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Global Manufacturing Economic Update

IMF: Global Economic Output Expected to Rebound Strongly in 2021, Up 6%

By Chad Moutray and Ken Monahan – April 15, 2021

The Monthly Toplines

- The International Monetary Fund forecasts a very robust 6.0% growth in global GDP in 2021, a nice rebound after world output fell by 3.3% in 2020. The IMF notes that the outlook hinges on vaccinations and the pace of normalization in economic activity in markets around the world. The strength of the recovery will also rest on fiscal and monetary stimulus initiatives being enacted in various countries.

- The J.P. Morgan Global Manufacturing PMI rose from 53.9 in February to 55.0 in March, the fastest pace since February 2011. Overall, manufacturers remain very upbeat in their outlook for production over the next six months, but they also cite significant supply chain disruptions. Input prices jumped at the swiftest pace since April 2011.

- In March, eight of the top nine markets for U.S.-manufactured goods had expanding manufacturing sectors, the same number as in February. Although Mexico remained challenged, the decline in activity was the slowest in 12 months.

- On a country-by-country basis, manufacturing activity set some new records in the latest PMI data from IHS Markit, including in Canada, Germany and the Netherlands. South Korea and the United Kingdom notched their best performances in at least a decade. Meanwhile, in Brazil, rising COVID-19 cases and renewed restrictions took a toll on activity in March.

- In China, industrial production jumped 35.1% year-over-year in the January/February release. These results demonstrate not only how bad things were last year at the beginning of the COVID-19 pandemic, but also the very strong rebound since. New data for March will be released on April 16.

- After rising in November at the fastest pace since January 2011 (53.9), the IHS Markit Emerging Markets Manufacturing PMI slowed for the fourth straight month. Respondents remain positive about the next six months, even though the index for future input eased from the six-year high in February.

- The U.S. trade deficit rose to $71.08 billion in February, an all-time high, with goods exports falling more than goods imports for the month. Goods exports remain down 5.15% year-over-year, despite progress since last spring. In contrast, goods imports have recovered more quickly, up 10.31% over the past 12 months.

- According to the latest data, U.S.-manufactured goods exports totaled $161.17 billion in January and February, using non-seasonally adjusted data, dropping 8.59% from $176.31 billion year to date in 2020.

- Manufacturers are working robustly with the Biden administration and Congress to open markets, ensure trade certainty and competitiveness and address challenges overseas, taking actions that include the following:

