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Global Manufacturing Economic Update

Essential Takes on Leading Economic Indicators

By Chad Moutray and Linda Dempsey – December 12, 2019 – SHARE

Global Economy Shows Signs of Stabilization Despite Ongoing Weaknesses

The Monthly Toplines

- The global economy remains weak, but there are signs that manufacturing activity has stabilized. Indeed, the sector continues to grapple with slowing growth and trade uncertainties, but there are also "green shoots" that provide some cautious optimism for the coming months.

- The J.P. Morgan Global Manufacturing PMI expanded for the first time since April, continuing to improve after reaching the lowest level since October 2012 in July. Yet, exports continued to decline, albeit at the same pace as last month.

- Seven of the top 12 markets for U.S.-manufactured goods experienced contracting activity in their manufacturing sectors in November, up from six in October. The weakest PMI readings continued to be in Germany (44.1) and Hong Kong (38.5). Germany has contracted in every month so far this year, but the headline index for manufacturing activity was at the highest point since June. As one might imagine, Hong Kong's lowest reading since April 2003 was largely related to political unrest but also due to slowing global activity.

- Nonetheless, there were signs of possible stabilization. Of those top 12 markets for U.S.-manufactured goods, eight had a better PMI in November than in October.

- The Caixin China General Manufacturing PMI improved for the fifth consecutive month, the strongest reading since December 2016. With that said, economic activity in China continues to reflect decelerating growth. Real GDP grew 6.0% year-over-year in the third quarter, down from 6.2% in the second quarter and the slowest pace since the first quarter of 1992.

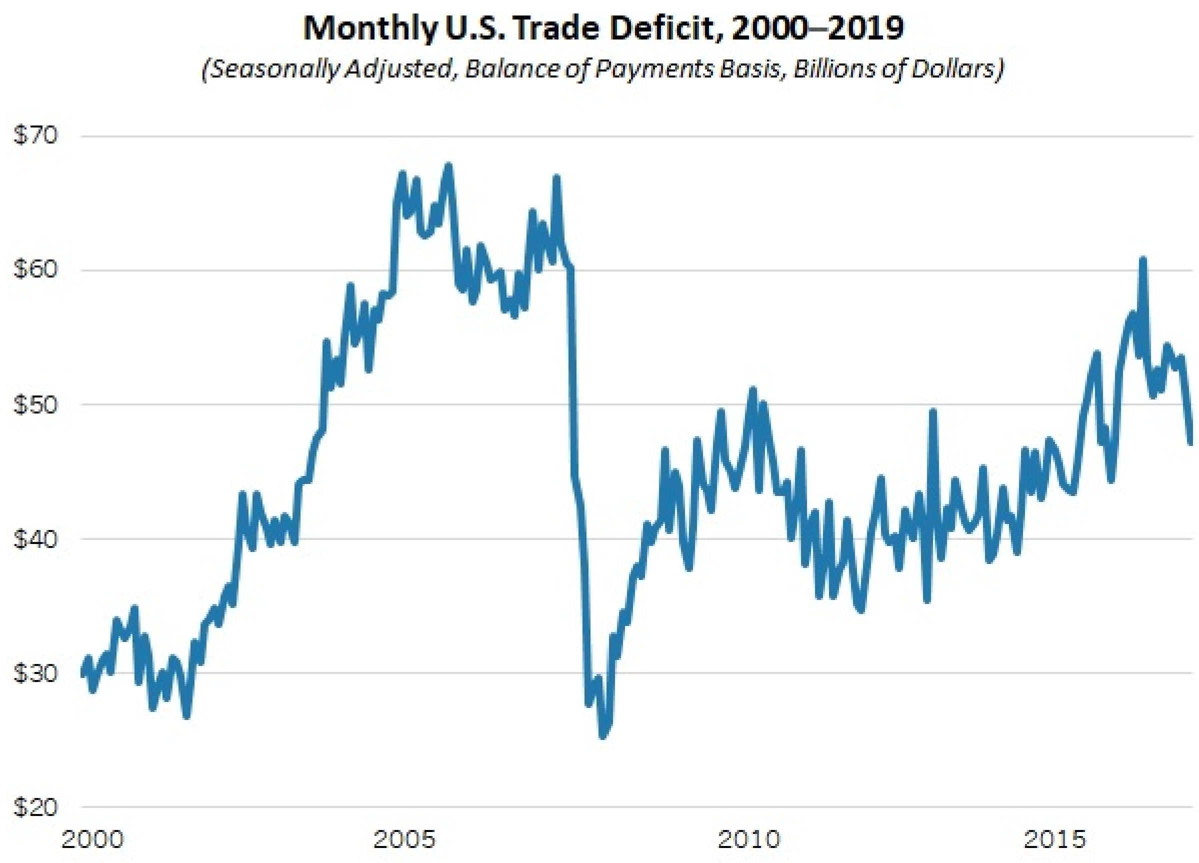
- The IHS Markit Canada Manufacturing PMI expanded in November at the fastest pace since February, growing for the third straight month. While survey respondents felt more upbeat, many key economic indicators reflect some ongoing softness, with real GDP up just 1.3% at the annual rate in the third quarter, and manufacturing employment down by 27,500 in November.

