

Global Manufacturing Economic Update



Global Manufacturing Activity Rising at Fastest Pace in Three Years

By Chad Moutray – March 11, 2021

The Monthly Toplines

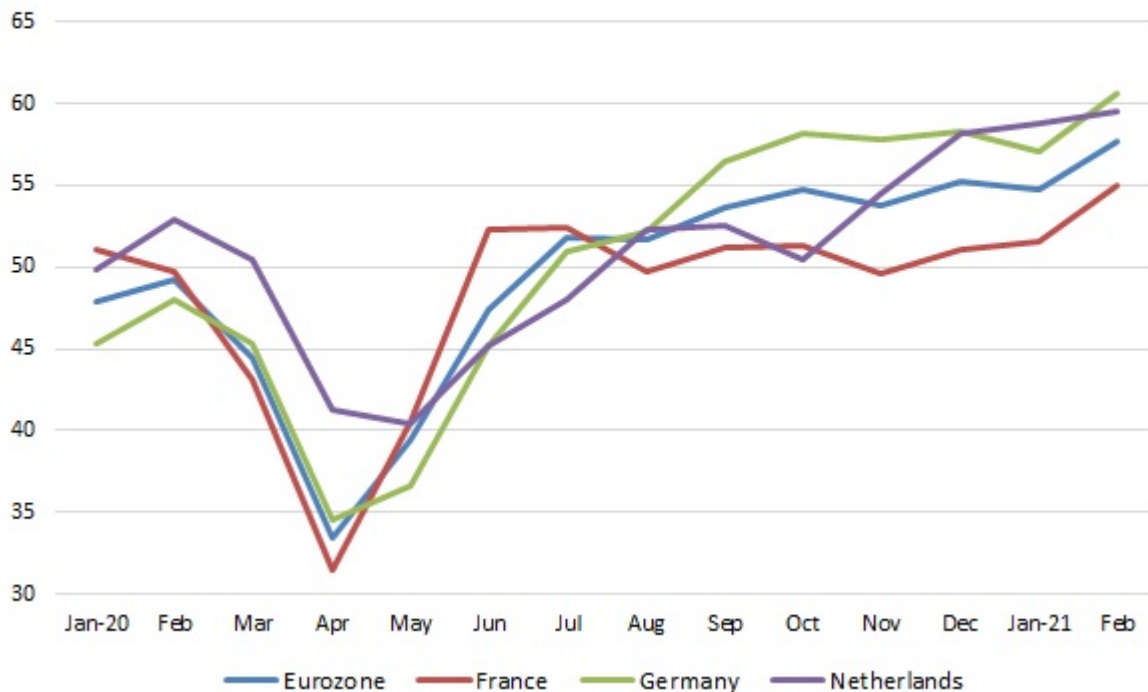
- The [J.P. Morgan Global Manufacturing PMI](#) picked up from 53.6 in January to 53.9 in February, the fastest pace in three years. Overall, manufacturers remain very upbeat in their outlook for production over the next six months. The index for future output rose to its highest level since May 2014. Supply chain disruptions helped push input prices higher, with raw material costs jumping at the swiftest rate since April 2011.
- In February, eight of the top nine markets for U.S.-manufactured goods had expanding manufacturing sectors, up from seven in January. Many markets experienced notable milestones in the PMI data, including [Germany](#) (best since January 2018), [Japan](#) (best since December 2018), the [Netherlands](#) (best since July 2018) and [South Korea](#) (best since April 2010). At the other extreme, [Mexico](#) contracted at the slowest pace of decline in 11 months.
- The Chinese economy [grew](#) 6.5% year-over-year in the fourth quarter, the fastest rate in two years. [Industrial production](#) increased 7.3% year-over-year in December, the strongest pace since March 2019. New production data will be released early next week.
- Despite strength in manufacturing, several markets noted service-sector weaknesses due to COVID-19 restrictions. Retail sales were lower in the latest figures, for instance, in [Canada](#), the [Eurozone](#), [Japan](#) and the [United Kingdom](#). Experts hope that increased vaccinations will spark rebounding activity in the months ahead.
- Since Jan. 6, the U.S. dollar [has risen](#) 2.6% against a broad-based index of currencies for goods and services, according to the Federal Reserve. The recent appreciation in the dollar coincides with rising interest rates, making the currency more attractive in foreign exchange markets.
- The [U.S. trade deficit](#) rose from \$66.97 billion in December to \$68.21 billion in January. Goods imports increased to a new record pace, more than outpacing the rise in goods exports, which was the best reading since February 2020. U.S.-manufactured goods exports totaled \$81.66 billion in January, using non-seasonally adjusted data, dropping 5.3% from \$86.25 billion in January 2020.
- Manufacturers are working robustly with the Biden administration and Congress to open markets, ensure trade certainty and address challenges

overseas, taking actions that include the following:

