Britain: Recession intensified by terror attacks in US

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A wave of job losses has been announced in Britain in the aftermath of the terrorist attacks on New York and Washington. Some of the first casualties were in the airlines and related industries.

British Airways almost immediately announced the cutting of 7,000 staff and 10 percent of its capacity. This followed an earlier announcement by Virgin Atlantic, which said it was cutting 1,200 jobs and reducing its flights by 20 percent.

Tens of thousands more jobs are at risk, after the world's airlines began to cancel orders and cut back on their operations. Spending on aircraft components by US giant Boeing and European rival Airbus supports a major part of the UK aerospace industry. It is estimated that lost orders from Boeing alone will lead to 40,000 jobs going.

Among dozens of UK firms that will be hit by the cuts are Rolls-Royce, Smiths Group and BAE Systems. Boeing last week announced up to 30,000 job cuts at its own plants. A source at the company's Chicago headquarters described its spending in the UK as "massive", but would not disclose figures.

Boeing rival Airbus supports about 20,000 jobs in the UK. BAE owns 20 percent of Airbus, and used to own factories in Cheshire and Filton, Bristol, making wings for the European aircraft manufacturer. These factories, which together employ 8,300 workers, are now owned by Airbus directly. A further 12,000 jobs in the UK supply chain are said to be dependent upon Airbus business. All of these could be under threat as the manufacturers seek to offset the cost of lost business and share values.

Though intensified by the tragic events in New York and Washington, these and other job losses are in response to a recession that had already begun to bite. In its August 25-31 issue the *Economist* magazine appeared with a front cover stating, "2001 things to do in a recession: 1. Get a parachute." The leader article stated, "Americans hope that Alan Greenspan, the Fed's chairman, is doing enough to prevent a recession. But for some it is too late."

"The current global slowdown differs from others in the past half-century... economic weakness is more widespread than in previous downturns. In the 1991 'world recession', for instance, the American economy sank, but Japan, Germany and emerging East Asia continued to boom, helping to cushion world demand. So far this downturn is not deep, but it could be the most synchronised since the 1930s," the article noted.

In the aftermath of the attacks, most commentators agree that the recession will indeed be "deep", and not only in the US.

BBC News Online's Emma Clark wrote on September 21, "Economic events in the US often provide a taster of 'what's coming soon' to the UK. Together the two economies stand and, inevitably, together they fall."

Britain, more than any other country in Europe, is bound by close trading relationships to America. About 15 percent of UK exports go to the US and the events of September 11 will have disastrous consequences for British manufacturing. According to Richard Iley, an economist at ABN Amro Bank, UK manufacturing has already been in recession for six months, and an American recession will "intensify the pressure".

The September survey of the Confederation of British Industry (CBI) found that the manufacturing sector had slumped to a near three-year low.

Britain's financial ties to the US are even greater than those of manufacturing industry. About half of the profits of all the leading companies listed on the FTSE index come from overseas, with 15 percent of the total coming from the US. Recession means the substantial US investment in the UK will dry up, while revenues from British companies with branches in America will be extremely weak.

Particularly hard-hit already has been the new high-tech sector, which came to dominate Britain's industrial landscape in the 1980s. Latest victims include the Electronics group Viasystems, which employed nearly 1,600 in the northeast of England. The company, which received a £17 million regional aid grant from the British government, called in the receivers on September 21.

The European PCB Group, registered in the Cayman

Islands, which now owns Viasystems, said 70 percent of sales from its Tyneside factories were in the telecoms and datacom markets. “With little or no demand for our core products it was no longer prudent to continue operations,” chairman David Webster said.

South Shields, where the plant is located, has an unemployment rate of 11 percent, over twice the national average and the fourth highest jobless level in Britain. Earlier this month Viasystems announced the closure of its plant at Longbenton, North Tyneside, with the loss of 525 jobs, and a further 325 went at another plant in South Shields.

The Alliance & Leicester building society has announced plans to cut 700 jobs, as part of a programme announced last October aimed at clearing out 1,500 posts by the end of 2003.

Current job losses are only the tip of the iceberg as predictions rise of a full-blown slump in the world economy.

The Centre for Economics and Business Research (CEBR), a leading think tank, predicts that the UK economy will slow from a growth rate of 2 percent this year to just 1.3 percent in 2002. The US economy will record a zero growth rate this year, before recovering to 1.4 percent in 2002. “Although the outlook is highly uncertain, we are clear that in the short term the world economy has been dealt a blow which will depress world growth for at least nine months,” said Doug McWilliams, the head of CEBR.

The forecasts of the CEBR are conservative in the extreme. McWilliams said his estimates assumed that there are no further terrorist attacks; that expected reprisals by the US do “not destabilise the world economy further”, and public spending in the US is increased in response to the disaster.

Even before the terrorist attacks, growth in the US was slowing dramatically, after eight years of economic boom. Central banks around the world have responded to the looming economic crisis by cutting interest rates. Nevertheless, the governor of the Bank of England, Sir Edward George, said that he expected “to see some weakening in the current quarter and perhaps in the next quarter for the UK economy.”

He did not rule out further rate cuts if necessary following the 0.25 percent reduction last Tuesday, which brought UK base interest rates to 4.75 percent, their lowest in decades. McWilliams is forecasting that UK interest rates will fall to 3.5 percent by early next year. US interest rates are already at 3 percent and are expected to fall further.

Tens of thousands of workers are confronted with the prospect of unemployment, under conditions where the average debt per adult in Britain—excluding home mortgages—is around £15,000 ($21,000).

In an article titled “Debt trap ahead”, the *Economist* “Growth in the second quarter slowed to its lowest rate for two-and-a-half years. With manufacturing in recession, that dismal performance would have been even worse but for Britain’s shoppers. While exports slumped in their biggest decline for a decade, consumer spending rose at an annual rate of almost five percent.”

Noting that the “traditional engine of consumption, a buoyant housing market, is pumping away again,” the article states that “homebuyers are finding that they can take out big mortgages in relation to their incomes and not find themselves over-burdened by high interest payments. The latest surge in house-price inflation has been spurred by the lowest mortgage rates for 40 years. The cost of servicing mortgage debt is beguilingly low compared with previous property booms.”

But the magazine warns, “If it all sounds too good to be true, it is.” While low inflation may reduce the initial cost of borrowing, it also means that the debt itself is eroded much more slowly. Many families are stuck with an “endowment mortgage”, which were the most popular type of home loans during the 1980s and early 1990s. It offered borrowers the chance of making lower interest-only payments on their mortgage, while money paid into an endowment policy was invested on the stock market, which would be used to pay off the outstanding capital owed when the policy matured. However, poor stock market returns mean millions face a shortfall on their loan.

In the immediate aftermath of the US events, global share values have lost hundreds of billions of dollars. In Britain alone, there were reports of daily losses of between £40 and £50 billion. In just two days, Scotland’s two leading banks—Royal Bank of Scotland and HBOS saw a £10 billion collapse in their market value.

The effects of this upon working people will be catastrophic. Not only are endowment mortgages reliant upon a continued growth in share values, but also many pension schemes depend on funds invested in stocks and shares. Millions of people whose pension fund and/or endowment mortgage is due to mature will find themselves with debts they are unable to meet and much reduced retirement incomes.