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Global Manufacturing Economic Update

Essential Takes on Leading Economic Indicators

By Chad Moutray and Linda Dempsey – April 9, 2020 – SHARE

Manufacturers Struggle to Maintain Operations Worldwide due to COVID-19

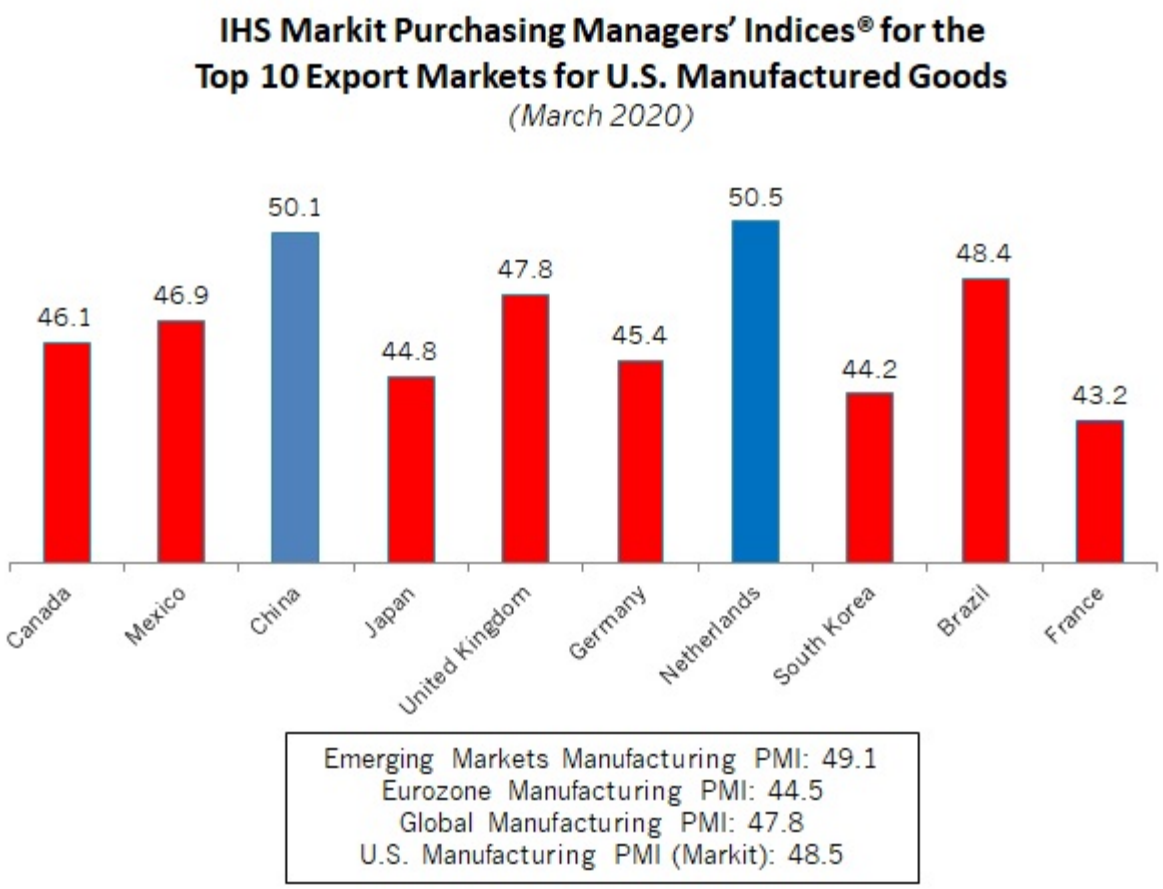
The Monthly Toplines

- Just two of the top 10 markets for U.S.-manufactured goods experienced growth in activity in March: China and the Netherlands. More importantly, aside from the rebound seen in China, each of the other nine economies had weaker PMI data in March than in February, highlighting the abrupt halt in activity seen globally as nations struggle to contain the COVID-19 pandemic.
- The J.P. Morgan Global Composite PMI, which includes both manufacturing and services, fell sharply from 46.1 to 39.4, its lowest level since February 2009. More importantly, the services sector component (down from 47.1 to 37.0) dropped to an all-time low, with fewer people going to restaurants or retailers and travel beyond the home severely restricted worldwide.
- The improvements seen in China in March reflect the attempts of businesses coming back online to some extent. New data on industrial production will likely also show this rebound when released on April 17. In February, Chinese industrial production fell 13.5% year-over-year, its steepest drop in output since 1990.
- Elsewhere, the data continue to reflect the struggle to maintain operations worldwide, with new orders and production dropping sharply. Many firms are also dealing with supply chain and employment disruptions. Here are some examples:
    - Despite rising somewhat in March, the J.P. Morgan Global Manufacturing PMI noted that the contraction in demand was the worst since the spring of 2009.
    - Eurozone manufacturing activity declined at the fastest pace since July 2012, with Germany contracting for the 15th consecutive month and other markets also struggling. Business and consumer confidence in Europe fell from 103.4 in February to 94.5 in March, the biggest monthly drop in the survey's 35-year history.

    - Our largest trading partners, Canada and Mexico, each contracted sharply in March. Activity in Canada fell to the lowest level since the survey began in October 2010. Activity in Mexico, down from 50.0 to 47.1, contracted for the fourth time in the past five months.
    - The au Jibun Bank Japan Manufacturing PMI fell to its worst reading since the April 2011 tsunami.
    - The April IHS Markit survey data will likely show further deteriorations in manufacturing sentiment globally.

- The U.S. dollar has soared 7.0% against a broad-based index of currencies for goods and services since March 3, according to the Federal Reserve. As such, the U.S. dollar has been very strong relative to other currencies, especially as investors have flocked to the safety of dollar-denominated assets in the current COVID-19 financial crisis.
