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GLOBAL MANUFACTURING ECONOMIC UPDATE

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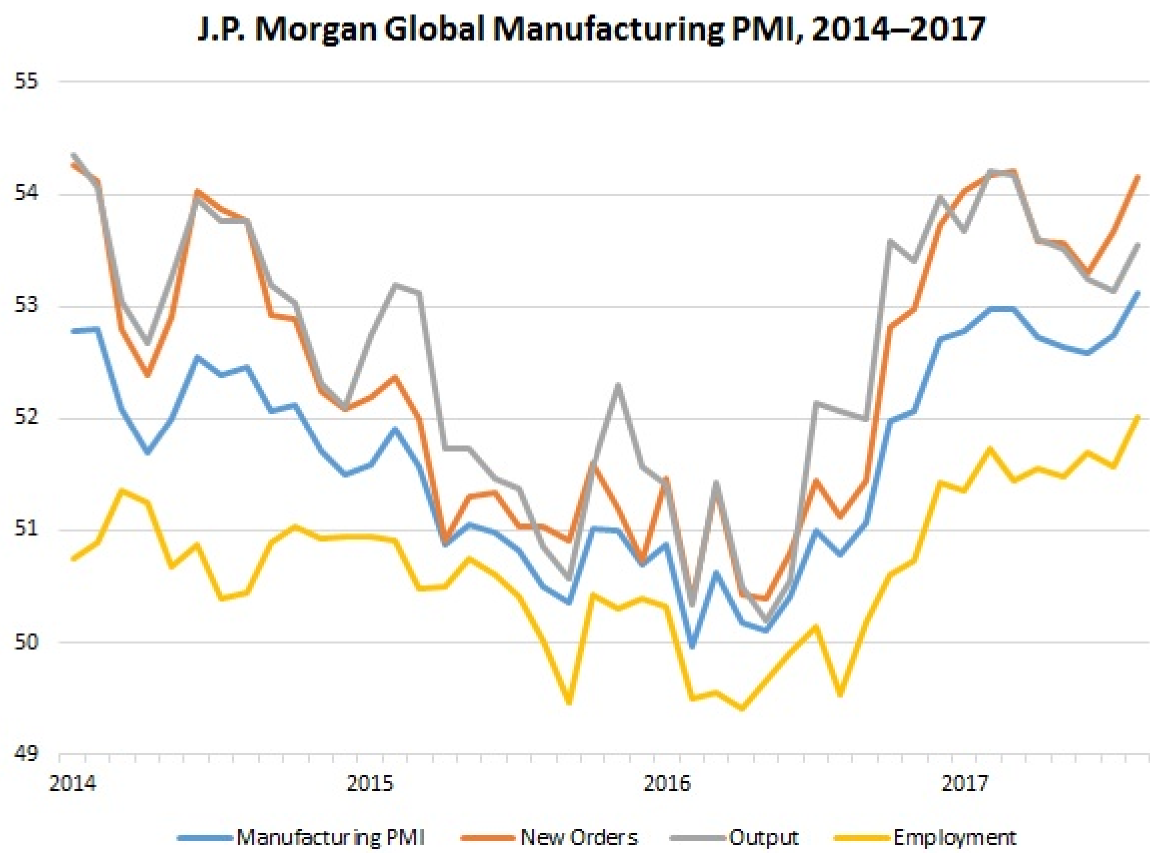

The J.P. Morgan Global Manufacturing PMI increased from 52.7 in July to 53.1 in August, its fastest pace since May 2011. The underlying data rose across the board, including new orders, output, exports and employment. The hiring data mirrored the headline index, with employment growth at a pace not seen since June 2011. Looking ahead six months, manufacturing leaders continued to be very upbeat in their outlook, with the index for future output unchanged at 63.5. Readings greater than 60 suggest robust growth for the next six months, illustrating the optimism for the second half of 2017. In August, just two of the top-15 markets for U.S.-manufactured goods contracted, similar to July. While none of those markets contracted in June, the vast majority of those nations have seen tremendous progress over the past year, which is encouraging. Moreover, the two markets that contracted in August—Hong Kong (down from 51.3 to 49.7) and South Korea (up from 49.1 to 49.9)—were just barely doing so.

