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Global Manufacturing Economic Update

Chinese Manufacturing Contracted for First Time Since April 2020

By Chad Moutray and Ken Monahan – September 9, 2021

The Monthly Toplines

- The Caixin China General Manufacturing PMI contracted in August for the first time since April 2020, and new orders declined for the second straight month. Hiring, output and exports were also negative, with supply chain challenges and rising delta cases dampening activity. Prices remained elevated. Yet, manufacturers were positive in their outlook.

- Looking at hard data, Chinese industrial production decelerated in July, increasing by 6.4% year-over-year, down from 8.3% in June and the slowest year-over-year pace since August 2020. Fixed-asset investment and retail sales also slowed in July, albeit at still-decent paces.

- The J.P. Morgan Global Manufacturing PMI expanded modestly but at the slowest pace in six months. The underlying data were softer across the board, with production growth at the weakest level since June 2020, echoing the supply chain challenges that have plagued firms globally.

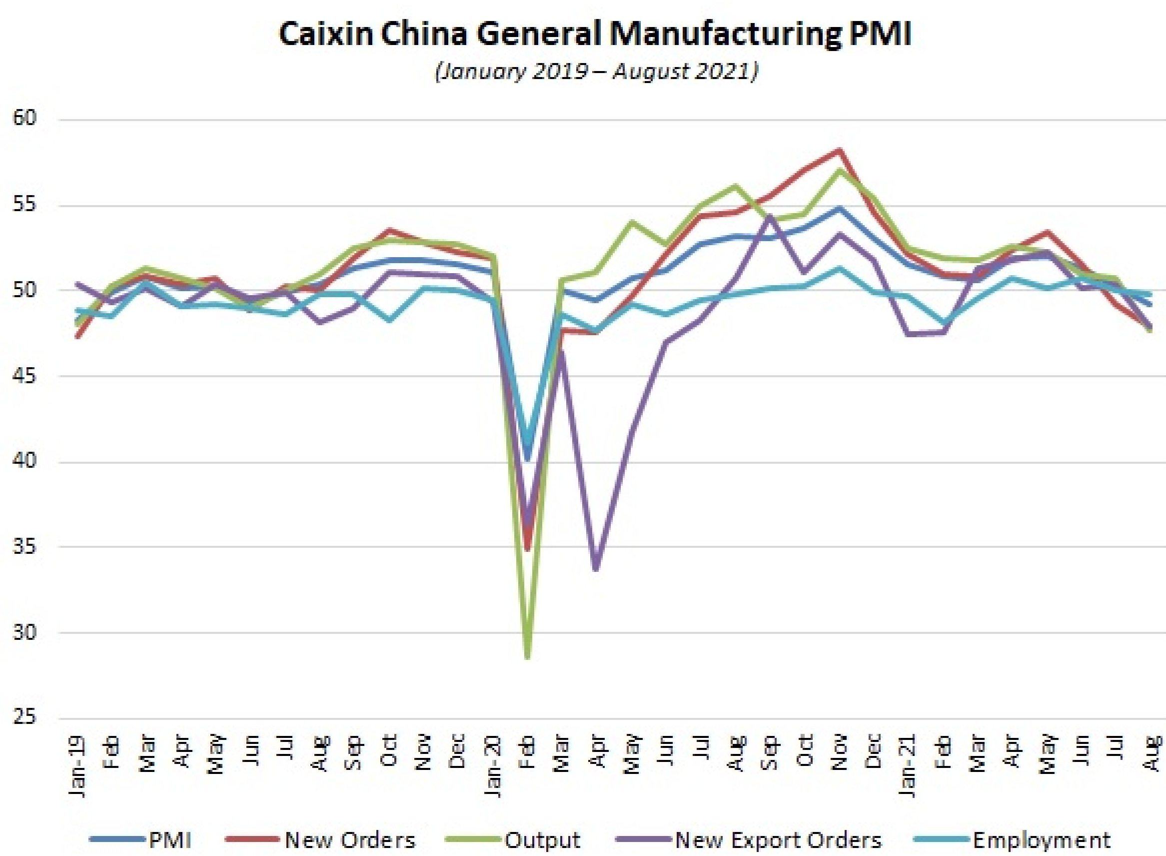
- Seven of the top nine markets for U.S.-manufactured goods had expanding manufacturing sectors in August, down from eight over the past six months. In addition to China, Mexico's economy remained challenged. Eight of the top nine markets had weaker activity in August than in July; only Canada reported stronger activity.

