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Global Manufacturing Economic Update

New Year, Same Challenges: Supply Chains, COVID-19 and Inflation

By Chad Moutray and Ken Monahan – February 10, 2022

The Monthly Toplines

- The J.P. Morgan Global Manufacturing PMI declined from 54.3 in December to 53.2 in January, the weakest reading since October 2020. Supply chain constraints, raw material shortages and the spread of the omicron variant slowed activity in markets around the world. Input and output prices have decelerated for the third consecutive month following October's record pace, but manufacturers expect production to improve over the coming months to increase solidly over the coming months.

- Six of the top nine markets for U.S.-manufactured goods had expanding manufacturing sectors in January, down from seven in December. China's manufacturers reported contracting activity for the third time in the past six months, pulling back from December's rebound and joining Brazil and Mexico in negative territory.

- Real GDP in China grew 4.0% year-over-year in the fourth quarter, the weakest reading since the second quarter of 2020. Supply chain, COVID-19 and property concerns weighed heavily on the Chinese economy for the quarter. Industrial production improved in December but remained well below trend. At the same time, fixed-asset investment and retail sales both weakened to post-pandemic lows.

- Real GDP in the Eurozone rose 0.3% in the fourth quarter, slowing from 2.3% growth in the third quarter and pulled lower by supply chain weaknesses and COVID-19 issues. Nonetheless, the IHS Markit Eurozone Manufacturing PMI improved from 58.0 in December to 58.7 in January on stronger new orders, output and employment growth. The unemployment rate decreased to 7.0% in December, a record low for the Eurozone, for a series dating to January 1995.

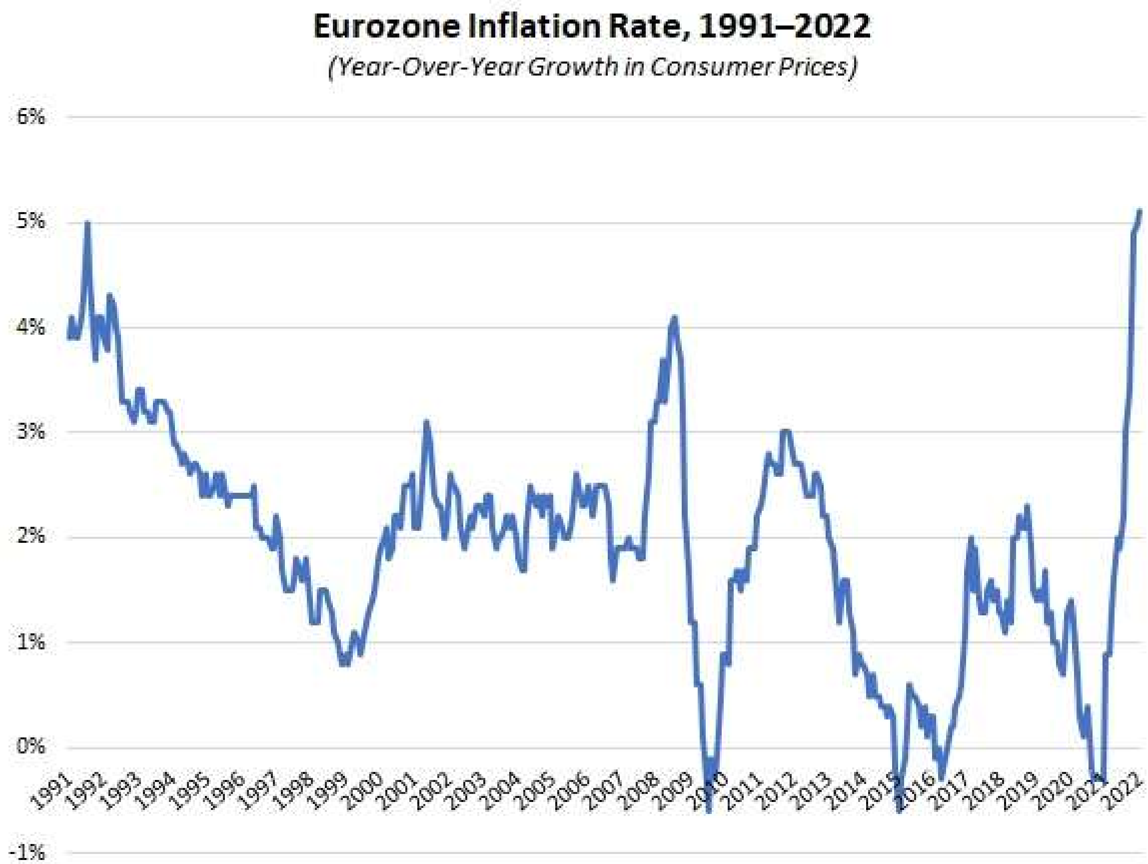
- Inflation remains a challenge for manufacturers worldwide. In the Eurozone, industrial producer prices increased 2.9% in December. At the consumer level, inflation rose to a record 5.1% year-over-year in January. Sentiment data suggest that price growth might start to decelerate or is already decelerating in many markets—albeit at very elevated paces.

