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Global Manufacturing Economic Update

Global Manufacturing Soars, but Input Costs Soar at Fastest Pace in 10 Years

By Chad Moutray and Ken Monahan – May 13, 2021

The Monthly Toplines

- The J.P. Morgan Global Manufacturing PMI rose from 55.0 in March to 55.8 in April, the fastest pace in 11 years, buoyed by growth in new orders, output and hiring, each of which was the strongest in at least a decade.

- Overall, manufacturers remain very upbeat in their outlook for production over the next six months. However, survey respondents also cited significant supply chain disruptions, with input costs soaring at the fastest pace since March 2011. The country-by-country data also reflected these larger trends, with robust growth in orders and output, but also in raw material prices.

- Eight of the top nine markets for U.S.-manufactured goods had expanding manufacturing sectors in April. Although Mexico remained challenged, the decline in activity was the slowest since the COVID-19 pandemic began. The Netherlands set new records for production growth, and in the process, notched the highest PMI among the top nine exports markets in April.

- Manufacturers reported robust expansions in Canada, Germany and South Korea , even as activity pulled back in April from either record or multiyear highs. At the same time, the IHS Markit/CIPS U.K. Manufacturing PMI rose to the best reading since July 1994. New orders, output and employment lifted Japanese manufacturing growth to its strongest level in three years.

- Although the data largely reflect a major rebound in activity since last spring, it is important to also issue a word of caution. The year-over-year data compare activity today versus one year ago, when COVID-19 forced growth to plummet. As a result, the year-over-year growth numbers will be larger, mostly on so-called "base effects."

- For a case in point, Chinese real GDP soared 18.3% year-over-year in the first quarter, the fastest pace since 1992, with industrial production rising 14.1% year-over-year. Chinese fixed-asset investment (up 25.6% year-over-year) and retail sales (up 34.2% year-over-year) also showed very robust gains over the past year. New data for April will be released on May 17.

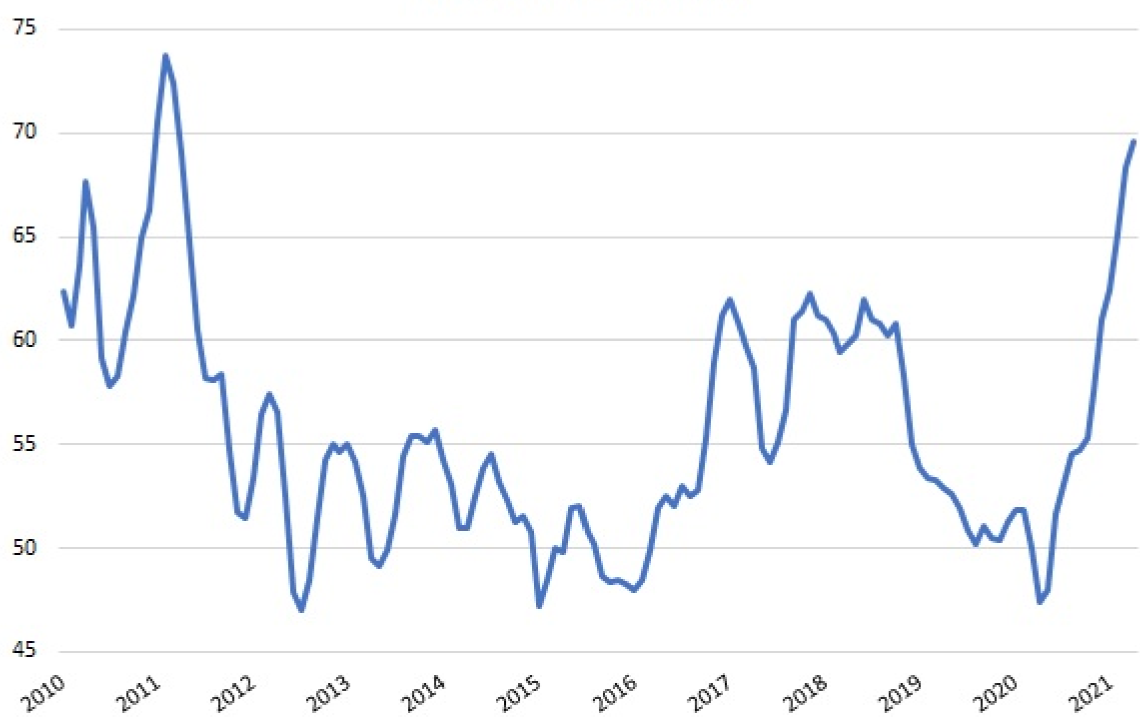
- The U.S. trade deficit rose to $74.45 billion in March, an all-time high. Trade volumes were higher overall, but growth in imports (which also hit a new record) outpaced the rise in exports. The service-sector trade surplus hit the lowest level since August 2012.

