

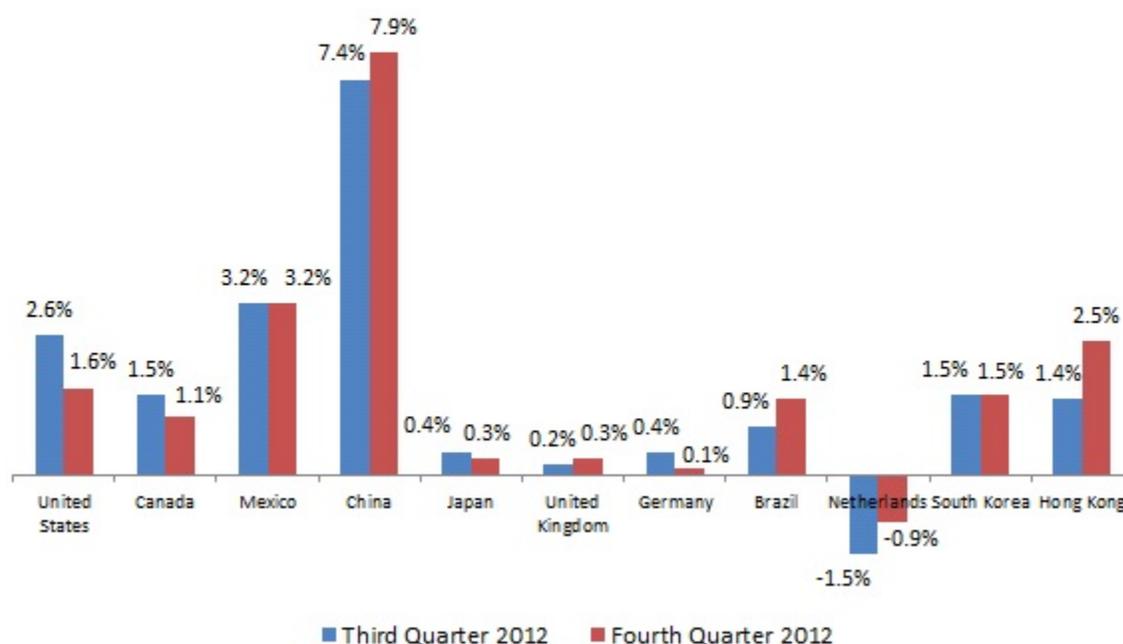
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# GLOBAL MANUFACTURING ECONOMIC UPDATE

March 8, 2013

## Year-Over-Year Growth in Real GDP for the United States and Its 10 Largest Trading Partners



Last [month](#), we noted that many of our largest trading partners were experiencing progress in their economies, with improving levels of manufacturing activity and other economic indicators. That trend has mostly continued into February. Some countries, such as China and the United Kingdom, have either weakened or slowed down the pace of growth, whereas new orders were strong enough in Germany to allow its manufacturing sector to start expanding again, albeit quite modestly. While the composition of growth has shifted in the past month, seven of the top 10 markets for U.S.-manufactured goods had Purchasing Managers' Indices (PMIs) greater than 50—the threshold for expansion—in February, suggesting continued improvement from some of the challenges from last fall. The JPMorgan Global Manufacturing PMI has been greater than 50 for three straight months, even as it eased somewhat in the most recent figure.

The United States is growing modestly, making it one of the brighter spots in world economic markets. The Institute for Supply Management's most recent [report](#) found that new orders rose from 53.1 in January to 54.2 in February, with the principal driver being higher sales. In addition, while real GDP barely grew in the fourth quarter of 2012, the data also show that consumers and businesses increased their spending moderately, helping to lessen the blow of reduced federal defense spending and lower inventory replenishment. Nonetheless, manufacturers continue to worry about the U.S. fiscal situation and sales. Non-petroleum goods exports did not

change much in January from their December rates, and the 5.5 percent pace of manufactured goods exports in 2012 was well below the 15.9 percent pace of 2011.

The economic woes in Europe continue to negatively impact manufacturers. Manufactured goods exports were essentially flat last year, with the Eurozone's recession deepening. Real GDP for the continent fell 0.6 percent in the fourth quarter, its fifth straight quarter of declining output, and the Markit Eurozone Manufacturing PMI has contracted for 16 consecutive months. However, all of Europe is not the same. As noted above, Germany's economy appears to be stabilizing, while others continue to experience reduced sales, production and hiring. The unsettled election in Italy has exacerbated the Eurozone's problems, reminding world markets about Italy's large debt obligations and bringing Europe's sovereign debt crisis once again back into the public eye.

