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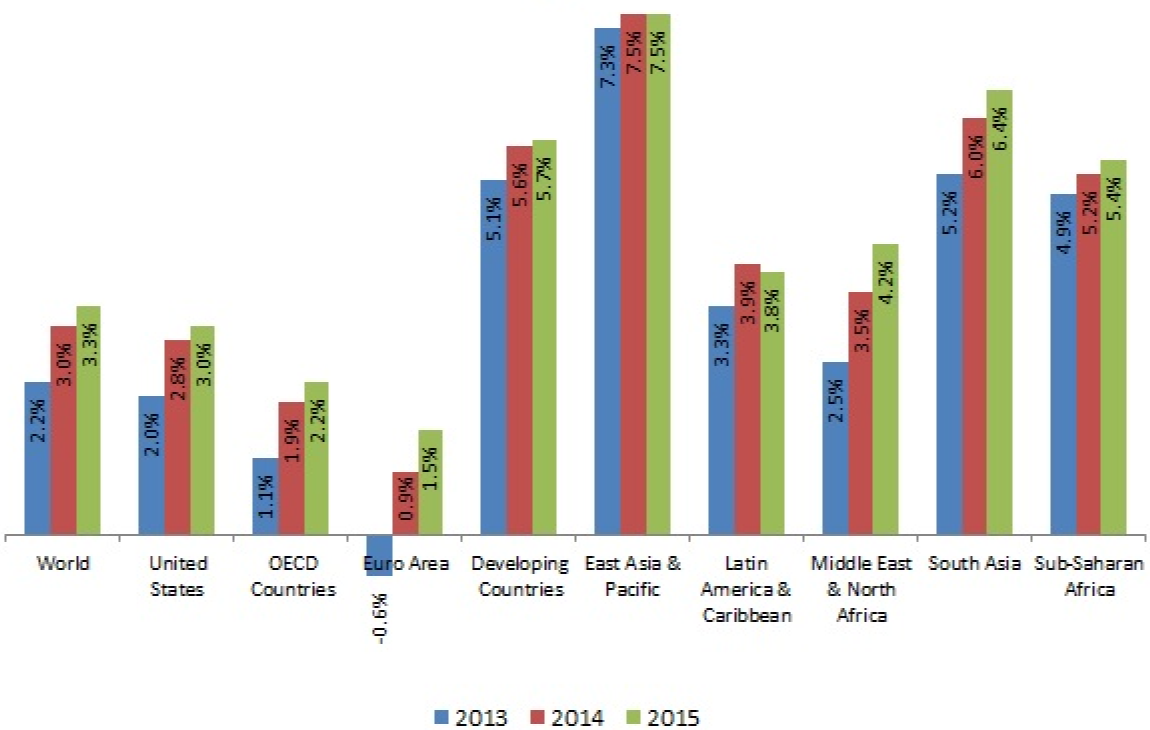
# GLOBAL MANUFACTURING ECONOMIC UPDATE

June 14, 2013

World Bank Real GDP Forecasts by Geographic Region




The World Bank released a report yesterday that said the global economy appears to be transitioning toward a period of more stable, but slower growth. Some of the worldwide financial risks that existed a year or so ago—namely stemming from Europe—have lessened. Yet, more stability does not necessarily mean rapid growth. The World Bank forecasts global GDP growth of 2.2 percent in 2013, with faster growth of 3.0 percent and 3.3 percent in 2014 and 2015, respectively. These figures represent a modest pullback from earlier predictions, reacting to recent weaknesses in the marketplace. The United States is predicted to grow 2.0 percent this year, with 7.7 percent real GDP growth in China and the Euro area shrinking by 0.6 percent.

