The 2020 Great Recession 2.0 –Or Worse!

Part I

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The US will lose 2 million jobs just in March (Bloomberg News). US GDP will fall by -24% to -30% in second quarter (Goldman-Sachs & Morgan-Stanley Banks). Jobless rate could rise to 30% (Fed St. Louis Governor, Bullard). Federal Reserve promises $4T more to pre-bailout banks (Marketwatch). Financial markets imploding and credit system on verge of freeze up. Trump and US politicians considering sending people back to work despite higher cost in infections and deaths from the virus!

A month ago, in late February 2019, I was convinced the recession I have been predicting since January 2019 had arrived. Two weeks ago I began writing this would be another 'Great Recession 2.0', as in 2008-09. Now I'm not so convinced of even that. It may be worse, much worse. A bona fide Depression on the scale of the 1930s may be approaching.

US Real Economy Falling Faster Than 2008 or 1932

Just last week Goldman Sachs investment bank was predicting a -14% contraction of the US real economy in the second quarter, April-June 2020. Morgan Stanley followed with its prediction of a -30% drop in US GDP. Goldman has since modified its initial forecast to -24%.

This compares with the worst quarterly decline in 1932, in the depths of the Great Depression of the 1930s, of -13%. The current contraction, in other words, is coming faster and deeper than any on record previously—whether compared to the 2008-09 Great Recession or the 1930s Depression.

As of the close of March 2020, about a third of the US economy is now shutdown. More is about to follow. The US regions most directly and heavily impacted by the coronavirus—Washington State, California and New York—are where business activity has virtually shut down except for emergency services. Other areas, like Illinois, Texas, and Florida are catching up fast.

Given the spreading shutdowns, focused in states of high concentration of economic production, According to current Federal Reserve central bank governors, the unemployment rate will rise as high as 30%, and quickly, according to St. Louis district Federal Reserve governor, Bullard. Predictions are at least 2 million will be unemployed in March alone, just the first month of the crisis. That monthly unemployment rise also exceeds the worst months of the 2008-09 prior Great Recession.

In short, the real economy in the US has fallen into an economic 'coma', as some have accurately called it.

But that economy was already weak and fragile when the virus effect pushed it off a cliff.

Already in late 2019, business investment had been contracting for nine months, the manufacturing sector was in a recession, trade was negatively affected by Trump's 2018-19 trade wars, and household consumption was showing serious signs of weakening. For example, with regard to household consumption, the default rate on credit cards for median families had risen to nearly 9% by late 2019, more than 7 million auto loans had defaulted, and student loan defaults were rising as well (although covered up by clever government re-categorizing of loan defaults). The consumer was not in good shape, in other words, keeping spending afloat largely by credit based spending by the middle classes and by the high end income households' spending based on inflating stock and financial gains (the wealth effect) and Trump's massive tax cuts of 2018-19 flowing to their bottom lines.

Then the virus hit the economy like a baseball bat to the back of the head!

Financial Markets Price Implosion

Financial asset markets began to plummet. Artificially boosted for three years under Trump, US financial markets were fueled by Trump's multi-trillion dollar tax cuts and low interest rates in prior years. That tax and cheap money windfall to business, senior managers and shareholders in turn was redistributed to managers and shareholders in the form of a flood of stock buybacks and dividend payouts. More than $3.4 trillion, in fact, in just the last three years!

The buybacks & dividends were then diverted once again in large part back into stocks and other financial markets once more. The artificial financial asset bubbles grew. But it was all artificial, driven by cheap money and massive tax cut income redistribution to investors, corporations, and the wealthiest 1%.

Under Trump, *from 2017 through 2019, stock buybacks totaled more than $2 trillion.* It went mostly to professional investors and CEOs and senior managers of companies (In tech companies, the amount of the buybacks going to CEOs and senior managers was as high as 70%, as for example occurred in Apple).

Another *$1.4 trillion* was distributed to shareholders in the form of *dividend payouts*. That's a total of more than $3.5 trillion in tax cut and low interest driven income redistributed to the wealthiest households. Most of this massive income windfall was reinvested in financial markets. US stock markets alone under Trump rose by 25%-35% in just three years. And that's just about the amount the same markets have now crashed in just one month under the virus's economic impact!

Crashing stock prices are one key indicator of the onset of a Great Recession, nor a normal one. The same applies to the spread of financial asset collapse to other financial markets.

Already US stocks have contracted by 35%-40%. Oil and commodity futures prices by 40% or more, as the price per barrel of crude has fallen from $70 to the mid-$20s per barrel range. Other industrial commodity prices by 20%-30%. Currencies (aka foreign exchange) worldwide devaluing everywhere, with greatest pressure in India, Asia, and Latin America. Bond markets—corporate and government—have now begun to feel the pressure as well and are beginning to fracture. And bond markets are far more important to the stability of the capitalist economy than are even the stock markets.

