Mounting signs of protracted world recession

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Global share markets have continued to slide downward because of growing indications that the world economy is heading into a prolonged recession, far worse than previously predicted by financial analysts and commentators. So far this year, more than 51 percent of the value of world stock markets has been wiped out, according to Bloomberg data.

US stocks ended slightly up yesterday, after falling to five-year lows during the day. The Standard & Poor's 500 Index added 1 percent to 859.11, although about six stocks retreated for every five that rose on the New York Stock Exchange.

Compounding the volatility were the failure of last weekend's G20 meeting in Washington to produce any answers to the worst economic crisis since the 1930s, the specter of deflation and uncertainty over the fate of the US auto giants, General Motors, Ford and Chrysler, which are pleading for multibillion-dollar government bailouts to avoid bankruptcy.

"It's a foregone conclusion that we're in a global recession. The markets are telling you that, and the biggest fear is further labor market deterioration," Andre Bakhos, president of Princeton Financial Group in Princeton, New Jersey, told Reuters. "Without clarity on General Motors, the market is only going to drift lower."

A Bloomberg business survey warned that, after contracting at a 0.3 percent annual pace in the third quarter, the American economy could shrink again this quarter and in the first three months of 2009, producing the longest slump since 1974-1975. The forecast came on top of the previous day's announcement that Japan, the world's second largest economy, had joined Europe in entering recession last quarter.

Perhaps the sharpest warning sign came with the release of US producer prices data, showing a record drop in October, sliding downward for a third straight month, as raw material and energy prices continued to fall. The producer price index for finished goods dropped 2.8 percent on a seasonally adjusted basis in October, the Labor Department said Tuesday, substantially more than the 1.8 percent fall predicted by economists in a Dow Jones Newswires survey.

Along with a UK government report showing that Britain's inflation rate fell the most in at least 11 years (down from 5.2 percent to 4.5 percent), the figures reveal a rising threat of deflation—a downward spiral of prices, demand and production.

Business leaders fear that plummeting prices will slash profit rates, leave real interest rates above the deflation rate—making money even more costly to borrow—and cause consumers to postpone spending and wait for cheaper prices. Concerns are being expressed about Japanese-style stagnation, lasting a decade or more, with serious deflation feeding off itself, driving down output and employment.

Already, falling demand is spreading from the auto industry and other sectors initially hit by the fallout from the financial meltdown. Dow Chemical, the largest US chemical maker, said it had been forced to cut prices for two of the most-used plastics, polyethylene and polypropylene, as much as 40 percent since September. The announcement by Midland, Michigan-based Dow foreshadowed the closing of more factories as sales decline.

Earlier in the day, shares dropped on the New York Stock Exchange after the National Association of Realtors reported that prices of existing single-family homes fell 9 percent in the third quarter compared with the same period a year ago. The figures confirmed that the housing implosion is far from over. The trade group said 35 percent to 40 percent of home transactions in the third quarter were distress sales that took place through either foreclosure or "short sales" where the

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holder of the mortgage agrees to take a loss.

The third-quarter results of two major retailers reflected a sharp cutback in consumer spending. Same-store sales at luxury retailer Saks dropped 11.5 percent for the quarter compared to last year, while those at Home Depot, the home improvement retailer, fell 8.3 percent. The Pepsi Bottling Group, meanwhile, announced restructuring plans that would eliminate some 3,150 jobs

After a topsy-turvy day, European shares also ended marginally higher, with London's FTSE 100 index up 1.85 percent, despite more gloomy news. In an unprecedented turnaround, the Confederation of British Industry (CBI), the peak employers' group, warned that Britain is set to enter a recession as severe as that of 1991, with the economy shrinking by 2.5 percent and unemployment to hit 9 percent by 2010, leaving nearly 3 million people out of work.

The CBI said it was compelled to issue a sharply revised forecast that the British economy would contract by 1.7 percent next year, against its growth prediction of 0.3 per cent made just two months ago in September. Ian McCafferty, chief economic adviser to the CBI, said the financial crisis had dramatically changed the picture for business.

"Since October's financial turmoil, companies have started to report that, for the first time, they are finding it increasingly difficult to access capital. If this were to be more than a temporary phenomenon, it would result in otherwise healthy companies going to the wall for lack of short-term finance. This would have serious implications for both employment and investment."

Credit analysts at Citigroup reported that the yields on bonds of investment-grade non-financial groups—some of the CBI's biggest companies—had risen sharply, implying a risk of default even higher than that from 1931 to 1935, during the Great Depression. As well as indicating actual default risk, the yield rates point to evaporating credit for the corporate sector.

The job cuts hitting British workers—more than 20,000 were announced last week—worsened when Wolseley, a major supplier of plumbing and heating goods, unveiled 2,000 more layoffs, accompanied by branch closures. The company had previously announced 5,000 job cuts, mainly in North America.

Sir Tony O'Reilly's Independent News & Media said it would axe a quarter of the editorial staff on the *Independent* newspaper and its Sunday sister title in order to seek savings of £10 million. Of the 90 job losses, 60 will come from the 250 or so editorial staff.

Earlier yesterday, news of Japan's recession and Citigroup's announcement of another 52,000 job cuts sent stock markets tumbling across Asia, with Hong Kong's Hang Seng index down 4.5 percent and Japan's Nikkei 225 lower by 2.3 percent. South Korea fell 4.1 percent, and Shanghai lost 6.3 percent.

Mitsubishi UFJ Financial Group, Japan's largest bank, posted a 61 percent decline in second-quarter profits. Once reputed to be relatively immune to the global credit crisis, Mitsubishi UFJ and other Japanese banks are now scrambling to raise cash, hurt by corporate bankruptcies—which rose 13.4 per cent in October from a year earlier—and heavy exposure to the domestic stock market. Mitsubishi UFJ shares have fallen 48 percent so far this year, in line with a similar decline in Tokyo's bank index.

The Australian share market slumped about 3.5 percent yesterday to fresh four-year lows, with the heaviest losses stemming from the resources sector. Lower commodities prices affected the big miners: as Rio Tinto lost 7.40 percent to $68.00, and rival BHP Billiton dropped 3.58 percent to $24.20.

The international rout of mining shares worsened amid reports that the world's largest steelmakers in India and China are suspending iron ore and coal contracts, or refusing to take deliveries because of collapsing demand for everything from cars and appliances to bridges and buildings.

Indian giant ArcelorMittal, for example, sent a letter to its German scrap-metal suppliers, saying it had been forced by the global downturn to suspend contracts with the suppliers as of the end of last month. India's state-owned Rashtriya Ispat Nigam wrote to several of its metallurgical-coal suppliers this month, asking them to cut prices 68 percent for the contract year ending next June.

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