The latest data support this analysis. The JPMorgan Global Manufacturing Purchasing Managers' Index (PMI) was somewhat higher, up from 50.4 in April to 50.6 in May. This suggests that the global economy is growing very slowly. The Eurozone showed some improvements, even as the continent remains mired in a recession and its PMI values have stayed below 50 for 22 consecutive months. The Canadian economy also rebounded, with its PMI data shifting from a slight contraction in March to modest growth in May. With Canada as our largest trading partner, increased activity north of the U.S. border will be important for reviving exports. Meanwhile, the Chinese economy, which had seen some progress since October in its production figures, began to slow down, with its PMI declining from 50.4 to 49.2. Several other industrial indicators also reflected some deceleration in activity in China.

Beyond economic indicators, there have been a number of headlines recently about volatility in the global equity markets. Traders appear to be reacting to the expected “tapering” of quantitative easing in the United States, and foreign exchange markets have also moved on interest rate and policy changes worldwide. Illustrating this point, the Dow Jones Industrial Average has shifted by over 122 points on average each day (both up and down) since Memorial Day, with wide swings in other markets, as well.

Manufacturing activity in the United States has been quite sluggish recently, both in terms of production and employment. Industrial production has increased just 1.6 percent between May 2012 and May 2013. Slowing export sales no doubt have played a part in the recent deterioration of manufacturers’ sentiment. U.S.-manufactured goods exports have risen only 0.9 percent during the first four months of 2013 relative to the same time period in 2012. Goods exports to Europe were down significantly due to the recession, but even where trade is higher, growth rates have been up only slightly. Meanwhile, rising imports to the United States have widened the trade deficit.

On the policy front, U.S. trade talks in the Asia-Pacific and with Europe are moving forward in significant ways, while efforts are intensifying to achieve progress in multilateral customs discussions. Key U.S. trade officials are nearing their final confirmation in the Senate. With the expected confirmation of Michael Froman as the new U.S. Trade Representative, talks on renewing U.S. trade-negotiating authority are expected to get serious this summer. U.S. manufacturing concerns with India’s discriminatory industrial policies have reached a new level, with the U.S. industry urging the Administration to resolve these issues quickly. Canada prepares to retaliate against the United States over meat-labeling rules. Export control reform moves forward for spacecraft systems and related items.

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## Global Economic and Trade Trends

- ***The global economy continues to expand modestly.*** The JPMorgan Global Manufacturing PMI edged up slightly from 50.4 in April to 50.6 in May. This is the fifth consecutive month of expanding manufacturing activity worldwide, even as growth has been quite minimal overall. Much like the composite index, new orders, exports, output and employment were all up marginally. Nonetheless, finished goods inventories and capacity utilization declined, with raw material costs neutral.

  Six of the top 10 markets for U.S.-manufactured goods had PMI values of 50 or greater in May, suggesting that they were expanding somewhat. This was the same number as seen in April, but there were two switches. China’s manufacturing activity contracted for the first time since October, with its PMI down from 50.4 in April to 49.2 in May on reduced sales. The second change occurred in the United Kingdom. Its April PMI originally was reported to be 49.8, but that was revised upward to 50.2. In May, the UK’s PMI rose to 51.3, with output and new orders picking up, particularly for consumer goods.

- ***Japan’s economy gains momentum, while China’s slows.*** Japanese Prime Minister Shinzo Abe’s so-called “three arrows” are his attempts to bring his country out of two decades of deflation. His policies include quantitative easing, stimulative fiscal policies and structural market reforms. It is too early to say whether these policies will be successful. However, many of the short-term economic indicators show some progress. Japan is our fourth-largest trading partner, so there is interest in getting its economy moving again. The Markit/JMMA Japan Manufacturing PMI increased from 51.1 in April to 51.5 in May, with expanding output, exports and employment. On the economic front, real GDP rose 1.0 percent in the first quarter of this year, and industrial production was up 1.7 percent in April.

Meanwhile, the Chinese economy appears to be slowing. The HSBC China Manufacturing PMI declined from 50.4 in April to 49.2 in May. While output grew modestly, new orders, exports and capacity utilization declined. Industrial production decelerated slightly, according to the National Bureau of Statistics of China, from a year-over-year rate of 9.3 percent in April to 9.2 percent in May. The steepest declines occurred among heavy industries, reducing electrical usage. Similarly, manufacturing capital investments grew 17.8 percent year-over-year in May, down from 18.4 percent in April and 22.0 percent in December. Despite these trends, retail sales have grown from an annual pace of 12.3 percent in February to 12.9 percent in May.

