US GDP up but recession trends grow

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The US economy grew at an annual rate of 2.6 percent in the third quarter after experiencing contractions of 1.6 percent and 0.6 percent in the first two quarters respectively.

But the latest data have not dispelled fears that the world's largest economy could move into a recession next year. In fact, some of the figures show this prospect is becoming increasingly likely as the Federal Reserve continues to lift interest rates to slow the economy as it tries to suppress the wage demands resulting from 40-year high inflation.

Recession fears have been heightened by the figures on consumer spending. These showed an increase of only 1.4 percent for the quarter, a slower rate than the 2 percent rise over the previous three months, a sign that inflation is having its effects.

While consumer spending is the largest item in gross domestic product (GDP), accounting for around 70 percent, investment by businesses is one of its key driving forces.

Gross private investment fell by 8.56 percent with the biggest drop in residential spending, down by 26.4 percent—a result of the Fed's rising interest rates that have pushed home mortgage rates to 7 percent.

The major source of the increase in the GDP number was export growth, which added 2.7 percentage points to overall GDP. But this is not likely to be sustained as the high US dollar—up by 17 percent against a basket of the currencies of major economies so far this year—hits the sales of major US corporations, especially high-tech companies.

Much of the rise in exports came from the sale of oil and natural gas to Europe as US corporations cashed in on the shortages caused by the US-NATO war against Russia in Ukraine.

While US President Biden said the GDP number showed the economy continued to "power forward," some economists have described it as a mirage. This assertion is backed by reports of growing problems for major tech companies that play a central role in the US economy.

Last week, according to a *Financial Times* (FT) report, "Microsoft warned… of a marked slowdown in the cloud computing business as large customers pause their spending in the face of a slowing economy." The article said Microsoft expected revenue from software sales to PC makers to fall more than 30 percent in the current quarter.

As with other companies, Microsoft has been hit by the rise in the dollar, making its products more expensive in international markets, leading to a fall in revenue of $2.3 billion.

Apple has also warned it will have a difficult December quarter as it faces "significant" foreign exchange headwinds. In a conference call last Thursday, finance officer Luca Maestri said the company could be hit with a loss of revenue of around $12 billion because of the effects of the rising dollar.

He said the company expected revenue from the sale of its Mac computers to "decline substantially year-over-year."

Amazon has said consumer spending is in "uncharted waters" as it downgrades its revenue forecasts. The company's chief financial officer, Brian Olsavsky, said rising inflation and higher energy costs had led to businesses and consumers reassessing their purchasing power.

Amazon is planning for job cuts with the company becoming "very careful" in its hiring policies.

"We are preparing for what could be a slower growth period. We certainly are looking at our cost structure and areas where we can save money," he said.

There are also significant signs of a downturn in online advertising on social media. Alphabet, the parent company of Google, last week reported the lowest third quarter growth of revenue since 2013, except for a

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contraction at the start of the pandemic.

Commenting on the result, Evelyn Mitchel, an analyst at Insider Intelligence, told the FT: “It’s a bad omen for digital advertising at large. This disappointing quarter for Google signifies hard times ahead if market conditions continue to deteriorate.”

Alphabet chief Sundar Pinchai said on a conference call last week that it was a “tough time in the ad market” as the company’s chief financial officer, Ruth Porat, said the strong US dollar has sliced 5 percentage points from revenue growth.

The hardest hit high-tech and social media company is Meta, the owner of Facebook. Besides the problems affecting the other firms, its worsening situation is being compounded by fierce competition from rivals such as Tik Tok and the spending of billions of dollars to create what its owner, Mark Zuckerberg, regards as the next stage of the internet.

He is out to create a so-called metaverse in which people would communicate in a virtual world. But the project has generally been given the thumbs down by the financial markets. As one analyst told the *Wall Street Journal*: “We’re incredibly frustrated to see expenses balloon with an almost total disregard for investor expectations.”

On Wednesday last week investors wiped off more than $65 billion from Meta’s market capitalisation after it had reported another quarter of falling revenues as investors remained unconvinced that the metaverse project was going to succeed, despite Zuckerberg’s entreaties that they should stay in for the long haul.

Such has been its fall that whereas Meta was in the top 10 companies of the S&P 500 at the start of the year, today it is not even in the top 20.

But the malaise extends more broadly across the high-tech sector where share values, boosted by ultra-low interest rates, are now falling because of the tighter monetary regime being imposed by the Fed.

According to the *Wall Street Journal* (WSJ), the total value of the tech-heavy NASDAQ index has fallen by $8 trillion this year putting it on a par with the $5 trillion loss (equivalent to $8.6 trillion in today’s terms) in the years of the so-called tech-wreck 2000–2002.

The interest rate hikes are also creating turbulence and dangers in financial markets. At the end of last week, the WSJ joined other sections of the financial press in warning of the growing problems in the $24 trillion US Treasury market, the basis of the US and global financial system.

These problems centre on liquidity—the ability of traders to easily make large deals without causing major movements. Tight liquidity can set off a panic as happened in March 2020 when, for several days, there were virtually no buyers for US government debt, supposedly the safest financial asset in the world.

The WSJ article noted that while there had not yet been a serious breakdown, “the possibility is far from unthinkable given the tumult this year.”

“Many traders and portfolio managers,” it continued, “warn that such a development would tear through other markets, potentially requiring intervention from the Federal Reserve to prevent a full-blown crisis.”

Andrew Kreicher, a director at Wells Fargo, told the WSJ that liquidity in Treasury bonds recently was the worst he had seen over a sustained period.

“There are so many systems in other asset classes that use Treasurys as a building block. If you have rot in the foundation, the whole house is at risk,” he said.

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