

Worst US economic contraction in quarter century

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31 January 2009

More grim figures released by the US Commerce Department yesterday provide further confirmation of the severity of the economic contraction in the US and globally. The US economy shrank at an annualised rate of 3.8 percent in the fourth quarter of 2008—its worst result since 1982. The decline followed a contraction of 0.5 percent in the third quarter—the first successive quarterly GDP declines since 1990-91.

A survey of 79 economists by *Bloomberg.com* had predicted that the result would be worse for the final quarter of 2008 at 5.5 percent. The latest statistics offer little cause for comfort, however. The main factor in the lower-than-expected decline was a sharp rise in inventories—that is, the piling up of unsold goods in warehouses. Without the rise in inventories, the contraction would have been 5.1 percent.

Nigel Gault, chief US economist at IHS Global Insight, told the *New York Times*, "My only explanation is that companies could not cut production fast enough." Other commentators warned that the rise in inventories foreshadowed further production cuts, more job losses and another sharp contraction in the first quarter of 2009. Insight Economics analyst Steven Wood commented in the *Wall Street Journal*, "This suggests that the [first-quarter] GDP will also contract, probably more sharply than it did in [the fourth quarter of 2008]."

President Obama lamely declared that the figures represented "a continuing disaster" for working families and urged Congress to pass his administration's \$819 billion stimulus package. But few economists believe that the measures will have any significant impact. The *Financial Times* noted that federal government efforts to boost the economy were less effective in the final quarter

of 2008 than in the previous one, contributing just 0.4 percentage points of economic growth.

At the local and state level, governments in the US are in severe financial crisis and as a result are cutting jobs and services. Economic consultant Joshua Shapiro explained to the *Financial Times*, "States and localities are busy slashing spending to try to balance budgets that are hemorrhaging red ink, so this will partly offset the federal government's upward impetus."

The avalanche of job losses is continuing. Target announced that it would slash 600 existing jobs and 400 vacant positions, mainly in its hometown of Minneapolis, and close a distribution centre in Little Rock, Arkansas, later this year, with a further loss of 500 jobs. PPG Industries, the world's second largest paint maker, foreshadowed a cut of as many as 4,500 employees, or 10 percent of its workforce.

Analysts were uniformly pessimistic about future prospects. Commenting on the December quarter figures, Mickey Levy, chief economist at Bank of America, said, "It's a severe contraction. No sector of the economy is safe right now." Speaking from the Davos World Economic Forum, Stephen Roach, chairman of Morgan Stanley Asia, told Bloomberg Television that this was "a severe, steep, broadly based recession" and warned there would be "no quick fix."

Virtually every sector of the US economy recorded a sharp decline. Consumer spending, which accounts for two thirds of the economy, fell by 3.5 percent in the final quarter, on top of 3.8 percent in the third quarter—the first time that purchases have declined by more than 3 percent in two consecutive quarters since records began in 1947.

Spending on durable goods such as vehicles, furniture and domestic appliances plunged far faster—by 22.4 percent—the largest fall since 1987. This followed a third quarter fall of 14.8 percent. Purchases of food and clothing dropped by 7.1 percent—the steepest quarterly decline since 1950.

The residential housing sector continued to decline, with investment falling by 23.6 percent in the final quarter on top of a fall of 16 percent in the third quarter. Business spending plummeted by 19.1 percent—the largest drop since the first quarter of 1975. Business investment in structures fell by 1.8 percent, while purchases of computers and software decreased by 27.8 percent.

Sharp falls in US trade figures reflected the rapid contraction of the global economy and declining world trade. US exports fell by 19.7 percent in the final quarter and imports by 15.7 percent. Speaking to the *New York Times*, Josh Bivens, economist at the Economic Policy Institute, described the trade figures as "distressing." "That's been the real key strength to the economy. They were punching above their weight for a couple of years, but they have really collapsed."

The US statistics come on top of the International Monetary Fund (IMF) economic outlook released this week, once again revising global growth forecasts for 2009 downwards. The overall prediction for world growth was just 0.5 percent—far less than the 2.2 percent predicted in November. All the major economies are predicted to contract—the US by 1.6 percent, the Eurozone 2 percent, Japan 2.6 percent and Britain 2.8 percent.

All the signs point to falling world trade in 2009. The IMF forecast a contraction of 2.8 percent for 2009, after an overall rise of 4.1 percent last year. The International Air Transport Association reported this week that international air freight traffic had fallen by 22.6 percent in December compared to a year before. Speaking at Davos, Australian trade minister Simon Crean warned that falling global trade would compound the economic downturn. "If trade is a multiplier in growth, it has the potential to be a multiplier in reverse," he said.

The latest data from Japan, which is heavily dependent on exports, underlined the unravelling of world trade. Factory orders slumped in December at an unprecedented annualised rate of 9.6 percent, surpassing the previous

record—set in November—of 8.5 percent. The IMF prediction of a 2.6 percent contraction in Japan for this year would be the country's worst since World War II.

NEC, Japan's largest personal computer manufacturer, announced this week that it would cut more than 20,000 jobs at home and abroad—the largest layoff in Japan since the economic crisis began to hit last year. Hitachi reversed its previous predictions of a 15 billion yen profit to a loss of 700 billion yen (\$7.78 billion) and indicated that it may slash 7,000 jobs. Other major companies that posted quarterly losses this week included Mizuho Financial Group, Daiwa Securities Group, Nippon Oil and Honda Motor.

The jobless rate in Japan has climbed to 4.4 percent from 3.9 percent. While the figure may appear low by international standards, the official statistics utilise a very strict definition of unemployment. Noriaki Matsuoka, an economist at Daiwa Asset Management, warned, "The jobless rate could rise to around 5 percent, giving us reasons not to expect consumer spending to support the economy."

Economic and Fiscal Policy Minister Kaoru Yosano told the media on Thursday: "We're in a very grave situation. Japan is being hit by a wave of weakening global demand." Junko Nishioka, an economist at RBS Securities Japan, was even blunter in comments to *Bloomberg.com*: "Japan's economy is falling off a cliff. There's really nothing out there to drive growth."

The air of despair and desperation openly expressed in the US, Japan and Europe testifies to the bankruptcy of all those defenders of capitalism who foresaw nothing, urged the public to place its faith in the anarchic workings of the market, and whose only solution to the economic disaster is to attempt to impose the burden on working people through savage cutbacks in jobs and living standards.



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