

Growing Signs of a Global Economic Slump

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The impact of the continuing crisis of the euro zone is spreading outwards through the global economy, bringing signs of a gathering world slump.

In the United States, the announcement that jobs had increased by 163,000 last month was greeted as the sign of an uptick, but the unemployment rate increased from 8.2 to 8.3 percent even as the number of people in the labour force fell by 150,000. In the longer term, even if the economy continues to grow, the rate of expansion will not be sufficient to bring down unemployment levels.

In a recent update on the US economy, the International Monetary Fund said it would grow at a “tepid pace” of around only 2 percent. Already the US is experiencing the worst “recovery” of any period since World War II and, according to the IMF, “the outlook remains difficult.”

The IMF warned that the US faced “negative risks” stemming from a “further deterioration of the euro debt crisis,” which would lower the demand for exports and impact on financial markets. The economy would also be hit by any failure to reach an agreement on raising the US debt ceiling.

The head of the IMF US team, Gian Maria Milesi-Ferretti, said “fiscal consolidation”—cuts in government spending—combined with a fall in household credit would continue to slow the US “recovery” in the near future, and that the “US contribution to global demand will be lower than what we saw before the financial crisis.”

The continued expansion of the Chinese economy played a major role in lifting the world economy out of recession in 2008-2009, but it will not be able to play the same role in the future.

Recent data show that the Chinese economy grew by 7.6 percent for the second quarter, the slowest pace in three years, amid numerous indications that the rate could fall further. One of the key factors in sustaining the Chinese economy after the financial crisis of 2008 was the fiscal stimulus provided by the government—estimated to be more than \$500 billion—and the increased credit provided by the banks. But these policies are not likely to be repeated.

Prior to the financial crisis, the major imbalance in the Chinese economy was its trade surplus. Today the current account surplus is a third of what it was in 2007. However, a new imbalance has emerged, with the economy heavily dependent on investment, which is now running at around 50 percent of gross domestic product, and consumption spending at just 35 percent.

The Chinese economy and Asian economies more broadly are being heavily impacted not only by the slow growth in the US but also by the crisis in Europe. “The problems in Asia that are causing the slowdown come predominantly from outside the region,” Rob Subbaraman, chief economist for Asia at Nomura in Hong Kong, told Reuters. “Europe is bigger than the US as an export market for most Asian countries and it’s a bigger investor in the region.”

Operating on low profit margins, Chinese firms, especially those in manufacturing, are being hard hit by the slowdown in growth. Chinese steel companies have recorded a 96 percent plunge in their profits for the first half of the year, turning the sector into what one industry newspaper described as a “disaster zone.” Zhu Jimin, chairman of the China Iron and Steel Association, said that the weakening demand for steel had been brought on by “a big drop in investments in property and also in railways, cars and ships” in the first half of the year.

The downturn extends throughout manufacturing, with profits at the state-owned enterprises, still a major component of the Chinese economy, falling 11.6 percent in the first six months of the year, the worst showing since the eruption of the global financial crisis in 2008.

The official factory purchasing managers’ index (PMI) fell to 50.1 points in July, down from 50.2 in June, the lowest level in eight months. The figures showed that while factory output had expanded slightly—anything above 50 indicates growth—new orders and exports experienced a decline.

The slump in manufacturing is steepest in Europe, where the Markit Purchasing Managers’ Index dropped to 44 in July, down from 45.1 in June, to reach its lowest level since June 2009. Significantly, the decline is not confined to the debt-ridden countries. Markit chief economist Chris Williamson said the rates of decline for Germany and France were the fastest for more than three years.

Britain has now entered its second recession in four years, with the economy contracting by 0.7 percent in the June quarter, largely due to government spending cuts and the turmoil in the euro zone. The fall in the Markit PMI for the UK to 45.4 in July points to a further decline.

Markit economist Rob Dobson commented: “The domestic market shows no real signs of renewed life, while hopes of exports charting the course to calmer currents were hit by our main trading partner, the euro zone, still being embroiled in its long-running political and debt crises.” Companies have scaled back their operations to the levels reached in March 2009 in the midst of the global financial crisis.

A measure of the overall global situation was provided by the JPMorgan Global Manufacturing PMI. It fell to 48.4 in July from its level of 49.1 in June. JPMorgan said more jobs losses could be on the way. “Recent cost reductions are providing some respite, but this will be of little long-term benefit if underlying demand fails to pick up,” a spokesman for the company warned.

The fall in economic activity to levels not seen since the recession that followed the eruption of the financial crisis in 2008 is significant in itself. But the situation is even more serious given the fact that all the measures aimed at providing economic stimulus since then, including the trillions of dollars handed out to the banks, have failed to provide any lasting solution. In no country do the ruling financial and political elites have any policies capable of bringing about an economic upturn. On the contrary, they are all focused on intensifying

their attacks on the social position of the working class.

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