

Global Manufacturing Economic Update

By [Chad Moutray](#) and [Linda Dempsey](#) – November 15, 2018

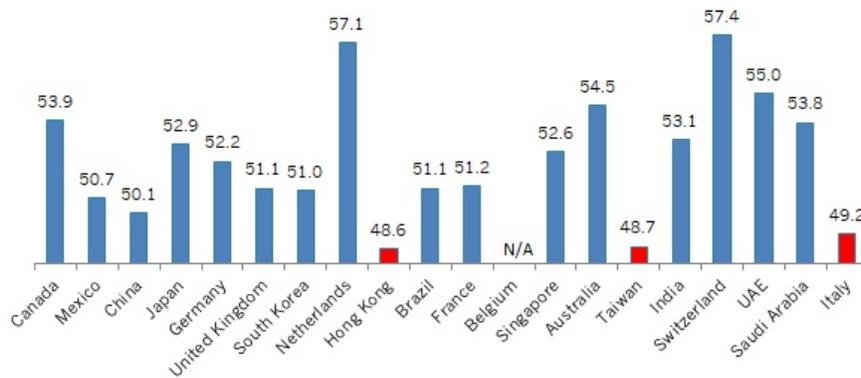
Modest Global Economic Growth Continues but Is Showing Signs of Weakening

The Monthly Toplines

- The global economy continues to soften, even with a modest expansion overall. The [J.P. Morgan Global Manufacturing PMI™](#) edged down in October to its slowest growth rate since November 2016. Most notably, there have been weaker expansions cited in [China](#), the [Eurozone](#) and the emerging markets.
- Among the top 20 markets for U.S.-manufactured goods, there were three markets that were in contraction in October: [Hong Kong](#), [Italy](#) and [Taiwan](#). Overall, these data continue to show improvements in the international economy from the global headwinds experienced a couple of years ago, but there has been slippage over the past few months in growth rates.
- The U.S. dollar has [strengthened notably](#) year-to-date, up 8.6 percent since Jan. 25 against major currencies. The dollar has been buoyed by rising interest rates and the continued attractiveness of the U.S. market, but an appreciated currency also makes it more difficult to expand international demand.
- Despite some headwinds for manufacturers, U.S.-manufactured goods have increased strongly year-to-date in 2018. According to the latest data from [TradeStats Express](#), manufactured goods are on pace for nearly \$1.4 trillion in exports this year, which would be the best reading since 2014's all-time high. Looking at exports for the first three quarters, U.S.-manufactured goods are up 5.4 percent this year relative to the pace seen in 2017, with increased exports to the top nine markets.
- All eyes are on Buenos Aires, Argentina, for the end of November G20 meetings, particularly for events and meetings on the sidelines, including the signing of the U.S.-Mexico-Canada Agreement (USMCA) and a meeting planned between President Donald Trump and Chinese President Xi Jinping on trade and other issues.
- Manufacturers are starting to benefit from the tariff relief provided pursuant to the Miscellaneous Tariff Bill (MTB) that became operational on Oct. 13.

IHS Markit Purchasing Managers' Indices® for the Top 20 Export Markets for U.S. Manufactured Goods

(October 2018)



Note: Top 20 Export Markets Based on 2017
Data from the U.S. Commerce Department

Emerging Markets Manufacturing PMI: 50.5
Eurozone Manufacturing PMI: 52.0
Global Manufacturing PMI: 52.1
U.S. Manufacturing PMI (Markit): 55.7

Global Economic Trends

- Worldwide Manufacturing Activity:** The [J.P. Morgan Global Manufacturing PMI™](#) edged down in October to its slowest growth rate since November 2016, even with a very modest expansion overall. The headline index declined from 52.2 in September to 52.1 in October, continuing to decelerate after reaching nearly a seven-year high in December (94.5). In the latest survey, new orders and output slowed, but hiring pickup up somewhat. Exports contracted for the second consecutive month, but only barely. The index for raw material prices has exceeded 60—indicating robust growth—in 13 of the past 14 months, highlighting elevated cost pressures globally.
- Top 20 Markets for U.S.-Manufactured Goods:** There was also some slippage in economic growth in October in the largest export destinations. In June, all those markets were in expansion, but the global economy has softened since then. In October, there were three economies in contraction—[Hong Kong](#), [Italy](#) and [Taiwan](#). Italian manufacturing activity was negative for the first time since August 2016, largely on political and economic uncertainties, with new orders falling at their fastest pace since May 2013 and exports contracting for the first time since December 2012. On the positive side, [Singapore](#), which had contracted in September for the first time since April 2016, rebounded in October.

