

# Global Manufacturing Economic Update



Essential Takes on Leading Economic Indicators

By [Chad Moutray](#) – September 10, 2020 – [SHARE](#)

## Manufacturing Activity Gains Steam Worldwide Even as Challenges Persist

### The Monthly Toplines

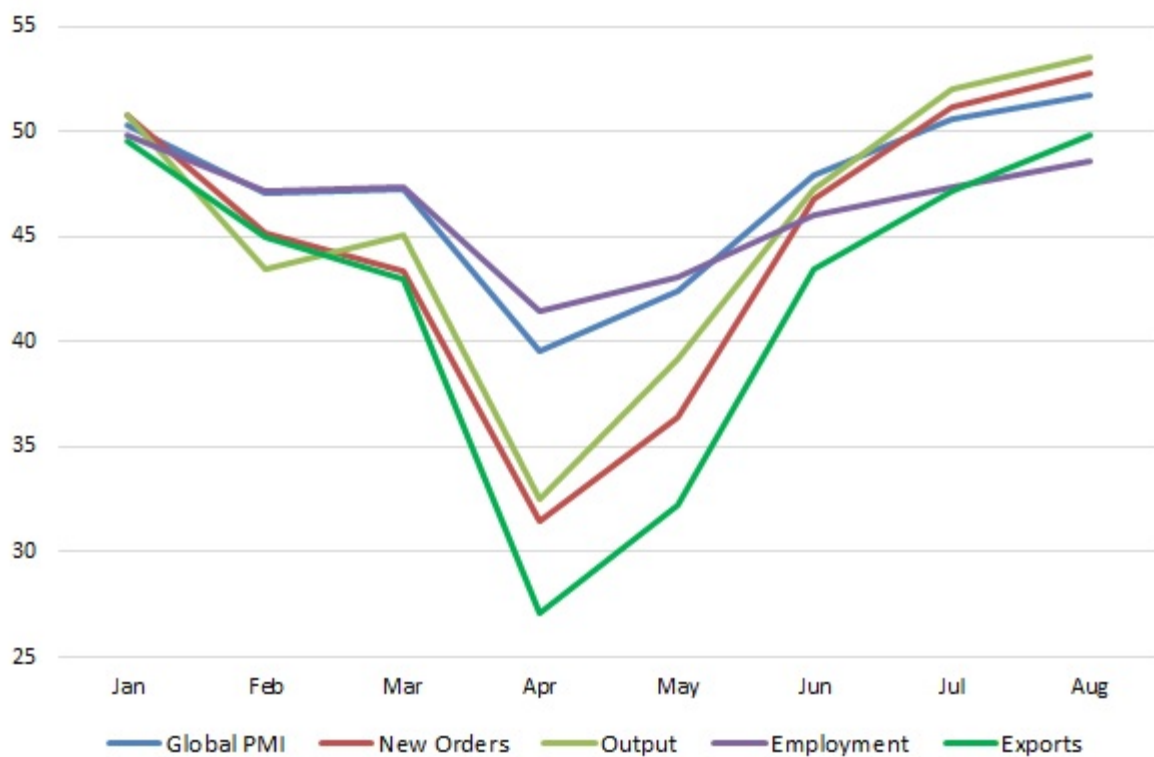
- The [J.P. Morgan Global Manufacturing PMI](#) expanded in August at the fastest pace since November 2018, and the sector continues to bounce back even as challenges persist worldwide due to COVID-19 and the severe worldwide recession.
- In August, sentiment among the top 10 markets for U.S.-manufactured goods improved in every economy except [France](#). Six markets expanded — the same pace as in July and up from one (China) in May.
- In [Brazil](#), manufacturers reported that new orders and output soared at record paces, and employment grew at its best rate since February 2010.
- [Chinese manufacturing activity](#) rose at the fastest pace since January 2011. [Industrial production](#) grew 4.8% year-over-year, but [fixed-asset investment](#) and [retail sales](#) continued to reflect pullbacks in activity, despite some progress.
- While economies around the world have rebounded strongly in recent months, the data reflect the damage caused by the pandemic. For instance, [Eurozone industrial production](#) has fallen 12.3% year-over-year despite jumping by 9.1% in June. [Output in Mexico](#) has also plummeted 17.5% over the past 12 months. Likewise, [production in the United Kingdom](#) continues to be down 11.6% since February, while [manufacturing sales in Canada](#) are still 13.2% lower than levels seen before COVID-19.
- The [U.S. trade deficit](#) rose to the highest level since July 2008, with the goods trade deficit soaring to a new record. Growth in goods imports outpaced the gains in goods exports. The data continue to reflect the drop-off in trade activity year to date, with U.S.-manufactured goods exports down 17.3% through the first seven months of 2020 relative to the same period in 2019.
- Since April 24, the U.S. dollar [has fallen](#) 6.5% against a broad-based index of currencies for goods and services, according to the Federal Reserve.
- Manufacturers continue to advance efforts with the administration and

