

Global Manufacturing Economic Update



Global Manufacturing Ended 2021 with Modest but Decelerating Growth

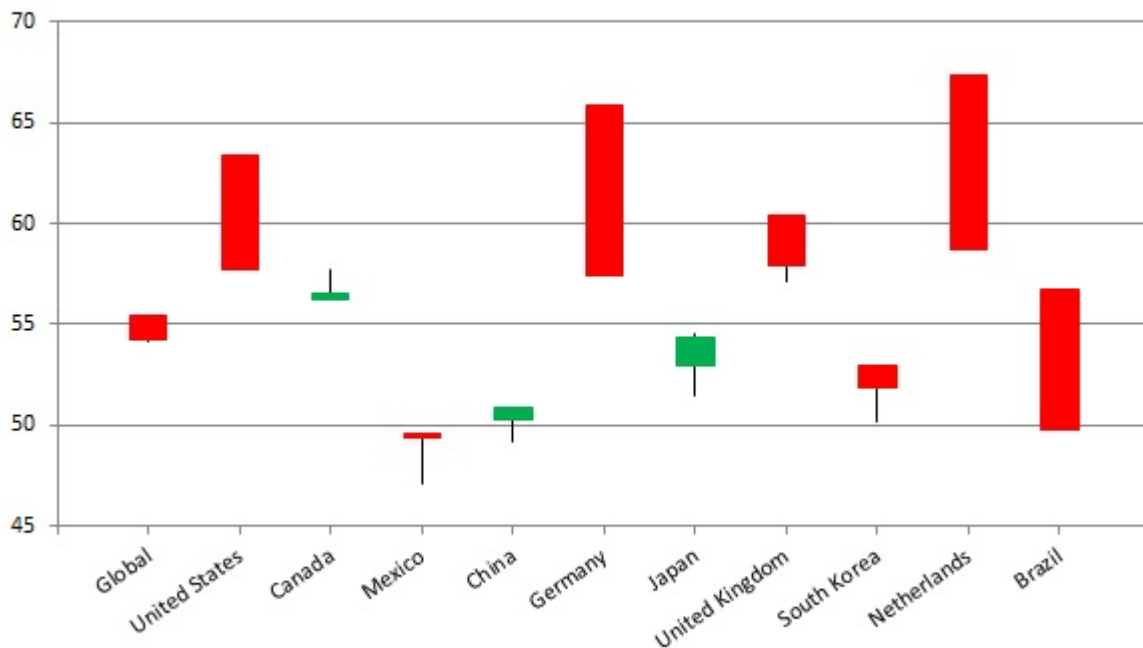
By Chad Moutray and Ken Monahan – January 13, 2022

The Monthly Toplines

- The [J.P. Morgan Global Manufacturing PMI](#) remained at 54.2 in December for the third straight month. The sector ended 2021 with modest growth worldwide, albeit with a decelerated pace since midyear. Manufacturers continued to expect production to increase solidly over the next six months even though the measure pulled back a bit in the latest survey.
- Supply chain constraints showed some signs of slight progress, even with still-significant challenges. Input and output prices decelerated for the second consecutive month from the record growth rates seen in October, but with each measure remaining highly elevated.
- Looking at trends over the past six months, the J.P. Morgan Global Manufacturing PMI declined from 55.4 in July to 54.2 in December. [Canada](#), [China](#) and [Japan](#) were the only markets among the top 9 that had better manufacturing PMI readings in December than in July. (See the candlestick chart below.) Of note, the [IHS Markit U.S. Manufacturing PMI](#) decelerated from a record 63.4 in July to 57.7 in December—a still healthy reading despite easing on supply chain, workforce and pricing concerns.
- Seven of the top nine markets for U.S.-manufactured goods had expanding manufacturing sectors in December, up from six in November but down from eight in October.
 - [China's manufacturers](#) reported rebounding activity in December following contractions in the two prior months.
 - Meanwhile, [Brazilian manufacturing activity](#) declined for the second consecutive month, and [Mexico's economy](#) continued to remain challenged, with its manufacturing sector contracting for the 22nd straight month.
- Supply chain and omicron worries will dampen the [economic outlook](#) slightly in 2022, according to the World Bank. After growing by an estimated 5.5% in 2021, global real GDP should rise by 4.1% and 3.2% in 2022 and 2023, respectively. Six months ago, the World Bank had forecasted 5.7% and 4.3% growth for 2021 and 2022, respectively.
- The U.S. [trade deficit](#) jumped to \$80.17 billion in November, which was just shy of the all-time high of \$81.44 billion recorded in September. The goods trade deficit soared to a record \$98.99 billion in November, with goods imports also hitting new heights.

