US stock market plunges 680 points on signs of severe recession

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The National Bureau of Economic Research, an independent economic body in the US, said Monday that the country has been in a recession for one year, since December 2007.

The NBER report combined with additional signs of deep global recession and looming depression, sent US stocks into another tailspin Monday, with markets suffering their biggest losses since October and the fourth-worst point drop for the Dow on record. The bureau is considered to be the arbiter for determining when the country is in a recession.

The Dow Jones Industrial Average fell nearly 680 points, or 7.7 percent, while the NASDAQ and the S&P 500 each fell nearly 9 percent. The drop wiped out half of last week's market surge, which was partly a response to President-elect Barack Obama's picks for top economic posts—picks highly favorable to Wall Street.

The NBER defines a recession as "a significant decline in economic activity spread across the economy, lasting more than a few months, normally visible in production, employment, real income, and other indicators." The NBER noted that payroll employment figures reached a peak in December 2007 and have declined every month since.

The statements of the NBER only confirm a trend that has become obvious in recent months, as indicator after indicator has shown a sharp drop in economic activity and consumer spending in the US as part of a severe global economic downturn.

Monday saw the release of several new reports along these lines.

The Institute for Supply Management (ISM) reported that its index of manufacturing activity fell to a 26-year low. The index fell to 36.2 from 38.9 in October, a steeper fall than expected by economists.

The *Financial Times* cited ING Financial Markets analyst James Knightly noting that the fall in the manufacturing report likely portends a sharp drop in employment for the month of November—a figure that will be released on Friday. The newspaper reported, "The ISM's employment component has fallen to a level consistent with a 150,000 drop in manufacturing payrolls, [Knightly] said, and with initial jobless claims continuing to surge, he expected to see total payrolls decline by around 400,000 in November and the unemployment rate pushing up to 6.9 percent."

In October, official unemployment in the US rose to 6.5 percent from 6.1 percent, with 240,000 jobs lost. The US Commerce Department also reported that construction spending fell by 1.2 percent last month, also more than expected. The spending decline was led by yet another drop in housing construction, which fell 3.5 percent. Nonresidential construction also fell by 0.7 percent.

US economic figures were accompanied by poor reports in other parts of the world. The Chinese purchasing managers index fell to 38.8 in November, from 44.6 in October. The index is at its lowest level since the measure's inception in 2005. Export growth in China has collapsed as a product of the economic decline in the US and Europe.

Manufacturing and sales figures in Europe were also sharply down. A purchasing managers survey in Europe showed manufacturing activity at its lowest level since the survey began in 1987. Major European markets were all down 5 to 6 percent on Monday.

Bank stocks led declines in the US, with Citigroup falling 22 percent, Merrill Lynch 23 percent, Goldman Sachs 17 percent, and Bank of America 21 percent.

JPMorgan Chase announced Monday that it would shed 9,200 jobs at Washington Mutual, the US bank that failed in September and was subsequently bought up by JPMorgan. The cuts amount to more than 20 percent of Washington Mutual's workforce. These come on top of thousands of job cuts already announced in the financial industry.

On November 17, banking giant Citigroup announced that it was cutting 53,000 jobs after four consecutive quarterly losses and just last week the government announced a $250 billion bailout on extremely favorable terms for the bank. A day later, Treasury Secretary Henry Paulson committed $800 billion to prop up the home mortgage and consumer credit markets.

These moves, bringing the amount of government commitments to some $8 trillion, reflect the disoriented and desperate maneuvers of the US government in response to an unprecedented crisis. On Monday, Paulson and Fed Chairman Ben Bernanke both announced that they stood ready to make further funds available for Wall Street in coordination with the incoming Obama administration.

The continued volatility in the markets expresses a fear on the part of investors that the government's various multibillion-dollar bailout plans have failed to stem a sharp economic downturn that threatens to drive the financial sector into further crisis.

Meredith Whitney, a prominent analyst at Oppenheimer, forecast on Monday that the credit card industry would cut lending by more than $2 trillion over the next year and a half.

In a column in the *Financial Times*, Whitney warned, "Capital destruction has been so intense that multi-trillions in capital raised by institutions through both private and public capital has gone to plug holes and not stabilise the effects of shrinking liquidity to corporations and consumers. More than $3,000bn (€2,365bn, £1,955bn) of available credit has been expunged from the markets and therefore corporate and consumer borrowers so far this year."

Whitney noted that the decline in credit card lending would have a major impact on consumer spending in the US, which is already down sharply. "We believe we are now entering a new era in the financial landscape that will be characterised by expanded forced consumer deleveraging, with a pronounced downshift in consumer spending," Whitney wrote in a separate note released on Monday.

Sales prospects for the Christmas season in the US look gloomy, despite initial reports of an increase in sales figures for "Black Friday," the day after Thanksgiving. Much of the early increase in sales—which dropped off on Saturday and Sunday—was driven by steep discounts that will likely hurt retail profits. Stocks for the major retailers were also down sharply on Monday.