Meanwhile, Europe continued to dominate the list of the top export markets with strong manufacturing growth. Those countries with the highest PMI readings in the sector in August included the Netherlands, Germany, the United Arab Emirates, the United Kingdom, France, Canada and Taiwan. Specific to the Eurozone, manufacturing activity grew at its highest rate since April 2011, illustrating just how much the continent's economies have turned a corner over the past year. That progress was not limited to sentiment data either. Real GDP in the Eurozone increased 0.6 percent in the second quarter. That translated into 2.3 percent growth year-over-year, its quickest pace since the first quarter of 2011, and industrial production has risen 3.2 percent year-over-year, which represents a healthy increase in output since July 2016. At the same time, the unemployment rate in July remained at 9.1 percent, its lowest level since February 2009.

We have seen progress in other economies as well, including the emerging markets. The IHS Markit Emerging Markets Manufacturing Index rose to its best reading since January 2013. More importantly, the headline index has now expanded for 14 straight months, reflecting improvements in the emerging markets since this time last year. The country-by-country data were mixed, but a number of emerging markets made marked improvements in August, including China, Nigeria, Poland, Saudi Arabia, Taiwan, the United Arab Emirates and Vietnam. Economic sentiment in Nigeria was the highest since June 2015. Meanwhile, manufacturers in India reported positive growth in the latest report, bouncing back from July's lowest reading since February 2009.

Better global economic growth has been one factor in helping to turn around exports, but the weaker U.S. dollar has also played a large role. In fact, the U.S. dollar has depreciated 10.2 percent year to date in 2017 against major currencies, even as it remained nearly 13.6 percent higher than it was three years ago. As a result, exports have trended in the right direction through the first seven months of this year—a welcome development after weaker data during the past two years. Using non-seasonally adjusted data, U.S.-manufactured goods exports have increased 3.9 percent year to date relative to the same time period last year.

The NAM continues its work to obtain positive results from efforts to update and modernize the North American Free Trade Agreement (NAFTA), which will enter the third round of negotiations later this month in Ottawa. Discussions also continue between the United States and South Korea on a potential renegotiation of the Korea–U.S. (KORUS) Free Trade Agreement (FTA). The United States launched a Section 301 investigation into Chinese policies on technology transfer and intellectual property. The NAM continued its work to ramp up opposition to Scott Garrett as president and chair of the Export-Import (Ex-Im) Bank. U.S. Customs and Border Protection (CBP) also concluded its first evasion investigation, using the new procedures that the NAM had successfully worked to include in the Trade Facilitation and Trade Enforcement Act.

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Global Economic and Trade Trends

Global manufacturing expanded in August at its fastest pace since May 2011.
The J.P. Morgan Global Manufacturing PMI increased from 52.7 in July to 53.1 in August, a 75-month high. The underlying data rose across the board, including new orders (up from 53.7 to 54.2), output (up from 53.1 to 53.6), exports (up from 52.5 to 53.4) and employment (up from 51.6 to 52.0). The hiring data mirrored the headline index, with employment growth at a pace not seen since June 2011. Looking ahead six months, manufacturing leaders continued to be very upbeat in their outlook, with the index for future output unchanged at 63.5. Readings greater than 60 suggest robust growth for the next six months, illustrating the optimism for the second half of 2017.

In August, just two of the top-15 markets for U.S.-manufactured goods contracted, similar to July. While none of those markets contracted in June, the vast majority of those nations have seen tremendous progress over the past year, which is encouraging. (There is no manufacturing PMI for comparison purposes for Belgium, which is our 10th-largest trading partner.) Moreover, the two markets that contracted in August—Hong Kong (down from 51.3 to 49.7) and South Korea (up from 49.1 to 49.9)—were just barely doing so.