Over the course of the next two weeks, we will get new data on industrial production for a number of countries around the world. Among the highlights to look for: China's data should reflect the recent pickup in activity, while U.S. production should recover from the decline in manufacturing production observed in January. On the policy front, the Obama Administration formally announced that the United States would move forward with comprehensive trade negotiations with the European Union (EU) and issued its 2013 Trade Policy Agenda, including new initiatives on trade secret protection and localization barriers to trade.

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## Global Economic and Trade Trends

ε ***The global economy continues to grow, but stalls in February.*** The JPMorgan [Global Manufacturing PMI](#) declined from 51.4 in January to 50.8 in February. This was the third straight month of expansion, following six months of contraction globally. Stronger U.S. activity buoyed the latest data, but the easing in February was largely attributable to slower growth in China and persistent challenges in Europe. New orders, output and employment all rose at a slower pace, with exports slightly contracting. Export activity has declined for 11 straight months, but the pace of decreases has lessened in the past few months to be almost neutral.

Seven of the top 10 markets for U.S.-manufactured goods have PMI readings greater than 50, the threshold for growth. This has been the case for three consecutive months, and as noted in previous reports, this indicates an improvement from October's data, when just four had readings greater than 50. There has been significant progress in the economies of many of our international partners in recent months, with the exception of Europe. What has changed in February's data is the makeup of the seven countries: Canada, Mexico, China, Germany, Brazil, South Korea and Hong Kong. [Germany](#) (up from 49.8 to 50.3) and [South Korea](#) (up from 49.9 to 50.9) shifted from a slight contraction in January to a slight expansion in February. In both cases, stronger new orders lifted their respective indices. Moving in the opposite direction were the [Netherlands](#) (down from 50.2 to 49.0) and the [United Kingdom](#) (down from 50.5 to 47.9), with sharp declines in sales dampening spirits in both. [Japan](#) (up from 47.7 to 48.5) was the other market that contracted.

ε ***Italy's election once again put Europe's problems back in the news.*** The [inconclusiveness](#) of the Italian elections, with Pier Luigi Bersani winning the most votes but not obtaining a majority in both legislative bodies, renewed the focus on Europe's economic challenges (or more precisely, on Italy's ability to meet its debt obligations). Italy's economy continues to struggle, with [real GDP](#) down 2.4 percent in the third quarter year-over-year, [industrial production](#) falling 6.3 percent from December 2011 to December 2012 and the [unemployment rate](#) rising to 11.6 percent. This weaker environment can be seen in the Markit/ADACI [Italy Manufacturing PMI](#) data, which declined from 47.8 in January to 45.8 in February. This was led by a rapid deterioration in new orders domestically, although exports

from Italy did pick up slightly.

The European economy as a whole was mostly unchanged in February. The Markit [Eurozone](#) Manufacturing PMI was 47.9, the same as January. The index contracted for 16 consecutive months. Beyond the headline number for February, the PMI subcomponents were mixed, with reduced output, capacity and inventories offsetting stronger export sales and a slower pace of declining employment. Overall, Europe is in a recession. [Real GDP](#) in the Eurozone declined 0.6 percent in the fourth quarter, falling for the fifth straight quarter on lower consumer spending and business investment. Nonetheless, [industrial production](#) rose 0.7 percent in December across many Eurozone countries, even as year-to-date production was off 2.4 percent.

Looking at specific countries within the Eurozone, the German economy, as noted above, appears to be stabilizing from recent weaknesses. Its [PMI](#) expanded for the first time since last February, primarily on rising output and new orders. Still, [real GDP](#) in Germany decreased 0.6 percent in the fourth quarter, suggesting that the Eurozone's largest economy is not immune to the continent's woes (which also shrunk by 0.6 percent). Elsewhere, despite some improvement, continued weaknesses in both [France](#) (up from 42.9 to 43.9) and [Spain](#) (up from 46.1 to 46.8) offset stronger activity in [Ireland](#) (up from 50.3 to 51.5).

- ε ***China's economy eased surprisingly in February.*** The HSBC [China](#) Manufacturing PMI declined from 52.3 in January to 50.4 in February. The good news is that this index has expanded for four straight months (having contracted for 12 months prior to that). On the negative side, many of the index's subcomponents eased in February, signifying slower activity. The index for output decreased from 52.7 to 51.2, and new orders dropped from 52.7 to 51.2. Hiring activity also slowed down, off from 51.2 to 50.5, indicating employment growth nearly flat. Some measures contracted, including new export orders, inventories and backlogs of work. The export sales figure shifted from just above neutral (50.1) to slightly below it (49.8).

