WELLS FARGO

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Is the Tide Turning for American Exporters?

Robust Global Economic Growth Should Boost U.S. Exports Significantly This Year

Summary

- Trade tensions with major trading partners in 2018 and 2019 followed by the pandemic mean that the past few years have been particularly rough on American exporters. But with trade tensions easing a bit and hope that the global economy can more or less re-open this year, is the tide finally turning for American exporters?
- Global economic activity is a primary driver of U.S. export growth. With many of the world's major economies set to re-open at a similar time, we forecast that global GDP will grow in excess of 6% in 2021, which would be the strongest growth rate in at least 40 years.
- Strong global growth should spur demand for U.S. exports. We forecast that the volume of goods exports will be up about 12% in the fourth quarter of this year relative to the same period in 2020. We look for strong growth to continue next year with real goods exports growing 8% on a Q4-over-Q4 basis in 2022.
- The overall volume of goods exports has rebounded from its May 2020 low, but it has not yet recovered all the lost ground from its pre-virus peak. Real exports of capital goods, autos & parts and consumer goods all remain depressed, which has weighed on the overall volume of exports. But real exports of agricultural products and industrial supplies have already surpassed their pre-virus levels.
- Looking ahead, we expect that growth in real exports of capital goods and consumer goods should be strong. These categories not only present the most ground still left to be made up when compared to their pre-COVID trend, but strong recoveries in many major foreign economies should boost demand for these products.
- Economic growth in many Asian economies, which generally have had relative success combating the virus, should be strong in 2021. Strong growth in Asia should support robust growth in American exports to the region. We expect that economic acceleration in many European countries later this year will also help boost U.S. exports. However, economic growth in many Latin American countries, which continue to struggle with COVID cases, may lag, which could exert some headwinds on U.S. export growth to the region.
- We forecast that the combination of strong growth in exports and significant acceleration in domestic demand will lead to 7% growth in U.S. industrial production this year and almost 5% in 2022. If this forecast proves to be reasonably accurate, then 2021 and 2022 would mark the strongest two-year stretch of growth for the U.S. industrial sector since the late 1990s.

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American Exporters Faced a One-Two Punch

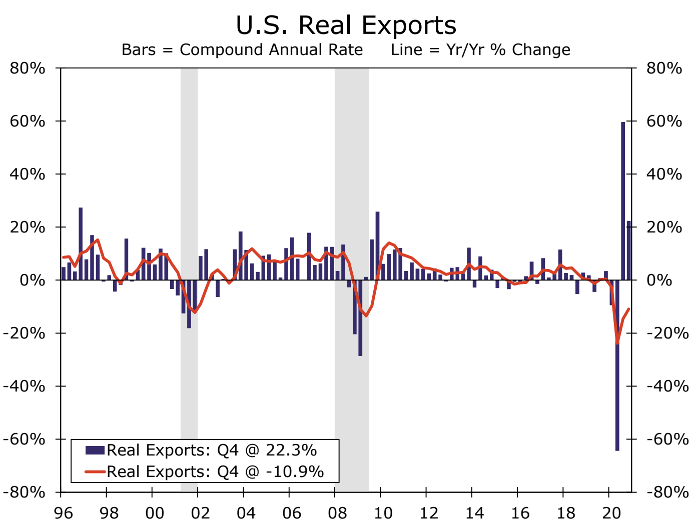
The past few years have been rough on American exporters. As shown in Figure 1, real exports of goods and services were essentially flat between mid-2018 and late 2019 due, at least in part, to trade tensions between the United States and many of its major trading partners. Total exports then nosedived roughly 25% between Q4-2019 and Q2-2020 when the COVID pandemic more or less shut down the global economy. Real exports bounced in the third and fourth quarters of last year as many foreign economies started to re-open, but overall exports remained more than 10% below their pre-pandemic level at the end of last year.

The pain has been especially acute for exporters of services such as airlines that carry foreign passengers and for tourist destinations in the United States that cater to foreigners. Real exports of goods plunged 25% between Q4-2019 and Q2-2020, but they have subsequently rebounded and stood just 4% below their pre-pandemic level at the end of last year. Real exports of services also cratered by roughly 25% between the end of 2019 and Q2-2020, but they essentially flatlined in the second half of 2020.

