Manufacturing slows in Europe and Japan

Our reporter
2 August 2016

Just days after reported second-quarter growth figures pointed to a marked slowdown in the US and Europe, new manufacturing data released yesterday provided further evidence of global economic stagnation. The continued slump in the real economy is in marked contrast to the ongoing and ultimately unsustainable speculative frenzy on international share markets.

The IHS Markit purchasing managers' index (PMI) for manufacturing for the euro zone in July showed a marked fall from 52.8 in June to 52.0 in July. Germany, with a PMI of 53.8, was the main factor keeping the overall index above 50, the dividing line between growth and contraction.

IHS Markit chief economist Chris William commented: "Expansions in output and employment are clearly being driven to a large extent by surging growth in Germany, while growth has almost stalled in both Italy and Spain, and contractions are being seen in France and Greece." France's PMI hit 48.6. Italy's was the lowest in 18 months, and Spain's was the lowest in 31 months.

In the wake of the British vote to leave the European Union, the Markit/CIPS PMI in the UK plunged to its lowest level since February 2013, falling from 52.4 in June to 48.2 in July. Capital Economics analyst Scott Bowman told Reuters: "Markit said that the deterioration was widespread across sectors and firm sizes, suggesting Brexit uncertainty was weighing on many firms."

The Brexit vote also contributed to growing uncertainty in Europe, as a lower British pound promises to slow European exports to the UK. "We expect the UK leave vote to dampen confidence in the months ahead, leaving bleak prospects for a stronger momentum in the manufacturing sector," Barclays economist Apolline Menut told the *Wall Street Journal*.

The economic picture was just as bleak elsewhere. Following last week's growth figure of just 1.2 percent, well below expectations, the PMI figures for the United States released yesterday were mixed. While the Markit PMI for manufacturing was up, the ISM manufacturing activity index fell from 53.2 in June to 52.6 in July.

According to a *Financial Times* survey published last weekend, the US election campaign and uncertainly about policy direction were contributing to slower economic activity. The newspaper explained that more than two-thirds of the economists surveyed "said the contest between Donald Trump and Hillary Clinton would act as a headwind to growth in the US, blunting large-scale investments until businesses have a better view of the regulatory, tax and government spending climate."

In Asia, the Japanese manufacturing sector contracted for the fifth consecutive month, with the Markit/Nikkei PMI up from 48.1 in June to 49.3 in July—still below the cut-off point of 50. The sub-index for new export orders was 44.5, indicating that overseas demand fell at the fastest rate since December 2012 amid a strong yen and global slump.

China's PMI for manufacturing showed mixed results. The official figure fell to 49.9 in July, while the private Caixin manufacturing activity index, which covers a greater share of smaller firms, increased from 48.6 in June to 50.6 in July. Economic growth for the second quarter was 6.7 percent, the slowest since the global financial crisis of 2008/09.

RHB Group economist Zhang Fan told the *Wall Street Journal*: "Business confidence remains weak. Investment has been sliding. The only efficient tool for the government to spur growth is pumping more money into infrastructure." Far from boosting the economy, however, the stimulus measures are simply preventing a further marked slowdown.

Another significant indicator of global economic slump was the fall in US crude oil prices below $40 a barrel for the first time since April. The price fall,

© World Socialist Web Site

which is part of the broader collapse of commodity prices, reflected not only increased production by the Organisation of Petroleum Exporting Countries (OPEC), but also stagnant demand and large inventories worldwide.

A comment by the Australian Broadcasting Corporation’s business editor Ian Verrender on Monday highlighted the growing signs of “a global economy in serious trouble,” even as “Wall Street finished the month on a tear, close to an all time record.”

After pointing to the low growth rates in the US and Europe, Verrender noted: “Stress tests of European banks again revealed massive problems in Italy’s banking system, while two major UK banks, Royal Bank of Scotland and Barclays, performed poorly. The world’s oldest bank, Italy’s Bank Monte dei Paschi di Siena, was the worst performer, and was bailed out over the weekend … As Italy’s third biggest deposit taker, it’s a too-big-to-fail operation.”

He turned to the decision by Japan’s central bank last Friday to pull back from a desperate measure to stimulate the economy through “a new round of radical policy known as Helicopter Money … a process where the government rains cash down on the country with direct deposits into citizens’ and company accounts.”

Verrender commented: “The fact that it was a close call tells you that not only is it being considered, but that the global economy is in serious trouble. After decades of poor performance, Japan has embraced the most radical monetary policies the world has ever witnessed and on a scale that could never be imagined.”

Japan’s quantitative easing, however, is simply a more extreme version of the policy of pumping cheap credit into the economy that has been adopted by central banks around the world. Far from flowing into the real economy and stimulating business investment, the flood of money has simply led to an orgy of speculation on share and property markets.

Seven years after the global financial crisis, the breakdown of the capitalist system is worsening. The measures used to try to overcome the crisis are only setting the stage for a meltdown on an even larger scale, and at the same time fuelling rising geo-political tensions and a universal drive by governments to impose new burdens on the working class.

To contact the WSWS and the Socialist Equality Party visit:

wsws.org/contact

© World Socialist Web Site