



Daily Brief
Economics and Financial Market Commentary
March 7, 2008 12:26 pm

**Mick Riordan (x31289), Cristina Savescu (x80812),
Eung Ju Kim (x85804), Shane Streifel (x33867), Annette De Kleine (x34710)**

You'll find recent issues of this Daily and lots of other current analysis and high-frequency data at our intranet website: <http://GEM> or for external users: www.worldbank.org/gem

U.S. employment drops 63,000 in February—a 2nd consecutive decline. The size of February's job loss surprised most analysts, representing the sharpest monthly decline in five years, and follows an upwardly revised drop of 22,000 jobs in January [see Daily chart at <http://GEM>]. At the same time, the unemployment rate improved to 4.8%, as discouraged workers left active labor market participation. The Fed also announced this morning that it would add as much as \$200 billion to the banking system over the next month to offset a credit crisis that appears to be deepening. These news items set the markets off kilter, with a scramble for Treasuries sending the yield on 10-year notes to 3.55%, compared with 3.62% yesterday.

Payrolls at builders fell 39,000, an eighth consecutive month of scale-backs. Manufacturing job losses amounted to the biggest decline since 2003 at 52,000 in the month. And retail payrolls fell 34,100, the largest drop in more-than 5 years. "All the lights are flashing red," said Nariman Behravesh of Global Insight in Lexington Mass. "We're in a recession. I don't think there is any doubt about it at this point."

Continuing major declines on global stock markets. European and Asian stock markets tumbled again on Friday. This followed a plunge in U.S equities on Thursday tied to a string of bad news in the housing-, mortgage and credit markets which intensified fears about a looming U.S. recession. The S&P-500 fell 2.2% yesterday to its lowest level in 18 months, led by the financial sector. Yet most U.S. equities picked-up in early Friday trading, on better-than-expected earnings in the technology sector, and rumors of further interest rate cuts. These appear to have overshadowed the biggest monthly drop in employment (February) in nearly five years. Of note, the Fed said earlier it plans to boost the amount of its credit auction this month to \$100 billion from \$60 billion, to address a deepening liquidity crunch in financial markets.

Asian stocks closed lower again, posting biggest weekly losses since August, as heightened worries about U.S. credit markets prompted investors to sell. Financial stocks led the decline as gauges of credit risk across the region climbed to records. The MSCI Asia-Pacific Index dipped 2.6%, carrying its weekly drop to 5%. The A-P index has dropped 11% so far this year. Japan's

Nikkei-225 index lost 3.3% to 12,782, its biggest drop since the week ended August 17; while Hong Kong' Hang-Seng index plummeted 3.6% to 22,501, while other benchmarks in the region also retreated.

European shares retreated for the fourth day this week following the earlier in Asia and overnight on Wall Street. The decline was led by banks. Dow Jones Stoxx-600 index slipped 1% to 308.37 in afternoon trading, as national benchmarks retreated in all 18 western European markets. The DJ index has lost 15% so far this year. London's FTSE-100 index slid 1%; France's CAC-40 index declined 1% and Germany's DAX index lost 1.2%.

Among emerging markets...[in East Asia](#), Exports from *Taiwan* increased 18.5% in February (y/y), exceeding expectations, linked to higher exports to China. Export growth accelerated from 11.9% the previous month, as shipments to China increased at the fastest pace in almost two years. Imports gained 25.9%, up from 14.8% the previous month, causing the trade surplus to shrink to \$1.7 billion from \$2.2 billion a year ago. *South Korea's* central bank kept its key interest rate unchanged for a seventh consecutive month, on concerns about high inflationary pressures and a slowing global economy. The seven-day repurchase rate was left at 5%. *Malaysia's* industrial production advanced 7% in January (y/y) the fastest expansion in more than a year, and up from a revised 5.8% gain in December. Industry benefited from strong domestic demand and high commodity prices, which countered the negative effects from softening U.S. demand for semiconductors and other electronic goods.

[In Central and Eastern Europe](#), the *Czech Republic's* GDP growth posted a record 6.5% in 2007, coming on the heels of a 6.4% gain in 2006, with growth increasingly balanced. The main contributor to growth on the supply side was manufacturing, up 11.1%, and contributing 3 percentage points to growth. On the expenditure side, final consumption increased 4.2% while gross capital formation was up 9.2%. Exports rose 14.5% while imports gained 13.7% adding 1.1 percentage points to overall GDP growth. Consumer price inflation in *Estonia* picked up to 11.3% in February (y/y) the fastest since April 1998, as taxes on fuel, alcohol and tobacco increased. Prices of food and non-alcoholic drinks jumped an annual 17.1%, while housing costs and transport prices were up 15.2% and 14% respectively.

Hungary's growth eased to the lowest in more-than 11 years during the fourth quarter of 2007, advancing a mere 0.8% (saar), and down from 0.9% the previous quarter. Private consumption continued to contract in the fourth quarter, with exports forming the main pillar for growth. In *Romania*, industrial production growth picked-up to 6.1% in January (y/y) from 2.6% in December, as a weaker local currency boosted exports. Output of manufactured goods jumped 7.1% in January, from 3.4% in December; energy expanded 10%, while output of mined goods contracted 6.3%. Meanwhile retail sales growth decelerated to 16.6% in January (y/y) from 20.1% in December, on account of slower growth in food, alcohol- and tobacco sales.

[In Latin America](#), *Mexico's* consumer price inflation stood at 3.7% in February (y/y) as CPI increased 0.3% in the month according to the central bank. Meanwhile producer prices increased at more-than double that pace, gaining

0.7% (m/m), as business investment prices rose 2.3%. *Peru's* trade surplus declined to \$213 million in January, the lowest level in almost three years, and down from \$994 million in December. Exports gained 35% (y/y) to \$2.3 billion, while imports jumped 52% to \$2.1 billion, according to the national statistics agency. *Chile's* trade balance declined to \$1.3 billion in February from \$2.1 billion the previous month, as exports fell 12.3% from January (y/y), while imports inched up to \$4.3 billion.

In Sub-Saharan Africa, Consumer price inflation in *Mauritius* advanced to 9% in February (y/y), up from 8.9% the previous month, as food prices rose 2.6% in the month, and hotel and restaurant costs were 2.7% higher.

The Daily Brief is a summary of economic news items for Bank staff whose responsibilities require that they stay abreast of changes in global markets. The views expressed here are those of the various authors and do not necessarily reflect those of the World Bank Group's Executive Directors or the countries they represent. The content is subject to copyright and is not for quotation outside of the World Bank. The Prospects Group of the World Bank is pleased to share this content with GEM subscribers, under the [terms and conditions of use](#) agreed upon login (at www.worldbank.org/gem) to the extranet GEM site. Feedback and requests to be added to or dropped from the distribution list, may be sent to eriordan@worldbank.org.