Real exports remained more than 10% below their pre-pandemic level at the end of last year.

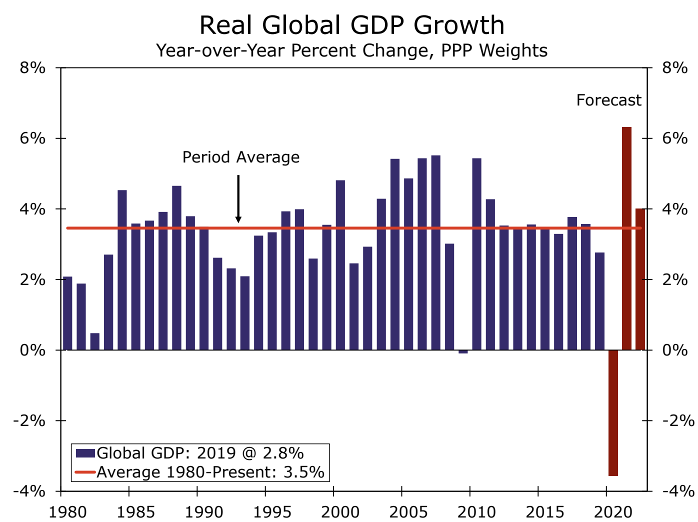
As we outlined in our recent U.S. Economic Outlook, we forecast that real GDP in the United States will grow more than 6% in 2021. If realized, this would mark the strongest year for real GDP growth since 1984. We also look for global GDP to grow in excess of 6% this year (Figure 2) due to synchronized upturns in most major foreign economies (see our International Economic Outlook for details). As we describe in more detail in the next section, global economic growth is a primary driver of U.S. export growth. What does the future hold for U.S. exports? Does the outlook differ depending on the type of export and their destination? This report sheds some light on these questions, focusing largely on the outlook for goods exports, as they account for a little over two-thirds of total U.S. exports.

Figure 1



Source: U.S. Department of Commerce and Wells Fargo Securities

Figure 2



Source: International Monetary Fund and Wells Fargo Securities

We've Got a Goods Thing Coming

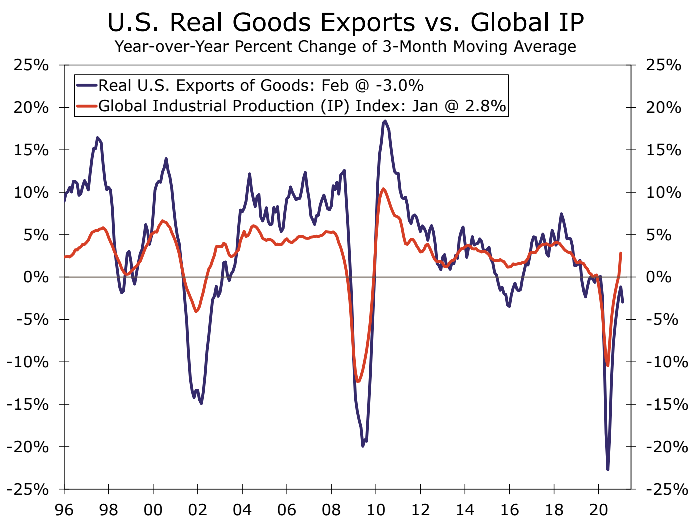
Growth in American exports depends largely on economic growth in the rest of the world. As shown in Figure 3, there is a high degree of correlation between the growth rates in real exports of American goods and global industrial production (IP), which is a proxy for global economic activity. The relationship, however, has changed over time. Real exports of U.S. goods grew roughly twice as fast as global IP in the 1990s and 2000s. However, growth in real exports of goods has been more or less equal to growth in global IP over the past decade due, at least in part, to the subsequent lack of new multilateral trade agreements and the topping-out of globalization. Moreover, trade tensions with many of America's major trading partners contributed to the flatlining of real goods exports in the two-year period immediately preceding the pandemic.[1]

However, we think that the bleak situation that many American exporters have faced over the past few years is about to change. For starters, trade tensions with many of America's major trading partners are no longer on full boil. Furthermore, a marked acceleration in global economic activity, which should occur over the course of this year as an increasing number of foreign economies re-open, should provide a significant boost to American exports. As noted previously, we look for global GDP to grow in excess of 6% in 2021. If realized, it would be the strongest pace of global GDP growth in at least 40 years.

