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GLOBAL MANUFACTURING ECONOMIC UPDATE

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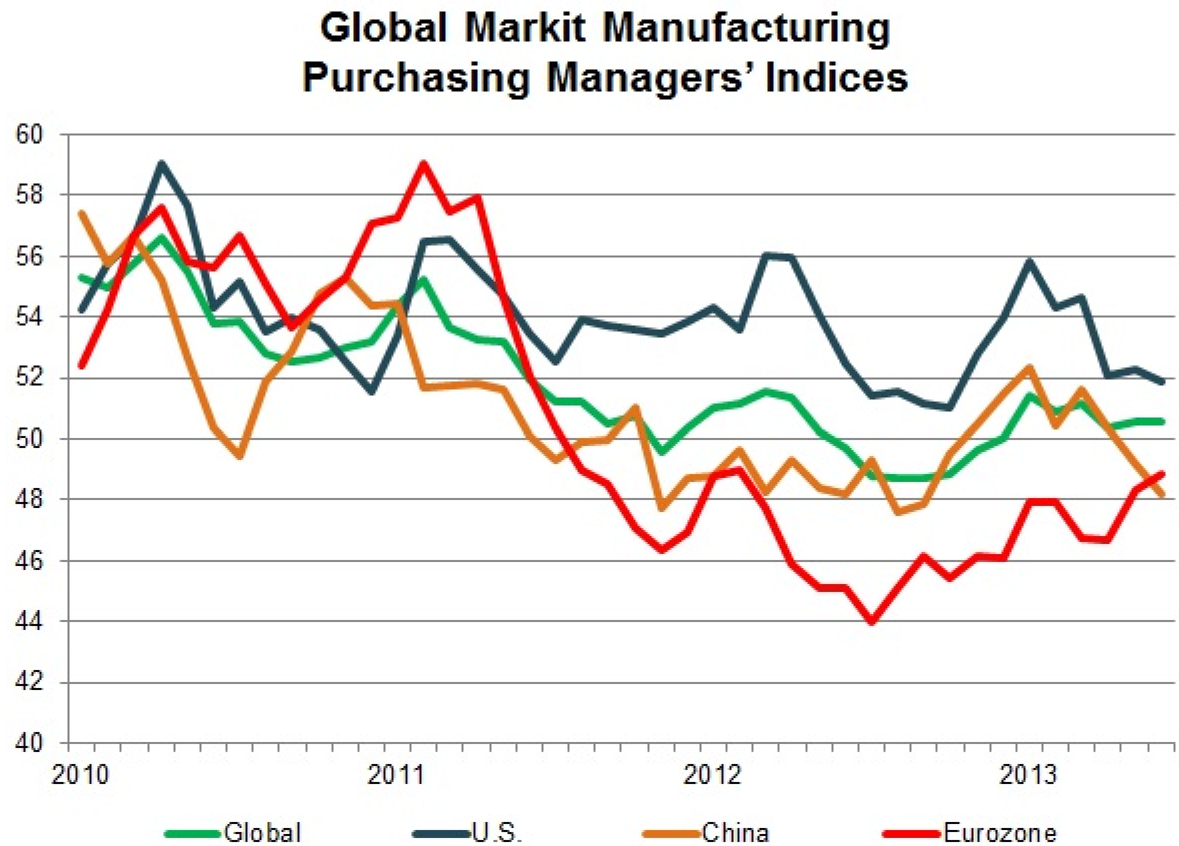

The global manufacturing economy is growing, but just barely, with Europe's recession and China's slower growth weighing heavily on demand. The JPMorgan Global Manufacturing Purchasing Managers' Index (PMI) was unchanged at 50.6 between May and June, only slightly above the threshold of 50, which signifies expansion in the sector. Of the top 10 markets for U.S.-manufactured goods, five have economies that are growing, and five are contracting. As such, we are seeing worldwide an environment that is not unlike what is occurring in the United States right now, with weakness in new orders, particularly overseas, dragging other measures of manufacturing activity lower.

The U.S. trade deficit widened in May, as imports increased and exports declined. Weaknesses abroad have lessened the demand for U.S. products. So far in 2013, manufactured exports have been growing at an extremely disappointing rate of just 1 percent. This compares to 2012's 5.5 percent growth, and it is well below the 15 percent increase needed to double exports by 2015. The challenging foreign sales climate is one of the main reasons that we have not seen any substantive momentum among manufacturers in the United States recently on new orders, output and other activity measures. For instance, industrial production for manufacturing has risen only 1.7 percent over the past 12 months, the Institute for Supply Management's PMI stood at just 50.9 in June, and manufacturers have shed workers in each of the past four months.

