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Global Manufacturing Economic Update



Essential Takes on Leading Economic Indicators

By [Chad Moutray](#) – July 9, 2020 – [SHARE](#)

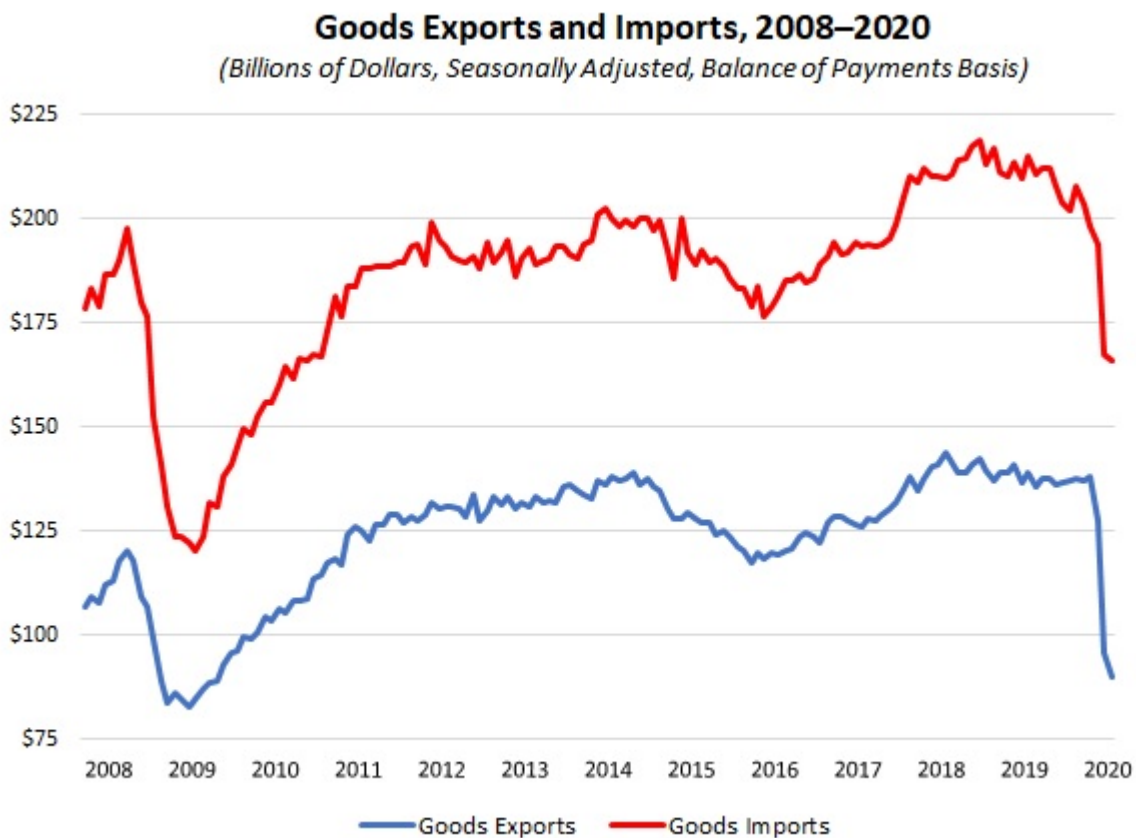
Global Economy Starts to Rebound, but with Lingering Challenges

The Monthly Toplines

- The [J.P. Morgan Global Manufacturing PMI](#) rebounded for the second straight month, rising to its strongest reading since January. Overall, the sector continues to stabilize in most economies, even as activity remains contractionary and challenges persist worldwide due to COVID-19 and the severe worldwide recession. Manufacturers are cautiously optimistic for stronger output over the next six months.
- Sentiment among the top 10 markets for U.S.-manufactured goods improved in every economy in June, with four markets expanding, up from just one (China) in May. These major trading partners have continued to steady after plummeting in April to levels that were either the worst since the Great Recession or at record lows.
- The IHS Markit Emerging Markets Manufacturing PMI stabilized in June, rising from 42.7 in April, the lowest reading since January 2009, to 45.4 in May to 49.6 in June. Despite contracting for the fifth straight month overall, production expanded ever so slightly, and the outlook was encouraging.
- The International Monetary Fund said that it expects [global growth](#) to fall 4.9% in 2020, downgrading the outlook from an expected 3% decline projected in April. On the positive side, it expects world output to jump by 5.4% in 2021.
- Led by sharp reductions in trade volumes, the [U.S. trade deficit](#) rose from \$49.76 billion in April to \$54.60 billion in May, its highest point since December 2018. Goods exports dropped to a level not seen since August 2009. That level more than offset the decrease in goods imports, which fell to the weakest pace since September 2010.
- In non-seasonally adjusted data, U.S.-manufactured goods exports totaled \$396.58 billion through the first five months of 2020, dropping 15.74% from \$470.69 billion for the same time frame in 2019.
- Since April 24, the U.S. dollar [has fallen](#) 3.4% against a broad-based index of currencies for goods and services, according to the Federal Reserve. The

