Wall Street slumps as inflation data signify continued Fed interest rate hikes

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Wall Street had its biggest fall in two years yesterday on the back of data which showed inflation is becoming broad-based, despite a fall in gas prices, meaning that the US Federal Reserve is certain to continue its interest rate hikes. It could even accelerate them as it seeks to suppress workers' wage demands by contracting the economy.

The sell-off was triggered by an increase in the consumer price index for the month of 0.1 percent from July, contrary to market expectations that it would show a decline of the same amount, after recording no change in the previous month.

The most significant figure was core inflation – calculated after stripping out volatile items such as food and energy. It rose by 0.6 percent for the month, double the pace over the previous month, to reach an annual rate of 6.3 percent, compared to 5.9 percent in July.

In response to expectations that the Fed will maintain interest increases, and possibly accelerate them, market indexes plummeted.

All 30 stocks in the Dow fell as the index dropped nearly 1300 points. The S&P 500 slid 4.3 percent and the tech-heavy and interest-rate sensitive NASDAQ was down 5.2 percent. The three indexes had their biggest one-day fall since June 2020.

The falls were so sharp because there was an expectation, at least in some quarters, that the pace of inflation was starting to slow and the Fed would start to ease off. But that scenario has been blown apart.

At the start of trading the probability the Fed would lift rates by 100 basis points (one percentage point) at its policy-making meeting next week was zero. By the end of the day, it was 30 percent, with a 75-basis point rise regarded as certain.

In its report on the market slide, the *Financial Times* said: "The frenzied selling … hit nearly every corner of the market. At one point during the trading day, nearly 2000 stocks on the New York Stock Exchange fell in value in tandem, a phenomenon normally seen at times of market stress."

It said investors were piling into options contracts to try to hedge against a further slide.

The drop in stock prices was matched by sharp falls in the price of government bonds, sending up the yield, or interest rate. Yields and prices move in opposite directions.

The yield on the two-year Treasury bond, the most sensitive to Fed interest-rate policy, rose to 3.75 percent, its highest level since 2007, while the yield on the 10-year Treasury reached 3.4 percent, near its highest level for the year.

The most significant feature of the bond market however, is inversion, where, contrary to "normal" conditions, the yield on short-term is now consistently higher than that on the 10-year bonds. This is regarded as a reliable indicator of recession.

In their comments issued before the latest inflation data, Fed officials made clear they intended to continue with rate rises, no matter what the recessionary effects for the economy.

Speaking to a conference in Austria last Friday, Fed governor Christopher Waller said he supported "another significant increase in the policy rate" at the next meeting because it was necessary to "get the policy rate to a setting that is clearly restricting demand."

Waller did not spell it out, but the meaning of his remarks was clear. Fed rate rises must induce an economic contraction to suppress the demand for labour and put a clamp on workers' wage claims to compensate for the biggest price increases in four decades.

As Fed chair Jerome Powell and other Fed officials have admitted, rate hikes will do nothing to bring down prices resulting from resulting from rising energy prices, increased food costs and constrictions in supply chains.

In an interview last week, Cleveland Fed president Loretta Mester struck a similar tone. She said elevated inflation was leading her to conclude that the Fed would have to move faster in lifting its rate than she had previously anticipated.

Some indication of the effect of the price hikes so far and the driving force behind wage demands was provided by analysis from Ryan Sweet senior director of economic research at Moody's Analytics, reported in the *Wall Street Journal*.

He said the average household was spending $460 more each month to buy the same bundle of goods and services as it did last year—the equivalent of a wage cut of more than $100 per week—which was a "big burden particularly on lower income households."

But the policy of the Fed is to increase this burden by contracting the demand for labour through a recession as inflation continues to surge.

In comments to the *Financial Times*, TS Lombard chief economist Steven Blitz said the inflation data, combined with wage rises and a tight labour market, was "not going to produce the soft-landing fairy tale." There were better chances of "rolling a hard eight" (two fours in a dice game) than achieving that.

CNN has published some revealing comments made by billionaire investor David Rubenstein, the chairman of the private equity firm The Carlyle Group, on the thinking of Powell, whom he hired 25 years ago. Powell wanted a higher unemployment rate but could not say so publicly, he said.

"He can't come out and say, 'I hope the unemployment rate goes up to 6 percent.' That doesn't sound politically very attractive to say that."

Rubenstein said an unemployment rate of 6 percent would result in a sizeable wave of layoffs.

"There will be a lot of job losses. The Fed isn't going to publicly say, 'We want job losses,'" he said.

Instead, it covers its real agenda with the claim that it is "fighting inflation"—a lying fiction that is faithfully repeated by a compliant mass media as finance capital pursues its class war against the working class.