

## GLOBAL ECONOMY: SYMPTOMS OF A DOWNTURN

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*The U.S. Economy: Downturn Coming?*

The GDP statistics announced by the Commerce Department at the end of July shows that an economic slowdown is gradually coming. Even though the GDP growth rate for the second quarter was 1.9%, breaking many economists' expectation of a 0.2% decline, an economic downturn seems to have started—the 1.9% is much lower than the 5.8% growth of the first quarter. Fed chairman Alan Greenspan cautiously thinks that non-inflationary sustainable growth will continue in the third quarter, but sharply declining corporate earnings growth could be a hindrance for his prospects. Greenspan's semi-annual testimony (Humphrey-Hawkins Testimony) showed that he still expects the market to automatically shrink, but there will no real tightening bias in the monetary policy. The stock market instantly fell in response to his statement, and market discipline was successful as expected. But, apart from his intention to stabilize the market without economic and financial overheating, an economic downturn will not be avoided. The reasons are as follows.

First, corporate earnings will be squeezed. 84% percent of the S&P 500 companies have reported their second-quarter earnings, and their operating profits rose 2.9% from last year's second quarter. For the year, most analysts seem to expect the S&P 500 companies to post operating earnings growth of 7.1%, down from the double-digit gains of the recent years. Second, weaker exports to Asia and inventory levels at home are putting downward pressure on the industrial sector. Inventory accumulation has

slowed sharply in the second quarter. In particular, the automobile industry accounts for an outstanding portion of the decline primarily due to the strike at General Motors. The manufacturing and wholesale sectors account for the rest.

In consequence, the economy remains in a solid phase, but the symptoms of downturn plainly exist.

*Japan: Escape from Stagnation Will Take Time*

Japan's economy has experienced the worst stagnation in its post-war history. The June unemployment rate breached 4.1%, the level it had been staying at for three months. Income conditions also continue to deteriorate, and corporate sentiment is weakening further.

Domestic demand and industrial production remain weak, but the deterioration of exports has ceased. Net exports, which decreased temporarily in the first quarter of 1998, have resumed increasing mainly due to a sharp decline in imports. Private consumption has also shown a little sign of recovery. Although the sharp decline in business fixed investment indicates negative interactions of production, income and expenditures through the national income cycle, the economy is expected to cease deteriorating. From the end of year, a modest pick-up in Japan's economic activities will be generated by the combination of public works, tax cuts and progress in stabilizing the financial system.

However, given the current low level of economic activities, the 16.6 trillion yen public

(continued on p.27)

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