Congress to open markets, ensure trade certainty and address challenges overseas, including the following:

- Monitoring the U.S.–China security, trade and economic relationship
- Leading industry engagement on World Health Organization reform
- Leading industry advocacy in support of congressional passage of a comprehensive Miscellaneous Tariff Bill
- Submitting comments on the United States–Mexico–Canada Agreement labor interim procedural guidelines
- Submitting comments on the U.S. Export–Import Bank’s Partnership with the Private Export Funding Corporation

### J.P. Morgan Global Manufacturing Purchasing Managers’ Index

(January to August 2020)



## Global Economic Trends

- **Worldwide Manufacturing Activity:** The [J.P. Morgan Global Manufacturing PMI](#) expanded in August at the fastest pace since November 2018, buoyed by recoveries in demand and production. The headline index rose from 50.6 in July to 51.8 in August, and the sector continues to bounce back even as challenges persist worldwide due to COVID-19 and the severe worldwide recession. New orders (up from 51.2 to 52.8) and output (up from 52.0 to 53.6) both accelerated at their best readings since June and April 2018, respectively. The declines in employment (up from 47.3 to 48.6) and exports (up from 47.2 to 49.9) each stabilized, declining at slower rates. In addition, the index for future output (up from 59.5 to 60.8) continued to signal cautious optimism for a

rebound in production over the next six months, with that indicator at its best pace since February. On the downside, input prices (up from 53.1 to 54.5) also picked up, rising to their highest levels since December 2018.

- **Sentiment in Major Markets:** In August, sentiment among the top 10 markets for U.S.-manufactured goods improved in every economy except France. Six markets expanded — the same pace as in July and up from one (China) in May. As such, these major trading partners have continued to improve after plummeting in April to levels that were either the worst since the Great Recession or at 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](#) (up from 52.9 to 55.1, the best reading since August 2018): The data were higher across the board, with demand and production growing at the strongest pace in two years and employment rising at rates not seen since January 2019. The index for future output was the best since February.
  - [Mexico](#) (up from 40.4 to 41.3, declining at slowest pace since March): Mexico once again reported the weakest PMI among the top 10 markets. Activity continued to deteriorate sharply, despite some improvements across the board in all of the key measures.
  - [China](#) (up from 52.8 to 53.1, the best reading since January 2011): The headline index was buoyed by strong growth in new orders and output, with exports expanding for the first time since December and hiring continuing to stabilize. The index for future output pulled back for the second straight month but continued to signal optimism for production increases over the next six months.
  - [Japan](#) (up from 45.2 to 47.2, the highest reading since February): Despite progress across the board, Japanese manufacturing activity remained severely challenged, contracting for the 16th straight month. Yet, the index for future output suggests cautious optimism for very modest growth six months from now.
  - [United Kingdom](#) (up from 53.3 to 55.2, the best reading since February 2018): A solid rebound in production, which grew at the fastest rate since May 2014, helped buoy overall manufacturing activity in August. New orders also expanded strongly, with the category's strongest pace since November 2017, and exports expanded for the first time in 10 months. Manufacturers remained very upbeat about future production, albeit with a slight pullback on optimism.
  - [Germany](#) (up from 51.0 to 52.2, the best reading since October 2018): Output soared at a rate not seen since February 2018, with solid growth for new orders and exports (despite a slight pullback in domestic sales). Hiring continued to deteriorate sharply. The index of future output rose to its strongest level since February 2018.
  - [Netherlands](#) (up from 47.9 to 52.3, the first expansion in activity since March and best reading since February): New orders, exports and output

each accelerated strongly in August, rising at the fastest rates since at least January 2019. The index for future output was the best since February, but employment continued to lag, albeit with some stabilization.