- The U.S. trade deficit fell to the lowest level since September 2016, decreasing from $45.48 billion in January to $39.93 billion in February. The decline over the past two months in the trade deficit has stemmed largely from a sharp decrease in goods imports, which have fallen from $207.44 billion in December, to $203.37 billion in January, to $198.42 billion in February, a level not seen since October 2016.
- In non-seasonally adjusted data, U.S.-manufactured goods exports declined by roughly 1 percent in the first two months of 2020 relative to January and February of 2019.
- Manufacturers continue to advance efforts with the administration and Congress to ensure trade certainty and address challenges overseas, particularly amid the COVID-19 pandemic:

    - Monitoring foreign export restrictions and bans on personal protective equipment, health products and other products during the COVID-19 response
    - Working with U.S. government agencies to create streamlined communication channels to aid manufacturers facing trade and supply chain bottlenecks
    - Monitoring essential critical infrastructure guidance globally during the COVID-19 crisis
    - Urging a quick return to the negotiating table to begin negotiations on a U.S.–China “phase two” trade deal
    - Working with policymakers in the United States, Mexico and Canada to ensure full implementation of the United States–Mexico–Canada Agreement
    - Securing a strong Miscellaneous Tariff Bill in 2020 to eliminate tariffs on products not produced or available in the United States



Global Economic Trends

- **Worldwide Manufacturing Activity:** The J.P. Morgan Global Manufacturing PMI declined at a slower rate in March, likely due to some stabilization in China, after falling to its lowest level since May 2009 in February on worries about the COVID-19 outbreak and disruptions in "supply chains and demand." The headline index increased from 47.1 in February to 47.6 in March, contracting for the second straight month (and the eighth time in the past 11 months). The underlying data were mixed. The pace of decline for global output and employment eased in March. However, the contraction for new orders and exports deepened further, with each falling to levels not seen since the spring of 2009.

  The index for future output (52.3) indicated some cautious optimism for very modest growth six months from now, even as it softened to the slowest rate since the survey question was added in July 2012. With that said, there has likely been a further deterioration in activity in many economic markets from both the COVID-19 outbreak and oil price shocks, which suggests some additional weakening in the forthcoming April data.

