Recessionary trends in the world economy strengthening

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Data and statements by government authorities continue to be issued which show that the recessionary trends in the global economy are strengthening at an increasing rate.

In its monthly report issued on Monday, the German Bundesbank warned that the economy was likely to shrink in the first quarter of this year following a decline in output in the last quarter of 2023.

The central bank said “stress factors would probably remain in the first quarter” meaning that “economic output could therefore decline slightly again.” There were few signs of a rebound and “the German economy would be in a technical recession”—defined as two consecutive quarters of negative growth.

Last year the German economy contracted by 0.3 percent making it the worst performing of all the major economies.

The Bundesbank warning followed last week’s statement by the economy minister, Robert Habeck, that the government was revising down its already low estimate of growth for 2024 from 1.3 percent to just 0.2 percent and the following year from 1.5 percent to 1 percent. Whether even these lowered estimates will be reached is very much in question.

The Bundesbank noted the worsening outlook for the world economy and its impact on Germany, saying foreign demand for its goods had “recently trended down significantly.”

It also pointed to the higher interest rate regime which the European Central Bank is determined to keep in place until it sees evidence that wage increases and demands are being sufficiently suppressed. The issue of wages was front and centre of the remarks by ECB president Christine Lagarde following the meeting of the central bank’s governing council on January 25.

The Bundesbank said consumers were “probably still cautious about their spending” and higher borrowing costs were “likely to continue to dampen investments.”

It is a measure of the overall decline in the world economy that Germany, weakened as it is, has become the world’s third largest economy in US dollar terms. It has taken the place of Japan, which has also entered a technical recession after its growth contracted 0.3 percent in the fourth quarter following a shrinkage of 3.4 percent in the third.

Stefan Angrick, chief economist at Moody’s Analytics in Tokyo, told the *Financial Times* the two consecutive quarterly contractions added to a “string of disappointing data releases.”

A report on Bloomberg underscored his assessment.

“Private consumption retreated by 0.2 percent, as households contending with rising costs of living tightened their budgets. Household spending fell 2.5 percent in December versus a year earlier, a 10th straight month of declines, as wage gains lagged inflation. Business spending was also sluggish last quarter, falling by 0.1 percent,” it said.

The Japanese economy was given a small boost by an increase in exports. But this is not going to last. In its quarterly outlook published last month, the Bank of Japan said the economy “is expected to be under downward pressure stemming from a slowdown in the pace of recovery in overseas countries.”

One of the key overseas countries for Japan and many others is China, which functioned as the most important source of growth in the global economy in the wake of the global financial crisis of 2008.

Growth in China last year was 5.2 percent, the lowest in three decades, and there are doubts it will attain even this level in 2024. All eyes will be focused on the National People’s Congress starting on March 5 at which the Xi Jinping regime will lay out its economic plans for the coming year.

This is particularly the case in Southeast Asia. This week Malaysia announced that its economy had contracted 2.1 percent in the final quarter compared to the previous three months.

A statement issued by the central bank said growth had "moderated amid a challenging external environment" due to slower global trade, a global tech downcycle, geopolitical tensions and tighter monetary policies.

The worsening situation saw the Malaysian ringgit fall almost to the record low it hit during the Asian financial crisis of 1998. Other countries in the region, including Indonesia and the Philippines, are also experiencing a slowdown.

The decisions in China will be closely watched but what they might bring is another question.

So far Chinese authorities have only taken minor measures aimed at trying to boost the important real estate and construction sector, reducing some interest rates, as well as seeking to halt the stock market slide, but nothing which could provide a real boost to the economy.

On Sunday, premier Li Qiang told a cabinet meeting there had to be "pragmatic and forceful" action to boost confidence in the economy. According to the official Xinhua News Agency, he said officials had to "do more things that are conducive to boosting confidence and expectations and ensure policymaking and execution are consistent and stable."

However, no concrete measures were announced as all the data continue to point to worsening economic conditions amid ongoing deflation that is the worst for 15 years.

In the past, China has been the recipient of major foreign investment, boosting its growth. But the latest data from the State Administration of Foreign Exchange issued on Sunday show a precipitous decline.

They revealed that the inflow of foreign capital for 2023 was around $33 billion, an 82 percent decline on the previous year and the lowest annual figure since 1993.

The steep fall is a result of two factors: the ever-escalating economic warfare measures directed against China by the US, especially in the area of high tech, where the Biden administration continually adds bans and restrictions on vital components, and the worsening outlook for the Chinese economy.

US measures against China may well be intensified as the slump gathers pace. In an on-the-record interview with the FT this week, two senior Treasury officials said the US and its allies would take action if China tried to solve its industrial overcapacity problems by putting cheaper goods, such as electric vehicles, lithium-ion batteries and solar panels, on the world market.

"We are worried that Chinese industrial support policies and macro policies, that are more focused on supply rather than thinking about where the demand will come from, are both careening towards a situation where overcapacity in China … is going to wind up hitting world markets," Jay Shambaugh, the undersecretary for international affairs said.

According to the report, the issue will be a "major part" of the agenda when US Treasury Secretary Janet Yellen visits China later this year.

The US threats are a signal that it is prepared to intensify the kind of disastrous policies of the 1930s when tariffs and other restrictions played a key role in deepening the global depression and preparing the conditions for World War 2.

These measures were irrational and reactionary then and even more so today in the era of integrated globalised production. As has been noted, last year one third of the exports of electric vehicles, one of the commodities about which the US has expressed concern, came from the Shanghai factory of the American firm Tesla.

The planned madness, however, is only yet another expression of the fundamental irrationality of the capitalism and that nation-state system. It underscores the necessity for its replacement by a global socialist economy where reason and conscious planning prevails rather than the relentless struggle of each against all that leads to contracting growth and ultimately to war.