- Continuing to monitor the U.S.–China security, trade and economic relationship, and stressing the need for a comprehensive and strategic U.S. approach on China
- Calling on the Biden administration to expand U.S. leadership and work to reform and strengthen the World Health Organization
- Considering the impact on manufacturers of a U.S. rule on the Information and Communications Technology and Services supply chain
- Leading industry advocacy in support of congressional passage of a comprehensive Miscellaneous Tariff Bill

IHS Markit Manufacturing Eurozone Purchasing Managers' Indices

(January 2020 – February 2021)



Global Economic Trends

- **Worldwide Manufacturing Activity:** The [J.P. Morgan Global Manufacturing PMI](#) picked up from 53.6 in January to 53.9 in February, the fastest pace in three years. New orders (down from 54.2 to 53.8) and output (up from 54.1 to 54.2) both expanded for the eighth straight month, even as demand softened slightly. Employment (up from 50.3 to 50.6) and exports (up from 50.2 to 51.1) each strengthened in February. Overall, manufacturers remain very upbeat in their outlook for production over the next six months, with the index for future output (up from 64.4 to 67.2) rising to its highest level since May 2014. Survey respondents also cited significant supply chain disruptions, pushing input prices (up from 62.5 to 64.9) higher, rising at the swiftest pace since April 2011.

- **Sentiment in Major Markets:** In February, eight of the top nine markets for U.S.-manufactured goods had expanding manufacturing sectors, up from seven in January. Japanese manufacturing activity expanded in February for the first time since April 2019. (Growth was neutral in December.) Mexico remained challenged, contracting for 12 consecutive months. On the other hand, the data continue to reflect significant progress in the global economy. Every market on the list had stronger manufacturing PMI readings in February than in January, with China's growth softening slightly for the month.
- Here are more details on each of these major markets (in order of their ranking for U.S.-manufactured goods exports in 2020).
 - [Canada](#) (up from 54.4 to 54.8): New orders and employment strengthened in February, but output softened somewhat. Exports expanded ever so slightly after marginally contracting in January. Canadian manufacturers remain very upbeat about future production, but accelerating raw material costs were a problem.
 - [Mexico](#) (up from 43.0 to 44.2, contracting at the slowest pace of decline in 11 months): Mexico once again reported the weakest PMI among the top nine markets. Activity continued to deteriorate sharply, albeit with some improvement in February. Yet, the index for future output indicated optimism for positive production growth six months from now, with that measure rising to its highest point since the pandemic began.
 - [China](#) (down from 51.5 to 50.9): Manufacturing activity has expanded for 10 straight months. In February, however, it slowed to the weakest growth rate since May 2020 on softening new orders and output. Employment and exports continued to contract. Nonetheless, Chinese manufacturers are optimistic about production growth moving forward.
 - [Germany](#) (up from 57.1 to 60.7, the best reading since January 2018): The data rose sharply higher across the board, with Germany recording the highest PMI among the top nine markets for U.S.-manufactured goods. Respondents are very upbeat about production moving forward, with the index of future output rising to a new record level (for a series dating to July 2012). Input costs rose at the fastest rate since April 2011.
 - [Japan](#) (up from 49.8 to 51.4, the strongest reading since December 2018): This market saw improvement across the board, with new orders accelerating, output rebounding and exports and hiring stabilizing. The outlook for future production recorded its best reading since July 2017, while raw material prices grew at the fastest pace in two years.
 - [United Kingdom](#) (up from 54.1 to 55.1): New orders, exports and hiring strengthened in February, but output softened slightly. Encouragingly, the index of future output rose to the highest reading since September 2014, pointing to optimism in the outlook. At the same time, input costs soared at the fastest pace since January 2017.
 - [South Korea](#) (up from 53.2 to 55.3, the best reading since April 2010): New orders and output rose sharply higher in February, and employment stabilized to near neutral. Exports slowed somewhat. Optimism in the outlook for future production jumped to the highest level since February

2013.