- The U.S. trade deficit rose to $80.73 billion in December, which was just shy of the all-time high of $80.81 billion recorded in September. Skewed by supply chain disruptions, the U.S. trade deficit reached an all-time high of $859.13 billion in 2021, up from $676.68 billion in 2020.

- The goods trade deficit increased to $101.43 billion in December, a record high, with goods imports jumping to $259.70 billion, also an all-time high. Goods exports rose to $158.27 billion, which was not far from October’s record pace ($159.01 billion). At the same time, the service-sector trade surplus improved to $20.70 billion, the strongest reading since May.

- U.S.-manufactured goods exports totaled $1,133.25 billion in 2021, using non-seasonally adjusted data, soaring 18.91% from $953.02 billion in 2020. Likewise, manufactured goods imports grew 19.08% from $2,068.29 billion in 2020 to $2,463.03 billion in 2021.

- 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:
    - Continuing to underscore the need for a robust, comprehensive U.S. strategy to address market-distorting economic behaviors by China, while also urging a broadening of eligible products for Section 301 tariff exclusions and improvements to the tariff exclusion process
    - Supporting legislation that bolsters U.S. U.S. competitiveness and ensuring that the final version of the America COMPETES Act and United States Innovation and Competition Act meets the critical needs of manufacturers, including with respect to the Section 301 tariff exclusion process and the Miscellaneous Tariff Bill
    - Urging the Biden administration to stand up for manufacturers facing intellectual property challenges in key markets
    - Underscoring manufacturers’ priorities for the new U.S.-led Indo-Pacific Economic Framework
    - Submitting comments to the Biden administration on U.S.–EU Trade and Technology Council Export Control Priorities



Global Economic Trends

- **Worldwide Manufacturing Activity:** The [J.P. Morgan Global Manufacturing PMI] declined from 54.3 in December to 53.2 in January, the weakest reading since October 2020. New orders (down from 53.4 to 52.2), output (down from 53.3 to 51.4) and employment (down from 51.7 to 51.0) each slowed to begin the new year, with exports (down from 51.2 to 49.7) falling for the first time since August 2020. Encouragingly, the index for future output (up from 63.7 to 65.4) rose to a seven-month high in January, with manufacturers continuing to expect production to increase solidly over the coming months.

  Supply chain constraints showed some signs of slight progress, even with still-significant challenges. After falling to a new low in October, the index for delivery times (up from 37.8 to 37.9) inched up for the third straight month while continuing to reflect long wait times related to supply chain bottlenecks and raw material shortages. Similarly, the index for input prices (down from 69.7 to 68.4) decelerated for the third consecutive month from the record growth rate seen in October, even as it remained highly elevated. In contrast, output prices (up from 59.8 to 61.0) accelerated once again.

- **Sentiment in Major Markets:** Six of the top nine markets for U.S.-manufactured goods had expanding manufacturing sectors in January, down from seven in December. China's manufacturers reported contracting activity for the third time in the past six months, pulling back from December's rebound. Meanwhile, Brazilian manufacturing activity declined for the third consecutive month, and Mexico's economy continued to remain challenged, with its manufacturing sector contracting for the 23rd straight month.

