Global Manufacturing Economic Update

Essential Takes on Leading Economic Indicators

By Chad Moutray – January 14, 2021 – SHARE

The World Bank Predicts 4% Growth in Global GDP in 2021

The Monthly Toplines

- The World Bank predicts that the world GDP will grow by 4.0% in 2021, bouncing back after declining 4.3% in 2020. With that said, global output will remain 5.0% below pre-pandemic levels by the end of this year. While COVID-19 and its spread remain downside risks to the economic outlook, the prospects of a vaccine and a return to “normalcy” in spending and activity should help the overall recovery.

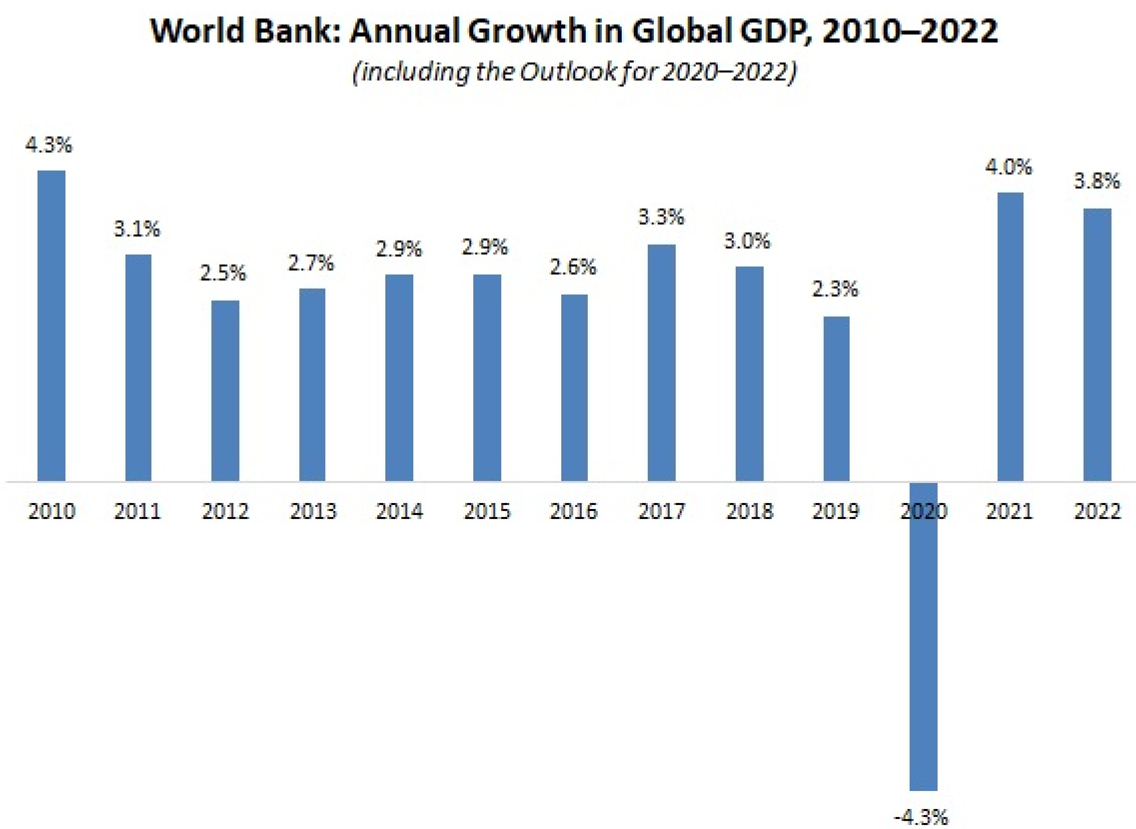
- The J.P. Morgan Global Manufacturing PMI was unchanged at 53.8 in December, continuing to expand at the fastest pace since February 2018, with the headline index expanding for six straight months. Meanwhile, input prices rose at the fastest pace since July 2018.

- In December, eight of the top 10 markets for U.S.-manufactured goods had expanding manufacturing sectors, up from seven in November, with Japan being neutral and just one nation (Mexico) in contraction. Some other highlights among these markets:

    - The data continue to reflect significant progress since the spring. However, the services sector in some areas also saw renewed weaknesses, particularly in Europe, where COVID-19 cases continue to rise.
    - Manufacturing expanded at strong paces in many markets, including Canada (a new record pace), Germany (best since February 2018), the Netherlands (best reading since September 2018), South Korea (remaining the best since February 2011) and the United Kingdom (best since November 2017).