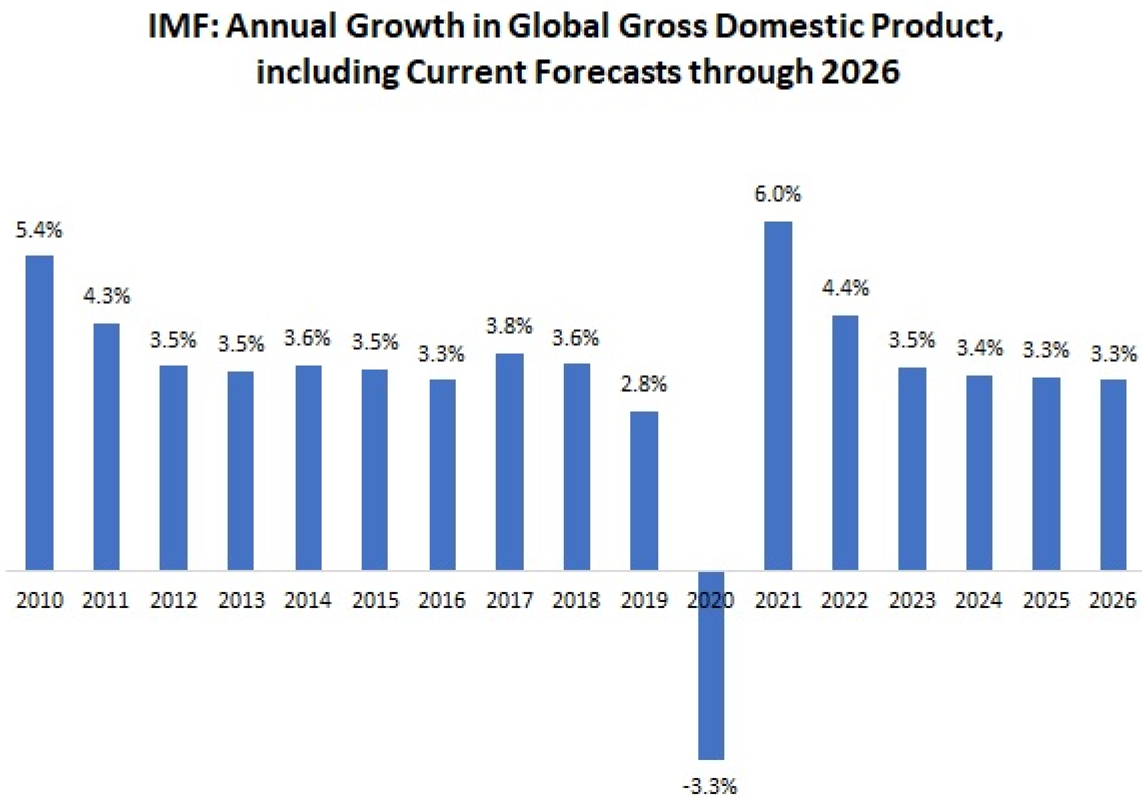
    - Sending a letter to President Biden urging the implementation of a new China strategy

    - Calling on U.S. Trade Representative Katherine Tai to leverage the United States–Mexico–Canada Agreement to address Mexico's trade barriers

    - Leading a cross-association call for the Biden administration to support American innovation and oppose a harmful waiver to the World Trade Organization's Trade-Related Aspects of Intellectual Property Rights agreement

    - Leading industry advocacy in support of expeditious congressional passage of a comprehensive Miscellaneous Tariff Bill

    - Joining a multi-association letter to Ambassador Tai on digital trade priorities



Source: *International Monetary Fund, World Economic Outlook, April 2021*

Global Economic Trends

- **Worldwide Manufacturing Activity**: The J.P. Morgan Global Manufacturing PMI rose from 53.9 in February to 55.0 in March, the fastest pace since February 2011. New orders (down from 54.0 to 55.8), output (up from 54.3 to 55.1), exports (up from 51.0 to 53.4) and employment (up from 50.7 to 51.5) each strengthened in March. Overall, manufacturers remain very upbeat in their outlook for production over the next six months, even with the index for future output (down from 67.2 to 66.5) pulling back slightly from the highest level since May 2014. Survey respondents also cited significant supply chain disruptions, pushing input prices (up from 65.1 to 68.2) higher, rising at the swiftest pace since April 2011.

- **Economic Outlook**: The IMF forecasts a very robust 6.0% growth in global GDP in 2021, a nice rebound after world output fell by 3.3% in 2020. The IMF notes that the outlook hinges on vaccinations and the pace of normalization in economic activity in markets around the world. The strength of the recovery will also rest on fiscal and monetary stimulus initiatives being enacted in various countries. Specific to the United States, the IMF predicts 6.4% growth in 2021, with a 3.5% increase in real GDP in 2022.

- **Sentiment in Major Markets**: In March, eight of the top nine markets for U.S.-manufactured goods had expanding manufacturing sectors, the same number as in February. Although Mexico remained challenged, the decline in activity was the slowest in 12 months. Encouragingly, the data continue to reflect significant progress in the global economy, particularly since last spring. 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 54.8 to 58.5, a new record for a series dating to October 2010): The underlying data rose strongly higher across the board, and respondents were the most upbeat in their forecast for output since May 2019. At the same time, supply chain challenges and the backlog of work posed notable challenges, with accelerating raw material costs jumping at the fastest rate since August 2018.