Behind these export figures, we see weaknesses in both Europe and Asia. Greece received another bailout earlier in the week, and Portugal's political turmoil has heightened the risks that it will need more assistance in the near future. Both are yet another reminder that Europe's problems are far from over. Indeed, the Markit Eurozone Manufacturing PMI has now contracted for 23 straight months. Even with some recent upticks in retail sales and confidence surveys, many key measures remain in negative territory. Meanwhile, the Chinese economy also appears to be decelerating, with real GDP expected to decline from 7.7 percent in the first quarter to 7.5 percent in the second when new data are released Monday. The HSBC China Manufacturing PMI has contracted for two consecutive months. Moreover, this softness has spread to many other Asian nations as well, with the exception of Japan.

Closer to home, our two largest trading partners, Canada and Mexico, have seen their growth rates slow, even as both continue to expand overall. Measures of economic activity have improved in Canada, including employment, retail sales and output. Nonetheless, U.S. exports to Canada have eased during the first six months of 2013 relative to the same time frame in 2012. A similar finding could be made about Mexico, which has seen its real GDP growth rates decelerate more recently and industrial production slow. Fewer exports have helped to drag its HSBC Manufacturing PMI lower in June, with weaker sales and production data.

Much of the focus next week will be on China's economic releases for real GDP, industrial production and retail sales. With numerous press reports highlighting China's decelerating growth, the data will be closely watched. We will learn more about Europe's trade environment, with recent surveys indicating that export levels have declined. Meanwhile, in the United States, there will be key data releases on industrial production, retail sales and housing starts next week

In the trade policy front, new reports were released from the Office of the U.S. Intellectual Property Enforcement Coordinator on intellectual property (IP) protection and the World Trade Organization (WTO) on rising protectionism. U.S.-India relations took center stage with several high-level government meetings and concerns raised by the NAM, the broader business community and Congress over the need to level the playing field with India. The NAM's challenge to the Securities and Exchange Commission's (SEC) conflict minerals disclosure rule moved to oral argument. July brings significant movement on key trade negotiations, including the formal start of U.S.-EU talks and the 18th round of the Trans-Pacific Partnership (TPP) talks. The fifth Strategic and Economic Dialogue (S&ED) with China also took place this week.

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Global Economic and Trade Trends

- ***The global economy is growing, although slowly.*** The JPMorgan Global Manufacturing PMI was unchanged between May and June at 50.6. New orders and output continue to experience modest growth worldwide, but weaknesses in hiring and export sales have weighed down these figures. The indices for employment and new export orders both shifted from a slight expansion in May to a slight contraction in June. Capacity utilization was barely below neutral, with its index up from 49.5 to 49.7. The utilization data have been below 50—the threshold for growth—in every month but one since April 2012. On the positive side, the composite PMI measure has exceeded 50 in every month so far in 2013.

  Half of the top 10 markets for U.S.-manufactured goods had PMI values of 50 or greater in June, down from six in May. South Korea shifted (down from 51.1 to 49.4), with new orders, output and employment all falling on weaker demand. The other four countries stem from either Asia or Europe, both of which continue to suffer from slower growth. This includes China (down from 49.2 to 48.2), Germany (down from 49.4 to 48.6), Hong Kong (down from 49.8 to 48.7) and the Netherlands (up from

48.7 to 48.8). On the positive side, Canada (down from 53.2 to 52.4) and Mexico (down from 51.7 to 51.3)—our two largest trading partners—continue to expand modestly, albeit at a slower pace.

¿ ***Europe's woes have once again returned to the limelight.*** European ministers and the International Monetary Fund have once again approved financial assistance to Greece, which will allow the country to make its debt obligations over the course of the next few months. At the same time, a political crisis in Portugal has increased the probability that it too might need another bailout at some point, particularly as its people have grown weary of tough austerity measures imposed on the country after the last round of aid. For his part, European Central Bank President Mario Draghi has said that monetary policy in the Eurozone should remain highly accommodative for the foreseeable future, even as the Federal Reserve is expected to start "tapering" bond purchases later this year.

Despite these reminders, Europe's economy continues to make modest gains, even as it remains mired in a recession. The Markit Eurozone Manufacturing PMI edged slightly higher from 48.3 in May to 48.8 in June. This suggests that the rate of decline in manufacturing activity has lessened across the past few months, with most key measures notching a slight gain. However, the export index worsened in June, down from 50.1 to 49.0. Even with the higher value in June, manufacturing activity has contracted for 23 straight months, with little sign that the coming month will be any different. Still, many European nations experienced recent highs in their PMI values, including France (up from 46.4 to 48.4), Ireland (up from 49.7 to 50.3), Italy (up from 47.3 to 49.1), the Netherlands (up from 48.7 to 48.8) and Spain (up from 48.1 to 50.0).