- [Netherlands](#) (up from 58.8 to 59.6, the best reading since July 2018): Despite the higher headline index, many of the key measures slowed in February, including new orders, output and exports. Hiring grew at the strongest rate in 12 months, that is, since the pandemic began. In February, the index for future output pulled back marginally from January's level, which was the best reading since April 2018. Respondents remain very upbeat in their outlook.
- [Brazil](#) (up from 56.5 to 58.4): The underlying data rose higher across the board in February, including new orders, exports, output and hiring. The index for future output continued to signal an optimistic outlook, but manufacturers remain challenged by soaring raw material costs.
- **Regional and National Trends:** Here are some other economic trends worth noting.
 - [China](#): The Chinese economy [grew](#) 6.5% year-over-year in the fourth quarter, the fastest rate in two years. In December, [industrial production](#) increased 7.3% year-over-year, up from 7.0% in November and the strongest pace since March 2019. [Fixed-asset investment](#) (up 2.9% year-over-year) notched its best reading of the year in December. However, [retail sales](#) (down from 5.0% year-over-year in November to 4.6% in December) softened somewhat. Growth in consumer activity remains well below the rates seen pre-pandemic. New data on economic activity in January/February, including industrial production, will be released early next week.
 - [Europe](#): The Eurozone economy [contracted](#) by 0.7% in the fourth quarter, pulling back once again after real GDP increased by 12.5% in the third quarter, as rising COVID-19 cases led to renewed restrictions on activity. On a year-over-year basis, real GDP in the Eurozone shrank by 4.9%. January industrial production data will be released on March 12. In December, [output](#) declined by 1.6% following two months of gains in October and November, with 0.8% less production than one year earlier. At the same time, [retail sales](#) fell 5.9% in January on COVID-19-related restrictions. Over the past 12 months, retail spending has decreased 6.4%. Meanwhile, the [unemployment rate](#) remained at 8.1% in January for the third consecutive month.
 - [United Kingdom](#): In December, [industrial production](#) rose 0.2%. New data for January will be released on March 12. Despite notable progress since the spring, output remained 3.6% below where it was last February 2020, illustrating the sharp declines in manufacturing activity seen during the COVID-19 pandemic. Meanwhile, [retail sales](#) fell 8.2% due to strict COVID-19 restrictions. As a result, retail spending has decreased 5.5% since the pandemic began.
 - [Canada](#): [Manufacturing sales](#) rose 0.9% in December, increasing for the sixth time in the past eight months, largely on stronger petroleum and coal products, transportation equipment and wood products demand. Over the past 12 months, new orders for manufactured goods have fallen 3.9%. New data for January will be released on March 15. Meanwhile, [retail sales](#) fell 3.4% in December, declining for the first time since April

2029. Despite tremendous volatility over the course of the year, retail spending has risen 3.3% year-over-year. February labor market data will be released tomorrow. In January, the [unemployment rate](#) was 9.4%, up from 8.8% in December and the highest since August. [The number of manufacturing workers](#) decreased by 12,300 in January, but with employment in the sector up 3,400 year-over-year.