- Mexico (up from 44.2 to 45.6, contracting at the slowest pace of decline in 12 months): Mexico once again reported the weakest PMI among the top nine markets. Activity continued to deteriorate sharply, albeit with some improvement in March. Yet, the index for future output indicated optimism for positive production growth six months from now, and input costs rose at a pace not seen since November 2018.

- China(down from 50.9 to 50.6, easing for the third straight month, to the slowest pace of growth since May 2020): New orders and output decelerated, but exports rose for the first time since December. Employment contracted for the fourth consecutive month but stabilized somewhat. Chinese manufacturers are optimistic about production growth moving forward, albeit with some easing in March.

- Germany (up from 60.7 to 66.6, a new record for a series dating to April 1996): The underlying data rose sharply higher, with Germany recording the highest PMI among the top nine markets for U.S.-manufactured goods. Respondents are very upbeat about production moving forward, despite the index of future output pulling back from an all-time high (for a series dating to July 2012). Input costs rose at the fastest rate since February 2011.

- Japan (up from 51.4 to 52.7, the strongest reading since October 2018): New orders and output each strengthened in March, with hiring stabilizing. Exports slowed somewhat. The outlook for future production pulled back from the best reading since July 2017 but remained solid. Raw material prices grew at the fastest pace since November 2018.

- United Kingdom (up from 55.1 to 58.9, the best reading since February 2011): The underlying data rose higher across the board. Encouragingly, the index of future output rose to the highest reading since April 2014, pointing to optimism in the outlook. At the same time, input costs soared at the fastest pace since January 2017.

- South Korea (unchanged at 55.3, remaining the best reading since April 2010): New orders and output eased slightly in March, but exports and employment strengthened, with hiring expanding at the fastest pace since May 2013. Manufacturers in South Korea remained upbeat, despite the forward-looking production index slipping from its highest point in eight years. Input costs grew at the briskest pace since January 2008.

- Netherlands (up from 59.6 to 64.7, a new record for a series dating to March 2000): The data rose strongly higher across the board, and the outlook for future production was the best in three years, despite ongoing supply chain challenges. Raw material costs soared at the fastest rate since March 2011.

- Brazil (down from 58.4 to 52.8, the slowest pace of growth since June 2020): Rising COVID-19 cases and renewed restrictions took a toll on activity in March, with activity slipping across the board. New orders and output contracted for the first time in 10 months, and hiring declined for the first time since June 2020. Raw material costs continued to soar, mirroring trends globally. Respondents remained very upbeat about future production, despite some slippage in the latest survey.

- **Regional and National Trends**: Here are some other economic trends worth noting

  - China: In the January/February release, industrial production jumped 35.1% year-over-year. These results demonstrate not only how bad things were last year at the beginning of the COVID-19 pandemic, but also the strong rebound since. (The data fell 13.5% year-over-year in January/February 2020.) In a similar fashion, year-over-year growth rates for fixed-asset investment (35.0%) and retail sales (33.8%) in January/February were equally astounding. New data on economic activity in March, including GDP and industrial production, will be released on April 16.

  - Europe: Eurozone industrial production declined by 1.0% in February, pulling back after rising by 0.8% in January. The underlying data fell across the board, but especially for capital goods, consumer durable goods and energy. Over the past 12 months, industrial production was off 1.6%. In contrast, retail sales rose 3.0% in February, rebounding after falling 5.2% in January on COVID-19-related restrictions. Sales of food, drinks and tobacco remained challenged. Over the past 12 months, retail spending has decreased 2.9% in the Eurozone. Meanwhile, the unemployment rate remained at 8.3% in March for the second straight month (and third time in the past four months).