Although overall exports of goods still remain below their pre-pandemic peak, not all categories remain adversely affected by the economic fallout from the pandemic. Specifically, real exports of agricultural products are up 11% relative to a year ago, and real exports of industrial supplies & materials are roughly in line with where they were prior to the pandemic (Figure 4). Conversely, exports of consumer goods and automobiles & parts have not yet returned to their pre-pandemic peaks, and capital goods exports remain significantly depressed. As we look forward, are there certain categories of goods set to drive export growth this year?

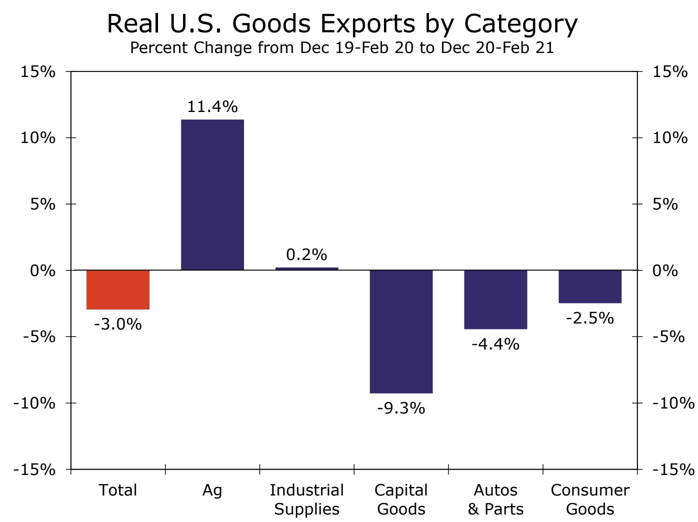
We forecast 2021 will mark the fastest pace of global growth in 40 years, which should translate to a boom in U.S. export growth.

Figure 3



Source: U.S. Department of Commerce, IHS Markit and Wells Fargo Securities

Figure 4



Source: U.S. Department of Commerce and Wells Fargo Securities

We do not explicitly forecast the underlying categories of goods exports, but it seems reasonable that categories that remain below their pre-virus trend, such as capital goods and consumer goods, should enjoy meaningful rebounds in the coming quarters. Capital goods exports, which account for about a third of total U.S. goods exports, should continue to recover this year as demand for equipment and business fixed investment gathers momentum in many foreign economies. Furthermore, the resumption of Boeing's 737 MAX aircraft deliveries, nearly 70% of which we estimate are destined for foreign economies, should provide an added tailwind to capital goods exports.

Aircraft should boost capital goods exports, but shortages of semiconductors may exert some headwinds.

That said, ongoing supply shortages of semiconductors could exert some headwinds on growth in capital goods exports. Besides decreased semiconductor exports specifically, shortages have the potential to limit production and therefore exports of particular products such as computers and electronics where semiconductors are a key component.[2] Semiconductor shortages could also spill over into the auto sector. U.S. auto manufacturers have already reduced or temporarily ceased production of certain vehicles due to semiconductor shortages, which likely will weigh on their ability to export autos this year and constrain a more sizable rebound from occurring in the sector.

We also look for exports of consumer goods to rebound this year as the global economy re-opens. Households in many foreign economies are sitting on high levels of personal savings after more than a year of constrained activity and limited ability to spend, although not quite to the same extent as their American counterparts. Pent-up demand and excess savings in many foreign economies should spur demand for consumer goods, which will be filled in part by exports of American goods.

Consumer goods exports should rebound this year amid an easing of restrictions and relatively healthy consumers.