We still expect for the Chinese economy to grow in 2013, picking up the pace from some of last year's weaknesses. The most recent [real GDP](#) figures suggested growth of 7.9 percent year-over-year in the fourth quarter of 2012. The forecasts for the current quarter are for growth slightly more than 8 percent, with industrial production at 10.5 percent.

Elsewhere in the region, manufacturing activity slowed in both [Hong Kong](#) (down from 52.5 to 51.2) and [Vietnam](#) (down from 50.1 to 48.3). Output and sales improved in [India](#) (up from 53.2 to 54.2), [Indonesia](#) (up from 49.7 to 50.5) and [Japan](#) (up from 47.7 to 48.5).

- ε ***The Canadian and Mexican economies continue to grow, with some easing in Mexico.*** The RBC [Canadian](#) Manufacturing PMI rose from 50.5 in January to 51.7 in February, its fastest pace since September. Output, orders, exports and employment all increased, with the data indicating modest growth in activity overall and suggesting some improvement from the end of 2012. [Real GDP](#) increased 0.6 percent in the fourth quarter, almost unchanged from the third quarter's 0.7 percent rate. Consumers were the main driver of growth in the fourth quarter, similar to the United States, with a rebound in fixed business investment. These rates reflect slowness in the Canadian economy, which mirror the weaknesses experienced in the United States, where fiscal cliff worries and slowing global sales took a toll.

Meanwhile, the HSBC [Mexico](#) Manufacturing PMI declined from 55.0 to 53.4, with output and new domestic sales slowing somewhat but exports up slightly. Hiring also picked up a bit. [Industrial production](#) decreased by 1.1 percent in December but increased 3.2 percent on a year-over-year basis. Real GDP eased in the third and fourth quarters, up 3.2 percent at the annual rate in both quarters. This was lower than the 4.9 percent and 4.5 percent rates experienced in the first two quarters, respectively. The Mexican economy is expected to grow by 4 percent in 2013.

- ε ***The U.S. economy eked out minimal growth to end 2012.*** U.S. [real GDP](#) for the fourth quarter was

revised up from -0.1 percent to 0.1 percent, meaning that the economy was essentially flat. Much of the revision was due to higher contributions from net exports than originally thought.

Aside from that, little changed from the [first GDP estimate](#), which was released at the end of January. The largest declines came from lower spending on inventories and from sharply reduced defense spending. The latter was due to higher-than-normal end-of-fiscal-year spending on defense in the third quarter, which was unlikely to be repeated, and the threat of across-the-board federal spending cuts (sequestration). At the same time, businesses spent less on inventory replenishment in the fourth quarter. Part of this was expected, as firms had already spent large amounts on inventories in the third quarter, helping to boost real GDP.

Outside of these two areas, consumers and businesses were increasing their spending modestly. Personal consumption rose 2.1 percent for the quarter, with spending on durable goods (particularly motor vehicles) up significantly. Spending on durable and nondurable goods added 1.03 percentage points to real GDP. Meanwhile, residential and nonresidential fixed investment numbers were also much higher, adding 1.36 percentage points to real GDP. Continued gains in the housing sector and increases in equipment and software fueled the positive growth in fixed investment.

Moving forward, first-quarter growth should benefit from continued strength in the consumer and business segments, but with the caveat of higher payroll taxes and increased uncertainties related to fiscal policy. Real GDP is expected to grow between 2.0 and 2.5 percent in 2013.

- ε ***The U.S. trade deficit widened in January on higher petroleum costs.*** The U.S. [trade deficit](#) grew to \$44.4 billion in January from a revised \$38.1 billion in December. December's deficit was the lowest level since January 2010, so it might have been expected that January's deficit would stabilize somewhat. The consensus estimate was for a deficit of \$42.6 billion, making the actual number slightly higher than expected. Goods exports dropped from \$132.8 billion to \$130.8 billion, whereas goods imports rose from \$188.9 billion to \$192.5 billion.

Changes in petroleum costs caused much of the shift in the goods trade. The non-petroleum trade balance was not significantly different in January (\$41.3 billion) than it was in December (\$41.5 billion). Meanwhile, the price of West Texas intermediate crude was \$88.25 a barrel in December, rising to \$94.69 in January (and \$95.32 in February). The result was an increased cost in petroleum imports, up from \$14.9 billion to \$16.0 billion. At the same time, petroleum exports dropped from \$6.5 billion to \$5.4 billion. Therefore, the petroleum trade balance increased from \$8.3 billion to \$10.6 billion. This brings it back to where it was in November, making December's petroleum balance a bit of an anomaly.