  - United Kingdom: Industrial production increased 1.0% in February, bouncing back from the 1.8% decline seen in January. Over the past 12 months, industrial production has fallen 3.5%. In the manufacturing sector, output rose 1.3% in February, with a decline of 4.2% year-over-year. Meanwhile, retail sales rose 2.1% in February, recovering at least some of the 8.2% decline seen in January. These data have seesawed over the past four months on such weaknesses. As a result, retail spending has decreased 3.7% year-over-year.

  - Canada: Manufacturing sales rose 3.1% in January, building on the 1.3% gain seen in December, largely on stronger demand for computer and electronic products, primary metals and wood products. However, sales were pulled lower by weaknesses in motor vehicles and parts. Over the past 12 months, new orders for manufactured goods have increased 1.1%. New data for February will be released on April 15. Meanwhile, retail sales declined for the second straight month, down 1.1% in January. Despite tremendous volatility over the course of the year, retail spending has risen 1.3% year-over-year. The unemployment rate fell from 8.2% in February to 7.5% in March, a 13-month low. The number of manufacturing workers increased by 8,200 in March, with employment in the sector up 45,800 year-over-year.

  - Mexico: Industrial production decreased by 0.4% in real terms in February, rising for the eighth straight month. Yet, it has fallen 3.1% year-over-year. Manufacturing production declined 2.2% in February in real terms but was off 3.1% over the past 12 months. [Note: The link is in Spanish.]

  - Japan: Industrial production fell 2.1% in February, pulling back after rising by 4.3% in January. Output has decreased in three of the past four months, with industrial production declining 2.6% year-over-year. Meanwhile, retail sales rose by 3.1% in February after decreasing in the prior two months. On a year-over-year basis, retail spending has declined 1.5% since February 2020. [Note: These links are 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 fourth straight month, down from 52.1 in January to 51.6 in February to 51.3 in March. The good news was that the measure now reflects expanding growth in emerging markets for nine consecutive months. In March, new orders and output decelerated, but exports rebounded, expanding for the first time since December. Hiring remained negative for the fourth consecutive month, albeit reflecting some stabilization. Respondents remain positive about the next six months, even though the index for future output eased from the six-year high of 64.6 to 63.6. [Note: There is no link for this release.]

- **Trade-Weighted U.S. Dollar Index:** Since Jan. 6, the U.S. dollar has risen 2.1% 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 8.8% 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 21.8% since July 1, 2014.

- **International Trade:** The U.S. trade deficit rose from $67.82 billion in January to $71.08 billion in February, an all-time high. Goods exports (down from $135.89 billion to $131.13 billion) fell more than goods imports (down from $221.12 billion to $219.14 billion), sending the headline number higher. While trade volumes have rebounded solidly after being battered by COVID-19 and the global recession last spring, goods exports remain 5.15% below the $138.25 billion in February 2020. Goods imports, however, have recovered more quickly, with February's pace pulling back somewhat from the record high recorded in January and activity up 10.31% year-over-year (up from $198.65 billion in February 2020). Moreover, the petroleum trade balance recorded a deficit ($1.39 billion) for the first time since December 2019.

  Meanwhile, the service-sector trade surplus decreased from $17.40 billion in January to $16.93 billion in February, the lowest level since January 2012.

In February, goods exports declined for non-automotive capital goods (down $2.45 billion), consumer goods (down $937 million), foods, feeds and beverages (down $727 million) and automotive vehicles, parts and engines (down $703 million). Exports of industrial supplies and materials (up $352 million) were boosted by strength in natural gas exports (up $2.40 billion). At the same time, goods imports fell largely on decreased activity for automotive vehicles, parts and engines (down $3.39 billion), consumer goods (down $2.67 billion) and foods, feeds and beverages (down $669 million). However, a sizable increase occurred in goods imports for industrial supplies and materials (up $3.53 billion).

