Fed downgrades forecast for US economic growth

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The Federal Reserve Board on Wednesday issued a grim report on the state of the US economy following a meeting of its policy-making Federal Open Market Committee (FOMC). The US central bank substantially downgraded its projections for growth of the US gross domestic product and ratcheted up its estimates for unemployment for both 2011 and 2012.

Despite its tacit acknowledgment that the US economy is slowing down, the Fed proposed no new measures to increase hiring or ameliorate the worst jobs crisis since the Great Depression. In the statement, the Fed said it would allow its seven-month program to purchase $600 billion in US Treasury securities to lapse at the end of this month, as previously announced, while keeping the core federal funds interest rate at zero to 0.25 percent "for an extended period."

The Fed lowered its forecast for economic growth for 2011 to between 2.7 and 2.9 percent. At the last meeting of the FOMC in April, the Fed had projected growth for 2011 of between 3.1 and 3.3 percent. For 2012, the central bank forecast growth of between 3.3 and 3.7 percent, compared to its April projection for 2012 of 3.5 to 4.2 percent.

Comparing the top estimate for 2011 with the lower estimate, the Fed downgraded its forecast for this year by a full half percent. For 2012, the difference between the top projection in April and this month's lower estimate is 0.9 percentage points.

Economists believe that a sustained growth rate above 3 percent is necessary to reduce unemployment. As Thursday's *New York Times* summed up the Fed's new projections: "Roughly 25 million Americans were unable to find full-time work in May, and the central bank projects that most of those people will remain unemployed for years to come."

On the jobs front, the Fed raised its prediction for unemployment by the end of this year from its April estimate of 8.4-8.7 percent to 8.6-8.9 percent, barely below the 9.1 official rate for May. The central bank now estimates that by the end of 2012 unemployment in the US will still be between 7.8 and 8.2 percent—a level equal to or higher than the rate when President Obama took office.

Even these dire projections are considered unduly optimistic by most private economists, who predict even slower US growth this year and next. The International Monetary Fund agrees with this view, having recently downgraded its forecast for US economic growth to 2.5 percent for both 2011 and 2012.

In its statement, the Fed's FOMC adopted its typically complacent tone, claiming that the "recovery is continuing at a moderate pace, though somewhat more slowly than the committee had expected." It noted that "recent labor market indicators have been weaker than anticipated," alluding to the disastrous employment report for May, which showed a virtual collapse in job-creation and a rise in the official jobless rate to 9.1 percent, an increase of 0.3 percentage points since March.

The statement went on to attribute the slowdown largely to "factors that are likely to be temporary," citing higher food and energy prices and supply chain disruptions resulting from the Japanese earthquake and tsunami.

However, in a press conference following the release of the statement, Fed Chairman Ben Bernanke acknowledged that longer-term factors were also at work. When a reporter asked why the Fed had downgraded its 2012 forecast if the current slowdown was due to temporary conditions, Bernanke said: "We don't have a precise read on why this slower pace of growth is persisting. Some of the headwinds that have been concerning us, like the weakness in the financial sector, problems in the housing sector, balance sheet and deleveraging issues, may be stronger and more persistent than we thought."

While he said US banks had limited exposure to Greek debt, Bernanke said a "disorderly default" by Greece or another European country would roil financial markets and could have significant consequences for the US economy.

One question from the press reflected the general outlook within the US financial-corporate elite and the political establishment, beginning with the Obama administration. A reporter asked Bernanke for his view of the "current consensus” that “deficit-reduction *is* job-creation.” Bernanke reiterated his demand that the government quickly adopt a sweeping austerity plan to be implemented in the medium- and longer term, while advising against massive cuts in spending in the near-term due to the fragility of the so-called “recovery.”

Bernanke also suggested that the Fed would be open to resuming its purchase of Treasury securities—it has already bought $2.3 trillion in bonds in two rounds of so-called “quantitative easing”—if economic conditions deteriorated further. This policy, which amounts to printing up billions of dollars, is designed to prop up the US stock market and corporate profits at the expense of America’s international competitors. It has already led to a drastic fall in the dollar and higher currency values and inflation in China, India, Brazil, Japan and Europe. It is essentially a trade and currency war measure, since it reduces the price of US exports on the world market while raising the price of foreign imports into the US.

The economic and social reality in the US is far worse than the picture presented by Bernanke and the Fed. There are many signs that the economy is slowing sharply and the real level of unemployment will remain extremely high for many years to come. Last week the Labor Department released a report showing that most US states lost jobs in May, and this week the US Conference of Mayors released a report warning that 46 major US cities face two “lost decades” of job growth.

New data confirms the worsening prognosis. On Thursday, the Labor Department reported that new claims for unemployment benefits rose last week by 9,000 to a seasonally adjusted 429,000. It was the biggest increase in a month. Applications have been above 400,000 for the past 11 weeks.

Economists had forecast the number of claims would fall by 1,000. The Labor Department also revised upward its report for the previous week by 6,000 to 420,000. Economists believe that as long as claims remain above 400,000, the economy is failing to generate a net increase in jobs.

The ongoing collapse of the housing market was reflected in a new report issued Thursday by the Commerce Department showing a 2.1 percent decline in sales of new homes in May. This followed the National Association of Realtors’ report earlier in the week that existing home sales fell 3.8 percent in May to a six-month low.

Sales of new homes have fallen 18 percent in the two years since the recession officially ended. Last year was the worst for new-home sales since records began to be kept 50 years ago.

Also this week, the employment consulting firm Challenger, Gray & Christmas reported that the US financial sector has announced 21 percent more job cuts so far this year than in the same period last year. The company said banks, insurance firms and brokers have outlined plans to slash 11,413 positions through May. It predicted that layoffs at large investment and commercial banks will accelerate through the rest of 2011.

Meanwhile, large-scale layoffs continue to be announced. Last week Lockheed Martin said it will eliminate 1,200 jobs, and this week the country’s biggest newspaper chain, Gannett, announced it will cut 700 jobs at its community newspaper unit.

The US slump is taking place in the context of a global deceleration. Markit Economics announced Thursday that its June survey of purchasing managers at manufacturing and service companies showed private sector activity in the euro zone countries at its slowest rate in more than a year-and-a-half. Of the 17 countries in the currency bloc, only Germany and France registered growth. The other 15 contracted.

On Wednesday, the president of the European Central Bank, Jean-Claude Trichet, warned that as a result of the Greek debt crisis, financial stability signals were “flashing red.” He added that the exposure of banks to the sovereign debt crisis of Greece and other heavily indebted European countries was “the most serious threat to the financial stability of the European Union.”

For all its phony talk of job creation, the Obama administration opposes any form of government hiring to put the unemployed back to work or any serious measures to provide relief. Its actual policy is to keep unemployment high so as to enable the corporations to exploit the jobs crisis to blackmail workers into accepting wage and benefit cuts and higher levels of exploitation.