- U.S.-manufactured goods exports in the first quarter of 2021 were 3.52% lower than the pace seen through the first three months of 2020, using non-seasonally adjusted data.

- 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:
    - Criticizing U.S. support for waving intellectual property for COVID-19 vaccines
    - Continuing to urge the Biden administration to rapidly develop and implement a strong, comprehensive China strategy
    - Stressing the importance of tackling pressing global challenges and strengthening U.S. global leadership at the United Nations and other multilateral organizations
    - Urging the nomination of a full slate of qualified candidates to serve on the Export-Import Bank Board of Directors
    - Continuing to lead industry advocacy in support of expeditious congressional passage of a comprehensive Miscellaneous Tariff Bill

J.P. Morgan Global Manufacturing PMI Input Prices Index

(January 2010 – April 2021)



Source: IHS Markit

- **Worldwide Manufacturing Activity:** The J.P. Morgan Global Manufacturing PMI rose from 55.0 in March to 55.8 in April, the fastest pace in 11 years. New orders (up from 55.8 to 56.7, the best since May 2010), output (up from 55.0 to 55.7, the highest since February 2011), exports (up from 53.5 to 54.7, a pace not seen since May 2010) and employment (up from 51.6 to 52.5) each strengthened in April. Overall, manufacturers remain very upbeat in their outlook for production over the next six months, with the index for future output (up from 66.5 to 66.6) edging higher in April. Survey respondents also cited significant supply chain disruptions, pushing input prices (up from 684 to 69.6) higher, rising at the swiftest pace since March 2011.

- **Sentiment in Major Markets:** In April, eight of the top nine markets for U.S.-manufactured goods had expanding manufacturing sectors, the same number as in both February and March. Although Mexico remained challenged, the decline in activity was the slowest since the COVID-19 pandemic began. 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 (down from 58.5 to 57.2, pulling back from a record high): The underlying data decelerated across the board, but respondents remained very upbeat in their forecast for output over the next six months. 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 45.6 to 48.4, contracting at the slowest pace since February 2020): Mexico once again reported the weakest PMI among the top nine markets. Activity continued to decline, but orders, output, exports and hiring stabilized in April. 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 July 2018.

    - China (up from 50.6 to 51.9, a four-month high): New orders, output, exports and hiring each accelerated in April, with employment rebounding following four straight months of contraction. Chinese manufacturers are optimistic about production growth moving forward, albeit with some easing in March and April, and raw material costs rose at the fastest rate since November 2017.

    - Germany (down from 66.6 to 66.2, pulling back slightly from a record high): New orders, output and exports eased in April but continued to expand very robustly. Respondents were more upbeat in their outlook for future production, with that measure jumping to another all-time high (for a series dating to July 2012). Input costs rose at the fastest pace since February 2011.

    - Japan (up from 52.7 to 53.6, the strongest reading in three years): In an encouraging development, underlying data rose across the board, with new orders, exports and output expanding at their best rates since early 2018. Employment expanded for only the second time since the pandemic began. The outlook for future production rose to the best reading since July 2017, and raw material prices grew at the fastest pace since November 2018.