- The U.S. trade deficit rose from $63.11 billion in October to $68.14 billion in November, the highest since August 2006. Goods exports remain well below the pre-pandemic pace, and the service-sector trade surplus was the lowest since August 2012. U.S.-manufactured goods exports have fallen 15.7% year to date in 2020 relative to the same 11-month time period in 2019.

- Manufacturers continue to advance efforts with the administration and Congress to open markets, ensure trade certainty and address challenges overseas, including the following:
    - Advocating successfully for passage of a legislative fix to the merchandise processing fee drafting error in the United States–Mexico–Canada Agreement Implementation Act
    - Continuing to monitor the U.S.–China security, trade and economic relationship
    - Encouraging the incoming Biden administration to ensure a fully functional Export-Import Bank
    - Leading industry advocacy in support of congressional passage of a comprehensive Miscellaneous Tariff Bill
    - Engaging with manufacturers as the EU database on chemicals in products goes into effect



Global Economic Trends

- **Worldwide Manufacturing Activity:** [J.P. Morgan Global Manufacturing PMI] was unchanged at 53.8 in December, continuing to expand at the fastest pace since February 2018, with the headline index expanding for six straight months. With that said, new orders (down from 55.1 to 54.5), output (down from 55.3 to 54.9) and exports (down from 51.7 to 51.1) each slowed a bit in December. Hiring (down from 50.1 to 50.0) edged down to neutral for the month. Despite easing slightly from the best reading since February 2015, the index for future output (down from 65.3 to 64.7) continued to signal optimism for higher production over the next six months. Meanwhile, input prices (up from 57.5 to 60.9) rose at the fastest pace since July 2018.

- **Economic Outlook:** The World Bank predicts that the world GDP will grow by 4.0% in 2021, bouncing back after declining 4.3% in 2020. With that said, global output will remain 5.0% below pre-pandemic levels by the end of this year. Likewise, the U.S. economy should expand by 3.5% in 2021, recovering much of the 3.6% decrease seen in 2020. While COVID-19 and its spread remain downside risks to the economic outlook, the prospects of a vaccine and a return to "normalcy" in spending and activity should help the overall recovery.

- **Sentiment in Major Markets:** In December, eight of the top 10 markets for U.S.-manufactured goods had expanding manufacturing sectors, up from seven in November, with Japan being neutral and just one nation (Mexico) in contraction. Overall, the data continue to reflect significant progress since the spring when each of these major markets experienced declines that were either the worst since the Great Recession or at record lows. With that said, the data also point to renewed weaknesses in the services sector in some areas, particularly in Europe, where COVID-19 cases continue to rise.

  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 55.8 to 57.9, expanding at the strongest pace since the survey began in October 2010): The data rose across the board, with orders, production and hiring growing at the best paces in more than two years. Canadian manufacturing leaders remain very upbeat about future production.
  - Mexico (down from 43.7 to 42.4, contracting for the 10th consecutive month): Mexico once again reported the weakest PMI among the top 10 markets, with activity continuing to deteriorate sharply. On the other hand, the index for future output rose to its highest point since February, signaling some cautious optimism moving forward.
  - China (down from 54.9 to 53.0): After expanding at the strongest pace since November 2010, manufacturing activity slowed somewhat, including new orders and production. Hiring declined marginally for the month. Input prices soared at the strongest rate since December 2017.
  - Japan (up from 49.0 to 50.0, stabilizing after contracting each month since April 2019): New orders, exports and output declined at slower rates in December, and employment expanded ever so slightly for the first time since February. The index for future output suggests cautious optimism, rising to the best reading since February 2018.