Elsewhere in Asia, slower domestic demand is the overriding trend, with slower new orders pulling down PMI measures. This meant contractions in the economies of Hong Kong (down from 49.9 to 49.8), Taiwan (down from 50.7 to 47.1) and Vietnam (down from 51.0 to 48.8). There was softer growth observed in India (down from 51.0 to 50.1), Indonesia (down from 51.7 to 51.6) and South Korea (down from 52.6 to 51.1), with stronger exports helping to offset the weakness in domestic sales.

¿ ***The European recession continues, but there were some gains.*** GDP in the Eurozone declined 0.2 percent in the first quarter of 2013, down for the sixth consecutive quarter. Beyond this headline figure, the country-by-country data were more mixed. Growth returned to positive territory in Germany (0.1 percent) and the United Kingdom (0.3 percent), but there continued to be negative GDP growth in France (-0.2 percent), Italy (-0.5 percent) and Spain (-0.5 percent). Lithuania saw the fastest growth (1.3 percent), with Cyprus declining the most (-1.3 percent) in the quarter.

Economic indicators were mixed. Eurozone industrial production rose 0.4 percent in April, building on March's 0.9 percent increase. Nonetheless, the year-over-year pace remains negative, down 0.6 percent since April 2012. Likewise, businesses and consumer sentiment measures were higher in May, but each remains subpar overall. Retail sales were off 0.5 percent in April, declining for the third straight month. On a year-over-year basis, retail sales have decreased by 1.1 percent. Meanwhile, the unemployment rate rose to 12.2 percent in April, up from 12.1 percent in March and 11.2 percent from a year ago. Greece and Spain continue to have the highest unemployment rates (27.0 percent and 26.8 percent, respectively).

The Markit Eurozone Manufacturing PMI increased from 46.7 in April to 48.3 in May. While this was the 22nd consecutive month of contracting activity on the continent, it was the highest PMI level since February 2012. As such, the pace of the decline in new orders, output and employment eased somewhat in May. Exports picked up, with its index increasing from 48.4 to 50.1, only the second time that net export sales growth was positive since June 2011. Similar trends could be found in the individual country PMI data reports. Each of the following countries had recent highs, even as they remained in contraction overall: France (up from 44.4 to 46.4), Germany (up from 48.1 to 49.4), Italy (up from 45.5 to 47.3), the Netherlands (up from 48.2 to 48.7) and Spain (up from 44.7 to 48.1).

¿ ***Manufacturing activity in Canada and Mexico show signs of improvement.*** As Canada is our largest trading partner, we watch its economy closely, and it has slowed across the past few months, which slowed U.S. exports to the country. The good news is that real GDP accelerated from weaknesses at the end of the year, up 2.5 percent in the first quarter of 2013 versus 0.9 percent growth in the fourth quarter of 2012. Increased Canadian exports were a large factor. Canadian manufacturers were operating at 79.7 percent capacity in the first quarter, up 0.2 percentage points from the fourth quarter. The RBC Canadian Manufacturing PMI has improved from 49.3 in March to 50.1 in April and 53.2 in May, with higher activity across-the-board indicating modest growth for the sector overall. Nonetheless, weaknesses still persist, with flat retail sales growth in March and manufacturing employment lower in May.

Meanwhile, Mexico, our second-largest trading partner, saw its economy slow over the past year, but it has shown some signs of life recently. Real GDP decelerated between the first quarter of 2012, with year-over-year change of 4.9 percent, and the first quarter of 2013, with annual growth of just 0.8 percent. Still, industrial production in April rebounded from weaker data in March (which was influenced by the timing of the Easter holiday). Manufacturing production was up by 5.6 percent from a year ago. The HSBC Mexico Manufacturing PMI was unchanged between April and May at 51.7. Being over the threshold level of 50 for growth, however, this suggested a slight expansion of activity in the sector. New orders, output and employment grew modestly, but new export orders were down.

