Wall Street rallies despite sharp contraction in US economy

By Barry Grey
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The Commerce Department reported Wednesday that US gross domestic product (GDP) plunged 6.1 percent on an annual basis in the first quarter of 2009, a far deeper decline than had been predicted by economists. Following a 6.3 percent decline in the last three months of 2008, the Commerce Department report registered the biggest six-month economic contraction in more than 50 years.

The first quarter decline also marked the third straight quarterly contraction, the first time this has occurred in 34 years.

The bleak figures herald a continuing surge in unemployment, already officially at 8.5 percent. More than 5 million jobs have been wiped out in the US since the recession began in December of 2007, and more than 600,000 jobs are disappearing every month. Next month the current slump will become the longest since the Great Depression of the 1930s.

The report spells a deepening social disaster for tens of millions of Americans, but it did not deter the big investors who drive the stock market from continuing the rally that has brought share prices 22 percent higher than their low point early last month. All three major exchanges closed sharply higher, with the Dow Jones Industrial Average gaining 168 points, the Standard & Poor’s 500 Index rising 18 points, and the Nasdaq Composite Index gaining 38 points. In percentage terms, all three picked up more than 2 percent on the day. Financial stocks led the rally.

This response to the dire GDP report, issued in the midst of a historic downsizing of the US auto industry and assault on the jobs, wages and benefits of auto workers, reflects the class divide that dominates American society. It is also an expression of the growing confidence of the financial elite that it has in the Obama administration a pliant defender of its wealth and power.

This confidence was bolstered by the report issued later in the day by the Federal Open Market Committee, the policy arm of the Federal Reserve Board. Concluding a two-day meeting, the Fed said it would keep its key federal funds interest rate—the rate for overnight loans between banks—at 0 to 0.25 percent for “an extended period.” It also said it would continue and consider expanding the program it announced in March to buy up to $300 billion in long-term Treasury notes and up to $1.25 billion in mortgage-backed securities issued by the government-sponsored mortgage finance companies Fannie Mae and Freddie Mac.

These decisions signify that there will be no let-up in the administration’s policy of bolstering the balance sheets and profits of the banks by offering virtually interest-free loans, supplemented by cash infusions, subsidies and guarantees on the banks’ bond issuances and toxic assets. They further suggest that the administration will continue to place the US Treasury and trillions of dollars of taxpayer funds at the disposal of the banks and finance houses without imposing any significant requirements on how the money is used, or even obliging the bankers to account for the bailout funds they receive.

On the basis of the vast transfer of public funds, supplemented by deceptive accounting tactics, most of the big banks have reported substantial profits for the first quarter of 2009—even as they refuse to sell or write down hundreds of billions of dollars in bad debts they continue to hold—and denounce the minimal restrictions on executive pay imposed in return for the government handouts.

In recent days, the banks, the media and the Obama administration have hailed the improved fortunes of

Wall Street as a harbinger of a broader economic recovery. In the statement released Wednesday, the Fed echoed this line, saying the economy had "improved modestly" since its March meeting and touting a "somewhat slower" pace of the contraction.

At the same time, it acknowledged that "economic activity is likely to remain weak for a time," and that while household spending "has shown signs of stabilizing," it remains "constricted by ongoing job losses, lower housing wealth and tight credit."

By putting the best possible gloss on the economic situation, the Fed is suggesting that the policy of, in Obama's words, doing "whatever is necessary" to bail out the banks is working.

Wall Street analysts cited two new indicators to justify this claim. On Tuesday, the Conference Board reported that consumer confidence had risen to 39.2 in April from 26.9 in March. This indicator, which mainly reflects lingering hopes and illusions in the Obama administration, is up from almost unprecedented lows and remains far below normal levels.

On Wednesday, the government reported that consumer spending rose 2.2 percent in the first quarter of 2009 compared to the last quarter of 2008. The modest increase broke a string of six straight monthly declines. However, the figure was up from a disastrous fourth quarter decline of 4.3 percent.

Any hopeful signs provided by the consumer confidence and consumer spending reports were more than overshadowed by the grim details of the GDP report. The first quarter drop means that GDP—a measure of the country's total output of goods and services—has shrunk by 3.3 percent since peaking in the second quarter of 2008.

The Commerce Department reported, moreover, that US companies cut their total spending by a record 38 percent. It also said residential construction fell by 38 percent, the biggest quarterly decline since 1980. Reflecting the global character of the crisis, the report noted that US exports dropped 30 percent to the lowest level in four decades.

Also on Tuesday a report on home prices, the Standard & Poor's/Case Shiller index, showed no let-up in the housing crisis. Home prices fell sharply in February across 20 major cities, declining 18.6 percent from a year earlier. Half of the cities posted deeper declines than in prior months, and overall prices fell 2.2 percent from January.

A separate report revealed that home loan applications fell 18.1 percent last week.