

Global Manufacturing Economic Update



Essential Takes on Leading Economic Indicators

By [Chad Moutray](#) – November 12, 2020 – [SHARE](#)

Despite Global Service-Sector Weaknesses in October, Manufacturing Strengthened Further

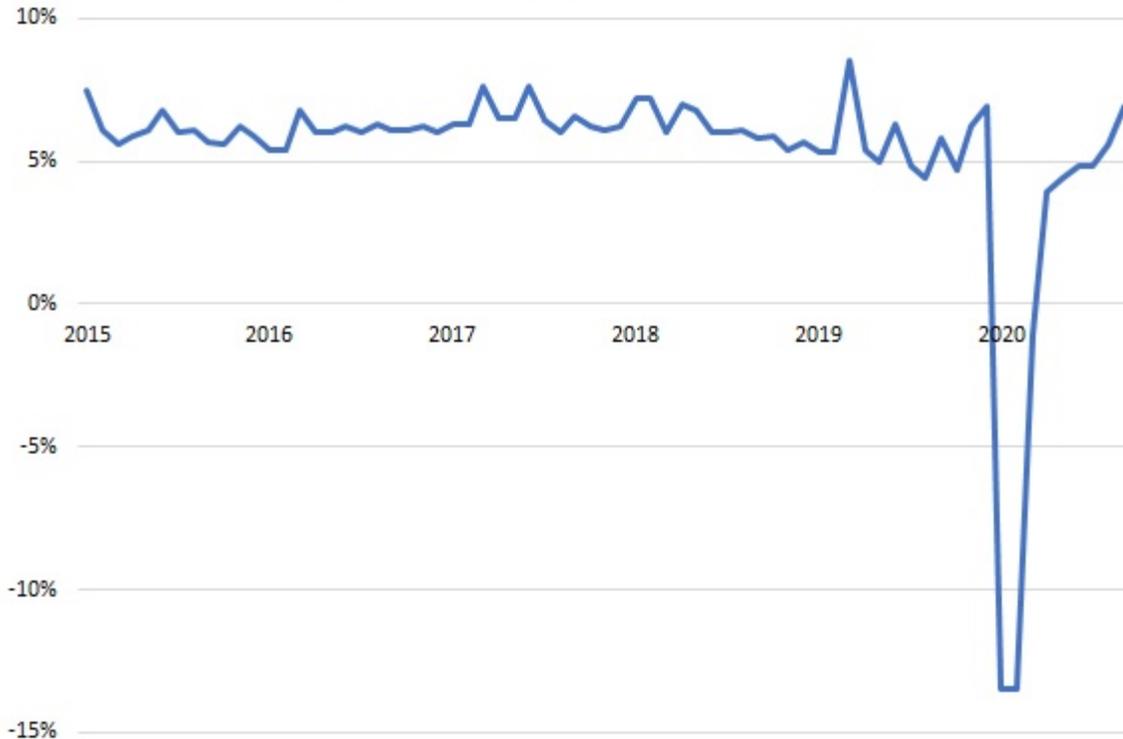
The Monthly Toplines

- The [J.P. Morgan Global Manufacturing PMI](#) expanded at the fastest pace since May 2018, up from 52.4 in September to 53.0 in October, buoyed by strength in demand and production and rising for the fourth straight month. In October, eight of the top 10 markets for U.S.-manufactured goods had expanding manufacturing sectors, up from seven in September and just one (China) in May.
- The International Monetary Fund [predicts](#) that worldwide GDP will fall 4.4% in 2020 due to the COVID-19 pandemic and global recession, with output rebounding 5.2% in 2021. While economic activity has trended in the right direction, there are lingering worries in the outlook, including new restrictions on activity in many markets due to the continued spread of the virus.
- Along those lines, the service sector has seen renewed weaknesses in some areas, particularly in Europe, where COVID-19 cases are again on the rise. This could pose some risks to the manufacturing sector outlook moving forward if it persists.
 - The Chinese economy [grew](#) 4.9% over the past 12 months in the third quarter, continuing to reflect improvements since the pandemic sharply reduced activity in the first quarter. [Industrial production](#) increased 6.9% year-over-year in September, its best annual rate since December.
- [Eurozone real GDP](#) jumped 12.7% in the third quarter, bouncing back after falling by 3.7% and 11.8% in the first and second quarters, respectively. In August, [industrial production](#) rose 0.7%, expanding for the fourth straight month, but output has fallen 7.2% over the past 12 months.
- After rising in the three prior months, [manufacturing sales](#) in Canada pulled back, down 2.0% in August. Overall, orders in the sector remained 6.6% below

the pace seen in February before the COVID-19 pandemic began.

