US, world stock markets plummet on global recession forecasts

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Share markets in the US and internationally have again fallen sharply in response to more data indicating the world economy is headed for a severe and prolonged recession. In the US yesterday, the benchmark Dow Jones Industrial Average closed 443 points lower, after losing 486 points on Wednesday. The combined decline of 9.7 percent is the largest two-day fall since the crash of October 1987.

Share markets closed lower yesterday around the world. Britain's leading FTSE 100 index lost 5.7 percent, the CAC 40 in Paris fell by 6.3 percent, and in Germany the DAX declined by 6.8 percent. In Asia, Tokyo closed 6.5 percent lower, Hong Kong 7.1 percent, and Sydney 4.3 percent.

Among the sharpest indications of the worsening state of the world economy is the revised International Monetary Fund (IMF) October "World Economic Outlook" report released yesterday. The IMF forecast that the combined gross domestic product (GDP) of the world's advanced economies would shrink by 0.3 percent in 2009—the first such retraction experienced since 1945.

The US is forecast to decline by 0.7 percent, Japan by 0.2 percent, Britain by 1.3 percent, and the Eurozone by 0.5 percent. The combined 0.3 percent estimated decline is substantially worse than the IMF's previous forecast, issued just one month ago, which anticipated 0.5 percent growth. The IMF also lowered expected overall 2009 world growth from 3 percent to 2.2 percent, due to slowing—though still positive—GDP growth in developing economies.

One of the key factors in the world downturn is the collapse in US consumer confidence. Consumer spending—which accounts for more than two thirds of all GDP activity in the world's largest economy—has been hit by mounting job losses, declining real wages, the rising cost of living and restricted access to credit.

Most leading US retailers yesterday reported a double-digit drop in October sales. Luxury department store Neiman Marcus reported the largest decline of 27.6 percent; others included Abercrombie & Fitch (down 20 percent), the Gap (16 percent), and Nordstrom (15.7 percent). Many discount retail chains also saw lower sales last month, with Target down 4.8 percent. Wal-Mart was one of the few retailers to buck the trend, with sales finishing 2.4 percent higher. This was attributed to more people trying to save money by shopping at the low-cost, bulk supply retailer.

Further evidence of slowing US economic activity came with the release of the Institute for Supply Management's (ISM) factory index. The manufacturing measure fell to 38.9 in October, from 43.5 in September, with sub-50 regarded as indicating a contraction.

The ISM also found that export orders were the weakest recorded since 1988, when such data was first collected. "The domestic economy was already weak, and we were kind of hitching a ride on the overseas economy," Brian Bethune, chief economist at IHS Global Insight, told *Bloomberg News*. "That beacon of light from overseas economies has basically burned out."

Labor Department figures released yesterday showed the number of people receiving unemployment benefits increased by 122,000 in late October, bringing the total to 3.84 million. This figure was significantly higher than analysts' reported expectation of a total of 3.74 million, and is the highest level recorded since February 1983.

The government figures recorded that "real compensation per hour"—that is, hourly wages after inflation—fell by 1.9 percent in the third quarter, the third quarter in a row in which real wages have declined.

The Labor Department also recorded a 2.7 percent fall in the third quarter hours of work. This is the fifth consecutive quarter of decline, indicating that businesses are continuing to eliminate shifts and cut back on overtime to try to reduce costs.

The assault on workers' jobs, wages, and conditions is set to accelerate in the next period. A report issued Wednesday by outplacement firm Challenger, Gray & Christmas found that planned layoffs reached their highest level in nearly five years last month. "A year ago, job cuts were concentrated in the financial sector and home-building industries," John Challenger, the company's CEO, told Reuters. "Job cuts are now rising across the board."

The retail sector is preparing for the worst holiday sales season in two decades. Yesterday, toy maker Mattel announced it was cutting 1,000 jobs, or 3 percent of its workforce.

Job losses continue to mount in the financial sector. Fidelity Investments announced yesterday that it was laying off 1,300 employees this month, or almost 3 percent of its total workforce. Another round of layoffs is planned for the first quarter of 2009, with up to 4,000 more jobs reportedly at risk.

The auto industry crisis continues to see near-daily mass layoff announcements. Auto parts supplier Dana Holding Corp. said yesterday that it will soon close up to 10 plants and lay off 5,000 workers, 2,000 more than previously anticipated, equivalent to more than 15 percent of the company's total workforce. So far, the Ohio-based company has only identified one of the ten plants slated for closure—a drive shaft plant in Quebec, Canada.

Japanese auto giant Toyota has reported a 69 percent fall in net profits for the second quarter, the first decline recorded in nine years. The company warned it would barely break even in the second half of 2008 amid falling world vehicle sales. "The financial crisis is negatively impacting the real economy worldwide, and the automotive markets, especially in developed countries, are contracting rapidly," Toyota executive vice president Mitsuo Kinoshita declared. "This is an unprecedented situation."

US auto sales last month were the lowest in 25 years. Analysts continue to speculate whether one of the Big Three auto makers will collapse. Ford, Chrysler, and General Motors (GM) executives are now in Washington for discussions with senior law makers, including Democratic House Speaker Nancy Pelosi.

Chrysler and GM are especially desperate to secure billions of dollars in public money to finance a proposed merger that will see the destruction of tens of thousands more jobs. On Wednesday, the Center for Automotive Research estimated that if the Detroit automakers cut their operations by 50 percent, 2.5 million jobs could be lost within 12 months.

As the American working class is experiencing the greatest attack on its living conditions in generations, the financial elite responsible for the economic crisis continues to enrich itself.

The *Wall Street Journal* yesterday published an extraordinary article headlined "On Street, the Incredible Shrinking Bonus", sympathetically reporting that bonuses for banking, investment, and brokerage firm executives may have reduced by 20 to 50 percent from last year. The *Journal* noted, however, that even in "particularly hard-hit areas such as structured credit, which churned out collateralized debt obligations that blew holes in many Wall Street balance sheets," managing directors could still be taking home bonuses of between $750,000 to $950,000.

Even those executives who share responsibility for destroying their own companies can expect lucrative rewards this year.

The now bankrupt Lehman Brothers, having recorded an official net income loss of more than $2 billion for 2008, will still pay out annual bonuses of about $2.5 billion. Merrill Lynch, which has since been sold off to the Bank of America, having recorded a net income loss of nearly $12 billion in 2008, will pay employees more than $6 billion in bonuses. According to the *Journal*, the firm earned just $3.05 billion from 2002 through to the third quarter 2008, but paid out $52.4 billion in bonuses over the same period.

This report follows the earlier revelation that nearly one-third of the $125 billion in public money to the nine largest US banks will be handed over to company executives as private compensation and pensions amassed up to the end of 2007. (See "Wall Street's Great Heist of 2008")