The largest decline in goods exports stemmed from industrial supplies and materials, down \$2.6 billion in January. Separating out crude oil, fuel oil and petroleum products from the industrial supplies numbers, this would have declined by \$700 million. Similarly, imports of industrial supplies and materials rose \$4.0 billion, with almost \$3.7 billion of that figure stemming from petroleum.

In general, we have begun to see some improvement in many of our largest trading partners. We would expect to see higher manufactured goods exports in 2013 than the reported 5.5 percent growth experienced in 2012. However, we have not made progress toward that goal in January.

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## International Trade Policy Trends

- ε ***Obama Administration issues Trade Policy Agenda.*** In its statutorily required [2013 Trade Policy Agenda and 2012 Annual Report](#), the Administration identified "supporting jobs and economic growth

through trade” as its primary priority, including through the following initiatives, which the NAM strongly supports:

- Intensifying the Trans-Pacific Partnership negotiations toward an ambitious conclusion;
- Launching negotiations with the EU toward a Transatlantic Trade and Investment Partnership; and
- Advancing trade talks in Geneva, Switzerland, on services, trade facilitation and an expansion of the Information Technology Agreement.

The Trade Policy Agenda indicates that the Administration “will work with Congress on trade promotion authority,” but fails to provide any timeline or sense of urgency. The Trade Policy Agenda also identifies additional areas of work to expand trade and enforce international trade rules, including related to promoting export growth and the protection and enforcement of intellectual property (IP), eliminating localization barriers and negotiating investment treaties.

After receiving the report, NAM International Economic Policy Committee Chairman, Executive Committee Member and Ball Corporation Chairman David Hoover called for a more robust trade agenda that makes manufacturers more competitive globally and creates manufacturing jobs in the United States. Hoover said that both the Administration and Congress should be concerned about the slowed growth in manufactured goods exports last year and that “trade agreements have been a proven source of success for our nation’s job creators. To achieve an aggressive trade agenda, Hoover emphasized that “the Administration and Congress must work together now to restore the executive–congressional trade–negotiating pact known as trade promotion authority.” The NAM’s statement is found [here](#) and more information on the NAM’s priorities to increase exports is discussed in the NAM’s Shopfloor blog on the [2012 trade flows](#).

- ⌘ **President Obama announces launch of formal U.S.-EU trade negotiations.** During his recent State of the Union address, the President announced his Administration’s decision to launch formal trade negotiations with the EU, based on the recommendation of the U.S. –EU High Level Working Group on Jobs and Growth (HLWG). The HLWG’s final report, which can be found [here](#), calls for “a comprehensive agreement that addresses a broad range of bilateral trade and investment issues, including regulatory issues, and contributes to the development of global rules...” The report goes on to specify the following objectives: “to achieve ambitious outcomes in three broad areas: a) market access; b) regulatory issues and non-tariff barriers; and c) rules, principles and new modes of cooperation to address shared global trade challenges and opportunities.” Negotiations are expected to be formally launched in June.

The NAM has long supported the launch of formal U.S.-EU trade negotiations to remove barriers to trade and investment and previously submitted [these comments](#) to the Office of Management and Budget. The NAM will continue working with our members to ensure that the negotiations yield meaningful commercial outcomes and benefits for manufacturers and stimulate growth.

- ⌘ **The NAM intensifies fight for passage of Miscellaneous Tariff Bill (MTB).** Manufacturers of all sizes benefit from tariff suspensions for raw materials and inputs that are not available in the United States. Congress’s failure to pass the MTB by the end of 2012 has resulted in a tax increase on manufacturers in the United States, hurting their competitiveness and putting jobs at risk. A new MTB is needed to reverse recent tax increases on manufacturers in America that raise their production costs and jeopardize jobs. It is estimated that the MTB legislation enacted in 2010 supported 90,000 American jobs, increased U.S. production by \$4.6 billion and expanded U.S. GDP by \$3.5 billion.

As part of its intensifying campaign to move this critical legislation as quickly as possible, the NAM hosted an MTB Shopfloor Briefing on February 27 at the U.S. Capitol. House Ways and Means Committee Chairman Dave Camp (R-MI) and Senate Finance Committee member Robert Casey (D-PA) gave remarks in support of the MTB, and representatives from NAM members BASF and Lasko Products spoke about the importance of the MTB to their companies’ competitiveness. After the Shopfloor Briefing, NAM members visited more than a dozen key Hill offices to urge passage of the MTB. More information about this event can be found on the NAM Shopfloor [Blog](#).

