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U.S. Economy Heads Towards Recession as Its Central Bank Takes Panic Measures to Protect Financial Markets

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Global stock markets have experienced roller-coaster levels of volatility over the last two weeks due to fears that the coronavirus is going to seriously impact the global economy.

On Tuesday the US Federal Reserve panicked and introduced a 0.5% cut in interest rates. The last time it carried out such an emergency measure was in late 2007 which failed to avert the stock market crash of 2008.

This panic measure failed to reassure financial markets with the major Wall Street indexes from the Dow Jones to the S&P recording major falls.

Financial analyst Wolf Richter has observed:

> "By the stock market's reaction today to the Fed's shock-and-awe surprise 50-basis point rate cut – it should have caused stocks to soar, but caused them to plunge nearly 3% instead – it would seem that another such shock-and-awe event signals even more panic inside the Fed, and who knows how the stock market might react when it sees the Fed panicking.''

Over the last 10 days over $4 trillion in value has been wiped from US stock markets.

On the same day as the emergency rate cut the US Federal Reserve injected a record $120 billion into the short term debt market (repo).

Economist Steve St Angelo of the S RS Roco report has commented on the significance of these developments:

> **"Clearly, there is something SERIOUSLY WRONG in the Financial markets for the Fed to being injected $120 billion, the most since it started its Rep operations last September.**
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> I believe investors and the market have no idea just how bad this Global Contagion will be like over the next 2-4 weeks… and longer. As I stated, don't be surprised to see the Dow Jones Index lose 40-50% from its peak over the next month. Traders and Wall Street are going to get destroyed, and there is little they can do about it.''

Over the next few weeks we can expect further emergency measures from the US Federal Reserve and Congress. Media reports suggest that the US Congress is preparing a $9 billion spending package to help offset the impact of the coronavirus on the American economy.

All of these measures smacked of panic. We shouldn't forget that Jerome Powell, the chair of the US Federal reserve bank, keeps insisting that the fundamentals of America's economy are sound and strong. Yet the measures he has introduced remind one strongly of the measures carried out by the Fed late 2007 on the verge of the great financial crisis.

We could add to this tale of woe regarding the world's largest economy.

The latest IHS Markit flash for the U.S. revealed that output had contracted across the American economy during February.

Key findings from the PMI (Purchasing Managers Index) figures reveal that there was a contraction in business activity driven by notable declines in the service sector. New orders for private sector businesses fell for the first time since records were first collected in 2009.

- Flash U.S. Composite Output Index at 49.6 (53.3 in January) which is a 76-month low.
- Flash U.S. Services Business Activity Index at 49.4 (53.4 in January) which is a 76-month low.
- Flash U.S. Manufacturing PMI at 50.8 (51.9 in January) which is a 6-month low.
- Flash U.S. Manufacturing Output Index at 50.6 (52.4 in January) which is a 7-month low.

Commenting on the significance of the flash PMI data, Chris Williamson, Chief Business Economist at IHS Markit, said:

> "With the exception of the government-shutdown of 2013, US business activity contracted for the first time since the global financial crisis in February. Weakness was primarily seen in the service sector, where the first drop in activity for four years was reported, but manufacturing production also ground almost to a halt due to a near-stalling of orders.
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> "Total new orders fell for the first time in over a decade. The deterioration in was in part linked to the coronavirus outbreak, manifesting itself in weakened demand across sectors such as travel and tourism, as well as via falling exports and supply chain disruptions. However, companies also reported increased caution in respect to spending due to worries about a wider economic slowdown and uncertainty ahead of the presidential election later this year.
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> "The survey data are consistent with GDP growth slowing from just above 2% in January to a crawl of just 0.6% in February.''

As Steve St. Angelo has noted the global contagion and its impact are only just beginning. Over the next few weeks and months expect a flurry of emergency measures by central banks and governments across the world as economic data goes from bad to worse.

In 2008 the global economy was saved from a deep depression by the massive stimulus measures carried out by the world's two most powerful nations i.e. the US Federal Reserve spending trillions to bail out banks across the world and the Chinese government spending over $500 billion on a gigantic infrastructure programme that stimulated the global economy.

The combined measures of global central banks since the great recession of 2008 have served to drive global debt to over $250 trillion. This unprecedented level of debt, which can never be repaid, will only be added to by global central banks and governments over the next period.

Creating yet more debt is not going to solve problems of the global economy, which is afflicted by historic levels of wealth inequality, and has seen a gigantic wealth transfer from the 90% to the top 10% of the world's population.

The growing problems of the world's largest economy indicate the current business cycle, which is the longest on record, is rotten ripe for an economic contraction. The next recession is likely to be on a scale that is much worse than that seen during the 2008 crisis. It is likely to drive the American Empire into even more aggressive actions towards its rivals and competitors on the economic and geopolitical stage.

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