recent pullback reverses the trend seen earlier in the spring, when investors flocked to the U.S. dollar and dollar-denominated assets due to the COVID-19 pandemic. The current trend coincides with signs of improvements in economic activity.

- Manufacturers continue to advance efforts with the administration and Congress to open markets, ensure trade certainty and address challenges overseas. Their measures include the following:
- Ensuring that the United States–Mexico–Canada Agreement, which entered into force on July 1, is implemented in a way that will bolster that recovery and renewal and maintain broad support for open, rules-based North American trade
- Monitoring progress on the U.S.–China “phase one” deal, as well as U.S.–China trade dynamics amid China’s actions on Hong Kong and U.S. responses to those actions
- Monitoring U.S.–U.K. trade agreement negotiations to ensure the expeditious conclusion of a comprehensive trade agreement between the two countries
- Advocating for clarity and guidance for new U.S. export controls on military end uses and end users, which took effect in June



Global Economic Trends

- **Worldwide Manufacturing Activity:** After dropping to its lowest point in April

since March 2009, the [J.P. Morgan Global Manufacturing PMI](#) rebounded for the second straight month, rising from 39.6 in April to 42.4 in May to 47.8 in June, its strongest reading since January. Overall, the sector continues to stabilize in most economies, even as activity remains contractionary and challenges persist worldwide due to COVID-19 and the severe worldwide recession. The underlying data reflect that trend, with slowing rates of decline across the board in June, including for new orders (up from 36.4 to 46.6), output (up from 39.1 to 47.0), exports (up from 32.3 to 43.4) and employment (up from 43.1 to 45.8). Encouragingly, the index for future output (up from 52.0 to 58.7) continued to signal cautious optimism for a rebound in production over the next six months, with that indicator at its best pace since February.

- **Economic Forecasts:** The International Monetary Fund said that it expects [global growth](#) to fall 4.9% in 2020, downgrading the outlook from an expected 3% decline projected in April. On the positive side, it expects world output to jump by 5.4% in 2021.
- **Sentiment in Major Markets:** Sentiment among the top 10 markets for U.S.-manufactured goods improved in every economy in June, with four markets expanding, up from just one (China) in May. As such, these major trading partners have continued to steady after plummeting in April to levels that were either the worst since the Great Recession or at record lows. Here are more details on each of these major markets (in order of their ranking for U.S.-manufactured goods exports in 2019):
 - [Canada](#) (up from 40.6 to 47.8, the best reading since February): With activity up across the board in April, the market bounced back from its worst reading since the survey began in October 2010. Respondents were optimistic in their outlook for future output.
 - [Mexico](#) (up from 38.3 to 38.6): Mexico reported the weakest PMI among the top 10 markets, with activity continuing to deteriorate sharply and the headline index not far from the record low seen in April (35.0).
 - [China](#) (up from 50.7 to 51.2, the best reading since December): Stronger domestic demand helped to lift manufacturing activity higher in June. Although exports remained weak, the market saw some easing in the pace of decline. The index for future output increased to a four-month high. On the other hand, hiring deteriorated further in June, contracting for the sixth straight month.
 - [Japan](#) (up from 38.4 to 40.1): Despite some progress in June, Japanese manufacturing activity remains severely challenged. Output (down from 31.7 to 28.9) fell at the fastest rate since March 2009, and employment contracted once again. The improvement in the June PMI reading stemmed from slower declines in demand, and the index for future output stabilized somewhat, even as each of these measures remained negative.
 - [United Kingdom](#) (up from 40.7 to 50.1): Manufacturing activity steadied for the second straight month. It expanded ever so marginally in June, recovering from April's lowest reading in the survey's 28-year history,

largely due to improvements in output. New orders, exports and employment continued to decline, but at slower rates. The index for future output jumped to its best level since September 2018.