Finally, industrial supplies & materials exports should remain strong. This component is already ahead of its pre-pandemic level and speaks to the unique nature of the downturn leaving goods-producing industries less severely disrupted than services. Demand for industrial supplies has snapped back quickly as manufacturing in many foreign economies has come back online. A strengthening global economy should keep demand for industrial supplies strong, as will a pickup in mobility as restrictions relax, which will help spur demand for oil and petroleum products, specifically. Industrial supplies represent the largest major category of U.S. goods exports, accounting for nearly 35% of the total, so the sector has a large bearing on the overall trajectory of exports. Ultimately, however, the rebound in particular export categories depends on the pace of economic recovery of specific trading partners, a topic to which we now turn.

Where Will All Those Exports Go?

There is a significant amount of two-way trade between the United States and its North American neighbors.

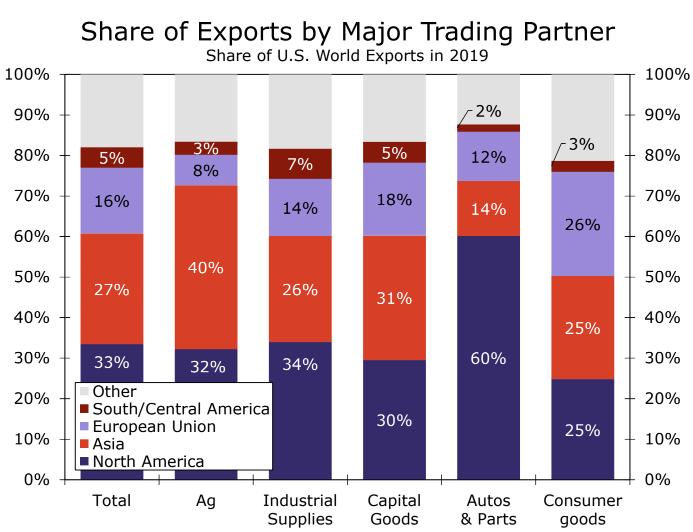
Exports to most of America's largest trading partners plummeted in 2020 amid strict lockdowns and holed-up consumers. Therefore, the forecast for U.S. exports depends crucially on the extent to which lower-COVID cases and increased vaccine distribution allow these major trading partners to fully re-open.

A quick glance at Figure 5, which shows a breakdown of export categories by major trading partners, may lead one to infer that Canada and Mexico should contribute significantly to the resurgence we expect this year in U.S. exports. But the shares of these North American countries are inflated by a two-way trade flow with the United States. For example, Canada and Mexico appear to be the final destination for roughly 60% of U.S. exports of autos & auto parts. However, parts are often shipped across the border as part of the production and assembly process, but finished autos will return to the United States to be bought by American consumers. We expect to see significant acceleration in the Canadian and Mexican economies this year, but domestic demand in these relatively small economies, which together account for less than 4% of global GDP, will not be a major driver of U.S. export growth. In terms of major regions of the world, the main drivers of U.S. export growth likely will be Asia, which accounts for more than 30% of global GDP, and the European Union (nearly 20%).

A recovery in the Eurozone will directly boost U.S. capital and consumer goods exports.

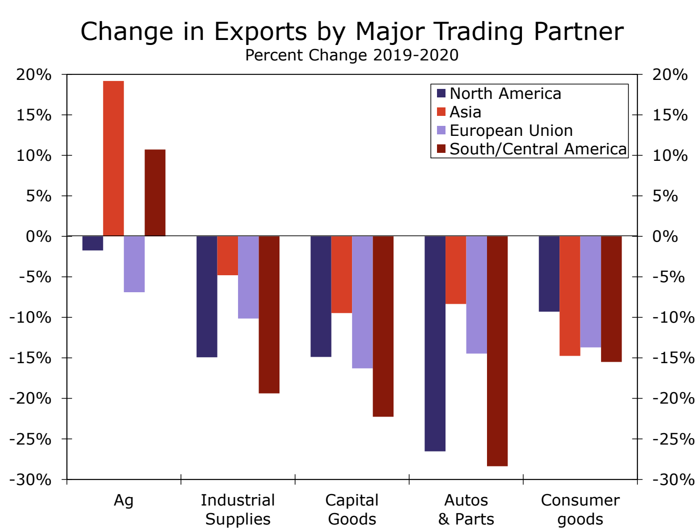
Let's start with the European Union, to which nearly 16% of American exports were destined in the years immediately preceding the pandemic. As we wrote in a recent report, many European countries have struggled with containing the virus and the vaccine rollout has been disappointedly slow. In that regard, many countries in the euro area have recently imposed tighter restrictions on activity, and less than 13% of the population has received the first dose of a vaccine. However, the household savings rate in the Eurozone is elevated, which we believe will help to fuel a pickup in consumer spending when restrictions are relaxed and more service industries are up and running. Although we project that real GDP will contract again in the first quarter of this year, we look for stronger growth in coming quarters as the virus is brought better under control. We forecast that the Eurozone economy will grow at an above-trend rate of 3.4% this year, which should help to bolster demand for U.S. exports. Exports of capital goods and consumer goods to the European Union should do particularly well due, at least in part, to rebounds from the sharp declines they suffered in 2020 (Figure 6).

