As world slump deepens

US jobless claims soar to 26-year high

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The Labor Department reported Thursday that the number of US workers filing new claims for unemployment benefits last week jumped 58,000 to a seasonally adjusted total of 573,000—the highest figure since November 1982.

The increase was more than twice the figure forecast by economists, showing that the recession in the US is developing far more rapidly than anticipated.

The four-week average of new claims also neared a 26-year high, rising 14,250 to 540,000.

The total of continuing claims, those drawn by workers collecting benefits for more than one week, also rose, climbing 338,000 to 4,429,000. The increase in continuing claims was the biggest in 34 years, showing that laid-off workers are finding it increasingly difficult to find new employment.

Also on Thursday, the Federal Reserve Board reported that the total net worth of US households fell 4.7 percent in the third quarter from the second quarter. The decline was the fourth in a row, indicating the degree to which the recession is driving down the living standards of the population.

These figures, and other newly released data on retail sales, home foreclosures and US exports that show a dramatic decline in the American economy and growing social distress, coincide with economic reports documenting the emergence of a global recession on a scale not seen since the Great Depression.

The World Bank on Tuesday issued a report saying that the world is plunging into a recession likely to be more protracted than any since the 1930s. The bank projected that world trade would actually contract next year, marking the first year of negative growth since 1982. It noted that North America, Europe and Japan are already in recession, and predicted that economic growth in the so-called developing world would fall sharply. The bank forecast that capital flows to developing countries will plunge by 50 percent.

"We know that the financial crisis is now likely to be the worst since the 1930s," said Justin Lin, the chief economist of the World Bank.

The bank forecast that the global economy will grow by a mere 0.9 percent in 2009, down from 2.5 percent this year and 4 percent in 2006.

The volume of world trade, which grew 9.8 percent in 2006 and an estimated 6.2 percent this year, will contract by 2.1 percent in 2009. That drop would be deeper than the last major contraction in trade—1.9 percent in 1975.

The bank noted as particularly ominous a sharp contraction in China's growth rate. It forecast that the country, which grew 11.9 percent in 2007, will slow to 7 percent this year and 6.6 percent in 2010.

Deutsche Bank this week issued an even more dire forecast, saying the global economy would actually contract by 0.2 percent in 2009, with the US, Europe and Japan in recessions of roughly equal severity.

"Global trade is reversing course because it is a function of industrial production, and we're seeing the biggest coordinated slump in industrial production since the early 1930s," said Philip Suttle, director of Global Macro Analysis at the Institute of International Finance.

In an article Thursday on the global crisis, the *Washington Post* noted that the credit crunch and near-collapse of consumer spending in the advanced countries are reverberating across the globe. South African miners are being laid off because of the collapse in platinum prices, which is bound up with the slump in auto sales in North America, Europe and Japan. In India, thousands of textile workers are losing their jobs as global clothing sales plunge. While November auto sales were down 37 percent in the US, they were also down 15 percent in India and 30 percent in South Africa.

In the two days since the release of the World Bank report, economic data has emerged that indicates the bank has, if anything, underestimated the depth of the crisis. On Wednesday, the Chinese government reported that Chinese exports last month registered their sharpest drop in nearly a decade, falling 2.2 percent from a year earlier. That compares to a 19.2 percent rise in October and a nearly 26 percent increase in 2007.

Imports into China fell even more sharply. They were down 17.9 percent in November from a year earlier. Particularly indicative of the impact of the recession in the West on Chinese manufacturing, the country reported a steep decline in oil imports. China also reported that direct foreign investment fell 36.5 percent in November from a year earlier.

The Chinese government was itself shocked by these figures, which it had not anticipated. The dramatic decline in the Chinese economy revealed by these figures dashes hopes in the advanced countries that China could serve as the catalyst to pull the world economy out of recession.

Elsewhere in Asia:

• Japan's gross domestic product contracted much more rapidly in the third quarter than previously thought, figures published Tuesday showed. Data showed a quarter-on-quarter decline of 0.5 percent, compared to a preliminary estimate of 0.1 percent. Japan's economy contracted at an annualized rate of 1.8 percent.

• Taiwanese exports last month fell by almost a quarter from a year ago, the sharpest drop since September 2001.

• Korea reported that its November shipments dropped 18 percent from the previous year.

