

As growth prospects fall, US markets hit record high

Nick Beams
16 August 2016

All three US stock market indexes closed at record highs yesterday, in the second time this has happened since the height of the tech and dot-com bubble in 1999.

The S&P 500 rose 0.3 percent to close at 2,190, the Dow Jones index ended up by 0.3 percent at 18,635 and the Nasdaq Composite was up by 0.6 percent to reach 5,263.

The immediate reasons for the rise appear to have been firming oil prices and the continuing fall in the yield from bonds that have made investment in equities more attractive.

Given the fact that the last time triple highs were reached was on the eve of the bursting of the tech bubble, there were some comparisons drawn with the events of seventeen years ago. But the preponderance of the commentary was to the effect was that there was no similarity between the two events. This was despite comments from a number of market analysts that the market is heading for a major downturn.

The Thailand-based Swiss investor Marc Faber had said that the market is due for a 50 percent correction, following warnings earlier this year from Albert Edwards, a strategist at the financial firm Société Générale, that equities could lose as much as 75 percent of their value. US investor Carl Icahn has warned that stocks are 80 percent overvalued.

These forecasts have been dismissed on the grounds that the price earnings ratios of the major share indexes are significantly below where they were in 1999 and consequently the market is not characterised by the “irrational exuberance” marking that earlier period.

Comments by David Tippin and Ron Meisels published in a Barron’s blog were typical of such assessments.

It was time to declare “long live the bull market,”

they wrote. “This has so far been an extraordinary year for a long-in-the-tooth bull market, and there are further all-time highs ahead.” Vulnerability to a significant correction would increase in the September/October period but the bull market would continue into 2017.

Fuelled by the expectation that central banks around the world will continue to pump out more money into the financial system and that the US Fed is unlikely to increase interest rates in the immediate period, the market may continue to rise.

But the claim that there is no market irrationality is undermined by an examination of the underlying trends in the real economy, as opposed to the financial system.

The US economy is marked by slowing growth, expanding at an annual rate of only 1 percent in the first six months of the year, amid declining investment and lower productivity—both conditions that are expected to continue. The two phenomena are interconnected because the lack of profitable opportunities in the real economy has resulted in an explosion of financial parasitism.

In a recent blog post, former Fed chairman Ben Bernanke noted that members of the Federal Open Market Committee, which decides on the bank’s base interest rate, had significantly reduced their estimates on a number of key economic variables, pointing to lower long-term growth in the US economy.

He noted that over the past four years estimates of the annual potential growth of the US economy had declined by 0.5 percentage points. The evidence suggested that this was not due to inadequate monetary or fiscal policy support but reflected “constraints on the supply side of the US economy.”

The recent decline in productivity growth, and thus potential output, he wrote, had been “both large and mostly unexpected.” In 2009, at the end of the

recession, “leading scholars were predicting productivity growth in the coming years of about 2 percent per annum. In fact growth has recently been closer to half a percent per year.”

These projections were based on the assumption that, even though the financial crisis and recession were particularly severe, there would be a strong rebound in the “recovery” phase. In fact, it has turned out to be the weakest in the post-war period.

Bernanke noted that it had “not been lost on Fed policymakers that the world looks significantly different in some ways than they thought just a few years ago, and that the degree of uncertainty about how the economy and policy will evolve may now be unusually high.”

In other words, those in charge of the US economy have no real idea about the forces that have confounded their expectations, much less what to do about countering them.

The worsening growth outlook for the US economy is compounded by international trends, which all point in the same direction.

Data on the Japanese economy, the world’s third largest after the US and China, show that gross domestic product grew at an annualised rate of only 0.2 percent in the second quarter, well below forecasts of 0.7 percent growth, following a growth rate of 2 percent in the first quarter.

The *Financial Times* reported: “The weak data suggest a combination of monetary and fiscal stimulus under the prime minister’s Abenomics program since the end of 2012 has not been sufficient to boost domestic demand.”

Corporate profits have fallen sharply as a result of the rise in the value of the yen and little or no wage growth has meant consumption spending has remained flat.

According to Yoshiki Shinke, the chief economist at the Dai-ichi Life Research Institute: “There is little expectation for consumption, capital export and exports to grow going forward so it looks like the economy will remain at a standstill for the rest of the year.”

Similar results are also expected for Germany, the major economy in the European Union, when GDP data are released on Friday. CNBC reported that economists polled by Reuters said they expected growth to be only 0.2 percent for the second quarter compared to 0.7 percent in the first.

According to CNBC: “Experts said the export-driven economy is struggling to sustain momentum in an uncertain global environment that encompasses unsteady emerging economies and the uncertainty surrounding Brexit.”

Carl Weinberg, the chief economist at High Frequency Economics, told the business news channel: “No matter how you look at it, the economy is slowing. The economic trend is clear. It is not pretty.”

He pointed to retail sales, industrial production and export data as the chief factors leading to lower growth and noted that “all the risks are to the downside.”



To contact the WSWS and the Socialist Equality Party visit:

wsws.org/contact