Meanwhile, Europe continued to dominate the list of the top export markets with strong manufacturing growth. Those countries with the highest PMI readings in the sector in August included the Netherlands (up from 58.9 to 59.7), Germany (up from 58.1 to 59.3), the United Arab Emirates (up from 56.0 to 57.3), the United Kingdom (up from 55.3 to 56.9), France (up from 54.9 to 55.8), Canada (down from 55.5 to 54.6) and Taiwan (up from 53.6 to 54.3). Manufacturing activity in France and the Netherlands once again grew at its quickest pace in more than six years.

The U.S. dollar depreciated 10.2 percent year to date in 2017, but it remained nearly 13.6 percent higher than it was three years ago.

The trade-weighted U.S. dollar index against major currencies from the Federal Reserve Board has declined from 95.7631 on December 30 to 86.0353 on September 8. This index reflects currency units per U.S. dollar, suggesting that the dollar can now purchase less than it could before and vice versa. With that said, the index was 75.7513 on June 30, 2014, illustrating the dollar's continued strength. For manufacturers, growth in the dollar's value over the past three years presents a real challenge as firms seek to increase international demand. Yet, that drag has lessened recently, especially with sizable depreciation in the dollar so far this year.

Manufacturing activity in the Eurozone grew strongly in August at six-year highs.

The IHS Markit Eurozone Manufacturing PMI increased from 56.6 in July to 57.4 in August, matching the level in June, which was the highest since April 2011. New orders (up from 57.0 to 58.3), output (up from 56.5 to 58.3) and exports (up from 56.8 to 58.5) each accelerated convincingly for the month, helping to buoy the headline number. At the same time, employment eased a little (down from 56.0 to 55.5) but remained not far from the all-time high recorded in May (56.1). In addition, respondents felt very upbeat about output over the next six months (down from 66.3 to 65.9) despite the forward-looking measure pulling back again from the June pace, which had been the fastest rate since the question was added to the survey in July 2012.

As noted earlier, many of the best PMI readings globally occurred in Europe, showing how much the continent's economies have turned a corner over the past year. Manufacturing activity in Austria (up from 60.0 to 61.1), France (up from 54.9 to 55.8), Italy (up from 55.1 to 56.3) and the Netherlands (up from 58.9 to 59.7) once again grew at their quickest paces in more than six years, with Germany also not far from its six-year high (up from 58.1 to 59.3). Moreover, both Ireland (up from 54.6 to 56.1) and the United Kingdom (up from 55.3 to 56.9) continued to expand at relatively strong rates. Beyond those markets, Greece (up from 50.5 to 52.2) and Spain (down from 54.0 to 52.4) expanded modestly, with Greek manufacturing activity at its fastest pace since August 2008.

Real GDP in the Eurozone increased 0.6 percent in the second quarter. That translated into 2.3 percent growth year-over-year, its quickest pace since the first quarter of 2011. Eurozone industrial production inched up 0.1 percent in July, improving from the 0.6 percent decline in June but being pulled lower by declines in energy and nondurable consumer goods output. Still, production has risen 3.2 percent year-over-year, which represents a healthy increase in output since July 2016. At the same time, retail sales decreased 0.3 percent in July, pulling back for the first time so far this year with the largest declines in the food and pharmaceutical segments. Still, over the past 12 months, retail spending has risen modestly, up 2.6 percent. Meanwhile, the unemployment rate in July remained at 9.1 percent, its lowest level since February 2009.

Canadian manufacturing expanded modestly in August, with a pickup in hiring.

