Global manufacturing continues to fall

Nick Beams
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The deepening recessionary trends in the global economy, which saw stock markets have one of their worst openings for a new year last month, have continued into February. A series of data issued yesterday pointed to lower growth in China, Europe and the United States.

The Chinese statistics bureau reported that the official manufacturing purchasing managers index (PMI) fell to 49.4 in January, compared to 49.7 for December. This was the sixth consecutive month the index has been below 50, which is the border between contraction and expansion.

An economist with China's National Bureau of Statistics, Zhao Qinghe, said the result was due to weaker global demand and moves by companies to reduce excess capacity. Production at larger factories was still continuing to expand, although at a slow rate, while output from small ones was contracting, he said.

The clearest expression of the Chinese slowdown is in the steel industry. More than half the major steel producers reported losses in 2015. China Iron and Steel Association member companies suffered losses of $9.8 billion last year, compared to profits of $3.4 billion in 2014.

Overall Chinese steel production, which accounts for more than half the world's output, contracted for the first time since the early 1980s. Raw steel production fell by 2.3 percent, the drop since 1981.

China chief economist with the ANZ banking group Li-Gang Liu said the data indicated that "the contraction in the manufacturing sector became more entrenched." He said year-on-year steel output had fallen 12 percent in both December and early January.

The slump is threatening major social consequences in steel and related industries, with the possibility of 400,000 layoffs if so-called zombie companies, which are being sustained by injections of money, are forced to close.

In Europe, a widely-followed survey by the firm Markit showed manufacturing slowed at the start of the year. According to a Reuters report, "incoming orders failed to show any meaningful increase, even though companies cut prices at the deepest rate for a year." The Markit PMI for the eurozone dropped from 53.2 in December to 52.3 in January.

"The eurozone's manufacturing economy missed a beat at the start of the year. Growth of order books, exports and output all slowed," Markit chief economist Chris Williamson said. "If the slowdown in business activity wasn't enough to worry policymakers, prices charged by producers fell at the fastest rate for a year to spur further concern about deflation becoming ingrained."

The only "bright spot" was Britain, where output from larger manufacturers increased. But this was accompanied by the highest level of staff reductions in three years and a fall in export orders.

In the United States, the Institute for Supply Management reported yesterday that its gauge of manufacturing was still in contraction territory of below 50, rising to 48.2 last month, compared to 48 in December. The best that could be said of the figure was that, while the contraction was ongoing, at least it had not worsened.

Employment in US manufacturing fell again last month for the sixth consecutive month and manufacturers said the inventories of their customers were too high, meaning they were less likely to place new orders.

US consumer spending remained flat in December, after a 0.5 percent increase in November, with spending on durable manufactured goods such as cars falling by 0.9 percent and purchases of non-durable goods dropping by 0.9 percent. This tends to indicate that spending is being directed to essentials, including housing, health and education.

In an indication of longer-term trends, the US Commerce Department reported last week that demand for durable goods was down 3.5 percent for 2015, the largest annual decline since the official end of recession in 2009.

Summing up the world situation, Reuters headlined its article on manufacturing, "Global factories parched for demand, need stimulus." It noted: "January surveys of global factory activity released on Monday showed the new year began much as the old one ended, with too much capacity chasing too little demand."

The gyrations in financial markets are also continuing. Wall Street opened yesterday with a fall in the Dow Jones index. That was after the rally in oil prices of almost 30 percent last week petered out and they began to head back toward $30 a barrel. The price hike had been fuelled by reports that Russia and Saudi Arabia were possibly moving to an agreement to cut back on supply. Those reports have now been largely discounted.

Dominick Chirichella, a senior partner at Energy Management Institute in New York, told the business channel CNBC that it seemed like "every time market participants say prices have bottomed, they have been wrong. There's nothing that says prices have bottomed—supply is still greater than demand by a lot, Chinese demand may be slackening, the global economy may be slackening and the likelihood of an emergency OPEC meeting seems very low."

After dropping in early trade, following a near-400 point rise on Friday, the US market turned up again, largely on the remarks of Federal Reserve vice-chairman Stanley Fischer. Speaking to a meeting at the Council on Foreign Relations, he backed away from earlier comments that market expectations for two rate hikes were "too low" and three to four increases were "in the ballpark" this year.

Fischer said it was difficult to judge the implications of financial volatility and weakening markets, which could signal a slowdown in the global economy. Answering a question on his earlier comments, he said "in the ballpark" meant it was a figure that was being "talked about" but it "did not mean it is the only number that is being talked about."

While the market saw Fischer's responses as a sign that the cheap money flow will continue, they indicate the growing bewilderment at the Fed and other financial institutions. They have no overall policy but are increasingly reacting on a day-to-day basis.

Conditions for further financial storms are building up as the falling oil price hits highly-indebted oil-exporting countries. Azerbaijan, which depends on oil for 95 percent of its export revenues, is in discussions with the World Bank and the International Monetary Fund (IMF) over a possible $4 billion bailout loan.

Nigeria, also highly dependent on oil exports, has asked the World Bank and the African Development Bank for $3.5 billion in emergency loans to cover a hole in its budget. The government claimed that this was not an "emergency" measure but only discussions about the cheapest way to finance the budget deficit. An IMF spokesman insisted Nigeria was not in immediate need of an IMF program.

Yet there is no denying the impact of falling oil revenues. Nigeria's foreign currency reserves have fallen from a peak of $50 billion a few years ago to $28.2 billion, and an emergency fund of $22 billion set up during the 2008 global financial crisis has fallen to $2.8 billion.

Overall there is a growing sense in financial circles that the period in which central banks could stave off some of the consequences of the breakdown that began with the 2008 crisis is rapidly coming to an end.

In a *Financial Times* survey of opinions in the City of London on whether the outlook was "doom and gloom," Legal & General chief executive Nigel Wilson said: "We are heading for a world of zeros: including zero inflation, zero growth in per-capita GDP and zero growth in productivity."

Taking a longer route to arrive at the same conclusion, Helena Morrissey of Newton Investment Management, told the newspaper: "If 'doomed' is that the post-crisis experiment in attempting to use asset inflation to generate sustained growth is unwinding, and that confidence in the ability of central banks to always be able to do 'whatever it takes' to preserve the wealth of those that seek to front-run official liquidity injections, then the answer is probably 'yes.'"