# Latest US economic data confirms accelerating contraction

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Figures released yesterday on US unemployment, home sales, and business capital investment all proved significantly worse than economists' prior forecasts.

The Commerce Department reported that new single-family home sales for December plunged 14.7 percent from a month earlier, or about 45 percent on an annualized basis. Economists surveyed by Dow Jones Newswires had forecast an average 2.9 percent monthly fall. December's sales decline was the largest recorded since such data was first kept in 1963. In 2008, home sales totaled 482,000, the lowest number since 1982 and sharply below the 776,000 homes sold in 2007.

The Commerce Department also issued data yesterday on December's durable goods investment. Orders for durable goods—such as computers, vehicles, tools, and construction equipment—fell 2.6 percent, or 4.9 percent excluding military purchases. This was the fifth monthly decline in a row. Orders for computers and electronics fell by 7.2 percent, machinery by 5 percent, and primary metals by 6.9 percent. Total orders for durable goods in 2008 fell by a total of 5.7 percent.

The protracted downturn in capital expenditure foreshadows a prolonged downturn in economic activity. "This is pretty much what you expect when the economy is in the process of shrinking and businesses don't see any need to purchase any capital goods," Bernard Baumohl, managing director of advisory firm Economic Outlook Group, told the *New York Times*. "Even if you did want to increase your capital investments, it's going to be difficult to get the capital to purchase this."

Wall Street closed lower in response to the latest economic indicators. The Dow Jones Industrial Average lost 226 points, 2.7 percent, to close at 8,149. The S&P 500 index was 3.3 percent lower while the Nasdaq shed 3.2 percent. Financial stocks suffered the steepest falls, with Bank of America down 8.3 percent, JP Morgan Chase 8.1 percent lower, and Citigroup down 7.1 percent.

Auto giants General Motors and Ford lost 7 and 5.8 percent respectively after Ford announced a record $5.9 billion loss for the fourth quarter. The company's total 2008 loss of $14.6 billion amounted, according to the *New York Times*, to a loss of $2,700 on every vehicle it sold around the world.

Labor Department data released yesterday that showed the number of workers applying for new unemployment benefits last week increased by 3,000 to 588,000. According to one survey, economists expected a decline in claims of 4,000. The total number of continuing claims—those who apply for benefits for more than one week—rose by 159,000 to 4.78 million. This is the highest ever recorded since such data was first kept in 1967. The total as a proportion of the workforce is the highest since 1983.

The return of mass unemployment in the US is one of the sharpest expressions of the social misery now being felt by wide sections of the population. The past four days alone, according to a *CNNMoney.com* analysis, have seen more than 110,000 layoff announcements—about 71,000 on Monday, 11,500 on Tuesday, 15,000 on Wednesday, and 13,000 yesterday.

Among the latest companies to announce major retrenchments are:

* Photographic giant Kodak said it will cut 2,000 to 3,000 more jobs this year. Counting the company's earlier

layoff announcements, in 2009 the total workforce will be reduced by up to 18 percent.

* Aircraft manufacturer Cessna is to cut 2,000 more jobs, on top of the 2,600 layoffs it announced earlier this month. Most of the job losses will take effect at the company headquarters in Wichita, Kansas, with about one-third of the staff there to be sacked. A service center in Toledo, Ohio will also be closed.

* Department store operator Bon-Ton Stores said it will lay off about 1,150 workers while also freezing pay and suspending 401(k) contributions for remaining staff.

* Large vehicle maker Oshkosh announced that it has recently implemented 1,000 additional layoffs, bringing the company's total job losses over the past year to 2,400.

* Allstate Corp, the largest publicly traded US home and auto insurer, is cutting 1,000 jobs at the firm's life insurance unit. The layoffs came as the company reported its first ever unprofitable year, with a loss of $1.68 billion in 2008. Shares plunged by 21 percent in response to the announcement.

* British-based pharmaceutical firm AstraZeneca is to lay off 6,000 workers internationally as part of a plan to reduce its workforce by at least 15,000 over the next four years. The company has not yet announced where the job cuts will take effect, but some of the 4,500 employees at AstraZeneca's US headquarters in Wilmington, Delaware are likely to be cut.

* Teradyne, a Massachusetts-based electronics and semiconductor manufacturer is to lay off 14 percent of its workforce, affecting up to 500 workers, and impose a 10 percent temporary pay cut on remaining staff.

Numerous temporary and contract workers are also being hit with lower pay, reduced hours, and mounting layoffs. According to a 2006 General Accountability Office report, more than 42 million people or nearly one-third of the total workforce, go to work every week without being classified as a full-time employee.

The Associated Press reported yesterday: "Just how many temporary workers are getting swept out in corporate housecleanings is unclear, largely because regulators don't require the same disclosures as they typically do when at least 50 full-time workers are let go... The looser rules have allowed prominent employers like Google Inc. and Microsoft Corp. to trim contractors and temporary workers without quantifying how many people are being shown the door. The phenomenon has happened in other downturns, but never to this extent. The main reason: Employers have been relying increasingly more on temporary, or ‘contingent', workers during the past two decades to save money on payroll taxes and benefits. Analysts believe the trend will accelerate in the years ahead. If it does, even more people may be forced to accept temporary jobs even after the economy recovers."

Policy makers have no idea when any such recovery may eventuate. US fourth quarter GDP figures are due out today; economists anticipate a 5.5 percent contraction on an annualized basis. Given their previous underestimations of the situation, however, there is every possibility that the real picture will be even worse.

A further acceleration of the US economic slump would in turn drag down the world economy. The International Monetary Fund's revised growth figures it issued on Wednesday—forecasting just 0.5 percent global growth—is already under challenge. New York University Professor Nouriel Roubini has predicted the world economy will experience negative growth of at least -0.5 percent, the first such international contraction since the 1930s great depression.