Elsewhere in the Americas, Brazilian industrial production also gained steam in April, up 1.8 percent for the month and 3.5 percent year-over-year. The largest increases were in capital and consumer goods items. The Brazilian economy appears to be reacting positively to expansionary policies from the government. However, the HSBC Brazil Manufacturing PMI edged slightly lower, down from 50.8 in April to 50.4 in May. Still, this was the ninth consecutive month of expanding activity, and output and sales grew marginally. Export orders were essentially unchanged after contracting slightly in April.

¿ ***Manufactured goods exports have grown very slowly so far this year.*** In the first four months of 2013, manufactured goods exports equaled $384.89 billion (not seasonally adjusted), or 0.9 percent higher than the $381.45 billion exported during the same time period in 2012. This suggests that manufacturers continue to struggle to grow their overseas sales, with slower economic growth worldwide hampering exports. Europe’s recession and weakness in other key markets have slowed new orders. In 2012, manufactured goods exports increased 5.5 percent over the prior year, and it will be hard to match that pace if export growth does not pick up. We would need to see a 15 percent growth rate or higher for us to achieve the goal of doubling exports by 2015.

As expected, goods exports to Europe are off from last year. Using non-seasonally adjusted data, year-to-date exports to the European Union (EU) have fallen from $91.18 billion in the first four months of 2013 to $84.39 billion in the same time period in 2012. The good news is that we do see slight increases to our largest trading partners—Canada (up from $96.46 billion to $98.50 billion) and Mexico (up from $70.20 billion to $73.49 billion). In addition, goods exports to China, our third-largest trading partner, rose from $35.42 billion to $37.12 billion. However, the data remain mixed overall, with goods exports higher to South America (up from $58.51 billion to $59.68 billion) but lower to Pacific Rim nations (down from $124.79 billion to $122.42 billion).

¿ ***The U.S. trade deficit widened in April, with imports outpacing exports.*** The Bureau of Economic Analysis and the Census Bureau reported that the U.S. trade deficit widened from $37.13 billion in March to $40.29 billion in April. March’s figure was revised from its earlier estimate of $38.83 billion, with the newer number making it the lowest level since January 2010. The higher trade deficit in April stemmed primarily from a larger goods trade deficit. Goods exports increased from $129.26 billion to $131.09 billion, and goods imports grew from $184.66 billion to $189.71 billion.

The wider trade deficit also stemmed from mostly nonpetroleum factors, with the petroleum trade balance narrowing from $20.46 billion to $19.72 billion. The nonpetroleum trade balance, meanwhile, widened from $33.71 billion to $37.81 billion. The small improvement in the petroleum balance came from a marginal decline in petroleum imports, down from $30.09 billion to $29.57 billion. The petroleum changes mirrored a modest decrease in the cost of petroleum, with the price of West Texas Intermediate crude falling from averages of $95.31 per gallon in February to $92.94 in March to $92.02 in April.

Looking more specifically at the sectors with export growth, the largest increases were in consumer goods (up $1.96 billion), nonautomotive capital goods (up $885 million) and automobiles (up $586 million). Unfortunately, these were also the same sectors with higher imports, producing a net negative in each case. The change in goods imports for those sectors in April were as follows: consumer goods (up $2.98 billion), nonautomotive capital goods (up $1.04 billion) and automobiles (up $1.28 billion). At the same time, exports and imports were lower in the foods, feeds and beverages and industrial supplies and materials industries.