Looking at trends over the past six months, the J.P. Morgan Global Manufacturing PMI declined from 54.1 in August to 53.2 in January, as noted above. This trend reflects a deceleration in activity that mirrors shifts among the top nine markets. Japan and South Korea were the only markets among the top nine that had better manufacturing PMI readings in January than in August. Here are more details on each of these major markets (in order of their ranking for U.S.-manufactured goods exports in 2020).

- Canada (down from 56.5 to 56.2, a six-month low): New orders, employment and future output improved in January, but the headline index was pulled lower by the slowest growth in output since June 2020. Exports also softened, and prices decelerated, albeit at still elevated paces.

- Mexico (down from 49.4 to 46.1, a 10-month low): Supply chain challenges and rising COVID-19 cases resulted in the fastest decline in manufacturing activity since March 2021. The underlying data weakened across the board, pulling back from recent progress. Yet, manufacturers remained positive about production growth over the next six months, predicting a modest expansion in activity. Input prices slipped slightly from December, which recorded the strongest pace since January 2018.

- China (down from 50.9 to 49.1, the weakest reading since February 2020): The spread of COVID-19, along with ongoing supply chain disruptions, led to contracting new orders, output, exports and employment growth in January. Nonetheless, the index for future output rebounded, signaling some optimism for production growth over the coming months. Input and output prices expanded very modestly for the month.

- Germany (up from 57.4 to 59.8, a five-month high): New orders, output and hiring accelerated strongly in January, starting the new year off on a healthy note. The index for future output also jumped to its highest reading since June, with an upbeat assessment of production growth over the next six months. Input costs decelerated once again from August's record high but remained extremely elevated. Meanwhile, output prices accelerated in January, not far from November's all-time high.

- Japan (up from 54.3 to 55.4, the best reading since February 2014): The underlying data rose higher across the board, starting the new year off on a solid footing, even with ongoing global challenges. Manufacturing respondents expressed optimism about growth in production over the first half of 2022. Input costs expanded at the second strongest pace in the data's history (just barely shy of November), and output prices grew at a record rate.

- United Kingdom (down from 57.9 to 57.3, a four-month low): Output and employment accelerated in January, and exports rebounded. At the same time, new orders grew at the slowest pace since February 2021, and future output slipped a little, while also continuing to signal optimism about the next six months. Input and output prices decelerated but remained very elevated.

  - South Korea (up from 51.9 to 52.8, a six-month high): Manufacturing activity improved for the second straight month in January, led by rebounding output and exports and by a solid improvement in new orders. Respondents remained positive about production over the next six months, and input costs decelerated somewhat, pulling back from (but also not far from) the record pace seen in November.

  - Netherlands (up from 58.7 to 60.1): New orders, output, exports and employment each accelerated solidly in January, and the index for future output strengthened, signaling a very optimistic outlook for the coming months. Input prices, while continuing to decelerate from July's record pace, remained extremely elevated.

  - Brazil (down from 49.8 to 47.8, the lowest reading since May 2020): Manufacturing deteriorated further in January, contracting for the third straight month, with supply chain issues and COVID-19 dampening activity. The data mostly weakened across the board. The exception was the index for future output, which improved and continued to indicate strong optimism for the coming months. While remaining very elevated, input costs expanded at the slowest rate since June 2020.

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

  - China: Real GDP grew 4.0% year-over-year in the fourth quarter, slowing from 4.9% in the third quarter and the weakest reading since the second quarter of 2020. Supply chain, COVID-19 and property concerns weighed heavily on the Chinese economy for the quarter. Nonetheless, industrial production improved for the third straight month, up from 3.8% year-over-year in November to 4.3% in December. Despite the progress, industrial production remained decelerated overall, down from 9.8% year-over-year in April (and averaging 5.7% year-over-year in 2019 before the pandemic). At the same time, fixed-asset investment (down from 5.2% year-over-year to 4.9%) and retail sales (down from 3.9% year-over-year to 1.7%) both weakened to post-pandemic lows.

