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Fresh Tumult as Signs of Recession Go Global

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There are no safe havens from the forces battering the global economy any longer.

In rich countries and poor countries alike, markets are plunging, companies are scrambling for credit and cutting their growth plans and consumers are keeping cash in their pockets. The U.S. and some governments in Europe and Asia are spending heavily to stanch the problems in markets and Main Streets globally, but the attempts have not halted the damage.

Fears of a prolonged recession pushed shares down across the world on Friday. The slide started in Asia, where the benchmark Nikkei Stock Average fell 9.6% to a five-year low of 7649.08, and markets in Hong Kong, Mumbai and Seoul registered similar declines. Europe followed next, where the pan-European Dow Jones Stoxx 600 Index fell 4.7% to 198.80, dropping below 200 for the first time since mid 2003. In the U.S., the Dow Jones Industrial Average fell 312 points, or 3.6%, to finish at 8378.95, a 5 1/2-year low.

Disappointing economic statistics released Friday fed the sense of malaise. In Europe, a closely-watched survey of economic activity, the Markit Purchasing Managers' Index, fell to its lowest level in a decade in October. In the U.S., sales of previously occupied homes rose 1.4% from a year earlier in September, as bargain hunters started nibbling. But that news was eclipsed by the fact that there's still a huge glut of homes and credit remains tight. In Asia, currencies sank across the continent, deepening fears that companies would have a tougher time paying off debt that is in dollars and euros.

One big exception was Japan, where the yen jumped to a 13-year high, and was at 94.6 yen to the dollar late Friday in New York. But the gain stoked fear that the Japanese export machine will sputter further because its exports will be more expensive when measured in dollars.

Japan's deepening pessimism came just a few weeks after big firms started uncharacteristically bold overseas acquisitions. Last month, Nomura Holdings Inc. snapped up parts of bankrupt Lehman Brothers Holdings Inc. in Asia and

Europe. Nomura's ebullient chief executive Kenichi Watanabe said in an interview he was looking at other possible acquisitions. But even though the strong yen makes overseas assets cheaper, there is a chance that Japanese companies may hunker down, removing another potential rescue force for ailing companies elsewhere.

While markets have been tumbling for some time, Friday seemed to be a day when many people around the world became convinced the economy is in for a long recession. That sense was exacerbated by poor earnings results and news of deep layoffs. Central banks in Europe and the U.S. are hinting broadly at further interest-rate cuts, while government officials in the U.S., Europe and Asia also are plotting further action. But that wasn't enough to calm fears around the globe.

"No one expected this," said Jimmy Panthaki, a 63-year-old Indonesian manufacturing executive, fretting about his personal investment losses. "Where do we go from here? We can't buy. We can't sell. It is a Catch-22 situation."

J.P. Morgan Chase & Co. economists estimate U.S. gross domestic product fell at an annual rate of 0.5% in the third quarter and figure GDP will fall by 4% in the final three months of the year. That would make for the largest economic decline since the recession that ended in 1982. They're also forecasting steeper GDP drops in Europe, the U.K., Sweden, Norway and Switzerland through the middle of next year.

Among the many economic theories now in tatters is one that said that the U.S. was no longer the indispensable powerhouse on which global growth depended. It turns out that U.S. consumer spending, which makes up 70% of U.S. economic activity, remains a big driver of world economic growth because of heavy trade between countries. Banking woes in the U.S. and Europe are making credit harder to come by around the world and the downturn more difficult to escape.

"Every trading country and the U.S. are, in Bob Dylan's words, 'so entwined,'" said Arvind Subramanian, an economist at the Peterson Institute for International Economics in Washington.

Earnings tumble

That was evident in a raft of disappointing earnings news released Friday. In the U.S., Liz Claiborne Inc. slashed its earnings forecast, noting that traffic in malls and street locations is off in every region, including Europe.

In Asia, major export-heavy companies also reported declines in earnings and forecasts, including electronics makers Sony Corp. of Japan and Samsung Electronics of South Korea. Powerchip Semiconductor Corp. of Taiwan said it would delay opening a new chip plant until 2010. Auto powerhouse Toyota Motor Corp. said global vehicle sales dropped 4% in the July-September quarter, the company's first quarterly decline in seven years.

In Europe, automakers reported lower profits this week. France's PSA Peugeot-Citroen said it planned "massive" production cuts in the fourth quarter after posting a 5.2% decrease in third-quarter sales. Scandinavian truck makers Volvo AB and Scania AB also reported big slowdowns in earnings. German auto maker Daimler AG cuts its 2008 earnings forecast for the second time in a year. France's Renault SA and Italy's Fiat SpA also have issued profit warnings.

With plunging earnings come layoffs. In Sweden, Volvo announced production cuts at two European factories and plans to lay off 1,400 people at its truck division. In the U.S., Chrysler LLC said it would cut one-fourth of its salaried work force next month. The auto giant is facing "the most difficult economic period any of us can remember," said Chrysler Chief Executive Robert Nardelli.

