Sharp slowdown in world manufacturing

Andre Damon
2 September 2011

A new batch of economic data released Thursday reaffirms that the world economy is slowing disastrously. Manufacturing activity in Europe shrank for the first time in two years in August, while Canada announced that its economy contracted in the second quarter.

The global manufacturing purchasing managers index, a closely watched indicator of world manufacturing output, fell once again in August, according to figures released by JPMorgan and Markit.

The index, which fell from 50.7 in July to 50.1 in August, is now only a hairline above the level of 50 that is traditionally taken to mean contraction.

The global index came out on the same day as the release of manufacturing purchasing managers indexes from the Eurozone, China, and the United States, most of which showed a significant slowdown in manufacturing.

Manufacturing in the euro area contracted for the first time in two years. The index hit 49.0 last month, down from 50.4 in July, and significantly below the estimates of economists, who had predicted a reading of 49.7.

The index for Germany, the Eurozone's economic powerhouse, hit a 23-month low of 50.9, barely avoiding contraction. Ireland, France, Italy, Spain, and Greece all posted readings below fifty. France's manufacturing purchasing managers index hit 49.1, its lowest level in 25 months.

Greece and Spain, whose economies are reeling from the impact of the European debt crisis, recorded among the lowest readings, at 45.3 for Spain and 43.3 for Greece.

Chris Williamson, Chief Economist at Markit, the firm that compiled the Eurozone statistics, said that the figures signaled "an end to the manufacturing recovery which began in October 2009."

He added that the figures "either signaled stagnation or contraction in all countries surveyed, with output falling for the first time since July 2009 and job creation sliding to the lowest for nearly a year."

Exports drove the drop in output, falling in all countries except Greece and Ireland, as Germany, the continent's largest exporter, led the decline.

Noting the slump in German exports, Williamson concluded that "the Eurozone can no longer rely on export-led growth in its largest member state to help sustain even a lackluster recovery for the region as a whole."

The purchasing managers indices come after the disastrous growth figures for the second quarter of the year, which this month showed that the European economy grew by only 0.2 percent. The latest purchasing managers figures likely mean that the European economy will do even worse in the second half of the year.

The purchasing managers index in the United States fell to 50.6, from 50.9 in July. Switzerland, Sweden and the UK, which are not members of the Eurozone, also saw a fall. The manufacturing index in the UK contracted, falling to 49, the lowest level in almost two years.

Asia was just as badly hit. Manufacturing activity in Taiwan hit its lowest level in two and a half years. Taiwan reached 49.7 in August, down from 51.3 in July. The figure for Chinese manufacturing improved slightly, but two different measures clashed on whether manufacturing in the country was growing or shrinking overall.

Perhaps even more ominously than the purchasing managers figures, the Canadian statistics bureau announced Wednesday that the country's economy shrank at an annualized rate of 0.4 percent in the second quarter, down from a 3.6 percent expansion in the first quarter.

This is the first time that the country's economy contracted since the 2008-09 recession. Canadian Finance Minister Jim Flaherty said that the downturn was led by the sharp fall-off in exports as a result of the global downturn.

Meanwhile, other indicators also point to a protracted slump. Business and consumer sentiment in the Eurozone suffered the sixth consecutive drop in August, according to figures released this week, reflecting the most recent stock selloff and the worsening of the financial crisis.

In the United States, ADP, the payrolls company, said in its monthly payroll report that the US private sector added only 91,000 jobs in August, down from 109,000 in July. The numbers set a gloomy tone for the official US August jobs figures, due to come out Friday, and prompted the US stock market to close down for the day.

These developments give credence to the warnings of IMF Managing Director Christine Lagarde, who said last weekend that the European financial system is on the verge of collapse. Lagarde urged unified action by the European countries to inject capital into European banks in order to prevent a second financial meltdown.

Such a move, which in and of itself would amount to another cash handout to the banks, was immediately denounced by various national and political factions of the European ruling elite.

The same ineffectuality and fecklessness was on display in US Federal Reserve Chairman Ben Bernanke's speech last Friday in Jackson Hole, Wyoming, where he acknowledged the significantly worse prospects for the US economy, but could provide no policy proposals to deal with the renewed downturn.

The ruling class as a whole has no means of dealing with this renewed economic disaster. In bailing out the bankrupt banks, they have transferred bad debts onto government balance sheets. At the same time, the easy money policy in the US, involving what amounts to the printing of trillions of dollars, has called into question the viability of the dollar and the global currency system.

In response to government budget deficits, the ruling class is now turning to austerity and the immiseration of the working class. But this very process is leading to a collapse of demand and an economic collapse surpassing that of 2008.