- At the same time, U.S.-manufactured goods exports totaled \$1,033.11 billion through the first 11 months of 2021, soaring 18.94% from \$868.54 billion year to date in 2020. This reflects a very solid rebound in 2021 after an extraordinarily challenging trade environment in 2020.
- Since June 7, the U.S. dollar [has risen](#) 4.1% against a broad-based index of currencies for goods and services, according to the Federal Reserve.
- 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 the need to improve the tariff exclusion process
 - Supporting the Uyghur Forced Labor Prevention Act, which was signed by President Joe Biden in December, and engaging in the implementation process for the legislation
 - Continuing to underscore at every opportunity the importance of commercial enforcement of Mexico's and Canada's commercial obligations under the U.S.–Mexico–Canada Agreement
 - Leading industry advocacy in support of expeditious congressional passage of a comprehensive Miscellaneous Tariff Bill

Global IHS Markit Purchasing Managers' Indices[®], including for the Top Nine Export Markets for U.S. Manufactured Goods
(Candlestick Chart for Last Six Months – July through December 2021)



Source: IHS Markit

Note: Top 9 Export Markets Based on 2020 Data from the U.S. Commerce Department

- **Worldwide Manufacturing Activity:** The [J.P. Morgan Global Manufacturing PMI](#) remained at 54.2 in December for the third straight month. The sector ended 2021 with modest growth worldwide, albeit with a decelerated pace since midyear. New orders (up from 53.2 to 53.4), output (up from 52.5 to 53.3) and employment (up from 51.3 to 51.6) strengthened in December. However, exports (down from 51.3 to 51.2) and future output (down from 64.3 to 63.7) eased somewhat. Manufacturers continued to expect production to increase solidly over the next six months even though the measure pulled back a bit in the latest survey.

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 36.4 to 37.8) improved for the second straight month while continuing to reflect long wait times related to supply chain bottlenecks and raw material shortages. Similarly, input prices (down from 71.5 to 69.7) and output prices (down from 61.3 to 59.8) decelerated for the second consecutive month from the record growth rates seen in October, but with each measure remaining highly elevated.

- **Sentiment in Major Markets:** Seven of the top nine markets for U.S.-manufactured goods had expanding manufacturing sectors in December, up from six in November but down from eight in October. China's manufacturers reported rebounding activity in December following contractions in the two prior months. Meanwhile, Brazilian manufacturing activity declined for the second consecutive month, and Mexico's economy continued to remain challenged, with its manufacturing sector contracting for the 22nd straight month.

Looking at trends over the past six months, the J.P. Morgan Global Manufacturing PMI declined from 55.4 in July to 54.2 in December, as noted above. This trend reflects a deceleration in activity that mirrors shifts among the top 9 markets. Canada, China and Japan were the only markets among the top 9 that had better manufacturing PMI readings in December than in July. 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 57.2 to 56.5, a five-month low): New orders and exports improved slightly in December, but most of the other key measures slowed for the month. Respondents remained upbeat about future growth, even with some easing. Input and output prices remained elevated but have continued to pull back from recent record paces.
- [Mexico](#) (unchanged at 49.4): Exports stabilized to near neutral in December, but new orders, output and employment each contracted further for the month. The index of future outlook softened to its weakest reading since April, but it continued to suggest expanding activity expected over the next six months. Input prices grew at the fastest pace since January 2018.
- [China](#) (up from 49.9 to 50.9, a six-month high): New orders and exports rebounded, and output strengthened in December to the best pace in 12 months. Hiring weakened further. The index for future output slowed to the weakest reading since December 2019, even as it signaled optimism for modest growth over the coming months. Input price growth decelerated sharply.
- [Germany](#) (unchanged at 57.4): Production and employment improved in December after softening in the prior two months, but with new orders and

exports slowing. Encouragingly, respondents were more upbeat in their assessments of output over the next six months. Input and output prices both decelerated from recent record highs, while remaining elevated.