- United Kingdom (up from 55.6 to 57.5, the strongest figure since November 2017): Data were stronger than expected. IHS Markit noted, "Clients bringing forward orders to beat the end of the Brexit transition period and the ongoing bounce from the re-opening of the global economy boosted inflows of new orders and pushed output higher. However, port delays and other logistical disruptions meant that supply-chain delays lengthened to one of the greatest extents in the survey's history." Hiring fell for the 11th straight month, and input prices rose at the fastest pace since June 2018.
- Germany (up from 57.8 to 58.3, the best reading since February 2018): New orders continued to expand rapidly at the same pace as the month before, but orders, exports and expected future output slowed somewhat. Hiring fell again, as it has for 22 straight months. Input costs jumped to the strongest rate since November 2018.
- Netherlands (up from 54.4 to 58.2, the best reading since September 2018): The underlying measures rose across the board, including gains for new orders, exports, output and employment. Hiring expanded for the second straight month at the best pace since February, and the index for future output remained the strongest since November 2018.
- South Korea (unchanged at 52.9, remaining the best since February 2011): New orders and output slowed in December, but employment expanded for the first time since April 2019. The index for future output pulled back from the fastest pace since February 2015, but it continued to signal positive expectations for production over the next six months. Input costs rose at the strongest rate since March 2018.
- Brazil (down from 64.0 to 61.5): New orders, output and employment slowed somewhat in December, despite expanding solidly for the month. Exports also eased, pulling back from the fastest pace in the survey's history. Brazil had the highest PMI among the top 10 markets for U.S.-manufactured goods, and survey respondents were very optimistic in their outlook.
- France (up from 49.6 to 51.1, expanding for the fifth time in the past seven months): Production, exports and employment rebounded in December after contracting in November, with hiring at positive levels for the first time in 12 months. New orders remained negative but declined at a slower rate. Respondents were optimistic about growth in output moving forward, and raw material prices were the strongest since January 2019.

- **Regional and National Trends:** Here are some other economic trends worth noting.

  - China: In November, industrial production increased 7.0% year-over-year, up from 6.9% in October and the strongest pace since March 2019. Also in November, retail sales (up 5.0% year-over-year) and fixed-asset investment (up 2.6% year-over-year) both improved to their best readings of the year. These figures continue to reflect progress since the spring, but they are still markedly lower than before the pandemic. December industrial production figures will be released on Jan. 14, with retail sales, fixed-asset investment and GDP coming out on Jan. 18.

- Europe: Eurozone industrial production jumped 2.5% in November, extending the 2.3% gain seen in October, boosted by strength in consumer and intermediate goods. At the same time, consumer and energy goods production fell in November. Despite growth in the past couple of months, industrial production remained down 0.6% year-over-year. At the same time, retail sales fell 6.1% in November, the largest decline since April, as heightened restrictions due to accelerating COVID-19 cases took a toll on spending activity once again. Over the past 12 months, retail spending has fallen 2.9%. Meanwhile, the unemployment rate was 8.3% in November, down from 8.4% in October.

- United Kingdom: Industrial production rose 1.3% in October, increasing for the sixth straight month. However, despite notable progress since the spring, output remained 4.4% below where it was last February, illustrating the sharp declines in manufacturing activity seen during the COVID-19 pandemic. Meanwhile, retail sales fell 3.8% in November following six months of gains, as Great Britain coped with rising cases of COVID-19 and renewed restrictions. Yet, retail spending has increased 2.4% year-over-year.

- Canada: Manufacturing sales rose 0.3% in October, extending the 2.2% gain seen in September. However, new orders remain 3.0% below the pace seen in February. New data for November will be released on Jan. 19. Meanwhile, retail sales rose 0.4% in October, rising for the sixth straight month. Despite tremendous volatility since the spring, retail spending has risen 4.5% since February. In December, the unemployment rate was 8.6%, edging up from 8.5% in November. The number of manufacturing workers rose by 15,400 in December, with employment in the sector up 36,900 year-over-year.

- Mexico: Industrial production rose 1.1% in October, rising for the sixth straight month. Yet, it has fallen 3.3% over the past 12 months. Manufacturing production was flat in October in real terms, declining 1.2% year-over-year. [Note: The link is in Spanish.]

- Japan: Industrial production was flat in November after increasing for five consecutive months. Output declined 3.4% over the past 12 months. Strength in machinery and metals buoyed the November data, but production decreased for chemicals, motor vehicles and plastic products. On the retail front, consumer spending decreased 2.0% in November, pulling back after rising by 0.5% in October. On a year-over-year basis, retail sales have risen 0.7%. [Note: These second link is in Japanese.]