- [Mexican industrial production](#) rose 3.3% in real terms in August, slowing from the 7.1% gain in July but increasing for the third straight month. It has fallen 8.4% over the past 12 months. [Link is in Spanish.]
- [Japanese industrial production](#) rose 4.0% in September, increasing for the fourth straight month and led by strength in electronics, machinery and motor vehicles. However, production has fallen 9.0% over the past year.
- The IHS Markit Emerging Markets Manufacturing PMI expanded in October at the fastest pace since March 2011. New orders and output accelerated, buoying the headline index, and optimism about future production rose to the best reading since October 2014.
- The [U.S. trade deficit](#) pulled back from the highest level since August 2006, decreasing from \$67.04 billion in August to \$63.86 billion in September, with growth in goods exports outpacing the increase in goods imports for the month.
- According to the latest update from [TradeStats Express](#), U.S.-manufactured goods exports totaled \$857.65 billion through the first three quarters of 2020, using seasonally adjusted data, dropping 16.32% from \$1,024.86 billion year to date in 2019 and the slowest pace since 2010.
- Manufacturers continue to advance efforts with the administration and Congress to open markets, ensure trade certainty and address challenges overseas, including by:
 - Monitoring the U.S.–China security, trade and economic relationship;
 - Submitting comments to the U.S. Department of Commerce on an advanced notice of proposed rulemaking on foundational technologies;
 - Advocating for U.S.–Mexico–Canada Agreement implementation in a manner that supports U.S. manufacturing and jobs;
 - Continuing advocacy in support of a one-year delay in the implementation of the European Union’s proposed database on substances of concern in certain products; and
 - Leading industry advocacy in support of congressional passage of a comprehensive Miscellaneous Tariff Bill.

Year-Over-Year Percentage Changes in Chinese Industrial Production, 2015–2020



Global Economic Trends

- **Worldwide Manufacturing Activity:** The [J.P. Morgan Global Manufacturing PMI](#) expanded in October at the fastest pace since May 2018, buoyed by strength in demand and production. The headline index rose from 52.4 in September to 53.0 in October, growing for the fourth straight month from sharp declines in the spring from the COVID-19 pandemic. New orders (up from 53.8 to 55.0) and output (up from 53.7 to 54.3) accelerated at the best rates since early 2018, and exports (down from 51.7 to 51.2) expanded for the second consecutive month despite easing slightly in October. In addition, the index for future output (up from 61.8 to 63.4) matched a level not seen since May 2018, pointing to optimism for higher production over the next six months.

Meanwhile, employment (unchanged at 49.4) has contracted for 11 straight months even as hiring has stabilized since the spring and summer. Also, input prices (up from 54.7 to 55.2) rose to their highest levels since November 2018.

- **Sentiment in Major Markets:** In October, eight of the top 10 markets for U.S.-manufactured goods had expanding manufacturing sectors, up from seven in September and just one (China) in May. As such, most of the major trading partners have continued to report significant progress after plummeting in April to levels that were either the worst since the Great Recession or at record lows. With that said, the data also point to renewed weaknesses in the services sector in some areas, particularly in Europe, where COVID-19 cases

are once again on the rise.