Figure 5



Source: U.S. Department of Commerce and Wells Fargo Securities

Figure 6



Source: U.S. Department of Commerce and Wells Fargo Securities

The Asian region is another destination that is looking to be a powerhouse for growth this year. Last year, many Asian countries reacted quickly to stem the spread of the virus using strict lockdowns and, as a result, were able to re-open quickly. Notably, China was the only major economy that had positive economic growth in 2020, growing 2.3% over the year, and the world's second-largest economy is looking to have a banner year of growth in 2021 as well. We expect China's GDP to rise over 9% this year followed by a still-strong 5.6% increase in 2022. The Indian economy is also set to boom, as our forecast has India's GDP skyrocketing nearly 12% this year, and we look for Australia and Japan to also post strong GDP growth rates in 2021 at 4.4% and 3.2%, respectively. These strong economic growth rates in the Asian region, which account for more than 25% of American exports, should contribute materially to the hearty growth rate in U.S. exports that we expect this year.

Strong economic growth in Asia this year should help to boost American exports in 2021.

The value of U.S. exports to Asia held up relatively well in 2020; they declined roughly 5% relative to the preceding year while overall American exports fell nearly 13%. But the deep economic downturns that most economies in Central and South America suffered last year caused U.S. exports to nosedive by 19%. There should be some rebound this year, but U.S. exports to Latin America likely will lag overall export growth due to the region's continued struggle with containing COVID, which will continue to exert headwinds on economic growth in the region.

Growth in Latin America likely will lag growth in Asia this year.

Take Brazil, the largest economy in Latin America, as an example. New COVID cases have averaged about 70K per day recently, up from 50K per day at the beginning of the year, and it recently became the second country to surpass 300K COVID deaths. We recently reduced our forecast for 2021 real GDP growth in Brazil to 4% from 4.5% previously despite the recent passage of a fiscal stimulus package. Brazil is the only country in this group that we explicitly forecast, but economic growth rates in most Latin American economies likely will fall well short of the growth rates that many Asian countries are likely to post this year.

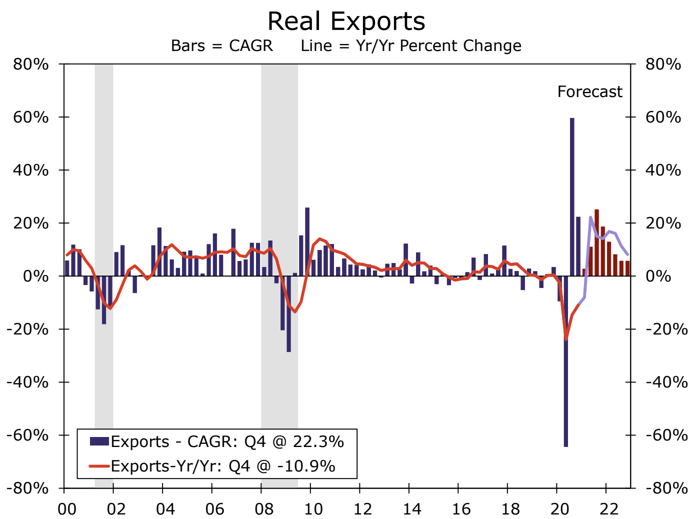
Benefits for American Exporters and Manufacturers Alike

Robust growth in exports should contribute to solid growth in the U.S. industrial sector.

