US stocks plunge on signs of renewed slump

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US stocks plunged Friday after a spate of negative economic reports fueled fears of a sharp slowdown in economic growth. Stock prices were broadly lower in Asia and Europe, mainly in response to signs of renewed recession in the US, but American markets fell more dramatically.

The Dow Jones Industrial Average dropped 261 points (-2.5 percent), the Standard & Poor's 500 index closed with a loss of 31.6 points (-2.9 percent), and the Nasdaq was down 70 points (-3.11 percent). The selloff brought to a crashing halt a weeklong rally that had driven the Dow well above the 10,000 mark.

Friday capped off a week of ominous economic data with a new consumer confidence report from the University of Michigan showing that its consumer sentiment index had fallen from 76 in June to 66.5 in July--the survey's lowest level in eleven months.

This followed a downwardly revised forecast by the Federal Reserve for US economic growth this year combined with an upwardly revised forecast for unemployment, government reports showing a fall in retail sales in June and a rise in business inventories in May, other reports showing declines in factory output, and figures revealing a fall in wholesale prices for the third straight month.

Taken together, these indices point to a dramatic slowdown and the danger of a downward spiral into deflation, with even higher unemployment, a further rise in bankruptcies and a sharp contraction of credit markets.

The grim economic data comes in the midst of what is already a social catastrophe in the US. With nearly half of the 15 million people officially counted as unemployed without work for more than six months, the refusal of the Obama administration and the Democratic leadership in Congress to seriously press for an extension of federal unemployment benefits is depriving millions of any source of income. Some 2.5 million people have already been cut off of benefits since the federal program for extending compensation beyond 26 weeks expired on June 1, and the number will rise to 3 million by the end of this month.

One stark measure of the resulting social disaster is the report this week that the number of homes repossessed by banks through foreclosures hit a record high in the second quarter. US banks seized homes at a rate 38 percent higher than the same period a year earlier, for a record total of 250,000, according to the real estate consulting firm RealtyTrac.

Overall, the number of US properties subject to a foreclosure filing in the first six months of 2010 rose 8 percent from the same period in 2009. RealtyTrac said the figures indicate that banks are likely to repossess more than 1 million properties this year.

This social tragedy is also an economic disaster, since it further weakens the housing market, driving down home prices even further and undercutting new construction. Reports released last week showed a sharp decline in home sales and home building. This week, the Mortgage Bankers Association reported that overall home loan applications decreased nearly 3 percent from a week earlier, even though mortgage rates are the lowest in decades.

In the face of this crisis, President Obama continues to stage public relations events where he touts the supposed success of his economic policies. On Thursday, he made an appearance at a new advanced battery plant in Holland, Michigan, which has been subsidized in part with federal stimulus funds. He once again made no mention of Congress' failure to extend jobless benefits, and repeated his Herbert Hoover-like mantra that "we are headed in the right direction."

Obama boasted that the new plant will eventually employ 300 workers. This, however, will barely make a dent in the jobs crisis in Holland and Michigan as a whole. The city and surrounding region have lost thousands of jobs over the past several years. Holland has an official unemployment rate of 11.8 percent.

The White House PR campaign in response to falling poll numbers and rising popular discontent is an example of pure cynicism. The administration and the Democratic Party leadership have decided, under pressure from the financial and corporate elite, to abandon the minimal stimulus policy they enacted in 2009. Instead, Obama has agreed to review government regulations and other policies opposed by big business as unduly restrictive, and move more quickly to cut the budget deficit by slashing social programs such as Medicare and Social Security.

High unemployment is to be maintained for years to come in order to bludgeon the working class into accepting a drastic decline in wages and living standards, along with intensified speedup. This is the key to Obama's pledge to double US exports in five years.

The president spoke just two days after it was revealed that the Federal Reserve had cut its forecast for US economic growth this year from its previous estimate in April. The US central bank is now predicting growth this year from 3 percent to 3.5 percent, compared to its earlier forecast of 3.2 percent to 3.7 percent. It has also raised its projected jobless rate for the fourth quarter of 2010 to 9.2 percent to 9.5 percent from 9.1 percent to 9.5 percent.

These projections may prove to be unduly optimistic. Tom di Galoma, the US head of fixed-income trading for Guggenheim Partners, said Friday, "The Michigan [consumer sentiment] number this morning was horrendously bad. What is taking place is people are bracing for another economic dip. The numbers we are seeing this morning are actually quite recessionary."

Paul Ashworth at Capital Economics said Thursday of the decline in US factory output, "[Yesterday's] data releases suggest that the industrial recovery is rapidly losing momentum, making deflation an even bigger threat."

The economists Nouriel Roubini and Ian Bremmer, writing in Tuesday's *Financial Times*, presented the following prognosis: "In the US, 1.5 percent growth in the second half of this year and into 2011 will feel like a recession, given a probable further rise in unemployment, larger budget deficits, a further fall in home prices, larger losses by banks on mortgages and loans, and the risk that a protectionist surge will further damage relations with China."