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 56.0, the best reading since August 2018, to 55.5): Manufacturing output expanded at the strongest rate in more than two years, and exports rose for the third straight month. New orders and employment slowed in October, and the index for future output also eased, even as it continued to signal an upbeat outlook overall.
- [Mexico](#) (up from 42.1 to 43.6, declining at the slowest pace since March): Mexico once again reported the weakest PMI among the top 10 markets. Although activity continued to deteriorate very sharply, most of the key indicators have stabilized in recent months. Yet the index for future output slipped back into contraction in October, signaling lingering concerns about production growth in the outlook.
- [China](#) (up from 53.0 to 53.6, the strongest reading since January 2011): Growth in new orders was the best since November 2010, helping to buoy the headline number, and the index for future output was at a level not seen since August 2014. Hiring expanded for the second straight month. Overall, encouraging signs of recovery in the Chinese market.
- [Japan](#) (up from 47.7 to 48.7, the highest reading since January): Despite progress across the board, Japanese manufacturing activity remained severely challenged, contracting for the 18th straight month. Yet, the index for future output suggests optimism, with that measure at its best reading since July 2017.
- [United Kingdom](#) (down from 54.1 to 53.7, pulling back for the second straight month from the best reading since February 2018): New orders and production continued to expand modestly despite easing in October, and exports grew at their best pace since March 2018. Hiring fell for the ninth straight month.
- [Germany](#) (up from 56.4 to 58.2, the best reading since March 2018): New orders grew at the fastest pace in the survey's history, dating back to 1996, with output expanding at the best rate since February 2011 and exports rising at nearly a three-year high. The index of future output eased slightly but continued to signal optimism. At the same time, hiring deteriorated for the 20th straight month, albeit at a slower pace.
- [Netherlands](#) (down from 52.5 to 50.4, expanding for the third consecutive month, but slowing to near neutral): Growth in new orders, output and exports decelerated in October. Hiring stabilized somewhat despite contracting for the eighth straight month. Manufacturers were mostly upbeat about future output, but with some easing from September's survey.
- [South Korea](#) (up from 49.8 to 51.2, the highest reading since September 2018): New orders, output and exports accelerated in October, and the index for future output rose at the fastest pace since June 2018, signaling expectations for modest growth in production over the next six months.

Hiring has fallen in every month since November 2018, albeit with some stabilization in the latest data to the best reading since February.

- [Brazil](#) (up from 64.9 to 66.7, another record high): New orders and output remained very solid in October, even as sales softened a bit. Employment and exports both rose at the fastest paces on record for the survey, which dates to 2006. 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](#) (up from 51.2 to 51.3, expanding for the fourth time in the past five months): New orders picked up in October, growing very modestly at the best rate in 11 months, but output and exports slowed. Employment has fallen in every month so far this year, albeit at a slower rate of decline in the latest survey. The index for future output pointed to cautious optimism for growth in production over the next six months.
- **Regional and National Trends:** Here are some other economic trends worth noting.
 - [China](#): [Real GDP](#) grew 4.9% over the past 12 months in the third quarter, continuing to reflect improvements since the COVID-19 pandemic sharply reduced activity in the first quarter. After rising by 6.0% year-over-year in the fourth quarter of 2019, the Chinese economy shrank by 6.8% year-over-year in the first quarter and rose by 3.2% year-over-year in the second quarter. Meanwhile, [industrial production](#) increased 6.9% year-over-year in September, its best annual rate since December. October data will be released on Nov. 15. At the same time, [retail sales](#) (up 0.5% year-over-year) and [fixed-asset investment](#) (up 0.8% year-over-year) had their first positive readings year to date. These gains are encouraging, despite being notably slower than before the COVID-19 pandemic.
 - [Europe](#): [Eurozone real GDP](#) jumped 12.7% in the third quarter, bouncing back after falling by 3.7% and 11.8% in the first and second quarters, respectively. In August, [industrial production](#) rose 0.7%, expanding for the fourth straight month, but output has fallen 7.2% over the past 12 months. September industrial production data will be released on Nov. 12. For its part, [retail sales](#) declined by 2.0% in September, pulling back after rising by 4.2% in August. On a year-over-year basis, retail spending has increased 2.2% in the Eurozone since September 2019. The [unemployment rate](#) remained at 8.3% in September.
 - [United Kingdom](#): [Industrial production](#) edged up by 0.3% in August, slowing from the 5.2% gain seen in July but rising for the fourth straight month. However, output remained 6.0% 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 Nov. 12. Meanwhile, [retail sales](#) increased 1.5% in September, rising for the fifth consecutive month. Encouragingly, retail spending has risen by 5.5% from February's pre-pandemic levels. Real GDP will have been released on Nov. 11, after the deadline for this

update.