The fastest growth in manufacturing activity in October among the top 20 markets occurred in the [Netherlands](#) (57.1), Switzerland (57.1), the [United Arab Emirates](#) (55.0), [Australia](#) (54.5), [Canada](#) (53.9) and [Saudi Arabia](#) (53.8), even as many of these markets continued to slow, mirroring the headline index. (There is no manufacturing PMI for comparison purposes for Belgium, which is our 12th-largest trading partner.)

- Trade-Weighted U.S. Dollar Index Against Major Currencies:** The dollar has [continued to strengthen](#), up 8.6 percent since January 25 against major currencies, according to the Federal Reserve. This index reflects currency rates per U.S. dollar, suggesting that the dollar can purchase somewhat more today than it could on January 25. At the same time, manufacturers have noted challenges with a strong dollar for a few years, with the dollar up 21.4 percent since June 30, 2014.
- U.S.-Manufactured Export Growth:** Despite some headwinds for manufacturers, exports have increased strongly year-to-date in 2018, extending the nice turnaround seen in 2017. According to the latest data from

[TradeStats Express](#), U.S.-manufactured goods exports totaled \$1.046 trillion through the first nine months of 2018, putting it on a pace for nearly \$1.4 trillion for the year, its best reading since 2014. As such, U.S.-manufactured goods exports are on track for a gain of 5.4 percent in 2018 (assuming the rate for the first three quarters extends to the fourth quarter), building on the 4.7 percent gain seen in 2017. Looking specifically at the data through the first three quarters, exports were higher to the top nine markets, including for Canada (up 6.1 percent), Mexico (up 10.2 percent), China (up 6.8 percent), Japan (up 7.2 percent) and the United Kingdom (up 14.6 percent).

- **China:** Surprisingly, the [Caixin China General Manufacturing PMI™](#) expanded ever-so-slightly in October (50.1). It had been expected to fall into contraction territory for the first time since May 2017. The underlying data were mixed, with a slight pickup in new orders offset by weaker output growth. Exports and employment continued to decline, but with each contracting at a slower rate.

[Real GDP](#) also slowed, declining from 6.7 percent year-over-year in the second quarter to 6.5 percent in the third quarter. [Industrial production](#) (5.8 percent year-over-year in October) and [fixed asset investment](#) (5.4 percent year-over-year) have also decelerated notably in recent months, particularly as the Chinese economy has softened. On the positive side, [retail sales](#) (9.2 percent year-over-year) picked up in October, with consumer spending rising to its best reading since April (but still slower than the rates seen earlier this year and prior).

- **Eurozone:** The [IHS Markit Eurozone Manufacturing PMI®](#) dropped to its lowest level since August 2016, with that measure down from 53.2 in September to 52.0 in October. Declining new orders and exports pulled the headline index lower, as sales fell for the first time since November 2014. Growth in output, future output and employment decelerated for the month, with output at nearly a four-year low. On a country-by-country basis, manufacturing activity softened to the weakest expansions since 2016 in [Austria](#), [France](#), [Germany](#), the [Netherlands](#) and the [United Kingdom](#), with the latter experiencing falling new orders and employment for the first time since July 2016 on Brexit worries. [Greece](#) and [Ireland](#) grew at their slowest rates since earlier in 2018, and as noted earlier, [Italy](#) contracted for the first time since August 2016. [Spain](#) was the lone major market in Europe to improve in October.

Looking at economic data, [real GDP](#) slowed to 1.7 percent growth year-over-year in the third quarter, down from 2.2 percent in the second quarter and a two-year low. Likewise, industrial production declined by 0.3 percent in September, and as a result, [industrial production](#) has risen by just 0.9 percent year-over-year. Meanwhile, [retail sales](#) were unchanged in September, with a rather paltry 0.8 percent growth rate experienced over the past 12 months. More encouragingly, the [unemployment rate](#) remained at 8.1 percent, the lowest level since November 2008.

- **Emerging Markets:** The IHS Markit Emerging Markets Manufacturing PMI® inched up from 50.3 in September to 50.5 in October, but activity in these markets has weakened from earlier in the year. The emerging markets have been weighed down by softer global growth and a strong U.S. dollar. The underlying data in October were mixed, with the headline index boosted by a slight improvement in new orders but output and future output measures decelerated. Exports and employment contracted once again, but at a slower rate of decline than in the previous survey.