The IHS Markit Canada Manufacturing PMI decreased from 55.5 in July to 54.6 in August, but the general trend line continued to reflect progress so far this year. The headline index has averaged 54.9 year to date in 2017, a notable improvement from the 51.2 average in 2016 as a whole. Indeed, the employment measure saw the best reading in the survey's seven-year history (up from 54.9 to 56.5). Other underlying measures pulled back slightly in August, including new orders (down from 56.4 to 54.4), output (down from 56.3 to 54.3) and exports (down from 52.7 to 50.9). Similarly, manufacturing leaders in Canada remained very upbeat about future output even with some easing (down from 67.7 to 65.1). Regionally, August activity also slowed, including Alberta and British Columbia (down from 57.8 to 57.2), Ontario (down from 53.7 to 53.0), Quebec (down from 54.9 to 53.9) and the rest of Canada (down from 53.1 to 51.7).

Real GDP grew 1.1 percent in the second quarter, accelerating from the 0.9 percent gain in the first quarter. That translated into 4.6 percent growth at the annual rate in the first quarter, with both consumer and business spending boosting the Canadian economy. With that said, manufacturing sales declined 1.8 percent in June, with petroleum and motor vehicles serving as drags on the headline number. More positively, sales in the sector have jumped 6.2 percent year-over-year. At the same time, retail spending edged up 0.1 percent in June, with year-over-year growth of 7.3 percent.

Meanwhile, the unemployment rate declined to 6.2 percent in August, its lowest level since October 2008. Nonetheless, manufacturers lost 11,100 workers in August, but with year-over-year growth of 39,600 employees.

Mexican manufacturing sentiment was quite modest in August, with activity still subpar overall.
The IHS Markit Mexico Manufacturing PMI rose from 51.2 in July to 52.2 in August, its second-highest reading of the year, following the 52.3 recorded in June. Overall, the headline index has trended higher year to date, with modest growth overall. In August, new orders (up from 52.3 to 53.0), output (up from 50.7 to 51.9) and exports (up from 48.3 to 52.0) all picked up for the month, but employment eased ever so slightly (down from 52.9 to 52.8). Looking ahead, manufacturers in Mexico remained very upbeat about future output (up from 71.8 to 72.7). This would indicate strong gains in production over the next six months.

Despite those more encouraging surveys, real GDP decelerated from 2.8 percent year-over-year in the first quarter to 1.8 percent in the second quarter. In addition, Mexican industrial production fell for the second straight month, down 1.6 percent in July, pulled lower by reduced electricity and mining activity. Yet, output in the manufacturing sector increased 2.2 percent in July, easing somewhat from the 2.5 percent gain in June. Meanwhile, the unemployment rate ticked up from 3.3 percent in June to 3.4 percent in July, but it has mostly drifted lower since registering 4.1 percent in September 2016.

Chinese manufacturing activity notched its strongest growth in August since February.
The Caixin China General Manufacturing PMI rose from 51.1 in July to 51.6 in August, growing for the third straight month. In general, the Chinese economy has improved notably since contracting in the first half of 2016, with manufacturing activity benefiting from that progress. In August, the data were mixed but mostly favorable, including new orders (up from 52.8 to 53.2), output (down from 52.3 to 52.2) and exports (up from 53.5 to 54.6). In addition, the pace of decline for employment slowed in August (up from 47.4 to 48.4), even as hiring has contracted every month since October 2013. The index for future output signaled decent growth moving forward, with that measure at a five-month high (up from 54.9 to 57.2).

The Chinese economy grew 6.9 percent year-over-year in the second quarter, the same pace as in the first quarter. This reflects an acceleration after struggles over much of the past year or so, with 6.7 percent growth in 2016. With that said, industrial production decelerated, down from 6.4 percent year-over-year in July to 6.0 percent in August, its weakest pace of the year and down from 7.6 percent year-over-year in June. There were similar slowdowns in fixed asset investment (down from 8.3 percent year-over-year to 7.8 percent) and retail sales (down from 10.2 percent year-over-year to 9.9 percent). To be fair, Chinese manufacturing activity remains strong overall.