- Emerging Markets: After rising in November at the fastest pace since January 2011, the IHS Markit Emerging Markets Manufacturing PMI slowed somewhat in December, down from 53.9 to 52.8. The good news was that the measure now reflects expanding growth in emerging markets for six consecutive months. In December, new orders, exports and output each decelerated. Employment, which had expanded for the first time since March 2019 in the previous survey, contracted once again in December. With that said, the index for future output signaled optimism about production over the next six months, inching up from 62.5 to 62.6. Raw material costs grew at the fastest pace since November 2017. [Note: There is no link for this release.]

- **Trade-Weighted U.S. Dollar Index:** Since April 24, the U.S. dollar has fallen 10.3% against a broad-based index of currencies for goods and services to the lowest level since May 22, 2018, according to the Federal Reserve. The index reflects currency rates per U.S. dollar, suggesting the dollar can purchase less today than it could just a few months ago. The weaker U.S. dollar could help boost exports, but it would also increase the cost of imported raw materials and other inputs. Despite recent declines, the U.S. dollar remains elevated over the longer term, up 19.8% since July 1, 2014.

- **International Trade:** The U.S. trade deficit rose from $63.11 billion in October to $68.14 billion in November, the highest since August 2006. The increase in goods imports (up from $207.76 billion to $214.08 billion—the strongest reading since May 2019) outstripped the gain in goods exports (up from $126.41 billion to $127.73 billion—the best since March). Overall, volumes for goods exports and service-sector trade remain well below the pace seen at the end of last year. For example, goods exports were $137.65 billion in December 2019, and the service-sector trade surplus has weakened from $24.30 billion to $18.21 billion year to date, with the most recent figure being the lowest since August 2012.

  In November, goods exports increased for foods, feeds and beverages (up $536 million), industrial supplies and materials (up $830 million) and consumer goods (up $176 million). These increases offset declines for automotive vehicles, parts and engines (down $125 million) and non-automotive capital goods (down $241 million). At the same time, goods imports also experienced solid gains for the month, including consumer goods (up $4.00 billion), industrial supplies and materials (up $1.51 billion) and non-automotive capital goods (up $1.20 billion). Consumer goods imports reached the highest levels on record. In contrast, automotive vehicles, parts and engines decreased $1.04 billion in November.

- **U.S.-Manufactured Goods Exports:** According to the latest data, U.S.-manufactured goods exports totaled $871.71 billion through the first 11 months of 2020, using non-seasonally adjusted data, dropping 15.72% from $1,034.32 billion year to date in 2019.

- ***Congress passes legislative fix to merchandise processing fee drafting error in USMCA Implementation Act.*** The Consolidated Appropriations Act of 2021, which passed Congress on Dec. 21, included a legislative fix to the merchandise processing fee in the USMCA Implementation Act.
    - The NAM and its members prioritized passage of the USMCA merchandise processing fee legislative fix in 2020. Our efforts included leading more than 100 organizations in sending this industry letter to House Ways and Means and Senate Finance Committees in July.

      Learn more.

- ***Trump administration rolls out new round of China restrictions in final weeks.*** In the closing weeks of the Trump administration, key U.S. government agencies took steps to cement a sharper line on China security and economic issues, including steps to restrict transactions with Chinese companies and extend the administration's push to strip special provisions for Hong Kong.
    - On Jan. 5, President Donald Trump signed a new executive order banning, on national security grounds, transactions with eight Chinese software companies involved in communications and financial transactions. The new order, which goes into effect on Feb. 19 (45 days after the order), mirrors August 2020 executive orders related to the TikTok and WeChat applications.
    - The White House and Treasury expanded restrictions on securities transactions with Chinese companies, with President Trump signing into law the new Holding Foreign Companies Accountable Act (S. 945 / H.R. 7000) to require the delisting of companies whose audit reports have not been fully inspected due to foreign government actions. Separately, the Treasury Department issued guidance for a Nov. 12 Executive Order to limit securities transactions for Chinese companies included on the Department of Defense's list of government-controlled firms with direct ties to China's military.
    - On Dec. 23, the Department of Commerce's Bureau of Industry and Security issued a formal rule to eliminate Hong Kong as a separate export destination under the Export Administration Regulations, extending efforts under a July 14 executive order to revoke special treatment for Hong Kong.
    - On Dec. 21, BIS announced a final rule establishing a new "military end user" list and added more than 100 entities (including 58 Chinese entities) to that list. The new list will require a license for the export, re-export or in-country transfer of specific items subject to controls announced by BIS in April 2020.