- **Canada:** After rising in the three prior months, [manufacturing sales](#) pulled back, down 2.0% in August. Overall, orders in the sector remained 6.6% below the pace seen in February before the COVID-19 pandemic began. Meanwhile, [retail sales](#) were up 0.4% in August rising for the fourth straight month. Despite tremendous volatility since the spring, retail spending has risen 1.8% since February. In August, the [unemployment rate](#) was 8.9% in October, inching down from 9.0% in September, which was the best figure since March. [The number of manufacturing workers](#) was off by 4,300 in October, with employment in the sector little up by just 100 workers year-over-year.
 - **Mexico:** [Industrial production](#) rose 3.3% in real terms in August, slowing from the 7.1% gain in July but increasing for the third straight month. It has fallen 8.4% over the past 12 months. Manufacturing production increased 0.8% in August in real terms, but it declined 7.7% year-over-year. September industrial production data will have been released on Nov. 11, after the deadline for this writing. [Note: The link is in Spanish.]
 - **Japan:** [Industrial production](#) rose 4.0% in September, increasing for the fourth straight month and led by strength in electronics, machinery and motor vehicles. However, production has fallen 9.0% over the past year. On the retail front, [consumer spending](#) edged down 0.1% in September after rising by 4.6% in August. On a year-over-year basis, retail sales have decreased 8.7%. [Note: The retail sales link is in Japanese.]
 - **Emerging Markets:** The IHS Markit Emerging Markets Manufacturing PMI rose from 52.8 to 53.4, expanding for the fourth straight month and at its fastest pace since March 2011. New orders and output accelerated, buoying the headline index. Output slowed to near neutral, however. Employment remained negative but stabilized to the best reading since January. The index for future output signaled optimism about production over the next six months, increasing at the strongest pace since October 2014. [Note: There is no link for this release.]
- **Economic Outlook:** Here are a couple of high-profile economic indicators on the global economy.
 - **International Monetary Fund:** The IMF [predicts](#) that worldwide GDP will fall 4.4% in 2020 due to the COVID-19 pandemic and global recession, with output rebounding 5.2% in 2021. While economic activity has trended in the right direction, there are lingering worries in the outlook, including new restrictions on activity in many markets due to the continued spread of the virus.
 - **Organisation for Economic Co-operation and Development:** The [OECD Composite Leading Indicators](#) continued to show “moderation” in economic growth in most markets around the world in November. While economic activity remains below the historical trend, the data reflect improvements since the spring.
 - **Trade-Weighted U.S. Dollar Index:** Since April 24, the U.S. dollar [has fallen](#)

6.4% 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 frame, the U.S. dollar has risen 9.4% since Feb. 1, 2018, with 25.1% growth since July 1, 2014.

- **International Trade:** The [U.S. trade deficit](#) pulled back from highest level since August 2006, decreasing from \$67.04 billion in August to \$63.86 billion in September. Goods exports increased from \$199.08 billion to \$122.78 billion, the best reading since March. That was enough to outpace the rise in goods imports, which edged up from \$202.90 billion to \$203.47 billion, the highest since December. More importantly, the goods trade deficit declined from \$83.83 billion, which was a record, to \$80.69 billion. In addition, the service-sector trade surplus inched up from \$16.79 billion, the lowest level since January 2012, to \$16.82 billion. For comparison, service-sector trade surplus was \$24.30 billion at the end of last year, reflecting the weaker environment today versus before the pandemic.

In September, goods exports were buoyed by strong gains for foods, feeds and beverages (up \$1.62 billion, primarily from soybeans, up \$1.38 billion) and non-automotive capital goods (up \$1.37 billion). At the same time, increased goods imports for automotive goods imports (up \$3.18 billion) and non-automotive capital goods (up \$835 million) were enough to offset declines for consumer goods (down \$2.06 billion) and industrial supplies and materials (down \$1.32 billion).

- **U.S.-Manufactured Goods Exports:** According to the latest update from [TradeStats Express](#), U.S.-manufactured goods exports totaled \$857.65 billion through the first three quarters of 2020, using seasonally adjusted data, dropping 16.32% from \$1,024.86 billion year to date in 2019 and the slowest pace since 2010.

International Trade Policy Trends

- ***Signals point to continued U.S. push on China through transition period while China focuses on self-sufficiency in new development plan.*** The U.S.-China relationship remained an active, bipartisan issue in Washington in recent weeks with strong rhetoric from both parties and continued signals of a Trump administration push over the next few months, even as the rate of

specific new policies eased in recent weeks around the U.S. presidential election.