- [Japan](#) (down from 54.5 to 54.3): Employment expanded at the fastest pace since April 2018, but most of the other key measures softened in December, including new orders and output. The outlook remained optimistic for future production despite some softening of expectations. After jumping at the quickest rate since August 2008 in November, input costs decelerated slightly in December, remaining highly elevated.
- [United Kingdom](#) (down from 58.1 to 57.9): Manufacturing activity continued to expand solidly despite pulling back slightly in December. New orders, output and exports each improved for the month, but hiring slowed a bit. Expectations for production over the coming months remained robust but eased a little in the latest survey. Output prices grew at the fastest pace on record. Input costs pulled back somewhat from November's record rate, although they remained very elevated and not far from that pace.
- [South Korea](#) (up from 50.9 to 51.9): Manufacturing activity improved for the second straight month in December, led by rebounding new orders and employment. Output declined at a slower rate, but exports contracted for the first time since September 2020. Respondents remained positive about production over the next six months, but with some slippage in the latest survey. Input costs eased from November's record pace.
- [Netherlands](#) (down from 60.7 to 58.7, a 12-month low): The expansions in activity for new orders, exports, output and employment slowed in December, but manufacturers continued to report modest growth. The index for future output rose marginally higher, signaling expected optimism for production over the first half of 2022. Input and output prices remained not far from record paces in December.
- [Brazil](#) (unchanged at 49.8): Manufacturing contracted for the second straight month in December. New orders and output both declined at slower rates, and employment grew at the weakest pace since March. At the same time, exports strengthened to the best reading since November 2020. The index for future output also improved, with respondents very upbeat about production moving forward. Input prices continued to decelerate but remained elevated.
- **Regional and National Trends:** Here are some other economic trends worth noting.
 - [China](#): After falling to 3.1% year-over-year in September, [industrial production](#) has improved for two straight months, up to 3.5% and 3.8% in October and November, respectively. 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). These data are consistent with other measures, which show activity softening on energy, supply chain and COVID-19 concerns. At the same time, [fixed-asset investment](#) (down from 6.1% year-over-year to 5.2%) slowed in November to the weakest pace year to date. [Retail sales](#) (down from 4.9% year-over-year to 3.9%) softened to a three-month low. New data on GDP will be released on Jan. 17.
 - [Europe](#): [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. [Industrial producer prices](#) rose 1.8% in November, slowing from the 5.4% gain seen in October but soaring 23.7% year-over-year. At the consumer level, [inflation](#) rose 5.0% year-over-year in December, the biggest increase since July 1991. Meanwhile, boosted by higher spending in all major categories except automobiles, [retail sales](#) increased 1.0% in November, the biggest monthly gain since June. On a year-over-year basis, retail spending has jumped 7.8% since November 2020. The [unemployment rate](#) decreased to 7.2% in November, the lowest level since March 2020.

- [United Kingdom](#): [Industrial production](#) in Great Britain decreased 0.6% in October, falling for the second straight month, with manufacturing output flat. Production rose sharply higher for pharmaceuticals, but weaknesses for machinery and equipment offset those gains. Overall, industrial production remained 2.1% below pre-pandemic levels in February 2020. November data will be released on Jan. 14. Meanwhile, [retail sales](#) rose 1.4% in November, extending the 1.1% gain seen in October and boosted by non-food items. Retail spending has soared 7.2% since February 2020.
- [Canada](#): Led by strength in motor vehicles and parts and primary metals, [manufacturing sales](#) jumped 4.3% in October, rebounding from the 3.0% decline seen in September. November data will be released on Jan. 17. Meanwhile, [retail sales](#) rose 1.6% in October following the 0.6% decline in September, continuing the month-to-month seesaw pattern seen since the spring. November data will be released on Jan. 21. The [unemployment rate](#) dropped from 6.0% in November to 5.9% in October, a post-pandemic low. [The number of manufacturing workers](#) increased by 10,500 in December, with employment in the sector up 19,500 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. October data will be released on Dec. 10.
- [Japan](#): [Industrial production](#) continued to rebound in November, jumping 7.2% and extending the 1.8% gain seen in October. Output had declined in four of the five prior months, largely on supply chain and COVID-19 issues. Industrial production in Japan has risen 5.4% since November 2020, the first positive year-over-year reading since August. Meanwhile, [retail sales](#) rose 1.2% in November, rising for the third straight month. Retail spending has increased 1.9% since November 2020. [Note: The retail sales link is in Japanese.]
- [Emerging Markets](#): The IHS Markit Emerging Market Index rose from 51.2 in November to 51.7 in December, buoyed by improvements in new orders and output. Exports stabilized to near neutral for the month, but hiring deteriorated a bit further. The index for future output slipped to its weakest reading since May 2020. 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 second consecutive month from October's record rate of growth. [Note: There is no link for this release.]
- **Trade-Weighted U.S. Dollar Index**: Since June 7, the U.S. dollar [has risen](#) 4.1% 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 Dec. 3 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](#) jumped from \$67.16 billion in October to \$80.17 billion in November, which was just shy of the all-time high of \$81.44 billion recorded in September. These data have been skewed over the course of the year by supply chain disruptions and the chip shortage, but higher petroleum costs have also had an impact. The average price of imported crude oil was \$72.33 per barrel in November, up from \$68.77 in October and the highest price since December 2014.