The most recent economic indicators were mixed. Retail sales were up 1.0 percent in May, a welcome respite after three months of declines and a year-over-year decrease of 0.1 percent. Likewise, business and consumer sentiment improved, even as it remains subpar. Yet, the unemployment rate rose to 12.2 percent in May, up from 12.1 percent in April. The highest unemployment rates on the continent continue to be in Greece (26.8 percent) and Spain (26.9 percent), with the lowest rates in Austria (4.7 percent) and Germany (5.3 percent).

¿ ***China's slower growth appears to be contagious in Asia, with the exception of Japan.*** The HSBC China Manufacturing PMI has contracted for two consecutive months, down from 50.4 in April to 49.2 in May to 48.2 in June. There were reductions in new orders, exports, output and hiring in June, with overall activity shrinking. On Monday, we will get new data on second quarter GDP and June industrial production and retail sales, which should show continued slowing in the Chinese economy. There are media reports that Beijing is dealing with credit concerns, with Shanghai interbank interest rates soaring in the past few weeks. Such actions should slow real GDP, which is forecast to fall from 7.7 percent on an annual basis in the first quarter to roughly 7.5 percent in the second quarter. Likewise, industrial production should decelerate from May's 9.2 percent annual pace.

Economic growth appears to be slowing elsewhere in Asia as well, spilling over from China and struggles in the global market. Hong Kong (down from 49.8 to 48.7) is illustrative of the region, with manufacturing activity down across the board. South Korea (down from 51.1 to 49.4), Taiwan (up from 47.1 to 49.5) and Vietnam (down from 48.8 to 46.4) also show softness. Even where there was growth—such as in India (up from 50.1 to 50.3) and Indonesia (up from 51.0 to 51.6)—it was modest at best. Persistent power outages and a tough economic environment dampened India's output, while Indonesian exports fell on weaker global demand for its goods.

In contrast, Japan's economy has picked up a little steam. Industrial production increased 2.0 percent in May. While production remains lower on a year-over-year basis, the pace of output has accelerated since February. Similarly, retail sales were up 0.8 percent in May, and real GDP rose 1.0 percent in the first quarter. Illustrating the turnaround, the Markit/JMMA Japan Manufacturing PMI has risen for six straight months, jumping from 45.0 in December to 51.5 in May to 52.3 in June. However, there are still some frustrations that structural market reforms as part of Prime Minister Shinzo Abe's "three arrows" need to be more aggressive.

- ***The Canadian and Mexican economies are growing, but slower in June than in May.*** The RBC Canadian Manufacturing PMI declined from 53.2 in May to 52.4 in June. The pace of growth for domestic and export sales, output and employment eased for the month, even as data show modest gains in activity for Canada. Despite June's lower figure, manufacturers have seen progress since March's contraction. There were 4,200 additional manufacturing workers added in June, even as the unemployment rate stayed at 7.1 percent and there continue to be year-over-year job losses of 88,800 for the sector. On the positive side, retail sales have risen 1.5 percent over the past 12 months, with auto dealers seeing some of the largest gains (up 6.0 percent year-over-year).
  The trend in Canada can be seen elsewhere in the Americas. For instance, the HSBC Mexico Manufacturing PMI decreased from 51.7 in May to 51.3 in June. Fewer exports helped to drag the overall index lower, with a slower pace of growth for sales and production. Hiring was also modest. Nonetheless, the unemployment rate was 4.9 percent in May, down from 5.0 percent in April. Meanwhile, the HSBC Brazil Manufacturing PMI remained unchanged at 50.4, with production edging slightly higher but new sales slowing, particularly for exports. Brazilian industrial production fell 2.0 percent in May, with the unemployment rate staying at 5.8 percent for the month.

- ***Emerging market economies remain mixed, with manufacturing activity slightly negative.*** The HSBC Emerging Markets Index fell from 51.3 in May to 50.6 in June, with the Manufacturing PMI reflecting a small contraction (down from 50.0 to 49.3). This measure looks at manufacturing activity in the largest emerging economies. Weaknesses in China and several other Asian countries pulled the index lower. Several notable emerging markets made some progress for the month, including the Czech Republic (up from 50.1 to 51.0), Poland (up from 48.0 to 49.3), Russia (up from 50.4 to 51.7) and Turkey (up from 51.1 to 51.2).

