Economic Chart of the Week

May 1, 2019

One big reason for the sell-off in the U.S. stock market late last year was concern about faltering economic growth overseas. Much of the concern centered on Europe, but various figures also showed a big slowdown in Chinese growth. As this week's chart shows, much of the problem in China reflected weaker demand for the country's exports amid its trade dispute with the United States.

The red line in the chart shows China's official purchasing managers' index (PMI) for manufacturing, which is akin to the ISM Manufacturing Index in the United States. Like its U.S. counterpart, the Chinese PMI is designed so that readings over 50 point to expanding activity. As shown in the chart, China's overall PMI fell significantly from 51.9 in May 2018 to just 49.2 in February. However, the subindex on new export orders fell much faster and farther. By February, it had declined all the way to 45.2, meaning China's export orders were contracting more sharply than at any time in the last ten years. While it's true that Chinese export orders seem to have rebounded strongly in the last couple of months, we wonder how much of that reflects distortions in the seasonal adjustment process or companies trying to game the developing U.S.-China trade deal. In any case, since the main U.S. goal is to rebalance trade between the two countries, we think any completed deal will include provisions making life harder for Chinese exporters. Even if Chinese export orders continue to rebound in the short term, the country may never again enjoy the strong, sustained growth in demand that it did in the past, and countries that supply China's exporters may never again enjoy the strong demand they enjoyed in the past.

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