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US economy starting to move into recession

The US economy has taken another significant step towards recession with economic output contracting for the second quarter in a row, a situation often referred to as a “technical recession.”

When the first quarter results were released, they were generally passed off as having no real significance, the result of a statistical aberration. But the latest data indicate they were the start of a trend.



The Wall St. street sign is framed by the American flags flying outside the New York Stock exchange, Friday, Jan. 14, 2022, in the Financial District. (AP Photo/Mary Altaffer)

The official definition of a recession in the US is determined by the National Bureau of Economic Research (NBER) and it will not make a determination for some time. But whatever it decides, the data for the last two quarters indicate a significant slowdown over the past six months. In the December quarter of 2021, the US economy was growing at an annualised rate of 6.9 percent.

Breaking down the data, there were a number of results which point to the underlying trends. Consumer spending, which accounts for around two thirds of total economic output, grew by only 1 percent for the quarter, down from the 1.8 percent increase in the first. Consumer spending growth is now at its lowest rate since the start of the pandemic.

Real wages are falling, with real disposable income falling by 0.5 percent for the quarter, the fifth straight quarterly fall.

The biggest drag on growth was the drop in business inventories, which cut 2 percent off the headline result. Earlier, Walmart, America's biggest retailer, reported that it was cutting prices in a bid to clear out inventories that had built up because of falling demand. Business investment was also down.

There is a concerted attempt to deny that recession is taking hold. Earlier this week, US Treasury Secretary Janet Yellen said the US economy was not in recession and she would "be amazed" if the NBER declared it was.

One of the bases for such assertions is the low unemployment rate of 3.6 percent. How can there be a recession if the jobless rate is at a 50-year low? This ignores the fact that hirings are starting to be cut back by major corporations and rising unemployment is generally one of the last indicators to emerge if there is a downward trend.

Furthermore, there also seems to be a repeat of the COVID playbook: continually deny reality by pointing to the low unemployment rate and somehow underlying economic conditions will cease to exist.

But a key factor in what is continually referred to as the "tight labour market" is the death of more than one million people—many of them of working age—and the millions who have been impacted by COVID and are unable to work for periods because of immediate

infection, the need of others to drop out of the workforce to take care of family and loved ones, and the growing impact of Long COVID in reducing the labour supply.

Statements aimed at covering up the situation are one thing, but objective reality is another.

Wall Street Journal (WSJ) writer Greg Ip noted that whether a recession is eventually declared, “the message from the latest economic data is just as sobering: The recovery is, effectively, over.”

He pointed out that “key indicators of economic activity have ground to a halt.”

“Total spending by households and businesses didn’t grow in the second quarter after averaging 6 percent annualised growth in the prior six quarters,” he added.

In another article, the WSJ cited remarks by James Knightly of the financial giant ING, who said a downturn was “really only a matter of time” because of the pressure on households from inflation and equity markets in conditions where “the housing downturn [is] really gathering pace now.”

The Biden administration is leading the campaign to deny economic reality just as it is on COVID. At a press conference after the GDP figures were announced, Yellen said economists and most Americans had a definition of recession that included job losses and mass layoffs, private sector activity slowing considerably and “family budgets under immense strain,” and that is “not what we’re seeing right now.”

Family budgets “not under immense strain?” One can only ask what planet Yellen is living on.

President Biden issued a statement shortly after the data were released saying it was no surprise the economy “is slowing down as the Federal Reserve acts to bring down inflation.”

The inducement of a slowdown and recession is the deliberate policy of the Fed, not to bring down inflation—its measures will not reduce the price of food or gas or untangle

global supply chains—but are aimed at suppressing the growing wages movement of the working class.

The objective of the Fed is widely known in ruling economic and political circles, but is kept under wraps, covered over by the mantra of the need to fight inflation, lest its exposure further fuel the mounting anger in the working class.

In an effort to burnish her “left” credentials in sections of the Democratic party, Senator Elizabeth Warren wrote an op-ed piece in the WSJ this week that partially lifted the lid on what is really taking place.

She noted that the aggressive rate hikes by the Fed are largely ineffective against the inflation spike and warned that the interest rate hikes were aimed at “dampening demand.” If the Fed hiked too much or too abruptly, she wrote, “the resulting recession will leave millions of people... with smaller paychecks or no paycheck at all.”

Warren pointed to the remarks of former Democratic treasury secretary Lawrence Summers, who recently told the London School of Economics: “We need five years of unemployment above 5 percent to contain inflation—in other words, we need two years of 7.5 percent unemployment or five years of 6 percent unemployment or one year of 10 percent unemployment.”

But always anxious to ensure that the working class remains corralled within the confines of the Democratic party, Warren praised the actions of the Biden administration and said it recognised that the US had “many tools for fighting inflation that wouldn’t make the economy smaller and Americans poorer.”

Such claims ignore two facts: that the limited measures of the administration will do little or nothing to bring down prices, and that Biden has declared he stands four-square behind the actions of the Fed.

In the US, the world’s biggest economy, the GDP figures were announced just days after the International Monetary Fund revised down its estimate for growth and warned that the global economy was “teetering” on the brink of recession.

In the world's second largest economy, China, growth in the June quarter was only 0.4 percent, narrowly avoiding a contraction, with estimates for growth over the next months being revised down.

The third key driver of the world economy, the euro zone, is on the edge of recession, with warnings of a major downturn by its leading economy, Germany, by the end of the year due to cuts in Russian gas supplies as a result of the US-led war in Ukraine.

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