises in profitability. To mitigate these challenges, contractors must carefully manage budgets and identify strategies to offset the impact of growing material costs.

According to a recent Construction Dive article, U.S. infrastructure projects are not seeing the boost they should be from the Infrastructure Investment and Jobs Act. While there has been some progress, there remains a significant backlog of U.S. infrastructure projects. Some construction news outlets argue that private projects are currently experiencing the same issue. However, infrastructure projects increased their backlog for three straight months.

The backlog is the result of several factors:

- There is an overwhelming demand for clean energy initiatives.
- Bureaucracy frequently necessitates numerous permits and approvals from numerous government departments. These can cause delays and add to the backlog.
- The construction industry continues to experience labor shortages, impeding the overall pace of infrastructure projects.

Source: Metal Miner, 07.19.2023

Global Steel Output Tapers Off In June

The Brussels-based World Steel Association says producers in its 63 member countries made 161.6 million tons of steel this June. That figure represents a 2.8 million-ton drop of 5.1% compared with the prior month and is 0.1% less than the amount of steel produced in June of last year. In the first half of the year, India has been the large-tonnage World Steel member with the biggest output increase, showing a 7.4% boost in production compared with the first half of last year.

Other nations producing more steel in this year's first half compared with the first six months of 2022 include Iran (+4.8%), China (+1.3%) and Russia (+1%).

The nation with the biggest slump in output is, by far, earthquake-hit Turkey, which also has been battling against the devaluation of its currency and other economic woes. Steelmakers in that nation, which largely melt scrap via electric arc furnace (EAF) technology, made 16.3% less steel in the first half of 2023 compared with the same time frame in 2022. Also producing less steel this year are Brazil (-8.9 %), Germany (-5.3%), Japan (-4.7%), the U.S. (-2.7%) and South Korea (-0.5%).

A more recent figure covering only the U.S. shows one sign of encouragement. According to the Washington-based American Iron and Steel Institute (AISI), a World Steel member, output rose both week on week and year on year in the third full week of July.

AISI says in the week ending July 22, U.S. output of more than 1.74 million tons represented a 1.5% increase from the previous week and a 1.2 increase from the comparable week in 2022.

The association lists the U.S. steel sector as currently having a 76.6% capability utilization (mill capacity) rate, which is below the 78.1% rate from one year ago because of the introduction of new EAF capacity in the U.S.

During the week of July 17, mills in the AISI South region churned out the most steel (785,000 tons), followed by those in the Great Lakes region (530,000 tons), Midwest region (222,000 tons), North East region (137,000 tons) and the Western region (67,000) tons. ***Source: Recycling Today, 07.26.2023***

Steel Industry Groups Urge Government To Ensure Use Of American Steel In Clean Electricity Technologies

Five trade associations representing the American steel industry on July 27 urged the Treasury Department to ensure that certain wind and solar components use steel made in the United States to qualify for the domestic content bonus tax credits under the Inflation Reduction Act (IRA). The agency is responsible for implementing the guidance for clean electricity production and investment tax credits from the IRA.

In a letter to Treasury Secretary Janet Yellen, American Iron and Steel Institute (AISI), Steel Manufacturers Association (SMA), American Institute of Steel Construction (AISC), Committee on Pipe and Tube Imports (CPTI) and Specialty Steel Industry of North America (SSINA), expressed concern that the current guidance allows the use of imported steel in place of available domestic steel products in three areas: monopolies for offshore wind facilities, steel components with structural functions in photovoltaic tracking systems (including torque tubes, foundations and rails) and steel fasteners.

"We believe that the agency should take appropriate action to fix…errors in the recently issued guidance. It is critical to ensuring that the clear intent of Congress to incentivize the use of domestic steel and iron in clean energy projects is realized. It also ensures that the guidance does not unwittingly benefit China and other countries that have repeatedly exported dumped and subsidized steel into the U.S. market, injuring domestic steel producers and their workers," the letter stated. "The domestic steel industry has made significant investments to expand its capacity to satisfy demand for these products. There are no constraints on domestic supply that would justify removing them from the scope of the IRA's domestic iron and steel requirement."

Click here for a copy of the letter. ***Source: AISI, 07.27.2023***

Midsize Businesses Are Bullish About Their Revenue Prospects, Even Amid Recession Fears

Even with the ongoing economic uncertainty, the majority of midsized business owners expect revenue increases over the next 12 months. That's one of the big takeaways from the inaugural Bank of America Mid-Sized Business Owner Report, which found that 75% of midsized business owners expect their revenue to increase over the next year. The survey offers yet another positive sign after early 2023 was punctuated by recession fears and worries about slowing sales. Challenges may remain, but midsize businesses are bullish about their prospects.