- [Germany](#) (up from 36.6 to 45.2): Europe's largest market saw manufacturing activity decline at an eased pace in June, boosted by improvements across the board. Activity has now contracted in Germany for 18 consecutive months. Encouragingly, the index for future output soared to a four-month high, pointing to cautious optimism for a rebound.
 - [Netherlands](#) (up from 40.5 to 45.2): After deteriorating in May at the fastest clip since April 2009, this market saw some progress in June, buoyed by slower rates of decline in every major index. Manufacturers expect somewhat modest growth in output in the coming months, with that measure the best since February.
 - [South Korea](#) (up from 41.3 to 43.4): After falling to the lowest level in May since January 2009, this market saw progress across the board in June, but with continued deterioration in activity. Hiring declined at a slower rate, bouncing back very slightly following a record decline in May.
 - [Brazil](#) (up from 38.3 to 51.6): Manufacturing activity expanded for the first time since February, boosted by rebounding strength in new orders, exports and output. The pace of decline for hiring slowed but remained solidly negative. Brazilian manufacturers were very optimistic that they would see better production over the next six months.
 - [France](#) (up from 40.6 to 52.3): Buoyed by strong growth in output (up from 36.3 to 56.0, the best since February 2018), French manufacturers expanded in June at the fastest rate since September 2018—a nice turnaround after a record decline in April. New orders also rebounded. Exports and employment stabilized but remained negative. Respondents expressed cautious optimism that they would see modest growth in production in the second half of this year.
- **Regional and National Trends:** Here are some other economic trends worth noting.
 - [China](#): China will release updates on July 15 for many key measures. Analysts hope these data will show the market continuing to build on recent stabilization. In May, [industrial production](#) grew 4.4% year-over-year, improving for the third straight month after dropping by 13.5% year-over-year in January/February. At the same time, [fixed-asset investment](#) (down 6.3% year-over-year) and [retail sales](#) (down 2.8% year-over-year) both declined at slower rates in May, but they continued to indicate pullbacks in business and consumer spending despite some progress. Next week, China will release second quarter real GDP figures, with data expected to show a decline of more than 5%, up from a [decrease](#) of 6.8% in the first quarter.
 - [Europe](#): In April, [industrial production](#) fell by a record 17.1%, led by very sizable decreases for capital goods, durable and nondurable consumer goods, energy and intermediate goods. Europe will release an update for

May on July 14, likely reflecting a bounce back in activity. Indeed, [retail sales](#) jumped 17.8% in May after plunging by 11.1% and 12.1% in March and April, respectively. On a year-over-year basis, retail spending has fallen 5.1% over the past 12 months. The [unemployment rate](#) edged up from 7.3% in April to 7.4% in May.

- United Kingdom: [Real GDP](#) fell 2.2% in the first quarter, the largest decline since the third quarter of 1979. Great Britain's output has fallen 1.7% over the past 12 months. Meanwhile, [industrial production](#) plummeted 20.3% in April, extending the 4.2% decline seen in March. May data, which will be released on July 14, will likely show the beginning of a rebound. Along those lines, [retail sales](#) jumped 12% in May, recovering some of the 5.3% and 18% decreases observed in March and April, respectively. On a year-over-year basis, retail spending remained down 13.1% since May 2019.
- Canada: In April, [manufacturing sales](#) fell by a record 28.5%, extending the 9.8% decline seen in March. Sharp declines occurred across the board, but especially in the motor vehicles and parts and petroleum and coal products sectors. In a similar manner, [retail sales](#) were fell in April by just over one-quarter (-26.4%) to \$34.7 billion. They have fallen by one-third (-33.6%) since mid-March when Canada implemented physical distancing measures. Updates on manufacturing sales and retail spending for May will be released on July 15 and 21, respectively. In May, the [unemployment rate](#) rose to 13.7%, passing the previous all-time high recorded in December 1982 (13.1%). [The number of manufacturing workers](#) rose by 79,100 in May, but employment in the sector declined by 236,500 over the past year. June jobs numbers will be released on July 10.
- Mexico: Industrial production for May will be released tomorrow. In April, it [fell](#) by a record 29.6% year-over-year, with output in the manufacturing sector declining 35.5% over the past 12 months.
- Japan: [Industrial production](#) fell 8.4% in May, extending the 3.7% and 9.8% declines seen in March and April, respectively. Production has plummeted 25.9% over the past year. On the retail front, [consumer spending](#) rose 2.1% in May, but on a year-over-year basis, retail sales have decreased 12.3%.
- Emerging Markets: The IHS Markit Emerging Markets Manufacturing PMI steadied in June, rising from 42.7 in April, the lowest reading since January 2009, to 45.4 in May to 49.6 in June. Despite contracting for the fifth straight month overall, production expanded ever so slightly, bringing optimism for continued improvements in output over the next six months. The rates of decline for new orders (up from 41.8 to 49.7), exports (up from 35.1 to 44.1) and hiring (up from 45.8 to 47.0) each slowed in June, with the index for sales the best since January.
- **Trade-Weighted U.S. Dollar Index**: Since April 24, the U.S. dollar [has fallen](#) 3.4% against a broad-based index of currencies for goods and services, according to the Federal Reserve. The index reflects currency rates per U.S.