Japanese manufacturing continued to expand modestly in August.
The Nikkei Japan Manufacturing PMI edged up from 52.1 in July to 52.2 in August, expanding for the 12th straight month even as activity has been slower over the summer months than what we saw earlier in the year. With that said, most of the key measures increased in August, including new orders (up from 51.7 to 52.7), output (up from 51.4 to 53.1) and exports (up from 50.0 to 52.2), with demand and production at levels not seen since the spring. As such, the data could be seen as encouraging despite little change in the headline number. Meanwhile, both employment (down from 53.4 to 53.2) and future output (down from 63.0 to 60.6) eased for the month, with the latter pulling back from its best reading in the survey’s five-year history but with respondents still quite upbeat in their outlook.

[Real GDP](#) grew 0.6 percent in the second quarter, its strongest pace since the first quarter of 2016. That translated to 2.5 percent growth on an annualized basis. Looking specifically at manufacturing, industrial production declined 0.8 percent in July, dropping after an increase of 2.2 percent in June. Year to date, this measure has seesawed from month to month. Yet, the longer-term trend remained favorable, with industrial production up 4.7 percent since June 2016.

Manufacturing activity in the emerging markets picked up in August.
The IHS Markit Emerging Markets Manufacturing Index rose from 50.9 in July to 51.7 in August, its best reading since January 2013. More importantly, the headline index has now expanded for 14 straight months, reflecting improvements in the emerging markets over the past year. In August, the underlying data were higher across the board, including new orders (up from 52.1 to 53.3), output (up from 51.8 to 52.5), exports (up from 52.1 to 53.3) and employment (up from 48.7 to 49.5). The hiring figure reflected some easing in the rate of decline for employment, which has contracted every month since February 2015. In addition, the forward-looking index for future output also accelerated (up from 60.7 to 61.5), showing strong levels of optimism for the next six months.

The country-by-country data were mixed, but a number of emerging markets made marked improvements in July, including China (up from 51.1 to 51.6), Nigeria (up from 54.8 to 55.0), Poland (up from 52.3 to 52.5), Saudi Arabia (up from 55.7 to 55.8), Taiwan (up from 53.6 to 54.3), the United Arab Emirates (up from 56.0 to 57.3) and Vietnam (up from 51.7 to 51.8). Economic sentiment in Nigeria was the highest since June 2015. At the same time, growth slowed—but continued to expand modestly—in the Czech Republic (down from 55.3 to 54.9), the Philippines (down from 52.8 to 50.6) and Russia (down from 52.7 to 51.6); however, activity in the Philippines was the weakest in the survey's relatively short history. (That survey began just last year, in January 2016.) Encouragingly, manufacturers in India reported positive growth in the latest report (up from 47.9 to 51.2), bouncing back from July's lowest reading since February 2009. Malaysian manufacturers also noted progress (up from 48.3 to 50.4).

In contrast to those markets, Hong Kong (down from 51.3 to 49.7) and South Africa (down from 50.1 to 49.8) both slipped back into contraction territory in August, albeit slightly. Other markets that continued to struggle in August included Egypt (up from 48.6 to 48.9), Kenya (down from 48.1 to 42.0)—a new low, Lebanon (unchanged at 46.3), Myanmar (up from 49.1 to 49.3) and South Korea (up from 49.1 to 49.9). The Nigerian figure was the lowest in the survey's three-and-a-half-year-old survey.

U.S.-manufactured goods exports have improved so far in 2017.
For manufacturers, exports have trended in the right direction through the first seven months of this year—a welcome development after weaker data in the past two years. Using non-seasonally adjusted data, U.S.-manufactured goods exports totaled $628.69 billion year to date in July, up 3.87 percent from $605.25 billion one year ago.

This reflects better year-to-date figures in five of the top-six markets for U.S.-manufactured goods: Canada (up from $155.49 billion to $161.91 billion), Mexico (up from $131.34 billion to $138.53 billion), China (up from $60.36 billion to $69.28 billion), Japan (up from $35.27 billion to $38.49 billion) and Germany (up from $28.40 billion to $30.28 billion). The lone exception was our fifth-largest trading partner, the United Kingdom (down from $32.18 billion to $31.55 billion), with marginally softer exports to that nation year to date compared with 2016.