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International Trade Policy Trends

- ***NAM CEO urges President Biden to set and implement new China strategy on eve of first U.S.–China summit***. In a direct letter to President Joe Biden sent on the eve of the first face-to-face interaction between senior U.S. representatives of the Biden administration and Chinese officials, NAM President and CEO Jay Timmons called on the new administration to "rapidly develop, publicly release and robustly implement a formal national China strategy," or "China doctrine," as part of efforts to shape the post-pandemic world and the blueprint for renewed American leadership on the global stage.
    - In his March 17 letter, Timmons outlined key priorities for manufacturers of such a strategy, including strong domestic investment, assertive global leadership on trade through bilateral negotiations and multilateral arrangements, efforts to upgrade domestic frameworks related to national security and human rights and targeted use of domestic and multilateral trade enforcement tools.
    - On March 18–19, senior U.S. officials met with their Chinese counterparts in Anchorage, Alaska, for their first in-person meeting to explore areas of agreement and differences. The summit included an unexpectedly lengthy and sharp public exchange between the summit leads for the United States (Secretary of State Tony Blinken and National Security Advisor Jake Sullivan) and China (Director of the Office of Central Commission for Foreign Affairs Yang Jiechi and State Councilor Wang Yi), followed by additional private exchanges focused on foreign policy and concerns such as human rights.
    - The meetings followed weeks of active U.S. engagement in the region, including President Biden's "Quad" meeting with his Indian, Australian and Japanese counterparts; diplomatic travel to Japan and South Korea; and new blocking sanctions on 24 Chinese and Hong Kong officials.

  Learn more.

- ***The NAM calls on USTR to leverage the USMCA to address Mexico's trade barriers.*** On March 24, the NAM and 18 other trade associations sent a joint letter to United States Trade Representative Katherine Tai urging her to address a number of recent actions by the Mexican government that call into question Mexico's commitment to fulfill its obligations under the USMCA.

    - The letter captures a range of key issue priorities flagged in recent months by manufacturers, including issues related to telecommunications, biopharmaceuticals and agricultural biotechnology, food and food labeling, energy and power generation and customs and trade facilitation.

    - The letter stresses the willingness of the NAM and its fellow associations to work with Ambassador Tai and the USTR team to "fully enforce commercial aspects of the USMCA, defend U.S. exports to Mexico, restore Mexico's compliance with its USMCA obligations and monitor for potential violations moving forward."

  Learn more.

- ***The NAM leads cross-association call for Biden administration to support American innovation, oppose harmful WTO TRIPS waiver***. In recent weeks, the NAM has ramped up its efforts in support of critical intellectual property protections amid the COVID-19 pandemic. These efforts reflect the long-standing NAM commitment to champion manufacturing innovation as well as the risks posed by a WTO proposal to temporarily waive all intellectual property rights for a broad range of COVID-19-related products and technologies.

    - On March 29, the NAM and 14 other industry associations sent a direct letter to five senior Biden administration officials, including Ambassador Tai, urging the United States to demonstrate strong global leadership in the fight against COVID-19 and oppose the proposal and its harmful impact on innovation and supply chains.

    - The letter stresses the need to adopt a broad strategy that tackles the core barriers to manufacturing and distribution of COVID-19 products, including supply chain bottlenecks and trade barriers, rather than maintain a narrow focus on intellectual property. The letter also emphasizes the need for stronger engagement with like-minded allies and constructive multilateral mechanisms.

  Learn more.

- ***USTR releases annual National Trade Estimate report on foreign trade barriers***. On April 14, USTR released the NTE, its annual report on international trade barriers.

    - This year's report – nearly 600 pages in length – covers trade barriers in more than 60 markets around the world, as well as efforts by USTR to address those barriers. The discussions of trade barriers with the European Union remained the biggest focal point, as well as a handful of other markets. Other countries and regions that received extensive coverage include China, India, Russia, Japan and Indonesia.

- USTR's release highlights a series of key types of barriers, including concerns related to China's excess industrial capacity, technical barriers to trade in places such as China, India and Brazil, digital trade concerns in a wide range of markets, and agricultural trade barriers.