  Meanwhile, the J.P. Morgan Global Composite PMI, which includes both manufacturing and services, fell sharply from 46.1 to 39.4, its lowest level since February 2009. More importantly, the services sector component (down from 47.1 to 37.0) dropped to an all-time low, with fewer people going to

restaurants or retailers and travel beyond the home severely restricted worldwide. (The low point in the Great Recession was a reading of 37.8 in October 2008.)

- **Major Markets:** Just two of the top 10 markets for U.S.-manufactured goods experienced growth in activity in March: China and the Netherlands. More importantly, aside from the rebound seen in China, each of the other nine economies had weaker PMI data in March than in February, highlighting the abrupt halt in activity seen globally as nations struggle to contain the COVID-19 pandemic. These contractions in manufacturing performance were at multiyear lows, often the worst seen since the Great Recession, with some notching new record lows. Here are more details on each of these major markets (in order of their ranking for U.S.-manufactured goods exports in 2019):

    - Canada: down from 51.8 in February to 46.1 in March, the lowest level since the survey began in October 2010
    - Mexico: down from 50.0 to 47.1, contracting for the fourth time in the past five months
    - China: up from 40.3 to 50.1, rebounding from the worst reading since the survey began in April 2004 as the nation stabilizes from its COVID-19 outbreak and starts to get operations back up and running
    - Japan: down from 47.8 to 44.8, its worst reading since the tsunami in April 2011
    - United Kingdom: down from 51.7 to 47.8, a three-month low and reversing the post-Brexit boost in confidence seen in February
    - Germany: down from 48.0 to 45.4, contracting for the 15th straight month
    - Netherlands: down from 52.9 to 50.5, slowing in March with new orders (44.9) contracting at the fastest rate since December 2011
    - South Korea: down from 48.7 to 44.2, its lowest level since January 2009
    - Brazil: down from 52.3 to 48.4, its worst reading since February 2017
    - France: down from 49.8 to 43.2, a level not seen since January 2011, with output declining at fastest clip since March 2009

- **Regional and National Trends:** The downward shift in global manufacturing activity over the past month can clearly be seen in the PMI data discussed above. Here are some other economic trends worth noting:

    - China: The improvements seen in China in March reflect the attempts of businesses coming back online to some extent. New data on industrial production will likely also show this rebound when released on April 17. In February, Chinese industrial production fell 13.5% year-over-year, its steepest drop in output since 1990. Retail sales (down 20.5% year-over-year) and fixed-asset investment (down 24.5% year-over-year) were also off sharply in February and will be closely watched for improvements in March.
    - Europe: In contrast, Eurozone industrial production could start to show

the effects of COVID-19 with its February release on April 16. In January, industrial production was up 2.3%, but with a decline of 1.9% year-over-year. Retail sales rose 0.9% in February and were up 3.0% over the past 12 months, with the unemployment rate dropping to 7.3% in February, the lowest since March 2008. With that said, business and consumer confidence fell from 103.4 in February to 94.5 in March, the biggest monthly drop in the survey's 35-year history.

- United Kingdom: Real GDP was flat in the fourth quarter, slowing from a gain of 0.5% in the third quarter. On an annualized basis, the U.K. economy grew 1.1%, the slowest since the first quarter of 2018. Industrial production edged down 0.1% in January, but with manufacturing output up 0.2%. Since January 2019, industrial production fell 2.9%, the most since February 2013. Retail sales were down 0.3% in February, declining for the third time in the past four months, with a decrease of 1.6% year-over-year, the weakest rate since March 2013.
- Canada: Manufacturing sales were off 0.2% in January, led by weaker demand for petroleum and coal products and transportation equipment. After declining for five straight months, manufacturing sales have declined 1.2% year-over-year, with new data coming out on April 16. Retail sales were up 0.4% in January, with 3.4% growth over the previous 12 months.
- Mexico: Industrial production fell 0.6% in February, declining 1.9% over the past 12 months. Manufacturers have reported a 1.0% decline year-over-year.
- Japan: Industrial production increased for the third straight month, up 0.4% in February, led by chemicals, electronic parts and devices and metals. Yet, Japanese industrial production has fallen 4.7% since February 2019.
- Emerging Markets: Buoyed by the stabilization seen in China, the IHS Markit Emerging Markets Manufacturing PMI rose from 44.6 in February, the lowest reading since March 2009, to 49.1 in March.

