Global Economy At Risk As U.S., Europe And Asia Slow

Paul Wiseman, AP Economics Writer

WASHINGTON (AP) — The global economy's foundations are weakening, one by one.

Already hobbled by Europe's debt crisis, the world now risks being hurt by slowdowns in its economic powerhouses.

The U.S. economy, the world's largest, had a third straight month of feeble job growth in May. High-flying economies in China, India and Brazil are slowing, too.

Fears of a global economic downturn have sent investors rushing toward the safest possible investments: U.S. and German government bonds. As a result, the interest rate on the 10-year U.S. Treasury note has hit a record-low 1.46 percent. The rate on the German 10-year bond is even lower: 1.17 percent.

"Treasurys are at 1.46 because people are freaking out," says Mark Vitner, senior economist at Wells Fargo Economics.

The gravest fear is Europe. The most urgent threat is that in mid-June, Greek voters will reject the terms of a $170 billion bailout — which called for painful budget cuts — and abandon the euro. The move could ignite economic and financial chaos as Greek debts shift from denominations in euros to Greek drachmas of uncertain value.

Yet the global economy's troubles go well beyond Greece. Here's a look at the global economy's vital signs:

— UNITED STATES

American employers added just 69,000 jobs in May. Since averaging a healthy 252,000 a month from December through February, job growth has slowed to a lackluster average of 96,000 a month.

On Friday, after the government issued the May jobs report, the Dow Jones industrial average sank 275 points. It was the Dow's biggest loss since November, and it's now down 0.8 percent for the year.

The dismal news suggested that the U.S. economy is enduring a midyear slump just as in 2010 and 2011.

Unemployment rose to 8.2 percent from 8.1 percent in May as 642,000 more Americans poured into the work force, and only 422,000 more people got jobs.

The jobs report came out a day after the government said the U.S. economy grew at just a 1.9 percent annual rate in the first three months of 2012. That's a meager pace nearly three years after the recession officially ended in June 2009. And it's too slow to generate many jobs or to lower the unemployment rate. In good economic times, the rate would be below 6 percent.

Many U.S. companies are finding it more efficient to invest in machinery, not people.

"We're not hiring, and we're not replacing" workers who leave, says Joe Glenn, who runs Glenn Metalcraft in Princeton, Minn.

His sales jumped 40 percent last year. Yet Glenn's shop has kept employment flat at about 35 workers. He's added more computer-controlled metalworking machines and robots to load the raw material into them.

"We're producing as much as we were with a lot less manpower," Glenn says. "And I don't foresee that those jobs are going to come back."

Other companies are reluctant to hire until they feel more confident that their customer demand will keep growing. Adding to their uncertainty are Europe's troubles and America's dysfunctional politics.

For now, some key sectors of the U.S. economy remain positive. Americans are buying more homes, suggesting that the housing market is on the mend. U.S. builders have increased their spending on home and commercial construction.

Auto sales just posted their best May since 2008. Manufacturing activity continues to grow, and so does consumer spending, which drives about 70 percent of the economy.

Borrowing rates for consumers and businesses have never been lower. Tame inflation has given the Federal Reserve leeway to keep interest rates low. And gasoline prices have been sinking. The national average is now $3.61, and experts predict further drops in coming weeks.

Still, unless Congress and the White House reach an agreement by year's end, federal taxes will jump and deep spending cuts will kick in. Should that happen, the Congressional Budget Office says, the economy would likely fall into another recession.

Given the size of the U.S. economy, further weaknesses could worsen the slowdowns in European and Asian countries that depend on sales to American consumers.

— EUROPE

Unemployment in the 17 countries that use the euro is already at 11 percent, the European Union's Eurostat office reported Friday. It's the highest rate since the euro was introduced in 1999.

European countries have been struggling with their debt crisis for three years. Three nations — Greece, Ireland and Portugal — have already required bailouts because of unsustainable levels of debt.