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## International Trade Policy Trends

- ***Senate Finance Committee approves USTR nominee, and trade promotion authority talks are expected to heat up.*** On June 11, the Senate Finance Committee approved by voice vote the nomination of Michael Froman to be the U.S. Trade Representative (USTR). Froman serves in the White House as deputy national security advisor for international economic affairs. Following the successful voice vote in the committee, his nomination now moves to the full Senate for final passage. If confirmed as expected, Froman will spearhead the Obama Administration's work to secure trade promotion authority, with talks expected to move forward aggressively this summer. Froman will also lead the Administration's efforts to conclude the Trans-Pacific Partnership (TPP) talks and formally begin and conclude the Transatlantic Trade and Investment Partnership (TTIP) negotiations. Froman will also have other top trade priorities in his portfolio, from the protection of intellectual property rights and the negotiating of investment treaty rules with China and other countries, to ensuring that foreign governments play by the rules in the World Trade Organization (WTO), free trade agreements and other mechanisms.

- ***Senate Banking Committee approves Hochberg nomination to lead Export-Import Bank.*** On June 6, the Senate Banking Committee approved by a vote of 20–2 the nomination of Fred Hochberg to serve a second term leading the U.S. Export-Import (Ex-Im) Bank. As the official export credit agency for the United States, Ex-Im Bank plays a vital role in helping to grow U.S. exports and increase American jobs. Last year, Ex-Im Bank supported more than 255,000 American jobs at 3,400 companies—85 percent of which were small businesses. The Bank authorized $35 billion in financing that supported $50 billion in exports in fiscal year 2012. In addition, Ex-Im Bank offset its costs and contributed more than $1 billion to the Treasury. Hochberg's current term expired in January, and the extension of that term will expire in July. The NAM has urged the Senate to move quickly on his nomination. Without an operating quorum for the board, export sales for thousands of manufacturers in the United States would be threatened.

- ***Canada prepares to launch retaliation—including on some manufactured goods—over continued complaints on U.S. meat labeling.*** The Canadian government announced plans to seek authorization to retaliate against U.S. imports due to continued concerns that the United States has not fully implemented the WTO ruling against U.S. Country of Origin Labeling (COOL) requirements on meat. The WTO found the U.S. COOL requirements to be an unfair trade practice that threatens the Canadian meat industry. The recent Department of Agriculture rule on meat labeling was rejected by Canada, which is seeking authorization from the WTO to initiate retaliation. Canada released this week a list of U.S. products which it plans to retaliate against. In addition to a host of agricultural products, the list includes jewelry, tubes, piping, parts for heating appliances, grinding balls for mills, furniture and mattress materials.

- ***The NAM calls for an end to India's discriminatory trade practices.*** NAM President and CEO Jay Timmons and the heads of 16 other leading business associations sent a letter to President Obama on June 6, raising serious concerns about India's restrictive trade practices. Over the past year, India has taken a series of actions designed to give its domestic corporations an unfair advantage over manufacturers and workers in the United States and elsewhere, including forcing the local production of certain information technology and clean energy equipment and denying, breaking or revoking patents for nearly a dozen lifesaving medications. Members of Congress raised similar concerns during and following the confirmation hearing for Froman to be the USTR. The NAM and others are calling on the Administration to raise manufacturers' concerns to the highest levels of the Indian government, including during Secretary of State John Kerry's visit to India later this month.

- ***House tax writers take a closer look at U.S. international tax rules.*** As part of its ongoing effort to advance comprehensive tax reform, the House Ways and Means Committee on June 13 took a closer look at the way the United States taxes overseas income and concerns about profit shifting by global companies. According to Ways and Means Committee Chairman Dave Camp (R-MI), any erosion of the U.S. tax base caused by companies shifting profits overseas is "the consequence of bad laws, not necessarily bad companies." Moreover, "the fact that the current tax code allows companies to achieve these tax results strengthens the case for tax reform."

- ***TTIP negotiations could kick off by late June.*** During Froman's confirmation hearing to become the next USTR, he stated that comprehensive trade negotiations between the United States and EU could be launched before the end of June, but first, all EU trade ministers must approve the European Parliament's negotiating mandate. The NAM continues to advocate for strong economic outcomes in the TTIP by reducing the cost of doing business between the United States and EU, tearing down barriers to trade, improving regulatory coherence in both economies and fostering strong outcomes in other key areas from investment to intellectual property protection.

