More data pointing to slowdown in US economy

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Following a dismal report last week on retail sales for November, the first month of the holiday shopping season, manufacturing data released Monday confirmed that the US economy is weakening.

The Institute for Supply Management (ISM) issued its purchasing managers' index (PMI) for November, showing an unexpected contraction in manufacturing to the lowest level in three years (since July 2009). The index fell to 49.5 from 51.7 in October. Any number below 50 indicates a contraction of factory output. Most analysts had predicted a figure well above 51.

The report registered a return to negative growth after two months of tepid expansion. The PMI has been below 50 for four of the last six months. The scale of the decline is indicated by the fact that the ISM's factory index averaged 55.2 in 2011 and 57.3 in 2010.

The fall in manufacturing coincides with slumping consumer spending. On Friday, the Commerce Department reported that consumer spending fell in October for the first time in five months and income growth stalled, with wages and salaries actually dropping 0.2 percent.

Last Thursday, Thomson Reuters reported that four major US retail chains—Kohl's, Target, Macy's and Nordstrom—reported declines in November sales, including the post-Thanksgiving "Black Friday" super-sales events, as compared to November of 2011. Overall, the 16 retailers tracked by Thomson Reuters recorded an overall increase of 1.6 percent, less than half the 3.3 percent jump predicted by analysts.

The statistics on both consumption and production give the lie to the illusion being promoted by the government and the media that economic conditions in the United States are steadily improving, even if the "recovery" is proceeding slowly.

One component of the PMI, the employment index, showed a sharp drop in factory employment. That index come in at 48.4 for November, a decline of 3.7 percentage points and the lowest reading in more than three years (since September 2009).

The Institute for Supply Management's report was consistent with the business survey released last week by the Federal Reserve Board. The Fed's Beige Book report said that seven of the central bank's districts reported "either slowing or outright contraction in manufacturing."

Ironically, a positive report on construction spending issued Monday by the Commerce Department suggests the degree to which the US economy is on life support, dependent on massive injections of cheap credit from the Federal Reserve. Commerce said US builders increased spending on construction projects in October by the biggest amount in five months, led by a surge in housing.

Construction spending rose 1.4 percent in October from the previous month, rising to the highest annual rate in more than three years. Housing construction jumped 3 percent. Even with the gain, however, the level of construction spending remained at about half of what is considered healthy.

The rise in housing construction is largely due to extremely low mortgage interest rates, by historical standards. These, in turn, are the result of the Fed's policy of keeping benchmark interest rates near zero and pumping billions of dollars a month into the financial system through a new round of so-called "quantitative easing"—a euphemism for printing dollars.

The resulting fragile and halting recovery in housing is a major factor keeping the US economy from plunging into a new recession. Meanwhile, the policies of the Fed and the Obama administration, designed to inflate stocks and other financial assets while driving wages ever lower, benefit the financial-corporate elite and the wealthiest social layers at the expense of the working class majority of the population.

The slump in US manufacturing is directly related to the worsening global economic situation, particularly the mounting crisis in Europe, which is impacting US export markets. Along with its measure of employment, the ISM's gauge of export orders for November showed a contraction, the sixth straight month of negative growth.

The data firm Markit released its purchasing managers' index for the 17-nation euro zone Monday, showing that manufacturing activity in the region contracted in November for the ninth consecutive month. Every country using the euro, with the exception of Ireland, showed a decline in factory output. This includes Germany, Europe's largest and most powerful economy.

Last week, the European Union reported that unemployment in the euro zone reached a new record high of 11.7 percent in October. In a statement accompanying its Annual Growth Survey Report, the executive body of the EU, the European Commission, said: "The economic and employment outlook is bleak and has worsened in recent months and is not expected to improve in 2013."