

# Federal Reserve documents stagnant state of US economy

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The US Federal Reserve Board last week released its semiannual Monetary Policy Report to Congress, providing an assessment of the state of the American economy and outlining the central bank's monetary policy going forward. The report, along with Fed Chair Janet Yellen's testimony before both the House of Representatives and the Senate, as well as a speech by Yellen the previous week in Cleveland, present a grim picture of the reality behind the official talk of economic "recovery."

In her prepared remarks to Congress last Wednesday and Thursday, Yellen said, "Looking forward, prospects are favorable for further improvement in the US labor market and the economy more broadly."

She reiterated her assurances that while the Fed would likely begin to raise its benchmark federal funds interest rate later this year from the 0.0 to 0.25 percent level it has maintained since shortly after the 2008 financial crash, it would do so only slowly and gradually, keeping short-term rates well below historically normal levels for an indefinite period.

This was an expected, but nevertheless welcome, signal to the American financial elite, which has enjoyed a spectacular rise in corporate profits, stock values and personal wealth since 2009 thanks to the flood of virtually free money provided by the Fed.

But as Yellen's remarks and the Fed report indicate, the explosion of asset values and wealth accumulation at the very top of the economic ladder has occurred alongside an intractable and continuing slump in the real economy.

In her prepared testimony to the House Financial Services Committee and the Senate Banking Committee, Yellen noted the following features of the performance of the US economy over the first six months of 2015:

- \* A sharp decline in the rate of economic growth as compared to 2014, including an actual contraction in the first quarter of the year.

- \* A substantial slackening (19 percent) in average monthly job-creation, from 260,000 last year to 210,000 thus far in 2015.

- \* Declines in domestic spending and industrial production.

In her July 10 speech to the City Club of Cleveland, Yellen cited an even longer list of negative indices, including:

- \* Growth in real gross domestic product (GDP) since the official beginning of the recovery in June, 2009 has averaged a mere 2.25 percent per year, a full one percentage point less than the average rate over the 25 years preceding what Yellen called the "Great Recession."

- \* While manufacturing employment nationwide has increased by about 850,000 since the end of 2009, there are still almost 1.5 million fewer manufacturing jobs than just before the recession.

- \* Real GDP and industrial production both declined in the first quarter of this year. Industrial production continued to fall in April and May.

- \* Residential construction (despite extremely low mortgage rates by historical standards) has remained "quite soft."

- \* Productivity growth has been "weak," largely because "Business owners and managers... have not substantially increased their capital expenditures," and "Businesses are holding large amounts of cash on their balance sheets."

- \* Reflecting the general stagnation and even slump in the real economy, core inflation rose by only 1.2 percent over the past 12 months.

The Monetary Policy Report issued by the Fed

includes facts that are, if anything, even more alarming, including:

\* “Labor productivity in the business sector is reported to have declined in both the fourth quarter of 2014 and the first quarter of 2015.”

\* “Exports fell markedly in the first quarter, held back by lackluster growth abroad.”

\* “Overall construction activity remains well below its pre-recession levels.”

\* “Since the recession began, the gains in... nominal compensation [workers’ wages and benefits] have fallen well short of their pre-recession averages, and growth of real compensation has fallen short of productivity growth over much of this period.”

\* “Overall business investment has turned down as investment in the energy sector has plunged. Business investment fell at an annual rate of 2 percent in first quarter... Business outlays for structures outside of the energy sector also declined in the first quarter...”

The report incorporates the Fed’s projections for US economic growth, published following the June meeting of the central bank’s policy-setting Federal Open Market Committee. They include a downward revision of the projection for 2015 to 1.8 percent-2.0 percent from the March projection of 2.3 percent to 2.7 percent.

That the US economy continues to stagnate and even contract is indicated by two surveys released last week while Yellen was testifying before Congress. The Fed reported that factory production failed to increase in June for the second straight month and output in the auto sector fell 3.7 percent. The Commerce Department reported that retail sales unexpectedly fell in June, declining by 0.3 percent.

These statistics follow the employment report for June, which showed that the share of the US working-age population either employed or actively looking for work, known as the labor force participation rate, fell to 62.6 percent, its lowest level in 38 years. During the month, some 432,000 people in the US gave up looking for a job.

The disastrous figures on business investment are perhaps the most telling indicators of the underlying crisis of the capitalist system. The Fed report attributes the sharp decline so far this year primarily to the dramatic fall in oil prices and resulting contraction in investment and construction in the energy sector. But

the plunge in oil prices is itself a symptom of a general slowdown in the world economy.

Moreover, a dramatic decline in productive investment is common to all of the major industrialized economies of Europe and North America. In its World Economic Outlook of last April, the International Monetary Fund for the first time since the 2008 financial crisis acknowledged that there was no prospect for an early return to pre-recession levels of economic growth, linking this bleak prognosis to a general and pronounced decline in productive investment.

The American phenomenon of record stock values fueling an ever greater concentration of wealth at the very top of society, while the economy is starved of productive investment, the social infrastructure crumbles, and working class living standards are driven down by entrenched unemployment, wage-cutting and government austerity policies, is part of a broader global process.

The economic crisis in the US and internationally is not simply a conjunctural downturn. It is a systemic crisis of global capitalism, centered in the US. A defining expression of this crisis is the dominance of financial speculation and parasitism, to the point where a narrow international financial aristocracy plunders society’s resources in order to further enrich itself.

While the economy is starved of productive investment, entirely parasitic and socially destructive activities such as stock buybacks, dividend hikes and mergers and acquisitions return to pre-crash levels and head for new heights. US corporations have spent more on stock buybacks so far this year than on factories and equipment.

The intractable nature of this crisis, within the framework of capitalism, is underscored by the IMF’s updated World Economic Outlook, released earlier this month, which projects that 2015 will be the worst year for economic growth since the height of the recession in 2009.



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