Sharp fall in consumer spending, manufacturing in US

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Economic data released this week provides further evidence that economic growth in the US has virtually come to a halt. The Commerce Department reported Tuesday that consumer spending fell by 0.2 percent in June, the first monthly decline since September of 2009. Personal income increased a negligible 0.1 percent, the smallest gain since last November, according to the department. Wages and salaries remained unchanged.

These figures followed similarly disastrous data on manufacturing released Monday by the Institute of Supply Management. The institute reported that its US purchasing managers index (PMI) fell in July to its lowest level in two years, while new orders contracted for the first time since 2009.

The data on consumer spending and manufacturing is consistent with the figures released Friday by the Commerce Department on overall economic growth. That report showed second quarter growth of the US gross domestic product (GDP) slowing to a mere 1.3 percent on an annualized basis. The Commerce Department also revised downward its estimate of GDP growth in the first quarter from 1.9 percent to a negligible 0.4 percent.

The data on consumer spending helped fuel the sharpest sell-off of US stocks in a year on Tuesday. The Dow Jones Industrial Average fell 265 points (2.2 percent), dropping the index well below 12,000. The Standard & Poor’s 500 Index declined 32 points, or 2.6 percent. The Nasdaq index fell 75 points (2.8 percent).

The sell-off in the US was even sharper than the fall of global stocks, which shed 2.1 percent as measured by the FTSE All World index. Gold hit an all-time record of over $1,650 per ounce.

Economists are increasingly speaking of the prospect of a return to negative growth of US gross domestic product. Martin Feldstien, the Harvard economist, told *Bloomberg News* Tuesday he saw the odds of a “double-dip” recession to be about 50-50.

Throughout the first half of the year, as weak economic figures poured in, US officials from President Barack Obama to Federal Reserve Chairman Ben Bernanke attributed them to incidental factors such as the Japanese earthquake and tsunami and the spurt in oil prices.

It is no longer possible to deny that the US economy has been slowing dramatically since the first quarter of 2010, when it hit its “post-recession” peak growth rate of 3.9 percent. Since then, it has managed an average quarterly growth of 0.5 percent.

Such growth rates insure that unemployment, rather than declining, will rise further, compounding the social distress being felt by tens of millions of workers in the US. The spending cuts passed by Congress and signed into law by Obama on Tuesday will only exacerbate the downturn.

The Economic Policy Institute, a Washington think tank, said Monday it expects that the agreement on raising the federal debt ceiling, together with other expected budget-cutting measures, will result in the loss of 1.82 million jobs and a reduction of 1.5 percent in the US gross domestic product in 2012.

This means millions more workers will lose their jobs and those already unemployed will be unable to find new employment, even as the social programs on which they depend for survival—such as food stamps and home heating assistance—are slashed.

The expectation that sweeping budget cuts included in the debt ceiling deal will have a recessionary impact on the US economy was a factor in the precipitous drop in stock prices Tuesday. Investors dumped stocks and turned to government bonds, driving down ten-year yields to their lowest level since November 2010.

Economists anticipate that Friday’s Labor Department employment report for July will further document the collapse of the so-called economic recovery. Goldman Sachs predicts that the report will show a net increase in US payrolls of 50,000, significantly less than the 150,000 new jobs needed to lower the unemployment rate.

Other analysts are even more pessimistic. David Kelly of JPMorgan Chase told *Bloomberg News* Tuesday that the current rate of economic growth will likely result in a net decline in US payrolls for July, the first contraction in 9 months.

The US slowdown is part of a global trend. Indices of corporate purchasing activity, released by most countries Monday, showed marked declines from previous rates. The figures for China, India, and the euro zone were near their lowest levels in two years. JPMorgan Chase’s global manufacturing purchasing managers index fell from 52.3 in June to 50.6 in July.

Amid these disastrous figures, mass layoffs have accelerated. HSBC, the British banking group, said Monday it plans to eliminate 30,000 jobs worldwide and sell 195 of its retail banking branches in the United States. Barclays, Goldman Sachs, UBS and Credit Suisse have likewise announced thousands of job cuts in recent weeks.