- [South Korea](#) (up from 46.9 to 48.5, the highest reading since February): Manufacturing activity has contracted in every month so far in 2020 (and in 20 of the past 24 months). South Korean manufacturers expect better growth over the next six months, with the index of future output expanding for the first time since before the pandemic.
- [Brazil](#) (up from 58.2 to 64.7, a new record high): In August, new orders and output soared at record paces, and employment grew at its best rate since February 2010. Exports continued to decline. Brazil had the highest PMI among the top 10 markets for U.S.-manufactured goods, and survey respondents were very optimistic in their outlook.
- [France](#) (down from 52.4 to 49.8, contracting ever-so-slightly in August after expanding in July at the strongest pace since September 2018): Output slowed, and declines for new orders and employment quickened in August, pulling back from recent progress. Yet, the index for future output pointed to cautious optimism for the coming months.
- **Regional and National Trends:** Here are some other economic trends worth noting.
  - [China](#): In July, [industrial production](#) grew 4.8% year-over-year, the same pace as in June. This measure continued to reflect improvement from the decline of 13.5% year-over-year in January/February. At the same time, [fixed-asset investment](#) (down 1.6% year-over-year) and [retail sales](#) (down 1.1% year-over-year) both declined at slower rates in July. However, they continued to indicate pullbacks in business and consumer spending, despite some progress. Each of these measures will be updated with August data on Monday, Sept. 14.
  - [Europe](#): [Real GDP](#) plummeted 11.8% in the second quarter. This figure represented the worst decline on record and extended the 3.7% decline in the first quarter, according to preliminary data. On a year-over-year basis, the Eurozone economy has contracted 14.7%. New July production data will be released on Sept. 14. In June, [industrial production](#) jumped 9.1%, extending the 12.3% gain seen in May. But, Eurozone production remained well below prerecessionary levels, with output down 12.3% year-over-year. For its part, [retail sales](#) were off by 1.3% in July, pulling back following sharp increases in May and June. Over the past 12 months, retail spending eked out a gain of 0.4%, which is impressive given the volatility seen since the COVID-19 crisis began. The [unemployment rate](#) edged up from 7.7% in June to 7.9% in July.
  - [United Kingdom](#): [Industrial production](#) rose 6.2% and 9.3% in May and June, respectively. However, output remained 11.6% below where it was in February, illustrating the sharp declines in manufacturing activity seen during the COVID-19 pandemic. An update on U.K. industrial production will be released on Sept. 11. Meanwhile, [retail sales](#) increased 3.6% in

July, extending the 12.2% and 13.9% gains seen in May and June, respectively. Encouragingly, retail spending has risen by 3.0% from February's prepandemic levels.

- **Canada:** [Manufacturing sales](#) soared by a record 20.7% in June, building on the 11.6% gain seen in May. Despite those sharp increases, manufacturing sales in Canada remained 13.2% below the paces seen in February before the COVID-19 pandemic began. July data will be released on Sept. 15. Additionally, [retail sales](#) jumped 23.7% in June, with spending up 1.3% from the levels observed in February. An update for July will come out on Sept. 18. In August, the [unemployment rate](#) was 10.2%, improving from 10.9% in July. [The number of manufacturing workers](#) rose by 29,400 in August, but employment in the sector declined by 85,000 over the past year.
  - **Mexico:** [Industrial production](#) rose 17.9% in June in real terms, but it has fallen 17.5% over the past 12 months. Manufacturing production jumped 26.7% in real terms in June, but it declined 18.3% year-over-year. July figures will be released on Sept. 11. [Note: The link is in Spanish.]
  - **Japan:** [Real GDP](#) fell 7.9% in the second quarter, for a decline of 28.1% on an annualized basis, led by sharp pullbacks in consumer and business spending and exports. Meanwhile, [industrial production](#) rose 8.0% in July, building on the 1.9% gain seen in June. However, production has fallen 16.1% over the past year. On the retail front, [consumer spending](#) fell 3.3% in July, and on a year-over-year basis, retail sales have decreased 2.8%. [Note: The links are in Japanese.]
  - **Emerging Markets:** The IHS Markit Emerging Markets Manufacturing PMI rose from 51.4 to 52.5, expanding for the second straight month and at its fastest pace since April 2011. New orders and output accelerated, buoying the headline index, with employment and exports stabilizing to their best readings since January. The index for future output signaled optimism about production over the next six months, increasing at the strongest pace since February. [Note: There is no link for this release.]
- **Trade-Weighted U.S. Dollar Index:** Since April 24, the U.S. dollar [has fallen](#) 6.5% against a broad-based index of currencies for goods and services, according to the Federal Reserve. The index reflects currency rates per U.S. dollar, suggesting the dollar can purchase somewhat less today than it could a few months ago. Overall, the recent pullback reverses the trend seen earlier in the spring, when investors flocked to the U.S. dollar and dollar-denominated assets due to the COVID-19 pandemic. The current trend coincides with signs of improvements in manufacturing activity in the global economy, but it has also been exacerbated by lingering concerns about COVID-19 in the U.S.

