US downwardly revises fourth quarter GDP

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In a further sign of economic weakness, the Commerce Department on Friday downwardly revised its figure for US economic growth in the final three months of 2010. The department reported that the US gross domestic product (GDP) rose by 2.8 percent on an annual basis in the fourth quarter, substantially less than its earlier estimate of 3.2 percent growth.

Economists had predicted that the earlier GDP figure would be upwardly revised to 3.3 percent. All of these growth rates are well below what is needed to significantly lower the current official jobless rate of 9 percent. The same applies to the 2011 rate of 3.4 to 3.9 percent forecast last week by the Federal Reserve Board.

That forecast appears unduly optimistic in light of Friday's dismal fourth quarter report and the likely recessionary impact of skyrocketing oil prices.

The Commerce Department's Bureau of Economic Analysis attributed the slower growth to sharply lower state and local government spending than had been previously estimated, reflecting the effect of sweeping cuts in social spending as state and local governments move to impose the burden of budget deficits on the working class. Commerce had originally reported a drop of 0.9 percent, but revised this to a fall of 2.4 percent.

The other major factor in the downward revision was a smaller rise in consumer spending than previously reported. That component was downwardly revised from a growth rate of 4.4 percent to 4.1 percent.

Major European economies reported even more dismal growth rates for the fourth quarter than the US. Britain on Friday revised its previously reported drop of 0.5 percent to minus 0.6 percent. Germany expanded by only 0.4 percent and France by 0.3 percent.

These figures are all the more ominous under conditions of an oil price panic resulting from the disruption in Libyan supplies and the ongoing wave of social upheavals in North Africa and the Middle East. In the last week crude prices have risen more than 10 percent and breached $100 a barrel. Since February 15, crude oil prices have soared 18 percent.

Experts are predicting that gasoline prices in the US will jump by another 25 to 50 cents over the next several weeks and some are warning that prices at the pump could hit $5 a barrel by this summer's peak driving season. The impact of such a price shock on tens of millions struggling to pay their bills under conditions of mass unemployment and a relentless attack on wages and benefits will be devastating.

The surge in oil prices will, moreover, accelerate the already galloping rise in the price of food and other basic commodities. The inevitable effect will be a further contraction in consumer spending, more bankruptcies and foreclosures, and greater social protest.

The Obama administration has absolutely no policies to provide relief for growing social distress or create jobs for the millions who are clamoring for work. On the contrary, it is committed to intensifying the attacks on social programs, wages and benefits at the federal as well as the state and local levels.

The budget Obama released this month calls for $700 billion in social spending reductions over the next decade and he is currently negotiating with the Republicans to make even deeper cuts. This is meant to be a prelude to an attack on basic entitlement programs such as Medicare and Social Security.

At the same time, the US policy of effectively printing hundreds of billions of dollars as a trade and currency war measure against its international rivals (and a means of supplying US corporations and speculators with virtually free credit) adds further fuel to the commodity price bubble.

On the implications of the oil price surge, David Kotok, chairman and chief investment officer at

Cumberland Advisers, wrote in a note to clients Thursday that “the risk of recession in the US and European economies is rising daily.”

World food prices have already surpassed their 2008 peak, and the US Department of Agriculture on Thursday forecast record farm-gate prices for corn, wheat and soybeans in the crop year that begins with the 2011 harvests. The USDA added that food inflation would surge in the second half of this year as wholesale prices filtered through the supply chain and impacted retail prices.

Several other reports released this week pointed to the lack of any genuine recovery in the basic US economy. The Commerce Department reported Thursday that sales of new homes declined 12.6 percent in January from December. The sharp drop brought the seasonally adjusted rate to 284,000, not far from the record low of 274,000 set last August.

Earlier in the week, the S&P Case/Shiller home price index was released, showing a 1.0 percent decline in home prices in December from the previous month. Case/Shiller also reported that home prices nationally had fallen back nearly to their post-crash low point of early 2009.

In a conference call, Robert Shiller, the Yale University economist who co-founded the index, said there was a “substantial risk” of home prices falling another 10 to 25 percent.

Also on Thursday, the Commerce Department reported that durable goods orders in January other than for aircraft fell 3.6 percent. Because of a sharp increase in the volatile aircraft sector, the overall figure rose 2.7 percent. But a key measure used by economists to gauge business spending on new equipment—non-defense capital goods excluding aircraft—fell 6.9 percent.