    - United Kingdom (up from 58.9 to 60.9, the best reading since July 1994, making it the second-highest reading in the survey's history, which dates to January 1992): New orders, output and exports accelerated in April, but employment growth slowed somewhat. The index of future output soared to the highest reading in seven years. At the same time, although input costs pulled back in April after jumping at the fastest pace since January 2017, they continued to increase very sharply.

  - South Korea (down from 55.3 to 54.6, pulling back from the best reading since April 2010): Growth decelerated in South Korea in April, although activity continued to expand modestly. Manufacturers remained very upbeat in their outlook with the forward-looking production index. While raw material costs eased in April from March's pace, which was the fastest in 10 years, input prices continued to rise sharply, with supply chain disruptions challenging the sector.

  - Netherlands (up from 64.7 to 67.2, a new record for a series dating to March 2000): The Netherlands had the highest PMI among the top nine markets for U.S.-manufactured goods. Output jumped at the fastest rate on record, and employment growth was the best in three years. New orders and exports slowed a bit in April, however. The outlook for future production was the highest since February 2018, despite ongoing supply chain challenges. Raw material costs soared at the fastest rate in the survey's history.

  - Brazil (down from 52.8 to 52.3, the slowest pace of growth since June 2020): Rising COVID-19 cases and renewed restrictions took a toll on activity again in April. While new orders and output contracted for the second straight month, albeit with some stabilization, hiring rebounded. Raw material costs continued to soar but eased slightly in April. Respondents remained very upbeat about future production.

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

  - China: Real GDP soared 18.3% year-over-year in the first quarter, the fastest pace since 1992. However, it is important to note that activity fell sharply last year, impacting year-over-year comparisons. Along those lines, industrial production rose 14.1% year-over-year in March, down from 35.1% in January/February. More importantly, industrial production has rebounded strongly since last spring. Likewise, fixed-asset investment (up 25.6% year-over-year) and retail sales (up 34.2% year-over-year) also showed very robust gains over the past year as the Chinese economy continues to recover from COVID-19 and the global recession. New data on economic activity in April will be released on May 17.

  - Europe: Eurozone real GDP declined 0.6% in the first quarter, extending the 0.7% decline seen in the fourth quarter, as the continent struggled with rising COVID-19 cases and restrictions in activity. On a year-over-year basis, the Eurozone economy has shrunk by 1.8% since the first quarter of 2020. Although this figure marked the fifth straight quarterly year-over-year decline, it represented an improvement from the 4.9% year-over-year decline in the fourth quarter. Meanwhile, industrial production in the Eurozone edged up 0.1% in March, rebounding slightly after falling by 1.2% in February. Output on capital and consumer durable goods remained challenged. On a year-over-year basis, industrial production rose 10.9%. In addition, retail sales rose 2.7% in March, extending the 4.2% gain seen in February, with 12.0% growth over the past 12 months. The unemployment rate declined from 8.2% in February to 8.1% in

March, the lowest level since June 2020.

- United Kingdom: Real GDP fell 1.5% in the first quarter, with activity shrinking on new COVID-19 restrictions. The U.K. economy has contracted by 8.7% since the fourth quarter of 2019, or since the pandemic began. More encouragingly, industrial production rose 1.8% in March, with manufacturing output up 2.1% for the month. For the first quarter overall, industrial production fell by 0.4%, and since February 2020, output has declined by 2.2%. Meanwhile, retail sales jumped 5.4% in March, building on the 2.2% gain seen in February and the largest monthly increase since June 2020. Since the pandemic began in February 2020, retail spending has risen 1.6%, with consumer activity rebounding from sharp pullbacks last year.

- Canada: Manufacturing sales fell 1.6% in February, pulling back after rising by 3.4% in January, largely on reduced transportation equipment orders. Over the past 12 months, new orders for manufactured goods have declined by 0.8% but have largely recovered from steep declines seen last spring. Meanwhile, retail sales rose 4.8% in February following decreases in the prior two months. Despite tremendous volatility over the course of the year, retail spending has jumped 6.0% year-over-year, buoyed by pent-up demand. With that said, the unemployment rate increased from 7.5% in March to 8.1% in April, largely on higher COVID-19 cases in some provinces. The number of manufacturing workers increased by 400 in April, with employment in the sector up 308,000 year-over-year.

