US Federal Reserve reassures markets, offers no help to the unemployed

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The Federal Reserve Board on Tuesday acknowledged the slowdown in US economic growth and moved to reassure the financial markets, while taking no measures to seriously address the worsening jobs crisis.

Concluding a one-day meeting in Washington DC, the central bank's policy-making Federal Open Market Committee (FOMC) announced a largely symbolic decision to use the cash from maturing mortgage debt, mortgage-backed securities and Treasury bills that it holds to purchase new Treasury securities, rather than allowing its $2.3 trillion balance sheet to decline.

The Fed stopped short of resuming outright its purchases of Treasuries and mortgage bonds backed by Fannie Mae and Freddie Mac, a policy that it called "quantitative easing" and which amounted to printing up money to keep the housing market afloat.

The Fed also said it would keep its key short-term lending rate at zero to 0.25 percent, and reiterated its mantra since March of 2009 of maintaining the interest rate at "exceptionally low levels" for "an extended period."

With these actions, the Federal Reserve signaled to Wall Street that it would continue to ensure that major financial firms have access to virtually free credit and would inject additional liquidity into the markets, without taking any radical measures that might significantly reduce unemployment. US corporations, aided by the Obama administration's policies, are reporting sharply higher profits this year on the basis of ruthless cost-cutting, mainly in the form of layoffs, wage cuts and speedup. They are using mass unemployment to force workers to accept these attacks on their working conditions and living standards.

The FOMC statement was fairly blunt, by the standards of such announcements, in painting a gloomy picture of the state of the economy. It began by declaring that since its last meeting in June, it had concluded that "the pace of recovery in output and employment has slowed in recent months." It noted, among other signs of deterioration, "Housing starts remain at a depressed level. Bank lending has continued to contract." It then admitted that the pace of "economic recovery" was "likely to be more modest in the near term than had been anticipated."

In plain words, this means no relief from the worst economic and social crisis since the Great Depression, and the likelihood of a further rise in the jobless rate.

Only some $130 billion in securities held by the Fed, out of a total of about $2 trillion of US securities on its books, will mature over the next year and be reinvested. Such an amount will have little direct impact on the financial markets and even less on production, hiring and consumption. The main purpose of announcing the action is to indicate that the Fed may be prepared to take more drastic action, should the likelihood of a "double dip" recession or descent into deflation increase.

As Paul Ashworth of Capital Economics put it, according to *CNNMoney.com*, the Fed's move was "largely a symbolic gesture, designed to reassure the markets rather than boost the economy."

The FOMC meeting came four days after the Labor Department released a grim report on employment for July, showing a net loss of 131,000 jobs, an anemic increase of 71,000 jobs in the private sector, and an official jobless rate holding steady at 9.5 percent, only because another 181,000 laid-off workers became discouraged and stopped looking for work.

The beginning of the current week has seen a rash of economic reports that underscore the depth of the crisis and the severe slowdown in economic growth over the past several months. On Monday, the Commerce Department reported that personal incomes fell in virtually every major metropolitan area last year. Personal incomes rose in only 5 of 52 metropolitan areas with populations over one million. In most of those that saw income gains, the reason was a high concentration of federal government and military employment. Private sector compensation fell in these regions.

Overall, according to the Commerce Department, private-sector wages in the US fell 6 percent in 2009.

On Tuesday, the Labor Department reported that non-farm worker productivity unexpectedly fell in the second quarter of this year, down by an annualized rate of 0.9 percent. It was the first productivity decline since the end of 2008. Economists had projected a modest rise following a 3.9 percent jump in the first quarter.

The decline may indicate a certain plateau in the ability of employers to squeeze more and more production out of fewer and fewer workers. But data on wages and labor costs included in the Labor Department report showed that the assault on workers' pay and benefits is continuing unabated.

Labor costs rose a mere 0.2 percent, compared with a projected rise of 1.5 percent. It was the first increase in labor costs in a year. Unit labor costs had plunged 3.7 percent in the first quarter of this year.

Hourly pay fell by 0.7 percent from the first to the second quarter. Inflation-adjusted compensation per worker was flat in the second quarter after shrinking by 1.5 percent in the first three months of the year.

Commenting on the productivity report, analysts at Briefing.com wrote, according to AFP, "The data suggest that firms are oversupplied with labor for the amount of output they are creating." The analysts concluded that, at best, employment would hold at its current level.

Barclays analyst Peter Newland suggested that the report was, in general, good news for corporations. "For the time being," he said, "the backdrop remains very supportive of corporate profit growth."

Also on Tuesday, the Commerce Department reported an unexpected decline in wholesale inventories in June of 0.1 percent. Stock rebuilding has declined as businesses have scaled back their expectations for sales. The report also showed a 0.7 percent decline in wholesale sales in June, the steepest such fall in over a year. It was the second consecutive monthly drop in sales at the wholesale level.

FT.com quoted Joshua Shapiro, chief US economist at MFR, as saying about the wholesale inventories report, "Looking ahead, slower growth in output will prompt companies to continue to focus on aggressive approaches to cost-cutting. This will heighten obstacles to a convincing labor market recovery."

Jan Hatzius, chief US economist at Goldman Sachs, predicted Friday that unemployment would hit 10 percent in the second half of 2011.

Also this week, the National Federation of Independent Business reported that small business optimism fell to a four-month low in July as hope of a rapid economic recovery faded.

As the Federal Open Market Committee was meeting, Obama staged a photo op at the White House to tout the impending passage of a $26.1 billion measure providing federal funds to the states—$10 billion for schools and $16.1 billion for Medicaid. Flanked by Education Secretary Arne Duncan and two teachers threatened with being laid off, Obama demagogically presented the bill as a boon to teachers and other public sector workers.

In fact, the bill provides only half of the funds proposed in an earlier version and will not come close to closing yawning budget deficits at the state and local level. The result will be hundreds of thousands of additional layoffs and sweeping cuts in basic social services.

The bill actually cuts $11.9 billion from food stamps by ending a provision in last year's stimulus package that increased the amount of aid given to families to buy groceries. It also rescinds advance refunds of the earned income tax credit, which benefited poor families.