  - Europe: Real GDP rose 0.3% in the fourth quarter, slowing from 2.3% growth in the third quarter. On a year-over-year basis, the Eurozone economy expanded 4.6% since the fourth quarter of 2020. Eurozone industrial production rose 2.3% in November, increasing for the first time since July, with gains in all sectors except durable goods. Despite the latest figures, industrial production fell 1.5% year-over-year. December data will be released on Feb. 16. Industrial producer prices increased 2.9% in December, soaring 26.2% year-over-year. At the consumer level, inflation rose to a record 5.1% year-over-year in January. Meanwhile, boosted by higher spending in all major categories except automobiles, retail sales fell 3.0% in December, dropping on concerns and restrictions related to the omicron variant. On a year-over-year basis, retail spending increased 2.0% since December 2020. The unemployment rate decreased to 7.0% in December, a record low for the Eurozone, for a series dating to January 1995.

  - United Kingdom: Industrial production in Great Britain increased 1.0% in November, ending two straight monthly declines, with manufacturing output up 1.1%. Production strengthened for equipment, machinery and transportation equipment. Overall, industrial production remained 2.6%

below pre-pandemic levels in February 2020. December data will be released on Feb. 11. Meanwhile, retail sales fell 3.7% in December, largely on COVID-19 restrictions. Nonetheless, retail spending has risen 2.6% since February 2020. January data will be released on Feb. 18.

- Canada: Manufacturing sales rose 2.6% in November, extending the 4.6% gain seen in October, with strong growth for food manufacturing, nonmetallic mineral products, petroleum and coal products and primary metals. December data will be released on Feb. 16. Meanwhile, retail sales increased 0.7% in November, slowing from 1.5% growth in October but rising for the second straight month. Over the past 12 months, retail spending has risen 4.4%. December data will be released on Feb. 18. Meanwhile, induced by stronger COVID-19 regulations, the unemployment rate increased from 6.0% in December to 6.5% in January, the highest level since October (6.7%). The number of manufacturing workers fell by 10,400 in January, with employment in the sector up 15,300 year-over-year.

- Mexico: Industrial production edged down 0.1% in real terms in November, pulling back after rising 0.6% in October. Construction declined 0.6% in November, but manufacturing output remained flat for the month. On a year-over-year basis, industrial production increased 0.7% in real terms, but with manufacturing production up 1.2% since November 2020. December data will be released on Feb. 11.

- Japan: Industrial production fell 1.0% in December, pulling back somewhat after jumping 7.0% in November, with reduced output for machinery and non-automotive transportation equipment. Production was higher for motor vehicles and parts, paper and petroleum. Since December 2020, industrial production in Japan has risen a modest 2.7%. Meanwhile, retail sales also declined 1.0% in December, ending three consecutive monthly increases. Retail spending has increased 1.4% year-over-year. [Note: The retail sales link is in Japanese.]

- Emerging Markets: The IHS Markit Emerging Market Index was neutral in January, falling from 51.7 to 50.0 and ending four straight monthly expansions. New orders, output and exports slipped into contraction in January, and employment deteriorated faster. However, respondents remained positive about production growth over the next six month despite lingering supply chain and COVID-19 challenges. Input costs decelerated, pulling back for the third consecutive month from October's record rate of growth. [Note: There is no link for this release.]

- India: Industrial production slowed materially from 4.0% year-over-year in October to 1.4% in November, with manufacturing output decelerating from 3.1% year-over-year to 0.9%. It was the smallest increase in industrial activity post-pandemic. For more detailed trends in India, see the latest economic survey publication, which includes the outlook.

- **Trade-Weighted U.S. Dollar Index:** Since June 7, 2021, the U.S. dollar has risen 4.2% 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 7.3% on Feb. 4 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 more than it could on June

7. Over a longer time frame, the trade-weighted dollar index has risen 23.6% since July 1, 2014.

- **International Trade:** The U.S. trade deficit rose from $79.33 billion in November to $80.73 billion in December, which was just shy of the all-time high of $80.81 billion recorded in September. These data have been skewed over the course of 2021 by supply chain disruptions and the chip shortage. In 2021, the U.S. trade deficit reached an all-time high of $859.13 billion, up from $676.68 billion in 2020.

  The goods trade deficit increased from $98.27 billion in November to $101.43 billion in December, a record high. Goods imports jumped from $254.52 billion to $259.70 billion, an all-time high. Goods exports rose from $156.25 billion to $158.27 billion, which was not far from October's record pace ($159.01 billion). At the same time, the service-sector trade surplus improved from $18.94 billion to $20.70 billion, the strongest reading since May.