In Europe:

• Ford, Volkswagen and Renault have idled their plants in Russia, and Standard & Poor's on Monday cut the country's debt rating for the first time in a decade, warning of a "rapid depletion" of Russia's reserves.

• German manufacturing orders plunged in October by 6.1 percent after a record decline of 8.3 percent the previous month. Economists had forecast a rise of 0.4 percent for October. Deutsche Bank chief economist Norbert Walter told a newspaper that German GDP could contract by up to 4 percent in 2009.

• In France, manufacturing excluding energy and agriculture dropped 3.2 percent in October compared to September. Auto production dropped 14.3 percent after a 5.9 percent drop the previous month. Over 12 months, auto production has dropped 29.2 percent, the biggest drop since 1991.

Also in October, production of metal and metal products declined 5.5 percent. Rubber and plastics dropped 3.6 percent.

In the Americas:

• New auto sales in Brazil dropped 25.7 percent in November from the previous month. Auto production fell 34.4 percent.

• Statistics Canada reported December 5 that 70,600 jobs were lost in November, the biggest monthly job loss since 1982.

Other data on the US economy released this week showed retail sales in November, excluding autos, falling by 5.5 percent from the previous year, the biggest monthly drop in five years. November sales were down 3 percent from October.

The real estate firm Realty Trac reported that US home mortgage foreclosure activity jumped 28 percent last month compared with the same month a year ago. The company predicted that foreclosures would surge even more sharply beginning in January, when temporary foreclosure moratoria end and mass layoffs take their toll on family incomes.

More than 1 million homes have been lost to foreclosure since the housing crisis broke in August of 2007, and Realty Trac predicts that another 1 million homeowners could be forced out of their homes next year.

Last week, Credit Suisse issued a report forecasting 8.1 million foreclosures by the end of 2012, accounting for 16 percent of all US mortgages.

Finally, the US trade deficit unexpectedly rose in October, after having consistently fallen as a result of the falling value of the dollar and the resultant reduction in the relative price of US exports. The 1.1 percent rise in the trade gap was mainly the result of a precipitous 2.2 percent drop in US exports resulting from falling demand in Europe, Japan, China and elsewhere.

Harm Bandholz, an economist at UniCredit Markets & Investment Banking in New York, commented, "The last bastion of the US economy has collapsed. The US economy will contract by 4.5 percent in the current quarter."

Economists at Morgan Stanley projected the US economy will contract at a 6 percent annual pace this quarter, upping the estimate from 5 percent.

US and global financial markets, meanwhile, continue to be in turmoil. One measure of the fear that continues to grip the markets is the fact that investors on Tuesday accepted a zero percent rate in the US government's auction of $30 billion worth of short-term securities. Demand was so great that the government could have sold four times as much.

"The last time this happened was the Great Depression, when people were willing to accept no return on their money, or possibly even a negative return," said Edward Yardeni, an independent analyst.

Every day continues to bring reports of new mass layoffs. Over the past several days the following have been announced:

• Bank of America announced plans Thursday to cut 30,000 to 35,000 jobs over the next three years as a result of its acquisition of Merrill Lynch and the weak economy. This represents more than 10 percent of the combined workforce of the merged firms.

• Rio Tinto, the mining giant, said Wednesday it will cut 14,000 jobs, 13 percent of its workforce.

• Sony on Tuesday said it will close five or six factories and cut 8,000 jobs worldwide.

• Wyndham Worldwide Corp. announced it will cut 4,000 jobs. The New Jersey company owns hotel brands such as Ramada and Days Inn.

• Goldman Sachs this week will lay off as many as 250 European staff, with most cuts coming in London.

• KB Toys, an 86-year-old toy retailer, filed for bankruptcy with plans to shut its 277 stores, employing 11,000 workers.

• Stanley Works, a Connecticut-based diversified maker of tools for construction and do-it-yourself use, said Thursday it is eliminating 2,000 jobs and will close three of its 45 factories.

• Office Depot plans to close 112 stores in North America over the next three months, eliminating 2,200 jobs.

• National Public Radio will cut its workforce by 7 percent (about 60 employees).

• SKF, the Swedish engineering company and world's biggest bearings producer, said Wednesday it will cut 2,500 jobs, or 6 percent of its workforce.