The country-by-country data on manufacturing activity were mixed. Encouragingly, there were several emerging markets with improved business conditions in October, including [Brazil](#), [India](#), [Kenya](#), the [Philippines](#), [Russia](#), [Saudi Arabia](#) and [Vietnam](#). As discussed earlier, [Chinese](#) activity also inched up unexpectedly in the month, even as growth has clearly softened in the economy overall, and [Singapore](#) rebounded from a brief contraction in September. On the other hand, the [Czech Republic](#), [Nigeria](#) and [Poland](#) slowed to growth rates not seen since 2016 or 2017, depending on the

measure, with weaker expansions also reported in both [South Korea](#) and the [United Arab Emirates](#). In contrast to those emerging markets that are growing, [Malaysia](#) and [Taiwan](#) returned to negative territory in October, with ongoing challenges persisting in [Egypt](#), [Hong Kong](#), [Lebanon](#), [Myanmar](#) and [Turkey](#).

- **Canada:** The [IHS Markit Canada Manufacturing PMI®](#) expanded at its slowest pace since January 2017 in October, with weaker data across the board. Manufacturing activity decelerated in every region of the country. To be fair, employment growth remained solid, and survey respondents continue to be mostly upbeat in their outlook. Meanwhile, there will be new data released on November 16, but [manufacturing sales](#) fell 0.4 percent in August, ending three months of consecutive gains. Even with that decline, shipments of manufactured goods have jumped 9.0 percent year-over-year. At the same time, the [unemployment rate](#) returned to 5.8 percent in October, with 1,700 [more](#) manufacturing workers but 31,400 fewer over the 12 months.
- **Mexico:** The [IHS Markit Mexico Manufacturing PMI®](#) slowed once again, falling in October to 50.7, matching its weakest reading of the year, which was in August. New orders, output and hiring decelerated to slight expansions in October, even as the index for future output continued to signal general optimism for the months ahead (albeit with those completing the survey the least upbeat since January 2017 in their overall outlook). In the latest data, [industrial production](#) grew 1.8 percent year-over-year, its strongest pace in five months but still subpar. Likewise, manufacturing production has increased by 2.4 percent over the past 12 months, the best reading since May but also slower than desired.
- **Japan:** The [Nikkei Japan Manufacturing PMI](#) expanded modestly, with activity strengthening from 52.5 in September to 52.9 in October. New orders, output and employment were all improved in October, with exports positive for the first time since May. Despite the progress, the index for future output slowed to its weakest rate since November 2016, but with expectations of still-decent growth. Meanwhile, input prices (up from 60.2 to 62.6) grew at the fastest pace in 10 years, mirroring the pickup in raw material costs seen in other data.

[Real GDP](#) fell by 0.3 percent in the third quarter, the second negative reading in economic growth this year, with the data pulled lower by reduced consumer, business and government spending and drags from net exports. On a year-over-year basis, the Japanese economy has increased by just 0.4 percent, indicating a sluggish pace of growth over the past 12 months. In a similar way, [industrial production](#) fell 0.4 percent in September, decreasing for fourth time in the past five months, with output down by 2.5 percent year-over-year.

- **U.S. Trade Deficit:** The [U.S. trade deficit](#) rose from \$53.31 billion in August to \$54.02 billion in September, which was the highest level since February, on a jump in goods imports that exceeded the increase in goods exports. The level of goods imports registered an all-time high, especially for capital goods, which set a new record. At the same time, the export of industrial supplies and materials also rose to a new high.

International Trade Policy Trends

- ***U.S., Canada and Mexico expected to sign updated trade agreement on November 30.*** The United States, Mexico and Canada are expected to sign the USMCA at month's end, on the sidelines of the G20 Summit in Buenos Aires, Argentina. In an [op-ed](#) released on Nov. 13, NAM President and CEO Jay Timmons called for work on the USMCA to be "completed this year," stating that, "Congress has a responsibility to consider it swiftly, assuming the text of the agreement includes the right ingredients for success." A number of U.S. industry advisory committees released [updated reports](#) on the USMCA, and the text of the agreement can be accessed [here](#). For more information,

contact [NAM Vice President of International Economic Affairs Linda Dempsey](#) and [NAM Director of International Trade Policy Ken Monahan](#).

- ***United States, China plan for potential Trump-Xi meeting around G-20 with tariff leverage in background.*** Amid continued imposition of billions in tariffs by both sides, President Trump on Nov. 2 [confirmed](#) plans to meet Chinese President Xi Jinping on the sidelines of the upcoming G-20 meeting in Buenos Aires, a welcome step for manufacturers who want to see real solutions to China's market-distorting behavior. While signals about internal and preparatory conversations ahead of the Trump-Xi meeting have given some increased optimism, those conversations have been strongly denied by others within the White House, leading to continued questions about whether the meeting will yield any breakthroughs.