- ***TTP negotiations complete 17th round of talks and prepare for Japan's formal entry.*** The 17th TPP round concluded last month in Lima, Peru. U.S. government officials reported that progress was made during the Lima round and are trying to limit the number of issues left to the end of the negotiations. Significant progress reportedly has been made on government procurement, sanitary and phytosanitary issues, trade remedies, services and labor and dispute settlement mechanisms. Work continued on technical barriers to trade, e-commerce, rules of origin, investment, intellectual property, competition and other issues. The next round of negotiations will take place July 15–25 in Malaysia. Japan is expected to be at the negotiating table at the end of that round. The NAM submitted detailed comments to the Office of the United States Trade Representative urging comprehensive, high-standard and market-opening outcomes pertaining to Japan's participation in the TPP negotiations.

- ***WTO recommits to trade facilitation agreement.*** In late May, more than a dozen trade ministers and senior officials convened at the annual meeting of the Organisation for Economic Co-operation and Development (OECD) for a WTO "mini-ministerial." The discussions resulted in an agreement to intensify technical work on a WTO trade facilitation agreement, with a restated goal of reaching a deal on a package for the December WTO ministerial in Bali. Some emerging economies, however, continue to argue against a trade facilitation agreement separate from a comprehensive Doha round agreement. The NAM is working intensively in support of such an agreement that would harmonize trade documents, streamline customs procedures and facilitate advanced rulings on the customs duties to be applied to imports. According to a recent OECD study, a strong outcome in such talks would reduce total trade costs by 10 percent annually in advanced economies and by 13 percent to 15.5 percent in developing countries.

- ***Export control reform is moving forward for spacecraft systems and related items.*** The Departments of State and Commerce published a pair of proposed rules on May 24 outlining new controls on spacecraft systems and related items. The State Department published a proposed rule to revise U.S. Munitions List (USML) Category XV (spacecraft systems and related articles), describing more precisely the articles that warrant control on the USML. The Commerce Department published a proposed rule that describes how certain articles that the President determines no longer warrant control under USML Category XV would be controlled on the Commerce Control List (CCL). In March 2012, the Departments of Defense and State filed the 1248 Report, identifying the types of satellites and related items that should not be designated as "defense articles" controlled under the International Traffic in Arms Regulations. As passed by Congress in December 2012, Section 1261 of the fiscal year 2013 National Defense Authorization Act provided the President with the authority to determine appropriate regulations governing the export of satellites and related articles. Comments on the proposed rules are due July 8.

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## Exports In Action

- ***Russia Healthcare Trade Mission scheduled for October.*** Applications are now being accepted for U.S. business executives to participate in the Commerce Department senior executive–led Healthcare Trade Mission to Russia October 21–25. The purpose of the mission is to highlight Russia's rapidly expanding healthcare market and help U.S. companies seize export opportunities. Target sectors include medical equipment, dental equipment and biotechnology. With 140 million consumers and increasing medical needs, Russia presents lucrative trade opportunities in the healthcare field. In addition, the country's recent accession to the WTO and government plans to modernize and invest in healthcare make the Russian market even more attractive for exporters. Executives will participate in Embassy briefings, attend receptions with local business leaders and hear from experts on how to do business in Russia. One-on-one meetings with pre-screened business prospects selected specifically to meet your objectives will be conducted, as well. If interested, please contact Jessica Arnold of the U.S. Department of Commerce at (202) 482-2026 or access the following website to learn more here.

¿ ***Inaugural CalExport Trade Conference scheduled for September 4–5 in Long Beach, Calif.*** The inaugural CalExport Conference in Long Beach, Calif., will take place September 4–5 and will bring together U.S.-based exporters, experts, policymakers and service providers who either use or are considering the $160 billion California export gateway to global markets. This unique event will focus on export trade logistics, opportunities, challenges and promotion. NAM Board Member Roy Paulson, president of Paulson Manufacturing Corporation and a leading exporter, will deliver the keynote address. For more information and to receive a special 15 percent discount for NAM members, click here.

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**Questions or comments?** Please contact Chad Moutray at cmoutray@nam.org

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