- [Mexico](#): [Industrial production](#) edged up 0.1% in December, increasing, but at a slower pace, for seventh straight month. Yet, it has fallen 3.2% over the past 12 months. Manufacturing production rose 1.1% in December in real terms, increasing 0.5% year-over-year. January data will be released on March 12. [Note: The link is in Spanish.]
- [Japan](#): [Real GDP](#) increased 2.8% in the fourth quarter in revised data, slowing from the 5.3% growth rate seen in the third quarter. Yet, over the past four quarters, the Japanese economy has shrunk by 1.4%. Meanwhile, [industrial production](#) rose 4.2% in January, bouncing back after two months of declines. Output declined 5.3% over the past 12 months. On the retail front, [consumer spending](#) fell for the third consecutive month, down 0.5% in January. On a year-over-year basis, retail sales have declined 2.4% since January 2020. [Note: The third link is in Japanese.]
- [Emerging Markets](#): After rising in November at the fastest pace since January 2011 (53.9), the IHS Markit Emerging Markets Manufacturing PMI slowed for the third straight month, down from 52.1 in January to 51.5 in February. The good news was that the measure now reflects expanding growth in emerging markets for eight consecutive months. In January, new orders and output decelerated, and hiring and exports contracted once again. With that said, the index for future output continued to signal optimism about production over the next six months, with the measure rising from 61.5 to 64.6, a six-year high. [Note: There is no link for this release.]
- **Trade-Weighted U.S. Dollar Index:** Since Jan. 6, the U.S. dollar [has risen](#) 2.6% against a broad-based index of currencies for goods and services, according to the Federal Reserve. The recent appreciation in the dollar coincides with rising interest rates, making the currency more attractive in foreign exchange markets. The recent trend is a reversal of what was seen since last spring. Indeed, the U.S. dollar remains 8.4% lower than it was April 24, 2020. The index reflects currency rates per U.S. dollar, suggesting the dollar can purchase more today than it could earlier in the year. Over a longer time horizon, the trade-weighted dollar index has risen 22.5% since July 1, 2014.
- **International Trade:** The [U.S. trade deficit](#) rose from \$66.97 billion in December to \$68.21 billion in January. That figure was not far from the all-time high of \$69.04 billion recorded in November. Goods imports (up from \$217.70 billion to \$221.11 billion) increased to a new record pace, more than outpacing the rise in goods exports (up from \$133.58 billion to \$135.66 billion), which was the best reading since February 2020. Overall, trade volumes for goods have rebounded solidly after being battered by COVID-19 and the global recession last year. Yet, imports have recovered faster than exports, continuing a trend seen throughout the second half of 2020. The service-sector trade balance (a

surplus) inched higher, up from \$17.16 billion in December to \$17.24 billion in January. However, it has trended lower since peaking at a record level of \$24.34 billion in November 2018.

In January, goods exports were boosted by strength in industrial supplies and materials (up \$2.51 billion) and non-automotive capital goods (up \$1.57 billion). However, exports declined for automotive vehicles, parts and engines (down \$660 million), consumer goods (down \$638 million) and foods, feeds and beverages (down \$563 million). At the same time, goods imports increased for consumer goods (up \$3.74 billion), foods, feeds and beverages (up \$832 million), industrial supplies and materials (up \$691 million) and non-automotive capital goods (up \$650 million). Automotive vehicles, parts and engines imports declined (down \$1.56 billion).

According to the latest data, U.S.-manufactured goods exports totaled \$81.66 billion in January, using non-seasonally adjusted data, dropping 5.3% from \$86.25 billion in January 2020.

International Trade Policy Trends

- ***The Office of the U.S. Trade Representative Releases 2021 Trade Policy Agenda and 2020 Annual Report:*** On March 1, the USTR released the Biden administration's [2021 Trade Policy Agenda and 2020 Annual Report](#), which must be submitted annually by statute. The report includes two main sections: the [2021 Trade Policy Agenda](#) and [2020 Annual Report](#). The trade policy agenda priorities include the following elements:
 - Ensuring that frontline workers have access to necessary personal protective equipment and promoting long-term supply chain resiliency for equipment and supplies
 - Respecting the dignity of work and valuing Americans as workers and wage earners, including a commitment to self-initiate and advance labor enforcement petitions under the United States–Mexico–Canada Agreement and combat forced labor
 - Building bilateral and multilateral consensus on how trade policies address the climate crisis, bolster sustainable renewable energy supply chains, end unfair trade practices, discourage regulatory arbitrage and foster innovation and creativity
 - Addressing the China challenge with a comprehensive strategy and systematic approach, including using all available tools to take on the range of China's unfair trade practices
 - Repairing partnerships and alliances and restoring U.S. leadership around the world, including at international organizations such as the World Trade Organization
 - Supporting domestic initiatives that eliminate social and economic structural barriers to equality and economic opportunity and pursuing the

same objectives in negotiations with our trading partners

- Developing and reinforcing resilient manufacturing supply chains, especially those made up of small businesses
- Opening markets and reducing trade barriers, noting that export-oriented producers, manufacturers and businesses enjoy greater than average productivity and wages
- Ensuring U.S. trading partners live up to their commitments through strong trade enforcement.