In the meantime, both sides continue to implement tariffs, with U.S. tariffs on \$250 billion worth of Chinese imports and Chinese retaliatory tariffs on \$110 billion worth of U.S. exports already in place. The United States has also continued to increase other pressure on China, including the Oct. 30 Department of Commerce [imposition of export restrictions](#) on Chinese semiconductor company Fujian Jinhua. The Office of the U.S. Trade Representative (USTR) has yet to grant any exclusions for Chinese imports covered under tariffs, including the absence of any exclusion process for List 3 products (\$200 billion in Chinese imports), despite calls from 169 House Members in this [bipartisan letter](#). If no resolution is achieved, U.S. tariffs on the third tranche of \$200 billion in imports from China will ratchet up from 10 percent to 25 percent.

NAM's President and CEO Jay Timmons continues to emphasize the need to address China's cheating behavior by negotiating a [binding, enforceable bilateral trade agreement](#), while explaining that tariffs continue to cause significant challenges for manufacturers large and small. For additional information about these issues, NAM activity or how to get involved, contact [NAM Director of International Business Policy Ryan Ong](#).

- ***MTB tariff relief now being granted.*** Since Oct. 13, companies have been [eligible](#) to receive tariff relief under the [Miscellaneous Tariff Bill \(MTB\) Act of 2018](#), which was [signed into law](#) by President Trump on Sept. 30. The MTB reduces or eliminates most-favored nation tariffs, but tariffs imposed pursuant to Section 301 or other U.S. laws would still apply, which was clarified in an [Oct. 12 Customs and Bureau Protection notice](#). Also, the U.S. International Trade Commission (USITC) [announced](#) in October an investigation into the effects on the U.S. economy of the MTB Act of 2018 and is seeking public input. For more information, contact [NAM Director of International Trade Policy Ken Monahan](#).
- ***USTR notifies Congress of intent to negotiate trade agreements with the EU, Japan and the United Kingdom; USTR requests public comments on Japan deal.*** On Oct. 16, U.S. Trade Representative Robert Lighthizer sent letters to Congress announcing the intention to initiate U.S. negotiations on trade agreements with the [EU](#), [Japan](#) and the [United Kingdom](#). For the EU and Japan, the administration will seek to address both tariff and nontariff barriers, and may pursue negotiations with each party in stages. On Oct. 26, USTR [requested](#) public comments on U.S. negotiating objectives for an agreement with Japan, with comments due by Nov. 26. For the United Kingdom, the administration will seek an "ambitious" trade agreement and intends to initiate negotiations as soon as possible following the United Kingdom's exit from the EU on March 29, 2019. For more information, contact [NAM Vice President of International Economic Affairs Linda Dempsey](#) and [NAM Director of International Trade Policy Ken Monahan](#).
- ***Ex-Im Bank remains hobbled absent action from the Senate even as re-authorization year approaches.*** Efforts to achieve a quorum for the Export-Import (Ex-Im) Bank continue to be stalled despite NAM's repeated [calls](#) for [action](#) by the Senate. As the NAM's Shopfloor Blog [highlighted](#), the Ex-Im Bank is a crucial tool in checking China's global ambitions and attempts at economic coercion. With the flip of the House to Democratic control, it is likely

that Rep. Maxine Waters (D-CA)—who recently [affirmed](#) her commitment to Ex-Im—will lead the House Financial Services Committee in the 116th Congress, and will seek a strong reauthorization of the Bank, due to expire in September 2019. The fight still remains in the Senate, however, to achieve a quorum. The NAM has long been a champion of the Ex-Im Bank and will continue to take appropriate steps to advocate for a quorum within the Ex-Im Bank's Board of Directors, which is necessary to ensure a fully functional export credit agency. For more information, contact [NAM Director of Trade Facilitation Policy Jessica McBroom](#).

