Cracks appear in facade of US “boom”

Nick Beams
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For some time, the US has been held up as the “exceptional economy” where growth remains at relatively strong levels. By contrast, in other major economies such as the European Union and Japan, along with others including South Korea, Australia and New Zealand, expansion is virtually at a halt.

The election of Donald Trump to the presidency set off a boom on Wall Street in the expectation that his program was going to provide a bonanza for US corporations.

However, there are now signs of cracks in this façade which, in any case, never reflected the underlying reality for most Americans struggling to make ends meet.

The latest reports on the US economy, indicating that the boom heralded by Trump is not going to materialise, sparked a fall on Wall Street last Friday. The S&P 500 index dropped by 1.7 percent, its most significant decline in two months, after reaching a record high. The tech-heavy NASDAQ index was down by 2.2 percent, with the decline continuing this week.

The *Financial Times* ascribed the fall to a “bout of gloomy economic data” showing that “sentiment among consumers and businesses has cooled a month into Donald Trump’s presidency.”

The most significant data were contained in the report of S&P Global on its Purchasing Managers’ Index (PMI) which measures business orders and expectations.

It stated: “US business activity growth came close to stalling in February … as a renewed fall in services output offset faster manufacturing growth...

“New order growth also weakened sharply and business expectations for the year slumped amid growing concerns and uncertainty related to federal government policies. The upturn in manufacturing was also in part linked to the front-running of tariffs, hinting at a merely temporary boost.”

The headline PMI index dropped to 50.4 in February from 52.7 in January. The level of 50 marks the boundary between expansion and contraction. The fall took the index to its lowest level in 17 months “to signal a near-stalling of business activity.”

Trump has claimed that his tariff war is going to bring riches to the US economy. That is not the sentiment in large sections of business.

Manufacturing industry reported the “steepest increase in costs, with raw material prices showing the largest monthly gain since October 2022, with the increase overwhelmingly blamed by purchasing managers on tariffs and related supplier-driven price hikes.”

Service sector output declined for the first time in 25 months, following rapid expansion late last year. It seems that in contrast to the euphoria in some business circles after the election, the reality of the Trump presidency is now becoming apparent.

According to the S&P report: “Service providers linked the downturn in activity and worsening new orders growth to political uncertainty, notably in relation to federal spending cuts and potential impacts on economic growth and inflation outlooks.”

Commenting on the data, Chris Williamson, chief business economist at S&P Global Marketing Intelligence, said: “The upbeat mood seen among US business at the start of the year has evaporated, replaced with a darkening picture of heightened uncertainty, stalling business activity and rising prices.

“Optimism about the year ahead has slumped from the near-three-year highs seen at the start of the year to one of the gloomiest since the pandemic.”

Two of the major areas of concern are tariff hikes and their impact on inflation as well as federal spending cuts leading to mass layoffs. The unofficial DOGE under the fascist Elon Musk is taking a chain saw to government departments that provide vital services to tens of millions.

Torsten Slok, the chief economist at the global management firm Apollo, has estimated the DOGE cuts could initially make as many as one million unemployed. This would result in a 15 percent increase in the jobless rate with consequences for "[interest] rates, equities and credit" and prove to be a weight on economic growth.

This is borne out by figures reported last month in an article by economics writer Tej Parikh for the *Financial Times*.

He noted that government spending had played an "under-appreciated role in supporting America's post-pandemic growth." Public transfers account for over a quarter of residents' income in more than 50 percent of US counties.

"Since the start of 2003, the government has created more jobs than dynamic sectors like tech, finance, construction and manufacturing combined," he wrote. Out of the 256,000 jobs created last December over 100,000 came from social assistance and the government.

Parikh dissected the oft-heard claims that American exceptionalism rests on the "strong" US consumer and jobs market. He noted that healthcare spending is the largest single component of household services spending. More than 40 percent of new private sector jobs created since the start of 2023 have been in healthcare, with the biggest US industries by revenue including hospitals, drug wholesalers and medical insurers.

"Put simply," he wrote, "a significant share of the US's 'booming' economy is generated by sickness."

As for other areas of consumption spending, Fed research had shown that "higher-income households have fuelled post-pandemic retail spending."

Just how much has been highlighted by an analysis carried out by Moody's Analytics, based on Federal Reserve data, reported in an article in the *Wall Street Journal* earlier this week.

"The top 10 percent of earners—households making about $250,000 a year or more—are splurging on everything from vacations to designer handbags, buoyed by big gains in stocks, real estate and other assets," it said.

These consumers now account for 49.7 percent of all spending, comprising almost one-third of gross domestic product. Higher earners increased their spending by 12 percent between September 2023 and the same month last year, while spending by others dropped over the same period.

In the past four years, the top 10 percent have increased their spending by 58 percent while the bottom 80 percent increased their spending by 25 percent, just above official level of 21 percent inflation over the same period.

It should be noted that the real position of lower income earners is likely to be worse than these figures indicate. This is because the further down the income scale one goes, the higher the proportion of spending on necessities which have seen some of the biggest price hikes.

Trump was able to win November election on the basis of "snake oil" rhetoric that he was going to make the economy "boom" again. He capitalised on the decline in wages and living standards imposed by the Democrats as inflation soared to the highest levels in four decades.

Little more than a month after his inauguration, the underlying trends in the US economy are coming to the surface, accompanied by the response of the oligarchy that Trump represents which is to declare war on the working class.