- The IHS Markit Canada Manufacturing PMI rose to a four-month high in August, and the index for future output strengthened to its best reading since March. Input costs soared at the fastest pace on record. With some pandemic restrictions lifted, manufacturing sales and retail spending both rebounded in June, but real GDP was off 1.1% at the annual rate in the second quarter.

- The IHS Markit Eurozone Manufacturing PMI slipped to a six-month low, with rising COVID-19 cases and lingering supply chain issues dampening growth. Eurozone industrial production fell 0.3% in June, extending the 1.1% decline seen in May, with weaker capital goods and energy spending offsetting stronger growth for durable and nondurable goods activity. At the same time, real GDP on the continent rebounded by 2.2% in the second quarter.

- The U.S. trade deficit declined from a record $73.23 billion in June to $70.05 billion in July. Goods exports increased to an all-time high for the month, with goods imports edging down from the prior month's record pace.

- According to the latest non-seasonally adjusted data, U.S.-manufactured goods exports totaled $642.16 billion through the first seven months in 2021, soaring 18.80% from $540.53 billion year to date in 2020.
- Manufacturers in the United States are working robustly with the Biden administration and Congress to open markets, enforce trade agreements and address challenges overseas and ensure trade certainty and competitiveness, taking actions that include the following:
    - Calling on senior Biden administration officials to accelerate efforts to formalize its China strategy
    - Urging the Biden administration to leverage the United States–Mexico–Canada Agreement to address trade barriers faced by manufacturers in Mexico
    - Continuing to call for "effective" steps to fight COVID-19, not a waiver of World Trade Organization Trade-Related Aspects of Intellectual Property Rights
    - Continuing to lead industry advocacy in support of expeditious congressional passage of a comprehensive Miscellaneous Tariff Bill



- **Worldwide Manufacturing Activity:** The J.P. Morgan Global Manufacturing PMI expanded modestly but at the slowest pace in six months, declining from 55.4 in July to 54.1 in August. The underlying data were softer across the board, including new orders (down from 55.3 to 53.6), output (down from 54.4 to 51.9), exports (down from 52.7 to 51.0) and employment (down from 52.7 to 52.0). Production growth recorded its weakest numbers since June 2020, echoing the supply chain challenges that have plagued firms globally. The index for delivery times (up from 36.0 to 36.1) remains near record levels. Similarly, the index for input prices (down from 71.2 to 70.4) was not far from May's pace (71.7), which was the fastest pace since March 2011. Output prices (down from 60.3 to 60.1) remained highly elevated, despite easing for the third consecutive month from May's record high (62.6). Meanwhile, the index for future output (down from 64.2 to 64.1) signaled strong growth in production over the next six months, albeit with some easing in the past two surveys.