The U.S. trade deficit changed little between June and July.
The U.S. trade deficit inched up from $43.54 billion in June—its lowest level since October 2016—to $43.69 billion in July. In July, the slight decreases in goods exports (down from $129.05 billion to $128.61 billion) and goods imports (down from $194.40 billion to $193.94 billion) essentially offset one another, with the increase in the trade deficit stemming from the reduction in the service-sector surplus (down from $21.81 billion to $21.64 billion). To be fair, however, the service-sector surplus has trended higher, with June's figure at a two-year high.

The underlying goods exports data were mixed. Exports increased for nonautomotive capital goods (up $941 million) and foods, feeds and beverages (up $352 million), with reduced exports for consumer goods (down

$670 million), automotive vehicles, parts and engines (down $597 million) and industrial supplies and materials (down $110 million). Likewise, the data for goods imports also varied. Goods imports fell for automotive vehicles, parts and engines (down $827 million) and industrial supplies and materials (down $714 million), which were enough to offset higher imports for nonautomotive capital goods (up $1.27 billion) and foods, feeds and beverages (up $196 million).

International Trade Policy Trends

U.S., Canadian and Mexican negotiators preparing for third round of NAFTA negotiations to be held September 23–27 in Ottawa.

The first round of NAFTA modernization negotiations took place August 16–20 in Washington, D.C., and the second round took place September 1–5 in Mexico City. At both rounds, the United States, Canada and Mexico discussed key issues across more than two dozen negotiation areas, and each side began to table text for key chapters. The three sides will seek to introduce additional text proposals and consolidate text where possible by the end of the third round, which will take place September 23–27 in Ottawa. The NAM continues to work with its members, administration officials, Capitol Hill and others with similar goals to promote the conclusion of NAFTA modernization negotiations. NAM President and CEO Jay Timmons explained manufacturers' goals at the beginning of the first round of talks in this blog, and Cargill Chairman and CEO and NAM Vice Chair of International Economic Policy David MacLennan discussed the importance of NAFTA for manufacturing workers in this op-ed in *The Hill*. *Politico Pro* also reported on August 31 that while "no major decisions are expected," businesses are already speaking out about "more contentious" issues, such as U.S. "efforts to revamp the highly technical and complicated 'rules of origin' for autos and other products" and possible changes to investor-state dispute settlement (ISDS), citing the NAM on both issues. The article quoted NAM Vice President of International Economic Affairs Linda Dempsey, who emphasized that there are "much better ways to create more manufacturing jobs than the Trump administration's idea of establishing a specific NAFTA requirement that a portion of each product be made in the United States." In addition, Timmons joined with the heads of the Business Roundtable and the U.S. Chamber of Commerce in an August 23 letter to the administration to express the strong support of our organizations for ISDS and deep concerns over attempts to weaken or eliminate ISDS from NAFTA negotiations. For more information and to become involved in the NAM's NAFTA work, contact Dempsey or NAM Director of International Trade Policy Ken Monahan.

U.S.–Korean officials hold meeting to review KORUS FTA, and Trump administration considers withdrawal.

Following a July 12 request by U.S. Trade Representative (USTR) Robert Lighthizer to review the KORUS FTA and consider "possible amendments and modifications," Korea's new trade minister, Kim Hyun-chong, hosted a special KORUS FTA Joint Committee meeting on August 22 in Seoul. In his initial request, Ambassador Lighthizer underscored the Trump administration's focus on "real concerns about our significant trade imbalance with Korea." At the meeting in Seoul, USTR officials requested changes to the terms of the KORUS FTA, while Korea requested an in-depth review of the broader U.S.–Korea commercial relationship and the causes of the trade deficit before agreeing to a renegotiation. In early September, senior Trump administration officials met to consider U.S. withdrawal from the KORUS FTA, which was rejected given strong opposition by congressional leaders, the business community and Cabinet officials. On September 5, following a Cabinet-level meeting with President Donald Trump, the administration decided not to withdraw from the KORUS FTA. Yet, on September 5, Ambassador Lighthizer underscored that the administration is seeking "a successful discussion with the Koreans" and that problems with the agreement will be "worked out." For more information and to become involved in the NAM's Korea work, contact NAM Vice President of International Economic Affairs Linda Dempsey or NAM Director of International Trade Policy Ken Monahan.