- The report covers many of the priorities that the NAM highlighted in its October 2020 comments, including import tariffs, export subsidies and limitations, discriminatory localization policies, lack of intellectual property protection, technical barriers to trade, investment restrictions and digital trade.

Learn more.

- ***Information and Communications Technology and Services Supply Chain Interim Final Rule takes effect, Commerce seeks comments on licensing procedures***. A May 2019 Executive Order authorized the Secretary of the U.S. Department of Commerce to restrict transactions involving information and communications technology and services from a foreign adversary if such a transaction poses an undue or unacceptable risk. The Executive Order has led to multiple rulemakings, including the following:

  - On Jan. 19, the Trump administration issued an interim final rule on Securing the Information and Communications Technology and Services Supply Chain, which took effect on March 22. The NAM submitted final comments on the interim final rule, which stress that Commerce's policies and procedures for reviewing ICTS transactions must be tailored to address identified national security concerns while also maintaining and strengthening manufacturing innovation and leadership in the United States, which is an essential element of U.S. national security.

  - On March 29, Commerce published a related Advanced Notice of Proposed Rulemaking , seeking public input on future licensing procedures for the ICTS Supply Chain Rule. The ANPRM provides examples of questions on which the public may comment. These questions include, but are not limited to, the following: if the Committee on Foreign Investment in the United States and Bureau of Industry and Security's licensing processes are useful models, what form the licensing process should take, what transactions should or should not be considered for the licensing process, what information should Commerce require, and whether a license should apply to multiple transactions and be renewable.

  - Commerce will consider the feedback it receives on the ANPRM as it drafts a Notice of Proposed Rulemaking for ICTS transaction licensing procedures.

  Learn more.

- ***USTR announces next steps in Section 301 digital services taxes investigations***. On March 26, USTR announced next steps in the Section 301 investigations of digital services taxes adopted by or under consideration by U.S. trading partners.

    - USTR announced that the agency is proceeding with a public notice and comment process on possible trade actions against the six countries for which it found that such taxes have been adopted: Austria, India, Italy, Spain, Turkey and the United Kingdom.

    - USTR also announced the termination of digital services tax investigations of Brazil, the Czech Republic, the European Union and Indonesia, as these jurisdictions had not adopted or implemented the taxes under consideration when the investigations were initiated.

    - The NAM submitted these comments on July 15 in response to USTR's Section 301 digital services tax investigations.

  Learn more.

- ***The NAM continues to advocate for passage of the MTB***. Congress has not yet passed the MTB, which expired in December 2020. The NAM continues 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, American workers and their communities.

  Learn more.

- ***The NAM joins multi-association letter to Ambassador Tai on digital trade priorities***. The NAM joined this letter, signed by 15 associations and sent to Ambassador Tai on March 17, which urges the prioritization of "strategic international engagement and open, rules-based digital trade commitments as a means of promoting U.S. economic leadership and innovation." The letter recommends that the Biden administration take the following steps:

    - Prioritize strategic engagement with U.S. trading partners by ensuring continued protected transatlantic data flows, combating digital policies targeted at American companies in countries like China and India, addressing digital and technology trade barriers through the establishment of a U.S.–EU Trade and Technology Council, broadening U.S. engagement and leadership in the Asia-Pacific region and closer to home in Latin America and providing capacity-building assistance to the African Union.

    - Promote U.S. competitiveness through leadership on digital trade by countering unilateral, targeted digital taxes; building acceptance of state-of-the-art digital trade commitments; promoting workforce development initiatives globally; and more.

  - Reassert U.S. multilateral leadership by strengthening and leveraging engagement in global forums such as the WTO, the Organisation for Economic Co-operation and Development, the United Nations, the G-20, the G-7, the Asia-Pacific Economic Cooperation and other groups, and by expanding existing plurilateral trade agreements.

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.***

Questions or comments? Email NAM Chief Economist Chad Moutray at cmoutray@nam.org.