

Amid significant fall in investment

US economy slows in second quarter

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US economic growth slowed in the second quarter of the year, largely as a result of falling investment, amid a slowing global economy and rising trade tensions.

Gross domestic product (GDP) grew at an annual rate of 2.1 percent compared to an expansion of 3.1 percent in the first quarter, with business investment falling for the first time since 2016.

Non-residential fixed investment, which reflects spending on things ranging from software and research to equipment and structures, fell by 0.6 percent, compared with a rise of 4.4 percent in the first quarter.

Data released earlier this month by the US Federal Reserve show that this trend is likely to continue in the coming months. Industrial production declined by 1.9 percent in the first quarter and by 1.2 percent in the second.

Other drags on growth were a fall in exports, down at a rate of 5.2 percent, a decline in residential investment at an annual rate of 1.5 percent—the sixth negative quarter in a row—and a draw-down in inventories, which cut 0.85 percentage points from the overall result.

The data on investment and industrial production show that the pro-corporate tax cuts carried out by the administration at the end of 2017 have failed to produce the resurgence forecast by Trump. They have simply provided more money for corporate stock buy-backs and other forms of financial speculation.

Trump wants still more money to be made available to Wall Street, maintaining his demand that the Fed make significant cuts in interest rates. The issuing of the GDP data saw another push in that direction, with Trump tweeting that the second quarter result was “not bad considering we have the very heavy weight of the Federal Reserve anchor wrapped around our neck.”

In another indication of a slowing US economy, the

growth figure for 2018 was revised down from 3 percent, which the Commerce Department had previously reported, to 2.5 percent.

Attention will now focus on next week’s meeting of the Fed’s Open Market Committee, which is expected to announce a cut in its base interest rate of 0.25 percentage points. But it is doubtful whether that will be enough to satisfy Trump’s demands that still more cheap money be made available to the financial oligarchy.

There are also indications that the administration is, on top of its trade war measures, considering intervening in currency markets to try to push down the value of the dollar. Bloomberg has reported that a meeting held in the White House on Tuesday between Trump and his economic team, called mainly to discuss trade, also raised this prospect.

Speaking to the business channel CNBC yesterday, White House economic adviser Larry Kudlow said the administration had “ruled out any currency intervention.” But several hours later in a White House briefing of reporters, Trump left that option open.

“I didn’t say I’m not going to do something” on the dollar,” he said. “The dollar is very strong... it’s a beautiful thing in one way, but it makes it harder to compete.”

Trump has attacked the European Central Bank for lowering the value of the euro—a charge strenuously denied by ECB President Mario Draghi—in order to improve the position of the euro zone in the struggle for global markets. Earlier this month he tweeted that Europe and China were engaged in a “big currency manipulation game,” which he called for the US to match or “continue being the dummies.”

According to the Bloomberg report, White House trade adviser Peter Navarro, a well-known anti-China

hawk who has also issued strident denunciations of what he says is an undervalued euro, was one of those advocating currency market intervention. This was opposed by Kudlow and Treasury Secretary Steven Mnuchin. However, according to one source, Trump has yet to make a firm decision not to intervene.

Any moves in this direction threaten to set off a global currency war on top of the trade war that is starting to significantly impact global growth because of the uncertainty it creates for business investment decisions.

The impact of the trade conflict along with rising geopolitical tensions, including the prospect of a no-deal Brexit, was highlighted at Thursday's press conference held by Draghi, at which he reported on the state of the European economy.

While pointing to relatively strong consumer demand, he said the manufacturing industry was getting "worse and worse." One of the key factors in the strengthening of recessionary trends, above all in the Germany, the key euro zone economy, is the sharp fall in exports.

The worsening situation in manufacturing on a global scale is highlighted by the major "restructuring" of the auto industry, where tens of thousands of jobs are being axed. This week the Japan-based producer Nissan announced it was slashing 12,500 jobs, 10 percent of its workforce. The cuts are part of what has become an increasingly desperate struggle by auto companies for market share as international sales contract and the companies try to position themselves in the development of new technologies.

The job destruction in the auto industry is only one of the more significant expressions of growing downward trends in the world economy.

China has announced its lowest annual growth rate in 30 years; the International Monetary Fund has cut its forecast for global growth to the lowest level since the financial crisis; the euro zone economy is facing mounting problems—business confidence in Germany has been described as being in "free fall" and the British economy, already experiencing low growth, is bracing for the shock of a hard, no-deal, Brexit.

The situation is no better in medium-sized economies such as Australia, where the central bank has cut its interest rate to just 1 percent, far below the level it reached during the global crisis, forecasting more to come in what is becoming an increasingly desperate

effort to provide economic stimulus.

Viewed within a longer time frame, these developments indicate that the upturn in the world economy in 2017 was not a turning of the corner, but merely a fluctuation in the development of the historic crisis that opened up with the financial crash of 2008.

The US GDP data indicate that these global trends are impacting the American economy. In the past, such developments might well have resulted in calls for coordinated efforts to spark an economic revival. In the present conditions, they will fuel even greater conflict.



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