USTR launches investigation on China technology transfer and intellectual property.

On August 18, Ambassador Lighthizer formally launched a Section 301 investigation into China's intellectual property policies, implementing an August 14 presidential memorandum from President Trump. This investigation will focus on a range of topics, including tools to require or pressure technology transfer, policies and practices that prevent U.S. companies from setting market terms for their technologies, efforts to promote Chinese investment intended to acquire U.S. technologies and possible government involvement in hacking and cybertheft. According to the notice, USTR has already requested consultations with the Chinese government and will conduct an investigation that should conclude within 12 months. The NAM has long advocated effective efforts to address intellectual property challenges in China that fundamentally tackle the core issues faced by manufacturers in the United States and is finalizing a submission to USTR to emphasize priorities and approaches in ways that will benefit manufacturers. For more information and to become involved in the NAM's work on China, contact NAM Director of International Business Policy Ryan Ong

Manufacturers ramp up opposition to nomination of Scott Garrett to lead the Ex-Im Bank.
After NAM President and CEO Jay Timmons expressed manufacturers' strong opposition to the nomination of former Rep. Scott Garrett (R-NJ) to lead the Ex-Im Bank in July, the NAM escalated its campaign in opposition to the nomination with radio and digital ads in South Carolina, South Dakota and Nevada. The NAM continues to urge the Senate to ensure a fully functional Ex-Im Bank that can support U.S. exporters. Learn more about how the Ex-Im Bank helps manufacturers compete around the world here, or contact NAM Director of Trade Facilitation Policy Lauren Wilk.

U.S. government concludes first new duty evasion investigation.
In August, CBP issued its first ever final affirmative determination of duty evasion, pursuant to new enforcement provisions of the Trade Facilitation and Trade Enforcement Act of 2015, which the NAM had strongly supported. CBP determined that certain imports of steel wire garment hangers from China, which are covered by an antidumping duty order, had been illegally brought in through Thailand to avoid paying required duties. The investigation was initiated by allegations filed by M&B Metal Products Company of Alabama, the sole remaining U.S. producer of wire hangers. CBP simultaneously issued a decision on interim measures in the investigation of a similar evasion scheme via Malaysia and in the investigation into evasion by an importer of wooden bedroom furniture. Since the new enforcement provisions came into force a year ago, CBP has initiated 14 investigations and begun to strengthen enforcement of U.S. trade remedy laws. For more information, contact NAM Vice President of International Economic Affairs Linda Dempsey or NAM Director of Trade Facilitation Policy Lauren Wilk.

Exports in Action

U.S. Department of Commerce Trade Mission to China

November
U.S. Secretary of Commerce Wilbur Ross will lead a trade mission to China in mid-November. This multisector mission will promote U.S. exports to China by supporting U.S. companies in launching or increasing their business in the marketplace, as well as address trade policy issues with high-level Chinese officials. The mission will take place as part of President Trump's first visit to China. Key elements will include business-to-government and business-to-industry meetings, market briefings, networking events and opportunities to promote new deals and agreements between mission participants and Chinese entities through signing ceremonies. Application deadline is September 29. For more information, click here, or questions may be directed here.

For a listing of other upcoming Commerce Department trade missions, click here.

Connect with the Manufacturers

Questions or comments?

Contact Chief Economist Chad Moutray at cmoutray@nam.org.

Center for Manufacturing Research