- **Sentiment in Major Markets:** Seven of the top nine markets for U.S.-manufactured goods had expanding manufacturing sectors in August, down from eight over the past six months. China slipped into contraction territory for the first time since April 2020, with supply chain challenges and rising delta cases dampening activity. Eight of the top nine markets had weaker activity in August than in July; only Canada reported stronger activity. Mexico's economy remained challenged, contracting for the 17th straight month. Here are more details on each of these major markets (in order of their ranking for U.S.-manufactured goods exports in 2020).
  - Canada (up from 56.2 to 57.2, a four-month high): New orders, output and exports accelerated in August, but employment slowed slightly. The index for future output strengthened to its best reading since March, signaling optimism in the outlook. Input costs soared at the fastest pace on record, as firms grappled with supply chain challenges.
  - Mexico (down from 49.6 to 47.1, a five-month low): Mexico once again reported the weakest PMI reading among the top nine markets, with supply chain disruptions and rising COVID-19 cases causing further declines in manufacturing activity in August. The data fell lower across the board. Input prices stabilized somewhat. Firms were optimistic about production over the next six months, albeit with some easing in confidence.
  - China (down from 50.3 to 49.2, contracting for the first time since April 2020): New orders declined for the second straight month, with output contracting in August for the first time since February 2020. Hiring and exports also fell. Input and output prices strengthened, and respondents were cautiously positive about the next six months.
  - Japan (down from 53.0 to 52.7): New orders, exports and output softened in August somewhat, but hiring rose at the fastest pace since January 2020. The outlook for future production declined for the second straight month but continued to signal optimism. Input prices pulled back (but remained elevated) after peaking at a rate not seen since September 2008.
  - United Kingdom (down from 60.4 to 60.3, a five-month low): Manufacturing activity in Great Britain mostly softened across the board in August, largely on supply chain challenges, but activity continued to expand robustly. Future output strengthened, pointing to very upbeat expectations for the coming months. Input prices pulled back for the second straight month from a record high in June but remained highly elevated.
  - South Korea (down from 53.0 to 51.2, a 10-month low): Activity slipped across the board in August, with output contracting for the first time in 12 months on "supply chain disruption and material shortages." Yet, South Korean manufacturers were more positive in their views of future production. Input and output prices stabilized somewhat, with each pulling back from recent all-time highs.

- Netherlands (down from 67.4 to 65.8, a five-month low): The Netherlands had the highest PMI among the top nine markets for U.S.-manufactured goods, even as it continued to pull back from May's record reading (69.4). Hiring rose at the best rate since February 2018, but most of the other key measures slipped in August. Future output expectations strengthened. Input and output prices both eased from record paces in July, while remaining very elevated.
- Brazil (down from 56.7 to 53.6, a four-month low): New orders, output and hiring softened in August, with exports contracting for the first time since January and finished goods inventories rising at a record pace. Respondents remained encouraged about growth moving forward. Raw material costs and output prices continued to accelerate very strongly for the month, albeit with some continued deceleration from June's paces.

- **Regional and National Trends:** Here are some other economic trends worth noting.
  - China: Industrial production decelerated in July, increasing by 6.4% year-over-year, down from 8.3% in June and the slowest year-over-year pace since August 2020. Manufacturing output was up 6.2% year-over-year in July. These data are consistent with other measures, which show activity softening on supply chain and delta variant concerns. Fixed-asset investment (down from 12.6% year-over-year to 10.3%) and retail sales (down from 12.1% year-over-year to 8.5%) also slowed in July, albeit at still-decent paces. New data on these three measures of economic activity for August will be released on Sept. 15.
  - Europe: After declining in the prior two quarters, real GDP rebounded by 2.2% in the second quarter in the Eurozone, rising on a year-over-year basis by 14.3%. Inventory growth was negative, but economic growth was lifted by the other major components, including personal and business spending. At the same time, industrial production fell 0.3% in June, extending the 1.1% decline seen in May, with weaker capital goods and energy spending offsetting stronger growth for durable and nondurable goods activity. June industrial production data will be released on Sept. 15. Industrial producer prices rose 2.3% in July, with 12.1% growth year-over-year. Meanwhile, retail sales declined 2.3% in July, pulling back for the first time since April on renewed COVID-19 concerns. Retail spending has risen 3.1% year-over-year. The unemployment rate decreased to 7.6% in July, a 14-month low.
  - United Kingdom: Industrial production fell 0.7% in June, continuing the month-to-month seesawing that began in the spring, but with manufacturing output up 0.2%. Since February 2020, manufacturing production has declined by 2.3%. New data for June will be released on Sept. 10. Meanwhile, retail sales declined by 2.5% in July, falling in two of the past three months, largely on rising COVID-19 cases. Since February 2020, retail spending has risen 5.8%.
  - Canada: Real GDP fell 0.3% in the second quarter, ending three straight quarters of growth, for an annualized decline of 1.1%. Reduced business investment and fewer exports helped pull activity lower for the quarter, with consumer spending also softer than desired, as COVID-19 cases continued to rise across Canada. Nonetheless, manufacturing sales rose 2.1% in June following declines in both April and May, led by increased activity for automobiles and energy. Since February 2020, new orders for manufactured goods have risen 4.3%. Meanwhile, retail sales increased 4.2% in June as some pandemic restrictions were lifted, boosting consumer spending. The unemployment rate dropped from 7.8% in June to 7.5% in July, a four-month low. The number of manufacturing workers rose by 8,800 in July, with employment in the sector up 69,200 year-over-year. August labor market data will be released on Sept. 10.