- After falling to the lowest point in nearly seven years in September, the IHS Markit Eurozone Manufacturing PMI improved for the second straight month, up from 45.7 in September, to 45.9 in October, to 46.9 in November. Nonetheless, it contracted for the 10th consecutive month. Real GDP slowed to 1.2% year-over-year in the third quarter, consistent with the pace in the second quarter, and industrial production fell 2.2% over the past 12 months in October. On the positive side, the unemployment rate has remained at 7.5%, which is the lowest rate since July 2008.

- The IHS Markit Emerging Markets Manufacturing PMI expanded for the fifth straight month, remaining at 51.0 in November.

- The U.S. trade deficit decreased to $47.20 billion in October, the lowest level since June 2018, with goods exports and imports both falling to a two-year low. Encouragingly, real exports of petroleum in 2012 dollars were the highest since the series began in 1994, helping to push the real petroleum trade deficit to a record low in October.

- In non-seasonally adjusted data, U.S.-manufactured goods exports have fallen 3.0% year to date through the first 10 months of 2019 relative to the same period in 2018.
- With less than two weeks left in the current session of Congress, manufacturers are working toward quick action on two key legislative trade priorities:
  - Passage of the U.S.–Mexico–Canada Agreement
  - Passage of a long-term and robust reauthorization of the U.S. Export-Import Bank
- Manufacturers are also focused on several other important trade developments:
  - Promoting a revitalization of the World Trade Organization and pressing for a long-term extension of the e-commerce moratorium
  - Promoting concrete movement on U.S.–China bilateral trade agreement negotiations to correct market distortions, while also addressing challenging tariffs and retaliation
  - Reviewing congressional activity relating to sanctions and new rules on information and communications supply chains



Global Economic Trends

- **Worldwide Manufacturing Activity:** The J.P. Morgan Global Manufacturing PMI expanded for the first time since April, continuing to improve after reaching the lowest level since October 2012 in July. The headline index rose from 49.8 in October to 50.3 in November, with stronger new orders and output and with employment stabilizing to neutral for the month. Nonetheless, exports continued to decline, albeit at the same pace as last month. Meanwhile, the index for future output reflected cautious optimism that production would rebound over the coming months, even as that measure edged down from 57.5 to 57.2.

- **Top 12 Markets for U.S.-Manufactured Goods:** The data provided mixed results. On the positive side, eight of these markets had a better PMI in November than in October, consistent with the overarching trend of stabilization seen globally. For its part, Singapore ended three months of contraction, largely on solid domestic demand growth. On the other hand, seven of the top 12 markets for U.S.-manufactured goods contracted in November, up from six in October, with Mexico and the Netherlands slipping into negative territory, pulled lower by a sharp decline in production.

  The weakest PMI readings continued to be in Germany (44.1) and Hong Kong (38.5). Germany has contracted in every month so far this year, but the headline index for manufacturing activity was at the highest point since June.

