Global stocks plunge amid fears of a new financial crisis

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Stock markets in the US and around the world ended the week with massive selloffs, rocked by fears that the slowdown in China and plunging oil and commodity prices will trigger a new financial crisis on the order of the 2007-2008 disaster.

Another sharp fall on Chinese markets, with the Shanghai Composite Index dropping 3.55 percent, followed by a 6 percent fall in oil prices to $29 a barrel, set off a wave of panic selling. The mood was summed up by the chief strategist at Federated Investors, who said, “Investors are scared to death, and the fact that it’s happening at the beginning of the year has some historical significance.”

A major factor in the Chinese selloff was concern that Beijing will report its weakest full-year growth figure in 25 years on Tuesday.

On Friday, Walmart announced that it will close 269 stores, 154 of them in the US, and eliminate 16,000 jobs. The Walmart statement, coming on the heels of multi-store closure announcements by Macy’s and Sears-Kmart, highlighted the worsening slowdown in the real economy globally and in the US that underlies the turbulence on stock and bond markets. It also reflected the reality of falling wages and mounting income insecurity affecting broad layers of the US population.

Also this week, BP announced 4,000 layoffs, pointing to the increasingly depressed state of the energy sector.

Friday’s selloff, with the EURO STOXX/50 index down 2.37 percent and all of the major US indexes lower by well over 2 percent, caps off the worst-ever yearly opening for Wall Street. The Dow Jones Industrial Average, which lost 391 points on Friday to crash through the 16,000-point level, has fallen by 8.24 percent so far this year. The Standard & Poor’s 500 index has fallen by more than 8 percent and the Nasdaq has lost more than 10 percent.

All three US indexes are officially in correction, having lost more than 10 percent from their recent highs. The Chinese stock indexes are officially in bear market territory, having shed more than 20 percent of their value. In just the first two weeks of the new year, global stock markets have lost $5.7 trillion in value.

The price of oil, a barometer of global economic activity, is down 20 percent so far this year. The first two weeks of 2016 have seen the steepest two-week decline for oil since the 2008 financial crisis.

Going into a three-day weekend, with the markets closed Monday for Martin Luther King, Jr. Day, there will be intensive behind-the-scenes discussions between Treasury and Federal Reserve officials and the major Wall Street banks and hedge funds over the spiraling crisis. The White House on Friday took the unusual step of commenting on market movements in an attempt to reassure investors. White House spokesman Josh Earnest said officials were closely watching market movements and their potential impact on the economy.

Since the financial crash of 2008, the world capitalist economy has been propped up by rapid growth in China and a number of emerging market countries and a huge run-up in stock prices, all of which has been engineered on the basis of an immense growth of debt. The Federal Reserve and the central banks of Europe and Asia have pumped trillions of dollars into the financial markets, fueling a further increase in financial parasitism and speculation. This, combined with ruthless austerity against the working class, has formed the basis for an unprecedented enrichment of the world’s rich and super-rich and a further transfer of wealth from the bottom to the top.

But in the US and the other older industrialized countries, there has been a sharp decline in business investment in the productive forces. Instead, the vast profits of banks and corporations have gone largely to parasitic activities such as stock buybacks, dividend increases and mergers and acquisitions.

Earlier this week, Albert Edwards, a strategist at Societe Generale, told an investment conference in London that global economic developments would "push the US back into recession." Predicting that there will be a new financial crisis "every bit as bad as 2008-2009," he noted, "We have seen massive credit expansion in the US. This is not for real economic activity; it is borrowing to finance share buybacks."

Now, with China slowing rapidly, Brazil and Russia in deep recessions, and the other emerging market economies sinking under the impact of falling commodity prices and rising debt, the inherently unstable financial house of cards is beginning to collapse.

A measure of the growth of speculation is the fact that since 2009, the US junk bond market has increased by some 80 percent, to $1.3 trillion. The market for energy junk bonds has increased even faster, up 180 percent to more than $200 billion. In recent weeks, as oil and other commodities have continued to fall and China has continued to slow, the junk bond market has shown signs of imploding, with prices dropping sharply and a number of energy junk bond mutual funds collapsing.

Larry Fink, the CEO of Blackrock, the world's biggest private investment fund, told the US cable channel CNBC Friday that the market crisis was likely to worsen. "I actually believe there's not enough blood in the streets," he said, adding that "you're going to start seeing more layoffs in the middle part of the first quarter, definitely the second quarter…"

A battery of economic data released Friday indicated that the US economy is sharply decelerating. The Federal Reserve reported that industrial production fell 0.4 percent in December, primarily as a result of cutbacks in utilities and mining output, after declining 0.9 percent in November. Industrial production fell at an annual rate of 3.4 percent in the fourth quarter of 2015.

Last week, the Institute for Supply Management released its manufacturing index, showing a decline to 48.2 in December, the lowest reading since December 2009. Any number below 50 signals a contraction.

The New York Fed this week released its Empire State Manufacturing Survey index, showing a decline to minus 19.37 in January from minus 6.21 in December. "Business activity declined for New York manufacturing firms more sharply than at any time since the 2007-2009 recession, according to the January 2016 survey," the New York Fed said.

These reports confirm the existence of an industrial recession in the US. And this week, Michael Ward, chief executive of the CSX railway, said in a television interview that the country was in the grips of a "freight recession," with coal and other commodity shipments falling precipitously.

The Commerce Department reported on Friday that US retail sales fell 0.1 percent in December from the previous month. For all of 2015, retail sales rose just 2.1 percent, the weakest reading since 2009, after advancing 3.9 percent in 2014. The National Retail Federation separately estimated that holiday sales rose just 3 percent from the previous year, far below its projection of 3.7 percent growth.

The Commerce Department also reported that business inventories fell 0.2 percent in November, the biggest drop since September 2011.

The Labor Department released its Producer Price Index, showing a decline of 0.2 percent last month. Pointing to deflationary forces in the US economy, producer prices fell 1.0 percent in 2015, the weakest figure since the series began in 2010.

As a result of the weak data on the US economy, JPMorgan Chase cut its fourth quarter 2015 estimate for growth of the gross domestic product from a 1.0 percent annual rate to a mere 0.1 percent pace. Barclays trimmed its forecast by four-tenths of a percentage point to a 0.3 percent rate.

The sharp intensification of the economic crisis will further inflame geopolitical tensions and the drive of the US and other imperialist powers to war. At the same time, it will stoke internal social tensions that are already driving the working class into struggle in the US and internationally against austerity and social inequality.

The emergence of a major economic crisis takes place against the backdrop of a critical presidential election in the US, which has already revealed the growing alienation of the working population from the entire political system and the further lurch of the two big-business parties to the right.