[Learn more.](#)

- ***Senate Finance Committee holds confirmation hearing for USTR-designate Katherine Tai:*** On Feb. 25, the Senate Finance Committee held a [hearing](#) to consider the nomination of Katherine Tai to be USTR.
 - In her [opening statement](#), Tai emphasized a number of key messages that the NAM and our members have heard directly from senior administration officials in recent weeks. Those issues include the need to help American communities emerge from the pandemic and economic crisis and the importance of advancing trade policies that “advance the interests of all Americans—policies that recognize that people are workers and wage earners, not just consumers; policies that promote broad, equitable growth here at home; policies that support American innovation and enhance our competitive edge.”
 - At the hearing, Tai and committee members discussed a number of key trade topics, including the USMCA, China, new trade agreements, the WTO, the U.S.–EU large civil aircraft dispute, intellectual property, supply chain disruptions and forced labor.

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- ***President Joe Biden hosts first call with President Xi Jinping, continues strong rhetorical push on China while working on strategy:*** President Biden and senior administration officials continued in recent weeks to stress China as a core domestic and foreign policy priority, both to domestic audiences and in conversation with key foreign leaders, including leaders from [Canada](#), [Australia](#), and key [European](#) and [Asian](#) countries.
 - On March 3, [President Biden](#) and [Secretary of State Tony Blinken](#) issued a new national security strategy, with a key focus on China as “the only country with the economic, diplomatic, military, and technological power to seriously challenge the stable and open international system.” These mirror signals of a coalescing “whole of government” approach to China heard in administration official statements (and in confirmation hearing

statements such as those of [USTR-designate Tai](#)) that the United States is in a [“long-term strategic competition with China,”](#) and that the United States must be prepared to [“impose costs” on China](#) for its actions. However, officials have continued to stress that a stronger focus on China “does not, and should not, preclude working with China when it is in our national interest to do so.”

- In the meantime, senior U.S. officials continue to stress that existing areas of China policy, including the U.S.–China “phase one” deal and Section 301 tariffs on Chinese imports, remain largely in place. In one move on March 5, USTR [formally extended through Sept. 30](#) the last remaining batch of Section 301 tariff exclusions on health-related COVID-19 response products, ahead of their expiration on March 31.
- Chinese officials, meanwhile, have responded with dual messaging, expressing an [interest in cooperation and dialogue with the United States](#) while [assigning responsibility for “repairing” U.S.–China relations solely to the United States](#). Chinese officials have also redoubled their stress on domestic development and technological self-sufficiency, as evidenced in statements at this week’s [annual senior-level government meetings](#) and discussions around the formal approval of China’s new high-level blueprint for economic and social development (known as the [14th Five-Year Plan](#)).
- Amid such statements, on Feb. 10, President Biden held a nearly two-hour phone call with Chinese President Xi. Reports from both sides ([United States](#); [China](#)) indicated a wide-ranging conversation that covered U.S.–China engagement, economic and trade concerns, human rights, regional security issues and COVID-19, and high-level but unspecified commitments to practical, results-oriented dialogue to advance mutual priorities.

The NAM [continues to stress](#) the need for the United States to quickly develop and drive a comprehensive and strategic approach to cement concrete, lasting and enforceable policy changes in China and a pathway to promote targeted trade enforcement approaches versus broad-brush actions that cause collateral damage to the U.S. economy.

[Learn more.](#)

- ***The United States announces suspension of large civilian aircraft dispute tariffs with the European Union and the United Kingdom:*** Last week, in separate announcements with the European Union and the United Kingdom, the United States announced the four-month suspension of tariffs related to the ongoing large civilian aircraft dispute.
 - According to a joint U.S.–EU [statement](#) on March 5, the suspension will cover all mutual tariffs on both aircraft as well as non-aircraft products. It will become effective “as soon as the internal procedures on both sides are completed.”

- The United States and the European Union also “committed to reach a comprehensive and durable negotiated solution to the Aircraft disputes. Key elements of a negotiated solution will include disciplines on future support in this sector, outstanding support measures, monitoring and enforcement, and addressing the trade distortive practices of and challenges posed by new entrants to the sector from non-market economies, such as China.”
- In a joint U.S.–U.K. [statement](#) on March 4, the United States agreed to suspend retaliatory tariffs for four months. The United Kingdom had ceased applying retaliatory tariffs on Jan. 1.