As one might imagine, Hong Kong's lowest reading since April 2003 was largely related to political unrest but also due to slowing global activity. In addition to Singapore, the five other economies in the top 12 with expanding activity in November were Brazil, Canada, China, and France.

- **Trade-Weighted U.S. Dollar Index Against Major Currencies:** The U.S. dollar has appreciated 9.5% against major currencies for goods since Jan. 25, 2018, according to the Federal Reserve. Manufacturers continue to cite foreign exchange risks in their earnings reports. This index reflects currency rates per U.S. dollar, suggesting the dollar can purchase somewhat more today than it could roughly one and a half years ago. Moreover, a stronger dollar also makes it more difficult to increase international demand, and the dollar has jumped roughly 22.5% since June 30, 2014.

- **Eurozone:** After falling to the lowest point in nearly seven years in September, the IHS Markit Eurozone Manufacturing PMI improved for the second straight month, up from 45.7 in September, to 45.9 in October, to 46.9 in November. Nonetheless, it contracted for the 10th consecutive month, highlighting ongoing challenges on the continent. The pace of decline lessened for new orders, exports and hiring. In October, employment had fallen at the fastest rate since January 2013, making November's reading a sign of progress. Overall, manufacturers in the Eurozone expect modest growth in output over the next six months, with that measure rising to the best reading since June. Meanwhile, input prices declined for the sixth consecutive month.

  The weakness in Europe has been led by declines in activity in Germany, its largest economy. Even as the IHS Markit/BME Germany Manufacturing PMI has contracted in every month so far in 2019, it improved in November for the second straight month after plummeting to the lowest level since June 2009 in September. In addition, the Netherlands slipped into contraction for the first time since June 2013, and Ireland declined once again, contracting in five of the past six months, with employment dropping for the first time since September 2016. Other European markets in contraction territory included Austria, Italy, Spain and the United Kingdom. In contrast, manufacturing activity improved in both France and Greece.

  Meanwhile, real GDP slowed to 1.2% year-over-year in the third quarter, consistent with the pace in the second quarter. Industrial production fell 0.5% in October, extending the 0.1% decline in September and led by weaknesses in consumer goods and energy. Over the past 12 months, industrial production in the Eurozone has fallen 2.2%. Retail sales fell 0.6% in October, declining for the second straight month, with 1.4% growth year-over-year. For its part, the unemployment rate has remained at 7.5%, which is the lowest rate since July 2008.

- **China:** The Caixin China General Manufacturing PMI improved for the fifth consecutive month, with the headline index inching up from 51.7 in October to 51.8 in November, the strongest reading since December 2016. Employment expanded marginally for the first time since March. With that said, most of the key underlying data points reflected some slowing in the expansion rate in November for the sector, including new orders, output, exports and future output. The latter continues to point to modest growth in manufacturing over the next six months, even with some easing in that measure in the latest survey.

The official manufacturing PMI data from the National Bureau of Statistics of China also signaled some stabilization after contracting for six straight months. That index jumped from 49.3 in October to 50.2 in November, the first positive reading since April, with monthly improvements for all firm sizes (including expanding activity for large manufacturers but still-contracting growth for small and medium-sized enterprises).

Overall, real GDP grew 6.0% year-over-year in the third quarter, down from 6.2% in the second quarter. That was the slowest pace of growth in China since the first quarter of 1992, illustrating how much its economy has decelerated. For instance, industrial production rose 4.7% year-over-year in October, down from 5.8% in September. Likewise, fixed asset investment slowed from 5.4% year-over-year in September to 5.2% in October, and retail sales dropped from 7.8% year-over-year to 7.2% year-over-year. Each measure is notably weaker than the growth rates earlier in the year. New data for these measures for November will be released on Dec. 16.