- Mexico: Industrial production fell 0.5% in real terms in June, declining for the second time in the past three months. Manufacturing production edged down 0.1% for the month. Over the past 12 months, industrial production has jumped 13.6% in real terms, albeit based on poor comparison data from 2020, with output in the manufacturing sector up 16.3%. July data will be released on Sept. 10. [Note: The link is in Spanish.]
- Japan: Industrial production declined 1.5% in July, pulling back after jumping by 6.5% in June, largely on rising delta variant cases in Japan. On a year-over-year basis, industrial production has soared 11.6%, keeping in mind the weaker comparison data in 2020. Meanwhile, retail sales rose by 1.1% in July, slowing from the 3.1% gain seen in June. Over the past 12 months, retail spending has increased 2.4% since July 2020. [Note: The retail sales link is in Japanese.]
- Emerging Markets: The IHS Markit Emerging Market Index declined from 50.6 in July to 49.6 in August, contracting for the first time since June 2020. Activity was mostly lower across the board, with new orders, exports, output and hiring each contracting for the month. More positively, the index for future output continued to signal optimism about production over the next six months, albeit with a marginal pullback in sentiment. Input prices decelerated slightly but remained elevated. [Note: There is no link for this release.]

- **Trade-Weighted U.S. Dollar Index:** Since June 7, the U.S. dollar has risen 1.9% against a broad-based index of currencies for goods and services, according to the Federal Reserve. These data reverse, to some extent, the depreciation in the dollar seen since last spring, with the U.S. dollar down 9.4% on Aug. 6 relative to April 24, 2020. The index reflects currency rates per U.S. dollar, suggesting the dollar can purchase less today than it could at this time last year, but somewhat more than it could on June 7. Over a longer time frame, the trade-weighted dollar index has risen 21.1% since July 1, 2014.

- **International Trade:** The U.S. trade deficit declined from a record $73.23 billion in June to $70.05 billion in July. Goods exports (up from $145.92 billion to $148.59 billion) increased to an all-time high for the month, with goods imports (down from $239.18 billion to $236.31 billion) declining from the prior month's record pace. Through the first seven months of 2021, growth in goods exports (up 13.00%) has outpaced the increase in goods imports (up 9.27%). However, since the COVID-19 pandemic began, goods exports and imports have increased 9.50% and 18.51%, respectively. The more-rapid growth in goods imports corresponds to the stronger economic recovery in the U.S. relative to other markets. Meanwhile, the service-sector trade surplus dropped from $20.03 billion in June to $17.67 billion in July, the lowest level since August 2012.