As financial asset prices deflate rapidly holders of those assets try to dump them to contain losses. Everyone wants to sell; no one wants to buy. Prices deflate further. Often purchased on margin, by borrowing money to buy more assets during the boom period, 'margin calls' require even more selling—and even more financial asset price collapse. Investors become desperate to raise cash to cover their losses. A 'dash for cash' overwhelms investor, business, and consumer psychology. As losses exceed the ability to raise cash, financial markets begin to implode. And they are now falling line 'ten pins', one after the other.

Pre-Emptive Bank & Investor Bailouts

First stock markets, but in the past month, repo markets where banks loan to each other; then commercial paper markets and money market funds; then municipal bond markets; and residential mortgages; and leverage loans (junk loans); and, behind the scenes and intensifying, high yield (junk) corporate bonds and so-called BBB investment grade corporate bonds.

The latter junk corporate bond + BBB market in the US alone is valued at $6 trillion. Leveraged loans another $1.2 trillion. Muni bonds $4 trillion. Residential mortgages $11 trillion. All in trouble now. Plus Repos, Commercial Paper-money funds, and so on as well.

And let's not forget oil-commodity futures global price deflation, collapsing emerging market economy currencies, and even growing troubles in national government bonds like US Treasuries, Gilts (UK), Bunds (Germany) and others, many of which were already trading in negative rate territory.

In short, the generalized financial markets collapse was a defining characteristic of the 2008-09 financial crisis. And it's returned now with vengeance.

Also returning is the desperate effort by the Federal Reserve (and other central banks worldwide) to stuff the growing black holes in banks, shadow banks, and corporate balance sheets with new liquidity (money injections) in order to try to prevent defaults and bankruptcies. A bank-corporate bailout has already begun—even before the banks fail. It is pre-emptive in 2020, unlike 'after the fact' as in 2008. Banks have not yet crashed and are being bailed out!

The Federal Reserve in one week in mid-March injected $2.2 trillion in the form of $1.5T for the repo market and another $700 billion in Fed direct purchases of mortgage bonds and investor held Treasuries. It followed with unlimited further money to stave off collapse of the commercial paper-money market funds, the muni bonds, mortgage bonds, and reportedly to back up credit card and auto finance companies from their anticipated losses. The Fed also announced it would 'swap' US dollars for foreign currencies of other central banks in order to help their economies. The Fed has committed to $4T more in money injections to banks. And that's in addition to the $2.2T already committed.

In other words, bankers will be bailed out $6.2T, and that's probably just a start. That amount compares, by the way, to approximately $4.5T used to bailout the banks in 2008-09.

What about non-bank companies? They received a ten year Trump tax cut in January 2018 of no less than $4.5 trillion! They were then awarded with more tax loopholes in 2019 equal to $427 billion more. Now the Republican Senate in the US Congress is proposing another $500 billion with virtually no strings attached.

Yet Another Windfall for Non-Bank Corporate America

In contrast, the fiscal spending stimulus for Main St. and middle-working class families totals about $500B in the pending 2020 crisis recovery bill. It includes a one time cash rebate to households of $3,000 but no increase in unemployment benefits thereafter. It's clearly a 30 day emergency package, even though the impact on the US economy from the virus will be for months to come.

The US economy generates $1.7 trillion in spending every month. The $1 trillion fiscal stimulus package coming from Congress will thus replace barely half of the lost spending by the US economy.

Big corporate interests and politicians in Washington DC know the depth of the current economic crisis—financial and real. They're providing for the bankers and investors to the tune of $6.2 trillion, with an open ended checkbook for more if necessary. But they're only providing for a one month bailout of Main St.

Already Trump is tweeting this package will be reviewed in 15 days. He's thinking short term. So too are other politicians. Their media is pushing the theme that 'maybe the economic costs are too high for the cost of the death rate from the virus' that will occur. Politicians like New York governor, Cuomo, are raising the question, signaling the debate now rising within the economic and political elite; they are preparing the public. They are getting ready to trade off human lives for their economy. They are preparing to send people back to work after a month, regardless the health consequences. They fear economic collapse and their loss of incomes more than the virus and its destruction of American lives.

Trump may soon decide to announce "let them go back to work". An echo perhaps of Marie Antoinette's infamous line as her citizens were dying too: "let them eat cake".

In short, we are now about to see that people's lives are expendable, for their profits, income and wealth that are not.

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This article was originally published on the author's blog site, Jack Rasmus.

Check out Dr. Rasmus's predictions since Sept. 2018 on recession and current events on this blog. And concluding chapters from his books, 'Systemic Fragility in the Global Economy' 2016; 'Central Bankers at the End of Their Ropes: Monetary Policy and the Coming Depression' 2017; 'Epic Recession: Prelude to Global Depression' 2010; and the most recent 'The Scourge of Neoliberalism' 2020.. For day by day and hourly commentary, join Dr. Rasmus on twitter at @drjackrasmus, and listen to his weekly radio show commentaries in depth as the crisis unfolds, at http://alternativevisions.podbean.com. Dr. Jack Rasmus is a frequent contributor to Global Research.

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