- U.S. government agencies continued a steady drumbeat of measures to restrict U.S. business with China based on national security and human rights concerns, including a new State Department [report](#) calling out senior officials in China and Hong Kong for their role in China's new National Security Law, new sanctions from the Departments of [Treasury](#) and [State](#) against Chinese individuals for activities in Iran and a new Customs and Border Protection [ruling](#) expanding the list of Chinese imports tied to forced labor.
- On Oct. 20, Republican leadership in the House of Representatives [introduced](#) legislation related to China in areas such as human rights, supply chains, technology, national security and economics. The bills included had also been detailed in the September [final report](#) from the House Republicans' China Task Force.
- While China policy developments beyond trade have dominated the discussion in recent weeks, United States Trade Representative Robert Lighthizer continued to robustly defend the [U.S.–China “phase one” trade deal](#) and the administration's broader trade approach to China through [press releases](#) and [op-eds](#).
- Meanwhile in Beijing, China's leaders focused inwardly on China's economic development at Oct. 26–29 [high-level meetings](#) of senior Chinese Communist Party leaders. These [meetings](#), known as the [Fifth Plenum](#), most notably approved and released China's 14th Five-Year Plan (a high-level blueprint for the Chinese economy and society through 2025, [click here](#) for the full text) and Xi Jinping's broad vision for China through 2035 that both focus heavily on strengthening the domestic economy, including technological self-sufficiency, amid a more challenging international environment.
- In the meantime, in mid-October, China's National People's Congress [passed](#) two key laws and issued drafts of several others impacting manufacturers in the United States. Chief among these is the Export Control Law ([Chinese/English](#)), which authorizes a comprehensive export control system in China effective Dec. 1 and allows controls on exports and transports of products, technology, data and services if such a transaction will potentially threaten China's national security or interests. The NPC also [passed](#) an updated version of China's Patent Law ([Chinese](#), English [comparison](#)), with updates related to patent linkage, statutory damages for infringement, patent licensing and steps to address abusive patent filings.

[Learn more.](#)

- ***The NAM Submits Comments on Bureau of Industry and Security Foundational Technology ANPRM:*** The U.S. Department of Commerce's Bureau of Industry and Security published an [advanced notice of proposed rulemaking on foundational technologies](#), and a subsequent [correction](#),

seeking public feedback as the initial step in identifying and reviewing export controls on foundational technology as required by the Export Control Reform Act.

- As the review and potential control of foundational technologies is consequential to manufacturers of all sizes and across sectors, the NAM submitted comments to ensure BIS thoroughly considers the manufacturing perspective as it undertakes this congressional mandate.
- The [NAM's foundational technology comments](#) encourage BIS to enact strategic and targeted export control policy that effectively upholds two paramount national security goals: safeguarding critical technology from foreign actors that pose an identified threat to the United States and promoting the strength, leadership and competitiveness of the U.S. manufacturing and defense industrial base. The NAM's comments recommend a series of policy and process recommendations to ensure both goals are met.
- The NAM will continue to stay engaged as BIS continues with its process of defining, identifying and reviewing export controls on foundational technologies.

[Learn more.](#)

- ***The NAM continues to advocate in support of USMCA implementation to support U.S. manufacturing and jobs.*** On Oct. 28, NAM President and CEO Jay Timmons participated on a [virtual panel](#) at the Annual Meeting of Industrialists organized in Mexico by CONCAMIN, the Confederation of Industrial Chambers of Mexico. The panel focused on “USMCA Challenges and Opportunities.” Other panelists included Francisco Cervantes Díaz, President of CONCAMIN, and Dennis Darby, President & CEO of Canadian Manufacturers & Exporters. During the panel, Timmons raised a number of policies in Mexico that are causing disruptions for manufacturers, including:
 - Bans on the sales of packaged foods to minors in certain Mexican states and federal labeling requirements for food and beverages in Mexico;
 - Denials and delays of permitting decisions for key chemical products used in pesticides;
 - Reports that Mexico is disadvantaging the U.S. energy industry by providing preferential regulatory treatment for Mexican entities and denying or canceling permits for U.S. companies;
 - New labeling requirements for motor oil products sold in Mexico; and
 - Legislation that would make it more difficult for certain industries to compete fairly for government procurement contracts in Mexico.

Additionally, the NAM continues to advocate in support of congressional passage this year of a legislative fix to a merchandise processing fee drafting error in the USMCA Implementation Act. This effort builds on the NAM's months-long engagement on the issue, including leading [this letter](#), signed by more than 100 business and industry associations, state and local chambers and allied organizations, which was sent to the U.S.

House Ways and Means Committee and U.S. Senate Finance Committee in July.

