Growing recessionary trends in major economies

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The world's major economies are showing growing recessionary trends under the impact of the disruption caused by governments' "let it rip" policies on COVID-19, rising inflation and the higher interest rate regime being imposed by central banks aimed at crushing workers' wage demands.

The US, the world's largest economy, has experienced two successive quarters of negative growth, with indications of further contraction to come as consumer spending is hit by rising prices in basic items.

The impact of COVID is reflected in the employment and labour market data. The US labour force is 600,000 smaller than at the start of the pandemic in 2020. But as the *Wall Street Journal* noted in a recent article "it is several million smaller if you adjust for the increase in population." The number of workers has fallen by 400,000 since March.

The labour force participation—the proportion of the population over the age of 16 in work or seeking work—is continuing to fall. It was 62.1 percent in July, down from 62.4 percent in March. Before the onset of the pandemic, it was 63.4 percent.

The hit to the US economy is also reflected in economic output data. According to projections by the Congressional Budget Office, gross domestic product in the second quarter was 2 percent below where it had expected to be in January 2020. Employment is also 2 percent lower than predicted—a loss of around 3 million jobs.

At the same time, inflation is now running at between 8 percent and 9 percent, with essential grocery items up more than 13 percent over the past year. While wages have risen, they have fallen behind the inflation rate, meaning in real terms that there has been a fall of 3.6 percent in the wage of the average worker. This means there is downward pressure on consumption spending which accounts for up to 70 percent of US GDP.

China, the world's second largest economy, is experiencing a significant downturn in growth. The economy grew by only 0.4 percent in the second quarter, barely escaping an outright contraction, and the outlook appears to be worsening.

On Tuesday, Chinese Premier Li Keqiang held a meeting with local officials from six key provinces, accounting for 40 percent of its economy, calling on them to undertake measures to boost growth after July data on consumption and industrial production came in below expectations.

The worsening outlook for the Chinese economy is the result of the global pandemic, which the Chinese government, in contrast to all others, is battling to control, and the sharp decline in the property market.

Li's appeal to local authorities to do more and promises that the central government would take measures to promote growth, came in the wake of a decision by the central bank to reduce medium-term interest rates to try to stimulate the economy.

The real estate sector, which accounts for more than a quarter of China's economy once flow-on effects are considered, continues to worsen. The amount of "residential floor space," on which construction began in the period from April to June this year, was down by nearly a half compared to last year.

Local government finances are being severely affected with revenue from land sales so far this year down by 31 percent, compared to the first six months of last year.

Consumption spending is only marginally higher than the first half of last year in real terms and running at 10 percent below the trend prior to the pandemic.

Germany, the world's fourth largest economy, is on the brink of recession, if not already in one. Data released earlier this week showed that retail sales fell at the fastest annual rate since records began to be collected in 1994, down 8.8 percent compared to a year ago. This followed

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data which showed that German economic growth was stagnant in the second quarter.

The German economy is being battered by the effects of the ongoing NATO proxy war against Russia in Ukraine as gas prices spiral and supplies are cut, with effects hitting the entire eurozone economy.

The chief business economist at S&P Global Market Intelligence, Chris Williamson, told the *Financial Times* that manufacturing activity in Germany and elsewhere was “sinking into an increasingly deep downturn, adding to region’s recession risks.”

Last week, Clemens Fuest, head of the German economic think tank Ifo, said the concern was the “broad-based” nature of the weakness in the economy. In previous downturns, he said, when services suffered, industry recovered, and vice versa. “But now we’re seeing weakness across the board.”

Britain, the world’s fifth largest economy, continues to be hit by worsening economic events. Yesterday, it was reported that the official UK inflation rate for July, itself an understatement of the impact on working-class families, had reached 10 percent. It is set to rise even further with the Bank of England forecasting it will reach 13 percent by the end of the year.

The Bank of England has already predicted that the UK economy will move into recession with a contraction of at least 2 percent from peak to trough.

The contraction is now likely to be much higher with the central bank set to escalate its interest rate tightening policy, which is intended to drive the economy into recession to suppress the mounting wage demands throughout the British working class.

It is now expected that the central bank will carry out multiple increases of 50 basis points in its base interest rate for the rest of the year. Real wages are continuing to fall with the latest data showing they have fallen by 4.1 percent, the largest decline since record began in 2001.

Falling wages will bring cuts in consumption spending, accelerating the drive into recession.

The only “bright spot,” if it can be called that, in this worsening situation across the world’s major economies, is Japan, the world’s third largest economy.

Its economy grew at annualised rate of 2.2 percent in the second quarter, boosted by a rise in consumption spending as the government lifted COVID restrictions. But the rise is likely to be a one-off. In the first quarter GDP rose by only 0.1 percent and in its latest economic update in July the International Monetary Fund revised down its estimate of Japanese economic growth for 2022, from 2.4 percent in April to just 1.7 percent.

This week Bloomberg carried a significant report on the decline in orders for computer chips, which was sending “shudders through North Asia’s high-tech exporters, which historically serve as a bellwether for the international economy.”

It reported that South Korean chip companies, Samsung and SK Hynix, had signalled plans to cut back on investment while the Taiwan Semiconductor Manufacturing Company, the world’s largest producer, was going in the same direction.

South Korea’s technology exports fell in July for the first time in two years and “semiconductor inventories piled up in June at the fastest pace in more than six years.”

Bloomberg noted that exports from Korea, the world’s 12th largest economy, “have long correlated with global trade, meaning their decline will add to signs of trouble for a world economy facing headwinds from geopolitical risks to higher borrowing costs.”

The marked downward shift in the major economies is not the result of a conjunctural shift in the business cycle to be followed by an upturn.

It is one aspect of the general breakdown of the global capitalist economy, manifested in the ongoing COVID crisis, record levels of private and government debt, the economic effects of climate change, as can be seen in the fall in water levels in the Rhine hitting the movement of goods via barges in Germany, and the highest inflation in four decades, accelerated by the war against Russia and the increasing bellicosity against China.

And it is the outcome of the class war being waged by global finance capital against the international working class. The ruling classes, having handed out trillions of dollars to corporations and the financial markets in the form of direct government money and the provision of ultra-cheap funds by the central banks, are determined to make the working class pay in what amounts to a social counter-revolution.

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