Bank of America's survey included more than 300 midsized business owners who lead organizations between $5 million and $50 million in revenue, and the results dovetail with recent small business surveys that found rising optimism about revenue growth. That's not to say recession fears are going away, with 72% of midsize businesses concerned about the potential for a recession. Inflation, interest rates and health insurance costs are also top worries of midsize business owners.

Hiring Plans Robust
Additionally, the survey found 71% of respondents plan to hire over the next 12 months — although availability of talent remains a top concern. It's also having a tangible effect on many businesses.

The survey found 37% of midsize businesses are reducing the products and services they offer due to labor availability, while 36% of owners are working more hours. About 43% of midsize businesses reported increasing salaries to attract talent, while 40% are offering more paid-time off and 36% said they are strengthening their retirement benefits.

The AI Effect
Artificial intelligence tools like ChatGPT have taken the business world by storm, and midsize companies are no exception. The survey found 87% of midsize businesses plan to use AI or automation in the next year, with 45% planning to use them for hiring efforts — a use experts say businesses should tread carefully with. Another 43% plan to use those tools to streamline payroll and bookkeeping.

AI isn't the only technology on their minds though. About 88% of midsize businesses say cybersecurity threats are affecting their businesses, with 65% of those investing in digital security systems. Another 39% said they are storing less business information online due to cybersecurity concerns.

Other Notable Takeaways
- 90% of midsize businesses said they are looking to obtain funding to finance their businesses over the next 12 months, but 43% of those said their top source of funding will be a business credit card.
- 54% of midsize businesses said they plan to apply for a bank loan or line of credit in the next 12 months, with investing in new technology and new equipment the top reasons.
- Midsize businesses are equally confident in the local, U.S. and global economy, with about two-thirds of respondents confident about the next 12 months for each economy

Source: The Business Journals, 07.27.2023

U.S. Department Of Commerce Issues Ruling On Aluminum Alloy Sheet From China

The U.S. Department of Commerce has determined imports of aluminum sheet produced from aluminum alloy 4017, also known as 4017 aluminum sheet, and produced in China and exported to the United States constitute "merchandise altered in form or appearance in such minor respects that it should be included within the scope of the antidumping duty (AD) and countervailing duty (CVD) orders on common alloy aluminum sheet (CAAS) from China."

As a result, these products are now subject to suspension of liquidation. The Commerce Department excluded aluminum can stock, which is used in the manufacture of aluminum beverage cans, lids of cans, or tabs used to open these cans, from the orders.

U.S. Customs and Border Protection will now begin or continue to suspend liquidation and to require cash deposits of estimated duties equal to the AD and CVD rates in effect for CAAS from China for each unliquidated entry of 4017 aluminum sheet produced in China and exported to the United States that has been entered, or withdrawn from warehouse, for consumption on or after August 26, 2022.

The suspension of liquidation and cash deposit requirements will be in effect until further notice.

Read the Department of Commerce's notice here. ***Source: MSCI, 07.31.2023***

U.S. Trade Representative Asks Mexico To Address Increased Steel, Aluminum Imports

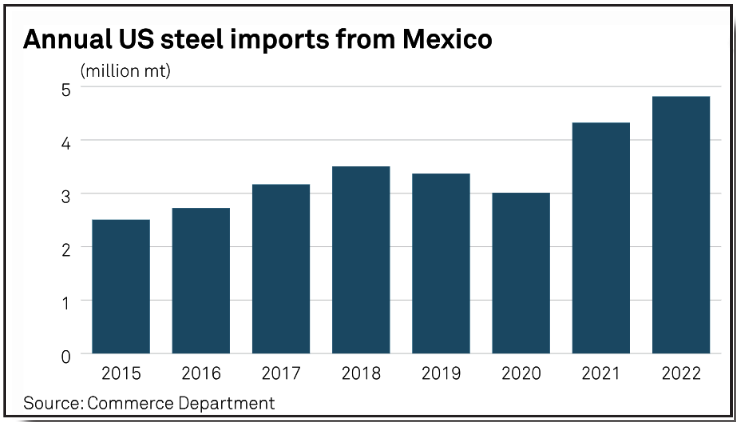
U.S. Trade Representative Katherine Tai and Mexican Secretary of Economy Raquel Buenrostro have discussed the importance of Mexico addressing the "recent surge" in imports of steel and aluminum products coming to the U.S., according to a readout of their meeting from the USTR's office. Tai stressed the importance of Mexico enhancing its monitoring of steel and aluminum exports to the U.S. during the meeting July 6, in accordance with a 2019 agreement in which the U.S. dropped the Section 232 tariffs on steel and aluminum imports from the country, the USTR's office said.

As part of the agreement, Mexico was to ensure greater transparency regarding steel and aluminum imports from third countries. The trade representatives agreed to have their teams "intensify their engagement" on the matter, Tai's office said.

