US Federal Reserve cuts interest rates as recession deepens

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The Federal Reserve yesterday cut its benchmark federal funds interest rate by a half a percentage point to 1 percent. The rate reduction is the Fed's second this month and brings the official interest rate down to a record low first reached in 2003 and 2004.

The volatile US share markets recovered some ground in anticipation of the rate cut, with the Dow Jones index closing 10.9 percent higher on Tuesday. But yesterday the Dow declined in late trading, falling 0.82 percent.

New economic data released in the last two days provide further evidence that the US economy has entered a severe recession.

The Conference Board released consumer confidence figures on Tuesday showing that its index plunged to 38.0, the lowest mark recorded since data was first kept in 1967. Consumer confidence was down from the 61.4 index rating in September, and considerably lower than what most analysts had anticipated. John Ryding at RDQ Economics described the October figures as "a shockingly weak reading."

Also released Tuesday was the S&P Case-Shiller index on housing prices, which found that house prices across 20 surveyed cities fell by 16.6 percent in August compared with the same period in 2007. Houses in Las Vegas, Phoenix, Miami and San Francisco suffered the biggest declines of 25-30 percent. Goldman Sachs' economists predicted that house prices will fall further by an average of 15 percent nationally.

A *Wall Street Journal* article yesterday stated: "The current downturn is shaping up to be worse than the recessions of 1990-91 and 2001 and the prolonged downturn that ended in 1982. Banks are cutting back on lending, consumers are spending less, companies are shedding jobs amid sinking profits, and the housing bust that triggered the slide persists."

One indicator of the rising social distress being felt by broad layers of the population is the escalating credit card default rate. According to the *New York Times*, lenders wrote off $21 billion in bad credit card loans in the first six months this year. Analysts estimate another $55 billion could be lost in the next 18 months.

Credit card companies have responded by targeting the victims of the recession. The *Times* reported: "Lenders are shunning consumers already in debt and cutting credit limits for existing cardholders, especially those who live in areas ravaged by the housing crisis or who work in troubled industries. In some cases, lenders are even reining in credit lines after monitoring cardholders who shop at the same stores as other risky borrowers or who have mortgages from certain companies."

Mass layoffs are being announced every day. Appliance maker Whirlpool announced yesterday it would increase layoffs from the previously announced 2,000 to 5,000 by the end of 2009. The sackings, which will affect 7 percent of the company's total workforce, are driven by slowing sales as consumers delay replacing malfunctioning appliances. Whirlpool has cut production by 10 percent in the third quarter this year and will reduce output by a further 20 percent in the US and Europe in the fourth quarter by shutting plants.

Other recently announced layoffs include: telephone company Qwest Communications, which is to cut 1,200 jobs; publishing giant Time Inc., which plans to dismiss 6 percent of its workforce; Doubleday Publishing, which has cut 10 percent of its staff; and newspaper publisher Gannett, which is also slashing 10 percent of its staff, on top of a 3 percent cut, affecting 1,000 workers, announced in August.

Workers in auto-related industries remain among the hardest hit. Michelin's BFGoodrich is laying off up to 40 percent of its workforce at a tire plant in Woodburn, Indiana for at least eight weeks in response to lower demand from auto makers and customers. Similar cuts are reportedly planned at two other BFGoodrich plants in Alabama, affecting a total of 1,500 workers across the three factories.

Tenneco, which produces auto emission and ride control systems, announced on Wednesday that it was cutting 1,100 jobs and closing five plants. About 500 salaried workers will be laid off and 600 hourly positions eliminated. The plant closures include one in Milan, Ohio, another in Evansville, Indiana and an engineering operation centre in Australia.

North American auto sales fell by 15.5 percent in the third quarter on an annualized basis. General Motors' sales declined by 18.9 percent in North America over the same period, and 11.4 percent globally. The former industrial giant continues to lose hundreds of millions of dollars each month. On Monday, ratings agency Moody's downgraded GM's credit rating further into "junk" status. It is now just three rungs above the lowest possible rating.

GM and Chrysler have reportedly resolved outstanding issues in their merger negotiations and are now seeking the necessary financing from the federal government. GM's chief executive Rick Wagoner has met with officials in Washington to lobby for a handover of public funds, modeled on the Bush administration's bailout of the financial sector.

Reuters cited sources who said GM was seeking $10 billion, while the Treasury Department was reportedly considering $5 billion. According to the news agency, a bailout "could include capital injections and government purchases of bad auto loans." The *Wall Street Journal* said on Monday that the public money may be channeled through the Energy Department, by diverting a portion of the $25 billion in low-interest loans approved last month for the auto industry to build more efficient vehicles.

A publicly-assisted financing operation for a GM-Chrysler merger would have a devastating social impact. The top executives responsible for running their companies into the ground will no doubt either retain their lucrative salary packages or be offered multi-million-dollar "golden handshakes" on their way out. Auto workers, on the other hand, will be asked to make even greater sacrifices and swallow further attacks on their jobs, wages, and conditions.

An article in yesterday's *Guardian* gave some indication of the potential effect of a merger between the US auto giants: "The manufacturers employ 355,000 people directly but support an estimated 4.5 million further jobs in industries from steel to plastics, electronics and computer chips. The non-profit Centre for Automotive Research in Michigan has estimated that a failure of Ford or GM could take a toll of 2 percent on the gross domestic product and would jeopardize as many as 2 million jobs."

The economic crisis is seeing merger proposals across a number of sectors. In the airline industry, Delta Air Lines and Northwest this week received Department of Justice approval for their planned union, which will create the world's largest airline company. Thousands more jobs will inevitably be lost in the sector as a result.

The rapidity of the economic downturn has alarmed a number of economists who are now warning of a potential deflationary crisis. The *Wall Street Journal* cited the comments of former Federal Reserve governor Laurence Meyer: "The expected rise in the unemployment rate, paired with the rising threat of deflation, presents a risk that the [Fed] will have to ease even further, perhaps all the way to a zero federal funds rate."

In yesterday's *Financial Times*, senior columnist Martin Wolf wrote: "[T]he idea that a quick recession would purge the world of past excesses is ludicrous. The danger is, instead, of a slump, as a mountain of private debt—in the US, equal to three times GDP—topples over into mass bankruptcy ... Globalisation would spread the catastrophe everywhere. Many of the victims would be innocent of past excesses, while many of the most guilty would retain their ill-gotten gains. This would be a recipe not for a revival of 19th-century laissez faire, but for xenophobia, nationalism and revolution."

This extraordinary statement underscores just how conscious sections of the ruling elite are of the likelihood that a prolonged world economic crisis will trigger major social and political upheavals.