- **Trade-Weighted U.S. Dollar Index:** The U.S. dollar has soared 7.0% against a broad-based index of currencies for goods and services since March 3, according to the Federal Reserve. As such, the U.S. dollar has been very strong relative to other currencies, especially as investors have flocked to the safety of dollar-denominated assets in the current COVID-19 financial crisis. This index reflects currency rates per U.S. dollar, suggesting the dollar can purchase a lot more today than it could just a few weeks ago. In general, manufacturers continue to cite a strong dollar as a challenge, both to their earnings and for increasing international demand. Over a longer time horizon, the U.S. dollar has risen 17.1% since Feb. 1, 2018, with 33.9% growth since July 1, 2014.

- **International Trade:** The U.S. trade deficit fell to the lowest level since September 2016, decreasing from $45.48 billion in January to $39.93 billion in

February. The decline over the past two months in the trade deficit has stemmed largely from a sharp decrease in goods imports, which have fallen from $207.44 billion in December, to $203.37 billion in January, to $198.42 billion in February, a level not seen since October 2016. In February, goods imports fell for consumer goods (down $1.13 billion), foods, feeds and beverages (down $403 million), industrial supplies and materials (down $1.60 billion) and non-automotive capital goods (down $3.69 billion, including $2.59 billion for computers and accessories and telecommunications equipment). However, goods imports increased for automotive vehicles and parts (up $1.40 billion).

Meanwhile, goods exports rose from $136.25 billion in January to $137.20 billion in February, led by growth in automotive vehicles, parts and components (up $537 million), industrial supplies and materials (up $719 million) and non-automotive capital goods (up $241 million). At the same time, exports declined for foods, feeds and beverages (down $91 million, including a decline of $503 million for soybeans) and consumer goods (down $698 million).

In non-seasonally adjusted data, U.S.-manufactured goods exports totaled $176.31 billion in the first two months of 2020, down 1.01% from $178.11 billion in January and February of 2019. As such, it suggests that demand for manufactured goods has remained weak so far this year, building on the declines seen last year.

International Trade Policy Trends

- ***U.S. Joins G20 Leaders, Trade Ministers Pledging to Minimize Disruptions to Trade and Global Supply Chains.*** As the United States and other countries respond to the health, trade and economic challenges posed by the COVID-19 pandemic, President Trump joined other G20 leaders in a March 26 virtual summit and joint statement, pledging joint efforts to "minimize disruptions to trade and global supply chains."
    - G20 Trade Ministers held a follow-up summit on March 31, pledging to "take immediate necessary measures to facilitate trade" in goods needed for pandemic response. The statement, however, stopped short of any pledge to avoid or limit export bans or restrictions. In his statement, U.S. Trade Representative Robert Lighthizer affirmed the importance of not disrupting supply chains, though he also said that the crisis had shown the dangers of "overdependence on other countries" and the need for supply chain diversification.
    - Both statements followed announcements from a group of Pacific Rim countries (New Zealand, Singapore, Chile, Canada, Australia, Brunei and Myanmar). They issued a joint statement affirming the importance of refraining from export bans or restrictions and working together to ensure a free flow of trade during the COVID-19 pandemic.

The NAM is monitoring closely foreign export restrictions and bans on personal protective equipment, health products and other products during the COVID-19 response and has worked with U.S. government agencies to create streamlined communication channels to aid manufacturers facing trade and supply chain bottlenecks.

Learn more.