- **Canada:** The IHS Markit Canada Manufacturing PMI expanded in November at the fastest pace since February, growing for the third straight month. The headline index edged up from 51.2 in October to 51.4 in November, led by improvements in output and employment. New orders slowed a little, and exports contracted for the seventh time in the past nine months. Manufacturing respondents continued to feel upbeat in their outlook for growth over the next six months, albeit with a slight easing in the latest survey. On a regional basis, growth accelerated in Quebec, Ontario and the rest of Canada, but activity contracted further in Alberta and British Columbia.

  Real GDP increased 1.3% at the annual rate in the third quarter, spurred by consumer and business spending but slowed by reduced exports and inventories. Manufacturing sales fell 0.2% in September after rising 0.8% in August, with strength coming from petroleum and coal products and motor vehicles and parts. With that said, manufacturing sales have declined 1.2% over the past 12 months, highlighting weaknesses in the sector. October data will be released on Dec. 17. In a similar manner, retail sales inched down 0.1% in September, pulled lower by autos and gasoline spending, among other categories, with 1.0% growth year-over-year.

  The unemployment rate jumped from 5.5% in October to 5.9% in November, with manufacturing employment decreasing by 27,500. Over the past 12 months, employment in the sector in Canada has declined 24,400.

- **Mexico:** As noted above, the IHS Markit Mexico Manufacturing PMI returned to contraction territory, plummeting from 50.4 in October to 48.0 in November, the lowest reading since the survey began in April 2011. Underlying data fell across the board, with new orders, employment and exports contracting once again and output declining at a record pace. Nonetheless, manufacturers in Mexico expressed cautious optimism in their outlook for future output, with expectations pulling back in the latest survey (down from 63.5 to 59.4) but still suggesting a decent gain in production for the next six months.

Meanwhile, real GDP decreased 0.3% year-over-year in the third quarter, the second straight negative reading following growth in every quarter since the fourth quarter of 2009. New data will be released later today, but industrial production fell for the 11th consecutive month in September, down 1.8% over the past 12 months. At the same time, manufacturing production improved, up 0.8% year-over-year in September but continuing to seesaw from month to month and remaining subpar overall.

- **Japan:** The Jibun Bank Japan Manufacturing PMI declined for the seventh straight month (and the ninth time year to date), even as it ticked up from 48.4 in October to 48.9 in November. The October figure had been the worst reading since June 2016, with the slight improvement coming from stronger employment growth and slower declines for new orders and output. Exports deteriorated further in November. On the other hand, the index for future output rebounded from 48.2 to 52.7, suggesting that those manufacturers taking the survey cautiously anticipate a modest expansion in production for the months ahead.

  Real GDP increased 0.4% in the third quarter, slowing a bit from 0.5% in the second quarter. On a year-over-year basis, the Japanese economy expanded 1.8%, decelerating from 2.6% and 2.0% in the first and second quarters, respectively, but also expanding for the fourth consecutive quarter. Meanwhile, industrial production fell 4.2% in October, with a 7.4% decrease year-over-year. It was the largest monthly decline in industrial activity since January 2018, largely on declines for machinery and motor vehicles.

- **Emerging Markets:** The IHS Markit Emerging Markets Manufacturing PMI expanded for the fifth straight month, remaining at 51.0 in November. Not surprisingly, the underlying data provided mixed results. On the positive side, output accelerated slightly, and both employment and exports contracted but stabilized to near neutral. In contrast, new orders and future output slowed in November, but the data would seem to indicate optimism for decent growth in production in the first half of 2020 in the emerging markets.

  The country-by-country data also provided mixed results, but several emerging markets saw improvement in their manufacturing sectors in November. Those included Brazil, Colombia, Ghana, India, Mozambique, Nigeria, Saudi Arabia, Uganda and Vietnam. At the same time, Kenya continued to expand modestly at the same pace (53.2), even as new orders slowed. Manufacturing activity also remained modest for Myanmar, the Philippines and the United Arab Emirates, albeit with some easing for the month. Singapore ended three months of contraction and rebounded from October's survey-record low with a slight increase in activity in November, led by rising domestic orders (even as exports continued to deteriorate further).

