US records lowest growth rate in pandemic "recovery"

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The latest data from the US Commerce Department, showing gross domestic product grew at an annual rate of only 2 percent in the third quarter, down from 6.7 percent over the previous three months, is part of a global trend.

The US slowdown comes in the wake of lower growth in China, where third quarter growth fell to 4.9 percent year on year—an increase of only 0.2 percent on the previous three months—and the announcement earlier this week by the German government that it was cutting its forecast for growth this year from 3.5 percent to 2.6 percent.

This means that the world's first, second and fourth largest economies respectively have all reported lower growth this month.

The situation is no better in the world's third largest where the Bank of Japan this week revised down its growth estimate for the year to March 2022 from 3.8 percent to 3.4 percent. Over the longer term it said potential economic growth was "around zero or slightly positive."

The US growth figure of 2 percent in seasonally adjusted terms was the lowest since the recovery from the pandemic recession and was well below economists' forecasts of a 2.7 percent increase.

The main factor in the decline was the fall in consumer spending which rose at an annual rate of just 1.6 percent for the quarter compared to an increase of 12 percent in the second. Behind this was a 9.6 percent decline in consumer goods purchases which has been attributed to supply chain problems.

New vehicle sales fell by an annual rate of 68.1 percent, furniture sales dropped by 15.4 percent and sales of household appliances were down 17.7 percent. Services spending rose at an annual rate of 7.9 percent compared to an annual increase of 11.5 percent in the previous quarter.

Business spending on capital equipment also showed a decline. It fell at an annual rate of 3.2 percent in the September quarter, largely because of reductions in spending on technical equipment and transportation.

As the US economy shows signs of slowing, inflation continues to rise. The consumer price index rose by 5.4 percent in September and shows no sign of abating. When prices began to rise as a result of increased commodity prices, particularly for oil and energy, and as a result of supply chain problems, Fed chair Jerome Powell insisted the surge would be "transitory."

But confronted with economic reality, Powell has had to adjust his assessment. Speaking at a virtual conference last week, he said: "Supply-side constraints have gotten worse. The risks are clearly now to longer and more persistent bottlenecks, and thus to higher inflation."

The Fed's greatest concern is that the rising inflation will further fuel the developing upsurge in the working class. Powell repeated previous assurances to Wall Street that "no one should doubt that we will use our tools to guide inflation back down to 2 percent."

The surge in inflation and the development of bottlenecks across the economy is being blamed on the effects of the pandemic.

But a different perspective was provided in a comment piece published in the *Financial Times* earlier this month by Jeff Currie, the head of commodities research at Goldman Sachs.

He wrote that apart from some labour issues the present bottlenecks "have little to do with COVID." The roots of the "commodity crunch," he continued, could be "traced back to the aftermath of the financial crisis and the following decade of falling returns and chronic under-investment" in what he called the old

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economy.

This was a direct result of the policies pursued after the global financial crisis of 2008 when the Fed, via its quantitative easing (QE) program, supported financial markets.

"Lower-income households faced sluggish real wage growth, economic insecurity, tighter credit limits, and increasingly unaffordable assets. Higher-income households, on the other hand benefited from the financial asset inflation caused by QE."

This disparity in incomes hit the old economy hard. As lower-income demand fell so longer-term investment declined "in favour of short-cycle 'new economy' in investment in areas such as technology." Currie did not refer to it, but he could have pointed to the massive amounts of capital that were diverted to speculation on stocks and other financial assets as well as share buybacks.

His conclusion was that "as infrastructure aged and investment waned, so did the old economy's ability to supply and deliver the commodities underpinning many finished goods" and, after years of neglect, phenomena such as rising gas prices and copper shortfalls could be described as its "revenge."

The European economy is also being gripped by the same forces—rising inflation and supply bottlenecks. In her press conference following a meeting of the European Central Bank's governing council on Thursday, ECB president Christine Lagarde acknowledged these factors would remain longer than expected.

She maintained, however, that price rises were temporary as she pushed back against pressure to raise interest rates. At 4.1 percent, the annual rate of inflation in the euro zone is at its highest level in 13 years and in Germany it reached 4.6 percent this month, the highest since 1993.

In Spain the inflation surge is even stronger with prices rising at an annual rate of 5.5 percent in October, the biggest increase in almost three decades and a full percentage point above predictions by economists.

Rising energy prices, which have gone up by 18.6 percent, according to the German statistical agency, are cited as the main reason for the overall surge in consumer prices.

Lagarde said the ECB's discussions have been focused on "inflation, inflation, inflation" and the governing council had done a lot of "soul searching" to test its analysis that it would subside.

Financial markets are already pricing in higher levels. However, Lagarde said the ECB analysis did not support raising interest rates next year "nor anytime soon thereafter."

This stand is being driven by the fear that any interest rate rise could choke off the recovery in the euro area economy. Lagarde said while the economy continued to recover "strongly," momentum had "moderated to some extent."

Despite the ECB's efforts to maintain stimulation, it may be overwhelmed by market movements. Questioned about ECB policy in the light of moves for rate tightening by the Canadian, New Zealand and UK central banks, Lagarde said such comparison were "odious" and the outlook was different in Europe.

As she spoke, financial markets, increasingly sceptical of the claim that inflation is a passing phase, were giving a different message. A comment in Bloomberg noted that the yields on five-year Italian bonds have surged in the past weeks and reached their highest level in more than a year.

The ECB, like other central banks, seeks to give the impression that it has the economy in hand but the surge in inflation, the result of forces beyond its control, is making that much more difficult.

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