- ***Manufacturers monitor essential critical infrastructure guidance globally amid COVID-19 pandemic.*** As part of the NAM's broad engagement on issues related to essential critical infrastructure amid the COVID-19 pandemic, manufacturers continue to monitor closely global actions that affect their ability to operate around the world.
    - On March 31, Mexico released a decree that defines a narrow set of industries and activities as essential in Mexico. This decree has resulted in considerable uncertainty for manufacturers with facilities in Mexico, including those that supply essential manufacturing operations in the United States.
    - On April 2, the Canadian federal government issued non-binding guidance with a list of services and functions across 10 critical infrastructure sectors, including manufacturing, energy, information and communication technologies, health, food and transportation. Additionally, a number of Canadian provinces, including Quebec, Ontario, British Columbia, Prince Edward Island, New Brunswick, Newfoundland and Labrador, Alberta and Saskatchewan, have released their own essential critical infrastructure guidance.

  Learn more.

- ***U.S., China continue implementation steps for "Phase One" deal.*** Even amid the ongoing COVID-19 pandemic, U.S. and Chinese officials are continuing efforts to implement the U.S.–China "phase one" trade deal (English and Chinese), with President Trump and senior U.S. officials touting concrete progress on some of the most immediate agriculture items.
    - NAM sources indicate that the two sides have set up and started using dialogue mechanisms, including calls between "designated officials," and initial deadlines such as Chinese steps to lift bans and implement protocols to facilitate U.S. exports of products such as potatoes, beef, pet food and dairy products.
    - It remains unclear whether China met its March 27 deadline to provide the United States with a detailed, timeline-driven action plan for steps to improve intellectual property. However, NAM sources indicate that China and the United States have had constructive conversations about those commitments.
    - Questions remain about China's progress on its commitments to purchase $200 billion of manufacturing, agriculture and energy products.

China's February 19 creation of a new exclusion process provides a facilitation mechanism. Though he did not provide details on manufacturing purchases, President Trump on April 6 indicated that initial trade statistics show increased Chinese purchases of agricultural commodities.

- Separately, USTR on March 20 also announced a public comment process for potential modifications for products facing Section 301 tariffs and needed for the medical response to the COVID-19 pandemic. In a follow-up notice, USTR stressed that public comments would be open until June 25.

The NAM strongly supported the deal based on key commitments in areas such as intellectual property and dispute resolution, calling for robust implementation of its commitments. The NAM also urged a quick return to the negotiating table to begin negotiations on a "phase two" deal to discuss unaddressed areas of the NAM's negotiating framework and provide the pathway to step back from trade war actions that have caused significant business uncertainty for manufacturers.

Learn more.

- ***USMCA entry into force likely delayed until July 1 at the earliest.*** The United States, Mexico and Canada continue to work toward implementation of the United States–Mexico–Canada Agreement, with Canada and Mexico completing domestic procedures required prior to entry into force of the agreement.
  - On April 2, Canada notified the United States and Mexico that Canada has completed its domestic ratification process for USMCA. Deputy Prime Minister Chrystia Freeland said in a press release that the "Canadian government will continue to work with the United States and Mexican governments to determine an 'entry into force' date that is mutually beneficial."
  - On April 4, Mexico notified the United States and Canada that Mexico has completed its internal process to enable entry into force of the USMCA. On April 7, the government of Mexico requested a transition period for full implementation of the automotive provisions under the agreement.
  - On March 30, a bipartisan group of 19 senators urged the Trump administration to delay entry into force. They wrote that "USMCA should not enter into force prematurely – particularly in light of the COVID-19 pandemic – and thereby deny American farmers, workers, and businesses its intended benefits."

July 1 is likely the earliest date on which the USMCA can enter into force. The NAM will continue working with policymakers in all three countries to ensure full implementation of the USMCA so that manufacturers can grow their business even more with our country's two

largest trading partners.

Learn more.

