Amid auto layoffs and warnings of manufacturing "bloodbath"

IMF chief points to global growth deceleration

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The managing director of the International Monetary Fund, Christine Largarde, warned on Tuesday that the prospects for the global economy were "precarious."

In a speech delivered ahead of the IMF's annual spring meeting next week, where it will issue its world economic outlook, Lagarde indicated that the forecast for global growth, already downgraded in January, would be further lowered because the world economy had "lost further momentum" and slid into a "synchronised deceleration."

"Only two years ago, 75 percent of the global economy experienced an upswing," she said. "For this year, we expected 70 percent of the global economy to experience a slowdown in growth."

She added that while the IMF did not expect a recession in the "near term," the global economy was "unsettled" and in a "delicate moment," and that any upturn in growth would be "precarious."

Her remarks underscored the extent to which the global economy and financial markets have become ever more dependent on the inflow of ultra-cheap money from the world's central banks, which have started to reverse their return to a more "normal" policy.

The US Federal Reserve has made clear it does not expect to raise interest rates this year, after indicating at least two rises for 2019 as recently as last December, and the European Central Bank announced some limited monetary stimulus at its most recent meeting.

Lagarde warned that "should there be a sharper-than-expected tightening of financial conditions, it could create serious challenges for many governments and companies in terms of refinancing and debt service, which could amplify exchange-rate movements and financial market corrections."

The low interest rate regime of the past decade, which the central banks have been incapable of ending, had created problems in meeting any significant downturn or recession.

"The reality is that many economies are not resilient enough. High public debt and low interest rates have left limited room to act when the next downturn comes, which inevitably it will," Lagarde said.

The latest report from the World Trade Organisation also points to a significant slowdown in global growth, reflected in its predictions for trade.

Releasing the forecast on Tuesday, the director-general of the WTO, Roberto Azevêdo, said that in 2017 trade growth stood at 4.6 percent. "At that point we were somewhat optimistic there was renewed dynamism and momentum in global trade. Since then, leading indicators have shown momentum weakening—particularly towards the end of last year."

Trade had "underperformed" last year, with growth of 3 per cent, and "we expected even more modest growth in 2019, at just 2.6 percent."

Azevêdo said there were a number of elements involved, but "rising trade tensions" were the major factor. "Trade simply cannot play its full role in driving GDP growth when levels of uncertainty are so high. Greater uncertainty means lower investment and consumption. Investment, in particular, has a pronounced impact on trade."

The slowing of the world economy is most pronounced in Europe, where manufacturing indexes, regarded as a reliable indicator of the state of the economy as a whole, dropped sharply in March. A widely followed purchasing managers' index for the euro zone fell to 47.5 for March, down from 49.3 in February, with a level below 50 indicating a contraction. It was the biggest drop in nearly six years.

The most significant downturn is in Germany, the

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biggest economy in the euro zone, where the purchasing managers' index for March dropped to its lowest point in seven years.

The *Wall Street Journal* reported that Germany's Mechanical Engineering Industry Association halved its forecast for growth this year to 1 percent, pointing to the trade conflict between the US and China as the reason. The *Journal* cited the head of an Italian auto supplier, who warned of a "bloodbath for manufacturers in Europe this year."

The bloodbath has in fact already begun. Mass layoffs are underway at European and US auto plants, indicating that the ruling classes intend to impose the full burden of the downturn in the global economy on the backs of the working class.

The official position in the US is that growth is on track to record levels of between two and three percent. But movements in financial markets are pointing to a significant downturn, if not recession. One of the most significant is the "inversion" of the yield curve, where the interest rate on long-term Treasury bonds falls below the rates on short-term debt. This is regarded as an indicator of recession, as investors seek a safe haven, putting their money in long-term bonds, driving up the price and lowering the yield.

Another indication is the call last week by White House National Economic Council Director Larry Kudlow for the Fed to cut its interest rate by 0.5 percentage points.

The Fed responded to the financial market turbulence last December by shelving its planned interest rate rises for this year and winding up its planned reduction of the financial assets it purchased during quantitative easing, leaving the Fed holding $3.5 trillion worth of bonds compared to about $800 billion before the 2008 financial crisis.

But the Trump administration views these actions as insufficient. In calling for the rate cut, Kudlow said it had to be undertaken as a "precaution."

"I don't want any threats to the recovery," he said. "I'm aware of the inversion of the yield curve and I'm aware of the rest of the world's weak economy."

It speaks volumes about the underlying situation in the US and global economy that the present Fed rate of between 2.25 percent and 2.5 percent—one of the lowest levels in history—is regarded as a threat to growth. This is indicative of the extent to which the entire economy has become dependent on the inflow of cheap money.

This money has not been used to finance an expansion in production. Rather, it has been deployed in the very kinds of financial speculation and parasitism that led to the financial crisis more than a decade ago, creating the conditions for another meltdown.

Evidence of such speculation was revealed in an interview with the *Financial Times* this week with Jonathon Levine, co-managing partner of Bain Capital, a global private equity group involved in takeovers. Bain said that "increasingly aggressive" projected benefits from mergers and acquisitions were masking the real scale of borrowing and heightening the risk of a crash in this sector.

Bain indicated that "people were using complex jargon to exaggerate cost savings" for companies involved in mergers, "leading to soaring debt levels based on over-inflated projections."

As the layoffs already taking place make clear, the outcome of this parasitic, and in some cases criminal, activity will be intensified attacks on the jobs and social conditions of the working class.

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