Some manufacturers in the U.S. and Europe are still pinning hope on faster-growing developing nations in Asia, Latin America and Eastern Europe. Tim Sullivan is chief executive of Bucyrus International Inc., a maker of giant mining machines in South Milwaukee, Wis., that exports 80% of its products. He figures that even if the U.S. plunges into a deep recession, developing nations remain reliable markets. Growth may be slowing there, he says, but that's from "incredibly high growth rates to something that's still high."

In Newcastle, England, Michael Charlton isn't as bullish about the firm he owns, Charlton & Co., which imports and manufactures valves for pipes. As the price for currencies and commodities whipsaws, he constantly checks currency movements before resetting some prices, almost on a daily basis.

Developing nations in Asia and Latin America have gone from bull to bear in a matter of weeks as recessions in Europe and the U.S. seem more certain. On Oct. 5, Brazilian president Luiz Inacio Lula da Silva confidently predicted that "if the crisis gets here, it's going to be a ripple." But the ripple has turned into a flood as Latin American stocks, bonds and currencies have swooned. In São Paulo, a newly rich generation of investment-fund managers has gone from gaming who will buy the next private jet to exchanging rumors about which financial institution might be first to fail.

Over the past few weeks, dramatic currency swings have caused punishing losses for Latin American blue chips from Mexico's cement giant Cemex SAB to the Brazilian conglomerate Grupo Votorantim. Mexico's third-largest retailer, Controladora Comercial Mexicana, declared bankruptcy recently after reporting huge losses related to the plunging Mexican peso.

In Latin America and Asia, fears are growing of a repetition of the financial turmoil of 1997 and 1998, which devastated the economies of Thailand, Indonesia and South Korea, and also threatened Brazil. This time around, the countries are better positioned to withstand trouble. They have more manageable foreign debts and bigger foreign-exchange reserves that can be used to defend their currencies in the event of a market panic.

Even well-managed Asian and Latin American economies have significant vulnerabilities, including the risk of sudden outflows of foreign capital if the global credit squeeze worsens, as well as their large dependence on exports. In Asia, exports accounted for 46.7% of the region's gross domestic product in 2007. That's about 11% higher than in 1998, said Stephen Roach, Morgan Stanley's Asia chairman.

Indonesia, southeast Asia's largest economy, is especially at risk, despite liberalizing its economy and attracting heavy foreign investment since the Indonesian economy melted down in 1997. Foreigners, who held more than $90 billion in Indonesian stocks and bonds at the start of the month, are starting to pull their money from the country out of fear the rupiah will weaken further. Indonesia has a relatively small pool of foreign reserves -- roughly $57 billion -- to defend the rupiah if foreign capital begins to flee.

The faith of Asia's new middle class in market economics could suffer if markets continue to tank. There have been reports of at least five recent suicides in the region stemming from the financial distress. On Tuesday, Parag Tanna, a 34-year-old stockbroker in Mumbai, India, strangled his wife and later killed himself. His suicide note cited "heavy financial duress" after the market swooned, police said.

In Kuwait, dozens of traders staged a walk-out of the Kuwait Stock Exchange on Thursday, demonstrating against falling stock prices and what they said was government inaction to stem the losses.

Government help

With confidence eroding globally, governments, central banks and multilateral institutions are working on yet more plans to bolster economies. Vast bailout plans, deep interest rate cuts and massive injections of liquidity into the global financial system so far haven't done the trick.

The European Central Bank and the Federal Reserve have widely signaled that they will continue to cut rates. At a meeting in Beijing, the Sultan of Brunei, representing the 10-member Association of Southeast Asian Nations, announced that a plan to pool $80 billion of foreign-exchange reserves from 13 Asian nations will be launched "as soon as possible." The fund probably won't by launched until the middle of next year.

At the IMF, the governing board is considering a plan to make available billions of dollars in loans in loans to certain well-managed countries without some of the IMF's usual tough policy condition. Still, countries like Pakistan, which have fallen into financial trouble because of over-spending, would have to make unpopular budget cuts and take other measures to qualify for the loans. Meanwhile, President Bush has called wealthy nations and developing nations to Washington on Nov. 15 to discuss the economic emergency.

In Washington, Democrats are pushing for another round of economic stimulus spending to boost the economy. But Europe is unlikely to match any new Washington spending. French President Nicolas Sarkozy said he would suspend a tax on new investments by companies until Jan. 2010 to help stimulate the economy. But Germany's finance ministry, which hastily approved a €500 billion rescue package for the country's banking sector last week, said it doesn't intend to match that with spending aimed propping up the economy, at least for now, because of concerns of deepening the budget deficit.

One of the few places of market optimism on Friday was Zimbabwe, an economically troubled part of Africa. The Zimbabwe Industrial Index gained 249.90% on Friday in a bizarre response to the country's hyperinflation. Many vendors prefer to barter rather than accept near worthless cash, so residents with extra money are piling it into the stock market, hoping for gains once the country's violent political situation is resolved.

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