Worldwide Recession?

Reiterating her call for global cooperation, she added,

> If we do not act, and act together, we could enter a downward spiral of uncertainty, financial instability, and a collapse in global demand. Ultimately, we could face a lost decade of low growth and high unemployment.

Following a "financial dialogue" between China and India, it was announced that the global economy is now in a "critical phase…. There are clear signs of a slowing as developments in advanced economies begin to weigh on [both of] these countries." And the Chief Executive of Hong Kong, Donald Tsang said earlier this week that the world economy faces a 50-percent chance of a recession.

Economist John Hussman thinks those chances are much closer to 100 percent. In his clients' newsletter, he said he foresees a "significant downturn…. Our broadest [prediction] models continue to imply a probability of [an] oncoming recession near 100 percent. He added,

> It's important to recognize…that there is such a uniformity of recession warnings here…that even an unsophisticated, unweighted average of evidence indicates a very high likelihood of recession.

He then warned his investors about the risks of being invested in equities:

> While Wall Street remains effusive about stocks being cheap on a 'forward operating earnings' basis, that conclusion rests on the assumption that profit margins will sustain record highs *more than 50 percent above their historical norms* into the indefinite future. [Emphasis added.]
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> That assumption is terribly at odds with historical evidence.

Wall Street itself is already in the midst of its own recession. As reported in the *New York Times*, Wall Street's bonuses will decline this year by an average of 20 to 30 percent, reflecting not only the lack of participation in the recent rally by small investors, but the increased overhead created by the implementation of the Dodd-Frank financial regulation law. Even Goldman Sachs reported a 37 percent decline in earnings in its fixed income, currency and commodities division during the first nine months of 2011 compared to last year, and just announced its first quarterly loss since the start of the great recession.

Robert Higgs, editor of the *Independent Review*, just pronounced the current economic "recovery" as "anemic, at best," noting that although the Gross Domestic Product has just now returned to its level before the financial crisis began in late 2007, private investment as measured by the Department of Commerce at $1.8 trillion is still way below its peak of $2.3 trillion in 2006. And most of that private investment is going to replace and upgrade existing equipment, and so it will have little impact on growing the economy. Investment in private residential property remains nearly flat, running at only about 40 percent of its pre-recession peak, with little sign of improvement. Private non-residential fixed investment, despite some modest recovery, remains seven percent below its peak before the recession.

The biggest concern Higgs has is over the employment numbers announced by the Department of Labor. He notes,

> Although almost 3 million persons have been added to the employment rolls during the last two years, approximately six million fewer persons are employed in private industry now than were employed at the prerecession peak.
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> Moreover, fewer persons are privately employed now than were employed in 2000 — eleven years ago — when the population was substantially lower….
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> Although we see some indications that recovery has occurred … given the present clouded prospects for the security of investors' private property rights, with regime uncertainty hovering over public policy in many critical regards, the likelihood of a strong investment boom must be considered extremely slight.

That's an economist's way of saying that the economy is doing poorly and is likely to do even more poorly. Add in the nearly flawlessly accurate prediction by the Economic Cycle Research Institute that the economy is already in a new recession, coupled with the belated recognition of the insolvencies of Greece and Italy and the European Union's impotency to do anything about it, and one has the recipe for a world-wide recession already under way.