Recession storm clouds gathering

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There is a rising tide of warnings that the US, Europe and other areas of the world are rapidly moving towards a recession as significant data point in that direction.

Under the underline “No more whispers,” Politico reported on Monday: “From Wall Street to Washington, whispers about a coming economic slump have risen to nearly a roar as the Federal Reserve ramps up its battle against the highest inflation in four decades.”

The article cited price spikes—inflation in the US is 8.6 percent—aggressive interest rate hikes which have led to the worst performance by Wall Street’s S&P for the first half year since 1970 and a fall in consumer confidence to a record low.

Economists, it continued, were not only worried that a downturn will happen, but that it will happen soon.

With so much economic activity in the US economy, both on the business and consumer side, dependent on credit, the interest rate hikes carried out so far are having a significant effect.

The Commerce Department has reported that GDP contracted at an annualised rate for the first quarter by 1.6 percent, with estimates for second quarter growth being continually revised down. The estimate of growth calculated by the Atlanta Fed is indicating GDP will shrink at an annualised rate of 2.1 percent for the three months to the end of June.

The downward prediction came as the closely watched Institute for Supply Management’s Purchasing Managers’ Index showed the US manufacturing sector expanding at the slowest pace for two years. Employment in the sector fell for the second consecutive month after expanding for eight months in a row.

An indication of the effect of monetary policy tightening on consumer spending came with the announcement by carmaker General Motors of a 15 percent fall in quarterly sales.

The marked slowdown in manufacturing is also evident in Europe. According to S&P Global, manufacturing in the eurozone is at its weakest since August 2020, with new orders falling at the fastest pace since May 2020.

Commodities markets are showing the same trend. The price of copper, a key industrial metal, sometimes referred to as Dr. Copper because of the way it reflects broader trends, has been falling for the past month. Last week it dropped below $8,000 a tonne for the first time in 18 months after reaching a record high of more than $10,600 earlier in the year.

Yesterday, the price of oil fell with West Texas Intermediate, the US standard, below $100 a barrel, dropping by 8.2 percent. The price of Brent crude, the international standard, dropped 9.5 percent to $102.77 after futures were trading at $120 per barrel a month ago.

The fall in the oil price and other industrial commodities is not a sign of economic health but of the deepening recessionary forces in the global economy.

As the president of an oil advisory firm, Jim Ritterbusch, told the Wall Street Journal: “The acceleration of recession expectations in the second half of the year has weighed on a slew of commodities, and oil has gotten swept up in that to a large extent.”

The US bond market, which forms one of the key foundations of the global financial system, is also flashing red on recession.

Yesterday the yield curve inverted for the third time this year when the interest rate on the two-year Treasury bond rose above that on the 10-year. Normally, the situation is the reverse.

An inversion takes place when investors believe interest rates will rise in the short-term but over the longer term the economy will slow down. This leads them to invest in the longer end of the market as a
haven, pushing up the price of bonds and leading to a fall in their yield or interest rate.

Yield curve inversion does not mean an immediate recession, but this event has taken place in every US recession over the past 50 years.

Last week, the Japanese finance house, Nomura, issued a forecast that many major economies would enter recession over the next 12 months. It warned that tightening monetary policy by central banks would push down growth.

“Increasing signs that the world economy is entering a synchronised growth slowdown, meaning countries can no longer rely on a rebound on exports for growth, has also prompted us to forecast multiple recessions,” it said.

Nomura said it expected that the US and euro area economies would contract by 1 percent in 2023. The contraction for mid-sized economies, including Australia, Canada and South Korea, could be greater if interest rate rises triggered a burst in inflated housing markets. It forecast a 2.2 percent contraction in the highly industrialised South Korean economy in the third quarter of this year.

The worsening global economic situation is also expressed in another highly industrialised country, Germany, as business leaders warn of the biggest economic crisis in decades. The export-dependent German economy recorded a trade deficit in goods of $1 billion in May, the first such result since 1991.

Following a meeting with German chancellor Olaf Scholz, who had warned Germany faces an “historic challenge,” Rainer Dulger, the head of an employers’ confederation, spoke of “difficult years ahead.”

In an indication of the broader forces at work in the global economy, he said: “We can no longer take for granted the continuous economic growth that we experienced before the COVID-19 pandemic and the Ukraine war.”

Carsten Brzeski, the head of macro research at the financial firm ING, said that in the past Germany could always rely on strong exports to revive the economy, but that would not be the case for at least the next two years.

“There is a high probability that Germany and the rest of the euro area will enter a recession this year,” he said.

The gathering storm clouds of recession point to the need for the international working class to draw a balance sheet of the economic events of the past decade and a half.

Following the 2008 financial crash, set off by financial speculation, central banks pumped out ultra-cheap money, leading to the escalation of stock markets to record highs as social inequality widened.

This meant that when the pandemic struck in early 2020, capitalist governments around the world refused to undertake the necessary public health measures to eliminate it lest this collapsed the financial bubble. Instead, they handed out hundreds of billions to the corporations as central banks pumped in still further trillions of dollars into the financial system.

Combined with the refusal to act on COVID-19, leading to a supply chain crisis, these measures set off the most rapid inflationary spiral in four decades, compounded by the US-led NATO war against Russia in Ukraine.

Today, as workers press forward with wage demands to preserve their social position, central banks are lifting rates to try and crush this movement through a recession.

These events signify that what the working class confronts is not a series of conjunctural economic developments but a systemic crisis of the entire global capitalist order which can only be resolved in its interests through the fight for an international socialist program.

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