Despite recent declines, 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 9.3% since Feb. 1, 2018, with 24.9% growth since July 1, 2014.

- **International Trade:** The [U.S. trade deficit](#) rose to the highest level since July



2008, jumping from \$53.46 billion in June to \$63.56 billion in July. Goods imports increased from \$174.83 billion to \$196.37 billion, the best reading since February. That was enough to outpace the growth in goods exports, which rose from \$103.18 billion to \$115.46 billion, a four-month high. More importantly, the goods trade deficit soared from \$71.65 billion to \$80.91 billion, a new record. In addition, the service-sector trade surplus has fallen over the course of this year, down from \$24.30 billion at the end of last year to \$17.35 billion in July, the lowest level since August 2012.

In July, strong growth in goods exports occurred for automotive vehicles, parts and engines (up \$3.85 billion), consumer goods (up \$2.60 billion), industrial supplies and materials (up \$2.51 billion) and non-automotive capital goods (up \$2.47 billion). For comparison, goods imports growth was also very solid in the same categories: automotive vehicles, parts and engines (up \$7.73 billion), industrial supplies and materials (up \$4.35 billion), non-automotive capital goods (up \$4.07 billion) and consumer goods (up \$3.55 billion).

- **U.S.-Manufactured Goods Exports:** In non-seasonally adjusted data, U.S.-manufactured goods exports [totaled](#) \$543.41 billion through the first seven months of 2020, dropping 17.27% from \$656.86 billion for the same time frame in 2019.

## International Trade Policy Trends

- ***U.S.–China relations heat up with new sanctions, business restrictions, while senior U.S., Chinese officials continue to commit to Phase One deal.*** August remained a hot month for U.S.–China security, trade and economic issues. The Trump administration continued to elevate rhetoric and steps in line with a more broadly confrontational approach toward China, alongside active steps by key administration players to continue discussions on the [U.S.–China “phase one” trade deal](#).
  - On Aug. 24, U.S. Trade Representative Robert Lighthizer, Treasury Secretary Steven Mnuchin and Chinese Vice Premier Liu He held a planned call to review implementation of the “phase one” agreement. The [United States](#) and [China](#) reported that the call was constructive, with broad discussions about China’s status in implementing structural barriers in priority areas for manufacturers, such as intellectual property rights and market access, as well as discussion of progress made and needed on purchases.
  - On Aug. 19, the State Department [announced](#) that it would suspend or terminate three extradition and tax treaties with Hong Kong to implement President Trump’s July 14 [executive order](#) authorizing steps to dismantle areas of special and differential treatment for Hong Kong. Separately, U.S. Customs and Border Protection [announced](#) plans to require U.S. imports from Hong Kong to be marked as coming from China, later [extending the implementation date until Nov. 9](#). CBP [clarified](#) that these requirements would not subject goods originating in Hong Kong to China

tariffs.

- Political messaging on China has also continued to heat up, with China highlighted particularly strongly at the Republican convention. President Trump and multiple other speakers called out China on trade, security and human rights issues. Though China was only lightly mentioned in Vice President Biden's acceptance speech at the Democratic convention, the Democratic platform addresses concerns about China on issues of national security, intellectual property theft and human rights.
- On Aug. 17, the Commerce Department's Bureau of Industry and Security [announced and began implementing](#) two final rules aimed at restricting the ability of Huawei and its non-U.S. affiliates to acquire semiconductors made with U.S. software, technology or equipment. The rules [restrict](#) authorization for exports, tighten licensing rules, add more Huawei affiliates to Commerce's entity list and [apply](#) broader end-user controls.
- Commerce and State [announced](#) new business and visa restrictions on Chinese companies and individuals based on their involvement with Chinese actions in the South China Sea. These restrictions include the Aug. 26 [addition](#) of 24 Chinese companies to Commerce's Entity List for their involvement in these issues. They also [announced plans](#) to impose visa restrictions on unnamed Chinese individuals involved in these issues.

