

# Trade war accelerates trend towards global recession

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There are increasing signs the world economy has entered a period of much slower growth and could be heading for a recession, including in the US, as the trade war against China intensifies and the Trump administration prepares attacks on other targets.

Earlier this week, a key indicator of British manufacturing activity contracted in August for the fourth consecutive month to reach its lowest level in seven years. The IHS Markit purchasing managers' index (PMI) dropped to 47.4 from 48 in July. A rise to 48.4 had been predicted, with a reading of less than 50 indicating more executives believe their economic activity is contracting rather than expanding.

IHS director Rob Dobson said high levels of political uncertainty—a reference to the Brexit turmoil—together with ongoing global trade tensions had “stifled the performance of UK manufacturers.”

“Companies scaled back production in response to the steepest drop in new order intakes since mid-2012,” he said.

The British economy contracted by 0.2 percent in the second quarter compared with the previous three months, and a further contraction in the current quarter would see it officially in a recession. Dobson said the latest PMI data was “consistent with a quarterly pace of contraction close to 2 percent.”

While the British economy is being adversely affected by the Brexit upheaval, the economic outlook is little better in the European Union. The export-dependent German economy, the world's fourth largest and the euro zone's main driving force, contracted 0.1 percent in the second quarter and the central bank has warned that a recession is likely.

German retail sales fell further than expected in July. The Ifo Business Climate survey of German executives fell from 95.8 to 94.3 in August, the fifth straight

month of falling sentiment.

Clemens Fuest, the president of the Ifo Institute, which conducts the survey, said: “There are more indications of a recession in Germany. The last time that industrial companies demonstrated such pessimism was in the crisis year of 2009. Not a single ray of light was to be seen in any of Germany's key industries.”

Surveying the results of PMI data from around the world, the *Wall Street Journal* reported this week that global industrial production had fallen in the three months to June, and August surveys “point to weak inflows of new orders that suggest a significant rebound in output is unlikely in coming months.”

The article noted that in a number of Asian countries, “surveys pointed to a decline in activity that mirrored that felt in Europe. The PMIs for Japan, Taiwan, South Korea and Indonesia were below 50.”

Economies in the Asia-Pacific region are being heavily impacted by the US-China trade war. South Korea has reported that its exports to China fell by 21.3 percent in August compared to the same month last year. Total exports have dropped by 13.6 percent compared to the same period a year ago.

In Japan, capital spending by manufacturing companies dropped by 6.9 percent in the June quarter, the first decline in two years, largely as a result of a significant decline in exports to China.

NLI Research Institute analyst Taro Saito told the *Wall Street Journal*: “Given there is no sign of recovery in Japan's exports due to the US-China friction, the downtrend in manufacturers' profits and capital expenditures is expected to continue.”

The Hong Kong economy is also experiencing its worst downturn since the global financial crisis of 2008–2009, as a result of the US-China trade war and the mass protests of the past three months.

The PMI for the territory fell to 40.8 in August, down from 43.8 percent the previous month, going even further below the level of 50 marking the border between expansion and contraction.

The Hong Kong administration has downgraded its growth forecast for the next year to between zero and 1 percent from its previous prediction of 2–3 percent.

Figures released yesterday on the Australian economy show that in the last quarter it grew at its slowest pace since the global financial crisis. Gross domestic product grew by only 1.4 percent compared with the same period last year, despite a major boost in exports which saw the country reach its first current account surplus since 1975.

The growth rate in household consumption spending, which makes up 60 percent of the economy, fell to 1.4 percent in the June quarter, down from 1.8 percent for the previous three months.

The domestic economy was largely flat, with the main impetus coming from rising export revenue, much of it due to the increased prices for iron ore exports. Prices have been kept high because of the cuts in exports from the Brazilian company Vale due to a dam collapse in January. But this situation could rapidly reverse as Vale production comes back on line, and demand from Chinese steel mills falls. Iron prices fell by 27 percent in August, the most since October 2011.

There are now clear indications that the US economy is not isolated from these global processes. The US manufacturing sector shrank for the first time in three years last month, with the Institute for Supply Management's (ISM) manufacturing index dropping to 49.1 from 51.2 the previous month. It was the first contraction since August 2016 and the lowest since January 2016.

The chairman of ISM's Manufacturing Business Survey Committee, Tim Fiore, said trade was "the most significant issue" for US company executives as "respondents continued to note supply chain adjustments as a result of moving manufacturing from China."

The American economy has largely been sustained by consumption spending, but how long this can continue is open to question. According to a widely-watched survey conducted by the University of Michigan, consumer sentiment experienced its largest drop in August since 2012.

Around the world, and now including the US, the trade war against China is weighing heavily on economic activity. The most common position in US business circles is broad support for action against China but that this should be taken in concert with other major powers and not unilaterally by the US.

In a series of tweets on Tuesday, US President Trump effectively ruled that out.

"For all of the 'geniuses' out there, many of whom have been in other administrations and 'taken to the cleaners' by China, that want me to get together with the EU [European Union] and others to go after China trade practices remember, the EU & all treat us VERY unfairly on trade also," he tweeted.

Trump's bellicosity towards the EU points to the fact that rather than being wound down, trade war could be significantly expanded in the coming months. As a result of an agreement struck between Trump and European Commission President Jean-Claude Juncker in July 2018, the US and the EU are in negotiations over a trade deal.

But the talks have all but stalled because of US demands that agricultural exports must be included against the EU's insistence they are not up for discussion.

The talks were only agreed to when Trump threatened that car exports from the EU would be subject to the imposition of a 25 percent tariff on "national security" grounds if it did not come to the table. That threat has been held in abeyance until November.

This week, the US envoy to the EU, Gordon Sondland, expressed "cautious optimism" over a deal to avert a full-scale trade war but noted the tariff threat remained.

"Tariffs are still very much a tool in President Trump's tool kit in order to bring about some significant changes in our trade imbalance," he said, adding that "the deadline is still the deadline."



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