

Global recessionary trends intensify

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The World Trade Organisation on Wednesday announced a significant cut in its forecast for global trade growth this year, indicating that the slowdown in the Chinese economy has added to deflationary and recessionary trends in the world economy.

The World Trade Organisation (WTO) predicted trade would expand by 2.8 percent this year, compared to its previous estimate of 3.3 percent and warned that if a slowdown in emerging markets worsens the revised forecasts “could still prove to be overly optimistic.”

The slowdown in China and its impact on commodity prices has led to increased turbulence on share markets, which are close to recording their worst quarter since 2011—a sign that the boost provided by the provision of trillions of dollars of ultra-cheap money by the world’s central banks is beginning to be overwhelmed by deflationary trends.

On Wednesday the commodity-sensitive Australian stock market experienced what was described as a “bloodbath” which cut more than \$50 billion from share values. The market plunge was sparked by a 30 percent fall in the shares of the commodity-trading and mining company Glencore after a note from a London-based analyst said that Glencore’s equity value could be wiped out if metal and minerals prices continued at their current low level.

While Glencore shares have since recovered some of the losses, the market plunge reflects global concerns that the fall in commodity prices to their lowest levels since the global financial crisis of 2008, the worsening slowdown in China and the impact of any US interest rate increase on emerging market debt is evidence of a gathering world slump.

The slide in the Australian market came in the wake of a report from the International Monetary Fund (IMF) that the fall in commodity prices could slice as much as 1 percent of commodity-exporting economies, an indication that Australia, which relies on the Chinese

market, could join the China-dependent Brazilian economy in moving into recession.

Glencore is not the only company to be affected. The *Australian Financial Review* reported that there have been growing concerns over commodity prices in US high-yield bond markets “with investors seeking to offload debts issued by oil and mining companies.” The rating agency Standard & Poor’s has reported that distress levels for high yield bonds in September reached their highest point in almost four years.

In a report published Wednesday, the *Financial Times* said that US and global equity markets were being “rattled by China’s economic slowdown, uncertainty over Federal Reserve policy and growing pessimism about corporate earnings.” Investors were concerned by the prospects for global growth and “questioning the outlook for US companies” as the Fed prepares the raise interest rates for the first time in almost a decade.

In a section of its *Global Financial Stability Report* issued Wednesday, the IMF warned of the consequences of a US interest rate rise on financial markets because low interest rates and “investors’ higher risks appetite in recent years” had been “masking growing underlying fragilities in market liquidity.” Problems in market liquidity emerge when financial investors and speculators all try to bail out of a particular market at the same time and there are no buyers for the assets they are trying to sell.

The IMF said that if investors became wary of a particular asset or financial market, liquidity could rapidly evaporate. “Furthermore, swings in market liquidity in one asset class seem to spill over to other asset classes more frequently, and high-yield and emerging market bonds show some signs of deterioration in market liquidity. As spill-overs between asset classes increase, it becomes more likely for a liquidity shock in one market to spread to other

markets, possibly leading to a shock to the global financial system, as was the case in 2008.”

The head of the global stability division at the IMF, Gaston Geles, said, “central banks and financial supervisors need to be prepared for episodes of liquidity breakdowns.”

The analysis amounts to a damning indictment of the policies of the world’s major central banks over the past seven years, which have been supported by the IMF and other global institutions. Not only have they failed to bring about an economic recovery after the financial meltdown of 2008, but their endless supply of ultra-cheap cash for financial market speculation has prepared the conditions for another collapse, potentially with even more devastating consequences than that of seven years ago.

One of the potential triggers for such a crisis is the flood of money out of emerging markets. In what could be a sign of things to come, the Institute of International Finance, a financial industry association, has reported that investors sold an estimated \$40 billion worth of assets in the September quarter—the largest outflow since the depths of the financial crisis.

But it is not only emerging markets that could be afflicted, as serious as that would be. The slowdown in global growth is starting to impact on US companies, which have amassed some \$7.8 trillion in debt, much of it incurred as a result of financial speculation.

“Years of easy monetary policy that kept borrowing costs low, a wave of mergers and acquisitions and the spectre of shareholder activism [the incessant demands of hedge funds for quick financial-market-based profits] have all contributed to an erosion of balance sheet equity.”

According to the Bank of America Merrill Lynch, earnings before interest, tax, depreciation and amortisation [EBITA] fell 39.3 percent in the second quarter in the biggest decline since at least 2000. US firms have been hit by the decline in commodity prices and the rise in the value of the US dollar which is impacting on the export revenues of major US-based global corporations. But the problems go further.

“It is not just the dollar, it is not just oil any more, it is beginning to be worries about the state of the US economy,” Nicholas Colas, the chief market strategist at ConvergeX, told the *Financial Times* .

Such “worries” are significant because the US has

been considered the “bright spot” in the world economy as the growth in the second largest economy, China, slows down. The third largest, Japan, experienced a contraction in gross domestic product at an annualised rate of 1.2 percent in the second quarter, with the third not expected to be any better as industrial production fell 0.5 percent in August after a similar decline in July.

Speaking to the *Financial Times*, Etsuro Honda, a close economic adviser to Prime Minister Abe, said that while although Japan was not yet in a recession, the economy was in a “static situation” and a supplementary budget to give it a boost was an “urgent task.”

His remarks pointed to fears that the slowdown in China is more serious than has been admitted amid estimates by a number of analysts that the country’s real growth is nowhere the official target of near 7 percent and, in fact, may be as low as 4 percent.

“I’m sure that something serious is happening in China,” Honda said adding that the shift towards services—the official policy of the Chinese leadership—could not explain the rapid fall in imports or the decline in electricity consumption.

However the past seven years have revealed that various rescue operations—the provision of money at near zero interest rates by the major central banks, the so-called three arrows policy of the Abe government and the massive fiscal and financial stimulus packages of the Chinese regime—have failed to overcome the underlying global crisis.



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