- Mexico: Industrial production was up 0.7% in real terms in March, boosted by 3.0% growth in manufacturing output. On a year-over-year basis, industrial production has increased by 1.5% in real terms, but with manufacturing output jumping 5.5% since March 2020. [Note: The link is in Spanish.]

- Japan: Industrial production rose 2.2% in March, rebounding from the 1.3% decline seen in February. Output has seesawed over the past four months, but industrial production has risen 4.0% year-over-year, keeping in mind that activity plummeted in March 2020 (the comparison month). Meanwhile, retail sales have increased by 3.1% and 1.2% in February and March, respectively. On a year-over-year basis, retail spending has risen 5.2% since March 2020. [Note: These links are in Japanese.]

- Emerging Markets: The IHS Markit Emerging Market Index increased from 51.3 in March to 52.2 in April, the strongest reading year-to-date. New orders, exports and output each expanded very modestly in April, and employment growth was positive for the first time in five months. Respondents remained positive about the next six months, even though the index for future output eased for the second consecutive month from 63.6 to 63.2. Input costs jumped at the fastest pace since March 2011. [Note: There is no link for this release.]

- **Trade-Weighted U.S. Dollar Index:** Since March 30, the U.S. dollar has fallen 2.8% against a broad-based index of currencies for goods and services, according to the Federal Reserve. The recent depreciation in the dollar coincides with some easing in interest rates. It continues a longer-term trend of depreciation seen since last spring, with the U.S. dollar 10.6% lower today than it was on April 24, 2020. The index reflects currency rates per U.S. dollar, suggesting the dollar can purchase less today than it could at this time last year. Despite recent trends, the trade-weighted dollar index has risen 19.5% since July 1, 2014.

- **International Trade:** The U.S. trade deficit rose from $70.52 billion in February to $74.45 billion in March, the second straight monthly all-time high. Trade volumes increased overall, but growth in imports outpaced the rise in exports. Goods exports increased from $131.23 billion to $142.89 billion, the strongest pace since May 2018. At the same time, goods imports jumped from $219.16 billion to $234.44 billion, a new record. In the first quarter, goods exports and imports increased 6.97% and 7.69%, respectively. However, goods imports have soared 18.02% since February 2020, with goods exports up a more modest 3.35% since the COVID-19 pandemic began. Meanwhile, the service-sector trade surplus decreased from $17.41 billion in February to $17.11 billion in March, the lowest level since August 2012.

  In March, goods exports rose across the board, with very sizable increases in industrial supply and materials (up $5.17 billion), nonautomotive capital goods (up $2.92 billion), consumer goods (up $2.01 billion) and automotive vehicles, parts and engines (up $859 million). Likewise, the data on goods imports also strengthened in every major category, including significant jumps in consumer goods (up $4.48 billion to a new record level), industrial supplies and materials (up $3.70 billion), nonautomotive capital goods (up $3.32 billion) and automotive vehicles, parts and engines (up $2.05 billion).

  According to the latest data, U.S.-manufactured goods exports totaled $260.09 billion through the first three months in 2021, using non-seasonally adjusted data, decreasing 3.52% from $269.57 billion year to date in 2020.

International Trade Policy Trends

- ***U.S. signals support for waiving IP protections for COVID-19 vaccines.*** *Amid active conversations at the World Trade Organization on a proposal for a blanket waiver of all IP for COVID-19 related products, U.S.* Trade Representative Katherine Tai on May 5 announced U.S. support for waiving IP protections for COVID-19 vaccines and for text-based WTO negotiations in support of this goal.

  - The announcement comes after weeks of internal administration discussions weighing the U.S. approach to the broad proposal, initially made by India and South Africa in late-2020, which had been opposed by a coalition of countries and industry groups.