Austerity has been the main prescription for the crisis. But spending cuts and tax hikes are causing economiesto shrink across the eurozone.

In a blunt warning, European Central Bank chief Mario Draghi last week called the euro currency union "unsustainable" without stronger political and financial ties among eurozone countries.

The fear is that Greece will drop the euro, and other weak countries, such as Spain and Portugal, will be forced to follow. Financial chaos could rage across Europe.

Spain is facing punishing borrowing costs on bond markets because investors fear it won't be able to pay its debts. Prime Minister Mariano Rajoy declared Saturday that his government will stick with harsh austerity measures as long as necessary.

But Spain's unemployment is already 24.4 percent. For those under age 25, unemployment is 51.5 percent. Businesses are being crushed.

"This shop has been here for close to 100 years, and I've worked here for 48 years," says Manuel Cabrejas, a salesman at a cushion store in Madrid whose shop windows were covered in signs saying, "Closing down sale, big discounts, everything must go."

"For the last two years, we have only just been covering running costs," Cabrejas said. "It's time to let go."

— ASIA AND SOUTH AMERICA

Since the global recession ended in 2009, the world economy has been fueled by rising powers in the developing world led by China, India and Brazil.

Now, all three are running into trouble.

China's manufacturing weakened in May, according to surveys out Friday. Factory output was the weakest in three months.

Some economists say China's economic growth will fall to an 8 percent rate in the April-June quarter. That's high by Western standards, but it would be the weakest growth for China in nearly three years. In response, China is rolling out an economic stimulus program.

Having rebounded strongly from the recession of 2007-2009, China's economy grew a sizzling 10.4 percent in 2010 and 9.2 percent in 2011. For the past two years, it's helped drive global growth. Australia and other Asian countries have come to rely on Chinese markets for their exports.

India is suffering an even sharper slowdown. Its economic growth slowed to a 5.3 percent annual rate in the January-March quarter, the lowest in nine years. Output from India's factories has declined. Its consumers have seen inflation — which has averaged 9.2 percent a year since the start of 2010 — devour their wages.

"It's beyond anything that we would have imagined," said Samiran Chakraborty, head of research at Standard Chartered in Mumbai. "Real wages are falling ... The consumption slowdown along with the investment slowdown has been a double-whammy for the GDP number."

As recently as last year, Indian politicians were claiming their economy could rival China's and surge into double-digit growth, lifting hundreds of millions out of poverty in the process.

Instead, India is mired in a deepening crisis of confidence. Asia's third-largest economy is widely regarded as performing below its potential.

Indians are losing hope that their country's fractious political system will deliver the policies that might unlock a rebound — investments in roads, ports and other projects and lighter regulations to attract more foreign investment.

One encouraging corner of Asia has been Japan's economy, the world's third largest. It grew at an annual rate of 4.1 percent in the first quarter of 2012 as it recovered from last year's earthquake and tsunami. But factors that could crimp expansion, such as weaker European demand for Japanese exports, have raised fears that Japan's growth will slow or even stall.

In Brazil, the economy practically stalled in the first quarter of 2012. It grew at just a 0.2 percent annual rate from the final three months of 2011, the government said Friday. That was below expectations of 0.5 percent growth. Flooding punished farmers.

But Brazilian officials, like analysts in China, also pointed to another culprit, one that shows how problems in one part of the world cause problems in another: The ongoing trouble in Europe is taking a toll on exports.

— THE MIDDLE EAST

The region's trade is being hurt by the weakening global economy, particularly in Europe.

The United Arab Emirates' top economic official said Monday that the Gulf federation's economy will likely grow only about 3 percent this year amid a drop in oil prices. That would represent a slowdown from 4.2 percent growth in 2011.

The seven-state UAE federation is the largest Arab economy after Saudi Arabia. The United Arab Emirates said it's less optimistic about growth because of the oil exporter's close links to the slowing world economy.

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