US jobs numbers highlight global growth concerns

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The surprise fall in US employment growth in February sent a chill through economic and financial circles, with the Dow falling by more than 200 points at one stage on Friday, because of what it could portend for the US economy amid a marked slowdown in the rest of the world.

Only 20,000 jobs were added to US non-farm payrolls last month, the lowest level in 17 months, well below economists' estimates of an increase of 180,000. There was a large increase of 311,000 jobs in January and last month's virtual halt may be something of a statistical blip, but it has been taken as a worrying sign.

Sameer Samana, senior global market strategist at Wells Fargo Investment Institute, commented: "If the weakness continues next month and there's no revision to this month, it's a meaningful deceleration in the outlook for the labour market. Given what happened in the fourth quarter, it could be that companies now are at this point at least deciding to really curtail hiring."

The fall in American jobs growth came amid signs of a rapidly slowing global economy. Last week the 36-member Organisation for Economic Cooperation and Development (OECD) cut its growth forecast for advanced economies in 2019 from 1.8 percent to 1 percent, with Europe taking the brunt of the downward revision. The growth forecast for the UK was cut from 1.4 percent to 0.8 percent, while that for Germany was reduced from 1.6 percent to 0.7 percent.

"The global expansion continues to lose momentum," the OECD said in a statement. "Growth outcomes could be weaker still if downside risks materialise or interact."

Among those risks are the failure of the British government to reach a deal with the European Union on Brexit, which could bring a recession and "sizeable negative spillovers" to other countries. China was another cause for concern. A sharp slowdown there would have "significant adverse consequences for global growth and trade."

The Chinese government has lowered its forecast for growth in 2019 to between 6 percent and 6.5 percent—the lowest level in three decades—amid signs that exports are starting to slow. Raw data showed that exports for February dropped by 20.7 percent. Much of this was due to seasonal factors—the impact of the Lunar New Year—but even after these were taken into account the fall was a significant 5 percent.

There are signs of further weakness in China's export markets with manufacturing purchasing managers' indexes for both the euro area and Japan signalling a contraction in February, the first time that has happened in both regions since early 2013.

Tommy Xie, an economist at Oversea-Banking Corp in Singapore, told Bloomberg: "China is set to have a difficult time on trade, because on the US front there is the trade war, and on the EU front the economy is really weakening." He said the 5 percent fall in exports "reflected the impact of the trade war and also a slowing global economy."

The slowdown in the euro zone is most marked in Germany where factory orders unexpectedly fell in January by 2.6 percent, contrary to forecasts they would increase by 0.5 percent. The decline was caused mainly by weak demand for investment goods, particularly from outside the euro area, with domestic orders also in decline.

The German economy only barely avoided a recession in the last two quarters of 2018. The sharp contraction in growth across the euro zone resulted in the European Central Bank last week reversing its previous policy of a wind down in quantitative easing (QE) by offering cheaper money to European banks.

The decision came in the wake of the decision by the US Federal Reserve in early January to put the interest rate rises planned for 2019 on indefinite hold and ease the wind down of its asset holdings. The decision came in response to the sharp falls on Wall Street in December when stock markets had their worst result for that month since 1931 in the midst of the Great Depression.

The US market has since risen on the back of the Fed's decision and the claims by President Trump and members of his administration that they are optimistic over the prospect of a trade deal with China. However, there are a number of warning signs about the underlying course of the US economy.

Last Friday, the Dow Jones Transportation Average fell for the eleventh consecutive session, its longest losing streak in 47 years. Because transport forms an integral component of the real economy, rather than the financial system, the transport index is regarded as an indicator of broad economic trends.

The Fed's recent decision could be followed by other moves to try to boost US markets and the economy.

Bloomberg reported over the weekend that bond-fund managers had started to "whisper about the prospect of more Federal Reserve quantitative easing [through the purchase of bonds] in order to fight the next US downturn, underscoring just how acute concerns over flagging global growth have become less than three months after the central bank last raised interest rates."

It cited recent remarks by San Francisco Fed President Mary Daly that, faced with another slowdown, the central bank may use asset purchases "more readily" and not just as a last-ditch measure. The prospect of further QE arises because, with interest rates being held at a range between 2.25 and 2.5 percent, the Fed has little room to manoeuvre to combat a downturn.

The longer-term structural changes in the US and global economy, which have led to the use of QE, were the subject of a Brookings Institution paper co-authored by former US Treasury Secretary Lawrence Summers last week.

It said that "real neutral interest rates" that neither stimulate nor suppress the economy may have declined by at least 300 basis points, or three percentage points, over the last generation.

"Our findings support the idea that, absent offsetting policies, mature industrial economies are prone to secular stagnation. This raises profound questions about stabilization policy going forward."

There would need to be a wider tolerance of budget deficits and "unconventional monetary policies" to promote investment and maintain full employment.

In essence, this is an acknowledgement that the mechanisms through which the post-war capitalist economy in the US and internationally was stabilised have broken down. Consequently, the pumping of ultra-cheap money into the financial system, fuelling speculation and parasitism, together with ever-widening social inequality, is not a temporary measure but must be made permanent.