[Learn more.](#)

- ***NAM leads industry engagement surrounding WHO reform.*** As domestic discussion about the WHO has heated up in recent months, the NAM has continued to lead the charge in favor of effective U.S. engagement and leadership at multilateral institutions and for reforms to address initiatives and activities that are harmful to manufacturing. These issues have elevated in recent months following President Trump's [May 29 announcement](#) of plans to withdraw from the WHO based on the administration's criticism of the organization's handling of COVID-19 and its relationship with China. On July 7, Secretary of State Mike Pompeo [notified](#) the United Nations of the intent to withdraw by July 2021. [Briefings were held in the last few weeks](#) on plans to accelerate plans to withdraw and divert funding immediately.

The NAM is working both directly and through its cross-sector coalition, Engaging America's Global Leadership, to advance WHO reforms and express strong concerns about how U.S. withdrawal will impact manufacturers and the ability to advance U.S. foreign policy, health and business interests. Through direct meetings, briefings and advocacy letters, the NAM is engaging directly with senior members of the administration and bipartisan members of Congress to flag these concerns and drive a path toward reform and continued U.S. membership in the WHO.

[Learn more.](#)

- **Manufacturers ramp up campaign in support of congressional passage of the MTB.** Following the Aug. 10 release of a [final report](#) by the U.S. International Trade Commission on nearly 2,500 petitions for temporary tariff relief for the 2021–2023 period under the MTB, the NAM is once again leading industry advocacy in support of congressional passage by the end of 2020 of this critical legislation for manufacturers. Passage of a comprehensive MTB by the end of this year would eliminate tariffs for three years on products not made or available in the United States.

[Learn more.](#)

- **NAM submits comments to USTR on USMCA labor interim procedural guidelines.** On Aug. 15, the NAM sent these [comments](#) to USTR in response to the June release of [United States-Mexico-Canada labor interim procedural guidelines](#). The guidelines cover public submissions of information regarding potential failures of Canada or Mexico to implement their labor obligations under the USMCA.

[Learn more.](#)

- **NAM Submits Comments on Ex-Im Bank's Partnership with PEFECO:** On Aug. 21, the NAM submitted [comments](#) in support of the Export-Import Bank of the United States continuing its partnership with PEFECO. These NAM comments come in response to a [notice](#) in the Federal Register seeking input on the Ex-Im Bank's partnership with [PEFECO](#), which is a private organization that helps crowd-in private export financing for Ex-Im Bank guaranteed and insured transactions. PEFECO's public-private partnership with Ex-Im Bank must be renewed every 25 years. The current partnership term expires on Dec. 31. The Ex-Im Bank Board of Directors will likely vote on the renewal of the partnership this month.

[Learn more.](#)

- **BIS Publishes Foundational Technology Advanced Notice of Proposed Rulemaking:** On Aug. 27, BIS released the long-awaited advance notice of proposed rulemaking titled [Identification and Review of Controls for Certain Foundational Technologies](#).
  - As mandated under Section 1758 of the Export Control Reform Act of 2018, BIS is working to identify and establish appropriate controls on both emerging and foundational technologies, commodities and software that are critical to U.S. national security.
  - This ANPRM states that foundational technologies “are those that may warrant stricter controls if a present or potential application or capability of that technology poses a national security threat to the United States.”
  - BIS plans to evaluate specific items, such as items currently subject only to anti-terrorism controls and EAR99 products. Through Oct. 26, BIS is [seeking comments](#) to help inform this rulemaking process.



**Canada releases draft retaliation list against U.S. Section 232 aluminum tariffs.** On Aug. 13, Canada issued a [notice of intent](#) to impose countermeasures against the United States in response to the U.S. decision to [reinstate tariffs](#) of 10% on imports of nonalloyed unwrought aluminum from Canada.

- Canada's countermeasures will result in tariffs of 10% on affected imports from the United States, and the tariffs will take effect by Sept. 16 and remain in place until the United States eliminates its tariffs against imports from Canada.
- The list of products included in Canada's notice is a draft list, and the final list will be smaller in scope.
- In a statement responding to the U.S. decision on Aug. 6, NAM President and CEO Jay Timmons [said](#) that "just a month after USMCA implementation leveled the playing field for manufacturers, we were surprised" to see the announcement, adding that the action is a "step backwards for a historic trade agreement that restored trade certainty and empowered our industry."

[Learn more.](#)

#### Take Action

- For a listing of upcoming U.S. Trade and Development Agency missions, [click here](#).
- For a listing of upcoming Commerce Department trade missions, [click here](#).

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Questions or comments? Email NAM Chief Economist Chad Moutray at [cmoutray@nam.org](mailto:cmoutray@nam.org).

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