- ***U.S.-manufactured goods exports have struggled so far in 2013.*** U.S.-manufactured goods exports were up from $481.4 billion in the first five months of 2012 to $486.2 billion in 2013. This represents an increase of just 1 percent, which is one of the main reasons manufacturing demand has been soft this year. The year-to-date growth rate is well below 2012's 5.5 percent increase and the roughly 15 percent increase needed to double exports by 2015, as stated by the President's National Export Initiative.

  Goods exports to the European Union account for much of this weakness (down from $114.0 billion year-to-date in 2012 to $106.9 billion in 2013), but there were modest gains in our largest trading partners of Canada (up from $122.4 billion to $125.0 billion), Mexico (up from $88.6 billion to $92.7 billion) and China (up from $44.4 billion to $45.9 billion). Elsewhere, goods exports to Japan have been softer this year (down from $28.7 billion to $26.6 billion), whereas South American exports have been marginally higher (up from $73.9 billion to $74.5 billion).

- ***The U.S. trade deficit widened in May, with increased imports and fewer exports.*** The trade deficit rose from $37.1 billion in March to $40.1 billion in April to $45.0 billion in May. The shift occurred mainly from increased goods imports, jumping from $184.7 billion in March to $193.7 billion in May. (Despite the larger imports in May, it is only slightly higher than the $191.9 billion average of 2012, illustrating recent volatility in the data.) Goods exports, on the other hand, declined from $131.1 billion in April to $130.3 billion in May, with weaker global sales hurting export growth.

  The trade deficit widened from mostly nonpetroleum goods sources. The nonpetroleum trade deficit rose from $37.6 billion in April to $41.6 billion in May. The petroleum deficit increased as well, from $19.7 billion to $20.8 billion, but this is still better than the $24.3 billion observed in January (which was also the average for 2012). Lower energy costs and reduced petroleum imports have improved its trade balance.

  The sector-by-sector breakdown of goods exports was mixed. Declines in consumer goods (down $1.2 billion), industrial supplies (down $917 million) and foods, feeds and beverages (down $146 million) offset increased exports from capital goods (up $817 million) and motor vehicles (up $320 million).

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International Trade Policy Trends

- ***Transatlantic Trade and Investment Partnership (TTIP) negotiations begin.*** The first round of TTIP negotiations kicked off in Washington, D.C., this week. If the TTIP agreement between the United States and the 28-member European Union is negotiated successfully, it will be the world's largest trade pact. Negotiators formally met for the first time and hosted stakeholder events, at which the NAM participated. The NAM advocated for an agreement that will tear down trade barriers, substantially reduce the cost of doing business across the Atlantic and further open the Transatlantic market for trade and investment. The NAM strongly urged negotiators to eliminate duplicative regulatory burdens and reduce trade barriers, while seeking strong standards on IP and investment protection. The NAM emphasized the importance of striking a deal that would remove impediments to trade, rather than create new ones.

- ***TPP negotiations head to 18th round.*** Malaysia is hosting the next round of TPP negotiations July 15–24 in Kota Kinabalu. Negotiators are seeking to make substantial progress in narrowing differences in each negotiating group. Japan will formally join the negotiation toward the end, consistent with the U.S. 90-day notification practice (that arises from the now-expired Trade Promotion Authority legislation). Japan has agreed to not reopen negotiated text that has already been agreed on by the 11 current negotiating partners and to seek the same high level of ambition as other TPP partners. The United States and other current TPP partners will also be seeking to address key challenges with Japan, both within the negotiations and, for the United States in particular, in side negotiations. Further complicating an already difficult round is the recent change of leadership in Australia (with Kevin Rudd returning as Prime Minister on June 26). Following the 18th round of negotiations, a 19th round will be held in September before TPP leaders are expected to meet on the sidelines of the Asia-Pacific Economic Cooperation Leaders' meeting in Bali, Indonesia, in early October.

- ***U.S. district court hears oral arguments in conflict minerals case***. The U.S. District Court for the District of Columbia heard oral arguments last week in the NAM's challenge to the SEC's conflict minerals disclosure rule. The rule imposes an unworkable, overly broad and burdensome system that will undermine jobs and growth. The NAM, U.S. Chamber of Commerce and Business Roundtable asked the court to invalidate the rule because the SEC exceeded its authority and violated procedural and constitutional requirements. A decision in *NAM v. SEC*is expected by the fall. In the meantime, manufacturers are struggling to determine how to comply with the new rule.