The goods trade deficit soared from \$83.86 billion in October to \$98.99 billion in November, a record high. Goods imports rose from \$242.67 billion to \$254.93 billion, an all-time high, but goods exports pulled back from a record \$158.82 billion to \$155.94 billion. At the same time, the service-sector trade surplus has improved from \$16.70 billion to \$18.82 billion, the best result in five months.

In November, goods exports fell mostly lower, led by declines in non-automotive capital goods (down \$1.24 billion), industrial supplies and materials (down \$891 million) and consumer goods (down \$634 million). In contrast, exports for foods, feeds and beverages rose by \$716 million for the month. Meanwhile, industrial supplies and materials (up \$5.90 billion), consumer goods (up \$2.97 billion), automotive vehicles and parts (up \$1.24 billion) and foods, feeds and beverages (up \$546 million) saw sharp increases in good imports.

Looking at longer-term trends, U.S.-manufactured goods exports totaled \$1,033.11 billion through the first 11 months of 2021, soaring 18.94% from \$868.54 billion year to date in 2020.

International Trade Policy Trends

- **Key U.S.–China Phase One Agreement deadline expires, as Congress continues work on China legislation, Section 301 tariff exclusions.** China trade issues remained in the spotlight at the end of 2021. Dec. 31 marked the formal end of the purchasing timeline under the January 2020 U.S.–China Phase One Agreement, raising questions about the administration’s next steps and plans for engagement to implement its [broad China strategy announced in October](#).
 - In [Jan. 10 remarks](#), Secretary of Agriculture Tom Vilsack stated that China was “\$16 billion light” in its purchasing commitments. He also said that U.S. Trade Representative Katherine Tai would be “going to China” to press her Chinese counterparts on full implementation of commitments under that agreement.
 - The Office of the U.S. Trade Representative has not confirmed specific plans, but in a [video review of USTR’s work in 2021](#), Ambassador Tai reiterated that the agency was focused on China’s performance under that agreement. She said the administration would continue to “press Beijing on the harm that its relentless industrial policies have wreaked on workers and businesses in open economies like ours.”

- In a move with key implications for broader U.S. engagement with Beijing, the U.S. Senate on Dec. 16 approved the long-delayed nomination of [Nicholas Burns](#) as the new U.S. ambassador to China.

In the meantime, congressional leaders have continued discussions over potential China legislation, with the Senate having passed the U.S. Innovation and Competition Act ([S. 1260](#)) in May and discussions ongoing in the House of Representatives.

- USICA, which is strongly supported by the NAM, focuses U.S. efforts on bold investments to ensure America's technological global leadership. These efforts include provisions to strengthen workforce development in science, technology, engineering and mathematics; promote regional innovation; and expand funding for research and domestic manufacturing of semiconductors under the Creating Helpful Incentives to Produce Semiconductors for America (CHIPS) Act.
- USICA includes a robust trade package that reinstates China Section 301 tariff exclusion processes and improves the Section 301 review process. It also calls for renewal of critical tariff programs such as the MTB and the Generalized System of Preferences.
- The NAM has been actively leading in these areas. [NAM President and CEO Jay Timmons has spoken out strongly in favor of the CHIPS Act](#) and other steps to support U.S. technology leadership. The NAM's International Economic Affairs team is leading efforts on the trade-related components, which have included China-specific work on Section 301 tariff issues. The NAM has also engaged with House and Senate champions on sign-on letters in each chamber that stress the need for tough but effective action to address China's unfair trade practices and steps to expand the exclusion process and retroactivity to give a broader mix of manufacturers access to the exclusions process.

[Learn more.](#)

- ***Uyghur Forced Labor Prevention Act is signed into law, implementation phase begins.*** On Dec. 23, the UFLPA ([H.R. 6256](#)) was signed by President Biden, starting a 180-day clock for the law to take full effect.
 - The UFLPA strengthens forced labor enforcement through the rebuttable presumption clause (Section 3 of the law). This clause requires U.S. Customs and Border Protection to presume that goods “mined, produced, or manufactured wholly or in part” in the Xinjiang Uyghur Autonomous Region in China have been produced with forced labor and are therefore prohibited from entering the United States.
 - By Jan. 22, the UFLPA requires the Forced Labor Enforcement Task Force to publish a notice in a Federal Register to seek stakeholder input on how best to ensure that products made with forced labor do not enter the U.S. This will be followed by a public hearing and the formulation of a robust enforcement and compliance strategy.
 - On June 21, the strategy is due and the law will also take full effect.
 - The NAM strongly condemns forced labor, having [supported](#) the passage of the UFLPA. The NAM will remain engaged in the implementation process to ensure that manufacturers have the information needed to implement and update due

diligence processes to fully comply with the law and ensure goods produced with forced labor do not enter the U.S.