      Heading into the new Biden administration, the NAM continues to stress the need for China to tackle persistent, structural trade barriers that prevent manufacturers from competing freely and fairly around the world. The NAM also called for the United States to develop a comprehensive and strategic approach to drive concrete, lasting and enforceable policy changes while minimizing collateral damage to the U.S. economy.

  Learn more.

- ***Congress fails to pass the MTB in December, resulting in the imposition of tariffs starting on Jan. 1.*** The MTB was excluded from the Consolidated Appropriations Act of 2021, which passed Congress on Dec. 21.
  - As a result of the inability of Congress to pass the MTB, manufacturers and other businesses are paying more than $1.3 million per day on products not made or available in the United States.
  - The NAM continues its robust advocacy in support of congressional passage of the MTB as soon as possible in 2021.

  Learn more.

- ***Manufacturers encourage incoming Biden administration to ensure a fully functional Ex-Im Bank.*** On Jan. 20, the terms will expire for two of the three members on the Ex-Im Bank's Board of Directors. A quorum must be maintained to ensure the continued full functionality of the Ex-Im Bank, a point that the NAM stressed to the Biden–Harris Agency Review Team in a recent letter.
  - A fully functional Ex-Im Bank is as important as ever, with manufacturers facing a global pandemic and economic uncertainty. The bank also helps manufacturers in the United States contend with the 115 foreign export credit agencies that support their own domestic exporters. Manufacturers of all sizes have benefited from a fully functional bank, using its tools to better compete with aggressive competitors in foreign markets. In the letter, manufacturers urged the Biden administration to use any pathway available to maintain a quorum on the Ex-Im Bank Board of Directors. This action will avoid disruption of Ex-Im's important work, which increases competitiveness and supports U.S. jobs.
  - The NAM also called for the Biden administration to provide longer-term certainty to manufacturers by nominating a full slate of nominees to the open positions on the Ex-Im Bank Board of Directors as soon as possible and submitting those names for consideration by the U.S. Senate.

  Learn more.

- ***The European Union and the United Kingdom sign post-Brexit trade agreement.*** On Dec. 24, the European Union and the United Kingdom concluded a bilateral trade agreement, the EU–UK Trade and Cooperation Agreement, which will govern post-Brexit trade between the European Union and the United Kingdom. On Dec. 30, the agreement passed the UK House of Commons by a vote of 521 to 73 and was then approved by the House of Lords.
  - The TCA has been applied on a provisional basis since Jan. 1, when the formal Brexit transition period ended. The agreement will formally enter

into force upon ratification by the European Parliament and the Council of the European Union, which is expected in early 2021.

    - As detailed in the EU summary and UK summary of the TCA, the agreement covers a range of trade provisions, including continued duty-free and quota-free trade between the United Kingdom and the European Union (subject to rules of origin). The TCA also covers technical barriers to trade, sanitary and phytosanitary measures, good regulatory practices and regulatory cooperation, customs and trade facilitation, trade in services and investment, movement of people, digital trade, intellectual property, procurement and so-called level playing field commitments (covering competition, subsidies, state-owned enterprises, taxation, labor and social standards and environment and climate).

    Learn more.

- ***The Office of the United States Trade Representative continues Section 301 investigations against Vietnam.*** USTR held public hearings on Dec. 28 and 29 to collect substantive comments on the import and use of illegal timber and currency manipulation in Vietnam. In October, USTR launched a pair of trade investigations into these focal issues under Section 301 of the Trade Act of 1974.
    - Depending on the results of each investigation, USTR could take a variety of actions under Section 301, with possible tariffs or import restrictions of most concern for a range of manufacturers in the United States. Other options could include suspending preferential trade benefits or entering binding agreements to eliminate the policy.
    - During the investigations, USTR has conducted direct consultations to resolve the issues with officials from Vietnam's Ministry of Industry and Trade and Ministry of Foreign Affairs.
    - Both investigations were originally open for written public submissions through Nov. 12 but were extended to allow public hearings and additional written submissions through Jan. 7.

    Learn more.