  In July, the increase in goods exports was led by strength in non-automotive capital goods (up $976 million), consumer goods (up $810 million to a new record), automotive vehicles and parts (up $613 million) and industrial supplies and materials (up $179 million to a new record). At the same time, higher imports for automotive vehicles and parts (up $1.07 billion) were offset by declines for consumer goods (down $2.13 billion) and industrial supplies and materials (down $1.66 billion), among others.

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- ***The NAM calls on senior Biden administration officials to accelerate efforts to formalize China strategy, act to hold China accountable and support manufacturers.*** On Aug. 31, NAM President and CEO Jay Timmons urged senior members of the Biden administration to accelerate efforts to develop a comprehensive national China strategy suited for a new, post-pandemic world, building on Timmons' March letter to President Joe Biden. The letter covers the following issues:

    - Reiterates strong support for a clear China strategy, encompassing principles laid out in the March letter to President Biden to "boost national security, promote American democracy and values abroad and strengthen our ability to compete economically with China," while also recognizing China as a necessary partner, a fierce economic competitor and a major rival
    - Urges the administration to accelerate its efforts to develop and begin implementing such a strategy to allow faster action in areas such as trade that can directly benefit manufacturers in the United States
    - Recommends specific areas of quick action, such as holding China accountable for its commitments under the January 2020 "Phase One" U.S.–China trade deal, engaging with China directly to advance the administration's trade and economic priorities toward China and reestablishing a process to allow U.S. companies to seek and voice views on exclusions from Section 301 China tariffs and extensions of expired exclusions

    Learn more.

- ***The NAM calls on Biden administration to leverage the USMCA to address Mexican trade barriers.*** On Sept. 7, the NAM and 13 other trade associations sent a joint letter to Vice President Kamala Harris, encouraging the Biden administration to use all available tools, including taking enforcement actions when necessary, to secure Mexico's full implementation of and compliance with its commercial commitments under the USMCA.

    - This letter came out ahead of the Sept. 9 United States–Mexico High-Level Economic Dialogue. At the meeting, Vice President Harris and senior officials from the Office of the U.S. Trade Representative and the Departments of Commerce and State will meet with Mexican Economy Secretary Tatiana Clouthier and Foreign Affairs Secretary Marcelo Ebrard to discuss a common economic agenda in areas such as supply chains, sustainable development, digital economy issues and the COVID-19 economic recovery.
    - The letter, organized by the Alliance for Fair Trade Enforcement (of which the NAM is a member), underscores the critical importance of full enforcement of the USMCA and outlines steps needed to address growing trade concerns in Mexico; support a strong, innovative U.S. economy across a range of manufacturing and other sectors; and ensure that trade works for the middle class.
    - The letter, which was also sent to U.S. Trade Representative Katherine Tai, Secretary of Commerce Gina Raimondo and Secretary of State Tony Blinken, urges the Biden administration to use all appropriate dialogues and tools to ensure full commercial enforcement and Mexico's compliance with its trade obligations.

    Additionally, on Aug. 20, Secretary Clouthier sent a letter to Ambassador Tai announcing that Mexico will seek formal consultations with the United States on the application and interpretation of USMCA automotive rules of origin related to calculating and meeting the 75% regional value content threshold. USTR has indicated it is reviewing the request; USTR is required to respond by Sept. 20.

Learn more.

- ***With TRIPS Council and WTO Ministerial meetings looming, countries retain divergent views on proposed intellectual property waivers for COVID-19 products, with more activity expected in the coming weeks.*** In Geneva, member states continue to maintain existing positions in ongoing discussions about a pair of proposals at the WTO to advance the fight against COVID-19. Recommendations include a proposal from India and South Africa to broadly waive all IP for COVID-19 response items for three years and an alternative proposal from the European Union focused on trade facilitation and export restrictions, voluntary pledges to expand production and clarification on compulsory licensing and other IP-related flexibilities.