  In December, goods exports rose on increases for consumer goods (up $1.24 billion), non-automotive capital goods (up $887 million), automotive vehicles and parts (up $797 million) and industrial supplies and materials (up $463 million). Exports for foods, feeds and beverages declined $1.07 billion for the month. Meanwhile, sharp increases in goods imports for consumer goods (up $5.18 billion), automotive vehicles and parts (up $2.41 billion) and non-automotive capital goods (up $2.32 billion) offset decreases for industrial supplies and materials (down $3.25 billion) and foods, feeds and beverages (down $760 million). Interestingly, goods exports and goods imports for consumer goods both hit new records in December. Exports of pharmaceutical products helped lift consumer goods exports, whereas cell phones and toys accounted for the bulk of the rise in consumer goods imports.

  Looking at longer-term trends, U.S.-manufactured goods exports totaled $1,133.25 billion in 2021, using non-seasonally adjusted data, soaring 18.91% from $953.02 billion in 2020. Likewise, manufactured goods imports grew 19.08% from $2,068.29 billion in 2020 to $2,463.03 billion in 2021.

International Trade Policy Trends

- ***U.S. signals "long way to go" in U.S.–China discussions, need for faster Chinese actions while pressure builds on Section 301 tariff exclusions.*** In recent weeks, senior U.S. officials have signaled continued engagement with their Chinese counterparts on trade issues in line with the Biden administration's broad China strategy announced in October. U.S. officials have also leaned more strongly into the need for faster Chinese action to meet key trade commitments made to the United States.
  - In late January, Deputy U.S. Trade Representative Sarah Bianchi stressed that the U.S. and China have "a long way to go" in discussions about China's fulfillment of its commitments under the January 2020 U.S.–China Phase One trade deal and other U.S. concerns. She noted that the discussions have yet to result in any breakthroughs.
  - Ambassador Bianchi and other senior officials, including Secretary of Agriculture Tom Vilsack, continued to stress purchasing commitments as a key area of non-compliance, stating that China's purchases were $16 billion less than its commitments.

    - In a Jan. 19 press conference, President Joe Biden stressed that the administration would not lift tariffs on Chinese imports without fuller compliance with existing trade commitments.
    - In the meantime, bipartisan congressional voices in recent weeks have elevated calls for the USTR to quickly institute a comprehensive, transparent exclusion process that allows stakeholders to seek meaningful relief from, and have a voice in decisions around, Section 301 tariffs on imports from China. Their actions have included direct letters from more than 140 members of the House of Representatives (Jan. 20) and more than 40 members of the Senate (Feb. 7).

    Learn more.

- ***House passes America COMPETES Act, as manufacturers continues to engage on key trade provisions.*** On Feb. 4, the House of Representatives passed the America COMPETES Act (H.R. 4521), the chamber's response to the United States Innovation and Competition Act (S. 1260), which was passed by the Senate in June.
    - The America COMPETES Act includes a number of key provisions of USICA, which the NAM strongly supports, including funding to expand domestic production of semiconductors. The America COMPETES Act also makes strides to strengthen U.S. leadership in global climate innovation by improving environmental research and filling critical gaps in data.
    - The America COMPETES Act includes important measures to protect American manufacturing workers and consumers against counterfeiting. It also includes funding to increase the resiliency of domestic supply chains and provisions to promote STEM workforce development, which is critical to addressing manufacturing workforce needs.
    - Notably, the America COMPETES Act includes a renewal of the MTB through Dec. 31, 2023, and it also reauthorizes the MTB for two future review cycles. However, it also institutes broad and arbitrary differences that would limit the ability of manufacturers to benefit from the program after 2023. USICA renewed the MTB through next year, but it did not include language that would limit utilization of the program after 2023. The NAM continues to underscore the importance of congressional passage of a robust MTB with substantial retroactive tariff relief.
    - Unlike USICA, the America COMPETES Act did not include language to reinstate Section 301 tariff exclusion processes and improve upon those processes. In the view of the NAM, it is critical that the final version of the competitiveness legislation include relevant Section 301 tariff exclusion provisions.
    - Additionally, the America COMPETES Act imposes restrictions on so-called *de minimis* treatment that helps facilitate low-value imports. In the view of the NAM, this is not the right approach. Instead, full implementation of the STOP Act and other programs will more effectively address illegal trade while maintaining the trade facilitation benefits of *de minimis* treatment.