Meanwhile, Hong Kong's PMI fell to the lowest level (38.5) since April 2003 on ongoing anti-China protests, and Thailand slipped into contraction for the first time since August 2018. Other emerging markets with continuing contractions in their economies in November included the Czech Republic, Egypt, Indonesia, Lebanon, Malaysia, Poland, Russia, South Africa, South Korea, Turkey and Zambia.

- **International Trade:** The U.S. trade deficit decreased from $51.10 billion in September to $47.20 billion in October, the lowest level since June 2018. Goods exports and imports both fell to a two-year low, with the trade deficit largely declining on the more sizable decrease in goods imports (down from $208.54 billion to $204.09 billion). Goods exports edged down from $136.83 billion to $136.06 billion. Notably, the Census Bureau reported that real exports of petroleum in 2012 dollars were the highest since the series began in 1994 ($23.90 billion). As a result, the real petroleum trade deficit also registered an all-time low at $4.10 billion in October.

  The reduction in goods imports stemmed largely from sizable declines for consumer goods (down $2.40 billion) and automotive vehicles, parts and engines (down $1.80 billion), with the latter likely impacted negatively by the auto strike. Imports also declined for industrial supplies and materials (down $528 million) and foods, feeds and beverages (down $370 million). The goods exports data were also mostly lower, except for industrial supplies and materials and other goods, which increased by $556 million and $464 million, respectively.

  In non-seasonally adjusted data, U.S.-manufactured goods exports totaled $941.64 billion through the first 10 months of 2019, down 3.02% from $970.95 billion for the same period in 2018. This suggests that international demand for U.S.-manufactured goods has weakened in the first 10 months of this year after experiencing better data in both 2017 and 2018.

International Trade Policy Trends

- ***Trump administration and House Democrats agree to USMCA modifications, paving way for congressional passage.*** On Dec. 10, the United States, Mexico and Canada signed a Protocol of Amendment to the USMCA, following the announcement by House Speaker Nancy Pelosi of an agreement between the Trump administration and House Democrats on modifications across four areas of the agreement: enforcement, labor, environment and access to medicines. The next step will be for the Trump administration to send a final implementing bill to Congress, followed by votes by the House of Representatives and the Senate.

  - NAM President and CEO Jay Timmons issued a statement on Dec. 10 declaring that “a ratified USMCA will deliver increased certainty for manufacturers—especially for the 2 million manufacturing workers whose jobs depend on North American trade” and urging approval of the agreement by the end of this year, while also expressing extreme disappointment “that the agreement missed an opportunity to set the gold standard for the protection of American-made lifesaving innovations and inventions.”
  - Provided here is a compendium of statements released by key stakeholders: U.S. Trade Representative Robert Lighthizer; House Minority Leader Kevin McCarthy (R-CA); House Ways and Means Committee Chairman Richard Neal (D-MA); House Ways and Means Committee Ranking Member Kevin Brady (R-TX); Senate Majority Leader Mitch McConnell (R-KY); Senate Minority Leader Chuck Schumer (D-NY); Senate Finance Committee Chairman Chuck Grassley (R-IA); and Senate Finance Committee Ranking Member Ron Wyden (D-OR). Learn more.

- ***Efforts continue to secure a long-term Ex-Im Bank reauthorization before year’s end.*** Originally set to expire on Sept. 30, the Ex-Im Bank charter was extended to Nov. 21 and again through Dec. 20 through appropriations measures. The NAM worked hard to advance a long-term and robust authorization bill in the House of Representatives, and on Nov. 15, the House passed the United States Export Finance Agency Act (H.R. 4863) by a vote of 235–184.
  - The NAM sent this letter before the vote and issued this press release after House passage, expressing support for both H.R. 4863 and the Senate version, the Export-Import Bank Reauthorization Act (S. 2293), and applauding members of Congress who voted to provide certainty and improve American manufacturing competitiveness.
  - While not identical, H.R. 4863 and S. 2293 both include three important provisions to help manufacturers in the United States compete on a level playing field with foreign competitors increasingly supported by their own export credit agencies: a 10-year reauthorization, an increase in the authorization ceiling and a quorum fix.