dollar, suggesting the dollar can purchase somewhat less today than it could a few weeks ago. Overall, the recent pullback reverses the trend seen earlier in the spring, when investors flocked to the U.S. dollar and dollar-denominated assets due to the COVID-19 pandemic. The current trend coincides with signs of improvements in heactivity.

Yet, manufacturers continue to cite a strong dollar as a challenge, both to their earnings and for increasing international demand. Over a longer time horizon, the U.S. dollar has risen 12.9% since Feb. 1, 2018, with 29.1% growth since July 1, 2014.

- **International Trade:** The [U.S. trade deficit](#) rose from \$49.76 billion in April to \$54.60 billion in May, its highest point since December 2018. COVID-19 has slowed economies around the world and caused a global recession, leading to a sharp reduction in trade volumes. Goods exports dropped from \$95.50 billion to \$89.97 billion, a level not seen since August 2009. That level more than offset the decrease in goods imports, which declined from \$167.32 billion to \$166.02 billion, the weakest pace since September 2010. Service-sector trade volumes also declined dramatically, both for exports and imports, with the service-sector trade surplus decreasing from \$22.06 billion to \$21.46 billion, the lowest level since February 2016. On the positive side, [petroleum imports](#) at \$5.95 billion reached their lowest levels since June 1999.

May saw sizable decreases in goods exports in every major category except for consumer goods, which rose by \$557 million. The largest declines in goods exports were in industrial supplies and materials (down \$3.93 billion), non-automotive capital goods (down \$869 million), automotive vehicles and parts (down \$426 million) and foods, feeds and beverages (down \$314 million). For goods imports, the declines in automotive vehicles and parts (down \$4.38 billion) and non-automotive capital goods (down \$643 million) offset gains for consumer goods (up \$1.91 billion) and industrial supplies and materials (up \$2.27 billion).

The underlying data reflect weaknesses in the economy and shifting trade patterns for airplanes, automobiles and parts, jewelry, machinery, metals and petroleum, pharmaceuticals and semiconductors and electronics, among other trends.

- **U.S.-Manufactured Goods Exports:** In non-seasonally adjusted data, U.S.-manufactured goods exports totaled \$396.58 billion through the first five months of 2020, dropping 15.74% from \$470.69 billion for the same time frame in 2019.

International Trade Policy Trends

- **USMCA enters into force.** On July 1, the USMCA entered into force, with NAM President and CEO Jay Timmons releasing [this statement](#) saying that the

agreement “will help restore certainty, ensure supply chain continuity and provide opportunities for economic growth—all of which will help our industry lead the nation’s recovery and renewal.” Timmons also underscored that the “United States, Mexico and Canada must continue working together to ensure that the USMCA is implemented in a way that will bolster that recovery and renewal and maintain broad support for open, rules-based North American trade—this year, next year and well into the future.”