After looking at the expected trajectory of major categories of goods exports and the outlook for some of America's top trading partners, we are fairly confident exports are set to boom this year. We look for real exports of goods to grow at double-digit annualized rates later this year as economic activity in many major trading partners accelerates (Figure 7). Specifically, we forecast that real exports of goods and services will be about 12% higher in Q4-2021 than they were in the fourth quarter of 2020. Growth in real exports should be fairly strong next year as well. We look for real exports to grow roughly 8% on a Q4-over-Q4 basis in 2022.

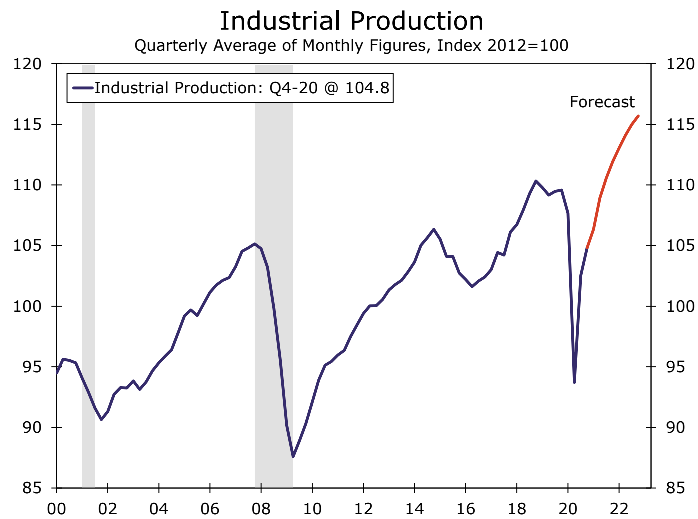
The large pickup in demand for U.S. goods from foreign buyers will also have material implications for the U.S. industrial sector. The nominal value of goods exports totaled more than $1.6 trillion in 2019, which was equivalent to nearly 25% of the output produced in the agricultural, mining and manufacturing sectors. Consequently, robust growth in exports should help to support strong IP growth in the United States (Figure 8). If our forecast of IP growth—roughly 7% this year and about 5% in 2022—proves to be reasonably accurate, the next two years would mark the strongest stretch of growth for the U.S. industrial sector since the late 1990s.

Figure 7



Source: U.S. Department of Commerce and Wells Fargo Securities

Figure 8



Source: Federal Reserve Board and Wells Fargo Securities

So, after what has been a rough couple of years, American exporters look to be finding themselves in a more advantageous position this year. Trade tensions with many of America's major trading partners have eased a bit, and significant economic acceleration in most foreign economies should spur foreign demand for U.S. goods. This expected meaningful rise in export volumes in conjunction with strong growth in domestic spending in the United States should translate into one of the strongest years for the U.S. industrial sector in recent memory.

Other than a renewed deterioration in the public health situation, the largest downside risk to this forecast at present is constrained supply chains and shipping concerns, something that has come to a head recently amid the Suez Canal blockage.[3] As we discussed in depth in a recent report, supply issues have the potential to constrain manufacturing and therefore the ability to export goods this year. We will be monitoring supply chain issues closely and will update our readers and forecasts if incoming data warrant a change.

Endnotes

[1] Through February, real exports of U.S. goods remain 16% below the level projected by their prior-cycle trend through 2017. Real exports of U.S. goods are 14% below the level projected by their complete prior-cycle trend through 2019. We calculated two linear trends; one from April 2009 to December 2017, which excluded the 2018-19 period when exports were affected by trade tensions with major trading partners, and another that fully included the prior cycle from April 2009 to December 2019. (Return to Section)

[2] See the Topic of the Week section from our March 19 Weekly Economic & Financial Commentary for a more detailed analysis on how the semiconductor shortages could cause broader macro disruptions. (Return to Section)

[3] See the Topic of the Week section from our March 26 Weekly Economic & Financial Commentary for a more detailed analysis on how the Suez Canal blockage could cause broader macro disruptions. (Return to Section)

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