

# US GDP drops 1.4 percent in first quarter amidst Omicron surge and war in Ukraine

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The US economy shrank at a 1.4 percent annual rate in the first quarter of 2022, surprising economists who had expected a 1 percent rise in GDP, which measures the output of goods and services. The fall reflected the myriad problems facing US and world capitalism including the explosion of the highly contagious Omicron variant of COVID-19, the expanding impact of the war in Ukraine and as well as ongoing supply chain issues.

The decline in first-quarter GDP was mostly due to declining inventories and an expanding US trade deficit. Lower government spending on pandemic relief also contributed.

In the face of this reversal, the White House attempted to downplay the significance of the GDP fall, blaming the Russian invasion of Ukraine and a statistical quirk relating to inventories. “While last quarter’s growth estimate was affected by technical factors, the United States confronts the challenges of COVID-19 around the world, Putin’s unprovoked invasion of Ukraine and global inflation from a position of strength,” Biden stated. He added, “consumer spending, business investment and residential investment increased at strong rates.”

Biden’s bravado can’t paper over the accumulating economic problems plaguing global capitalism. The International Monetary Fund was recently forced to sharply revise downward its growth predictions for 2022 to 3.6 percent while projecting no return to pre-pandemic levels of growth until at least 2026.

While US exports hit a record in March of \$169.3 billion, they were far outpaced by imports, which reached \$294.6 billion. As a result, the trade deficit in goods widened nearly 18 percent to \$125.3 billion last month, a record figure.

Despite these figures the Dow Jones Industrial

Average was up 1.85 percent Thursday as the poor GDP numbers lessen the pressure on the US Federal Reserve, which meets next week, to mount an aggressive campaign of raising interest rates. A rise of 0.5 percent by the US central bank is widely expected, but further increases may be scaled back.

Wall Street is awaiting with some trepidation the rise in interest rates and the winding down of the Fed’s cheap credit policies that have massively enriched the financial aristocracy while fueling inflation and expanding the stock market bubble.

Adding to uncertainty is the widening war in Ukraine and its impact on the world economy. Russia’s announcement that it is suspending oil and gas shipments to Poland and Bulgaria threatens to further drive up energy prices. Moscow had demanded that the two countries pay in rubles, something that the two countries have refused. The action reflected a further ratcheting up of tensions as the war threatens to spread beyond the borders of Ukraine, with incalculable consequences.

The broader effects of the war have led to economic shocks, especially on workers and the oppressed in less developed countries, sparking mass protests against rising food and energy prices. This includes Sri Lanka, where workers took part in a one-day general strike against the Gotabhaya Rajapakse government. Strikes and social protests are mounting as well in the US and Europe, witnessed by the walkout by 5,000 Stanford nurses this week over abysmal pay levels and unbearable working conditions.

American workers continue to see their living standards hammered by inflation as they spent more in the first quarter but received proportionally fewer goods and services in return.

In an indication of the devastating impact of inflation

on workers' living standards, US prices rose at an annual rate of 8.5 percent in March while wages are up only 5.6 percent on the year. Rising food prices will continue to play havoc with family budgets, as indicated by soaring commodity prices for basic foodstuffs. Soybean prices are up 26 percent this year while corn futures are up 37 percent. US food prices were up 8.8 percent year over year in March and the World Bank projects that food prices will rise by 23 percent this year, after surging 31 percent in 2021, creating untold hardship.

The decline in US GDP came after a 6.9 percent annualized rise in the fourth quarter of 2021. It was the first fall in GDP since the early months of the pandemic when large sections of the economy were shut down due to the spread of COVID-19. The fall of GDP in the first quarter came despite the abandonment by local, state and federal government agencies of virtually all remaining pandemic restrictions, with both air travel and hotel occupancy showing substantial increases.

New jobless claims stood at 180,000 last week, near an historic low, as businesses continue to hold on to workers due to a tight labor market. Employers have added an average of 600,000 jobs each month and the official unemployment rate is at 3.6 percent, low by historical standards, although this number is deceptive since many workers have dropped out of the workforce due to pandemic-related concerns.

Even though real wages are falling due to inflation, there are increasing pressures on the US Federal Reserve to undermine workers' bargaining power by driving up the unemployment rate through monetary tightening. The Fed raised interest rates by 0.25 percent in March, the first increase since 2018, and is planning six more rate rises this year.

In advancing the need for rate increases, Fed Chairman Jerome Powell last month cited a "very tight labor market—tight to an unhealthy level..." By tightening credit the US central bank aims to dampen demand and push up unemployment in order to undermine workers' ability to press for higher wages. A poll of economists conducted by the Reuters news agency gave a 25 percent probability of a US recession in the next 12 months and 40 percent within two years. Growth would slow to 3.3 percent this year and just 2.2 percent in 2023.

There are already signs of slowing in certain sectors.

Reacting to the rise in interest rates, Detroit-based Rocket Mortgage announced plans to cut hundreds of jobs and is offering buyouts to 8 percent of its 26,000 employees. Other mortgage lenders have announced recent job cuts in reaction to the rate rises, including Wells Fargo and Flagstar Bank.

In March automaker Stellantis announced the elimination of hundreds of jobs, including one-half of its remaining workforce at its Belvidere, Illinois, assembly plant, as well as job cuts at some Detroit area assembly and stamping plants. On Wednesday Ford announced that it is cutting 580 engineering jobs.

The impact of any slowdown in the economy on top of the stress produced by soaring inflation and two years of a deadly pandemic will inflame social anger in the working class in the US and globally.

There is enormous potential for channeling this social discontent into a conscious movement for socialism, but that requires the building of revolutionary socialist leadership, which only the International Committee of the Fourth International and the *World Socialist Web Site* can provide. We encourage workers to make plans to register and attend the international online May Day event being held this weekend to outline a program for the building of such a movement.



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