Provided below are USMCA implementation resources:

- [U.S. Customs and Border Protection USMCA Final Implementation Instructions](#)
- [U.S. Department of Labor Interim Final Rule on USMCA Automotive Labor Value Content Requirements](#)
- [USTR proposed procedure for labor submissions under the USMCA](#)
- [U.S. Harmonized Tariff Schedule USMCA General Note 11](#)
- USMCA Uniform Regulations:
 - [Chapter 4 \(Rules of Origin\) and Related Provisions in Chapter 6 \(Textile and Apparel Goods\)](#)
 - [Chapter 5 \(Origin Procedures\), Chapter 6 \(Textile and Apparel Goods\) and Chapter 7 \(Customs Administration and Trade Facilitation\)](#)

Additionally, on July 7, the NAM sent [this letter](#), signed by more than 100 business and industry associations, state and local chambers and allied organizations, to House Ways and Means Committee Chairman Richard Neal, Ranking Member Kevin Brady, Senate Finance Committee Chairman Chuck Grassley and Ranking Member Ron Wyden urging a legislative fix for a merchandise processing fee drafting error in the USMCA.

[Learn more.](#)

- ***Trump, Lighthizer continue to reaffirm U.S.–China “phase one” deal as questions swirl.*** Senior U.S. officials in recent weeks have reaffirmed progress and engagement on the [U.S.–China “phase one” trade deal](#), even as questions continue to swirl about both the pace and scope of Chinese product purchases and whether the deal will remain in place amid broader U.S.–China tensions.
 - President Donald Trump [stressed](#) that the Chinese are “buying a lot” of products and that the deal was intact. His statement contrasted with earlier [comments](#) made by White House trade adviser Peter Navarro. Other senior officials, including [Treasury Secretary Steven Mnuchin](#) and [National Economic Advisor Larry Kudlow](#), echoed Trump’s comments.
 - United States Trade Representative Robert Lighthizer defended the deal in June 17 hearings at the [House Ways & Means](#) and [Senate Finance](#) committees, saying that “China is for the most part doing what they said they were going to do” and is “clearly trying to meet the targets.” He also

stated that China had recorded roughly \$10 billion in agriculture purchases to date, though he was silent on purchases in other areas, including manufacturing, energy and services.

- Progress continues in other areas of the deal, including [intellectual property](#), and on market access commitments in [non-manufacturing areas](#).

The NAM [strongly supported](#) the “phase one” deal based on key commitments in areas such as intellectual property and dispute resolution, calling for robust implementation of its commitments as well as efforts to return to the negotiating table to begin negotiations on a “phase two” deal. Such further negotiations provide the only way to deal with unaddressed priorities and provide the pathway to step back from further trade war actions.

[Learn more](#).

- ***U.S. announces visa, export control restrictions on Hong Kong in response to new security law, as well as restrictions related to Xinjiang and state-controlled Chinese companies.*** In moves that have implications for manufacturers in the United States, the U.S. Department of State and Department of Commerce in late June announced new restrictive measures on Hong Kong to respond to China’s passage and implementation of a controversial new [national security law for Hong Kong](#).
 - The United States and China traded plans to impose visa restrictions, with Secretary of State Mike Pompeo [announcing plans to impose visa restrictions](#) on current and former Chinese Communist Party officials, and China’s Ministry of Foreign Affairs [announcing](#) similar visa restrictions on “American persons” involved in Hong Kong actions.
 - U.S. Secretary of Commerce Wilbur Ross on June 29 [suspended](#) any Commerce Department regulations granting “preferential treatment” for Hong Kong, including any exceptions under existing export licensing rules that would impact U.S. defense exports to Hong Kong.
 - Congress last week also passed new legislation, the Hong Kong Autonomy Act ([S. 3798](#)), to authorize sanctions on foreign individuals and entities that materially contribute to China’s failure to preserve Hong Kong’s autonomy, [sending it to the president’s desk](#) for signature on July 2.
 - These actions follow the June 30 passage of a [national security law for Hong Kong](#) by the executive arm of China’s National People’s Congress. That bill was drafted at a rapid pace following the NPC’s [May 28](#) approval of a [legislative proposal](#) that prompted President Trump’s May 29 [announcement](#) of visa restrictions, sanctions and other measures related to Hong Kong that have gradually rolled out over the last month.

The administration’s sanctions against China, however, went beyond Hong Kong.

- President Trump on June 24 signed the Uyghur Human Rights Act ([S. 3744](#)), legislation that would require the president to impose asset-blocking sanctions and revoke visas against Chinese officials deemed to be responsible for human rights violations on Uyghurs and other ethnic minority groups in western China's Xinjiang province.
- Four U.S. agencies (departments of State, Treasury, Commerce and Homeland Security) on July 2 [issued an follow-up advisory opinion](#) warning businesses to evaluate potential supply chain exposure to Xinjiang.
- The Department of Defense on June 12 ruled that [20 Chinese companies, including Huawei, Hikvision, Inspur and AVIC](#), have direct ties to China's military and are thus eligible for potential financial or commercial restrictions under the [International Emergency Economic Powers Act](#).