    Learn more.

- ***The NAM urges the Biden administration to stand up for manufacturers facing IP challenges in key markets.*** On Jan. 31, the NAM urged the Biden administration to support manufacturing innovation in the U.S. by standing up for strong global IP rules and tackling growing IP challenges and barriers around the world.
    - In a detailed submission to USTR for its annual Special 301 report, the NAM highlighted the critical importance of innovation and IP for manufacturers and workers in the United States.

    - The submission stressed top cross-cutting issues such as the global threat from counterfeiting and increasing political pressure to erode critical IP protections at the national and multilateral level.
    - The NAM also recommended that USTR focus on challenges faced by manufacturers in 16 countries, including China, India, Mexico and South Africa. USTR is expected to release its final report by the end of April.

    Learn more.

- ***Biden administration fills out details on new Indo-Pacific Economic Framework as crucial questions remain.*** Key Biden administration officials, including officials from the White House, Department of Commerce and USTR, have started filling in more details on a proposed Indo-Pacific Economic Framework that is being tabbed as the core of the administration's approach in the region.
    - On Jan. 19, White House Senior Director for China Laura Rosenberger stressed key focal points for the framework based on conversations with regional allies, including "trade facilitation, digital economy standards, supply chain resiliency, infrastructure, decarbonization and clean energy, export controls, tax and anti-corruption."
    - On Feb. 1, Ambassador Bianchi provided additional details, stating in remarks at a public event in Washington that the United States would be "seeking binding commitments with our trading partners" across these areas. She said the framework would have key "modules" for each of the priority areas focused on strong rules but not market access commitments. Bianchi also noted that the framework would be "high-ambition," with not all partners joining all the modules.
    - Beyond the details above, Rosenberger, Ambassador Bianchi and other senior U.S. officials have signaled accelerated efforts to engage regional allies and U.S. stakeholders in order to flesh out in greater detail work underneath these focal areas.

    The NAM has been actively engaged as this approach has evolved, consistently urging the administration to advance a robust, market-opening trade agenda in the Indo-Pacific and around the world as well as ensuring that new approaches align with manufacturers' priorities and interests.

    Learn more.

- ***The NAM submits comments to the Bureau of Industry and Security on U.S.–EU TTC export control priorities.*** On Jan. 14, the NAM submitted comments that outline manufacturing priorities for the Export Control Working Group within the U.S.–EU TTC in response to a request for information from BIS.
    - The NAM's comments reiterate manufacturers' support for a multilateral export control approach and highlight that effective export control policy must protect sensitive technologies from adversaries, while at the same time ensuring the strength, leadership and competitiveness of the U.S. manufacturing and defense industrial base.
    - The comments affirm the goals of the U.S.–EU TTC Export Control Working Group and provide specific suggestions for U.S. leaders to consider as the initiative advances.
    - The NAM will continue to stay engaged with the Export Control Working Group, as well as with the broader U.S.–EU TTC effort.

    Learn more.

- ***U.S.–Brazil trade rules and transparency protocol enters into force.*** On Feb. 2, the U.S.–Brazil Protocol Relating to Trade Rules and Transparency entered into force.
    - The protocol, signed in October 2020, modernizes the 2011 U.S.–Brazil Agreement on Trade and Economic Cooperation by adding new commitments on trade facilitation, good regulatory practices and anti-corruption based on relevant chapters of the United States–Mexico–Canada Agreement. Click here for the full text of the protocol.

      Learn more.

Take Action

- **Access Africa: Bridging the Digital Divide**
  February 14–16
  Virtual
  The U.S. Trade and Development Agency is hosting an Access Africa: Bridging the Digital Divide Virtual Reverse Trade Mission to familiarize private sector leaders from southern, eastern and central Africa's information and communications technology sectors with U.S. companies, technologies and services. This event is being organized by USTDA's contractor, BCIU. 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.***
- ***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.***