[Learn more.](#)

- ***White House releases supply chain executive order:*** On Feb. 24, President Biden signed an [Executive Order on America’s Supply Chains](#), which states that the policy of his administration will be to “strengthen the resilience of America’s supply chains.” The order mandates key reports, drafted by cabinet secretaries, and includes the following items:
 - Within 100 days, a review of the supply chains in four key sectors will be completed, with reports to President Biden that describe supply chain weaknesses and include specific recommendations for policy actions: semiconductors and advanced packaging; high-capacity batteries, including electric vehicle batteries; critical minerals and other identified strategic minerals; and pharmaceuticals and active pharmaceutical ingredients.
 - Within one year, agency heads will prepare reports on the supply chains for a wider range of sectors, including the industrial bases for defense (Defense); public health and biological preparedness (Health and Human Services); information and communications technology (Commerce/Homeland Security); energy sector (Energy); transportation (Transportation); and agricultural commodities and food products (Agriculture).
 - Following the submission of the one-year reports, the assistant to the president for national security affairs and the assistant to the president for economic policy will submit to President Biden one or more reports with recommendations that will include the following trade-related elements:
 - Diplomatic, economic, security, trade policy, informational and other actions that can successfully engage allies and partners to strengthen supply chains
 - Reforms to domestic and international trade rules and agreements needed to support supply chain resilience, security, diversity and strength

In a press release following the signing of the executive order, NAM President and CEO Jay Timmons [said](#) that “the pandemic has...exposed serious

challenges facing supply chains and the serious consequences when they are disrupted” and that “we are encouraged to see that the Biden administration is taking action to address these challenges.” Timmons also highlighted the NAM’s policy proposals for “ [Strengthening the Manufacturing Supply Chain](#),” released last year.

[Learn more.](#)

- **Commerce Department seeks comments on ICTS supply chain interim final rule:** On Jan. 19, the previous administration issued an IFR on [Securing the Information and Communications Technology and Services Supply Chain](#). This rulemaking is the product of a May 2019 [Executive Order](#), which provides the secretary of commerce with the authority to restrict transactions involving information and communications technology and services from a “foreign adversary” that poses an undue or unacceptable risk. The January 2021 IFR follows a November 2019 [proposed rule](#), for which the NAM submitted a set of [comments](#) recommending substantive and procedural improvements. The January 2021 IFR makes several changes to the November 2019 proposed rule, including listing the foreign adversaries of focus, clarifying definitions, providing a licensing process and detailing the transaction review process the department will follow, among other things. The interim final rule requests additional public comments by March 22, 2021.

[Learn more.](#)

- **NAM-led industry coalition calls on Biden administration to expand U.S. leadership, work to reform and strengthen the WHO.** Engaging America’s Global Leadership is an NAM-led cross-industry coalition that encourages robust U.S. leadership at multilateral institutions to support U.S. manufacturing and jobs. In February, EAGL called on the Biden administration to expand U.S. leadership in the WHO to strengthen and reform the organization and address manufacturers’ long-standing concerns. In response to President Biden’s [Jan. 21 memorandum](#) that laid out a 30-day window to set U.S. priorities for global leadership on COVID-19 and for WHO reform priorities, EAGL sent a letter that applauded efforts to defeat COVID-19 and rebuild U.S. global leadership at organizations like the WHO. EAGL also called on the Biden administration to push for reforms to strengthen the WHO’s transparency, accountability, focus and engagement with the private sector.

[Learn more.](#)

- **The NAM continues to advocate for passage of the MTB.** Following the exclusion of the MTB from the [Consolidated Appropriations Act of 2021](#), which passed Congress in December, the NAM continued to advocate in support of congressional passage of the legislation as soon as possible in 2021. In doing

so, manufacturers are underscoring the direct impact of the tariffs that would be removed under the MTB on U.S. manufacturing operations and American workers.

[Learn more.](#)

- ***Growing the Fiji Brand: U.S. Services Needed***

March 24, 4:00 p.m. EDT

Virtual

This Direct Line webinar from the Department of State will explore opportunities for U.S. businesses to help grow the Fiji brand through targeted marketing, B2B matchmaking and import and biosecurity compliance. From FIJI Water® to kava, ginger, turmeric, coffee and cocoa, Fijian exporters seek U.S. expertise to expand their global footprint. For this event, U.S. Charge d'affaires Tony Greubel will host guest speakers Arif Khan, acting president of the Fiji–USA Business Council and CEO of Cacao Fiji, and Shaneel Nair, senior trade and investment advisor of Investment Fiji, to share their expertise.

[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.

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