  - Ambassador Tai cited “extraordinary circumstances of the COVID-19 pandemic” to justify support for action, asserting U.S. support for a narrower focus on IP for COVID-19 vaccines than the original waiver proposal and without comment on broader products.

  - Similarly, the announcement did not state a position on the proposed waiver language beyond committing to an active role in text-based negotiations at the WTO to support efforts to end this pandemic, while also cautioning that time would be needed for complex negotiations.

NAM President and CEO Jay Timmons criticized the decision in a press release, stating that the proposed waiver “would not solve this crisis and would exacerbate the core manufacturing and distribution challenges, as well as introduce serious new safety concerns.” Timmons’ statement follows months of NAM advocacy on the topic, including a March joint association letter to five senior Biden administration officials and repeated

NAM submissions, social media and statements.

Learn more.

- ***USTR annual report on global IP protection tags China, India, Russia and more than 30 other countries.*** On April 30, USTR released the Special 301 report, a detailed annual report that documents challenges faced by U.S. businesses and inventors seeking to protect their IP around the world.
    - This year's report marks the first under the Biden administration, and the report's release included a statement from Ambassador Tai that stressed the critical importance of IP for both innovators and workers. The report also signals room for USTR to stake out new positions on IP, with language about the need for "balance" between the interests of creators and users as well as language on the importance of promoting access to medicines that presaged Ambassador Tai's May 5 announcement related to the proposed IP waiver being discussed at the WTO.
    - More broadly, the report highlights three priority IP issues up front: continued IP concerns in China, increasing global concerns about counterfeiting and challenges raised by the European Union's "aggressive" promotion of "exclusionary" geographical indications policies.
    - This year's Special 301 report includes specific designations for 34 markets, including nine on the priority watch list (among those named are Chile, China, India, Indonesia and Russia) and an additional 23 countries on the watch list (among those named are Canada, Mexico, Brazil and Thailand). It also lists priority cross-cutting issues such as market access for patented manufactured products, trade secret protection, enforcement against physical and online counterfeiting and trademark protection.

The NAM provided both a detailed submission as well as responses to direct questions and direct testimony for the Special 301 report process, stressing that innovation and IP are central to manufacturing competitiveness.

Learn more.

- ***First United States–Mexico–Canada Agreement labor complaints filed against Mexico.*** On May 10, the AFL-CIO, Service Employees International Union and the Sindicato Nacional Independiente de Trabajadores de Industrias y de Servicios Movimiento 20/32 (an independent labor union in Mexico) filed the first labor complaint under the USMCA. The case targets an auto parts factory operated in Mexico by Tridonex, a subsidiary of Cardone Industries Inc. In a separate USMCA labor enforcement case, Ambassador Tai announced on May 12 that the United States has asked Mexico to review whether workers at a General Motors facility are being denied the right of free association and collective bargaining.
    - In August 2020, the NAM sent these comments to the USTR in response to an earlier release of USMCA labor interim procedural guidelines for public submissions of information regarding potential failures of Canada or Mexico to implement their labor obligations under the USMCA.

    Learn more.

- ***Biden administration continues review of China strategy and policy amid rising pressure to act.*** In recent weeks, President Joe Biden and key members of his administration have continued to stress a strong line on China issues from trade and the economy to national security and human rights, while continuing their review of existing China policies. Manufacturers are beginning to see some signals of the direction of the policy under the Biden administration.

- In his April 29 remarks to Congress, President Biden stated that the United States would ensure that China "plays by the same rules in the global economy," citing his Feb. 10 conversation with Chinese President Xi Jinping that the United States would "welcome the competition" but not seek conflict.

- In a April 28 hearing before a key Senate Appropriations subcommittee, Ambassador Tai noted that USTR was still reviewing the U.S.–China "phase one" trade deal to assess China's compliance as part of a "top-to-bottom review of China" and that she would be meeting with her Chinese counterparts "at the right time."

- Commerce Secretary Gina Raimondo, in a similar May 6 hearing, reiterated the continued priority on "competition with China" and Chinese behavior in areas like overcapacity and IP that would prompt the U.S. government to be "as tough as we need to be."

