Contraction Slows as Sluggish U.S. Recovery Nears

[This is a letter I sent to friends on July 31, 2009, together with an article from *Bloomberg.com* (appended below). –S.H.]

Hi everybody,

The article below, like many these days, says that the current economic "contraction" is slowing, and that a "recovery" is likely to soon begin—though that "recovery" will likely be "sluggish". There are several points to keep in mind about this.

First, typical for bourgeois economics, the focus is on the short term. If "the economy" (i.e. GDP) does begin to increase, however slowly, for a few months, they will say that the "Great Recession" is over, regardless of the continuing and even intensifying pain for the working class. This is also how they officially look at the 1930s. The "recession" that began in early 1929, and led to a financial crisis in the fall of 1929, continued to get worse over the next few years, and GDP levels reached the bottom in 1933. Then it was officially "over", and a very "sluggish recovery" began which lasted four years. Then in 1937-38 a new "recession" occurred for a year or two, followed by another "sluggish recovery" until World War II started (when economic expansion really recovered in a major way because of the war effort). But despite this official bourgeois history, the world still views the entire decade of the 1930s as the Great Depression.

This time around there will also be, on the official account, multiple recessions in what the world will undoubtedly *eventually* call the Second Great Depression. The first of these "recessions", the current one, which has been by far the worst since the 1930s but which will *not* be the worst in this new series, now seems to be nearing its end. And—as they say—there will very likely be a "recovery" during the second half of this year (and perhaps a bit into next year). However, that recovery will be *very* "sluggish". So when the bourgeoisie talks about economic recovery, they mean any increase in GDP, even if it comes nowhere near bringing the economy back to the level it was before the crisis began, and regardless of the still deteriorating economic situation of the masses. They *believe* on ideological grounds that a full recovery will eventually happen, but they start *counting it* as a "recovery" long before that actually happens (if it ever does).

Next year the second recession in this series will begin, and no doubt there will then be some sort of new "stimulus". However, given the political infighting and economic ignorance of the ruling class, that "stimulus" will likely be considerably smaller, and probably much less effective (even over the short term) than the $787 billion February "stimulus package" was. Thus it is as yet unclear if that second recession will be quickly ended or not. If it is, then as the Keynesian deficits fall off a bit, there will be a third recession...

This is the way things will likely be going for some years: In and out of serious recessions, with very weak (or “sluggish”) and short “recoveries” in between them. And then, eventually, things will get much worse, with a new international financial crisis followed by outright depression conditions. There will be no “full recovery”, at least for any significant length of time, over the next several decades.

(Predictions like this are quite possible, and quite reasonable, given a basic understanding of the fundamental principles of Marxist political economy.)

Scott

Bloomberg.com

Contraction Slows as ‘Sluggish’ U.S. Recovery Nears
(Update3)

By Shobhana Chandra

July 31 (Bloomberg) -- The U.S. economy shrank at a better- than-forecast 1 percent annual pace in the second quarter as a jump in government spending masked a deeper retrenchment by consumers.

The drop in gross domestic product followed a 6.4 percent contraction in the prior three months, the worst in 27 years, Commerce Department figures showed today in Washington. Revisions showed the economic downturn last year was even deeper than previously estimated.

While today’s figures signal that what has now become the worst recession since the Great Depression is approaching an end, the erosion in consumer spending -- which makes up about 70 percent of the economy -- and rising unemployment suggests a muted rebound, analysts said. Stocks headed lower and Treasuries higher after the report.

“We’re heading to a sluggish recovery,” said Nigel Gault, chief U.S. economist at IHS Global Insight in Lexington, Massachusetts. “We’ll get more support from government programs in the second half, but if you want a strong recovery you need a strong consumer, and we are not seeing that.”

Benchmark 10-year note yields fell to 3.57 percent at 9:31 a.m. in New York, from 3.61 percent late yesterday. The Standard & Poor’s 500 Stock Index opened down 0.2 percent at 985.23.

Economists' Forecasts

The economy was forecast to shrink at a 1.5 percent pace, according to the median estimate of 78 economists surveyed by Bloomberg News. Estimates ranged from a 0.7 percent gain to a decline of 2.9 percent.

Profits at companies from Caterpillar Inc. to Dow Chemical Co. signal the slump is abating as government efforts to revive lending and President Barack Obama's stimulus gain traction.

Government spending rose at a 5.6 percent pace last quarter, the most since 2003. The Obama administration's $787 billion stimulus program was approved in February, and is intended to buttress the economy through next year.

GDP was down 3.9 percent from the second quarter in 2008, the biggest drop since quarterly records began in 1947. Last quarter's decline was the fourth in a row, also the longest losing streak on record.

Benchmark revisions showed the world's largest economy contracted 1.9 percent from the fourth quarter of 2007 to the last three months of 2008, compared with the 0.8 percent drop previously on the books.

First Take

The GDP report is the first for the quarter and will be revised in August and September as more information becomes available.

Consumer spending, which accounts for more than two-thirds of the economy, fell at a 1.2 percent pace following a 0.6 percent increase in the prior quarter. Purchases were forecast to drop 0.5 percent, according to the survey median.

The economy has lost 6.5 million jobs since the recession began in December 2007, and economists surveyed by Bloomberg this month forecast the jobless rate will exceed 10 percent by early 2010.

"The United States economy has found bottom but will be slow in recovering as unemployment continues to be a drag on consumer spending," Andrew Liveris, chief executive officer of Midland, Michigan-based Dow, said in a statement yesterday.

Second-quarter profit at Dow and at Peoria, Illinois-based Caterpillar, topped analysts' estimates. Caterpillar, the world's largest maker of construction equipment, said last week that stimulus programs in countries such as China were helping stabilize sales.

Trade Deficit

The trade gap shrank last quarter, preventing a steeper decline. The gap between exports and imports fell to $339.3 billion at an annual pace from $386.5 billion.

Inventories dropped at a record $141.1 billion annual pace, after a $113.9 billion decline.

Leaner stockpiles set the stage for recovery in production.

“With inventory levels in an ultra-lean state, businesses should start adding inventories in the second half of the year as the economy begins to show signs of life,” said Ellen Zentner, senior economist at Bank of Tokyo-Mitsubishi UFJ Ltd.

General Motors Co. and Chrysler Group LLC, both out of bankruptcy, are among firms set to ramp up production as government efforts lift demand.

Car Sales

The “cash-for-clunkers” trade-in program begun this month has spurred 16,351 new-vehicle sales so far, the Transportation Department said on July 29. The plan, which set aside $1 billion, ran through the money six days after it began, a sign of its success, Senator Debbie Stabenow said yesterday. Lawmakers had expected the program to generate about 250,000 vehicle sales and to have enough money to last to about Nov. 1.

Today’s GDP report showed the slump in business investment slowed last quarter, while residential construction kept plummeting.

Recent reports showed the housing slump, which helped trigger the financial crisis, and the decline in manufacturing have eased. Housing starts rose in June and industrial production shrank at the slowest pace in eight months, according to government reports this month.

The Federal Reserve’s preferred inflation gauge rose at a 2 percent annual pace last quarter, less than forecast. The measure, which is tied to consumer spending and strips out food and energy costs, rose at a 1.1 percent annual pace the prior quarter.

Economists project the economy will grow at an average 1.5 percent pace from July to December, according to a Bloomberg survey taken in early July.

The Standard & Poor’s 500 Index and Dow Jones Industrial Average are up 12 percent since July 10 on better-than- anticipated earnings at companies from Motorola Inc. to 3M Co.

The country “may be seeing the beginning of the end of the recession,” Obama said this week. Even so, “we know the tough times aren’t over.”

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