

Global Confidence Drops as Unemployment Surge Counters Stimulus

By Shamim Adam

July 15 (Bloomberg) -- Confidence in the world economy dropped for the first time in four months in July as government stimulus efforts showed little sign of reducing unemployment, a Bloomberg survey of users on six continents showed.

The Bloomberg [Professional Global Confidence Index](#) declined to 39.13 in July from 43.57 in June. A reading below 50 means pessimists outnumber optimists. A measure of U.S. participants' confidence in the world's largest economy fell to 29.5 from 36.7, the survey showed.

The [MSCI World Index](#) is down close to 2 percent since the U.S. Labor Department on July 2 reported higher-than-expected job losses and an unemployment rate approaching 10 percent. Treasury Secretary [Timothy Geithner](#) said yesterday the world will probably suffer "more than the usual" setbacks in exiting the worst slowdown since the Great Depression.

"No one can wave a magic wand," said [David Semmens](#), an economist at Standard Chartered Bank in New York and a regular survey participant. "We aren't pulling out of the recession in the same way as in past recessions. The economic outlook isn't improving as strongly as people would have hoped."

The survey of more than 2,700 Bloomberg users was conducted between July 6 and July 10. Since the previous survey, the [International Monetary Fund](#) and the World Bank lowered their forecasts for global growth this year, while leaders from advanced nations say the recovery is too fragile to consider reversing more than \$2 trillion in stimulus efforts.

'Misread the Economy'

The U.S. lost 467,000 jobs last month and Vice President [Joe Biden](#) said the administration "misread the economy" when it predicted unemployment would peak at 8 percent once the stimulus package was passed. President [Barack Obama](#) said the jobless rate, now at 9.5 percent, will "tick up" over the next several months.

Companies from London-based [British Airways Plc](#), Europe's third-largest airline, to Chicago-based defense contractor [Boeing Co.](#) are firing workers to cut costs as demand slumps. British banks have slashed more than 55,000 jobs globally.

The gauge for Western Europe fell to 31 from 32.6. Unemployment climbed in Germany, Ireland, Switzerland, Romania, Sweden and the Czech Republic in June. South Korea's jobless rate rose to the highest in more than eight years last month, while Japan's was at a five-year high in May.

In Asia, respondents were more optimistic, with the index rising to 59.4 from 58.2. More signs of recovery are emerging in the region where improvements in industrial output from India to [Singapore](#), higher government spending and domestic demand are buttressing the economies.

Japan Election

Confidence fell in Japan where Prime Minister [Taro Aso](#)'s party faces the risk of losing its half-century grip on power in elections on Aug. 30. The Bank of Japan today cut its forecast for growth this year and next. The index for Japan declined to 34.1 from 38.8.

"The recovery is fragile but it's still on an uptrend," said [Masamichi Adachi](#), a senior economist at JPMorgan Chase & Co. in Tokyo. "Both exports and domestic demand are being supported by government spending. Without that, the economy would probably start sliding again."

Most Bloomberg users became more pessimistic on the outlook for their stock markets in the next six months. The global equity rally has added more than \$10 trillion to the value of global stocks since this year's low on March 9. Respondents in the U.S., Switzerland and Japan were among those least confident that equity gains will continue.

Stronger Dollar

"Financial markets are jittery about the likelihood and strength of the recovery and we've seen a return to risk aversion," said [Nick Kounis](#), an economist at Fortis Bank Nederland Holding NV in Amsterdam. "The economic data will eventually start to gain traction and lead to renewed optimism and risk appetite."

The U.S. dollar may weaken less in the next six months against the world's most active currencies, with the index rising to 43.8 from 31.6 in

June, the survey showed.

Users in Japan expect the yen's gain against the dollar to slow, with the index dropping to 59.6 from 68.5. Most of the respondents in Western Europe are also less optimistic that the euro will strengthen against its U.S. counterpart.

Respondents in the U.S., Japan and Western Europe are less confident that short-term interest rates will rise in the next six months, the survey showed.

The Bank of Japan today extended its emergency-credit programs to keep interest rates low, while European Central Bank Governing Council member [John Hurley](#) yesterday said it's "very important" borrowing costs stay at existing levels until there are signs of sustainable recovery.

"This isn't just a temporary fix, it's a longer-term fix that's definitely going to take time," Semmens of Standard Chartered said. "Had policy not taken the course it did, we'd have been significantly worse off."

To contact the reporter on this story: [Shamim Adam](#) in Singapore at sadam2@bloomberg.net

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