Global markets cheer dismal economic figures

Andre Damon
3 November 2015

Stock markets in Europe and the Americas began November with a rally on Monday, following a surge in October that produced the biggest monthly increase in global stock prices in four years. America's NASDAQ 100 index closed Monday at its highest level in a decade-and-a-half.

The Dow Jones Industrial Average rose more than 8 percent in October, the Euro Stoxx 50 climbed by more than 11 percent, Japan's Nikkei was up by more than 5 percent and China's Shanghai index surged nearly 9 percent.

What the markets are currently celebrating is not an improvement in the economic situation, but rather a barrage of negative economic data showing that the world economy remains mired in slump and is slowing further. The divergence between the financial markets and the real economy reflects the immense growth of financial speculation and parasitism, which has accelerated since the 2008 Wall Street crash.

The financial aristocracy sees economic stagnation as a positive incentive for central banks to continue pumping limitless sums of cheap credit into the financial markets, underwriting the inflation of stock and bond prices and subsidizing an orgy of profit-making, adding to the fortunes of the world's billionaires. The other side of this process is relentless austerity and wage-cutting directed against the working class, and an unprecedented growth of social inequality.

The pattern continued Monday, as stocks rose while economic data fell. The Institute for Supply Management said its US manufacturing index fell for the fourth straight month in October, hitting its lowest level in two-and-a-half years, and figures from China showed its manufacturing sector unexpectedly contracting for the third straight month. In Europe, economic growth is insufficient to ward off the danger of deflation.

These are but the latest in a series of economic data points indicating a general slowdown in economic growth, including reports last week that orders for business equipment in the US fell, along with new home sales. The government reported last month that the US gross domestic product rose by only 1.5 percent in the third quarter, down from 3.9 percent in the second.

All over the world, governments and central banks are responding to the persistent malaise in the real economy by cutting interest rates further, ramping up quantitative easing (central bank bond purchases), or, in the case of the US Federal Reserve, delaying long drawn out plans to begin gradually raising interest rates for the first time in nine years.

Nearly six months after the European Central Bank (ECB) began a quantitative easing money-printing operation to the tune of €60 billion a month, European consumer prices were unchanged last month, showing that the central bank had failed to bring inflation anywhere near its target of 2 percent. Economists polled by Reuters were "almost certain" that the ECB would either expand its quantitative easing program or further lower interest rates this year.

Even after having cut interest rates six times over the past year, China's central bank is expected to take further accommodative measures in the coming months.

The Federal Reserve, which delayed its plans to begin raising interest rates at its meetings in September and October, is expected by many economists to put off any move toward normalizing monetary policy until next year.

The markets are also buoyed by record levels of mergers and acquisitions and other parasitic operations such as stock buybacks. The extraordinarily easy monetary policy, combined with immense corporate cash hoards, has fueled a wave of mergers, particularly in the US health care sector.

Health care companies targeted for mergers and acquisitions were among the biggest beneficiaries of Monday’s rally. Dyax Corp. jumped 30 percent after Shire agreed to buy the drug maker for at least $5.9 billion, while Pfizer Inc. climbed 3.5 percent in anticipation of its announcing a takeover of Allergan.

Stock prices for oil producer Chevron soared Monday after the company announced it was cutting 7,000 jobs, bringing total job cuts at large publicly traded energy companies to nearly 113,000 since June 2014.

Internationally, the markets cheered the electoral victory of Turkey’s ruling Justice and Development Party (AKP), following a campaign characterized by widespread attacks on opposition parties and the press. The banks welcomed statements by AKP President Erdogan pointing in the direction of more pervasive authoritarian rule. The Turkish lira surged 4 percent against the dollar, while the country’s main stock index spiked by 5.5 percent.

These developments reflect the further consolidation of control over the world economy by the most parasitic, rapacious and reactionary sections of the capitalist class. They are engaged in a process of plunder, in which resources are diverted from productive investment to finance financial manipulations that boost the fortunes of the rich and the super-rich at the expense of society’s productive forces.

Last April, the International Monetary Fund acknowledged that there was no prospect any time soon of a return to normal rates of economic growth. It pointed to a 25 percent decline in productive investment in the older industrialized countries as the major factor in the ongoing slump. What it did not mention was the role of the new financial aristocracy and financial parasitism in this process.

This reality was summed up Monday in a Bloomberg News write-up of a research note sent to clients of Bank of America, which sought to quantify the impact of central bank policy since 2008 on social inequality. The report began by noting that there have been 606 separate interest rate cuts by world central banks since the collapse of Lehman Brothers in 2008, together with $12.4 trillion in central bank asset purchases.

Citing the unpublished report, Bloomberg wrote, “An investment of $100 in a portfolio of stocks and bonds since the Federal Reserve began quantitative easing would now be worth $205. Over the same time, a wage of $100 has risen to just $114.”

It added, “For every $100 US venture capital and private equity funds raised at the start of 2010, they are now raising $275, but for every $100 of US mortgage credit extended five years ago, just $61 was extended and accepted this June.”

It continued: “For every job created in the US this decade, companies spent $296,000 buying back their stocks, according to the New York-based [Bank of America].”

These are indices of an economic system in mortal crisis. The separation of the process of wealth creation for the ruling elite from the process of material production and the creation of real value reflects a decay and breakdown of the capitalist system at a fundamental level. The financial bubbles being inflated by governments and central banks are not sustainable. They are setting the stage for an even greater financial crisis than the Wall Street meltdown of 2008.

This global crisis of the capitalist system is likewise creating the conditions for a new eruption of the class struggle and a growing working class audience for the program of socialist revolution.