    The NAM is working closely with both the House and Senate to secure a robust and long-term Ex-Im Bank reauthorization before the end of the year. Learn more.

- ***U.S., China “inching” toward interim trade deal ahead of December imposition of next round of tariffs.* As the clock ticks toward the potential Dec. 15 imposition of a new round of U.S. and Chinese tariffs,** U.S. and Chinese negotiators remain closely engaged in frequent, intense negotiations at multiple levels to reach a written agreement for an interim trade deal (termed as a "phase one" deal) that was announced during a joint Oct. 11 press conference.

  - Both sides are continuing to push for resolution over the next several days and have sought to shelter these negotiations from other potential areas of tension, including congressional legislation responding to human rights issues in Hong Kong and Xinjiang and proposed actions related to the Chinese telecommunications company Huawei.
  - Public and private sources continue to point to limited areas for Chinese concessions in a deal: commit to increase purchases of U.S. agricultural goods, provide market-access openings for financial services and agriculture and offer some concessions on a few thornier issues, such as intellectual property enforcement, forced technology transfer, currency manipulation and enforcement mechanisms.
  - The interim deal, however, is not expected to tackle deeper U.S.-raised structural policy issues, such as industrial policy or state subsidies, that relate to China's state-led economy model. Those issues could be tackled in future rounds of negotiations, although the path forward for those negotiations remains unclear, particularly given statements from senior Chinese officials that their state-led economy is not negotiable.
  - Chinese negotiators have continued to push for U.S. concessions on tariffs as a prerequisite for any such deal, with the elimination of List 4B tariffs and cancellation of previous plans to increase tariffs on $250 billion in Chinese imports (Lists 1, 2 and 3) most likely included. Other potential concessions, including elimination or reduction of existing tariffs on Lists 1, 2, 3 or 4A (roughly $160 billion), are possible but less likely given the limited scope of the deal.

    The NAM has continued to push for manufacturing-focused progress and is continuing its industry-leading call on both countries to negotiate a comprehensive, enforceable trade deal that addresses manufacturers' priorities and does not deepen the trade war. Learn more.

- ***Commerce Department proposes new rulemaking on information and communications technology and services supply chain.*** On Nov. 26, the Department of Commerce announced a Notice of Proposed Rulemaking, titled Securing the Information and Communications Technology and Services Supply Chain, required by a May 15, 2019, executive order. The EO and rulemaking, widely seen as directed at China, extend authority to the Secretary of Commerce to prohibit or mitigate certain transactions that pose a risk to the United States' critical infrastructure, digital economy, persons or national security. This rule could impact a variety of sectors, and the NAM is interested to hear member feedback. Public comments on the proposed rule are due by Dec. 27, although the NAM has joined with other industries in seeking an extension of the deadline for comments. Learn more.

- ***NAM works to promote WTO revitalization and extension of e-commerce tariff moratorium.*** NAM Vice President of International Economic Affairs Linda Dempsey joined a Nov. 10 Congressional Trade Series panel organized by

Rep. Stephanie Murphy (D-FL) on "Understanding the Crisis at the World Trade Organization." Dempsey underscored manufacturers' commitment to the revitalization and modernization of the WTO and emphasized the need for work by the United States and major trading partners to embrace concrete solutions. Click here to review Dempsey's remarks and here to access the archived briefing. In recent months, the NAM has ramped up its advocacy in support of a revitalized and modernized WTO system. Note as well that Reps. David Schweikert (R-AZ) and Ron Kind (D-WI) sponsored this resolution to reaffirm the United States' commitment to the WTO.

At a Dec. 10 General Council meeting in Geneva, Switzerland, WTO members agreed to extend a moratorium related to customs duties on electronic transmissions until the 12th Ministerial Conference scheduled for June 8–11, 2020, in Kazakhstan. The so-called e-commerce moratorium had been set to expire this month. The NAM will continue to press policymakers in the United States and overseas to extend this important agreement beyond June 2020. Learn more.

