Global slowdown to deepen attacks on jobs

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Global share markets recovered some of their losses at the end of last week, staging a partial recovery from the slide that saw as much as 20 percent wiped off asset values in the first three weeks of the year.

However, the uptick does not indicate any confidence in the state of the world economy as it took place largely on the back of a pledge by European Central Bank president Mario Draghi that the bank was set to inject still more cash into financial markets.

Last Thursday Draghi indicated that the ECB would extend its quantitative easing policy when it meets in March, declaring in the face of the slowdown in China and falling oil prices that the ECB had “the power, the willingness, the determination to act and ... there are no limits to our action.” Markets lifted in response to his comments after being hit by their worst opening for a new year in history.

But the underlying trend in the global economy is slowing growth, outright recession, and major attacks on jobs coupled with the danger of financial turbulence, especially in highly-indebted emerging markets.

In its annual survey of employment, issued last week, the Geneva-based International Labour Organisation (ILO) warned that global unemployment was set to rise over the next two years.

“The significant slowdown in emerging markets coupled with a sharp decline in commodity prices is having a dramatic effect on the world of work,” the ILO director-general Guy Ryder said in issuing the report.

The ILO said total global unemployment stood at 197.1 million in 2015—27 million higher than the pre-crisis level in 2007. It could be expected to rise by nearly 2.3 million in 2016 and by a further 1.1 million in 2017. In other words, almost a decade after the onset of the global financial crisis, unemployment will still be on the increase.

The unemployment figures themselves significantly understate the true situation because so-called “vulnerable employment,” involving a self-employed worker, often with the non-paid contribution of his or her family, accounted for more than 46 percent of total global employment, or almost 1.5 billion people.

The ILO said that while the number of unemployed people in developed economies was expected to decline slightly it would remain close to historical peaks in a number of European countries. And where there has been a decline in jobless numbers it is often due to continuing or rising underemployment, with a rise in temporary or part-time work.

It estimated that the world economy expanded by 3.1 percent in 2015, half a percentage point lower than had been projected a year earlier, and if current policies were continued “the outlook is for continued weakening, posing significant challenges to enterprises and workers.” Over the next two years the world economy was expected to grow by around 3 percent per annum, “significantly less than before the advent of the global crisis.”

The report was something of a warning to the global ruling elites. Calling for a shift in economic and employment policies, it said that in emerging economies the rise of the middle class had slowed down and there were “renewed risks of social unrest associated with slower growth.” In the developed countries, it noted that the Gini index, measuring inequality, had “risen significantly in most G20 countries,” with top incomes continuing to rise and the bottom 40 percent of households falling further behind. The incidence of what it called “working poverty” was also on the rise in Europe.

However, there is no prospect of the ILO’s call for a “shift” in current policies to be met. On the contrary, every report issued by the International Monetary Fund, the OECD and other major economic and financial organisations emphasises the need for further "structural reforms" in the labour market—that is, attacks on employment conditions and job security.

The worsening global economic outlook is being translated into a wave of job cuts in energy-based and mining industries, in banking and finance, and heavy industries such as steel. Last week Schlumberger, the world's largest oilfields services company announced it was to cut a further 10,000 jobs, bringing to 34,000 the number of jobs it has cut since November 2014, or 26 percent of its workforce.

On Friday the credit rating agency Moody's listed 175 energy and mining companies as being at risk of a credit downgrade, including major global firms Royal Dutch Shell, Total and the gas producer Chesapeake Energy. The notice was the largest single warning of a potential credit downgrade since the financial crisis. It said the slowdown in China was responsible for the gloomy outlook and warned that there was a "substantial risk" that oil prices would recover only slowly from their 12-year lows of less than $30 per barrel. And even with a "modest recovery" producing companies would experience much lower cash flows.

In another warning as to the state of the oil industry, the value of high-yielding or junk bond debt issued by US energy companies has fallen to its lowest point in two decades. The *Financial Times* reported that investors were bracing for a "wave of bankruptcies" as companies which took out loans in the shale oil industry when the price was over $100 per barrel are struggling under a weight of debt.

Debt problems are not confined to particular industries but extend to whole economies. The level of stressed debt—defined as bonds which are trading at yields of between 7 and 10 percentage points above comparable US treasury bonds—has passed the peak reached during the 2008 global financial crisis.

The combined level of stressed and distressed debt, those bonds where yields are more than 10 percentage points above comparable US treasuries, reached $221 billion this month, compared to the previous record level of $213 billion in December 2008.

While the absolute level of stressed and distressed debt is higher than seven years ago it has fallen as a share of the total because of the increase in emerging market corporate debt over the past seven years. But there are fears that this will not count for much if there is a rush for the exits and markets suddenly become illiquid with few buyers to be found. Earlier this month the Institute for International Finance said that the capital outflow from China and other emerging markets was $759 billion last year, significantly more than had been previously estimated.

While its proportion of total output has declined, the US economy remains decisive for the world economy as a whole. And here the trends are pointing down. Bank of America Merrill Lynch upgraded its risk of the US entering a recession from 15 to 20 percent and warned of "the lack of policy ammunition to deal with a shock."

The bank's economists said they did not think the economy would plunge as in 2008-9 but cut their estimate for US growth to 2.1 percent from 2.5 percent. While the full statistical picture has yet to emerge, it appears that the US economy slowed down significantly in the last three months of 2015, with areas of manufacturing experiencing a contraction. If these trends continue they will have a major impact on the world economy as a whole.