- ***U.S.-India discussions continue as manufacturers push for a level playing field.*** The NAM continued its efforts to make manufacturers' concerns over India's discriminatory treatment of U.S. manufacturers, exports and IP a top priority for U.S. government officials. On June 18, the NAM and several of its Council of Manufacturing Associations members (including the Pharmaceutical Research and Manufacturers of America, Solar Energy Industries Association and the Telecommunications Industry Association) launched the Alliance for Fair Trade with India (AFTI) to urge the Administration to address these concerns at the highest levels. AFTI—co-chaired by the NAM and the U.S. Chamber of Commerce's Global Intellectual Property Center—works to educate members of Congress and Administration officials on key concerns with the U.S.-India commercial relationship. With strong urging from both Congress and the business community, Secretary of State John Kerry raised many of these concerns during his recent trip to India at the end of June. The NAM also testified on these concerns and recently launched a new ad campaign to raise the profile of this important issue.

  On July 11, NAM President and CEO Jay Timmons hosted Indian Minister of Commerce and Industry Anand Sharma and NAM members to have a frank discussion about the strong and widespread level of U.S. industry concerns. While India announced that it will review one of its many discriminatory policies—the forced localization of information and technology on private-sector purchases—before implementing, India has yet to address adequately the concerns that the U.S. government and the business industry are raising. Senior government officials arrived in Washington this week for high-level discussions with the U.S. government and business industry, including the U.S.-India CEO Forum. With Vice President Biden heading to India later in July, the NAM will continue to make ending India's discriminatory industrial policy a top priority.

¿ ***Administration releases new IP enforcement strategy.*** Global counterfeiting and piracy continue to threaten manufacturing and jobs in the United States, but a new report issued late last month by the Office of the U.S. Intellectual Property Enforcement Coordinator shows some areas of progress. The new *Joint Strategic Plan on Intellectual Property Enforcement* outlines actions that companies, federal agencies and Congress have taken over the past three years to protect patents, trademarks, copyrights and trade secrets. For example, U.S. Customs and Border Security and the Department of Homeland Security have increased seizures of infringing imports at the border by 53 percent. Congress has increased penalties for trafficking in infringing goods and services and clarified the protection of trade secrets. More than a dozen companies are working together to combat the sale of fake medicines, movies, music and other infringing products on the Internet. Yet, severe threats to IP exist around the world. The NAM continues to make it a priority to advance strong IP protections and enforcement for all products through multiple avenues, including the TPP and TTIP negotiations, in which the United States should be seeking the strongest possible IP outcomes that will advance our global competitiveness, bilateral relationships with countries like China and India and strong Customs enforcement of IP rights at our borders.

¿ ***New WTO report shows rise in G-20 trade protectionism.*** The June WTO report on G-20 trade measures found that G-20 economies implemented 109 trade-restrictive measures over the past seven months as compared to the 71 restrictive measures that had been imposed during the previous period. These restrictions covered about 0.5 percent of G-20 merchandise imports and 0.4 percent of world merchandise imports. During this same time period, G-20 members adopted 70 new measures aimed at facilitating trade, including temporary tariff reductions and easier customs procedures. Overall, the percentage of trade-facilitating measures totaled 40 percent of all actions taken over the past seven months as compared to 55 percent during the previous reporting period. The G-20 members include: Argentina, Australia, Brazil, Canada, China, the EU, France, Germany, India, Indonesia, Italy, Japan, Mexico, Russia, Saudi Arabia, South Africa, South Korea, Turkey, the UK and the United States.

¿ ***Fifth S&ED with China produces breakthrough in investment treaty talks.***On July 10, Vice President Biden launched the fifth S&ED with China. The major economic issues discussed included the overall trade and investment relationship; IP protections, including for trade secrets; cybersecurity; currency; investment treaty talks; state-owned enterprises; export credits and government procurement. At the close of the discussions, Treasury Secretary Lew announced an important breakthrough in U.S.-China investment treaty discussions, indicating that China had agreed that negotiations would cover all sectors and all stages of investment. Lew's announcements also indicated that China would continue to reform further its currency and improve its offer to open up its government procurement market to foreign goods and services as part of the WTO Government Procurement Agreement negotiations.

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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's senior executive–led Healthcare Trade Mission to Russia scheduled for 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, both 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. If interested, please contact Jessica Arnold of the

U.S. Department of Commerce at (202) 482-2026 or click here to learn more.

- ***Inaugural CalExport Trade Conference scheduled for September.*** The inaugural CalExport Conference will take place September 4–5 in Long Beach, Calif., 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.

- ***Opportunities to grow your business with the U.S.-Australia Free Trade Agreement.*** The U.S. Department of Commerce has partnered with DHL and others to hold seminars in St. Paul, Boston and Atlanta to help companies grow their business with Australia. The event will examine how the U.S.-Australia Free Trade Agreement improves U.S. competitiveness and opportunities in the Australian market.

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