[Learn more.](#)

- ***The NAM continues active push on new EU SCIP database requirements as database launches 10 months late.*** On Oct. 26, the NAM joined 40 other associations in a [public letter](#) sent to key officials representing Germany and its presidency of the European Council, continuing the global industry push in favor of a one-year delay in the implementation of the European Union's proposed database on substances of concern in articles as such or in complex objects (products) (SCIP database).
 - The continued push has stemmed in large part from the delay of more than 10 months in the database's rollout (not completed until [Oct. 28](#)), ongoing database changes and continued unanswered technical questions that have led to reports from some manufacturers of critical implementation issues.
 - The letter follows both a June NAM-led [letter with 49 global associations](#) to the European Commission Vice President Frans Timmermans, as well as a September [public letter from the NAM and more than 40 other associations](#) to European Commission President Ursula von der Leyen, that had similarly called for a one-year delay as a means to ensure greater flexibility in the database's rollout and enforcement.

[Learn more.](#)

- ***President Donald Trump issues new memorandum to prompt stronger action against counterfeit imports sold online.*** On Oct. 13, President Trump issued a new presidential [memorandum](#) calling for stronger U.S. government enforcement efforts to halt counterfeit products, particularly imports from China, sold on e-commerce platforms
 - The memo, which builds on an earlier [executive order](#) and [interagency report](#), stresses that material harm caused by counterfeit goods and the role of e-commerce platforms as "key contributors." The order calls on the Secretary of Homeland Security and other agencies to "consider taking all appropriate action" to enforce existing law, including seizure of counterfeit imports and imposition of maximum penalties on e-commerce platforms that facilitate these imports, and to draft a legislative proposal to strengthen executive authorities and resources to fight counterfeiting.
 - The memorandum reflects key recommendations from the NAM's [white paper](#) released in July.
 - On counterfeits, part of the NAM's elevated efforts to tackle the threat that counterfeit and unregulated goods pose to U.S. businesses and consumers.

[Learn more.](#)

- ***Manufacturers continue campaign in support of congressional passage***

of the Miscellaneous Tariff Bill. The NAM continues to lead industry advocacy in support of congressional passage by the end of 2020 of the MTB, following the August 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 program. Passage of a comprehensive MTB by the end of this year could eliminate more than \$1.5 billion worth of tariffs for three years on products not made or available in the United States.

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- **WTO Director-General selection process continues after failure to reach consensus in October.** World Trade Organization members were unable to reach consensus on the next Director-General of the organization following a series of meetings in October in Geneva.
 - According to WTO General Council Chairman David Walker, former Nigerian Minister of Finance Ngozi Okonjo-Iweala “carried the largest support by Members in the final round and she clearly enjoyed broad support from Members from all levels of development and all geographic regions.”
 - The United States, however, [declined](#) to support Okonjo-Iweala, indicating support for Korean Trade Minister Yoo Myung-hee and the need for “someone with real, hands-on experience” in international trade.
 - A meeting scheduled for Nov. 9 to select the next Director-General was [postponed](#) until further notice “for reasons including the health situation and current events.”

[Learn more.](#)

- **United States and the United Kingdom conclude fifth round of FTA negotiations.** On Oct. 30, the United States and the United Kingdom concluded the fifth round of bilateral trade agreement negotiations.
 - The discussions focusing on market access for goods, including product-specific rules of origin, as well as customs and trade facilitation, digital trade, good regulatory practices, investment, sanitary and phytosanitary issues, sectoral annexes and state-owned enterprises, according to a [U.K. Department of International Trade press release](#).
 - Bilateral talks are expected to continue in November.

[Learn more.](#)

- **United States and Brazil conclude updated trade and economic agreement:** On Oct. 19, the United States and Brazil updated the bilateral Agreement on Trade and Economic Cooperation with the signing of a new [protocol](#) relating to trade rules and transparency. The three new ATEC annexes in the new protocol focus on [trade facilitation and customs administration](#), [good regulatory practices](#) and [anti-corruption](#). Please [click here](#) for a joint statement by the United States and Brazil, and [click here](#) for a fact sheet on the new protocol.

[Learn more.](#)

Take Action

Webinar: U.S.–Southeast Asia Aviation Cooperation Program—Call for Initial Proposals

Dec. 9

Virtual

In support of the U.S.–Southeast Asia Aviation Cooperation Program, USTDA is now welcoming initial proposals for grant-based feasibility studies, technical assistance, pilot projects and training that will help structure viable aviation infrastructure projects across Southeast Asia and the Pacific Islands. [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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Questions or comments? Email NAM Chief Economist Chad Moutray at cmoutray@nam.org.

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