- ⌘ **Administration launches strategy to protect trade secrets.** On February 21, the Administration announced its enhanced strategy to improve protection of trade secrets globally. The [Administration Strategy on Mitigating the Theft of U.S. Trade Secrets](#) consists of five pillars: International Engagement, Voluntary Best Practices by Companies, Increased Law Enforcement Domestically, Legislation and Public Awareness. As described in the NAM's [Shopfloor Blog posting](#), manufacturers from a broad range of sectors, including biotech, food and beverage and fragrance producers to information technology and medical device makers, rely heavily on strong trade secret protection to ensure their global competitiveness. These manufacturers are seeing increasing challenges to trade secret protection globally. As described in the [NAM's recent submission to the U.S. Trade Representative \(USTR\)](#) on its Special 301 Review, many of our trading partners fail to provide adequate protection of IP rights, including trade secrets. While the United States has relatively strong protections domestically, manufacturers are facing new challenges globally, including limited protections or inadequate enforcement, theft and government regulations and practices requiring unnecessary disclosure of confidential business information. The NAM will continue highlighting this issue and looks forward to collaborating with the Administration in its efforts to strengthen the protection and enforcement of IP rights and trade secrets globally.
- ⌘ **The NAM seeks expansion of Cape Town Convention financing for mobile equipment.** The NAM is [leading the business community's efforts](#) to support the expansion of the Cape Town Convention to include mining, agricultural and construction equipment. The Cape Town Convention's international legal framework for financing streamlines processes, reduces risks and lowers costs for financing certain exports, helping to connect manufacturers and consumers. In the aircraft industry, for example, the Cape Town regime has been beneficial to manufacturers and exporters, as well as airline customers and travelers. A recent economic impact study suggests that this initiative could increase sales of mining, agricultural and construction equipment by about \$600 billion over the next few years.
- ⌘ **Information technology expansion negotiations proceed with strong business support.** Another round of negotiations on expansion of product coverage of the World Trade Organization (WTO) Information Technology Agreement (ITA) took place in Geneva, Switzerland, in February. On February 28, the NAM joined 19 other business organizations to send a [letter](#) to President Obama urging "strong, sustained, high-level U.S. political leadership" in support of the ITA expansion. These talks could—and should—conclude this year. For the United States, the Information Technology & Innovation Foundation (ITIF) reported that an expanded ITA could remove tariffs on at least an additional \$800 billion in information and communication trade (ICT) trade globally, a 20 percent increase over the \$4 trillion now covered annually. Moreover, the ITIF estimates that ITA expansion would increase U.S. exports of ICT products by \$2.8 billion, boost revenue of U.S. ICT firms by \$10 billion and support the creation of approximately 60,000 new U.S. jobs throughout the economy. Seventy countries now participate in the ITA, representing about 97 percent of world trade in IT products.
- ⌘ **WTO members continue to express concern regarding Ukraine's tariff modification.** Twenty-four delegations again expressed concerns about Ukraine's notification to modify its schedule of tariff concessions under GATT Article XXVIII and requested for Ukraine to reconsider. Statements were made by ASEAN, Australia, Brazil, Canada, Chile, China, Colombia, Croatia, Egypt, the EU, Guatemala, Hong Kong, Iceland, Japan, Korea, New Zealand, Norway, Oman, Paraguay, Turkey and the United States.
- ⌘ **The NAM continues to ask members of Congress to preserve the 2010 temporary agreement between the United States and Brazil regarding the U.S.-Brazil WTO cotton dispute and to produce a definitive solution in the 2013 farm bill.** The one-year extension of the 2008 farm bill approved by Congress in January as part of the fiscal cliff compromise has created uncertainty around the continued viability of a separate U.S.-Brazil settlement deal. A definitive decision is necessary to avoid hundreds of millions of dollars in Brazilian trade retaliatory measures of U.S. goods and IP rights and to ensure compliance with WTO rules. The NAM recently joined with other major business groups to urge the preservation of this agreement, while efforts continue to find a definitive solution. [Click here](#) to view the letter.
- ⌘ **The Administration established the Task Force on Localization Barriers to Trade.** In recent years,

manufacturers have witnessed the adoption of localization barriers designed to protect, favor or stimulate domestic industries and technologies at the expense of imported goods or services among U.S. trading partners. The Task Force on Localization Barriers to Trade, led by the USTR, is formally part of the Interagency Trade Policy Staff Committee and was created to step up efforts in combating these growing challenges. More information can be found on the USTR's [website](#) and on the NAM's Shopfloor [Blog](#).

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**Questions or comments?** Please contact Chad Moutray at [cmoutray@nam.org](mailto:cmoutray@nam.org)



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