[Learn more.](#)

- ***United States and United Kingdom conclude second round of trade agreement talks.*** On June 26, the United States and the United Kingdom concluded the second round of bilateral trade agreement negotiations. Discussions focused on a [wide range of priority issues for manufacturers](#), including but not limited to good regulatory practices, sectoral annexes, technical barriers to trade, sanitary and phytosanitary measures, customs and trade facilitation, investment, state-owned enterprises and small and medium enterprises. The third negotiating round is expected to take place at the end of July.

As outlined in the [NAM's January 2019 public comments on the U.S.–U.K. trade talks](#), manufacturers are seeking the expeditious conclusion of a comprehensive trade agreement between the United States and the United Kingdom that promotes a more open and expanded bilateral trade and investment relationship, including the following:

- Elimination of tariff and non-tariff barriers to U.S. exports
- Elimination of discriminatory standards, technical regulations, testing procedures and conformity assessment requirements that act as barriers to U.S. exports and sales
- Assurance that U.K. regulators accept globally recognized international standards developed by standards-setting bodies and groups based in the United States
- Establishment of a strong set of rules that liberalize trade and investment, reflect the realities of modern supply chains, address unchecked trade-distorting practices, including those by state-owned and state-influenced enterprises, and protect U.S. property, including intellectual property.

[Learn more.](#)

- **Export-Import Bank releases competitiveness report.** On June 30, the Export-Import Bank [issued](#) its [annual report](#) to Congress, focusing on global export credit competition during the 2019 calendar year. The report includes the following key highlights:
 - The bank reestablished a quorum on the board of directors and was granted an historic seven-year reauthorization.
 - The bank's policies and processes and breadth of product offerings are uncompetitive when compared with the 115 other export credit agencies worldwide, according to U.S. exporters and international lenders.
 - A large amount of official export credit occurs outside of the Organization for Economic Cooperation and Development's rules-based agreement.
 - China's official export financing activity continues to dominate the market. The report argues that this aggressive and strategic lending promotes "Chinese state-backed unfair competition," and it cites the recently released [national strategic approach to China](#) and a new Export-Import Bank [program on China and transformational exports](#) as part of the U.S. response.

[Learn more.](#)

- **New export controls on military end uses and end users take effect; guidance released.** On June 29, the Bureau of Industry and Security's [final rule](#) expanding export controls for military end use or military end users in China, Russia or Venezuela took effect. On June 26, BIS released [a frequently asked questions \(FAQs\) document](#) to provide more clarity and guidance for complying with the rule.
 - The NAM advocated for such guidance, directly with BIS and through this [multi-association letter](#).
 - The FAQs cover a range of key outstanding issues, including definitions and scenarios for military end users, greater granularity on military end use, the scope of export control classification numbers covered and electronic export information filing requirements.

[Learn more.](#)

- **USTR initiates review of enforcement of U.S.–EU large civil aircraft dispute.** On June 26, the USTR announced a review of the enforcement of U.S. World Trade Organization rights in the large civil aircraft dispute with the European Union and the United Kingdom. USTR is considering modifying the list of products of certain current or former European Union member states currently subject to additional U.S. import duties under the dispute. [Click here](#) for the Federal Register announcement of the USTR review, which includes the following information:
 - The list of products currently subject to additional U.S. import duties (Annex I)
 - A list of products, originally published in April and July 2019 Federal Register notices, under consideration but not currently subject to

additional duties (Annex II)

- A new list of products being considered for imposition of additional duties (Annex III)

USTR will accept [public comments](#) on the enforcement review until July 26.

[Learn more.](#)

Take Action

- **Stop Fakes Roadshow**
Detroit, Michigan
Postponed
This roadshow delivers important information about intellectual property to the audience that needs it most: start-ups, entrepreneurs, small and medium-sized businesses, independent creators and inventors. Experts from multiple government agencies that deal with intellectual property issues present the information. [Learn more.](#)
- **For a listing of upcoming U.S. Trade and Development Agency missions, [click here.](#)**
- **For a listing of upcoming Commerce Department trade missions, [click here.](#)**

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