- ***USTR announces additional review of U.S. actions in WTO Large Civil Aircraft dispute.***On Dec. 6, the Office of the U.S. Trade Representative announceda further review of U.S. enforcement tied to the WTO Large Civil Aircraft dispute with the EU. USTR is requesting comments by Jan. 13, 2020, on whether products currently subject to additional duties tied to the dispute (Annex I) should be removed or remain on the list; whether the rate of additional duty on specific products in Annex I should be increased up to a level of 100%; whether additional duties should be imposed on a separate list of products not currently subject to such duties (Annex II); and the rate of additional duties that should be applied to products on Annex II. Learn more.

- ***Congress considers several new sanctions bills.***The House of Representatives and Senate are moving forward multiple pieces of legislation containing sanctions and restrictions on individuals and entities in various countries.
    - On Nov. 27, President Trump signed into law two bills related to human rights violations in China: the Hong Kong Human Rights and Democracy Act and a bill banning the U.S. export of crowd control munitions.
    - On Dec. 3, the House passed S. 178, renamed the Uighur Intervention and Global Humanitarian Unified Response (UIGHUR) Act of 2019. The bill condemns human rights violations of ethnic minority groups in China and urges the president to impose Magnitsky Act sanctions on Chinese officials involved in such violations. The Senate is looking at passing the amended version or working with the House to reconcile the differences between the bills.
    - On Dec. 11, the Senate Foreign Relations Committee held a business meeting to consider several items, including legislation containing sanctions provisions. Among other bills, the committee advanced S. 2641, which would impose sanctions on individuals and entities in Turkey involved in that country's military action in Syria, as well as require

sanctions under the 2017 Countering America’s Adversaries Through Sanctions Act for Turkey’s purchase of a Russian missile system. Further action on this bill will be determined by Senate Majority Leader Mitch McConnell (R-KY), who has previously urged caution before imposing sanctions on a NATO ally. The House passed its version, H.R. 4695, on Oct. 29.

- The National Defense Authorization Act for Fiscal Year 2020 (S. 1790) also includes sanctions provisions, including sanctions related to Russia’s Nord Stream 2 pipeline. The reconciled legislation is expected to be signed into law before the end of the year. Learn more.

Take Action

- ***Stop Fakes Roadshow***
  Ongoing
  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.

- ***USCBP seeking comments on the enforcement of copyrights and the Digital Millennium Copyright Act by Dec. 16.***
  This document in question proposes to change U.S. Customs and Border Protection regulations pertaining to merchandise that violates or is suspected of violating copyright laws in accordance with the Trade Facilitation and Trade Enforcement Act of 2015. Learn more about the proposed changes and how to comment here.

- ***Envirotech Executive Service Mission – Water Delegation to India***
  Feb. 9–15
  This mission to India will introduce potential partners in the Indian water and wastewater markets, one of the most promising subsectors of the environmental technologies industry. The events are centered around helping participants learn about relevant policies, procedures and opportunities in India’s water industry. Networking opportunities will also provide business-to-business matchmaking appointments with private-sector organizations and government agencies. Learn more.

- ***Asia EDGE Business Development Mission to Southeast Asia***
  March 16–24
  Indonesia, Vietnam and Thailand
  Asia EDGE (Enhancing Development and Growth through Energy) seeks to strengthen energy security, increase energy diversification and trade and expand energy access across the Indo-Pacific. Mission participants will have the opportunity to meet with key Southeast Asian decision makers to discuss how to foster policies, regulations and financial investment that support the

development of sustainable, secure and profitable energy markets. Mission participants will network with regional government officials, be introduced to prospective business partners and facilitate discussions on best practices in their areas of technical expertise. Learn more.

- ***Trade Winds Indo-Pacific***
  April 20–27
  Hong Kong, Japan, South Korea, Thailand and Vietnam
  The 2020 U.S. Commercial Service Trade Winds program includes an Indo-Pacific-focused business development forum in Hong Kong. The forum includes prearranged consultations with U.S. diplomats representing commercial markets throughout the region. 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. & 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.***