Business Briefs

Banking

Europe Is Collapsing Faster Than the U.S.

The collapse of European banking is acceleratating, with many sources reporting a breakdown in inter-bank lending since Sept. 29. Events reported Oct. 1 give a flavor:

Italy: Unicredit, the second-largest European bank, lost more than Eu10 billion of capital in two days. On Sept. 29, Unicredit lost 10%; on Sept. 30, over 12%. On Sept. 30, Goldman Sachs pulled Unicredit out of the list of "recommended" stocks; and on Oct. 1, trading in Unicredit was suspended twice. Trading in the second-largest Italian bank, Banca Intesa, was also suspended Oct. 1.

Britain: The deal by which Lloyds TSB, under pressure from the government, agreed to take over Halifax Bank of Scotland in an exchange of shares, could fall through because of the share price collapse of HBOS stock, according to press accounts. When the deal was negotiated, the bank was worth £9 billion, but now it is worth only £6 billion. HBOS has assets of Eu837 billion and tons of toxic waste from bad mortgages and mortgage-backed securities.

Germany: The Finance Ministry, in cooperation with the regulatory agency BaFin, has issued an emergency memo which says that if Hypo Real Estate had gone under, it would have pulled many municipalities down with it—many of which owe Hypo several hundred million euros each.

Ireland: The government's scheme to guarantee deposits and debts of the country's six major banks involves a potential liability of Eu400 billion—more than twice Ireland's gross national product. The bill gives the Finance Minister extraordinary powers, including suspension of competition laws and extending the guarantee to other financial institutions.

France: The CNCE (National Company of Saving Banks), defined once as a "mutual" bank run by a non-profit cooperative type of organization, is desperately looking for Eu6.3 billion to balance its books before the end of the year, after already recapitalizating to the tune of Eu3.2 billion at the beginning of 2008. This makes CNCE the biggest loser since the beginning of the crisis.

Employment

U.S. Files Worst Job Report in Five Years

The worst jobs report in five years was released by the U.S. Labor Department on Oct. 3, with 159,000 jobs lost in September, bringing the yearly total to 760,000. Manufacturing lost 51,000 jobs, construction employment 35,000, retailers 40,000, and leisure and hospitality businesses 17,000. Not counting government hiring, which increased over the year, the private sector has lost nearly a million jobs since December.

The official under-employment rate, which counts part-time workers as well as those without jobs who have stopped looking for work, rose to 11% from 10.7%, the highest rate since April 1994.

The average work week fell by 0.1 hour to 33.6 hours, as the average weekly paycheck fell by 81 cents to $610.51.

Industry

British Manufacturing Sector in Free Fall

Whatever manufacturing there was in Britain is disappearing fast, the *Guardian* reported on Oct. 1. At the same time, the service sector—75% of the economy—"has ground to a halt," with service sector output staying "flat" from May through July.

Manufacturing is shrinking at the fastest rate in 17 years, as output, new orders, and employment showed unprecedented declines in September, according to the latest survey from the Chartered Institute of Purchasing and Supply/Markit. Manufacturing has been declining for five straight months, and layoffs are at the highest rate in years. The latest casualty is a Ford auto plant in Southampton, which is now on a four-day week.

The CIPS purchasing managers' index fell to 41 (anything below 50 means contraction). This is the lowest level since the index was started in January 1992; the level was revised downward to 45.3 in August. Hardest hit were the housing and construction sectors, which had the sharpest fall in domestic new orders on record, last month. The index for that sector plummeted to 36.1 from 41.9. Clients are cancelling or postponing existing orders due to the crisis, and new orders from abroad are falling, despite the weak pound.

Housing prices are down over 12% in the last 11 months.

Finance

India Calls for A New World Order

Assuring domestic and foreign investors, Indian Commerce Minister Kamal Nath said on Oct. 1: "There is an atmosphere of gloom in the world economy, in the European economy, … but not in the Indian economy," but that India could not "be insulated in the long term from such a crisis." He added: "We need today a new financial order where the [rules for the] banks, financial institutions, are common" for every country. He said that India would play its part with France and the European Union in the process.

In an interview with the French daily *Le Figaro*, Indian Prime Minister Manmohan Singh said that India cannot remain "untouched by the financial turmoil in the U.S.," and that he wanted India and China to be part of any efforts to find a solution. "We live in an interdependent world and the fate of all countries is related to the international financial system," he said.

India's currency, the rupee, hit a five-year-low against the dollar on Oct. 1 before recovering, but remains under pressure, as risk-averse investors reduce holdings of emerging market assets. India's trade deficit for September jumped to $13.94 billion from $7.19 billion a year ago.