In May, Steel Caucus Chairman Rick Crawford, Republican-Arkansas, and Vice Chairman Frank Mrvan, Democrat-Indiana, sent a letter to President Joe Biden's administration requesting immediate consultations to address the recent uptick in Mexican steel imports. U.S. imports of steel from Mexico were up 72% in 2022 compared with the 2015-2017 historical average, according to Commerce Department data. In its letter, the Steel Caucus leaders noted increased volumes across product lines, including rebar, hot-rolled coil, galvanized sheet, wire rod, semi-finished steel, and pipe and tube, among other products. Rebar imports in particular have seen a sharp increase, up by more than 3,000% in 2022 compared with the 2015-2017 average, the caucus noted.

Steel Caucus leadership also alleged the Mexican steel industry "appears to be taking advantage of its status" under the agreement by exporting steel to the U.S. that was produced in countries that remain subject to Section 232 tariffs, including Brazil, South Korea and Russia, allowing this steel to enter the U. S. through Mexico duty free. U.S. imports of aluminum from Mexico, including both unwrought and wrought products, increased 86% in 2022 compared with the 2015-2017 historical average, according to Commerce Department data.

U.S. imports of Mexican unwrought aluminum rose 40% in 2022 compared with the 2015-2017 historical average. Among wrought aluminum products, U.S. imports of plates, sheets and strips from Mexico jumped 451% in 2022 compared with the 2015-2017 average, while imports of bars, rods and profiles saw an increase of 77% by the same comparison.



"We are grateful that Ambassador Tai raised critical trade issues for the aluminum industry in her meeting with Secretary Buenrostro this week," Charles Johnson, CEO of the Aluminum Association, said in a statement sent to S&P Global Commodity Insights. "The significant gaps in Mexican trade data reporting introduced last year have exacerbated Mexico's failure to honor USMCA commitments to implement an aluminum import monitoring system. We agree with Ambassador Tai that Mexico can assure the U.S. industry that it is a favored trading partner by addressing these data gaps and by implementing an Aluminum Import Monitoring system. Mexico has been an important trading partner with the U.S. aluminum industry, and we look forward to seeing these monitoring and reporting issues resolved."

Reimposition of tariffs on table

As part of the agreement struck between the U.S. and Mexico to remove the 25% import tariff on steel and 10% tariff on aluminum, it was stated that if imports "surge meaningfully beyond historic volumes of trade over a period of time," with consideration of market share, the importing country may request consultations. Following consultations, the U.S. could reimpose duties on individual products where the surge took place, according to the agreement.

If such action is taken by the U.S. to reimpose the tariffs, under the agreement, Mexico could retaliate only in the affected sector, meaning it could place its own import duties on U.S. steel or aluminum. ***Source: S&P Global, 07.07.2023***

A World Rewired

Economic data is only just starting to capture the shifting tectonic plates, with China remaining the factory to the world. But beneath the surface, things like greenfield foreign direct investment illustrate the determination of the U.S. and like-minded governments to diversify supply chains. At the ground level, change is clearly afoot. Bloomberg News deployed reporters to vector points across the globe to illustrate how companies are rewiring their operations to deal with the shifting geopolitical sands.

Truckers, for instance, are struggling to keep up with surging demand across the U.S.-Mexico border. That's because U.S. tariffs on China have triggered a significant move in trade flows, with China's sales of tariffed goods to the U.S. down $150 billion relative to the level that could have been expected to prevail without levies, according to Bloomberg Economics. And shipments from Mexico are filling much of that gap.

FDI data suggest there's further changes to come, *Bloomberg Economics* writes. UNCTAD's 2023 report shows FDI in electronics surging from $48 billion in 2021 to $181 billion in 2023, driven substantially by greenfield projects in semiconductors.

Some shoe-leather reporting in Japan illustrates the frictions such investments are causing. In the once quiet farm town of Kikuyo, local residents are grumbling at the traffic caused by the massive new factory being built by Taiwan Semiconductor Manufacturing Co. with backing from Japan's government. Meantime, Russia's annexation of Crimea and invasion of Ukraine show what happens when tariffs and sanctions are applied more broadly across products, and with more countries acting in concert, *Bloomberg Economics* writes. The impact has been clearer on imports than exports.

Reporting from southern Italy illustrates the push to reduce reliance on Russian energy. The EU is helping pay for an expansion of Brindisi's port to let more containers come through the dock. And a new pipeline, called EastMed-Poseidon, is wending its way from Israel.

Even with such shifts, the vast majority of global trade flows are largely intact, suggesting that fears of globalization's demise are overdone. But that doesn't mean such concerns are altogether misplaced either.

"The hard work of realigning global supply chains to hedge against risks from rising geopolitical tensions and disasters like the Covid pandemic has barely begun," according to *Bloomberg Economics*.
Source: Bloomberg, 08.01.2023