- ***The European Union and China sign new investment agreement.*** On Dec. 30, the European Union and China announced agreement on a new investment deal that includes new market access commitments and investment liberalizations in sectors such as automotive, chemicals, telecommunications, biopharma R&D and a range of services sectors.
    - The agreement, known as the Comprehensive Agreement on Investment, includes broad provisions aimed at constraining behavior of state-owned enterprises, addressing forced technology transfer, boosting environmental protection and ensuring equal access in the setting of standards.
    - With respect to enforcement, the CAI includes a political dialogue mechanism and state-to-state dispute settlement that mirrors EU free

trade agreement provisions.

- The agreement, which has been in negotiations since 2012, has been a top priority for outgoing German Chancellor Angela Merkel (and thus the German presidency of the European Council that expired at the end of December).
- The agreement text is now in the process of finalization before the deal is submitted to the EU Council and Parliament ahead of potential implementation in 2022.
- President-elect Joe Biden and his team, as well as key congressional voices, have consistently urged the EU to consult with the United States in line with stated goals of working with allies to forge a common front on China.

Learn more.

- ***USTR suspends tariff action in France digital services tax investigation, releases findings in three other digital services tax investigations.*** On Jan. 7, USTR announced the indefinite suspension of tariff action in the Section 301 investigation of the digital services tax scheme adopted by France. Separately, on Jan. 6, USTR had issued findings in Section 301 investigations of digital services taxes adopted by India, Italy and Turkey, concluding that each country's tax scheme "discriminates against U.S. companies, is inconsistent with prevailing principles of international taxation, and burden or restricts U.S. commerce."
  - The tariffs on certain products from France had been announced in July and were scheduled to go into effect on Jan. 6. In making the announcement, USTR said that "a suspension of the tariff action in the France digital services tax investigation will promote a coordinated response in all of the ongoing digital services tax investigations."
  - USTR decided to not take specific actions at this time in connection with the findings against India, Italy and Turkey. USTR also indicated the agency expects to announce progress on or completion of other investigations into digital services taxes adopted or under consideration by Austria, Brazil, the Czech Republic, the European Union, Indonesia, Spain and the United Kingdom.
  - On July 15, the NAM submitted comments in response to USTR's Section 301 investigations into digital services taxes that have been adopted or are being considered by Austria, Brazil, the Czech Republic, the European Union, India, Indonesia, Italy, Spain, Turkey and the United Kingdom.

  Learn more.

- ***The United States modifies tariffs on EU products in large civil aircraft dispute.*** On Dec. 30, the United States announced an adjustment to tariffs on certain products imported from the European Union in the ongoing U.S.–EU large civil aircraft dispute. The changes took effect on Jan. 12.

  - The products subject to additional U.S. tariffs include aircraft manufacturing parts from France and Germany, certain non-sparkling wine from France and Germany and certain cognac and other grape brandies from France and Germany.
  - On July 24, the NAM submitted comments in response to USTR's recent announcement of a review of U.S. enforcement in the U.S.–EU civil aircraft dispute. On Aug. 12, in the U.S. challenge at the World Trade Organization over subsidies for large civil aircraft provided by the European Union, France, Germany, Spain and the United Kingdom, USTR announced an earlier modification to the list of products subject to WTO-authorized additional duties.

    Learn more.

- ***NAM engaging with members as new EU database on chemicals in products goes into effect.*** Jan. 5 marked the formal deadline for manufacturers across supply chains to disclose significant new information about chemicals used in their products under the rubric of the European Chemical Agency's new public database, known as the SCIP database.
  - Companies producing, importing or selling in Europe are now required to report any use of chemicals of concern in their products to the database in ways that go beyond existing requirements. Suppliers—even those not selling into Europe directly—are now expected to provide that detailed information to their customers.
  - In recent months, the NAM has actively led U.S. industry efforts to push for greater flexibility in database enforcement. These efforts included spearheading a June 2020 letter with 49 global associations and joining European counterparts in signing September 2020 and October 2020 letters to senior European Commission and national officials that had pushed for a delay in the notification deadline. The NAM also hosted a December 2020 webinar to help manufacturers in the United States understand potential impact and compliance considerations.
  - As of Jan. 5, EU member states that have completed their legal transposition process have the ability to enforce the new rules, although the NAM is collecting information from members as to whether enforcement efforts are underway and how manufacturers' compliance and notification processes are proceeding.

    Learn more.

Take Action

- ***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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