Mounting signs of deepening global slump

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New economic figures point to a renewed downturn of the world economy amid a growing debt crisis in Europe and the threatened breakup of the euro zone.

The economy of the 17-member euro zone contracted sharply in May, according to the currency bloc's purchasing managers' index, which fell at its fastest rate since June 2009. Market, the issuer of the survey, said the figures indicate the euro zone economy will likely shrink by about 0.5 per cent in the current quarter.

The euro zone purchasing manager's index fell to 45.9 in May, down from 46.7 in April. Germany's index dropped to 49.6, down from 50.5, and that of France fell from 45.9 to 44.7. Figures below 50 indicate a contraction.

The euro zone's gross domestic product remained flat in the first quarter of the year, avoiding a negative figure due only to the relatively stronger performance of the German economy, which expanded by 0.5 percent.

In May, however, even Germany's economy likely shrank. Business confidence there fell last month to 106.9 from 109.9 in April, according to the Ifo institute, the second-biggest monthly drop since late 2008.

In Britain, the Office for National Statistics downwardly revised its official estimate for economic growth in the first quarter of 2012 to a contraction of 0.3 per cent. Last month it put the decline at 0.2 percent. The agency attributed the steeper contraction to a worse than previously estimated slump in construction.

These figures follow the release earlier this week by the Organization for Economic Cooperation and Development (OECD) of a new global forecast predicting a slowdown in growth in the advanced economies. The OECD warned in particular of contraction in Europe, slashing its growth estimates for the euro zone. The Paris-based organization said it expects euro zone gross domestic product (GDP) to shrink by 0.1 percent this year, compared to its previous forecast of 0.2 percent growth. It expects Spain and Italy to contract by 1.5 percent this year, Portugal to shrink by 3.2 percent, and Greece by 5.3 percent.

OECD economists also warned of the disastrous impact of a Greek exit from the euro zone. "If Greece exited the euro zone it would have tremendous consequences that are underestimated by most observers," OECD chief economist Pier Carlo Padoan told the *Wall Street Journal*. "We don't compute the probability of a Greek exit (but) it's higher now than six months ago."

The deteriorating economic situation in Europe has hit the euro, which fell 0.25 percent against the US dollar on Friday to $1.25. Over the past month, the euro is down by 5.4 percent against the dollar.

The worsening economic news has also hammered the European banking sector. On Friday, Standard & Poor's reduced its credit ratings on five banks in Spain, leading one of them, Bankia, to request a 24 billion euro bailout from the Spanish government.

China, previously seen as an economic bright spot, likewise posted negative figures. HSBC's preliminary purchasing managers' index for China fell to 48.7 in May from 49.3 the month before. The index has been below 50 for seven consecutive months.

The World Bank on Wednesday lowered its forecast for the Chinese economy's growth, estimating it would grow at a rate of 8.2 percent, down from the estimate of 8.4 percent published six months ago. The IMF also said it expects the world economy to grow more slowly than last year.

In Brazil, output fell for a third consecutive month in March, with the economy shrinking 0.35 percent, according to the central bank. Economists said the slowdown in China has had a significant impact on

Brazil, which supplies a significant portion of the raw materials imported by China.

The US is not doing much better. Orders by US businesses for non-defense capital goods excluding aircraft dropped 1.9 per cent in April, following a 2.2 per cent decline in March. The figures suggest declining confidence by US businesses in their economic prospects.

The US economy added only 115,000 jobs last month, less than the amount needed to offset new entrants into the labor market. This month, Hewlett-Packard, the computer manufacturer, said it plans to lay off 27,000 workers.

This global slowdown is dragging down the values of stocks and commodities. Global stocks have fallen by over 9 percent since March, and prices for crude oil are down by 15 percent.