- ***U.S.-India trade dialogue postponed amidst bilateral discussions on possible trade package.*** The United States and India, originally slated to hold their Trade Policy Forum (TPF) in New Delhi on Nov. 1–2, postponed the talks due to insufficient progress on a possible package of trade outcomes, with no new date scheduled. These talks, originally spurred by the U.S. [investigation](#) into India's benefits under the Generalized System of Preferences (GSP) announced in April 2018, have focused on a range of issues, including price controls on medical devices, tariffs on information technology products, discriminatory testing and certification requirements and market access limitations in key sectors. While discussions to date are reportedly positive, India has not signaled willingness to make enough progress for the two sides to cement and announce a final deal. The NAM, both directly and through the Alliance for Fair Trade with India, continues to press for a more robust U.S.-India economic and trade relationship that addresses manufacturer priorities in that market. For more information, contact [NAM Director of International Business Policy Ryan Ong](#).
- ***NAM calls on Colombia to end truck scrappage program by June 2019.*** In comments submitted to Colombia's Ministry of Transportation on Oct. 30, the NAM Vice President of International Economic Affairs Linda Dempsey urged that a draft decree related to Colombia's truck scrappage program be modified to "declare unequivocally that Colombia will liberalize fully its heavy-duty trucking market by eliminating the truck scrappage program no later than June 30, 2019" and that "failure to do so will continue to undermine the U.S.-Colombia commercial relationship, put a drag on Colombia's own economy and violate Colombia's international commitments." Click on the following links to access the NAM's comments in [English](#) and [Spanish](#). For more information, contact [NAM Director of International Trade Policy Ken Monahan](#).

Take Action

- ***State Department's Bureau of Economic and Business Affairs publishes "Working for Business" overview.*** The Bureau has published a [brochure](#) highlighting the various services that are available to U.S. business within the Bureau of Economics and Business Affairs, including related to its advocacy center, business leads and commercial services in embassies overseas. Further inquiries can be sent to USBusiness@state.gov.
- ***West Africa Smart Grid Reverse Trade Mission***
Nov. 25–Dec. 4
Chicago, IL; San Francisco, CA
USTDA hosting a visit for public and private sector officials from Egypt's oil and gas sector to meet with leading U.S. companies that can support the country's refineries modernization goals. The itinerary will introduce the delegation to the design, manufacture and operation of U.S. technologies and services that can support Egypt's infrastructure development goals. For more information, click [here](#).
- ***Webinar: Exporting to Bangladesh and Sri Lanka***
Nov. 29
The U.S. Commercial Service is hosting a webinar to showcase export opportunities in Bangladesh and Sri Lanka. Hear from speakers with on-the-ground experience that will highlight the best export prospects and how to overcome the challenges in order to succeed in these diverse countries. This

webinar is free and open to U.S. companies only. For more information, click [here](#).

- ***Egypt Refineries Modernization Reverse Trade Mission***
Dec. 2–13
Houston, TX; Washington, D.C.
USTDA is hosting a delegation of decision-makers from West Africa's power sector to introduce them to U.S. technologies and services related to smart grid, micro grid and energy storage. The delegation will include power sector decision-makers from Côte d'Ivoire, Ghana, Senegal and the West Africa Power Pool. For more information, click [here](#).
- ***Discover Global Markets: Indo-Pacific***
Dec. 10–12
Salt Lake City, UT
This event is part of the U.S. Department of Commerce's Access Asia program—a new export promotion framework to increase U.S. trade and investment in the Indo-Pacific region. Access Asia is a series of 25 trade promotion outreach events in cities across the United States that is sequential, multi-year, data- and opportunity-driven and optimizes U.S. government resources. For more information, contact your local Department of Commerce representative [here](#).
- ***U.S. Commercial Service Trade Mission to the Southern Cone Region***
March 24–29, 2019
Argentina, Bolivia, Chile, Paraguay, Uruguay
This U.S. Department of Commerce Trade Mission includes a regional-focused business conference with regional sessions as well as consultations with U.S. diplomats representing commercial markets throughout the South America region. The trade mission will give participants the opportunity to conduct business-to-business meetings with potential customers and business partners in Argentina, Bolivia, Chile, Paraguay and Uruguay. For more information, click [here](#).
- ***Trade Winds: India***
May 2019
New Delhi, India
This event will combine a conference and a trade mission to India and other surrounding countries where U.S. exporters will meet with decision-makers on opportunities they've learned about at the [Discover Global Markets: Indo-Pacific](#) conference and other Asia-related events. Please subscribe for event updates [here](#).
- ***U.S. Commercial Service Trade Mission to Central America***
August 18–23, 2019
Central America
The 2019 Trade Americas program offers U.S. companies not only the opportunity to explore seven markets but also the ability to have one-on-one consultations with U.S. diplomats and officers with expertise in commercial matters throughout the Western Hemisphere region. For more information, click [here](#).
- ***For a listing of upcoming USTDA missions, click [here](#).***
- ***For a listing of upcoming Commerce Department trade missions, click [here](#).***

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