    - *Ambassador* Tai and other senior Biden administration officials have remained firm in their support for waiving IP protections for the narrower category of COVID-19 vaccines. However, recent White House leadership decisions—such as ongoing distribution of COVID-19 vaccine doses globally following a June announcement to purchase and distribute more than 500 million doses of U.S. made vaccine by June 2022—point to other approaches that are, in fact, expanding global vaccine access.
    - *The next few weeks are likely to see an uptick in discussions in Geneva ahead of an Oct. 13–14 meeting of the WTO TRIPS Council , as well as the 12th WTO Ministerial Conference on Nov. 30–Dec. 3.*

    The NAM, through press statements and other public messaging (such as here and here), cross-association letters , direct advocacy with senior U.S. officials and expanded partnerships with global manufacturing associations, continues to stress that the proposed WTO TRIPS waiver would be ineffective and harmful to efforts to overcome manufacturing and supply chain challenges. While also pointing to constructive ways for the United States to lead on the global COVID-19 response efforts, the NAM contends that such a waiver would undermine U.S. technology leadership, investment in innovation and future pandemic response.

    Learn more.

- ***Vice President Harris visits Vietnam, Singapore with stress on supply chains, climate, health cooperation.*** On Aug. 22–26, Vice President Harris traveled to Vietnam and Singapore, where she held a series of meetings with political leaders, marking the most senior Biden administration visit to the region to date.

    - The agenda focused largely on broader foreign policy issues such as regional security; areas of cooperation such as climate change, cybersecurity and COVID-19; and supply chains. Although Vice President Harris cited the importance of U.S. trading relationships in the region, the concrete outcomes largely did not focus on trade policy.
    - In Singapore , Vice President Harris announced a new dialogue on bilateral supply chain resilience, as well as a partnership to boost “trade and investment collaboration” on advanced manufacturing, energy and environmental technologies, the digital economy and health care. However, the emphasis seems to remain on better coordination of domestic policy rather than directly on trade.

- In Vietnam, Vice President Harris announced that Vietnam would lower or eliminate tariffs on corn, wheat and pork products. She also announced plans for new initiatives from the U.S. Agency for International Development focused on women and minority-owned enterprises and boosting a digital workforce.

Learn more.

- ***The NAM continues to lead advocacy efforts for the passage of the MTB.*** While the Senate passed bipartisan MTB legislation within the United States Innovation and Competition Act in May, the House still must act. In June, Ways and Means Democrats and Republicans introduced two different versions of legislation to reauthorize the MTB.

- The bipartisan-supported Senate version and the House Republican legislation approves certain MTB petitions recommended by the International Trade Commission for the current cycle. These versions also provide 120 days of retroactivity and extend the American Manufacturing and Competitiveness Act for two additional MTB cycles beginning in 2022 and 2025.

- The House Democratic legislation includes the provisions listed above and also makes changes to the AMCA process, including a change that would seek to exclude finished products from future MTB cycles.

  The NAM continues to advocate for congressional passage of a comprehensive MTB as soon as possible this year. In doing so, manufacturers are underscoring the direct impact of the tariffs that would be removed under the MTB on U.S. manufacturing operations, American workers and their communities.

  Learn more.

- ***United States and Ecuador announce new protocol under Trade and Investment Council Agreement*****:** On Aug. 12, the United States and Ecuador announced the entry into force of a Joint Protocol to the U.S.–Ecuador Trade and Investment Council Agreement Relating to Trade Rules and Transparency. USTR officials also met with representatives from the Ministry of Production, Trade, Investment and Fisheries on issues pertaining to environment, labor and trade in agriculture products and agreed to develop a road map to strengthen trade flows and a new agriculture policy in Ecuador. The United States and Ecuador will convene the fourth Trade and Investment Council meeting before the end of 2021 and the first Small- and Medium-Sized Enterprise Dialogue under the protocol in the near future.

  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.***

- ***For a listing of upcoming U.S. Small Business Administration events, click here.***
- ***For a listing of upcoming Export-Import Bank of the United States events, click here.***

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