[Learn more.](#)

- ***Mexican tax authorities publish Carta Porte regulations.*** In December, the Mexican Tax Administration Service announced that no penalties would be imposed through March 31 for lack of compliance with Carta Porte requirements that went into effect on Jan. 1.
 - On Nov. 19, the NAM signed this [letter](#) to Mexico's secretary of foreign relations, secretary of economy, secretary of finance and public credit, secretary of infrastructure, communications and transportation and the chief of the Tax Administration Service on the Carta Porte regulations.
 - The NAM has consistently expressed concerns to U.S. and Mexican authorities about the implementation of Carta Porte. Such concerns have focused on the difficulty of adequately preparing for the implementation of the new regulations, which will add administrative burdens, result in cost increases, significantly disrupt supply chains and the flow of trade and negatively impact broader North American competitiveness.

[Learn more.](#)

- ***USMCA updates: U.S. prevails in Canadian dairy restrictions dispute; Mexico requests panel in automotive dispute; Deputy USTR Jayme White joins bilateral meetings with counterparts.*** In recent weeks, a number of critical developments affecting the implementation of the USMCA have arisen:
 - On Jan. 4, Ambassador Tai [announced](#) that the U.S. prevailed in the first dispute settlement panel proceeding under the USMCA related to Canadian dairy restrictions. The USMCA panel agreed with the U.S. that Canada is breaching its USMCA commitments by reserving most of the in-quota quantity of its daily tariff-rate quotas for the exclusive use of Canadian processors. The U.S. requested that a panel be established last May under Chapter 31 of the USMCA, and the [final report](#) to the parties was finalized on Dec. 20. Canada has 45 days from the date of the final report to comply with the panel's findings.
 - On Jan. 6, Mexico requested a panel under the USMCA to resolve a dispute over differing interpretations of automotive rules of origin under the agreement. Consultations were launched by Mexico last August, and Canada joined those consultations as a third party. Once the panel is appointed, it must submit a procedural calendar. Announcement of a decision in the case is expected in 2022.
 - The NAM continues to underscore at every opportunity the importance of [full implementation](#) of Mexico's and Canada's commercial obligations under the USMCA.

[Learn more.](#)

- ***The NAM continues to advocate for passage of the MTB.*** The MTB expired more than a year ago, and manufacturers and other businesses in the United States have

paid nearly a half billion dollars in anti-competitive tariffs since its expiration. While the Senate passed bipartisan MTB legislation as part of the USICA in June, the House still must act. The NAM continues to convey the importance of passing this tariff relief at a critical time.

- On Dec. 2, the NAM delivered [this letter](#) to Congress. Signed by more than 200 companies and associations, the letter urges expeditious passage of the MTB.
- The letter highlights that the lack of action on the MTB poses yet another challenge amid a global pandemic, severe supply chain shortages, rising prices and other hurdles. It reiterates that Congress can support manufacturers, businesses and workers in the United States by passing bipartisan MTB legislation by the end of the year.
- The NAM will continue to reach out to the House of Representatives and underscore the direct impact of removal of the tariffs under the MTB on U.S. manufacturing operations, American workers and their communities.

[Learn more.](#)

Take Action

- **U.S.–Southeast Asia Aviation Cooperation Program: Aircraft and Avionics Workshop**

January 19–20

Virtual

This virtual workshop funded by the U.S. Trade and Development Agency will bring together government officials and industry experts to discuss new technologies and maintenance requirements for aircraft and avionics. Attendees will hear directly from U.S. government officials and industry about best practices for connecting with U.S. aviation companies to address local aviation needs and enable effective and safe national air transportation systems. [Learn more.](#)

- **Ex–Im Bank: Resources in Georgia to Grow Your International Sales**

January 19–20

Virtual

Metro Atlanta Chamber, UGA Small Business Development Center International Trade Center, U.S. Small Business Administration and the Export-Import Bank of the United States will host a webinar about resources for Georgia exporters. Participants will learn how to access resources, expand sales into new or existing markets, protect against foreign buyer nonpayment and qualify for these products and programs. [Learn more.](#)

- **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, east 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](#).

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