- As the administration continues its review, Congress has continued to be very active on issues related to China. Among the flurry of China-related legislation introduced in both chambers, key Senate committees are working on a potential bipartisan legislative package, and the House and Senate have prepared broad bipartisan letters urging Ambassador Tai to restart the exclusion process for Section 301 tariffs on Chinese goods.

The NAM has continued to urge the Biden administration to rapidly develop and implement a strong, comprehensive China strategy that addresses issues such as trade, national security, human rights and climate change. That call was laid out strongly in NAM President and CEO Timmons' March 17 letter to President Biden on a China doctrine as part of efforts to shape the post-pandemic world.

Learn more.

- ***NAM-led coalition urges U.N. ambassador to expand U.S. global leadership and strengthen and reform U.N. agencies.*** On April 22, the NAM, on behalf of the cross-industry coalition Engaging America's Global Leadership, sent a direct letter to new U.S. Ambassador to the United Nations Linda Thomas-Greenfield pledging to work together to tackle pressing global challenges and strengthen U.S. global leadership at the United Nations and other multilateral organizations.

  - In the letter, EAGL stressed the critical role these organizations play in promoting a more stable, equitable and rules-based international system that delivers for American businesses. EAGL also highlighted the "indispensable" role of the United States both in strengthening and reforming the U.N. and its technical agencies to ensure they are efficient and effective, and advancing American foreign policy and economic leadership.

  - The NAM leads EAGL and promotes its core mission to encourage robust U.S. leadership at multilateral institutions to support U.S. manufacturing and jobs.

Learn more .

- ***The NAM encourages selection of nominees to the Ex-Im Bank Board of Directors.*** On April 28, NAM President and CEO Timmons sent this letter to President

Biden, urging the nomination of a full slate of qualified candidates to serve as chair, vice chair and directors on the Ex-Im Bank Board of Directors. The letter emphasizes the importance of having a fully staffed and functional Ex-Im Bank to ensure manufacturers in the United States can compete on a level playing field with increasingly aggressive foreign actors in the global market.

Learn more.

- ***NAM submits comments on Advanced Notice of Proposed Rulemaking licensing procedures for the Information and Communications Technology and Services Supply Chain rule.*** On April 28, the NAM submitted comments to the Department of Commerce on ANPRM licensing procedures for the ICTS Supply Chain Rule.
    - The NAM's comments urge Commerce to first fully consider March 22 comments submitted by manufacturers, which provide recommendations to tailor and improve the underlying ICTS Supply Chain rule.
    - The April 28 comments also provide substantive recommendations that Commerce should consider in drafting the ANPRM for an ICTS pre-clearance or licensing process. Recommendations include taking a risk-based approach, providing further guidance on scope, partnering with the private sector and considering benefits for companies that incorporate risk-mitigating technology or adhere to rigorous safety standards. Comments also stress the importance of establishing a timely process, among other recommendations.
    - The NAM's comments also address the specific questions Commerce posed in the ANPRM.

Learn more.

- ***The NAM continues to advocate for passage of the MTB.*** Congress has not yet passed the MTB, which expired on Dec. 31, 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.

Take Action

- ***Opportunities in Algeria's Renewable Energy Sector***
  May 18
  Virtual
  Chargé d'Affaires Gautam Rana and Algeria's Ministry of Renewable Energy and Energy Transition welcome U.S. investment and partnership in Algeria's burgeoning renewable energy sector. The government of Algeria plans to install more than 15,000 MW of renewable energy over 15 years, opening the door to numerous business opportunities for U.S. companies to help build a more sustainable energy future. Learn more.

  Opportunities in Iraqi Kurdistan Agricultural Sector
  June 15

Virtual
Consul General Rob Waller and Kurdistan Regional Government's Agriculture Minister H.E. Begard Talabani and Planning Director General Dr. Ghazi Faiq Haji will discuss agricultural investment opportunities in cold chain infrastructure and supply chain, including refrigerated production, storage and distribution, as well as associated equipment and logistics. 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.***