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ECONOMIC DATA

Slowing Trade Hits Global Manufacturing

U.S. factory activity contracts for second straight month; WTO warns that slowing world trade could hit investment and jobs

A clothing factory in China's Jiangsu province. Trade has fallen between the U.S. and China, the world's two largest economies.
PHOTO: AGENCE FRANCE-PRESSE/GETTY IMAGES

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U.S. factory activity contracted for the second straight month in September and hit a 10-year low, triggering fresh concerns about the economy and a broad stock-market decline.

The U.S. manufacturing readings were among several data points released Tuesday pointing towards the global impact of the U.S.-China trade war, as trade flows are set to grow this year at the weakest pace since the financial crisis, with rising tariffs and cooling growth.

The Institute for Supply Management reported its manufacturing index fell to 47.8 in September, the lowest level since June 2009, from 49.1 the prior month. Readings below 50 indicate contraction, while those above signify expansion. The August result marked the first drop in three years.

U.S. stock indexes fell after release of the data, with the S&P 500 losing more than 1% in afternoon trading.

"Thank the trade war, which means no improvement is likely anytime soon," Ian Shepherdson, chief economist at Pantheon Macroeconomics, said in a note to clients, referring to the ISM reading, which is based on a survey of U.S. purchasing and supply executives.

A separate survey of U.S. manufacturing activity from data firm IHS Markit showed factory activity increased in September, though the reading also indicated the July-September period marked the worst quarterly performance for the sector since the same period in 2009. IHS Markit said its September manufacturing index rose to 51.1 from 50.3 in August.

Stephen Stanley, chief economist at Amherst Pierpont, said the U.S. economic outlook remained good because consumer spending and the labor market remain relatively strong. "I'd be more concerned if I saw weakness in the sectors that have been strong, rather than an intensification of the weakness in the sectors we already knew were having trouble," Mr. Stanley said.

Surveys of purchasing managers in Europe and Asia released Tuesday pointed to deepening declines in factory activity in September, as a slowdown in exports hit factories.

Slowing economic growth has prompted a wave of central bank stimulus measures around the world, including from the Federal Reserve and the European Central Bank. The latest effort came Tuesday, when the Reserve Bank of Australia cut its key interest rate for the third time this year.

President Trump, however, blamed the Fed for the worsening U.S. factory numbers, saying its interest-rate policies are responsible for the recent appreciation of the U.S. dollar. He has urged the central bank to cut rates more aggressively than it has.

Mr. Trump tweeted Tuesday that the Fed and its chairman, Jerome Powell, have "allowed the Dollar to get so strong, especially relative to ALL other currencies, that our manufacturers are being negatively affected."

Many economists attribute the dollar's strength to the U.S. economy's solid, if cooling, performance relative to other major economies, and the manufacturing sector's woes to the escalating trade disputes.

> "The dollar's strength is hurting our [U.S.] ability to export. It's the number one comment I hear from suppliers, outside of trade issues," said Timothy Fiore, head of the ISM

manufacturing survey committee.

The World Trade Organization, in new forecasts on trade flows, warned Tuesday that slowing trade could hit investment and jobs. “Job creation may be hampered as firms employ fewer workers to produce goods and services for export,” said Roberto Azevêdo, the WTO’s director-general.

The Geneva-based body said it now expects flows of goods across borders to grow by just 1.2% this year, down from 3% in 2018. If the WTO is correct, it would be the lowest annual increase since 2009.

The global trade system has been disrupted by the dispute between the U.S. and China that has resulted in a steady increase in tariffs since early 2018. The U.S. has raised tariffs on a limited range of imports from other countries, meeting with retaliation. Japan and South Korea are also at odds over trade.

Hardwood lumber companies such as Baillie Lumber Co. have been hurt by tariffs the Chinese government has placed on imports from the U.S. The Hamburg, N.Y.-based company has eliminated several dozen jobs as its business in China is down about 40%, dragging down overall revenue by about 20%.

> “Not only has the volume been reduced substantially but it’s caused pricing to drop significantly,” Jeff Meyer, president of Baillie, said last month.

While U.S. manufacturing was down, ISM’s new orders index—one of the measures that contributes to the overall manufacturing index—rose slightly to 47.3 in September from 47.2 in August. New orders for export, however, dropped for the third straight month, underscoring the challenges posed by trade tensions. Newly placed orders for manufactured goods are seen as a proxy for business investment and consumer demand.

William Byrd, chief executive of Pacific Die Casting Corp., said a truck-making customer informed him this week that they were lowering production rates.

Orders from customers have fallen “just a teeny bit” in recent weeks, he said. The Vancouver, Wash.-based metal products maker is still on-track to grow revenue by about 5% this year.

“We are still running overtime and extra days,” Mr. Byrd said, adding that the company has increased its starting wages by $2 to around $15 an hour this year to retain workers.

A separate report from the Commerce Department Tuesday showed U.S. construction spending across the U.S. rose 0.1% in August from the prior month. But construction spending was down in

August from a year earlier, representing the 10th straight month of year-over-year declines—a phenomenon that preceded the last recession.

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What global ramifications do you foresee if the trade war between the U.S. and China continues into 2020? Join the conversation below.

Surveys of purchasing managers in Asia and Europe showed continued weakness in factory activity.

Compiled by IHS Markit, the surveys pointed to declines in activity in South Korea, Japan and Indonesia. A separate survey by the Bank of Japan showed sentiment among the country's large manufacturers deteriorated to the weakest level in more than six years.

In the U.K., which faces the additional challenge of an uncertain departure from the European Union, factory activity fell for the fifth straight month, the longest stretch since the financial crisis.

Across the eurozone, activity was at its weakest since October 2012.

"There's likely worse to come," said Chris Williamson, chief business economist at IHS Markit. "Businesses remain downbeat about the year ahead, with optimism around a seven-year low amid trade war worries, signs of slowing global economic growth and geopolitical concerns, including heightened anxiety over a disruptive Brexit."

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Corrections & Amplifications
William Byrd is the chief executive of Pacific Die Casting Corp. An earlier version of this article misspelled his last name as Bryd.