- ***USTR Releases 2020 National Trade Estimate Report on Foreign Trade Barriers.*** The Office of the U.S. Trade Representative on March 31 released the National Trade Estimate report, its long-standing annual report on international trade barriers around the world.
    - This year's report – more than 500 pages in length – covers trade barriers in 63 markets around the world, including all of the United States' free trade agreement partners. These barriers protect foreign competitors and block access by U.S. goods and services to critical foreign markets as well as efforts by USTR to address those barriers.
    - Included with the press release is a summary of the biggest developments highlighted in the report and fact sheets on digital trade barriers and agriculture-related measures.
    - The report covers many of the priorities that the NAM highlighted in its October 2019 comments, including import tariffs, export subsidies and limitations, discriminatory localization policies, lack of intellectual property protection, technical barriers to trade, investment restrictions and digital trade. The fact sheet on key developments ticks off key areas where the NAM worked to lead the charge, from larger issues such as the United States–Mexico–Canada Agreement and the China "phase one" deal to specific regulatory issues such as Colombia truck scrapping and European technical standards for key manufactured equipment.
    - The biggest focal points are concentrated in a handful of markets, with the European Union by far the largest (running nearly 50 pages). Other countries and regions that received extensive coverage include China, India, Russia, Indonesia and Japan.

  Learn more.

- ***U.S. Export-Import Bank approves temporary relief measures to deliver flexibility and liquidity to exporters.*** In response to the COVID-19 pandemic, the Ex-Im Bank has approved two sets of relief measures to support exporters during this challenging time. It also has rescheduled its annual conference to this autumn.
    - On March 12, the Ex-Im Bank announced relief provisions for its customers impacted by COVID-19. These include waivers, deadline extensions, streamlined processing and other flexibilities that are in place for an initial period of 30 days, with the possibility of an extension.
    - On March 25, the Ex-Im Bank Board of Directors approved four temporary relief measures to inject liquidity into the market and provide maximum flexibility for exporters and suppliers. Click here for more information about these measures, which include temporary bridge financing, progress delivery payment financing, supply chain finance guarantees and working capital guarantee expansion.

- The Ex-Im Bank Annual Conference, originally set to take place on April 2–3, 2020, will now be held on September 10–11, 2020, in Washington, D.C. The conference theme is “Keeping America Strong: Empowering U.S. Businesses and Workers to Compete Globally.” The conference provides opportunities to hear from key administration officials and export finance experts, participate in breakout sessions, meet Ex-Im Bank staff and network with other U.S. exporters and international buyers, among other opportunities. Click here to register.

Learn more.

- ***Commerce Department MTB report expected by April 9.*** The U.S. Department of Commerce is expected to release by April 9 an assessment of the more than 3,000 MTB petitions to temporarily reduce or eliminate tariffs, which were submitted to the U.S. International Trade Commission late last year. MTB petitions and public comments submitted on each petition can be accessed via the USITC’s MTB Petition System website.

  Learn more.

- ***USTR Notifies Congress of Intent to Negotiate U.S.–Kenya Trade Agreement.*** On March 17, Ambassador Lighthizer notified Congress that the Trump administration will negotiate a trade agreement with Kenya, saying that “we look forward to negotiating and concluding a comprehensive, high-standard agreement with Kenya that can serve as a model for additional trade agreements across Africa.” Under Trade Promotion Authority, the administration is required to publish negotiating objectives at least 30 days prior to the launch of negotiations.

  Learn more.

Take Action

- ***Stop Fakes Roadshow: Intellectual Property Issues Facing the U.S. Auto Industry***
  Postponed
  Detroit, Michigan
  This roadshow delivers important information about intellectual property to the audience that needs it most: start-ups, entrepreneurs, small and medium-sized businesses, independent creators and inventors. Experts from multiple government agencies that deal with intellectual property issues present the information. Learn more.

- ***Trade Mission to the Caribbean Region in conjunction with the Trade Americas – Business Opportunities in the Caribbean Region Conference****May 31 to June 5*
  Bridgetown, Barbados

The conference will focus on region-specific sessions, market-entry strategies, export compliance, legal, logistics, disaster resilience and recovery and trade financing resources. Participants will also be able to have prearranged one-on-one consultations with U.S. and Foreign Commercial Service officers and/or Department of State economic/commercial officers with expertise in commercial markets throughout the region. Learn more.

- ***For a listing of upcoming U.S. Trade and Development Agency missions, click here.***
- ***For a listing of upcoming Commerce Department trade missions, click here.***

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