Slumping sales signal US recession; slowdown spreads to Europe

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Extremely weak retail sales reports on Wednesday and Thursday provided additional evidence that the US economy is sliding rapidly into recession. The indicators of falling consumer spending were joined by reports that the US housing slump continues to deepen.

At the same time, the downturn that began in the US is spreading inexorably to Europe, where housing sales and prices are falling in most Euro Zone countries and the United Kingdom, and service industries grew last month at the slowest rate in four years.

On Wednesday, the department store giant Macy's reported a 7.1 percent fall in same-store sales for January and announced it was cutting 2,300 jobs as part of a consolidation of its management structure.

A report issued Thursday by Thomson Financial said US chain stores' total same-store sales rose by just 0.3 percent in January, far lower than the already minimal 1 percent rise predicted by analysts. The same day, the International Council of Shopping Centers reported its weakest January performance in four decades.

The slump in retail sales extended across the spectrum from Wal-Mart, which reported a smaller-than-projected 0.5 percent gain, to up-market Nordstrom, which registered a 6.6 percent decline. Target reported a 1.1 percent decline, J.C. Penney sales fell by 1.9 percent, and Kohl's stores were down by 8.3 percent.

On the housing front, the National Association of Realtors (NAR) reported Thursday that pending previously-owned home sales fell 1.5 percent in December. The NAR's pending home sales index was down 24.2 percent from the prior year's period. The realtors' organization predicted further declines in home prices into 2009.

This followed the report released January 28 showing that sales of new single-family homes had plummeted by a record 26 percent in 2007 and builders had slashed prices by the most since 1970.

The collapse of the US housing market remains the biggest factor contributing to the crisis in credit markets in the US and around the world, which has produced tens of billions in losses by major US and European banks and a sharp contraction in credit. On Thursday, Edward DeMarco, deputy director of the Office of Federal Housing Enterprise Oversight, spoke to an audience of securities analysts in New York and made clear that the housing crisis and the related credit crisis would only intensify.

He said that serious mortgage delinquencies are rising on subprime loans to a rate not seen since the 2001 recession, and he noted that there are over two times more subprime loans outstanding today than seven years ago. He also reported that serious delinquencies have spread well beyond the riskiest loans to mortgages previously considered to be much safer.

Wall Street Journal columnist David Wessel on Thursday summed up the dynamic as follows: "Wall Street can't place a value on all its mortgage-linked securities until it can figure out the worth of the houses underlying those securities. And until that happens, the credit crunch is likely to spread and intensify."

Share indexes in the US fell on Wednesday on Macy's grim report and a speech by the president of the Philadelphia Federal Reserve Board warning against a continuation of the Fed's policy of aggressive interest rate cutting.

The Dow Jones Industrial Average declined by 65 points, bringing its fall since the beginning of the year to 8 percent and its decline from its record close of October 9 to 14 percent. The Nasdaq Composite Index lost 30 points, down 20 percent from its October 31 high—the threshold considered to define a bear market.

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The Standard & Poor's 500 Index dropped 10 points, down 9.7 percent so far this year and 15 percent below its own record close on October 9.

These declines followed Tuesday's massive selloff—minus 370 for the Dow, minus 73 for Nasdaq, and minus 44 for the S&P 500—sparked by the Institute for Supply Management's report of a virtual collapse in service sector business activity in January.

Stocks recovered marginally on Thursday, despite the dismal retail sales reports. One factor in the uptick was growing confidence among market traders that the Fed will respond to recessionary trends by cutting interest rates at least another .50 percent when it meets next month, or even announce yet another emergency cut in advance of its scheduled policy meeting.

Responding to the growth of recessionary currents in Europe, the Bank of England on Thursday cut interest rates by a quarter percentage point to 5.25 percent. The move was a reaction to "slower consumer spending and a weakening housing market," said Wachovia Corp. analyst Jill Trainor.

The European Central Bank held its key rate steady at 4 percent, but ECB President Jean-Claude Trichet reversed his previous position and told a news conference he was open to rate cuts down the road because of weakening economic growth in Europe.

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